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NetApp, Inc. (NTAP)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the NetApp Second Quarter of Fiscal Year 2025 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Kris Newton, Vice President, Investor Relations. Please go ahead.

Kris Newton

Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

Hi, everyone. Thanks for joining us. With me today are our CEO, George Kurian; and CFO, Mike Berry. 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 third quarter and fiscal year 2025, 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 Kurian

Chief Executive Officer & Director, NetApp, Inc.

Thanks, Kris. Good afternoon, everyone. Thank you for joining us today. I am extremely pleased with our Q2 performance. Revenue growth was driven by a 19% year-over-year increase in all-flash storage and strong performance in first party and marketplace cloud storage services.

We achieved record Q2 operating margin and EPS, ahead of our expectations. Our uniquely differentiated solutions in flash, block, cloud storage, and AI address markets which are bolstered by both secular and company-specific tailwinds.

We experienced solid growth across all these strategic focus areas, affirming the strength of our value proposition for both existing and new-to-NetApp customers. This positive momentum not only underscores our strong execution, but also demonstrates our customers' confidence and commitment to our intelligent data infrastructure platform. We are delivering innovation at the fastest pace in our history, setting the stage for our continued success and growth.

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In Q2, we held our INSIGHT Customer conference, showcasing how we uniquely address the genuine and pressing challenges that customers face in navigating the complexities of hybrid multicloud IT. I personally witnessed the enthusiasm among the many new-to-NetApp and returning attendees as they recognized how NetApp empowers them to overcome these hurdles by building intelligent data infrastructures.

Organizations are proactively investing in data-driven strategies to drive competitive advantage. These businesses recognize the value of adopting a cohesive data strategy, leveraging data as a valuable enterprise-wide asset to fuel agile problem-solving. To accomplish this, they require a cutting-edge data architecture founded on NetApp's intelligent data infrastructure platform. With NetApp's expertise and state-of-the-art solutions, customers are confidently paving their way to becoming data-driven leaders.

We again delivered robust year-over-year performance in our Hybrid Cloud segment. Revenue grew 6% and product revenue grew 9%, driven by notable strength in all-flash storage. Broad-based success across the portfolio propelled our all-flash array annualized revenue run rate to an all-time high of $3.8 billion, up 19% year-over-year, the fourth consecutive quarter of high-teens to low-20% annual growth.

We continue to gain share in the all-flash market, far outpacing the growth rates of both the industry and all of our competition. Our leadership was further underscored with the recognition of NetApp as a leader in the 2024 Gartner Magic Quadrant for Primary Storage Platform for the 12th consecutive year.

In the quarter, we delivered more innovation with new high-end products in our ASA block-optimized all-flash and FAS hybrid-flash array families, building on the Q1 introduction of the updated AFF A-Series family of high-performance all-flash arrays. We have already seen new ASA deals close across multiple regions and industries, reaching new customers and expanding our wallet share with new workloads.

The pipeline is growing as our message of simple, powerful, and affordable resonates with partners and customers. With these new systems and continued advancements to our software platform, customers no longer need to make tradeoffs between operational simplicity, advanced capabilities, and affordability in their storage.

Keystone, our Storage-as-a-Service offering again delivered another strong quarter, with revenue growing approximately 55% from Q2 a year ago. We added Cloud Insights into Keystone's single subscription model, enabling customers to gain an integrated view across their infrastructure from virtual machines to network to storage, on-premises and in the cloud. Only NetApp can deliver a true hybrid cloud experience with flexibility and control in an agile pay-go model.

Organizations are actively evaluating how to use their corporate data with AI. These discussions dominated INSIGHT, where we unveiled our expansive vision for AI in the era of data and intelligence. Just as we bridged the gap between on-premises and the leading public clouds, empowering customers to utilize their data with any application, anywhere, we are well positioned to bridge the divide between AI systems and enterprise data. We help customers bring AI to their data, regardless of location or method through an approach that is intelligent, dynamic, and secure.

By eliminating data silos, we give customers a unified and structured view of their data assets. This empowers them to effortlessly explore, understand, unify, and prepare their data for AI applications. Customers can leverage their existing AI ecosystem tools directly on their data, while also benefiting from NetApp's AI features such as integrated data versioning, model traceability, and highly efficient retrieval for model training and inferencing.

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Our comprehensive solution includes policy-based classification, governance, and security measures that accompany data throughout the AI lifecycle. This includes automated AI data change detection and updates to keep data up-to-date and precise in every context. While we believe the large opportunity of enterprise AI is still ahead of us, we are already seeing accelerating momentum today.

Our AI business performed ahead of our expectations in Q2, with well over 100 AI and data lake modernization wins. These wins span geographies and industries with notable early momentum in public sector, manufacturing, financial services, healthcare and life sciences industries.

We continue to advance our strong position with the development of GenAI cloud and on-premises solutions in partnership with industry leaders. GenAI is a truly hybrid workload, and only NetApp has the breadth of products and services to reduce the complexity, resources, and risks across increasingly complex hybrid multicloud environments.

In Q2, we announced several updates within our AI partner ecosystem, deepening our partnership with Domino Data Lab, harnessing NVIDIA accelerated computing and AI software platforms, and releasing the NetApp AIPod with Lenovo solution in its general availability version.

To make AI-ready infrastructure readily available to public sector and other highly regulated industries, we expanded our partnership with Google Cloud to provide the foundational data storage for the Google Distributed Cloud.

By enhancing Google Distributed Cloud environments with ONTAP unified file and block storage and StorageGRID object storage solutions, customers can achieve better control over their data to efficiently scale their workloads and leverage AI, while helping to maintain security and regulatory compliance. This collaboration has resulted in a number of early wins, further accelerating our success in global public sector and other regulated industries.

Now turning to Public Cloud. Our highly differentiated first party and marketplace cloud storage services with the leading hyperscalers remain our focus and top priority. These services continue to grow rapidly, increasing roughly 43% year-over-year. In total, Public Cloud segment revenue grew 9% year-over-year to $168 million.

We continue to innovate rapidly in cloud storage services, broadening workload support, capabilities, price and performance points, further solidifying our strong leadership position. In Q2, we updated Cloud Volumes ONTAP to include our advanced Autonomous Ransomware Protection and write once read many capabilities, strengthening our customers' ability to defend against ransomware attacks.

Additionally, we enhanced Google Cloud NetApp volumes, which is now generally available in all 40 Google Cloud regions, with petabyte-scale volumes and auto-tiering further expanding the number of workloads we serve.

We remain focused on disciplined execution to meet the evolving needs of our growing customer base. We have broadened our all-flash storage portfolio substantially with updated high-performance flash, capacity flash, and block optimized products. We have significantly increased our range of capabilities in public cloud storage with vastly more cloud data centers, more price and capacity points, new features, and expanded workload support. We have integrated more intelligent services to make our storage the most secure with simplicity built in with scale.

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And finally, we continue to make it easy for customers to consume our products and services how they want, wherever they want. NetApp is at the forefront of innovation, empowering customers to build intelligent data infrastructures. Broad-based customer preference for our solutions and visionary approach for a data-driven future has enabled us to outgrow the market and take share from competitors.

Our solid track record of disciplined operational management continues to yield strong earnings growth. Our focus and momentum fuel my confidence in our ongoing ability to deliver outstanding results for customers and shareholders.

In closing, I want to thank the NetApp team for their dedication to our customers' success. I'll now turn the call over to Mike.

Michael J. Berry

Executive Vice President & Chief Financial Officer, NetApp, Inc.

Thank you, George, and good afternoon, everyone. We executed a strong quarter, hitting or exceeding all our guidance ranges. We made progress towards our long-term Investor Day targets of mid-to-upper single-digit revenue growth and double-digit EPS growth on average through fiscal year 2027. Fiscal year 2025 is expected to be within both ranges.

Before I get into the financial details, let me walk you through the key themes for the quarter. As a reminder, all numbers discussed are non-GAAP unless otherwise noted. As expected, Q2 consolidated gross margin was strong at 72%, continuing to trend near all-time highs. Gross margin leverage and operating discipline drove operating margin of 29%. Gross profit dollars grew 6% year-over-year, in line with revenue, while operating profit dollars grew 13% year-over-year, double the rate of revenue.

Q2 revenue grew 6% year-over-year, the fourth consecutive quarter of mid-to-high single-digit year-over-year growth, with product revenue, cloud, and professional services all growing above this rate in the quarter. We returned over $400 million to shareholders through dividends and share repurchases, reducing Q2 fiscal 2025 share count by 1 million shares year-over-year. As discussed during the last quarter's call, we intend to return up to 100% of free cash flow this year.

Due to solid execution and strong operational management, we outperformed our expectations in the second quarter and expect our continued focus and discipline to deliver mid-single-digit year-over-year revenue growth in the second half of the fiscal year. As a result, we are raising our fiscal year 2025 revenue and EPS expectations.

Now, to the details of the quarter. Revenue of $1.66 billion increased 6% year-over-year towards the high end of our guidance range. Billings of $1.59 billion increased 9% year-over-year. This marks our fourth consecutive quarter of year-over-year revenue and billings growth.

Product revenue of $768 million was up 9% year-over-year. Support revenue of $635 million grew 2% year-over-year. Professional Services revenue of $87 million grew 10% year-over-year, mainly driven by Keystone.

Public Cloud revenue of $168 million increased 9% from Q2 a year ago, driven by hyperscaler first party and marketplace storage services. We expect cloud revenues to return to double-digit year-over-year growth beginning in Q3, driven by the momentum in our cloud storage business. Q2 deferred revenue was $4.1 billion, up 2% year-over-year.

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Keystone, our storage-as-a-service offering continues to gain traction in the market. Remaining performance obligations were $4.4 billion. Unbilled RPO was approximately $330 million, up 11% quarter-over-quarter. Growth in unbilled RPO is a key indicator of future Keystone growth.

Q2 consolidated gross margin came in at 72%. Product gross margin was 60%. We highlight that both consolidated and product gross profit dollars grew mid-to-high single-digits year-over-year in Q2, in line with revenue. We have made strategic purchase commitments to lock in the majority of SSD supply and mitigate rising prices in calendar year 2024, which continues to give us confidence in our product gross margins as we move into the second half of fiscal year 2025. We continue to forecast product gross margins to decline slightly in the second half of fiscal year 2025 as compared to the first half, but remain in the high 50% range for the full year, consistent with our prior guidance.

Our recurring support business continues to be highly profitable with gross margins of 92%. Our support retention rates and associated margin structure represent the continuing innovation we deliver to our customers through ONTAP. Q2 Public Cloud gross margins improved to 74% from 66% in the prior year. We are particularly proud of the improvement in Public Cloud gross margins and highlight that one-third of the year-over-year expansion in total gross profit was driven by Public Cloud in the quarter. We expect to make further progress on our Public Cloud gross margins and exit fiscal year 2025 at the lower end of our long-term target of 75% to 80%.

Operating expenses of $719 million was up 2% year-over-year and up 1% from Q1 2025. Q2 again highlighted the strength of our business model and disciplined operational execution with operating margin of 29%, ahead of expectations. EPS of $1.87 was above the high end of our guidance, driven by higher revenues and higher gross margins compared to our initial forecasts.

Operating cash flow was $105 million in Q2 compared to $135 million a year ago, and free cash flow was $60 million compared to $97 million a year ago. Our lower year-over-year cash flow results in Q2 were primarily driven by upfront payments for strategic SSD purchases, which are forecasted to be predominantly utilized during fiscal year 2025. These strategic purchases resulted in much higher inventory levels versus all of fiscal year 2024 and reduced inventory turns to only 6 times in Q2. In the quarter, DSOs increased to 48, in line with seasonal averages.

During the quarter, we returned $406 million to stockholders through share repurchases and cash dividends. We have approximately $800 million remaining on our existing repurchase authorization. We also repaid $400 million in debt with available cash in the quarter as planned. Our balance sheet remains healthy. We ended the quarter with approximately $2.2 billion in cash and short-term investments against $2 billion in debt.

Now turning to guidance, starting with the full year. We are raising our revenue guidance for the full year to between $6.54 billion and $6.74 billion, representing approximately 6% year-over-year growth at the midpoint. We expect fiscal year 2025 consolidated gross margin to be 71% to 72%, unchanged from prior expectations. Importantly, we expect gross margin dollars to increase to $4.75 billion at the midpoint, driven by growth across product, support and cloud revenue.

We expect fiscal year 2025 operating margin to be 28% to 28.5%, up 75 basis points at the midpoint compared to prior expectations. We are raising our net interest income expectations slightly to $55 million, driven by higher interest income. We expect our tax rate for the full year to be 20% to 21%. As a result, we expect EPS to be in the range of $7.20 to $7.40, which at the midpoint implies 13% growth year-over-year.

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Year-to-date, our free cash flow has trended lower year-over-year despite higher revenue and net income due to the timing of higher incentive compensation and our strategic SSD purchase commitments in the first half of the year, which have been instrumental to our supply chain management strategy in a rising commodity cost environment. The lower cash flow results are due to the timing of cash payments, not a change in our normalized cash conversion cycle.

We expect SSD-related cash outflows to slow in the rest of our fiscal year and expect cash flow generation to be higher in the second half of the year compared to the first half and grow year-over-year versus the second half of fiscal year 2024. Even with this improvement, we now expect free cash flow in fiscal year 2025 to be slightly lower year-over-year driven by the timing of these cash payments.

Turning now to our third quarter guidance. We expect Q3 revenue to range between $1.61 billion and $1.76 billion, which at the midpoint implies 5% growth year-over-year. We expect Q3 consolidated gross margin to be 71% to 72%, and operating margin to be approximately 29%. We expect net interest income to be $10 million in the quarter and our tax rate to be 20% to 21%. EPS is expected to be in the range of $1.85 to $1.95.

While our Q3 guidance for EPS forecasts a year-over-year decline, we note that last year's Q3 represented a record high in product gross margin as well as an unusually low tax rate. Normalizing for these factors, our Q3 EPS guidance forecasts year-over-year EPS growth. As a reminder, we expect double-digit EPS growth on average from fiscal year 2025 to fiscal year 2027, and our fiscal year 2025 guidance is on track towards this goal.

In closing, I want to thank our employees, customers and investors for their commitment and investment in NetApp. I am confident in our ability to help our customers successfully achieve their digital and cloud transformation goals. We are well-aligned to priority IT investments and are committed to deliver sustainable, long-term value for our stockholders.

I'll now turn the call over to Kris to open the Q&A. Kris?

Kris Newton

Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

Thanks Mike. Operator, let's begin the Q&A.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today will come from Asiya Merchant with Citigroup. Please go ahead.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you for taking my question, and congratulations on strong results. If I may, George and Mike, you've talked about macro in the past and some kind of uneven recovery across certain verticals, so maybe if you could just start with that. And relative to this 5% revenue growth for the full year, how much of that is predicated on macro versus now that you have a fuller portfolio that is addressing all the external storage needs? Thank you.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

The macro in the last past quarter has been unchanged relative to prior quarters. We are well-aligned to the priority spending areas for our customers, data center modernization, the deployment of new applications, cyber resilience for data and, of course, cloud and AI, and our product portfolio is exceptionally strong. We are focused on executing at the expense of larger competitors. And I think that our growth outlook for the year is regardless of the macro. We are assuming that it stays where it is.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. And if I may, on the AI side of things, I know you've talked about in the past that this is still ahead of us. Any updates you can give how you're seeing various enterprises deploying NetApp solutions as it relates to modernizing your data storage for AI? And any insights you can give as to sort of when you think AI inferencing will be a bigger factor for you guys? Thank you.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

We are seeing the early stages of getting your data infrastructure ready for AI. We had a large number of wins across the multiple verticals, as I said in my prepared remarks; those are leading indicators of future large-scale inferencing deployments. I would say they are today in what we call AI centers of excellence, and they have not yet hit large scale.

We also have had some strong momentum with Google with their Distributed Cloud for AI deployments in the public sector. And so, we're encouraged at the prospects of our AI business going forward. In large, I don't have an updates from prior commentary. We think that it's still second half of next year. And so, the growth opportunity for us is still ahead of us.

Asiya Merchant
Analyst, Citigroup Global Markets Canada, Inc.

Q

Great. Thank you and congratulations.

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George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Thank you.

Operator: Your next question today will come from Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Good afternoon, everyone. I guess, just to start with, George and Mike, can you just talk about the strength and really the durability of what you're seeing on the all-flash array side? You folks have had near 20% growth for a few quarters now. How do you think of that all-flash array growth as you go into the back half of the fiscal year where compares I think start to get a little bit more difficult for you. I'd love to kind of just understand that. And then if I just stick to the all-flash array theme, I'd love to just understand the growth you're seeing right now, how much of that do you think is share gains versus maybe new products like the A-Series that's opening up newer workloads environments for you?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

We have had four consecutive quarters of high-teens or 20%-plus revenue growth in all-flash arrays. This is clearly outpacing the market and all of the competitors. It is because that we are aligned to areas of customer spending as well as a unique value proposition, a single operating system, an advanced and complete hybrid multi-cloud capability, the richest set of data services, the most secure storage in the planet, and you can buy and consume this technology in the way you want from NetApp or from our partners. We are combining that durable competitive moat with the fastest innovation pipeline ever.

We refreshed the A-Series. We refreshed the ASA products. We refreshed our FAS products and you will see continued innovation coming from us over the next few quarters, and we are focused on executing in the go-to-market as opposed to many of our competitors who are distracted. So I feel very, very good about the durability of our leadership position and the opportunity going forward.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Got it. And then, Mike, could you just touch on this pre-buying of memory that you folks are doing right now? I guess, do I think of the sequential uptick in inventory as essentially all pre-buys? And then, can you talk about, are you changing the way you look at inventory pre-buying longer term? And is it something you think you're going to do on a more consistent basis? Thank you.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Sure. Thanks for the question, Amit. So, yes, the increase in the first half in inventories while it's not certainly the whole amount of the inventory number, the $300-plus million, the majority of the increase are the pre-buys that we've negotiated at the end of 2024 and 2025. So, at this point, and we've said it before, we're not looking to do any more pre-buys going forward. We're good where we are. We've covered the majority of our expected demand in fiscal 2025.

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So, at this point, Amit, we've taken a step back, we're starting to see some softening in the NAND market. So we're going to let that play out. So, hey, we look at it every day. We'll look at it as we go through the rest of fiscal 2025. But unless something changes in the market, you shouldn't expect to see us do any more pre-buys for the rest of this fiscal year.

Amit Daryanani
Analyst, Evercore Group LLC

Q

Perfect. Thank you very much.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Thank you.

Operator: And your next question today will come from Tim Long of Barclays. Please go ahead.

Tim Long
Analyst, Barclays Capital, Inc.

Q

Thank you. Two as well, if I could. First, Mike, you mentioned the RPO down sequentially. I know there's some unbilled in there, but everything else sounded pretty strong with the billings and the outlook and the pipeline. So, if you could just walk us through the RPO down in the quarter? And then secondly, I was hoping you could touch on the public sector. Pretty strong results Q-on-Q and year-over-year. Just curious what drove that and what's the outlook for that business, given the changing political landscape for that type of business? Thank you.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Yeah. Thanks for the question, Tim. So, it's Mike. I'll do the first one. So, thanks on RPO. So, a couple things. RPO is made up of two pieces. It's made up of deferred revenue, which is both short and long term on the balance sheet, and then the unbilled portion of our commitments. That's where you will find Keystone because it's not on the balance sheet. RPO came down quarter-on-quarter as expected because, sequentially, deferred revenue always comes down Q1 to Q2.

Now, importantly, in the number we look at is total deferred revenue, including short term, grew year-over-year. It was flat in Q1 after being down slightly in the second half of last year. So, that's a great sign for us. To your point, that really follows the great billings growth that we've had. So, on RPO, just, hey, always watch what's the unbilled versus deferred. Deferred follows a sequential pattern. We do expect to see unbilled continue to grow quarter-on-quarter, though largely driven by Keystone.

And I'll hand it to George for the public sector question.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Our US public sector business performed well despite the continuing resolution. As we've said in the past, a large part of our public sector business is from a number of long-term projects, which are supported by program spending that is approved across annual budget cycles. We also saw strong performance across the globe from our public sector segment.

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With regard to our expectations for the new administration, listen, new administration brings new priorities, we will wait to see how they play out. One encouraging sign is that there is alignment across legislature and executives, which hopefully means that policies can be implemented quickly.

Tim Long
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: And your next question today will come from Jason Ader with William Blair. Please go ahead.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Yeah. Thanks. Good afternoon. George, I wanted to ask you about any potential ripple effects that you guys are seeing from the Broadcom VMware acquisition, specifically on storage projects, just as customers maybe have less budget or look to reevaluate their on-prem infrastructure plans and strategies?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

We have not seen anything material yet. We are seeing customers look at three paths forward. One is to optimize their existing Broadcom estate. That could be by moving footprint from hyperconverged to external storage so that they don't pay the virtual machine tax on the storage layer. And it also gives them flexibility to move in other directions moving forward.

The second is to move to new architectures. We have seen clients deploy alternative hypervisors and we benefit in those cases from our integration into multiple different hypervisors. And then there are a group of customers who have moved to the public cloud. We have strong solutions with VMware and with the hyperscalers and our Public Cloud business saw some benefit from that this quarter.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. Thank you. And then, Mike, maybe for you, just the Keystone product or the Keystone offering, does that go in professional services line? Is that what I heard you say?

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Yes. Hey, Jason, it's Mike. Yes, that is reported in professional services. That's where the revenue goes because it is a service. So, it's not in product or support, it's in professional services.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. And as we look forward in the model, I mean, should we see professional services growth in Flex because Keystone becomes a bigger part of that mix over the next couple of years?

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

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So, you did see it grow quarter-on-quarter, and that was largely due to Keystone. Professional services is a relatively stable piece of business. So as you see that revenue move up and we have forecasted continued growth, the majority of that is due to Keystone, Jason.

Jason Ader
Analyst, William Blair & Co. LLC

Q

Okay. Thank you, guys. Good luck.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Thank you.

Operator: And your next question today will come from Simon Leopold with Raymond James. Please go ahead.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thanks for taking the questions. First, I know you stopped disclosing the split of hardware from software within Hybrid Cloud. But I'm wondering if there's anything in particular going on in terms of the mix between your software and hardware business that might be affecting product gross margins either in the recent quarter or in the outlook.

And then as a quick follow-up, I'm just wondering if there are any specific characteristics of the customers you see experimenting with AI applications in the enterprise. For example, do you see a bias towards something like financial services or certain kinds of industries, any patterns that you're observing? Thank you.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

So, Simon, it's Mike. I'll take the first one. Yes, we don't disclose the hardware and software breakout anymore. We talked about that in terms of why we pulled back on that. As it relates to gross margin, what I'd focus you on is the mix of flash versus the rest of the business. That's really the big driver there.

As we've talked about it, A-Series high-performance flash has always been the highest gross margin percentage and then capacity flash and then the non-flash products. So as we continue to sell more flash, and part of that is the replacement of our hybrid installed base, and we're doing that on purpose, that is what we expect to continue to keep our product gross margins where they are. It's more of a mix issue. Hardware and software is really not playing into that.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

With regard to your question on AI, we had a large number of wins across all of our geographies and industries. I think if you were to draw a trend line, maybe there's more presence in public sector, manufacturing, financial services, and healthcare and life science. Pretty broad-based book of business, those industries had more of the wins.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

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Thanks.

Operator: And your next question today will come from Samik Chatterjee with JPMorgan. Please go ahead.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Hi. Thanks for the question. This is Joe Cardoso on for Samik Chatterjee. Maybe just first question here, can we just get an update on the competitive environment, particularly with you seeing another quarter of a muted or a challenging macro? Curious that this prolonged macro is driving you to see an increasing intensity across your peer group. And then I just have a quick follow-up.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

No fundamental change in the competition, the pricing environment, which is a representation of the competition, remains rational. It's always been a competitive industry. I would say, following the long-term trend of the industry, the specialists are more advantaged than the integrated system vendors, and there are lots of shared owners across the landscape.

So we are well-positioned to outperform. We have been outperforming for multiple quarters now, and we see no change in that position. In fact, I feel even better today than we felt in the past. Our product cycle, our ability to meet customer demand and customer trends, as well as our unique competitive moat that we have built over many years is playing true for us.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Thanks, George. And then maybe just a follow-up on the new US administration coming in, I know you touched on it real quickly, but like specifically, how are you thinking about any implications around any potential tariff, government and efficiency initiatives, taxes, etcetera, that the new administration has talked about thus far? Where are you seeing headwinds? Where are you seeing tailwinds? Any potential areas that we should be – investors should be wary of, or your guys are too early to tell essentially? Thanks. Appreciate any color on that front.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

We are well protected from any tariffs being considered on China. Our supply chain and book of business has been vastly protected from that, so we don't see any material-ish impact to our business from that. If that were to occur, I think on the rest of the policies, we are going to wait until January. And once the new administration is sworn in, we can see how that plays out. We'll update you once we have clarity on it.

Joseph Cardoso
Analyst, JPMorgan Securities LLC

Q

Yeah. Got it. Thanks, George. Appreciate all the color.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Thank you.

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Operator: And your next question today will come from Param Singh with Oppenheimer. Please go ahead.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Great. Thank you for taking my question. First of all, good to see that your Public Cloud revenue is starting to improve again. I wanted to get a sense of what are some of the changes that you recently implemented that's driving a recovery in that growth? And then when do you think we can get to a teens growth back again in that Public Cloud revenue segment? And then I have a follow-up.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

I think we've done three things in the business, as we have said multiple times. The first was to build a focused go-to-market engine together with the hyperscalers, the second was to broaden our offerings in the first party and hyperscaler marketplace with cloud storage, and the third was to restructure or push for stabilization in the subscription business. All of those have made good progress. I think in the past quarter, you've seen the continued strength, a really strong quarter, 43% year-on-year from the hyperscaler and first party cloud storage services, which are an ever increasing part of our business.

And as Mike said, we expect to return to double-digit growth in the second half of this fiscal year. That is coupled with strong gross margin performance, as you can tell, the increased scaling of the business plus better utilization and less headwinds from depreciation and amortization has caused us to track upward in terms of gross margin, and we expect to hit our long-term cloud gross margin target by the end of the fiscal year 2025.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

That's great. Thank you so much for the color.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

And just to add to that, Param.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Go ahead, Mike.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Sorry, you can all run your own guidance models. We talked about double-digit growth starting in Q3. So if you run that growth out, I'm going to be surprised if you don't hit the teens in fiscal 2025.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Perfect. Thanks so much for the color, George and Mike. And then as my follow-up, I want to focus a little bit on Keystone. You talked about a $330 million unbilled RPO, and then assuming a typical duration of about three-ish years, you're still pretty small on the Keystone side. What are you hearing in terms of feedback from

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customers? And when do you think Keystone can start to become a much more meaningful part of the overall NetApp story?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

The feedback from customers has been stellar. We have yet to see a single customer churn on Keystone. So, it has been an incredibly rock-solid product and service customers like the flexibility we have.

We continue to educate our field teams, broaden the number of partners who can sell, and we are seeing more partners transacting Keystone. And so we'll see that growth over time, right, and I'm excited about it. It should grow faster in terms of percentage growth than our product business, but is an aid to us winning new customers and new workloads.

Param Singh
Analyst, Oppenheimer & Co., Inc.
Q

Understood. I will get back in line. Thank you so much for the color.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.
A

Thank you.

Operator: And your next question today will come from Wamsi Mohan with Bank of America. Please go ahead.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.
Q

Hi. Thanks for taking the questions. It's actually Ruplu Bhattacharya filling in for Wamsi today. I just wanted to follow-up on the Public Cloud segment question. So Mike, your first party hyperscaler marketplace storage services, like you said, has accelerated 40% year-on-year growth last year, 43% – last quarter, 43% this year.

Can you comment on the subscription services part, the headwinds that you were seeing. I think you had said that it's lessening over the course of fiscal 2025. Any quantification on the headwinds? And how should we think about this going over the next couple of quarters into the next fiscal year?

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.
A

Sure. So, let's back up and go through those numbers again, just so we all have them. So, at Financial Analyst Day, we talked to you folks about the size of that business, first party and marketplace services.

A little less than half of the total cloud revenue, so a good portion of it. That grew last quarter by about 43%. Total cloud revenue grew by 9%. And we've talked about this on purpose, we are with our customers seeing a conversion to first party marketplace away from subscription.

We've talked about the pull of marketplace, how important that is in terms of them being able to burn down their [ph] commits (00:49:00) and then all the wonderful partnerships we have with the big three hyperscalers. So, the subscription business is about 20% of the revenue. It gets to be a smaller piece every day because of growth of first party and marketplace. So, it is declining on purpose that was part of the plan.

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At some point, it probably flattens out, but we do expect over the next several quarters for consumption to continue to grow from the 80-plus percent it is, and it will be the very large majority of the business going forward. So, we won't quantify the subscription piece. You can run your own numbers, but that is part of the strategic plan to push to first party and marketplace. And by all rights, we've seen it's really working.

The other thing I'll add, and George brought this up, that's really helped from a margin perspective as well, driving much better gross margins. So, all of this feels like it's really setting us up well for the rest of 2025 going into 2026.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thanks for the details there Mike. Maybe a follow-up for George. How much of the install base has now converted to all-flash? And what's the mix existing customers moving to flash versus new customers? And what benefit have you seen from QLC? I mean, what percent of your flash business is now QLC? Thanks for taking my questions.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

I think with regard to our installed base, it remains at the same number as last quarter, which is 40%. Our installed base is growing, so even if flash is growing fast, the total installed base is growing and it is very large. So, that's the first indicator.

The second is, listen, we are outperforming the market and all of our competitors quite substantially. So, it is clear that we are winning new wallet within existing customers as well as new to NetApp customers. And we saw a lot of them at our Insight conference. And so I feel really good about the book of business is balanced.

And then with regard to TLC versus QLC, we're not going to break that out. I can just tell you that all of our flash product families did really well.

Ruplu Bhattacharya
Analyst, BofA Securities, Inc.

Q

Okay. Thank you for all the details. Appreciate it.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Thank you.

Operator: Your next question today will come from Meta Marshall with Morgan Stanley. Please go ahead.

Q

Hi. This is [ph] Mary (00:51:33) on for Meta. I had a question on the AI momentum that you're seeing. You noted more than 100 wins during the quarter. Can you give a sense of what those deals look like? Have they been primarily public cloud, premise or are they mostly a combination of the two? Thanks.

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George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

The 100 wins we talked about are on-premise wins. And we disclosed the public cloud AI wins under the Public Cloud segment revenue. I think on the on-premises side, there was a broad base of wins in terms of size, industry and geography. There were some clients that are in what we call proof-of-concept mode.

There are others that are in large – early pilots that are preproduction pilots. So, it's a mix all over the place, like we talked about the fact that it was broad-based across the geos as well as broad-based across industries.

Q

Great. Thanks. And just a follow-up on free cash flow. You had noted the puts and takes on free cash flow this year. But do any of the dynamics that you're seeing this year change how you think about the free cash flow trajectory for next year?

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Thank you. Great question. So, as we talked about, the two big working capital issues – not issues, changes we've seen this year are about the payment of the annual incentive compensation and the pre-buys in inventory. We're not going to guide 2026 or call that that yet.

What I would say is, from an incentive perspective, we do think that normalizes based on where we are in the year. So, we don't think will be nearly the working capital issue it is this year. We will see where we are on pre-buys. Do we do those going into next year or not that is remaining to be seen. So, we'll talk about that when we guide the year. But from an incentive comp perspective, that will normalize going into next year.

Q

Great. Thanks.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Thank you.

Operator: And your next question today will come from David Vogt with UBS. Please go ahead.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks guys. George, one for you to start. Can you maybe share some color on the success of the block portfolio in the flash numbers and what maybe the revenue dynamic was in the quarter, as well as any potential impact on margin, given it's a new offering for you in a new market that you're really targeting aggressively?

And then I'll give you the second one also for Mike. You mentioned obviously not taking any more purchase commitments for the balance of this year as you see some softening in NAND. Can you remind us again sort of

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the lag effect of NAND, if it does roll over and soften a bit, what that would mean for pricing in the market and how that would affect product revenue growth over the longer term relative to your framework? Thanks.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

We are pleased with the performance of the ASA product. It is bringing us a bunch of net new customers, as well as expansions within our existing customers, and so we are excited. It's early in the cycle, but we are seeing very good momentum. I think with regard to the overall gross margin implications of that, listen, I'll just say that we're not going to break out ASA versus other product families.

I think overall, our view is, as we move the mix of our business more and more to flash, that should continue to be a tailwind to gross margins over time. And so, we're executing our strategy. We feel good about where we are in terms of the overall portfolio, and we're going to stay pedal to the metal.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.
A

And David, on the related question on pricing, look, there have been a number of changes in the pricing environment. So as we look forward, what we'd tell you is, and we've said this all along, customers' budget on dollars, we're not assuming any significant change in revenue because of higher prices.

So, from that perspective, A, we'll have to see how it looks going forward. We feel good about the pre-buys in terms of the rest of our fiscal 2025. A little bit of that will drift into 2026, but not really. We're looking at it every day. So we'll update you on the revenue view and the margin view as we get closer to 2026.

David Vogt
Analyst, UBS Securities LLC
Q

Great. Thanks, George. Thanks, Mike.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

Thank you.

Operator: And your next question today will come from Steven Fox with Fox Advisors. Please go ahead.

Steven B. Fox
Analyst, Fox Advisors LLC
Q

Hi. Good afternoon. I only had one question. George, I was wondering if you can expand a little bit on the comments around the partnership with Google Cloud and how that's driving more high regulated customer business and public sector business. What are the early indicators? How quickly do you ramp into that sector more and more over time? Thanks.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

Our work with Google Cloud started with their public cloud environment. And then, over about a year-and-a-half, two years ago, we started to see clients together with Google that wanted the Google Stack but in their data centers. And so we started to work with them on an architecture called Google Distributed Cloud.

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We announced a set of customer wins, as well as the broader partnership with Google earlier this year, and we are seeing good momentum. It's still early. These are large-scale deployments. It's still early, but we are super pleased that both the capability set that the full technology stack offers, it is entirely wallet expanding for us, and the unique value that we bring to clients with Google is a consistent experience between their data centers and public cloud, as well as the private cloud or on-premises environments that customers have.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. It seems like a great opportunity. Thank you.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Yeah. We're excited. Thank you.

Operator: Your next question today will come from Aaron Rakers with Wells Fargo. Please go ahead.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yes. Thanks for fitting me in. I guess my question is going back to earlier point, just to make clear and maybe push back a little bit is that, last quarter, I think you talked about your first-party and hyperscale marketplace. Storage services, I think, grew north of 30%. I think in that context, you had alluded to that that contribution was about two-thirds of that Public Cloud piece of business.

So now you've got – I want to make sure I'm understanding, today it sounds like, is it – did I hear it right, it's now about 80% of that Public Cloud business. And if so, why would mid-teens growth be right? Why wouldn't it accelerate much higher as we start to see the lack of growth in the declining business really become significantly smaller? I'm just trying to understand if that's maybe conservatism, or if there's something else there.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.

A

Yeah. Hey, Aaron, it's Mike. So, sorry if I confused it. So, out of the total cloud revenue number, first party and marketplace was a little less than half when we did the Analyst Day in June. That percentage increases more and more every day. The 80% number I referred to was consumption revenue, which includes more than just first-party and marketplace. There's other products in there as well.

To your point as why we feel really good about the growth going forward is that that piece of the business gets bigger every day. The part that's not growing gets smaller every day. So we do feel good about the growth going forward. We'll see how the rest of the year unfolds.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

A

Thanks, Aaron. Next question.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

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Thank you.

Operator: And your next question today will come from Louis Miscioscia with Daiwa. Please go ahead.

Louis Miscioscia
Analyst, Daiwa Capital Markets America, Inc.

Q

Yes, with Daiwa. Thanks for taking it. Well, let me just blend, I guess, two questions into one. Looks like obviously the Americas was a little bit stronger from Europe. So, can you comment on just European demand? It seems the economies are maybe a little bit slower there. And then, could the difference be that the US is actually doing better, trying to deploy AI applications in comparison to Europe? Thank you.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Listen, I think, our team in Europe has outperformed. We have – yes, you're correct about the macro in Europe. It is still choppy in some parts of the European economy, but our team has outperformed.

With regard to the Americas business, listen, the new leadership team has done a really good job, and I'm super excited at our ability to outperform really in the largest market in the world. I think that our book of business, I don't think there was anything fundamental. Yes, there were more wins in North America for AI, but I don't think it was fundamentally different. I think our business overall in North America performed exceptionally well across all segments, and it was just execution across a broad range of customer demand.

Louis Miscioscia
Analyst, Daiwa Capital Markets America, Inc.

Q

Okay. Congrats on the numbers.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

Thank you.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

A

Great. Thanks, Lou. Next question, please.

Operator: And your next question today will come from Ananda Baruah with Loop Capital. Please go ahead.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Hey, thanks, guys. Appreciate it. I guess, George, a question maybe and a little clarification. So the new high end – here's kind of the question, the new high-end ASA products, how important is that to the ASA product line? Is it as important as the mid-range product that you introduced a little while ago, those have made a really big impact?

And then, sort of in the prepared remarks, the comments about new customer acquisition, which you've referenced a few times on the call, is that directly related to the new high-end products? Or I guess, to what degree has the new high-end products actually led to the new customer acquisition? And that's it for me. Thanks.

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George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

I think our flash portfolio has – we refreshed the unified AFF products, and then we refreshed the ASA products. These have seen strong reception. I think, with regard to new customers, over time, you will see the midrange bring new customers because the majority of net new logos to NetApp come from smaller, the commercial market, but the high-end products are enabling us to win wallet share within existing customers.

Block wallet share is entirely new to NetApp. We've never sold a block optimized product before. So, it's all net new, wallet for us. And so, we're excited at the reception to those products. The unified product has continued to strengthen our positions and customers who want a consolidated data center infrastructure, more of the plastic sales motion of NetApp.

And so, I think across the board, our flash, I mean, 19% year-on-year is a super strong number. It's the fourth consecutive quarter in that kind of altitude and all of our products have done really, really well. So, I'm really excited about the year ahead.

Ananda Baruah
Analyst, Loop Capital Markets LLC

Q

Thank you.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

A

Thank you, Ananda. Next question?

Operator: Your next question today will come from Krish Sankar with TD Cowen. Please go ahead.

Q

Hey guys. This is [ph] Eddie (01:03:38) for Chris. Just had a clarification regarding the first-party hyperscale service question. You talked about like 43% growth rate. Just want to make sure like, is the conversion that's taking place from subscription to hyperscale services contributing in any material way to that 43% number?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

A

There's some modest conversion. It's not a significant percentage. There's a large number of net new to NetApp customers, as well as significant expansion of existing customers and all of the hyperscaler services did extremely well. So, yes, there were a few, but it was not material to the number.

Q

Got it. That's super helpful, George. And maybe just a follow-up on the GenAI topic, and using the AI deals you talked about today as an example, what pushed these customers to buy more storage? Was it just them setting up new GPU clusters and they need new storage equipment? Or is it more like an upgrade to existing infrastructure, so that they can see their data lakes from it? Thank you.

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George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

It's a combination. There were a good number of them that were building GPU clusters. Both SuperPODs and kind of BasePODs that we saw, where they were essentially running the GPUs against high-performance file systems from NetApp and some that were building data lakes because their data was so scattered that they wanted to bring it together, and they chose our infrastructure to power the data lake, so a mix of them.

Inferencing, early in the cycle, we just brought to general availability, our full stack with Lenovo, for example, with OVX, and we're doing creative work with NVIDIA around some of their software that Jensen referred to on their call yesterday.

Q

Got it. Thank you.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.
A

Thanks, [ph] Eddie (01:05:44). Next question.

Operator: And your next question today will come from Nehal Chokshi with Northland Capital Markets. Please go ahead.

Nehal Chokshi
Analyst, Northland Securities, Inc.
Q

Yeah. Thank you. Congrats on the strong result. At INSIGHT, you guys introduced your AI vision, which is quite extensive, and I believe has some forward-looking product developments. One of those product developments, I believe is, and correct me if I'm wrong, it's the decoupling the scaling of data management compute and data storage. Is that correct?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

I'm sorry. Could you repeat the question?

Nehal Chokshi
Analyst, Northland Securities, Inc.
Q

Yeah. One of the elements of the forward-looking AI vision as far as how NetApp's portfolio may evolve is the decoupling of the scaling of the data management compute and the data management storage components. Is that correct? That's a forward...

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

That's correct. Yeah. That's right. That is one of the elements. You're correct, yes.

Nehal Chokshi
Analyst, Northland Securities, Inc.
Q

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Yeah. And how long do you expect to before you can really introduce that? And how have you lifted this? Is this more like the more like the lift it took to go to clustered ONTAP? Or is it more like a lift it took to optimize for flash?

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

We have been working on scaling out our architecture over many, many years, right? And so, this is not anywhere near the lift of clustered ONTAP. As we said, we expect to have these solutions deployed in customers by the end of next calendar year. So, we're excited. We are making really good progress on it. Stay tuned. We'll tell you when we make those solutions generally available.

Nehal Chokshi
Analyst, Northland Securities, Inc.
Q

Great. Thank you very much.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.
A

Thanks, Nehal.

Operator: Your final question today will come from Ari Terjanian with Cleveland Research Company. Please go ahead.

Ari Terjanian
Analyst, Cleveland Research Co. LLC
Q

Hi, all. Thanks for taking the question. Nice to meet you and congrats on the good results. First, just a clarification on the AI deals. That 100, is that deals in the quarter? And if so, like what drove the doubling from 50 last quarter, it's pretty strong results?

And then, just as it pertains to the SSD pricing and whatnot, to the extent that there are any pricing actions to your product? Do you think there is potentially any pull forward of demand or do you anticipate any impact from any pricing changes? Thank you.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.
A

With regard to the AI deals, listen, it's just broader engagement with customers. These deals are – large deals are – taken long sales cycle, right? So, our teams have been working on these for a while. And so, we just saw broader engagement across our field teams and our partner base to accelerate the pipeline. We have a good outlook for that business, and I'm excited about the prospects of it.

I'll hand it to Mike for the second question.

Michael J. Berry
Executive Vice President & Chief Financial Officer, NetApp, Inc.
A

Hey, Ari. Nice to meet you as well. So, there have been some pricing changes on some of our products. What we'd say is, say, hey, every quarter, there's always pull-forward and pushes from a revenue perspective, nothing material, though. And keep in mind that those tend to take a while to work through the pipeline as well. So, we do expect to have some impact going forward, but we'll have to see how the rest of 2025 goes.

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Ari Terjanian
Analyst, Cleveland Research Co. LLC

Q

Thanks.

Kris Newton
Vice President-Corporate Communications & Investor Relations, NetApp, Inc.

A

All right. Well, thanks, Ari. I appreciate your question, and I'm going to turn it over to George for some final comments.

George Kurian
Chief Executive Officer & Director, NetApp, Inc.

Thanks, Kris. We are focused on enabling customers to build intelligent data infrastructures with our uniquely differentiated solutions for flash, block, cloud storage and AI. These solutions address markets, which are bolstered by both secular and company-specific tailwinds and represent our biggest opportunities to fuel revenue growth and increase market share.

Our pace of innovation has never been stronger. We are executing well, clearly outgrowing the market and all of our competition in each of our key growth markets. Our focused and disciplined operational management positions us well for continued customer and shareholder success.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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