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NTAP.OQ - Q4 2026 NetApp Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and welcome to the NetApp fourth quarter and fiscal year 2026 earnings call. (Operator Instructions) Please note that 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 - *NetApp Inc - Vice President, Investor Relations*

Hi, everyone. Thanks for joining our Q4 and fiscal year 2026 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 first quarter and fiscal year 2027; 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 measures are available on our website.

I'll now turn the call over to George.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Good afternoon, everyone. Thank you for joining us. FY26 was a landmark year for NetApp, with record results across revenue, gross profit, operating income, cash flow from operations, and free cash flow, supported by strong customer demand in the fourth quarter. Our performance demonstrates our ability to capitalize on the accelerating adoption of enterprise AI and cloud.

With our differentiated hybrid cloud intelligent data infrastructure platform, trusted by the world's leading enterprises and cloud providers, NetApp is increasingly at the center of our customers' data-driven AI transformations. Achieving our full-year target of 30% operating margin underscores our commitment to profitable growth and ongoing innovation.

NetApp stands at the forefront of a transformative era, driven by rapid AI adoption and explosive cloud growth. Enterprises are reimagining how they operate and compete, and only NetApp delivers truly hybrid intelligent data infrastructure, on-premises and in the cloud, all-flash and hybrid flash, to seamlessly protect, secure, govern, and activate the entire data estate for AI.

Our 30 years of innovation and leadership in hybrid multi-cloud environments are more relevant than ever as our vision of a hybrid world is realized. As enterprise AI adoption scales, the primary challenge is not compute but activating large volumes of unstructured data. A significant share of the world's enterprise unstructured data resides on NetApp solutions, and our ability to activate it securely and efficiently across hybrid and multi-cloud environments gives us a powerful competitive advantage.

As the only true hybrid cloud platform, unifying data governance across on-premises and cloud environments, we enable zero copy data activation, eliminating the cost and risk of moving data and transforming fragmented infrastructure into a secure launch pad for real-time AI and automation.

Our value proposition is resonating strongly with customers and the industry. Our storage services on AWS, Azure, and Google Cloud empower customers to protect, mobilize, and govern their data with unmatched flexibility and consistency regardless of location. This capability is increasingly critical as customers launch and scale their AI initiatives. By integrating our data infrastructure platform with the AI and analytics offerings of leading cloud providers, customers can activate their data for AI workloads in place where it is created without costly or time-consuming migration or duplication, making NetApp the secure zero copy foundation enterprises need to move from fragmented infrastructure to real-time AI at scale.

We fueled nearly 50 partner AI factories and labs as they build out their real-world test beds to accelerate AI deployment. A recent example of this is that worldwide technologies live AI proving ground where NetApp E affects all-flash storage is featured, allowing customers to test architectures, validate performance, and quickly move from experimentation to deployment.

This collaboration highlights the large opportunity ahead as enterprises look for trusted partners to operationalize AI confidently. We see growing opportunity and success with neo and sovereign cloud providers who recognize the strength of our differentiated solutions and our joint go-to-market initiatives with leading hyperscalers. These partnerships reinforce our opposition as a trusted collaborator in the evolving cloud ecosystem.

A leading neocloud turned to NetApp for intelligent all-flash storage infrastructure, eliminating complexity and powering orchestration at cloud scale. The new deployment will help accelerate AI onboarding and time to value. With this win, we can begin to expand into other workloads to become the foundational data layer.

Another significant achievement is our expanded partnership with Google Cloud for Google Distributed Cloud, which underscores both growing opportunity in AI and sovereign cloud environments and the strength of our technology. This collaboration enables government agencies and regulated enterprises to leverage advanced AI capabilities from Google and NetApp, secure by design data infrastructure platform to modernize operations and accelerate AI-driven insights even in the most sensitive environments.

We achieved record revenue in Q4 and FY26, driven by public cloud, all-flash, and Keystone, which all reached all-time highs, reflecting strong demand from customers modernizing infrastructure and scaling AI workloads. Public cloud revenue grew to $688 million in FY26, up 18% year over year, normalized for the divestiture of the Spot by NetApp business in March 2025. This growth was driven by first-party and marketplace cloud services, which increased 30% in FY26.

We are seeing growing demand from both new and existing customers to extend NetApp's capabilities deeper into their cloud environments. Customers are increasingly choosing NetApp to simplify and scale their hybrid and multi-cloud environments, leveraging our unified data management capabilities for operational consistency and agility.

Our expanding cloud portfolio is unlocking new use cases and verticals, including AI, fueling growth and expanding our addressable market. For example, a leading insurance company accelerated financial risk modeling and data science by connecting Azure Databricks directly to their data in Azure NetApp files, ensuring security, governance, and performance.

Similarly, an Asian engineering company streamlined its GenAI chatbot deployment on AWS by leveraging FSx for NetApp ONTAP, allowing secure permission-aware access to data in place and reducing operational overhead. Across these wins, the common thread is NetApp's ability to deliver secure, governed, high performance data access for AI workloads, enabling customers to innovate faster and operate more efficiently, all while maintaining control and compliance.

FY26 all-flash revenue was $4.2 billion, an increase of 11% from last year, propelled by robust Q4 performance with revenue of $1.2 billion, up 18% year over year.

Customers are choosing NetApp to power the most mission-critical workloads, and our momentum in this segment is a testament to the strength of our innovation and go-to-market execution. A prime example of this is a European aerospace company that chose NetApp, displacing competitors in a greenfield win. The data management capabilities of NetApp all-flash arrays stood out for their high-performance, cyber resilience, and ransomware protection, as well as seamless integration with a broad ecosystem of partners.

Our comprehensive solution delivered the security simplicity, and strategic value needed to support critical initiatives. Revenue from our Keystone Storage-as-a-Service offering grew approximately 65% from FY25, and more customers, embrace the flexibility and simplicity of a cloud-like experience for their on-premises data. This momentum reflects the broader shift towards consumption-based IT models and our ability to meet customers wherever they are on their transformation journeys.

A leading manufacturer chose NetApp Keystone with all-flash and StorageGRID to support its AI strategy, requiring a secure, flexible platform for massive data sets. Keystone delivers secure, governed self-service at scale, enabling rapid collaboration and predictable on-demand performance. Our unified platform streamlines data management with multi-protocol support, native S3 tiering, and cloud integration for maximum efficiency.

AI was a clear growth engine for us in FY26. We had approximately 500 AI and data preparation wins in Q4 alone, bringing the FY26 total to over 1,100. Our ability to help customers operationalize AI at scale, accelerate time to insight, and drive real business outcomes is putting us increasingly at the center of our customers' AI journeys.

In FY26, we furthered our AI innovation, launching next-generation solutions, including AFX and AI data engine, which are seeing strong early momentum and positive feedback from customers and partners. Additionally, we announced enhancements to the performance and capabilities of our all-flash arrays and expanded our converged AI solutions. These offerings help organizations simplify their AI infrastructure, eliminate silos, and accelerate their data pipelines, reinforcing NetApp's role as the data infrastructure platform for AI.

Let me walk through a couple of additional customer wins that spotlight NetApp's competitive advantages. A European government agency required real-time situational awareness with ultra-fast, latency-free data processing. NetApp's disaggregated AFX solution for their NVIDIA SuperPOD environment, enabled independent scaling of compute and storage, delivering flexible, futureproof infrastructure. A rapid execution and expertise empowered a robust mission-critical AI platform to meet evolving operational demands.

A global financial leader signed a $20 million deal with NetApp to accelerate its AI-driven fraud detection and customer personalization. NetApp's GPU-ready, low latency data lake platform deliver high-performance access to multi-petabyte data sets, enabling global, real-time fraud scoring, continuous model retraining, and robust enterprise governance and resiliency. It's high-impact wins like these that helped us achieve record-setting results while navigating a dynamic macroenvironment.

We're managing rising memory and component costs by working closely with our supply chain partners and adjusting pricing to balance growth and margins. Data generation continues unabated, and customers need solutions that best optimize performance and cost. Our ability to offer a broad range of solutions with flexible purchasing options, including cloud, Keystone, and hybrid flash strengthens our competitive position, resilience, and flexibility.

FY26 also set a new bar for cash generation. Our strong free cash flow enables us to invest in innovation while returning value to shareholders through dividends and share repurchases. We remain committed to disciplined capital allocation and long-term value creation.

I want to thank the entire NetApp team for their customer-centric focus and hard work in FY26. It was a year of strong execution, innovation, and accelerating growth, clear proof that our strategy is working and our portfolio is resonating in the market. The investments we made this year have expanded our opportunities and set a solid foundation for future growth.

Looking ahead, we are encouraged by the robust demand signals we're seeing and are confident in our ability to maintain this momentum as reflected in our fiscal year '27 outlook. Our hybrid multi-cloud leadership, differentiated AI offerings, and flexible storage and consumption offerings position NetApp for continued success as customers accelerate their data-driven AI transformations.

With that, I'll turn the call over to Wissam.

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Thanks, George, and good afternoon, everyone. In the fiscal fourth quarter, we delivered strong results exceeding the high end of both the revenue and EPS guidance ranges. Revenue for the quarter was $1.95 billion, up 12% year over year and 14%, sequentially. Non-GAAP earnings per share cost $2.43, up 26% year over year. Excluding the divested spot business, which generated $9 million of revenue in the fourth quarter of the prior year, revenue grew 13% year over year. Revenue was up 10% year over year, excluding the effect of foreign currency exchange rates, which had little impact relative to guidance. This marks our 10th consecutive quarter of year-over-year revenue growth.

Looking at revenue by segment, hybrid cloud revenue of $1.77 billion was up 30% year over year. Product revenue of $966 million was up 14% year over year, driven by the execution of a multi-year agreement with Google Cloud to deliver secure, AI-ready data infrastructure to Google Distributed Cloud environments. In prior quarters, we mentioned the potential for large deals to materialize in the second half of fiscal year 2026, and this came to fruition in Q4.

Support revenue of $688 million was up 10% year over year, partly driven by a one-time item. Professional services revenue of $112 million was up 14% year over year, mainly driven by growth in Keystone, our Storage-as-a-Service offering, which continues to build momentum. Q4 public cloud revenue of $182 million was up 11% year over year. Excluding Spot, public cloud revenue grew 18% year over year, driven by a strong demand for first-party and marketplace storage services.

We exited fiscal year 2026 with $4.85 billion in deferred revenue, an increase of 7% year over year and 6% year over year in constant currency. Remaining performance obligations were $5.65 billion, up 14% year over year. Unbilled remaining performance obligations, a key indicator of future Keystone Storage-as-a-Service revenue growth, were $807 million, up 88% year over year. This outperformance was driven by an increase in support performance obligations associated with the Google agreement, as well as Keystone unbilled RPO, which grew at a similar rate to the prior quarters on a year-over-year basis.

Moving to the rest of the income statement. Please note my comments will be related to non-GAAP results unless stated otherwise. Q4 gross margin was 70.5%, up 100 basis points year over year, driven by public cloud gross margin expansion. Gross profit was $1.37 billion, up 14% compared to Q4 of 2025.

Hybrid cloud gross margin was 69%, down 60 basis points sequentially due to higher product revenue in the quarter. Product gross margin was 56.1%, up 80 basis points sequentially due to the benefit from the Google Cloud enterprise agreement offsetting higher component costs.

Our recurring support business continues to be highly profitable, with gross margin of 93%. Professional services gross margin was 32.1%, improving 80 basis points sequentially. Public cloud gross margin was 85.7%, up 60 basis points sequentially and over 6 percentage points year over year. The public cloud business has operated within the 80% to 85% long-term target range in the first half of the fiscal year and above the high end of that range in the last two quarters.

Operating expenses of $750 million were up 6% year over year and 9% sequentially. Operating income was $624 million, up 26% compared to Q4 2025. And operating margin was 32%, up 340 basis points year over year, both all-time records driven by higher revenue. Earnings per share was $2.43, up 26% year over year and exceeding the high end of the guidance range.

Our results demonstrate strong execution on key revenue growth opportunities in all-flash, public cloud, and AI, along with a continued focus on operational discipline, resulting in record highs for quarterly operating income and EPS.

In Q4, cash flow from operations was $950 million, and free cash flow was $900 million, both up over 40% year over year and all-time records. These strong cash flow metrics were driven by increased collections from higher billings.

During the fourth quarter, we returned $303 million of capital to our shareholders, with $200 million in share repurchases and $103 million paid in dividends of $0.52 per share. Q4 diluted share count of 199 million decreased by 7 million shares, or 3% year over year. At the end of the fiscal year 2026, there was approximately $500 million remaining from our current share repurchases authorization. And today, we are announcing an increase in that authorization by $1 billion.

Moving to a review of our results for the full fiscal year 2026. Revenue of $6.93 billion was up 5% year over year, exceeding the high end of our guidance range. Excluding the divested Spot business, revenue was up 7% year over year and in line with our long-term target model.

Our strict focus on operating leverage allowed us to drive bottom-line profitability at a faster pace, all contributing to record highs in operating margin, EPS, and cash flow. Gross margin was 71.3%, up 20 basis points year over year, driven by public cloud and professional services gross margin expansion and partially offset by lower product gross margin. Operating margin was 30.2%, up 190 basis points year over year, driven by 1% year-over-year growth in operating expenses relative to 5% year-over-year revenue growth. Full-year EPS was $8.13, up 12% year over year, more than double the rate of revenue growth.

Operating cash flow was $2.07 billion, and free cash flow generation was $1.87 billion, up close to 40% year over year, primarily due to stronger cash collections and networking capital benefits. Our balance sheet remains very healthy as we returned a total of $1.36 billion in value to our shareholders through share repurchases and cash dividends, all as we continue to invest in the next generation of AI data solutions.

We closed the year with $3.58 billion in cash and short-term investments and $2.49 billion in gross debt outstanding, resulting in a net cash position of $1.1 billion. Inventories expanded both year over year and quarter over quarter. Inventory turns decreased sequentially to 12.

Now turning to non-GAAP guidance, starting with fiscal year 2027. Let me begin by underscoring the confidence in our strategy and in the strength of our position as we address key customer priorities. Our guidance reflects a solid underlying enterprise IT demand environment with enterprise AI activity increasing relative to fiscal year 2026. At the same time, we recognize the potential for pockets of demand driven by accelerated purchasing.

We also remain focused on adjusting prices as needed to track any material movements in memory and component costs, while maintaining a disciplined balance between growth and margin. On that basis, we expect fiscal year 2027 revenue to be in the range of $7.325 billion to $7.575 billion. At the $7.45 billion midpoint, this implies 8% year-over-year growth, representing an acceleration from the 5% growth we successfully delivered in fiscal year 2026. We expect gross margin to be in the range of 68.5% to 69.5%. We expect operating margin to be in the range of 29.1% to 30.1%.

For the full year, we expect the effective tax rate to be in the range of 20% to 21%. We expect EPS to be in the range of $8.70 to $9. At the $8.85 midpoint, this represents 9% year-over-year growth. In fiscal year 2027, we intend to return up to 100% of free cash flow to shareholders through cash dividends and share repurchases. We also expect to reduce share count by low single-digit percentage points year over year.

Now turning to Q1 guidance. As a reminder, Q1 includes an extra week which is expected to contribute approximately $65 million of revenue, primarily in support and cloud, with a minimal impact on product, and to add $21 million of operating expenses. We expect revenue to be in the range of $1.75 billion to $1.9 billion. At the $1.825 billion midpoint, this implies 17% year-over-year growth.

We expect gross margin to be in the range of 69.1% to 70.1% and operating margin to be in the range of 28.4% to 29.4%. We expect EPS to be in the range of $2.05 and $2.15, with a midpoint of $2.10.

In closing, as we look ahead to fiscal year 2027, we are confident in our strategy and execution capabilities. We remain focused on delivering revenue growth and profitability, increasing free cash flow, and creating sustainable long-term value for shareholders.

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

Kris Newton - *NetApp Inc - Vice President, Investor Relations*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Vogt, UBS.

David Vogt - *UBS AG - Analyst*

Maybe George, for you. Can you touch on sort of the demand strength again? Appreciate all the color you provided in the call, but all-flash was exceptionally strong in the quarter. And just we're going to get a lot of questions on sort of the cadence of that demand. How was it from a linearity perspective? Did the price changes in the industry have an impact on demand?

Anything that you can provide from a color perspective or granularity would be helpful in how we think about the demand drivers, particularly as we move into the subsequent quarters for the full year, that would be helpful as well. Thanks. And then I have a follow-up.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Thank you for your question. Momentum in the business was very, very strong. IT spending is forecasted to be up strongly, driven by enterprises ready for AI, and we are seeing that across all segments of our business: cloud, flash, AI, and Keystone. And it shows the differentiation in our offering as well as solid execution by our customer-facing teams.

We have seen some accelerated decision-making, but we also know that most customers do not have the flexibility to do so. On the face of the Q4 P&L, the impact of pull forward or accelerated decision-making was minimal. Our Q4 results were tied to the big deals we told you to expect when we guided the fiscal year. And we see really strong outlook for this coming year powered by our confidence in our position and what we see as growing evidence that enterprise AI is happening in front of our eyes.

David Vogt - *UBS AG - Analyst*

Great. And maybe one for Wissam on product gross margin. Obviously, it's a very challenging component backdrop, DRAM and NAND and other issues. If I just kind of take your public cloud business and I kind of strip out support as well, it kind of looks like product gross margin could be near a trough in the July quarter and kind of stay relatively stable from a product perspective as we move through the year. Is that kind of what you're suggesting based on sort of the outlook for the year?

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Yeah. Thanks, David. I think you got it right. For us, July quarter is more or less the trough. And from there on, we're anticipating gradual improvements.

Really, we've been taking a lot of actions in terms of price adjustments as we see component costs increase. And so, those price adjustments will start seeing more and more effect as the year progresses. And so that's really the dynamic driving the product gross margin.

Operator

Amit Daryanani, Evercore ISI.

Amit Daryanani - *Evercore Inc - Equity Analyst*

I guess, maybe I'll just ask on the all-flash array side. Revenue obviously accelerated pretty well at 18% growth. George, I heard you on the limited pull-in dynamic. But I was wondering is there a way to think about in ASP was a bit of a tailwind versus unit growth is the way to think about that. And then how do you think of AFA growth broadly into fiscal '27?

Maybe I'll ask my follow-up as well, which is we are starting to see a fairly strong growth, I think, from the traditional service side driven by enterprise and starting to get more and more AI ready. How should investors think about the attach rate and opportunity between AI compute deployments that are happening at a big rate right now and that attached rate to the high-performance storage that you folks sell? Thank you very much.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Thank you for your question. Our AI business performed really strongly in the quarter. We noted about 500 AI wins in the quarter, 1,100 for the full year, those compared to roughly 400 for the whole of the prior fiscal year. So you are seeing strong uptick in enterprise AI.

In enterprise AI configuration, all elements of our flash portfolio performed strongly, high-performance flash, capacity flash, and block storage. And so we see customers deploying these high-performance compute and storage environments to make sure that the GPUs fully used their expensive GPUs. They need to be fed with a lot of data.

What we also saw was that in the non-demanding AI environment customers are starting to buy more of hybrid flash, which we are uniquely positioned to deliver under a single operating system. So both like all-flash and hybrid flash grew and all-flash grew particularly in the AI use cases, Amit.

Operator

Erik Woodring, Morgan Stanley.

Erik Woodring - *Morgan Stanley & Co Ltd - Analyst*

George, you called out the 500 AI wins in 4Q. Is there a way that you can help us think about how much of your fiscal '27 revenue guide is driven by some of these secured and anticipated AI wins? And just curious on those AI wins, if there's a way that you can kind of parse out what is part of kind of public cloud versus kind of what is on-prem solutions. And then a quick follow-up, please. Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

All of the 500 AI wins are on-prem wins and they combine a mix of enterprise as well as neocloud. I think if you look at the mix of the use cases, they are roughly the same pattern as we saw before. Half of them are really tied to data preparation, large-scale analytic environment that are now being operated under GPU compute. And then the remainder are roughly half and half between training and fine-tuning large language model and inferencing. So it's roughly 50%, 25%, 25%, roughly speaking. That pattern has stayed pretty similar through all of the year.

In terms of the -- how we see that play into our business next year in fiscal year '27, listen, this is what gives us confidence to show an acceleration in our business.

We think that the strength is broad-based across segments and verticals and geographies. We think that we are very well positioned because of our installed base of data, a hybrid cloud data infrastructure pipelines that make it much easier for customers to use AI, and the fact that we can offer our customers life cycle cost management from super high-performance flash to exceptionally cost-effective disk-based environment.

So we're optimistic. We see the demand. We see the momentum in our business. And we are investing some additional sales resources just like we did last year to support our outlook.

Erik Woodring - *Morgan Stanley & Co Ltd - Analyst*

And just a quick follow-up for you is some of your peers are kind of messaging expanding storage gross margins this year. I'm wondering, as we think about your gross margin guide, is there a degree of kind of prudence or conservatism that you're trying to embed there just given we're kind of an unprecedented pricing territory? Or is there kind of enough component cost pressure that you see today that regardless, it would be challenging to expand margins.

So I would just love to know maybe the conservatism that you're thinking about as you think about your gross margin guide for the full year. Thanks so much.

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Yeah. Thanks, Eric. So look, the guide is based on the information we have at this time. And so we look at how the business developed through the next few quarters and based on what we know from a component cost perspective.

Now, granted, if component costs vary moving forward, we will continue to take action to make sure we mitigate the impact to margins. And of course, we will do whatever we can to improve from that.

When you look at -- so this is really the comment around the product gross margin. I do have to -- just saying a reminder here that we're not really moving from our long-term goal or target from a product gross margin, which is really is -- still is the mid-50s to high 50%. So that's still in our long-term target, and we will still strive to get there in the future.

What we also are looking at, we look overall at the total gross margin for the company. And when you look at the total gross margin for the company, the public cloud business has seen some really nice uptick in fiscal '26. And as that business grows, it does give us a bit of a nice tailwind to the margin line. And the same thing for the Keystone business that continues to grow at a nice pace and build momentum, and that has a little bit of a tailwind as well.

Then maybe the last few comments I'll make here on margin is we also are targeting gross profit because, obviously, that's what drives our earnings power. And so we look at gross profit growth year over year as well as something that we continue to make sure we improve

Operator

Wamsi Mohan, Bank of America.

Wamsi Mohan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

George, can you talk about your -- or how you're seeing your large deal pipeline evolve? You obviously saw strength in the quarter that you had messaged previously. But is that strength something that we expect -- that we should expect will sustain? And what's baked into guidance? And I have a follow-up.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

I think what we saw in the large steel pipelines were some related to infrastructure modernization that you could say could be people bringing forward spending. But a very large part of the pipeline were related to AI wins. And those were projects that we had worked on and some that we saw accelerate as the business needs came on.

What I feel really, really good about is the fact that especially in our AI business, the number of customers who we are able to win in accounts that are not traditionally NetApp large installed base accounts have been super strong. And so what that gives me confidence is we are winning on customers' business priorities, which are durable even in the face of commodity price variations.

Wamsi Mohan - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And maybe just on the pull forward, like it sounds like you really didn't see more evidence of pull forward and large deals drove the upside in the quarter. But as we talk to like resellers, it seems like a lot of the annual budget is being spent in the first half of the calendar year. We're hearing about a scramble for securing supply from customers. So just curious why would you not have seen that customer behavior of trying to accelerate purchases in the first half ahead of price increases.

And maybe some sense of how you're thinking about the cadence of price increases from here. You've already instituted some, but how are you thinking about the cadence of price increases on a go-forward basis? Thank you.

Amit Daryanani - *Evercore Inc - Equity Analyst*

Thanks for your question, Wamsi. What I said was that on the face of the Q4 P&L, the impact of pull-forward demand was minimal. Our Q4 results from a revenue standpoint were tied to big deals that we told you about when we guided the fiscal year.

We are seeing some accelerated decision-making, and we also know that many customers cannot -- don't have the flexibility to do so. And so our goal is to make sure that we can meet customer demand, we can balance cost and availability of supply, and that we can maintain lead times within customers' normal expectations.

We feel really good about the momentum in our business, and we'll tell you more about our business through the course of the year. What I feel confident about is that we have factored in to the best of our knowledge the risks of pull-ins and the dynamics it creates through the fiscal year, and we'll tell you more about it as part of our go-forward plan.

Operator

Tim Long, Barclays.

Tim Long - *Barclays Services Corp - Equity Analyst*

One and a follow-up, if I could. First, maybe just talking about the public cloud revenues. I think you've talked about 18% growth at spot and 30% on the first-party storage.

As we head into next year with no spot, just curious how you're thinking about sustainability of the growth rate there? And does the Google deal in the quarter impact that at all?

And then on the follow-up, on Keystone, sounds like really good growth again. Do you think this is simply just wanting to find other ways to deal with higher NAND pricing? Or is this more durable than just a pricing or payment mechanism? So we love your views on both of those. Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. Thank you for your question. On public cloud, we continue to see super strong demand for our cloud storage services, both first-party and marketplace. They grew 30% year on year. And given their growth rate relative to the rest of the cloud portfolio, they are, as you can imagine, the predominant part of the cloud business overall.

We see continued momentum in that part of our business, which should cause cloud to grow faster next year than it did the prior year at really strong gross margin. Super excited about the cloud. We did a lot of innovations through the course of the year. We are, as I said in my comments, starting to see some of the AI use cases also show up in the cloud and customers starting to use our tools in the cloud for AI use cases.

With regard to Keystone, we see a broad-based shift in the market towards consumption-based offerings like Keystone. Some of that is driven by customers having used public cloud and now getting confident about how to operate their own environments like the public cloud. There was possibly some customers who bought Keystone because they felt that it would be a more optimal way to balance cost and use in a time of inflationary costs. But in general, a Storage-as-a-Service business should grow faster than our traditional business.

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

And Tim, just to clarify, I think part of your question on public cloud included the Google agreement. I just want to clarify that the agreement is more in the hybrid cloud segment. So this is, of course, independent of all the comments that George just made. It helps our hybrid cloud business, which is what to help us in Q4.

And just like any hybrid cloud agreement business, it will help us also going forward on the support revenue as well.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

George, maybe just to go back to your response earlier to Wamsi's question about you are seeing some accelerated decisions from customers, although some of them cannot really change those decisions right now.

And you also have this impact of one extra week in 1Q, like typically, you've ended up with, I think, 48% of your revenue in the first half of the year. Do you expect like the yield look very different from maybe some of your prior years because of the dynamics going on right now?

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

We think, as we said, we think that we have broad-based durable demand in our business, driven by customers prioritizing data infrastructure for AI, and you saw that in our Q4 print, which did not benefit the results in the quarter on the P&L did not benefit from any pull forward. We see the same, roughly speaking, demand pattern at the start of the new fiscal year, which is the first half and the second half, like you said, Samik, roughly in the same kind of percentages, adjusting, of course, for the extra week in the first quarter.

So it's early in the year. We feel really good about the momentum in our business. We acknowledge that there are probably some amounts of pull forward, but the demand is broad-based, and we'll provide you updates as we go through the year.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

And then maybe just help me think through -- sorry, for my follow-up, the Google, the agreement that you had with Google relative to the hybrid cloud business. Trying to think around sort of what opportunity that creates for you. Is it in specific customer verticals? Trying to frame around sort of what the size of that opportunity would lead to. Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. Google Distributed Cloud is where Google brings its advanced technology stack to a disconnected or likely connected data center. It could be for regulated industries, it could be for public sector environment, it could be for national security environment. And NetApp was chosen by Google to be a large chunk of the data infrastructure within the Google Distributed Cloud architecture.

So there are two benefits to NetApp. One, of course, it allows us to broaden our reach into sovereign and secure environments that are incrementally TAM expanding for NetApp. And second, it allows us to build these really secure differentiated hybrid infrastructures across on-premises and public cloud and secure cloud for these clients.

This is the expansion of the Google Distributed Cloud deal that we have worked on for quite a while. And so there's -- since 2024, we have been working with them on various different opportunities, and then we have expanded our franchise with them quite substantially with this Google Distributed Cloud relationship.

Operator

Steven Fox, Fox Advisors.

Steven Fox - *Fox Advisors LLC - Analyst*

I had a couple of questions I think are related. One is, I'm trying to understand in the full-year margin guidance at the corporate level how we think about sort of the mix effect of higher NAND prices. Obviously, there could be puts and takes, whether we're looking at product versus public cloud or Keystone?

And then related to that, how much -- can you give us a sense on how much revenue growth in the quarter and going forward is related to just higher ASPs and passing through higher NAND prices? Thanks.

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

So the quick answer on the first part of the question, the NAND prices would manifest themselves in the product gross margin, that's where basically the main impact is. The rest of the margin line shouldn't be as affected. I mean, there's a bit in Keystone, but it shouldn't be as affected given that it's recognized over time.

And when it comes to the second part of the question, look, obviously, we talked about raising prices to offset component cost inflation. Our goal is to protect the profitability of our business, and we will continue to do so if needed. And so more than those qualitative comments, I'd rather not get into the quantifying it because it's really too early in the year. And so, let's wait until we see how Q1 develops, and maybe we can talk about that in the next quarters.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. Just maybe to add, historically, customers' budget in dollars, and there has been little elasticity of demand just because of price increases. I think, of course, as Wissam mentioned, we are in a unique territory. It's hard for us to tell you exactly, so we'll give you updates as we go through the year.

Operator

Aaron Rakers, Wells Fargo.

Unidentified Participant

This is Jake on for Aaron. Congrats on the great quarter. Just wondering if you could just give some color on the early feedback you're seeing on AFX and AI data engine and when they should become bigger revenue contributors moving forward.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

We are pleased with the progress on AFX and the early feedback on AI data engine. AFX has already had good wins in neocloud, in financial services, in hedge funds, and in life sciences, which were the target customers for it. And we are seeing more and more customers beginning to qualify it. It will take time. It's a new architecture. We always believe it would take time, but it is serving the purpose for what we created it for.

With regard to AIDE, we have brought it to certain clients, and we are seeing kind of good feedback on the value and the benefits it provides, especially as our large installed base of customers who have huge amounts of unstructured data on NetApp wanting to organize that data for AI projects. AI is a big help to them in doing so. And that feedback is coming back from our clients.

Unidentified Participant

And then maybe just as a follow-up. I was wondering on the all-flash momentum. It's really, really impressive.

Just can you give some more color on how much of the growth is driven by pricing versus capacity and unit growth? And then maybe just looking at the installed base, where does it stand now? And how much conversion runway do you still have going forward?

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

From an installed base perspective, like we have said, it picked up another 1% to 48% of the installed base. With regard to the performance in the quarter. Listen, it was really having differentiated solutions for a broad range of priority customer use cases. We raised prices during the quarter, but we have not seen that materially translates into what we saw in the customers that -- into the transactions that we recorded in the quarter.

It takes a little bit of time for that to flow through. In the past, it's taken about three quarters. We have tightened up our agreements with customers. So you should see that flow through the system over the next quarter to two quarters.

Operator

Asiya Merchant, Citigroup.

Michael Cadiz - *Citi - Analyst*

This is Mike Cadiz for Asiya Merchant with Citi. So I just have question. It's looking into fiscal '27, how would we be thinking about strategic M&A at this point and leveraging growth and innovation in that respect, looking in the fiscal year? Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Thank you for your question. We constantly look at opportunities for M&A, and we make decisions on whether that is the right use of capital. We feel good about our portfolio, but we won't rule anything in or rule anything out at this point in the year.

Operator

Krish Sankar, Cowen.

Krish Sankar - *Cowen and Company LLC - Analyst*

I had two. George, you kind of mentioned a large neocloud win. I'm kind of curious, are you sole source in that win? How do you think about the opportunity? Because I did not think that neoclouds are big consumers of storage exabytes. So any color on that would be helpful. And then I have a follow-up.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

I don't want to comment about their environment. This is a large meaning top five US neocloud where they were looking to expand their offerings, especially to serve high-performance use cases for enterprise AI, and we were fortunate to be chosen to be the platform to do so.

Our experience in architecting solutions for hyperscale is playing out to our advantage when we speak with neocloud as they begin to broaden the set of use cases and offerings that they have for the enterprise.

Krish Sankar - *Cowen and Company LLC - Analyst*

And then maybe a question for either George or Wissam. When I look at your product revenues, is there a way to parse it out by what percentage of product revenue is actually GenAI related?

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. I mean, look, we don't break it out to that novel, Krish. So we know that there's obviously the activity and the number of wins we mentioned generate revenue for us. We just don't break it out to that level of details.

The other thing I would say is, as you noticed, perhaps over the quarters, the few quarters that we've been disclosing the number of wins, so these number of wins have been increasing. And so, you could assume that it's becoming a sort of a growing portion of our revenue, but it's not broken out to that level of detail.

Operator

Param Singh, Oppenheimer.

Param Singh - *Oppenheimer & Co Inc - Analyst*

I had a couple. One, I wanted to understand the incremental revenue opportunity from AIDE. Do you view this as something that will help you gain share in the traditional market? Or is that an add-on module that you can sell and expand into addressing more AI workloads?

How do you think about that? And how do you think about quantifying? How would you monetize that in terms of percentage of revenue and so forth?

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

There's two use cases. Thank you for your question. There's two use cases. As you correctly said, one for our installed base. It creates a very sticky competitive moat where we are able to give them a huge amount of value for their existing infrastructure. We can choose to monetize that as either standalone software subscription or as part of a broader offering, fuller solution, including storage.

And then I think with regard to the net new environment, as I said, I was particularly pleased with the fact that a very large percentage of our AI wins were from customers who we are not the incumbent data infrastructure provider. And there, what we are able to do is combine AIDE together with our storage so that they can build a really good data lake or a data prep environment, and we saw momentum on that this past quarter.

Param Singh - *Oppenheimer & Co Inc - Analyst*

And on the second part, George, how do you think about pricing your product for that? I mean is it -- does the ASP go up by 10%, 15%? Or is it something related to the type of workloads you're running? How are you thinking about monetizing it?

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

It really depends on the volume of data and the type of data and services that we are offering. Broadly speaking, it's tied to the infrastructure, the size of the data set, and the value that we are offering the customer related to the type of data use cases that they are using with AIDE.

Operator

Katherine Murphy, Goldman Sachs.

Katherine Murphy - *Goldman Sachs - Analyst*

You talked about investing in additional sales resources against this AI opportunity that you've highlighted. Is there anything you could share about how NetApp's go-to-market strategy is evolving as you go after more of these neocloud and sovereign opportunities in addition to your base enterprise customer side? Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. We have built out a specialist team to pursue AI opportunities, both those that are focused on completely use segments like neo and sovereign cloud or to help our frontline teams to drive AI wins in the enterprise.

We have also expanded coverage of accounts because we feel good about our opportunity to gain share. So we have added more accounts to our directly managed coverage resources. And it's a sign of confidence. We have seen momentum building in our business through the course of this year, and our outlook for next year feels really robust.

Operator

Simon Leopold, Raymond James.

Simon Leopold - *Raymond James - Analyst*

I guess I'm sort of looking at the midpoint of the guidance for Q1 as well as the midpoint for the full fiscal year. And I think this implies relatively little sequential growth through the year. And I get the extra week add some complication. But it seems as if you're sort of suggesting that the year could have less than seasonal patterns. Could you help me understand what you're thinking here?

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Yeah. Let me address that. So when you look at the first half versus second half of the year, as George said, we're expecting a seasonal pattern in the typical first half, second half when adjusting for the extra week in Q1. In other words, we take out the extra week in Q1, which is approximately $65 million. And you do the math, you would end up with roughly similar type of seasonality first half, second half. And so that's part of it.

And then when you sort of look at the midpoint of the guide for Q1 and then midpoint of the guide for the fiscal year and sort of look at the Q2 through Q4, it gets you still in the sort of mid-single-digit percent growth over the same time period in fiscal '26.

Simon Leopold - *Raymond James - Analyst*

And just as my follow-up, we obviously understand the memory issues, NAND and hard drives, DRAM. Just wondering what you've observed or experienced in terms of other supply chain constraints and how you might see those risks relative to the memory challenges? Thank you.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Yeah. Listen, I think that we work with multiple suppliers for pretty much every component of our kind of silicon lineup. We are cognizant that there could be constraints in other parts of the ecosystem. And I think this is why we have a broad range of offerings as well.

I think one of the things that we have seen clients talk to us about is on HDDs. We've always believed that HDDs were an important part of customers' overall lineup, and we have a strong set of solutions for that.

At this point, given where we are in the year, I want to just say two things. One is, listen, we feel really good about the momentum in our business. We are early in the year. We'll tell you more about how it plays out through the course of the year. Second, at this time, we believe we can source adequate supply to meet our outlook for the year.

Operator

Ananda Baruah, Loop Capital.

Ananda Baruah - *Loop Capital Markets LLC - Analyst*

I guess I'll just sort of quickly ask two in one part here. You guys have mentioned that you expect next year have a cloud ex-spot see accelerating revenue growth. Any view on over time what a normalized growth rate could look like? Or should we expect growth rate acceleration for the foreseeable future?

And then can you just remind us with some -- how to think about the sort of the mechanics underlying the gross margin expansion? Sounds like there's some mix component going on, but the margin has been expanding for a while now. So if there's anything in addition to mix, that would be helpful as well to know about. Thank you, guys.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Listen, maybe I'll just tell you at a high level, right? We're not providing specific guidance numbers and so on. I think what we see is continued strength in our 1P and marketplace cloud storage services. Those have grown consistently above the overall cloud storage business -- cloud business and are now a much bigger part of the cloud business than they were a year ago.

And so, our view of how the cloud portfolio evolves over the next year is essentially, if you remove stock from the compare to last year, we just see the same trend continuing through the next year. But because cloud storage is a bigger part of the mix, you can do the math on what that does to the overall cloud storage -- cloud business.

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

And with respect to the margin questions, look, the target margin for the public cloud business is 80% to 85%, and we've been operating at sort of higher end of that range. And so, as the business continues to grow faster than the rest of the company, it does give us a bit of a nice margin tailwind.

Operator

Nehal Chokshi, Northland Capital Markets.

Nehal Chokshi - *Northland Securities Inc - Analyst*

Congrats on the execution and realized acceleration that you've talked about here. And it sounds like a lot of this is coming from AI-related demand. And you're giving these metrics in terms of the number of deals. But we still don't have a good sense as far as like what percent of bookings or revenue that is. Can you help us out a little bit on that front?

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Yeah. Thanks for the question, Nehal. We don't break it out. As I mentioned earlier, I think the previous question, we only talk about -- we quantify the number of opportunities or activity, let's say, wins in the on-prem business, but we don't break out bookings or revenue for AI.

Nehal Chokshi - *Northland Securities Inc - Analyst*

It sounds like though that the revenue per deal has gone up significantly in this past quarter as it does sound like some of these large deals that came to fruition are in that AI category deals that's in that 500 there, is that correct?

Wissam Jabre - *NetApp Inc - Chief Financial Officer, Executive Vice President*

Yeah. Look, it's a wide range of sizes. I wouldn't want to venture any sort of anything that may not be -- that may or may not be correct. So I'll leave it at that.

Kris Newton - *NetApp Inc - Vice President, Investor Relations*

All right. Well, thank you, Nehal. I'm going to hand it over to George for some closing comments.

George Kurian - *NetApp Inc - Chief Executive Officer, Director*

Thank you, Kris. FY26 was a record year for NetApp, reflecting strong execution and accelerating demand for AI and cloud solution. Our hybrid cloud intelligent data infrastructure platform is at the center of customers' data-driven transformation, delivering secure, real-time, zero-copy data activation for AI.

Our broad portfolio allows us to deliver the right balance of cost and performance for our customers, strengthening our resilience in a dynamic market. Continued innovation and strategic partnerships are expanding our opportunities and driving sustainable growth, and strong financial results and disciplined capital allocation enable us to invest in the future and return value to shareholders.

As we look to FY27, we are confident in our strategy and our ability to deliver ongoing growth and leadership in AI and cloud. Thank you.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.
