



NETAPP
FIRST QUARTER OF FISCAL YEAR 2025
PREPARED REMARKS
August 29, 2025

Prepared remarks by:
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Mike Berry, EVP and Chief Financial Officer

Kris: 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 second 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: Thank you, Kris. Welcome everyone.

We started FY25 strong, building on our momentum exiting last fiscal year. In Q1, we delivered 8% year-over-year revenue growth and set records for first quarter operating margin and EPS. These results are a testament to our strong execution in a continued uncertain macroeconomic environment, our unwavering confidence in the customer benefits of the highly differentiated NetApp intelligent data infrastructure platform, and our disciplined management of the business. As a result, we are raising our FY25 outlook for both revenue and profit.

As we said during our recent investor day, we are focused on our uniquely differentiated solutions in flash, block, cloud storage, and AI. They 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. In Q1, we experienced notable momentum across all these areas, evidence that our value proposition is resonating. This focus, coupled with our dedication to innovation, drives my confidence in our continued success.

Customers choose NetApp because we help them address their most important data challenges, leveraging the power of public and hybrid clouds to rapidly deploy new applications, unify their data for AI, simplify cloud integration, and strengthen data protection. We uniquely deliver a comprehensive and integrated storage and data management platform, giving our customers the power to unify all their data for any application, anywhere, and the ability to seamlessly and consistently manage it, while ensuring data remains secure and protected.

We again delivered robust year-over-year performance in our Hybrid Cloud segment, with revenue growth of 8% and product revenue growth of 13%, driven by strength in all-flash storage. Broad-based demand across our all-flash storage portfolio propelled our all-flash array annualized revenue run rate to \$3.4 billion, up 21% year-over-year.

At the start of Q1, we introduced the new AFF A-series family of high-performance all-flash arrays capable of powering the most demanding environments – from today's mission critical apps to tomorrow's GenAI workloads. Delivering the advanced data management, industry-leading ransomware protection, and cloud integration that modern workloads require, the new AFF A-series saw positive customer reception and performed ahead of our expectations.

Both our capacity flash and block optimized all flash array families exhibited strong growth year-over-year, addressing an expanded TAM and driving share gains. In Q1, we had numerous competitive take-outs across a broad set of workloads and vertical markets as customers leveraged our C-series and ASA products to modernize their legacy infrastructures and deploy new applications like artificial intelligence.

The ASA enabled us to capture a new-to-NetApp customer, displacing a legacy block storage competitor at a European-based manufacturer. The compelling price / performance of the ASA, together with its modern architecture and comprehensive software capabilities, helped the customer realize savings as they refreshed their SAN environment. This is the first step in a larger relationship as the customer plans to purchase additional ASA systems to replace the remaining competitor footprint and evaluate our Public Cloud services.

Keystone, our Storage-as-a-Service offering was again a highlight this quarter, with revenue growing over 60% from Q1 a year ago. Keystone gives customers the operational agility and reduced financial risk they need to manage in a dynamic environment. A good example of this is a leading automotive supplier that chose Keystone to help address rapidly changing storage demands created by ongoing transformation of the automotive market. Keystone gives them the flexibility to manage rapid growth but also the ability to shrink based on changing circumstance.

AI is the cornerstone of many of my customer conversations, reinforcing NetApp's position as a proven data infrastructure platform provider and thought leader in this space. Customers are selecting NetApp as their partner at every stage of the AI lifecycle because of our high-performance all-flash storage, unique cloud integration, and extensive data management capabilities. These capabilities support a wide range of needs, from data preparation, model training and tuning, to retrieval-augmented generation (RAG) and inferencing and address the requirements for responsible AI, including model and data versioning, as well as data governance and privacy.

While we believe the large opportunity for enterprise AI is still ahead of us, we are seeing good momentum today, with our AI business performing well ahead of our expectations. In Q1, we had over 50 AI and data lake modernization wins. I'll give you just a couple of examples. We were selected by another of the world's largest oil and gas companies for their AI and high-performance compute workloads. Our all-flash storage will power the customer's

AI environment, servicing more than 40,000 CPU cores and GPU's which run simulations and 3D virtualization workloads. Additionally, we made it practical for a leading financial services institution to consolidate petabytes of data into a single data lake for AI and analytics workloads including fraud detection, credit scoring, and portfolio management and improving the productivity of their data scientists. Both instances are examples of how our deep understanding of and experience in AI workloads together with our intelligent data infrastructure platform help drive customer preference for NetApp infrastructure to service their growing AI requirements.

We continue to advance our strong position with the development of GenAI cloud and on-premises solutions in partnership with industry leaders. In Q1, in partnership with Lenovo, we announced a full-stack OVX system, optimized for GenAI and designed to support RAG. Additionally, we introduced new capabilities designed for cloud AI workloads. We integrated the NetApp GenAI toolkit with Microsoft Azure NetApp Files, giving customers the ability to generate unique, high-quality, and ultra-relevant results from GenAI projects by combining their proprietary data with pre-trained, foundational models. In conjunction with AWS, we released a reference architecture for Amazon Bedrock to help customers implement RAG-enabled workflows that bring proprietary data stored on Amazon FSx for NetApp ONTAP into their GenAI data pipelines. GenAI is a truly hybrid workload and only NetApp has the breadth of products and services to reduce the complexity, resources, and risks for customers in managing these strategic workloads across increasingly complex hybrid multicloud environments.

Public Cloud segment revenue was \$159 million, up 3% year-over-year. Our highly differentiated first party and hyperscaler marketplace storage services remain our focus and top priority. These services continue to grow rapidly, increasing roughly 40% year-over-year and performing ahead of our expectations at each of our hyperscaler partners. As we outlined on previous calls, we expect the headwinds from subscription services to lessen over the course of FY25, allowing the strength of first party and marketplace storage services to shine through.

Our rapid innovation in cloud storage services, broadening workload support, capabilities, price and performance points, continues to solidify our leadership position. In Q1, we again enhanced the capabilities of AWS FSx for NetApp ONTAP, boosting scalability and

performance to address evolving business needs. Microsoft recognized the unique value we and CapGemini bring with its 2024 Partner of the Year award in the “Migration to Azure” category for our work in moving a large Asian retail customer to Azure, which included Azure NetApp Files.

Our strong Q1 performance continues the momentum from last year, paving a confident path into FY25. The robust growth in our revenue, billings, and profitability reflects the increasing alignment of customer needs with our unique solutions. We believe our highly differentiated intelligent data infrastructure platform, designed for the age of data, positions us to capture the growth potential in flash, block, cloud storage, and AI, promising continued success for our shareholders and customers.

Looking ahead, our priorities are clear. We are well positioned to seize a growing market opportunity. As we grow, we will maintain our disciplined operational management to drive leverage throughout our business model.

In closing, I want to thank the NetApp team for their dedication to delivering exceptional results in an uncertain macro environment. I also want to remind you that we are hosting our INSIGHT customer conference in Las Vegas next month, where we will announce advances to our innovation agenda and showcase how we help our customers make their data infrastructure intelligent for the age of AI. I hope to see you there.

Before I turn the call over to Mike, I’m sure you’ve already seen the news of his upcoming retirement. Mike has been a great partner to me in our focus on delivering profitable growth and shareholder value. Over the course of his tenure from FY21 through FY24, he has helped drive revenue growth of 9% and EPS growth of almost 60%. In Mike, I have been blessed to have a wise partner from whom I learn much every day, a world-class human being whose trusted friendship has helped us navigate disruptions smoothly, and who has entertained us with his encyclopedic knowledge of country music. I appreciate Mike’s commitment to stay through the end of the fiscal year to ensure a seamless transition.

Over to you, Mike.

Mike: Thanks, George, I greatly appreciate the very nice comments. I'll come back to those comments after I run through the numbers. While my family and I are excited about what is to come in our next phase of life, I want to assure everyone that it is business as usual until we name a new CFO. My focus will remain on delivering our plans for this year and ensuring a smooth, seamless transition.

We executed a solid quarter in an uncertain macro environment, hitting or exceeding all our guidance ranges. We are delivering on our commitments, as evident in our solid Q1 results. We made progress towards our long-term investor day targets of mid-to-upper single digit revenue and double-digit EPS growth on average through fiscal year 27.

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.

- Our top-line billings and revenue exceeded our expectations, growing 12% and 8% year-over-year respectively in Q1, with product revenue growing 13% year-over-year.
- As expected, Q1 consolidated gross margin was strong at 72%, near all-time highs. Gross margin leverage and operating discipline drove operating margin of 26% and EPS of \$1.56, both Q1 records.
- We returned approximately 170% of free cash flow to stockholders through cash dividends and share repurchases, reducing Q1 diluted share count by 2% year-over-year. As we discussed during last quarter's call, we intend to return up to 100% of free cash flow this year.
- Due to our solid execution and strong operational management, we outperformed our expectations in the first quarter and expect our continued focus and discipline to deliver year-over-year revenue growth in each quarter of the year. As a result, we are raising our fiscal year 25 revenue and EPS expectations.

Now, to the details of the quarter. Revenue of \$1.54 billion increased 8% year-over-year, above the midpoint of our guidance range. Q1 billings of \$1.45 billion increased 12% year-over-year. This marks our third straight quarter of year-over-year revenue and billings growth, even with an uncertain macro environment continuing to pressure IT spending. We are well aligned to customers' priority investments and remain confident that our innovations will drive growth through the rest of fiscal year 25.

Product revenue of \$669 million was up 13% year-over-year. Support revenue of \$631 million grew 3% year-over-year. Public Cloud revenue of \$159 million increased 3% from Q1 a year ago, driven by hyperscaler first party and marketplace storage services, offset by expected declines in subscription services.

Q1 consolidated gross margin came in at 72% and was up 160 basis points from a year ago. Product gross margin was 60%, in line with expectations. As we discussed on the Q4 call and during the subsequent investor day, we have an increasing share of total revenue derived from higher margin and recurring revenue sources, which we expect to continue through fiscal year 25. We have made strategic purchase commitments to lock-in SSD supply and mitigate rising prices in the future, which continues to give us confidence in our product gross margins for fiscal year 25.

Our recurring support business continues to be highly profitable with gross margins of 92%. Q1 Public Cloud gross margins improved to 71% from 68% in the prior fiscal year 24 fourth quarter. During fiscal year 25, we expect to continue to make progress on our Public Cloud gross margins towards our long-term target of 75-80%. Operating expenses of \$714 million was up 2% year-over-year and declined 1% from Q4 fiscal year 24. Q1 again highlighted the strength of our business model and disciplined operational execution with operating margin of 26%, ahead of expectations. EPS of \$1.56 was also above the high end of our guidance, driven by higher revenues, operating margins, and interest income, and a slightly lower tax rate.

Operating cash flow was \$341 million in Q1, a decrease of 25% year-over-year, driven by higher annual incentive compensation payouts and payments for strategic SSD purchases, partially offset by higher customer collections from higher billings. In Q1, DSO decreased to 40 and inventory turns were 8. Free cash flow decreased 28% year-over-year to \$300 million due to lower operating cash flow.

During the quarter, we returned \$507 million to stockholders through share repurchases and cash dividends, ending the quarter with approximately \$600 million in net cash. We have approximately \$1 billion remaining on our existing repurchase authorization.

Our balance sheet remains healthy. We ended the quarter with approximately \$3 billion in cash and short-term investments.

Q1 deferred revenue was \$4.2 billion, down less than half a percent year-over-year, a smaller decline than in each of the past 3 quarters. We expect continued improvement in our deferred revenue growth during fiscal year 25 as we drive billings growth.

We are adding RPO as a new disclosure this quarter as it is a leading indicator of future growth in our business. Keystone, our storage-as-a-service offering, continues to gain traction in the market, broadening our relevance to customer use cases and is becoming a more meaningful part of our business. RPO, which includes unbilled commitments, was \$4.5 billion in Q1.

Now turning to guidance, starting with the full year. While we continue to believe that macro indicators are uncertain, our continued execution gives us confidence in our business going forward. To that end, we are raising our revenue guidance for the full year to between \$6.48 billion and \$6.68 billion in revenue, representing 5% year-over-year growth at the midpoint. We expect fiscal year 25 consolidated gross margin to be 71-72% and our operating margin to be 27-28%, both unchanged from prior expectations. We are raising our net interest income expectations to \$50 million, driven by higher interest income. We now expect our tax rate for the full year to be 20-21%. As a result, we expect EPS to be in the range of \$7.00 to \$7.20, which at the midpoint, implies 10% year-over-year growth.

Turning now to our second quarter guidance. We expect Q2 revenue to range between \$1.565 billion and \$1.715 billion, which at the midpoint, implies 5% growth year-over-year. We expect Q2 consolidated gross margin to be 71-72%, and operating margin to be approximately 28%. We expect net interest income to be approximately \$15 million in the quarter, our tax rate to be between 20-21%, and EPS in the range of \$1.73 to \$1.83.

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.

Finally, before we go on to Q&A, I would like to add some personal comments on my announcement. It has been an honor and a privilege to lead such a dynamic and visionary organization over the last 4 and a half years. I'm so proud to be part of the NetApp team and being able to play a role in helping NetApp grow and deliver on its promise of profitable

growth. I am committed to ensuring a smooth transition and will continue to lead the finance organization until an appropriate successor is identified. Like all companies, NetApp continues to evolve, and I am excited to welcome a new CFO who will help take NetApp to the next level and execute against the strategic roadmap we laid out at our recent investor day. I want to thank all of you for your continued support of NetApp and look forward to the continued success in the business. That being said, I want to reiterate that it is business as usual for now and I look forward to seeing many of you at our upcoming investor events.

Kris, please take it away for Q&A.

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