



**NETAPP
FOURTH QUARTER AND FISCAL YEAR 2024
PREPARED REMARKS
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Prepared remarks by:
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George Kurian, Chief Executive Officer
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 first 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 concluded FY24 on a high note, demonstrating robust performance in the fourth quarter and building positive momentum as we step into FY25. Our revenue for both Q4 and FY24 exceeded the midpoint of our guidance, reflecting the strong growth of our expanded all-flash portfolio. Throughout FY24, we maintained a high level of operational discipline, leading to company records for annual gross margin, operating margin, EPS, operating cash flow, and free cash flow.

At the start of FY24, we implemented a plan to enhance the performance of our storage business and build a more focused approach to the Public Cloud business, while managing the elements within our control in an uncertain macro environment. This plan has yielded tangible results, and our value proposition is resonating strongly in the marketplace. Customers are increasingly turning to NetApp to help them build intelligent data infrastructures and leverage the power of public and hybrid clouds for rapidly growing, data intensive workloads like AI, cloud-native, open-source and enterprise applications, while ensuring their data remains secure and protected from ransomware attacks.

NetApp uniquely delivers a comprehensive and integrated portfolio of unified data storage solutions based on one operating system, ONTAP, supporting any application, any data type, and spanning on-premises and multiple cloud environments. We deliver unparalleled simplicity of data management, and infrastructure and application deployment with consistent automation, all unified by common APIs and a single control plane. In a world of limited IT resources, rapid data growth, and escalating cybersecurity threats, we empower customers with the flexibility to rapidly deploy new applications, unify their data for AI, simplify cloud integration, and strengthen data protection.

Now, to the results of the quarter.

We delivered robust year-over-year performance in our Hybrid Cloud segment, with revenue growth of 6% and product revenue growth of 8%. Strong customer demand for our broad portfolio of modern all-flash arrays, particularly the C-series capacity flash and ASA block-

optimized flash, was again ahead of our expectations. This demand propelled our all-flash array annualized revenue run rate to an all-time high at \$3.6 billion, up 17% year-over-year.

Early in Q1 of FY25, we unveiled our new all-flash A-series unified data storage products, offering customers enhanced performance and effective density at a lower cost than the previous A-series generation. These products set a new standard for enterprise storage, enabling customers to turbo charge workloads ranging from traditional enterprise applications to Gen AI. The new AFF A-series, coupled with our highly successful C-series and TAM-expanding ASA products, position us to further increase our share in the all-flash market.

Keystone, our Storage-as-a-Service offering was also a highlight of the quarter. Keystone provides cloud-like management for hybrid cloud resources in a single subscription with flexible multiyear contracts that align storage costs with business needs, enabling rapid response to changing capacity and performance requirements. We consistently hear from customers that our integrated service level assurance, with performance, availability, ransomware recovery, and sustainability guarantees, is our differentiator. This has enabled us to accelerate growth by displacing competitors' STaaS subscriptions, winning new Keystone subscriptions, and expanding existing ones. FY24 total contract value sales of Keystone more than doubled from the prior year to almost \$150 million. We expect this momentum to continue and that FY25 will be another significant growth year for Keystone.

A leading semiconductor manufacturer selected Keystone as the vehicle to consolidate its storage needs. Initially aiming to select one vendor for block and another for file, we established ourselves as their single global standard for both environments, displacing the incumbent for block storage. This multi-year, 8-figure deal allowed the customer to reduce the complexity and improve the availability of their storage environment.

AI is a top priority for organizations as they seek to accelerate innovation, revolutionize operations, drive competitive advantage, and deliver superior solutions to their customers. Data management is essential for enterprise AI. Customers choose NetApp to support them at every phase of the AI lifecycle due to our high-performance all-flash storage complemented by comprehensive data management capabilities that support requirements from data preparation, model training and tuning, retrieval-augmented generation (RAG), and inferencing, as well as requirements for responsible AI including model and data versioning, data governance and privacy.

We continue to strengthen our position in enterprise AI, focusing on making it easier for customers to derive value from their AI investments. In Q4, we introduced NetApp AI Pod with C-series capacity flash systems, delivering a new level of cost/performance, rack space utilization, and sustainability. In conjunction with Cisco, we updated FlexPod AI reference architectures to support the NVIDIA AI Enterprise software platform, giving customers an end-to-end blueprint to efficiently design, deploy, and operate AI infrastructure. We were one of the first partners to complete the storage validation for NVIDIA OVX systems and, at the start of Q1, we were the first to announce a full-stack OVX system. The NetApp AI Pod with Lenovo ThinkSystem servers for NVIDIA OVX is optimized for Gen AI and designed to support RAG.

We announced much of this innovation at NVIDIA GTC, where we were honored to be recognized during the keynote for our role in storing a significant portion of enterprises' unstructured data, which is the fuel for Gen AI. Through our partnership with NVIDIA, we give customers the ability to talk directly to the large amount of existing data stored on NetApp on-premises and in the cloud, demonstrating the value of our installed base and the critical role we play in AI.

We are the AI infrastructure of choice for one of the world's leading oil and gas companies. The company is developing its own large language model using a high-performance AI cluster with NetApp all-flash storage. They are now also building an AI Center of Excellence to support various departmental AI initiatives and have again selected NetApp storage for this part of their AI infrastructure, leveraging C-series to optimize price/performance. They are rapidly ramping up their AI infrastructure, building new models, and onboarding AI resources. They awarded us the deal over their AI server vendor because of our ability to remove roadblocks in their AI workflows and accelerate the time to value from their AI investments.

Public Cloud segment revenue was \$152M, up 1% year-over-year. First party and hyperscaler marketplace storage services remain our priority and are growing rapidly, increasing more than 30% year-over-year and driving cloud storage services to two-thirds of total Public Cloud ARR. These offerings are highly differentiated and closely aligned with customers' purchase preferences. In Q4, we had a good number of takeouts of competitors' on-premises infrastructure with cloud storage services based on NetApp ONTAP technology, which helped drive our best quarter for cloud storage services with each of our hyperscaler partners.

We are well ahead of the competition in cloud storage services – and we are innovating to further extend our leadership position. In Q4, we further increased the performance of Amazon FSx for NetApp ONTAP, addressing an even broader set of performance-intensive workloads. We also introduced a new service level for Google Cloud NetApp Volumes, giving customers more granular control to match the capacity and performance needs of their cloud workloads. We were proud to receive Google Cloud's Technology Partner of the Year for Infrastructure – Storage for the second consecutive year.

Reflecting on FY24, I want to thank the NetApp team for their work to strengthen our position. We have a stronger, more complete all-flash portfolio, are addressing a wider set of cloud storage workloads, and have a robust go-to-market plan, better positioning us to win across the board and in new markets like AI. Without question, our modern approach to unified data storage, spanning data types, price points, and hybrid multicloud environments, is resonating in the market, giving us solid momentum as we enter the new fiscal year.

Looking ahead to FY25, we are cautiously optimistic on the macro environment; the backdrop is better now than it was at the start of FY24. We will remain laser focused on our top priorities while continuing to raise the bar on execution and maintaining our operational discipline. NetApp is leading the evolution of the storage industry, helping our customers make their data infrastructure intelligent for the age of AI. I am confident that this leadership, coupled with the strong momentum we've built through FY24, positions us for continued growth and share gains.

I encourage you to attend or tune into our June 11 investor day to learn more about our long-term strategy. Visit our investor relations website for more information. I'll now turn the call over to Mike.

Mike: Thank you, George, and good afternoon, everyone.

As George noted, we are laser focused on managing the elements within our control. This focus enabled us to deliver strong P&L performance for Q4 and the full year. Before getting into the details, let me quickly highlight the key themes. As a reminder, all numbers discussed are non-GAAP unless otherwise noted.

- We delivered solid revenue growth in Q4, driven by our all-flash and cloud storage portfolio, which have strong momentum as we head into FY25. For Q4, our all-flash array revenue achieved a \$3.6 billion annualized run-rate, growing 17% year on year. Flash now accounts for approximately 60% of hybrid cloud revenue. Keystone, our Storage-as-a-Service offering, delivered another strong quarter and a strong year, with revenue growth up triple-digits year-over-year in FY24. And first party and marketplace cloud storage, the largest part of our cloud business, grew double-digits quarter-over-quarter and over 30% year-over-year in Q4. Our operating profit margin was a record for a Q4, and operating cash flow was an all-time record.
- For the full year FY24, product gross margins reached a record high of 60%, representing around 1000bps of year-over-year improvement, driven by product mix, lower SSD costs, and a normalizing supply chain environment. We have an increasing share of total revenue derived from higher margin and recurring revenue sources, which we expect to continue into FY25.
- In FY24, we generated \$1.53 billion in free cash flow, a 76% year-over-year increase compared to FY23, and an all-time high. And we returned 86% of FY24 free cash flow to shareholders, through \$900 million of share repurchases and around \$400 million of dividends. Our share repurchases resulted in a reduction of full year diluted share count by approximately 3% from the prior year. We plan to continue a strong policy of shareholder returns in FY25 and are announcing today an increase in our quarterly dividend from 50 cents to 52 cents. Furthermore, today, we are announcing an increase to our share repurchase authorization by another \$1 billion dollars.

Now to the details of Q4. Revenue came in slightly above the midpoint of our guidance range at \$1.67 billion, up 6% year-over-year and up 4% quarter-over-quarter. Q4 billings of \$1.81 billion were up 8% year-over-year. This marks our second straight quarter of year-over-year revenue and billings growth.

Q4 Hybrid Cloud revenue of \$1.52 billion was up 6% year-over-year. Product revenue was \$806 million and up 8% year-over-year. Support revenue of \$623 million increased 4% year-over-year. Public Cloud ARR exited the year at \$630 million, up 2% year-over-year and up \$22 million from Q3. Public Cloud revenue composed 9% of total revenue in Q4 and grew 1% year-over-year to \$152 million.

We exited FY24 with \$4.23 billion in deferred revenue, a decrease of 2% year-over-year, consistent with the year-over-year decrease in Q3.

Q4 consolidated gross margin was approximately 71.5%. Total Hybrid Cloud gross margin was 72%. Product gross margin was 61%, 130bps ahead of our prior guidance, driven by better mix and continued growth in our C-series products. Our recurring support business continues to be highly profitable, with gross margin of 92%. Public Cloud gross margin increased 290bps both quarter-over-quarter and year-over-year to 68%.

Q4 again highlighted the strength of our business model and our operational discipline with operating margin of 28%, the highest for a Q4 in the history of NetApp and the second only to last quarter's 30% operating margin. EPS of \$1.80 was 2 cents ahead of guidance of \$1.78, predominantly driven by better gross margins. As a reminder, we had a one-time improvement in our tax rate in Q3 that normalized towards our usual low-20% range in Q4, which was contemplated in our prior guidance.

In Q4, cash flow from operations was \$613 million and free cash flow was \$567 million. These cash flow metrics came in above our expectations in Q4 due to higher customer collections, lower tax payments, and lower supply chain payments.

During Q4, we repurchased \$100 million in stock and paid out \$104 million in dividends. Q4 diluted share count of 212 million was down 2% year-over-year. We had approximately \$500 million left on our current share repurchase authorization as of the end of FY24, and today, we are announcing an increase in that authorization by another \$1 billion.

Before moving to guidance, let's review the results for the full year FY24. Revenue of \$6.27 billion was down 1% year-over-year and billings of \$6.25 billion were down 2% year-over-year. Disciplined operational management yielded all-time fiscal year highs for operating margin and EPS. For FY24, operating margin was 27%, up 260bps year-over-year, driven predominantly by 450bps of year-over-year improvement in gross margins, slightly offset by the small year-over-year revenue decline and targeted operating expense growth.

For FY24, operating cash flow was \$1.69 billion and free cash flow was \$1.53 billion, both all-time company highs.

Our balance sheet remains very healthy. We closed the year with \$3.25 billion in cash and short-term investments against \$2.4 billion in total debt.

Now to guidance, starting with FY25.

Let me underscore our confidence in our strategy and the strength of our position in addressing key customer priorities, such as business analytics, AI, cloud transitions, data security, and application modernization. Macro indicators today are better than a year ago. However, while there has been some improvement, in our view, the macro environment remains unsettled. As a result, we expect FY25 total revenue to be in the range of \$6.45 to \$6.65 billion dollars, which at the midpoint, reflects 4.5% year-over-year growth. Implied in our FY25 revenue guidance is year-over-year revenue growth in each quarter of FY25. While we are not providing specific Cloud revenue guidance, we do expect Public Cloud revenue to return to consistent growth in FY25.

We expect FY25 consolidated gross margin to be roughly 71% to 72%, consistent with FY24 gross margins despite the pressure coming from rising NAND component costs. We expect growth in support and cloud gross profit to help maintain our overall gross margins. Implied in this guidance is growth year-over-year in gross profit dollars, which is our focus. We have secured a large majority of our forecasted SSD demand for FY25, albeit at higher prices than FY24. Given our existing inventory levels and the forecasted use of our pre-buy supply, product gross margins are expected to be higher in the first half of FY25, as we utilize our inventory, compared to the second half of FY25. We remain confident in our long-term Public Cloud gross margin target of 75 to 80% and expect to make progress in FY25 towards this target.

We anticipate operating margins of 27 to 28% and EPS of \$6.80 to \$7.00. For the year, we expect a tax rate in the range of 21 to 22%.

We expect operating cash flow will move in line with net income, although there will be some quarterly variance based on working capital, especially in Q1 when we will pay our annual incentive compensation plans. Our anticipated healthy cash generation enables us to continue our strong return of capital to shareholders. In FY25, we intend to return up to 100% of free cash flow to shareholders in share buybacks and dividends. Our conviction in future cash flow generation is driving the increase in our quarterly dividend to 52 cents per share in FY25, with the remainder of free cash flow going to share buybacks. We expect to reduce share count by approximately 1-2% in FY25.

Now on to Q1 guidance.

We expect Q1 revenue to range between \$1.455 and \$1.605 billion, which at the midpoint implies growth of 7% year-over-year.

We expect Q1 consolidated gross margin to be roughly 72% and operating margin to be approximately 25%. EPS should be in the range between \$1.40 and \$1.50.

In closing, I want to echo George's appreciation of the NetApp team and their continued focus and execution in this uncertain environment. As I look forward into FY25, I am confident in our strategy and our ability to capture our growing set of opportunities and increase profitability.

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

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