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NetApp, Inc. (NTAP)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Welcome to the NetApp Fourth Quarter and Fiscal Year 2022 Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time.

I would now like to turn the call over to Kris Newton, Vice President, Investor Relations.

Kris Newton

Vice President-Investor Relations, NetApp, Inc.

Thank you 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, such as our guidance for first quarter and fiscal year 2023; our expectations regarding future revenue, profitability and shareholder returns; the value we bring to customers; our ability to drive continued growth in both our Hybrid Cloud and Public Cloud segments; and our ability to manage through the current supply chain environment, all of which involve risk and uncertainty.

We disclaim any obligation to update our forward-looking statements and projections. Actual results may differ materially for a variety of reasons, including macroeconomic and market conditions, such as the continuing impact and uneven recovery of the COVID-19 pandemic, including the resulting supply chain disruptions and the IT capital spending environment, as well as our ability to gain share in the storage market, grow our cloud business and generate greater cash flow.

Please also refer to the documents we file from time to time with the SEC and available on our website, specifically our most recent Forms 10-Q and 10-K including in the Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors sections.

During the call all financial measures presented will be non-GAAP, unless otherwise indicated. Reconciliations of GAAP to non-GAAP estimates are posted on our website.

I'll now turn the call over to George.

George Kurian

Chief Executive Officer & Director, NetApp, Inc.

Thank you, Kris. Thanks, everyone, for joining us this afternoon. Our solid fourth quarter results cap off a strong year. We made sustained progress against our strategic goals, successfully achieving our commitment to grow the business while delivering operating leverage in fiscal 2022. We gained share in enterprise storage with strong growth in all-flash array and object storage products; we expanded our Public Cloud business with robust expansion of customers, ARR, innovation and routes to market; and most notably, we delivered record levels of gross margin dollars, operating income and earnings per share.

While the demand environment remains strong, macroeconomic uncertainty, including supply constraints, rising interest rates, inflation and geopolitical conflict, has increased since we last spoke with you at our Investor Day in

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March. Navigating this complex and dynamic environment is testing our teams, and we are sharply focused on managing what is in our control.

Backlog is elevated due to supply constraints, despite our excellent supply chain management helping us meet as much of the demand as possible. I want to thank our global team for their disciplined execution and agile response to changing conditions. That we achieved all-time highs for gross margin dollars, operating income and earnings per share in the face of these headwinds demonstrates our disciplined operating management.

The turbulent environment also creates challenges for our customers, raising the urgency for data-driven digital and cloud transformations. We sit at the intersection of these megatrends, as the complexities created by rapid data growth, multi-cloud management and the adoption of next-gen technologies such as AI, cloud native and modern application and data infrastructures create a sizable opportunity for us.

At our Investor Day, we outlined our objective to deliver long-term value through sustained growth, and that thesis remains unchanged. Our critical role in helping customers achieve their transformation goals underpins our strategy and drives confidence for future growth.

Public Cloud ARR of 505 million grew 68% year-over-year and the Q4 dollar-based net revenue retention rate remains strong at 159%. Before I get to the many highlights of the quarter, I want to address the fact that our Public Cloud ARR came short of our expectations. Demand for our cloud storage solutions was strong in Q4.

We also saw a healthy number of new customer additions across both cloud storage and cloud operation services in the quarter. Unfortunately, these tailwinds were not enough to offset the lower than expected growth created by higher churn, lower expansion rates and sales force turnover in our cloud operations portfolio. We understand the root causes of these temporary headwinds, and in FY 2023, our focus will be on returning these services to the growth trajectory we saw in the first three quarters of the year.

We have made organizational changes to increase focus on renewal and expansion motions, and we'll continue to refine our go-to-market activities to better address the cloud operations market. Additionally, we have refreshed the sales organization and strengthened the leadership team. We believe strongly in the sizable opportunity created by our cloud operations portfolio, where we bring differentiated enterprise capabilities to cloud infrastructure management built on our long experience supporting a broad range of applications. Our differentiation in this space continues to receive third-party validation. Spot by NetApp was recognized as a leader and the only outperformer in GigaOm's Radar for Cloud Resource Optimization.

As I noted earlier, our cloud storage services continue to perform well. Azure NetApp Files remains the standout here. Cloud Volumes Service for GCP and FSx for NetApp ONTAP also had strong growth in ARR and customer additions, albeit off small bases.

We continue to deliver significant innovation to help customers get the most from their cloud storage environments. AWS announced FSx for ONTAP support for single availability zones, lowering storage costs and improving performance, as well as its inclusion in the easy-to-launch wizard, streamlining the selection of FSx for ONTAP as file storage for customers creating a new compute instance. These new capabilities unlock new use cases, expanding the opportunity for FSx for ONTAP.

Our cloud storage and data management services are complemented by our cloud operations infrastructure management and optimization functionality. Together, these capabilities deliver an industry-leading portfolio of multi-cloud infrastructure services for stateful and stateless workloads. Now, we're enabling customers to deploy

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applications quickly, easily and cost-effectively on that multi-cloud infrastructure for big data applications with Spark on Kubernetes, for managed desktops with Spot PC, and for open-source database, data pipeline and workflow applications with our most recent acquisition, Instaclustr.

Instaclustr delivers open-source data and workflow applications as a fully managed service. Instaclustr will leverage our best-in-class infrastructure services, Cloud Volumes' storage optimization, Spot's compute optimization, and Cloud Insights' monitoring and troubleshooting to make it easier and faster for customers to build, deploy and operate cloud applications. This will enable us to deliver more value to cloud operations teams and capture more revenue from those same buyers by delivering new services, as well as through the significant synergies with our cloud storage services. I am excited to welcome the Instaclustr team to the NetApp family.

Overall, fiscal year 2022 was a good year for our Cloud business. We've doubled Public Cloud segment revenue from $199 million in fiscal year 2021 to $396 million in fiscal year 2022. We expanded our cloud partnerships and routes to market, introduced new organic innovations, and we completed a number of acquisitions that position us well for the future.

In the coming year, we will prioritize the integration of these services. To underscore our commitment here, we plan to slow the pace of acquisitions and reprioritize our use of cash in FY 2023 to favor shareholder returns. Mike will provide the details in his commentary. I want to underscore that we remain convinced of the opportunity, the strength of our position, and our ability to achieve $2 billion in ARR exiting FY 2026.

Now, turning to Hybrid Cloud, demand for our Hybrid Cloud solutions remains high. Despite supply constraints that again impeded our ability to meet all customer demand, we grew product revenue 6% in the fourth quarter and 10% in fiscal year 2022. All-flash array annualized revenue run rate grew 12% year-over-year to $3.2 billion. Thanks to strong unit growth in FAS hybrid arrays, all-flash penetration remained flat at 31% of installed systems.

In Q4, we further enhanced our position in Hybrid Cloud with new innovations and recognition. We updated our object storage solution with security and compliance enhancements, Google Cloud integration, and faster performance for analytics workloads.

We also announced the next generation of our collaboration with Cisco, FlexPod XCS for hybrid multi-cloud deployments. Additionally, Business Intelligence Group recognized NetApp AI as a winner of its Artificial Intelligence Excellence Award.

Looking forward, our priorities are clear. We remain focused on capturing the substantial opportunity ahead as we scale our public cloud services while continuing to drive growth in our hybrid cloud solutions. The long-term thesis we presented at our Investor Day of delivering value through sustained growth remains intact. The strong fundamentals of our business, including our alignment to customer priorities, strong balance sheet and prudent operational management put NetApp in a position of strength.

I want to underscore my confidence in our strategy, our execution and the value we bring to all our stakeholders.

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

Michael J. Berry

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

Thank you, George. Good afternoon, everyone, and thank you for joining us. As a reminder, I'll be referring to non-GAAP numbers, unless otherwise noted.

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As we look back on fiscal 2022, I am incredibly proud of the results the team delivered in an environment with such fluid and complex supply chain challenges. We delivered billings of $6.7 billion, an increase of 13% year-over-year, and grew revenue 10% to $6.3 billion.

Within our Hybrid Cloud segment, all-flash revenue grew 20% and object storage revenue grew 49%. We finished fiscal 2022 with $505 million in Public Cloud ARR, with Public Cloud revenue growing 99% for the full year. We balanced strong growth in our key strategic areas with another year of disciplined investment, delivering record operating margin of 23.7%, up more than 3 points from last year, with an all-time high EPS of $5.28, up 30% year-over-year.

In Q4, despite supply-constrained shipments, elevated freight and logistical expense and component cost headwinds, we delivered solid revenue, with both gross margin and operating margin coming in above guidance. Strong execution yielded Q4 billings of $2 billion, up 16% year-over-year. Revenue came in at $1.68 billion, up 8% year-over-year, including a 2-point headwind from FX. Our solid Q4 results were driven by continued strong demand for our all-flash and object storage solutions.

Our Cloud portfolio continues to positively impact the overall growth profile of NetApp, delivering 3.5 of the 8 points in revenue growth.

Hybrid Cloud segment revenue of $1.56 billion was up 5% year-over-year. Within Hybrid Cloud, we delivered product revenue growth for the fifth consecutive quarter, and expect this momentum to continue into fiscal 2023. Product revenue of $894 million increased 6% year-over-year. Software product revenue of $530 million increased 10% year-over-year, driven by the ongoing mix shift towards our all-flash portfolio. Total Q4 recurring support revenue of $590 million increased 2% year-over-year, highlighting the health of our installed base.

Public Cloud ARR exited Q4 at $505 million, up 68% year-over-year, driven by strength in cloud storage, led by Azure NetApp Files. Public Cloud revenue recognized in the quarter was $120 million, up 82% year-over-year and 9% sequentially. We didn't end the year as expected for Cloud ARR, but are confident that we remain well-positioned to deliver on the long-term Public Cloud opportunity.

While it is not unusual for hypergrowth assets to hit air pockets along their journey, we are using this moment to learn and continue to improve the operational rigor across the CloudOp (sic) [CloudOps] (00:16:17) products. Towards this goal, we are laser-focused on using fiscal 2023 to strengthen our field and customer success go-to-market motions, while integrating our CloudOps product portfolio.

Recurring support and Public Cloud revenue of $710 million was up 11% year-over-year, constituting 42% of total revenue.

We ended Q4 with a record $4.2 billion in deferred revenue, an increase of 6% year-over-year. Q4 marks the 17th consecutive quarter of year-over-year deferred revenue growth, which is the best leading indicator for recurring revenue growth. Total gross margin was 66% and came in solidly ahead of our guidance, reflecting better than expected product margins.

Total Hybrid Cloud gross margin was 65% in Q4. Within our Hybrid Cloud segment, product gross margin was 51%, as the supply chain team did an amazing job of mitigating a portion of the component cost headwinds, and our sales team was very focused on capturing our recent price increases. Our growing recurring support business continues to be very profitable, with gross margin of 93%.

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Public Cloud gross margin of 68% was again accretive to the overall corporate average. The sequential decline in Public Cloud gross margin was driven by lower than expected Cloud revenue and incremental CapEx investment for Azure NetApp Files, which is a healthy leading demand signal. We remain confident in our long-term Public Cloud gross margin goal of 75% to 80%, as we continue to drive scale in cloud storage and an increasing percentage of our Public Cloud business being built on software solutions.

Q4 highlighted the strong leverage in our operating model, with operating margin of 23%, despite the ongoing supply chain headwinds. EPS of $1.42 was up 21% year-over-year, and even excluding a one-time tax-benefit of $0.12, represents a new Q4 record for the company.

Cash flow from operations was $411 million and free cash flow was $343 million. The ongoing supply constraints resulted in shipments being pushed to the end of the quarter, leading to the highest ever accounts receivable balance of $1.2 billion exiting the year, an increase of $431 million from Q3. As a result, we expect healthy cash collections in the first half of fiscal 2023, which will be a tailwind to our operating cash flow for the full year.

During Q4, we repurchased $250 million in stock and paid out $111 million in cash dividends. In total, we returned $361 million to shareholders, representing 105% of free cash flow. We closed Q4 with $4.1 billion in cash and short-term investments.

Now, to guidance. In fiscal 2023, we are guiding revenues to grow 6% to 8% year-over-year, which includes a 2 percentage point headwind from FX. In fiscal 2023, we anticipate sustained demand for and continued share gain momentum in both our all-flash and object storage solutions, which we expect to drive product revenue growth in the mid single digits. We will also continue to grow and invest in our Public Cloud business. We expect to exit fiscal 2023 with Public Cloud ARR of $780 million to $820 million, which includes approximately $40 million from our recently closed acquisition of Instaclustr. At the ARR midpoint, we expect our Public Cloud segment to drive 4 points of total company revenue growth in fiscal 2023. As George noted, we remain confident in our ability to deliver $2 billion in Public Cloud ARR exiting fiscal 2026.

In fiscal 2023, we expect gross margin to range between 66% and 67% as elevated component costs and logistical expenses from supply constraints continue to weigh on product margins. We expect first half product margins to be roughly consistent with Q4 levels.

As we have previously disclosed, we believe these cost headwinds are temporary in nature. And we believe that Q4 2022 is the trough for product margins. As you all know, the timing of getting completely through these supply chain challenges remains fluid, but we do expect cost improvements, coupled with our recent price increases, to be a modest tailwind to product margins as we head into the back half of fiscal 2023.

We anticipate operating margin to range between 23% to 24% for the full year as we continue to invest in our growth initiatives, while maintaining a disciplined approach to spending. Our commitment is to, again, grow revenue faster than operating expenses in fiscal 2023.

Moving down the P&L, we expect net interest expense to be approximately $30 million in our effective tax rate to be in the range of 21% to 22%. Despite the considerable headwind to earnings as a result of the higher tax rate, we are committed to delivering $5.40 to $5.60 in fiscal 2023 EPS. We expect to generate greater than $1.4 billion in operating cash flow in fiscal 2023 as we continue to drive incremental profitability in our Hybrid Cloud segment to fund the growth in our Public Cloud business.

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Free cash flow is expected to exceed $1.1 billion for the full year. Factored into the year-over-year free cash flow growth is a step-up in CapEx to approximately $250 million to $300 million. The higher CapEx forecast is being driven by three key items. One, additional capacity deployments in Azure and GCP. Two, higher cloud software capitalization. And three, growing pipeline for our Keystone offering. As we've discussed before, additional capacity deployments within Azure and GCP are a healthy leading indicator for cloud storage demand.

Generating over $1.1 billion in free cash flow will allow us to continue to deliver on our shareholder return commitments, while also investing in our key strategic areas. From a capital allocation perspective, we expect to hit pause on CloudOps acquisitions for the first half of fiscal 2023 as we focus on strengthening our field and customer success go-to-market motions, while integrating our CloudOps product portfolio.

As a result, we plan to return 100% of fiscal 2023 free cash flow to investors through dividends and share repurchases. We expect our quarterly dividend to remain at $0.50 per share throughout fiscal 2023, with the remainder of free cash flow allocated to share repurchases. We plan to front-end load these share repurchases, with $500 million coming in the first half of the year, which will reduce share count by 2% to 3% as we go through fiscal 2023.

Now, on to Q1 guidance. We expect Q1 net revenues to range between $1.475 billion and $1.625 billion which, at the midpoint, implies a 6% increase year-over-year. We expect consolidated gross margin to be approximately 67% and operating margin to be approximately 21%. We anticipate our tax rate to be between 21% and 22%. And we expect earnings per share for Q1 to range between $1.05 and $1.15 per share. Assumed in our Q1 guidance is net interest expense of $10 to $15 million and a share count of approximately 224 million.

In closing, I want to thank the entire NetApp team for the outstanding dedication, focus and hustle in delivering strong fiscal 2022 results in a very fluid environment. We remain disciplined and committed to the long-term thesis we shared with you, as we continue to navigate the dynamic supply challenges to meet as much customer demand as possible. We are confident, enthusiastic, and incredibly focused on our long-term strategic priorities and the tremendous growth opportunity we see over the next several years.

I'll now hand the call back to Kris to open the call for Q&A. Kris?

Kris Newton

Vice President-Investor Relations, NetApp, Inc.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question will come from Jim Suva with Citigroup. Please, go ahead.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Based upon the results and your competitors who've also reported, it looks like NetApp has been gaining significant share, which is great. Is there anything in there that we should think about that would cause us to kind of pause or downshift that, like any big recent design-ins or acceptances? Or, on the other hand, with your sales force now fully ramped and the additional CapEx and things that Mike laid out, is there actually the potential you're looking at actually upselling or upshifting it to even a higher share gain in the future quarters? Thank you.

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

A

I think if you look at the dynamics of this past year, demand was strong and consistent throughout. We were gated by supply, particularly in the back half of the year. That certainly was true even in Q4. We feel very good about our competitive position, as we outlined at our Financial Analyst Day, and we continue to see cloud storage has been a really strong addition to the portfolio, the number of net new to NetApp customers, meaning those that do not have our storage on-premises that bought cloud storage continues to be strong, so we get to cross-sell additional on-premises workloads in the future. And I think with regard to the performance of our flash portfolio throughout the year and the growth of object, the second growth engine in our on-premises portfolio, we feel really good. So thank you for the question, Jim.

Jim Suva
Analyst, Citigroup Global Markets, Inc.

Q

Thank you and congratulations.

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

A

Thank you.

Operator: Thank you. Our next question will come from Amit Daryanani with Evercore. Please go ahead.

Amit Daryanani
Analyst, Evercore ISI

Q

Yes. Thanks a lot for taking my question. George, I was hoping you'd talk a little bit about some of the headwinds that you saw in the cloud services side that impacted the ARR number this quarter. I know you talked about three issues, maybe just elaborate on kind of what these things were. And really, the important part would be to understand your ability [ph] with which (00:28:52) to resolve these and the timeline to resolve these.

And my follow-up, just related to the same question around it. When I think about the 60% growth rate you're implying on the cloud services for our fiscal 2023, is there some linearity that I should be thinking about, maybe the back half is [ph] troubled (00:29:09) as the first half? That would be helpful as well. Thank you.

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

I'll have Mike – thanks for the question, Amit. I'll have Mike just start walking through the specifics. I'll talk about the remedies, and then we'll come back to guidance.

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

Perfect. Thank you, George. Amit, thanks for the question. So, hey, when we talk to you books in February and we're looking at Q4, we had raised our expectations on the strength of Q3. We had expected Q4 to be largely consistent with what we saw in Q1, Q2, and Q3. And we expected to see some continued growth in Spot and Cloud Insights. We did know that there were some significant renewals in Cloud Insights. So, as we went through the quarter, especially as we got into April, we saw increased churn in Cloud Insights. As you know, a good bit of the sales there are helping our customers move from their OCI, their on-prem solution, to the cloud solution and some of them are still trying to find their way there.

Spot, we saw lower expansion, as you know. We have seen in the first three quarters a good bit of expansion in that business as they've deployed more into the cloud. And that didn't come through as expected. And then we did see higher sales and customer success turnover, especially in the Spot group. So that's what happened in CloudOps.

I'll now turn it back to George, and then I'll come back on your question on seasonality.

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

I think with regard to the remedies and the overall portfolio, listen, we feel good about the customer adds across the portfolio. Cloud storage was a strong number. With regard to specifically how we're addressing the CloudOps portfolio, we have refreshed the sales team, so a lot of the churn in the sales organization is behind us. We do have a newer set of members, so it will take time to ramp them. We have brought on a new experienced leader for our Spot portfolio, who led enterprise sales at Splunk. We have brought on, as you might have seen, a new Senior Vice President for Customer Success, who was a senior executive at Informatica, and a leader for our renewals and customer success motion in the field who was the leader of that renewals and sales at Palo Alto. So, much stronger team at the top, with a focused mission around our CloudOps portfolio and driving renewals and customer success.

A couple of other things that we've learned, right? We've learned that we need to integrate these acquisitions more quickly, particularly, on the go-to-market side, and we are taking that lesson learned and applying that to our Instaclustr acquisition, as well as the work that we're doing to integrate the product portfolio more quickly so that it's easier for customers to buy.

Now, I'll have it back to Mike to talk about how that impacts guidance for next year.

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

Thank you, George. So, Amit on the numbers, I just want to walk that for you. So we ended the year total ARR at $505 million. The midpoint of guidance is $800 million. That does include $40 million from Instaclustr. So let's do the organic business first, $505 million to $760 million at the midpoint, which implies about a 50% growth during the year. And then you add the $40 million exiting the year from Instaclustr. That gets you to the $800 million.

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And as we go through the year, we feel really good about several drivers of growth that we should start to see accelerate as we go through fiscal 2023. Number one, we have added a good bit of sales capacity. You see it in the OpEx numbers, not only in 2022, but we will in the first half 2023. We are excited about the ramp of FSx ONTAP, as well as GCP, as we go through the year, and have those become more meaningful contributors. As I talked about in my prepared remarks, we continued to invest a lot in the capacity for ANF specifically. And then a smaller piece is just as we resolve some of the items we talked about with CloudOps, we think that that will help the second half. So you should expect to see acceleration as we go through the year into the second half. And we feel really good about the $760 million number.

Amit Daryanani
Analyst, Evercore ISI
Q

Perfect. Thank you very much for all the clarity.

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

Thank you.

Operator: Thank you. Our next question will come from Samik Chatterjee with JPMorgan. Please go ahead.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Hi. Thanks for taking my question. I guess, George, in relation to your Public Cloud sort of air pocket that you're seeing, it does look like you're implying that most of the headwinds have stemmed from a go-to-market sort of execution. Just wanted to sort of maybe ask for a bit more color there of what gives you confidence as just a go-to-market approach, you have to [ph] serve (00:34:11) the decision to stop acquisitions. What gives you the clarity at this point that it's not a sort of additional services that you need to add to round out the portfolio? Sort of what's giving you that clarity as just a go-to-market execution at this point? And I have a quick follow-up, Mike. Thank you.

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

We saw strong adoption of our services. I think, as we mentioned in prepared remarks, a strong number of customer additions. I think the places where we can do a better job is really customer success and cross-sell and upsell, which is work that's in front of us. I think that also requires some integration work in the product portfolio to make it easier for the sales organization to do that cross-sell and upsell. Some of that integration work is completed. Others is in process. And you will see us integrating Instaclustr quickly into the NetApp portfolio so that it can take advantage of all of our differentiated infrastructure services, storage, Spot, Cloud Insights, so that we can hit the ground running pretty quickly with all of that differentiated platform behind them.

So, I would say, within the quarter, it was mostly go-to-market execution. I think to aid the go-to-market team, we also have work to do on the product side, which we're accelerating and trying to accelerate the integration of Instaclustr into NetApp.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

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Got it. Got it. And Mike, just a quick follow-up on gross margin, sort of trajectory through the year. Is the improvement that you're implying sort of as you get into the back half, is that just more a function of the Public Cloud margins improving as you scale those revenues, or are you expecting a similar improvement in Hybrid Cloud? And how much of that has to do with sort of pricing actions coming more materially through the P&L?

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

Yeah. Thanks for the question, Samik. So it's both of those. And let's take Hybrid Cloud first. So we do expect the margins, the product margins in Hybrid Cloud in the first half to be relatively consistent with Q4. We did say, hey, we thought Q4 was a trough. We still feel that way as we go through the year. And then, seeing some expansion in the back half, driven by both the pricing actions that we took, as well as all the work that's going on around supply chain. So both of those go into that number.

And then from a Public Cloud perspective, there are several drivers of that increased gross margin that we've talked about. A, scaling that business as ANF scales and utilizes those assets better, more software and growth in that business.

So it's both of those that will add to the margin and that breaks out apart. You'll also see when you go through the numbers, A, the cloud gross margins are starting to be a pretty significant contributor to the growth as we go into 2023 and beyond.

So, thank you for the question.

Samik Chatterjee
Analyst, JPMorgan Securities LLC
Q

Yeah. Thank you.

Operator: Thank you. Our next question will come from Rod Hall with Goldman Sachs. Please go ahead.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.
Q

Hi. Thanks for taking my question. This is Bala Reddy, on for Rod. I want to start with the price increases. So it looks like they're starting to kick in. And from memory, I remember the price increases' magnitude is to the tune of high single digits or maybe 10% or in that range. Given this price increase, I'm wondering, why wouldn't product revenues grow more than mid-single-digit in fiscal 2023? Maybe there is an element of cautiousness in that guide, given the current macro uncertainty. I just thought you will help us understand a little bit better for us.

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

First of all, customers buy in dollars. And so, whether we raise prices or not, their budgets are determined in dollars. And so, if we raise prices, they'll buy fewer systems for the same dollars, right? I think that's the first.

I think the second is, listen, we feel good about – really good about the work that our supply chain team has been doing all year. We've had two successive quarters where we've been gated by supply rather than demand. We see a steady demand picture next year – this coming year, and we're just being realistic about how fast the supply chain constraint is. So buying in dollars and supply chain continuing to be work in progress for us through the course of the year.

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Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

That helps, George. And just to make sure I get it right. So you're not really baking in by any macro slowdown or anything in the back half of the year or anything, just more of a function of supply chain shortages?

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

A

At the moment, we see demand to be steady, and we are gated by supply. And so, yes, we understand the economic environment is uncertain. We're managing what we can control. Our demand outlook has so far been really solid, and we're gated by supply.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

That's helpful. And a quick follow-up, if I may. I was looking at Americas commercial mix, revenue mix in the quarter. It looks like its only flat quarter-over-quarter, [indiscernible] (00:39:29) typically up in Q4. And on the other hand, Asia Pacific has done really well in the quarter. I'm just wondering, are you seeing any kind of divergence or more a magnitude of – more of a function of allocating supply to different places?

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

A

Yeah. Hey, Bala, it's Mike. So it's really the supply chain gating that revenue generation. And it varies by geo in terms of the product. So, no significant changes from a geo perspective. Those – what you see there is really supply chain gating that revenue.

Bala R. Reddy
Analyst, Goldman Sachs (India) Securities Pvt Ltd.

Q

Got it. Thanks so much.

Operator: Thank you. Our next question will come from Meta Marshall with Morgan Stanley. Please go ahead.

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks. You guys noted some success in hiring new sales reps during the quarter. Just wanted to get a sense of whether that was more backfilling or whether you've had some success on some of the hiring for the higher-level solution sales like – or sales execs that can help with the cross-sell and upsell. And then maybe just kind of on the second point around replacing some of the sales execs that have left, just what do you see as the ramp in timeline for some of the new hires to productivity? Thanks.

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

A

I think the majority of our investment is focused on new sales reps with cloud backgrounds. We call them cloud sales specialists. So the types of execs, Meta, that you mentioned that know how to sell some of our applications portfolio and CloudOps portfolio, so that's the majority. We also have had to replace some attrition in our frontline sales teams as well. And we continue to manage through that as a normal sort of course of business, right? I

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think the specific areas that we saw higher than anticipated attrition were really in our CloudOps portfolio. And I think we've done a good job sort of refreshing the team and also bringing on the new leadership team.

I think when you look at the ramp time, it takes a few quarters, and that's why I think there's already been activity underway. We see that there will be some improvements through the first half. And then, certainly, in the second half of the year, we should see the team being fully productive. In addition, given the ramp of our cloud business and the expectations of the ramp, we are continuing to invest in additional capacity, for example, in cloud storage and other areas. We will – of course, in line with our disciplined operating management philosophy, we don't see the growth tap on the brakes. But right now, we feel that's a good investment [ph] to-date (00:42:19).

Meta A. Marshall
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thank you.

Operator: Thank you. Our next question will come from Nik Todorov with Longbow Research. Please go ahead.

Nikolay Todorov
Analyst, Longbow Research LLC

Q

Yeah. Thanks. And congrats on strong results, particularly given supply chain headwinds. George, a question maybe – how have – just curious, how have the conversations been over the last, especially couple of weeks, when you talk with customers regarding their IT budgets in this environment? I think clearly there's a lot of headwinds, like you talked in macro and supply chain and inflation. But there's been some recent third-party surveys showing that budgets for IT are actually ticking up, not down, and even if inflation pressure kind of persists. So, just curious what is the feedback that you're getting from CIOs and CFOs on those discussions around IT budgets. Thanks.

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

A

I think IT is continuing to be seen, as we've said, a spur for the transformation of the business. And so there are the strategic projects around customer experience, transformation, business process automation, a variety of those projects that our analytics continue to move forward. AI, ML projects, for example, continue. We had a strong year, and continue to see a strong outlook for that part of our business. So, so far, as we've said, the demand picture has been steady, and we recognize that there is increased uncertainty, but I think so far the demand picture for IT spending within our customer base has remained steady.

Nikolay Todorov
Analyst, Longbow Research LLC

Q

Okay. Great. And if I can follow up, Mike, on the price increases, I just want to understand, do you envision incremental price increases, especially if you see further cost pressures through the year, or you think that you've kind of front-loaded the price increases then you just need to realize those as the year progresses?

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

A

Yeah. So, thanks, Nik. My answer to that would be, we are intently focused on realizing the ones that we put in place. We're still working through those. So, at this point, that's our focus. We'll see what the rest of the year holds. Never say never, but our focus right now, Nick, is realizing those other two price increases.

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Nikolay Todorov

Analyst, Longbow Research LLC

Q

Got it. Thanks, guys. Good luck.

Operator: Thank you. Our next question will come from Sidney Ho with Deutsche Bank. Please go ahead.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for taking my question. In terms of your billings, obviously, very strong billings of over $2 billion for the quarter, it's always strong in the second half of the fiscal year, and that's also the case this past year. Are there any trends within the billings that you would highlight that suggest maybe customers are putting in orders longer than they did historically because of maybe some concerns of supply constraints? Maybe just asked differently, how do you monitor the health of these billings? Thanks.

Michael J. Berry

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

A

Hey, Sidney, it's Mike. So, great question, so thank you. So, in Q4, we saw billings growth of 16%. As you know, billings as revenue plus change and deferred. Largely on a quarterly basis, when you see billings and revenue come in differently, it's going to be driven by the timing of support, not only on point of sale, but also renewals, and that's exactly what happened in Q4.

Keep in mind that a lot of our initial transactions will come with three years of maintenance, so you will get some variability on when those renew. So, if you bifurcate the 16%, about 12% of that growth came through support renewals. And thankfully, a lot of that was in software support, so that bodes well for all of us. And that was really based on the timing of some renewals, not only initial sales but also renewals. So, we watch that very carefully. We watch duration.

And when you look at deferred revenue, you see some of that did go into long term. So, we did see some longer-term renewals typically related to initial sales. But we've seen that short-term and long-term deferred revenue percentage stayed remarkably consistent. So, that will jump around a little bit by quarter. Nothing to be concerned about on this. It was a great quarter of billings. And the nice part is that will translate into cash flow next year. So hopefully, that helps.

Sidney Ho

Analyst, Deutsche Bank Securities, Inc.

Q

Yes. Thank you.

Michael J. Berry

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

A

Thank you.

Operator: Thank you. Our next question will come from Tim Long with Barclays. Please go ahead.

Tim Long

Analyst, Barclays Capital, Inc.

Q

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Thank you. Yeah, maybe two, if I could. First, on the all-flash array front, still pretty good growth but you mentioned the installed base is still not moving that much. So, could you talk a little bit about what you think NetApp can do to further get that installed base over to all-flash, given the better economics all around for you?

And then, second, if I could just go back to the cloud ARR business, could you talk a little bit about kind of better conversion of your installed base on-prem and what you're seeing from the other large on-prem players and if they're trying to enter into this piece of the market as well? Thank you.

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

A

First of all, the installed base that we are penetrating is a very, very large installed base. And there are several factors that they consider as they look at new purchases, right, IT budgets, a mix of different system types. We did see a higher mix of our hybrid flash portfolio, where we have the only modern operating system that supports hybrid flash technology.

In prior circumstances, when there was some uncertainty about budgets or economics, they would shift towards more of a value-oriented system like a hybrid flash. So whether that's true or not, it's one data point, but we did see very strong hybrid flash unit shipments this quarter, which is why the total penetration into our installed base was relatively flat.

We continue to do the work to qualify more applications, more new workloads and drive our field to go after new logos, as well as drive our installed base conversion. There are incentives in place to sell new systems at a higher rate than renewals or refreshes, and those have been put in place for this year. And so, I'm hopeful that that will drive more conversion.

With regard to cloud ARR, I think the main questions are – listen, we feel good about the acquisition of net new customers into our cloud portfolio. I think when we started the cloud journey, there was a concern that cloud growth would literally be offset by on-prem decline. We're not seeing that and it's reflective of the strength of our portfolio on both fronts.

And so, yes, could we do more to convert our installed base to cloud. We have got incentives in place this year where the sales reps cannot make their number without selling cloud as a part of their overall kind of quota. And so, there are discrete quotas set up for cloud. They have got to complete selling that to be able to accomplish their total compensation objectives.

And so, we've got work underway, we're doing enablement, but I do feel good about the fact that we are able to acquire a lot of net new customers. Those are our competitors' customers after all with our cloud storage portfolio.

Tim Long
Analyst, Barclays Capital, Inc.

Q

Thank you very much.

Operator: Thank you. Our next question will come from David Vogt with UBS. Please go ahead.

David Vogt
Analyst, UBS Securities LLC

Q

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Great. Thanks for taking my questions, guys. Just a quick question on the acquisition strategy, so before you decided to hit pause, can you kind of discuss how the pipeline was shaping up and how sort of the opportunities might have looked for that particular strategy, given the re-pricing that we've seen in both the public and the private markets?

And when you think about the opportunity cost of pursuing – not pursuing transactions, how do we think that affects the ramp of the longer-term target in that sector – or in that segment, I should say? And then, I have a quick follow-up.

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

A

Listen, I think we've had a disciplined acquisition strategy, right? We started with cloud storage. We enabled cloud storage to become multi-cloud across all the hyperscalers with both NetApp-managed and native cloud services. We then added monitoring, which is Cloud Insights, organically taking one of our enterprise products and making it cloud-ready and made that a multi-cloud monitoring service so that customers could understand the performance of their applications. Then we brought in Spot, which gave us the complement for compute that we had with storage, right, our organic storage.

So now, we've got a multi-cloud infrastructure services portfolio that's truly unique in the market. And we're adding applications deliberately, right? So we're not trying to be in every application. We've got specific applications that leverage the full portfolio of our infrastructure services. Spot PC for virtual desktop uses Cloud Volumes and Spot's compute optimization technology. We've got Spot for Kubernetes, which uses the Spot Ocean technology as part of its underlying infrastructure capability, and then, most recently, Instaclustr. I feel really good about the portfolio.

Listen, we want to integrate these acquisitions so that they get off to a fast start, and I think we feel really good about our portfolio. If you look at the numbers that we're guiding to, I think if we hit – we finish FY 2023 strong, we're in great shape to accomplish our $2 billion target. And we're just focused on let's get these right in the first half of the year and then we'll take a look at the market.

David Vogt
Analyst, UBS Securities LLC

Q

Great. Thanks, George. And then, Mike, maybe a follow-up for you on Public Cloud gross margin. What scale – maybe can you give us a sense of scale that you need to get to to get to your longer-term targets? Because even if I look before this quarter, sort of the incremental gross margins have been running in the low-70s as you invest in the business, and obviously, there's some cost absorption issues, or maybe it's helpful if you can give us sort of an order of magnitude of what that delta might look like from a margin perspective so we could see the roadmap to that 75-plus percent Public Cloud gross margin that you sort of targeted out there? Thanks.

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

A

Yeah. Hey. Thanks, David. So I would answer that by saying, hey, by the time we get to $1 billion in ARR and I'm going to break it up for you a little bit, we would certainly expect to see us getting very close to at least the bottom of that range. And there's two major drivers to that brand. In CloudOps, the majority of those products are software or cloud-based. As those continue to grow, they are accretive to not only cloud, but certainly, the total company. And hey, the other big driver here is in cloud storage. We are continuing to invest a good bit for all the right reasons to drive growth in ANF and GCP.

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As we've talked about, when it comes – after a couple of years, as we start to modulate that CapEx investment, those are being depreciated over three years. That depreciation is going to start to cap out. It's going to have a significant positive impact to gross margins, because now, we're going to benefit from utilizing those assets longer than their accounting life because their useful life is quite a bit longer.

So of all the stuff we've talked about, I feel really good about getting to 75% at least at the bottom end because of all those items. And to your earlier question, acquisitions will focus around those software and cloud assets as well. So, all of those things added together make me feel really good about that range.

David Vogt
Analyst, UBS Securities LLC

Q

Great. No, that's...

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

A

[ph] David, if I could (00:54:22) just add one more...

David Vogt
Analyst, UBS Securities LLC

Q

Yeah. That's helpful.

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

A

Yeah. [ph] Hey, if I could (00:54:25) just add one more, FSx is a software-only solution. So as that ramps, that's also accretive.

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

A

Great point. Thank you.

David Vogt
Analyst, UBS Securities LLC

Q

Yeah. No, the clarification is very helpful. Thanks, guys.

Operator: Thank you. Our next question will come from Simon Leopold with Raymond James. Please go ahead.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you very much for taking the question. First, I just wanted to see if maybe we can clarify what happened to gross margin for the Public Cloud in the quarter with the step-down? Was there any new significant investments being made in terms of the deployed footprint ahead of revenue, given that you're not facing the same kind of input cost issues. That's just clarification.

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And then, in terms of my longer-term question, I'd like to see what you're hearing in terms of the demand side that's influencing your forecast for the Public Cloud services revenue outlook. I heard a lot about the execution and the internal aspects, but I want to get a better understanding of the demand side of that equation. Thank you.

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

A

Sure. So hey, Simon, it's Mike. I'll do the gross margin first. So, a couple of things. It did dip down a little bit from, I believe, 71% to 68%. There were two major drivers of that. Number one is a little bit lower revenue. Obviously, there is some fixed costs in there. The other part is we've continued to invest in the capacity specifically for ANF. Even though we are largely for our CapEx number for fiscal 2022 right about where we guided, there was a mix shift. Candidly, we spend less in facilities because I'm going to bring up supply chain again. We had a little issue there that got pushed in 2023. And for all the good reasons, we actually deployed more capacity for ANF. Now, that depreciation hits right away and then the ARR builds. So, that – those were the two major drivers.

As we go through fiscal 2023, our goal is to get back to that 70%. Instaclustr will come in at, call it, mid-60s margin and we expect that to fully get to about 70% exiting the year. And then, as we continue to build ARR and leverage the existing footprint, that's why we feel good about getting back to 70% by the end of the year. So, those are the margin puts and takes.

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

A

On demand, we feel good. Listen, we had strong customer adds across the portfolio in the quarter. We continue to see good dollar-based net retention rate of 159%. So, we feel good and we're really focused on going and capturing the demand. Cloud continues to be a place where we see customers prioritizing investment.

Simon Leopold
Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Operator: Thank you. Our next question will come from Wamsi Mohan with Bank of America. Please go ahead.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Yes. Thank you. Yeah. On gross margins, you thought that 4Q would be the bottom in gross margins. I think you're saying that again today. But you're also saying first half will be roughly at the same level for this in the next quarter. Is that the trajectory you had expected last quarter, or did things change on us causing you to bump along the trough margins for a longer time, especially given that fiscal 2Q, you typically have a much richer mix from federal that should be helping your gross margins tick up higher? And I have a follow-up.

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

A

Listen, I think what we've said is the first half of this coming year will be relatively similar to what we had in Q4, which is substantially better than what we – that we realized a substantially better outcome than what we feared going into the quarter. I think what we said is second half of the year is a modest tailwind to the first half of the year.

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We see improvements in the supply chain through the course of the year. I think COVID-related freight should get better. I think the amount of open market purchases should hopefully get better over time. I think we're being a little bit cautious about where we are in the course of the year, but overall, I think that's the picture.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Okay. Thanks, George. And just as a clarification, I know you made several comments around PCS tracking a bit weaker than expected. But as you're mapping this onto longer-term targets, can you give your thoughts around hitting pause on CloudOps M&A, which is a big part of the overall long-term guide? I mean, it's a substantial part of how you were originally getting to your long-term guide, especially in light of the fact that valuations seem to have come down. You just did Instaclustr. Just wondering if hitting the pause is more some cautiousness about the rate and pace of trajectory or is it about the speed of integrating some of these assets that you have acquired, especially given the valuation compression that we've seen in the market? Thank you.

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

A

Listen, we don't expect the valuation compression to go away, right? I think we see that at the start of the journey. And so, we see plenty of opportunity ahead to do inorganic goals. I think the focus we're trying to bring is, first of all, in our outlook, we feel really good about the outlook. We wouldn't guide the year to a strong number if we didn't feel that way. We see continued strength in organic innovation, for example, cloud storage and Cloud Insights. We've done a substantial number of acquisitions in CloudOps, and we're going to take a little bit of time to integrate them on the product side and integrate them on the go-to-market. I think it's just – it's prudent, it's disciplined and we'll be – we feel very, very good about our portfolio, not just in cloud storage but in CloudOps as well.

Wamsi Mohan
Analyst, BofA Securities, Inc.

Q

Okay. Thanks, George.

Operator: Thank you. Our next question will come from Aaron Rakers with Wells Fargo. Please go ahead.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. I'll try and slip in two real quick, if I can. I guess the first one is one of your competitors tonight talked about actually some customers pulling forward demand from the back half of the year into the first half of the year. There's been a lot of discussion around the backlog. And so, I'm curious, number one, have you seen any of that, and how would you characterize the duration of kind of the backlog you're seeing and how maybe that's changed over the last two or three quarters?

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

A

We haven't seen any evidence of pull-forwards or phantom demand. I think we have a close relationship with our customers. Every one of them has been quite balanced in terms of being a good citizen around, hey, we'll take some of our order and we'll wait for others. So, I think we've got a pretty balanced book of business. As we said, we've had supply gate demand for two successive quarters. Q3 and Q4 very clearly saw the same pattern and backlog is elevated.

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Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Yes. And just as a quick follow-up, a simple question, how would you characterize the competitive landscape? I know Dell EMC saw growth for the first time in a while this last quarter. How would you characterize what you're seeing competitively in the market?

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

A

I think it's pretty much the same, Pure and NetApp taking share from Dell and HP and several other players. So I would characterize it as no fundamental change, to be honest. Thank you.

Aaron Rakers
Analyst, Wells Fargo Securities LLC

Q

Perfect. Thanks.

Operator: Thank you. Our next question will come from Nehal Chokshi with Northland Capital. Please go ahead.

Nehal Chokshi
Analyst, Northland Securities, Inc.

Q

Yeah. Thanks. I realize you guys are not economists here, but what do you think is the probability of the IT CapEx downcycle, given tightening financial conditions? And then, what are your thoughts on NetApp's share gain structure being stunted or helped by a potential IT CapEx downcycle as well?

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

A

Listen, I'll just say I'm not an economist, right? We are in discussions with our customers. I would say in every IT portfolio, there's probably projects that are strategic that will continue to be invested in regardless of supply chain constraints or economic environment or whatever it is, right? So, I think those projects we see continuing and we're going to be a part of those as much as we can.

I think with regard to our competitive environment, listen, we are part of several megatrends that those will continue, right, cloud, data management, analytics, high-performance computing environments. So long as we continue to innovate and stay focused, I think we've got a good opportunity ahead.

Nehal Chokshi
Analyst, Northland Securities, Inc.

Q

Okay. And so, just to be clear, you expect your share gain trajectory to be helped or stunted by a potential IT CapEx downcycle?

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

A

I think if there's an IT CapEx downcycle, what we generally see is within the IT spending envelope, transformational projects that are critical to business need will get prioritized. And so, long as we are part of those projects, it's a share gain opportunity.

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Nehal Chokshi
Analyst, Northland Securities, Inc.
Q

Okay. Great. Thank you.

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

Thank you.

Operator: Thank you. And today's final question will come from Jason Ader with William Blair. Please go ahead.

Jason Ader
Analyst, William Blair & Co. LLC
Q

Great. Thank you. I guess, George, just to wrap up, what lessons has NetApp learned from these last couple of years where you've been kind of on an acquisition binge in this cloud services space? As you kind of reflect on what you could have done better and what you need to do better, maybe just kind of summarize your thoughts there for us.

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

Listen, I feel like we've accomplished a lot, right? I think no one believed us when we said our cloud storage would be a native service in all of the three major hyperscale cloud providers, and we've delivered on that. We said we would cross $500 million in cloud ARR, and we've delivered on that. We said cloud gross margins would be at or better than company average gross margins. We've delivered on that. We said cloud would be a way for us to acquire a whole lot of net new customers. We've delivered on that. And over the course of the last two years, we've balanced organic innovation and there's been a substantial amount with complementary deliberate acquisitions that allow us to serve a full customer's need, right, around an application portfolio.

I think where we could do better is learn from the mistakes we made around integration. And we're going to – everybody learns from that, and we're going to own that and we're going to take – do the work that's needed to integrate those acquisitions better in the first half of this year. But I don't think any of that diminishes from the opportunity in front of us or the place that we are. We're in a strong position and we're going to capitalize on it with disciplined execution.

Jason Ader
Analyst, William Blair & Co. LLC
Q

Very good. Good luck. Thank you.

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

Thank you.

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

Before we close, we delivered a solid Q4, rounding out a strong FY 2022, with record levels of gross margin dollars, operating income and earnings per share. Looking forward, we remain focused on capturing the

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substantial opportunity ahead as we scale our public cloud services, while continuing to drive growth in our hybrid cloud solutions. I want to underscore my confidence in the long-term thesis we presented at our Investor Day of delivering value through sustained growth. Our alignment to customer priorities, strong balance sheet and prudent operational management put NetApp in a position of strength. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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