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NetApp, Inc. (NTAP)

Q1 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to the NetApp First Quarter Fiscal Year 2014 Earnings Conference Call. My name is Myesha. I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note, this conference is being recorded.

I will now turn the call over to Kris Newton, Senior Director of Investor Relations. Kris, you may begin.

Kris Newton

Senior Director-Investor Relations, NetApp, Inc.

Hello and thank you for joining us. With me on today's call are our CEO, Tom Georgens; and our CFO, Nick Noviello. This call is being webcast live and will be available for replay on our website at netapp.com along with the earnings release, our financial tables and the non-GAAP to GAAP reconciliation.

Financial information previously found in the supplemental commentary document will now be included in the accompanying supplemental data tables of the quarterly financial press release. Additionally, a historical supplemental data table providing historical multi-period financial information will be available on our website.

As a reminder, during today's call we will make forward-looking statements with respect to our financial outlook and future prospects, all of which involve risk and uncertainty. Actual results may differ materially from our statements and projections for a variety of reasons. We describe some of these reasons in our accompanying press release, which we have furnished to the SEC on an 8-K. A detailed discussion of these reasons is included in our risk factors in our most recent 10-K and subsequent 10-Q reports, also on file with the SEC and available on our website, all of which are incorporated by reference in today's discussion.

All numbers discussed today are GAAP unless stated otherwise. To see the reconciling items between the non-GAAP and GAAP, you may refer to the table in our press release or on our website. In a moment, Nick will walk you through some additional color on our financial results and then Tom will walk you through his perspective on the business this quarter.

I'll now turn the call over to Nick.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Thank you, Kris. Good afternoon, everyone, and thanks for joining us. Q1 was another quarter of consistent execution and solid financial performance. Revenue of \$1.52 billion was up 5% year-over-year and roughly at the midpoint of our guidance range despite some sequential FX headwinds and a continued uncertain macro environment. As we anticipated, year-over-year branded revenue growth was very strong, partially offset by further reductions in OEM revenue. Branded revenue was \$1.35 billion, up 9% year-over-year, representing the largest increase in branded business in seven quarters.

OEM revenue continued to decline, down 20% on a year-over-year basis. Consistent with our expectations, we anticipate that OEM revenue will continue to decline on a year-over-year basis in Q2 and then normalize to the level we expected when we acquired Engenio.



Indirect revenues remained strong with 80% of Q1 revenue coming through the channels and OEM. Arrow and Avnet contributed 21% and 16% of our total revenue prospectively. From a geographic per spective, Americas grew 7%, EMEA grew 2% and Asia-Pacific grew 3% on a year-over-year basis. Within the Americas, commercial was up almost 8% and public sector was up 5% year-over-year.

Non-GAAP gross margin of 61.3% was in line with Q4 and consistent with our Q1 and full-year expectations. Non-GAAP product gross margin of 53.3% was up almost 2 points and service gross margin of 59.5% was relatively flat year-over-year. As we discussed on our call at the end of May, early in Q1 we took action to better align our investments and resources to our biggest opportunities, resulting in a head count reduction of approximately 7% from our Q4 exit and a GAAP restructuring charge of approximately \$48 million.

Our non-GAAP operating margin for the first quarter was 14.9%, over two points better than last year and up a point from our previous guidance, reflecting the benefits from our realignment activities, net of new strategic investments across the business. Non-GAAP EPS of \$0.53 grew 26% year-over-year. We derived \$0.01 of benefit from our slightly lower than anticipated tax rate of 16.6% and \$0.01 from our Q1 share repurchase activity. Excluding this net \$0.02 benefit, non-GAAP EPS came in \$0.01 above the high-end of our previous guidance range.

Now, turning to the balance sheet; we ended the quarter with approximately \$5.1 billion in cash and investments. Days sales outstanding of 32 and inventory at 20 turns reflects seasonal improvement and strong operational performance. Deferred revenue decreased from Q4 by \$68 million to approximately \$2.9 billion. However, on a year-over-year basis, deferred revenue was up \$174 million. Cash from operations was approximately \$286 million, an increase of 25% from Q1 of last year and free cash flow was 14.5% of revenue. Q1 is seasonally slow with respect to cash flows as cash generation is offset by payments of Q4 commissions and prior-year annual incentive compensation.

One our call last quarter, we outlined important enhancements to our capital allocation strategy, including a \$3 billion share repurchase program over three years and the initiation of a quarterly cash dividend of \$0.15 per share of common stock.

These actions not only demonstrate our confidence in the underlying long-term strength of NetApp business, but also our commitment to generating value for our shareholders. Consistent with our expectations, we returned just over \$900 million to shareholders in Q1, which included approximately \$850 million in share repurchases as well as approximately \$51 million in our first cash dividend. We remain on track to achieve \$1 billion in share repurchases by this September and today we have also announced our next cash dividend of \$0.15 per share of the company stock to be paid on October 25th.

As expected, we retired our convertible note in June with \$1.265 billion of U.S. cash payments and the issuance of just under 1 million shares of common stock related to the excess of the average share price over the conversion price of \$31.85 net of note hedges. Q1 diluted share count decreased by approximately 8 million shares from Q4, primarily related to stock repurchases as well as option and RSU activity. Separately, the warrants associated with our now retired convertible notes will become exercisable in September and October and will create dilution if our share price is over \$41.12 during this timeframe. Our warrants are not hedged.

Turning to guidance, our target revenue range for Q2 is \$1.56 billion to \$1.66 billion, which at the midpoint implies about 6% sequential growth and about 5% year-over-year growth. We expect year-over-year branded revenue growth at similar levels to Q1, implying a better than normal seasonal growth rate, but a continued decline in OEM revenue. We expect consolidated non-GAAP gross margins of approximately 61% and non-GAAP operating margins of 16% to 16.5%, increasing over a point sequentially and up to two points over Q2 last year.

We expect our blended, consolidated, non-GAAP, effective tax rate to remain at Q1 levels and then increase in the back half of the fiscal year. Based on our average stock price of \$41.56 for the first 10 days of the quarter, we expect our diluted share count for Q2 to decrease to approximately 351 million shares. We expect non-GAAP earnings per share for Q2 to range from approximately \$0.60 to \$0.65 per share, up 18% to 27% from Q2 last year. The midpoint of our EPS range implies mid-teens growth in EPS from operations alone versus Q2 of last year.

As we move into the second quarter, our expectations for fiscal 2014 remain unchanged. Though ultimately dependent on revenue mix and growth, we are reiterating our expectations for approximately 61% gross margin and approximately 17% operating margin for the year. We continue to expect full-year EPS growth in the midteens from operations and further supplemented by our capital allocation activities. We are on track to complete our plan of repurchasing \$2 billion of stock in the 12-month period following our Q4 announcement, \$1 billion of which will be completed by this September. Our cash generating capacity remains intact and strong.

At this point, I will turn the call over to Tom for his thoughts. Tom?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Thanks, Nick, and good afternoon, everyone. I'm pleased that despite the macro uncertainties and constrained IT spending environment, the NetApp team delivered solid Q1 results. As Nick described, revenue came in near the midpoint of our guidance and EPS was over the top of the range. Gross margin improved from Q1 a year ago and was in line with our guidance.

Most notably, we delivered strong branded revenue growth of 9% year-over-year. This strong growth builds on the momentum that we saw in the second half of fiscal year 2013 and, as Nick noted, we expect a similar level of branded growth again in Q2.

The strength of our branded business reflects the tremendous value we are delivering to our customers today and their confidence in our long-term strategy to help them navigate the future. Data ONTAP, the number one market share storage operating system, enables enterprise-wide scalable data management and consistency of operations across private, public and hybrid clouds.

In Q1, we introduced Data ONTAP 8.2 building on the strong ONTAP foundation. ONTAP 8.2 improves quality of service and non-disruptive operations and includes enhanced migration tools. At the core of ONTAP are storage virtual machines that support customers' software defined initiatives by enabling them to partition shared resources securely and with quality of service across the cluster and automate provisioning to individual applications. Data ONTAP 8.2 has had the fastest adoption rate of any our major releases and, overall, almost 60% of our entire installed base has moved to ONTAP 8.

Clustered ONTAP also continues to see strong customer interest and sales momentum. Clustered nodes are up more than 400% from Q1 a year ago. In Q1, clustered ONTAP revenue again reached the highest ever percentage of total revenue. The majority of clustered ONTAP systems are going to customers new to NetApp or new applications within existing customers. In either case, we are expanding our addressable market and solidifying our position in an increasing number of accounts.

We also saw strong momentum with our Flash solutions. NetApp offers the broadest and most complete Flash portfolio in the industry. Over 60% of FAS systems are shipped with Flash Cache and/or Flash Pool. Flash Pool

sales increased almost 50% from Q1 last year. Flash Accel, which began shipping this quarter, will combine application integration and enterprise data management with the performance capabilities of flash to finally enable the full potential of server-side flash.

On the all-flash array front, we have now shipped over 300 units of our recently announced EF540. The majority of EF540 units are in database acceleration deployments. Overall, in less than a year, NetApp has moved from the perception of not participating in the flash market to a leadership position.

In addition to strong growth of the all-flash EF540, we are seeing accelerating growth of the total E-Series family. The technology agenda for E-Series has now driven by our branded solutions. We have an unambiguous position that clustered ONTAP is the premier solution for shared infrastructure and business applications, but there's also a set workloads with a different set of requirements around performance, density and capacity that are driving extremely large data sets, which is where E-Series fits in.

The breadth of workload in customers for our branded E-Series solutions continues to expand and we are pleased with the progress we are now seeing in this product line. We expect that in aggregate, E-Series, both branded and in OEM combined, will be a growing business in fiscal year 2015. This quarter, every FAS platform showed year-over-year growth in both units and dollars. Of particular note was the FAS6000 family, units of which grew 28% from Q1 a year ago. Additionally, we saw capacity shipments grow 16% year-over-year.

Our business model includes a strong partner ecosystem that drives customer success. Through our alliance partners and our reselling channel partners, we are delivering a complete innovation stack based on best-of-breed technology to our customers. A key proof point of this model is FlexPod, the industry's number one converged infrastructure solution. FlexPod systems sold increased 30% year-over-year and the number of new FlexPod customers is up 22% from Q1 a year ago.

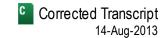
NetApp and Cisco have expanded the program with FlexPod Select based on the E-Series architecture for dedicated high-performance workloads such as Big Data, high-performance computing and video analytics. We further enhanced our partnership with Citrix through the integration of clustered Data ONTAP with Citrix for desktop and application virtualization, mobile collaboration and cloud services.

We were pleased to be named Microsoft's Server Platform Partner of the Year for our innovative storage solutions that enable non-disruptive operations and deliver optimal operational efficiency for virtualized environments and file services. In addition, we expanded our alliance partnership with Microsoft to accelerate the adoption of enterprise cloud systems.

I said earlier that our strong branded revenue growth stems from the value we are delivering to customers today and their confidence in our ability to help them navigate the future. Let me elaborate. We are leading in technology across the big trends that are shaping the industry today: mobility, Big Data, flash, software-defined and cloud. In Q1, we introduced NetApp Connect, which delivers mobile access to corporate data while maintaining the tight security and control that enterprise IT requires for keeping its data and business protected.

With our ability to unify structured and unstructured data into a single infrastructure, we are unmatched in our ability to manage the breadth of enterprise data at scale. Our breadth and adoption rate of flash technology has been a big contributor to our recent performance and our cloud and software-defined strategies are unique in the industry.

As CIOs look to optimize business outcomes for their enterprises, they have more options available than ever before. Emerging storage technologies such as flash and deployment models like converged infrastructures are



impacting on-premise computing. NetApp has leadership positions in both. In addition, customers have alternate off-premise IT delivered models available to them as well.

Enterprise customers will deploy some hybrid combination of all of these models. However, regardless of the ultimate computing destination, the CIO will maintain responsibility for data stewardship. The introduction of the cloud makes data governance even more complex because data is distributed and not under direct control. NetApp's vision is to create an enterprise data management solution that will span the customers' data storage landscape regardless of data type or location.

We have our integrated FAS storage systems, with V-Series we can manage other vendor storage devices, with Flash Accel we can manage flash in the servers. ONTAP in a virtual machine and NetApp Private Storage for Amazon Web Services are technologies that enable management of data in the cloud. We believe that these capabilities and the future options that they create uniquely enable NetApp to deliver the vision of a unified multiplatform distributed enterprise data management solution. This is the epitome of software-defined and a more expansive vision than we have seen presented by anyone to-date. More importantly, much of it is available now, enabling customers to choose NetApp today with the confidence in our ability to meet their future requirements.

When I look at the evolution of clustered Data ONTAP, our broad flash portfolio, the growth of our E-Series branded solutions and the work we are doing around NetApp Connect and NetApp Private Storage for Amazon Web Services and StorageGRID, I see that we have more technology at the early stages of its product lifecycle today than at any time in our history. We believe we have more as yet unrealized potential out of this portfolio than ever before. Because of this, I remain confident in our ability to outgrow the market and gain share not only today but tomorrow as well.

Finally, I would like to thank the more than 12,000 NetApp employees for maintaining focus in the face of an uncertain macro environment and our recent realignment to deliver a solid quarter. All of your hard work across all aspects of the business is coming to fruition and we are seeing that in our results.

At this point, I will open up the call for Q&A. As always, I ask you to be respectful of your peers on the call and limit yourself to one question so we can address as many people as possible during our remaining time.

Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question is from Shebly Seyrafi with FBN Securities. Please go ahead with your question.

Shebly Seyrafi

Analyst, FBN Securities, Inc.

Thank you very much. Can you talk about the product gross margin? It was up year -to-year, but it declined about 200 basis points sequentially. Market shares indicate there is competition from IBM and EMC, so if you can elaborate on that? Thank you.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Sure, Shebly, Nick Noviello here. So let me just reiterate the numbers that you're referring to. So product gross margin in the fourth quarter was 55.8% and in the first quarter was at 53.3%. Frankly, we typically see a decline in product gross margin in the business. The other thing that you need to keep in mind as you look at the sequential and what happens on the seasonality here is that you're going to end up with a mix of business that's a little different because the branded business is going to be the one that is sequentially down. And what you see on a sequential basis is that the OEM side of the fence was relatively unchanged. So there's going to be a mix impact as well. So we really have to look at a combination of mix of business, right? Branded versus OEM. We look at the seasonal that happens anyway from a Q4 to Q1. And, we look at a variety of other components here. There is nothing that I would say that's abnormal in discounting or competitive that's showing up in these numbers. They're all pretty consistent.

Shebly Seyrafi

Analyst, FBN Securities, Inc.

If I can follow through, do you expect the product gross margin to return to like high-55%s - 55%, 56% by the end of the year? Or over the next year-and-a-half? Thanks.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

So what I would say there, first of all, so we gave you the guidance for Q2. Q2 guidance approximately 61% on gross margin. Again if you look at the seasonal over time, we generally have a higher gross margin on the product side in the second quarter. I would expect that to come through again. So we would see an increase in product gross margin there and over time we expect an increase in product gross margin.

Shebly Seyrafi

Analyst, FBN Securities, Inc.

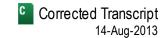
Thank you.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Thank you.

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Operator: Thank you. Our next question is Aaron Rakers with Stifel, Nicolaus. Please go ahead with your question.

Aaron C. Rakers

Analyst, Stifel, Nicolaus & Co., Inc.

Yeah, thanks for taking the question. Tom, last quarter you had talked pretty candidly about what you were seeing in terms of bookings. In particular, branded bookings I think you said double-digit growth year-over-year. Can you update us on what you saw in the July quarter from that perspective? And then just kind of dovetailing that with linearity in the quarter? Thank you.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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Well, I think we stay away from bookings. It's not a — we need to be careful of the definition there and it's not an auditable number. So we don't disclose bookings as a company. But I think as the quarter plays out, 9% branded growth is pretty strong. The fact that we're forecasting 9% or so branded growth again next quarter would indicate that we clearly have ongoing momentum in that area. So it certainly wasn't a one-off thing. And we see it across the board. Clearly, the clustered ONTAP uptake is key here. I think that the flash story, the all-flash array around the E-Series has been very, very powerful. I think we're very, very pleased with the momentum that we see there.

So as far as I look at it, I think if just took actually a bigger step back, I'd say the first half of last year we were in a pretty big product transition around clustered ONTAP and we certainly saw it in the growth rate. And then we saw momentum build and market share gain in the second half of the year. I think we finished strong and I think we started this year relatively strong in this market. So I actually think that we built some momentum last year. We talked about it in Q4 and I think it continues and it's reflected in our forecast for our branded business next quarter.

Operator: Thank you. Our next question is Kulbinder Garcha with Credit Suisse. Please go ahead.

Kulbinder S. Garcha

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Thank you for the question. The question is for Tom. Tom, with the pickup in revenue growth you've seen last quarter, this quarter and what you're guiding on the branded business, I'm kind of curious as to what you think is happening to the end market storage and your market share, just in terms of – you're obviously probably gaining and probably gaining again in the mid-end as well? Can you speak about from the competitive dynamics? And are you getting any signs that with this pickup in revenue growth that just the end market environment at least for the storage segment, it seems to be proving not only resilient but maybe reaccelerating as we head into the second half of the calendar year? Many thanks.

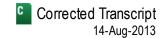
Thomas Georgens

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President, Chief Executive Officer & Director, NetApp, Inc.

Well, I think we can – we need to focus on what we see and where we're winning. If I look at 9% branded growth, that's really the componentthat drives the market share number. I don't see anybody close to that number. So I think unquestionably this is a pretty strong market share quarter for us. I think that goes without saying.

I want to be careful about the industry at large. If I look at recent announcements, EMC storage business a bit over 3.5%; I think Hitachi reported 1%; IBM was down and we'll see what HP and Dell report. But overall, I think that unquestionably the demand for the products in our suite is clearly stronger than it certainly was a year ago. So I



think we feel better about it, but I wouldn't do so far to say we've got an economic tailwind driving us. I think NetApp's competitive position is stronger than it's been and I think we're making the most of it. So I think unquestionably we're gaining share.

That said, certainly we saw a little bit better economic news in terms of GDP growth out of the E.U. reported this morning. And I think things probably feel a little bit better than they were a year ago, but I would n't use the word dramatic turnaround or anything like that. And certainly as we think about our guidance, on the federal side, that's an important part of our business. We have the sequester component that's out there. I think we've had the sequester all year and NetApp has done very, very well there; I expect that to continue up until the end of the government fiscal year. But our quarter also includes October, which is the first month of next fiscal year and I think there's a little bit of concern about what's actually going to play out there. So I'm not worried about anything NetApp specific on that front, but clearly that's going to be a politicized process. But between now and the end of the government fiscal year, I expect just to continue to take our own fair share of the government business.

Kulbinder S. Garcha

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Thank you.

Operator: Thankyou. Next question is Katy Huberty with Morgan Stanley. Please go ahead with your question.

Katy Huberty

Analyst, Morgan Stanley & Co. LLC

Hey, thanks. Good afternoon. I think somebody asked about linearity, but I'm not sure you specifically commented. Did you see an improvement in demand or just uptake in NetApp product as you moved through the months of the quarter? And, Nick, maybe you can comment on why DSOs came down so much and whether that speaks to linearity in the quarter? Thanks.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

I would say that that, in general, the quarter was pretty typical. We also had kind of a NetApp-induced wrinkle this quarter is that we were doing the realignment and the restructuring this quarter. And clearly that had the potential of having a big impact on our sales organization. We've certainly seen that be disruptive to companies in the past. And I think we managed through that, but I think that, that probably had some impact on the timing. So I think there's probably a little bit of an anomaly, but I wouldn't say that we were any more back-end loaded or any more back-end coasting in than any quarters in the past. So I think it kind of played out the way we would have thought, but we did have a little bit of disruption in the middle as we basically realigned territories and reassigned quotas and did all things associated with the restructuring.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Yeah, and, Katy, just in terms of the DSO, yes, it was 37 in Q1 last year and down to 32, but we've seen 32 before. And I actually think there's a little bit here around all of the integration activities around Engenio are completely behind us. You see inventory turns up as well. I think there's a normalization there of that type of integration behind us and then just strong execution across the board. And we're really pushing on that execution I think as that came through.



Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Yeah, I mean the one thing I'd add on the execution front, and this will be a message to employees tomorrow, is the DSO number was one of the best we've ever reported. The inventory turns number was one of the best we've ever reported, certainly the best since the Engenio acquisition. Gross margin strong, we had the realignment and all of that. We didn't lose any sales momentum, at least not in the aggregate for the quarter. We also moved a factory in Europe last quarter without disruption to the business. So I think we've clearly upped the intensity around execution and I think that, all-in-all, we're pretty pleased about how this quarter came down.

Katy Huberty

Analyst, Morgan Stanley & Co. LLC

Thanks.

Operator: Our next question is from Amit Daryanani with RBC Capital Markets. Please go ahead with your question.

Amit Daryanani

Analyst, RBC Capital Markets LLC

Yeah, good afternoon. Thanks a lot, guys. Just a question on gross margins, could you may be talk about why do you guys see gross margins being flat in the October quarter guide, given the fact that sales are actually going to go up sequentially by about 6% and I imagine the mix will actually get more favorable as branded continues to grow for you. So may be could you just tell us what are the headwinds that I might be missing that are limiting gross margin uptick in the October quarter?

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Yeah, so, Amit, this is Nick. So let me walk through a couple of pieces. So I indicated that we would have – we talked about the branded growth and the branded mix will improve a little bit in the second quarter from the first quarter. Obviously with that, that carries a higher margin base. The product gross margin as I indicated to Shebly earlier I would expect to go up from Q1 to Q2 or a sequential increase there.

However, on the service side of the fence, the first quarter of the year is generally a higher or a high watermark for the service side because a lot of the bookings come through in actual revenue in Q1 yet the costs are linear across the period of time. So in terms of services investments, I think you'll see and we will experience more services investments in the second quarter. That will impact the service gross margin and take that down. The blend is the approximate 61% we guided you to.

Amit Daryanani

Analyst, RBC Capital Markets LLC

That's helpful. Thank you.

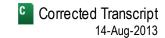
Operator: Our next question is from Maynard Um with Wells Fargo. Please go ahead.

Maynard J. Um

Analyst, Wells Fargo Securities LLC

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Hi. Thanks. I just want to touch a little bit more about the competitive landscape. I mean it clearly sounds like you're still seeing good wins across the board, but I'm wondering if you've seen any changes within the competitive landscape, whether from the traditional vendors, the channel or whether you are seeing more and more of the new entrants, regardless of whether or not they're winning and you're winning the business, I'm just wondering if you've seen any changes in that competitive landscape? Thanks.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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I'd say not a lot. Clearly, if I look at our portfolio with clustered ONTAP being mainstreamed and flash momentum, I think we're probably better armed than we were a year ago and certainly more confident than we were a year ago. But I think the dynamics clearly are the independent players continuing to gain share, continuing to be more relevant and the service providers — and the servers' vendors continuing to decline in relevance. So I think clearly whether we're competing, though, for the footprint of a server vendor or a legacy server vendor installed base, we're typically competing with EMC to get that whether EMC's the incumbent or not. So clearly, that's where the competitive intensity is the greatest and really across the board.

Perhaps a little bit more with EMC, certainly when we come at them with the value proposition of clustered ONTAP, we typically – EMC go down either the Isilon path or the VMAX path to try and match up a little bit differently rather than trying to take us on with some of their traditional offerings. So I'd say that if there's one dynamic is we're probably seeing a lot more VMAX engagement and I think that's really the clustered ONTAP lining up against VNX and EMC will go to VMAX instead to compete. That's probably the only thing that I see different. And we certainly see the small guys, but at the end of the day the competitive intensity with EMC is in a large percentage of the transactions that we see.

Maynard J. Um

Analyst, Wells Fargo Securities LLC

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All right, thank you.

Operator: Thank you. Our next question is Ben Reitzes with Barclays. Please go ahead.

Ben A. Reitzes

Analyst, Barclays Capital, Inc.

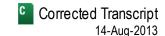
Thanks a lot. I appreciate it. Tom, when I look at your results and I'm hopping between some conference calls tonight, but it looks like the big difference is APAC maybe versus the Street. I was wondering, you might have — you probably touched on it in your remarks, but if you could just talk a little bit there, the U.S. looked actually pretty strong versus expectations, Europe in line and it looked like APAC was light, so obviously that economy's pretty weak, but how do you see that playing out? And when can that rebound? Because we — looking at this, it looks like you probably beat everybody's expectations in the U.S.

Thomas Georgens

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President, Chief Executive Officer & Director, NetApp, Inc.

Yeah, I'd say probably one wrinkle in that story a little bit is that the thing that we look for in terms of our measurements really is bookings. And here's a case where the bookings performance and the revenue performance are a little bit distorted. So our bookings performance in APAC was actually a bit different. If I look at APAC, areas where we saw strength this quarter is, Japan has been strong for us for several years now. That's really been a very, very strong management leadership story by the NetApp leadership over there. China had a



very, very strong booking quarter in the vicinity of just under 40%. But we also saw some weakness on the Australia side and the ANZ area.

So I'd say, it's somewhat uneven. Japan and China and then Korea is much, much smaller but it had pretty good growth. But I'd say that ANZ – Asian area and India not as strong. But overall, I'd say from a booking perspective, the numbers are a little bit better than shipments. That's primarily a timing issue. So, clearly, it's not at the growth rate we were probably six months ago, that's a fact. But still pretty good. And from a booking perspective, higher than all the other areas.

Operator: Thank you. Our next question is from Rajesh Ghai with Craig-Hallum. Please go ahead with your question.

Rajesh Ghai

Analyst, Craig-Hallum Capital Group LLC

Yes. Thanks. Tom, you mentioned that the cluster mode was getting you into new workloads and also you effectively competing against VMAX more than you had done in the past. I was wondering if you could talk about what those incremental workloads were and what – how much of an incremental TAM are you addressing as a result of the cluster mode now? Thanks.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Well, when I look at clustered ONTAP and the ability to take the featureset of Data ONTAP, which is number one operating system in the world from a storage perspective, and basically marry that with clustering, we can deliver really unlimited scale, unlimited performance and non-disruptive operation. So in our core markets, large-scale file services and content, clearly that's been a big market for us and this will allow us to scale even bigger. Virtualization, clearly a big play. We established a big footprint. This will allow us more mission-critical non-disruptive operation, allow the virtualization of more applications and I think serves us well in our partnership with VMware and also expands our segment there. I think that's pretty well understood, that I think its competitiveness in existing segments.

The other thing is going deeper in the data center perhaps with some applications that might not have considered NetApp in the past; database would certainly fall into that, decision support applications, things of that nature. And that's a big part of the business. Deeper in the data center, more mission-critical apps, now with the non-disruptive operation, the scale and the performance, we can offer a solution that can scale and perform better than any individual box from anybody and that's a TAM expansion component for us. And, frankly, it's one of the biggest ONTAP proven profit pools in the entire industry.

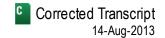
So from our perspective, file services, virtualization, that's stronger where we previously played. But here's the opportunity go deeper after more mission-critical applications in the data center, proven profit pool and I'd see that's a big opportunity for us in terms of TAM expansion. And for clustered ONTAP in specific, that's probably the biggest TAM expansion opportunity we have.

Operator: Thank you. Our next question is Jayson Noland with Robert Baird. Please go ahead with your question.

Jayson Noland

Analyst, Robert W. Baird & Co. Equity Capital Markets





Thank you. Tom, I wanted to ask about pent-up demand for 8.2 and 8.3. We've heard about that in the channel. And then at the same time if you could address the migration to clustered ONTAP, how difficult is it? What role does the channel play? Do you have services in-house now that are – to make that process a little easier?

Thomas Georgens

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President, Chief Executive Officer & Director, NetApp, Inc.

Well, we just introduced 8.2 and one of the things about the clustered ONTAP story for us, one of the things as we compete with this technology and moving to the new technology requires the migration of the data. And that takes time and requires scheduling and a bunch of other things. So one of the things that we've had with 8.1 is, and we've talked about it in the past is, it doesn't have 100% feature compatibility with 7-Mode before it. So for some customers before they migrate, they want to make sure their business processes can transfer seamlessly to the new software.

So interesting is for all the momentum that we've seen up until the release of 8.2, it's primarily not come from merely repositioning our existing product base or existing customer base, but it's actually come from brand-new accounts and brand-new workloads, which actually has the team pretty excited because it basically says that the value proposition is strong because we can beat the competition with it. But the real migration of our existing footprints, that is really only yet just begun. So with 8.2, we close a substantial amount of the feature gaps where a substantial amount of our installed base can now move seamlessly to the new plat form, but they physically have to migrate the data in order to do it. And with 8.2 comes a set of migration tools that will help them with that process.

So kind of my internal joke is that so far that it's proven to be easy to compete against the competition with clustered ONTAP that is to compete against ourselves. But now with the feature parity mostly achieved, the opportunity to move more and more customers and that's probably going to be a big part of our activity over the six months. But that's not just the pent-up demand. That doesn't happen overnight. It takes finite time to move. It's something that needs be scheduled. It's something that the customers need to plan. But I expect it to be a relatively significant activity over the rest of the fiscal year now that we've got 8.2 out.

So my summary is that most of what we've done so far despite all the growth of thousands of machines that everything and all the progress that we've made, that's really been the hard road of basically new wins and new workloads and just the conversion of the existing installed base, I'd say that we're in the early days of that.

Jayson Noland

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Analyst, Robert W. Baird & Co. Equity Capital Markets

Thank you.

Operator: Thank you. Our next question is Steve Milunovich with UBS. Please go ahead.

Steven M. Milunovich

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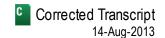
Analyst, UBS Securities LLC

Thank you. You gave some numbers on the Series 6000. Can you give similar numbers on the 2000 and the 3000? And also do you contemplate much impact from the VNX upgrade that's likely to come in the market over the next two quarters?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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Well, while they're looking up the other numbers, I'd say —one of the things that was notable is that all platforms, 2000, 3000 and 6000, were all up year-over-year. It's been a long time since I said that. So that's all pretty good. The 6000 is particularly strong. In terms of VNX, I think at the end of the day platform refreshes don't fundamentally change the competitive basis. I mean that's kind of an arms race. Customers see that going on. Unless you're basically creating a new architecture entering a new space, I'm not quite sure that that's a game changer.

The real decision point to choose NetApp regardless of the platform that they run on is really the software value proposition. And as I see EMC with VNX today faced with the cluster ONTAP value proposition, I see them move a lot more toward Isilon and VMAX and not take those two products head-to-head. So I guess for my take is, unless we see a significant expansion of the software portfolio associated with VNX, I really don't expect it to change the competitive landscape that much.

Okay. On the units – okay. I've got to – okay, let me see what I can read off to you. So in terms of units, 6000 was 1,471; 3000 was 4,743; 2000 was 10,040. Revenue for the – that's it. I guess that's enough. But basically up on revenue, I'd say pretty much up on revenue, up on units by roughly the same percentage.

Operator: Thankyou. Our next question is Mark Moskowitz with JPMorgan. Please go ahead with your question.

Mark A. Moskowitz

Analyst, JPMorgan Securities LLC

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Yes, thank you. Good afternoon. I wanted to follow up, if I could, on the total deferred revenue. It's only declined sequentially a couple times in the past four years. Just kind of curious if there's any sort of puts and takes we should walk away with related to that quarterly change here? Was there any change in the relation to booking conversion rates or just in terms of the quality of the revenue mix? Kind of curious what were the dynamics there, if they were?

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

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Sure. Mark, it's Nick. So let me walk you through that. So we had a decline in deferred revenue in Q4 of last – sorry, Q1 of last year as well when we went from Q4 into Q1, so this has happened before and I think what you really need to look at is decline and the sequential decline from Q4 to Q1 in branded business because that's where we have a deferred revenue component. Right? So when we look at the OEM, by the way, there's virtually no deferred component, if any. So this is really all about the sequential reduction in branded revenue from quarter-to-quarter, and when you have a sequential reduction of the sizes we're talking about, there's going to be an impact on deferred revenue as well.

And deferred revenue is simply –you can think about it as thousands and thousands of contracts that amortize over periods of time. That's a \$3 billion balance on the balance sheet. Right? And every quarter, we are adding new contracts to it and subtracting – and amortizing off older contracts or recognizing revenue from older contracts. And it's really just a matter of what goes in versus what goes out. And when you have a sequential decline at the level you did this quarter from Q4 to Q1, which we expected, and you had a sequential decline from Q4 of FY 2012 into Q1 of FY 2013 like we did, you're going to have that reduction.

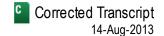
Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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But it was still up year-over-year.





Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Yeah, still up year-over-year. So I wouldn't get beyond – too much beyond. This is a timing thing and this is really what happens with that sequential type of decline in branded revenue.

Operator: Next question is from Louis Miscioscia with CLSA. Please go ahead with your question.

Louis R. Miscioscia

Analyst, Credit Agricole Securities (USA), Inc.

Okay, thanks. Tom, you mentioned that things don't really change unless there's a big architectural shift on the normal refresh, so with a lot coming out in the flash area, what's your view about whether you think flash is going to change the industry, like maybe not over the next couple months but maybe over the next couple years? Obviously NAND costs might be more, but then again when you take the space, power, cooling, efficiency and it does get pretty attractive, and for you all to really have to wait until your flash rates out before you can start pushing harder?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

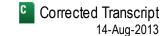
Frankly, we're pushing hard pretty now – pretty hard now, and I think the EF540 story is – we're quite pleased with that. With 300 machines in a relatively short period of time, I don't know how many people have shipped more than that but it can't be many, if any. So I think we've been quite pleased with that momentum. I think the – I think that certainly the market will evolve over time. Where we are today I think the unquestioned proven use case is basically raw performance married with high availability. And I think that's really the strength of the EF540. It's got a long history of performance-based architecture, has got a long history of proven high availability and I think that's really what's driving it.

I think the use case for more rich functionality and persistent storage, I think that use case is still evolving. And I think that part of it is the maturity of the technology, part of it is the economics. When I take flash and kind of distill it down to its core premise is flash on a capacity basis is more expensive than disk, but from an I/Os per second, it's actually a lot less expensive than disk. So the task at hand, abstracting any individual technology, is how do you get the random I/Oworkload on flash and how do you get everything else on [indiscernible] (46:07) drives. And that's really the essence of the problem here. So the data placement component of this matters a lot.

So the argument – and what that also means is that you can't afford to have idle data on flash. And frankly I think the argument that flash is cheaper on a total cost of ownership basis than disk – particularly SATA disk, that argument doesn't wash. I don't see customers buying that. And I don't see the trends favorable in that dimension either. So I think you're still going to be in the case where flash is more expensive and therefore data placement is going to be critical.

So as we think about the functionality of individual flash arrays and all the stuff that we're working on, in flash array I think that matters but I also believe that managing the data placement across the multimedia storage hierarchies, some flash, some disk, some tape or some cloud, that that problem has to get solved and that is just as important. And I think that's really where ONTAP gives us a key long-term advantage.

So in addition to the flash array technology being able to integrate that into a unified enterprise-wide data management framework, like ONTAP, I think is really, really a key advantage for us in the long run. So how do I see flash? I see flash as part of a data storage hierarchy and the data placement, how the data resides on the most



cost effective performance optimize component at any point in time that is ultimately going to be the intellectual property that's going to drive this to be a mainstream technology.

Louis R. Miscioscia

Analyst, Credit Agricole Securities (USA), Inc.

Okay, thank you.

Operator: Our next question is Brian Alexander with Raymond James. Please go ahead with your question.

Brian G. Alexander

Analyst, Raymond James & Associates, Inc.

Okay, thank you. Tom, back to the strength in clustered ONTAP; if you can give us an update on the installed base penetration that you have there in both the mid-range and high-end? I think last quarter was around 18%. And where do you think that penetration can be in a year with 8.2 introduced out in the marketplace given the opportunity you mentioned before with your existing base? Thanks.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Well, I think overall what we saw in the quarter, obviously with the Q4 to Q1 seasonality, we didn't see a sequential increase like we saw on the past. But as a percentage of total revenue, it's the highest it's ever been. We saw with the 6000, it was probably roughly comparable to last quarter, a bit less than 30%. And what we did see this quarter is actually a pickup in connect rates of the 3000s. So that's probably the thing that's a little bit different now. 2000 connect rates a bit lower. Although with 8.2, there's so me functionality that makes that more cost-effective and we expect to see some activity there.

In terms of where does it want to go, that's kind of a tough call overall. Obviously, it will be a function of the rate of which customers in their own operations want to do the migration. Clearly, we see internally, at least in the 3000s and the 6000s, we want to see the tipping point at 50% and that's kind of the number that we're driving for. So I'm not going to disclose a timeframe on that but as far as we're concerned that's the metric that we're driving is when do we get those to 50%? So they're clearly within our planning horizon and that's what we're driving for.

Brian G. Alexander

Analyst, Raymond James & Associates, Inc.

Thank you.

Operator: Thankyou. Our next question is Bill Shope with Goldman Sachs. Please go ahead with your question.

Bill C. Shope

Analyst, Goldman Sachs & Co.

Okay, thank you. Looking at the savings you've captured from the restructuring so far, can you remind us what portion of that's going to be reinvested in the business versus falling to the bottom line and the timing of that reinvestment throughout the fiscal year and I guess if you could also remind us where you're focusing that?

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.



Yeah, Bill, it's Nick. So we realized in the quarter, a little over \$20 million of savings from the realignment action that we did. And recall that that realignment action was really about making sure that our investments were pointed at the biggest return. Right? And what we indicated at the time that built into our approximate 17% operating margin and operating profit margin guidance for the year was not only the takeout of the set of costs but the reinvestment of the set of costs across a number of initiatives. Cluster Data ONTAP being one of them, flash being another.

Those are the types of things that we're pointing those investments to and we talked about the fact that that would happen over the course of the year. In Q1, you're not going to see a lot of that. It's going to be slower in Q1 because you're still, in part this process took most of the quarter to execute. A lot of it in the U.S. done pretty much immediately. Some of it in other places around the world take longer. So we are in the reinvestment mode. I'm going to ask if you all can still hear us, though.

Bill C. Shope

Analyst, Goldman Sachs & Co.

Yeah, I can still hear you.

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.

Okay. We're getting feedback here on the phone. So we are in the reinvestment mode. That reinvestment is planned over the remaining quarters of the year. It's built into our guidance as we give guidance each quarter and it's built into our guidance for the full-year of approximately 17% operating margin. Frankly, it is also a lever and if we over the course of the year determine that for macro reasons or other reasons, we're not going to see the type of profitability we expect, we'll pull that lever. But at this point in time, our view on the year is absolutely intact. Our view on the quarter is intact and our view on the reinvestment is intact.

Bill C. Shope

Analyst, Goldman Sachs & Co.

Okav.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Yeah, the one thing I – just to reiterate a little bit is on the last call we talked about shareholder return and our commitment to driving high-single-digits EPS, it's actually mid-single-digit EPS growth over the course of the year. And the fact that we now have multiple avenues to get there, right, we've certainly got the – we basically have the reinvestment lever to get there. We can slow that down if revenue doesn't materialize. We can also – we actually have the capital reallocation plan. So there is a bunch at play and then obviously the overall growth of the business. So...

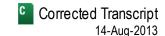
Bill C. Shope

Analyst, Goldman Sachs & Co.

Yeah.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.



So I want to be clear, we said we would be kind of mid-teens and we're committed to that. And I think that even in an uncertain environment between the recap, the reinvestment and the operation of the business, I see the multiple avenues of getting there. And that's why we're in a position to reiterate that number for the year.

Bill C. Shope

Analyst, Goldman Sachs & Co.

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That's helpful. Thank you.

Operator: Our next question is from Ananda Baruah with Brean Capital. Please go ahead.

Ananda P. Baruah

Analyst, Brean Capital LLC

Good afternoon, and thanks for taking the questions. Appreciate it. May be, Tom and Nick, could you just give us, I guess, some sense of what goes into your buyback decisions, the pace of your buyback and if there's anything that you look at when you're kind of deciding? Or I guess going forward from this point that you'll be looking at to balance out the pace of buyback decisions?

Nicholas R. Noviello

Executive Vice President, Finance and Chief Financial Officer, NetApp, Inc.



Yeah, so, Ananda, this is Nick. Let me start off with that one and certainly Tom will add a point of view as well. So when we talked about this 90,120 days ago and change, we talked about what we were planning for a three-year period of time and then what we were planning for the first 12 months of that and the first 90 days, actually 120 days. So we indicated in the first four months we'd buy \$1 billion back. Right? That first four months is basically through September. What you see is that in our first quarter, we bought \$850 million of stock back. We did an ASR of \$750 million, that's behind us. We did \$50 million otherwise, that's behind us. So we've done absolutely what we said actually probably a little faster than linear in this first quarter. I would expect that over the remainder of Q2 and probably pushed towards the front end of Q2, we will finish that \$1 billion of repurchase. You'll also see on the dividend side, we did the \$51 million in dividend in Q1. We'll do the same towards the end of Q2.

To your point on the rest. Right? We indicated that in a 12-month period of time, so basically up until May of next calendar year, we would purchase another \$1 billion. We will absolutely do that. We have at our disposal really the timing of that. But we're going to be aware of all of those pieces and look at the timing.

I think for Q2, I would say that we're going to first be focused on this first \$1 billion of the \$3 billion program. We're going to be focused on getting the warrants behind us at the September, October maturity on the warrants. And then we're going to be absolutely looking at the second \$1 billion of the \$3 billion program, which we talked about for a 12-month period of time and that 12 months really runs through May of next calendar year.

Thomas Georgens

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President, Chief Executive Officer & Director, NetApp, Inc.

Yeah, I think that's fair and we'll give you visibility into what we're thinking there on the next call once we get through the September and October period.

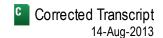
Ananda P. Baruah

Analyst, Brean Capital LLC

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Got it. Thanks a lot.





Operator: Our next question is Glenn Hanus with Needham & Company. Please go ahead.

Glenn Hanus

Analyst, Needham & Co. LLC

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Yeah, hi. Good afternoon. So back on the E-Series, maybe you could give us some more color there. You are looking for that to stabilize or even grow in fiscal 2015. Some color on application — you talked about a little bit, Tom, application use cases thereon the branded side. And then on the OEM side, will that stabilize somewhat or should that just continue to be a declining business for the foreseeable future?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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Well, on the OEM side, I think we've got one more quarter at least of decline. And that's what we're expecting is one more quarter of decline and then I think we'll start to see it stabilize from there. And we'll also see hopefully some of the new wins in that space start to contribute or at least offset the decline. So I think clearly, at the end of the day, we're kind of where we thought we would be when we bought this business in the first place. We kind of took a circuitous route to get here but clearly we've seen 20% declines the last couple of quarters and eventually when we come one full circle that will start to normalize. And in fact this quarter from a bookings perspective, absent one OEM, the rest of the business was actually up slightly for the first time in quite a while. So that was positive for us.

The thing that probably took a little bit longer to come to fruition really is the momentum around the branded side. We expected that to offset, the decline in the – the expected decline in the OEM by now, and that was a little slow in developing. But we've really seen some good momentum. In fact the branded side was actually up sequentially from Q4 slightly, and unlike the rest of the branded business kind of sloughed that off. So we're quite pleased with that.

The E-S family is clearly an important part of that, the all-flash array. We talked about the units that we shipped but I should add that, that is less than half of the total E-Series bookings. So we're seeing E-Series go out in many of the areas that we thought. We're seeing it in large storage repositories, in media, in healthcare, oil and gas, high-performance computing-type applications. So we're starting to see the aperture open wider on that and we're starting to see much, much broader acceptance of the technology.

Early on a lot of that business was centralized in a couple of geos, particular U.S. public sector and to some extent in the media space, but we're now starting to see it more broadly across the entire footprint of our installed base. We actually see a fair amount of momentum in Europe this past quarter, they had a relatively large program underway. So I think overall I'd say we're probably behind where we expected to be at this point on the branded side, but the ramp has actually been pretty strong and we feel pretty good about it. And that's why I've made the comment earlier that in the aggregate, I expect the combined branded plus OEM business to actually be a growth business for NetApp in fiscal year 2015.

Glenn Hanus

Analyst, Needham & Co. LLC

Thank you.

Operator: Our next question is Keith Bachman with Bank of Montréal. Please go ahead with your question.

NetApp, Inc. (NTAP) Q1 2014 Earnings Call

Keith F. Bachman

Analyst, BMO Capital Markets (United States)

Hi, guys. Thanks, Tom. I wanted to follow up from something earlier, you mentioned 8.2 might get into existing workloads, that's certainly consistent with what we heard; it's been more about new workloads. Does that change your – how should we be thinking about the mix impact from a customer perspective? Might customers migrate up so to speak in terms of their mix profile if 8.2 does get some adoption with existing workloads?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

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Migrate up?

Keith F. Bachman

Analyst, BMO Capital Markets (United States)

May be move from the high end – or excuse me, high-end of 2000 series to the low-end of 3000 series? In other words, the requirements of 8.2 suggest that customers might need a bit more horsepower, so to speak?

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.



There's certainly conflicting points of view on that. I think – there's one conventional wisdom that says, the highend platforms are optimized for performance and the low-end platforms are optimized for cost and the mid-range are optimized for price-performance so a balance. And therefore with clustering technology, the best price performance alternative would be to actually cluster the mid-range products.

Keith F. Bachman

Analyst, BMO Capital Markets (United States)

Vaah

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.



And you have a debate as to whether we ever need another high-end platform again. And in my experience, not only here on this product, but in other situations I've been is that it doesn't always play out that way, is that the early adopters are the ones that are most performance constrained and they're going to go to the biggest platforms and they're going to cluster those.

And we've certainly seen that, at least in the early days. Perhaps now with a little bit of pickup of clustered ONTAP connectrate on the 3000s may be we're starting to see that — that pieces play out a little bit. So I actually don't think that it will migrate to the larger platforms. If anything it might actually go the other way because you could build very, very, very large systems incrementally using more cost-effective building blocks.

Keith F. Bachman

Analyst, BMO Capital Markets (United States)

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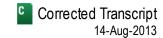
Okay.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.



NetApp, Inc. (NTAP) Q1 2014 Earnings Call



So – and the net of it is, it's margin neutral to us. So in terms of modeling the business, I don't think it fundamentally changes anything. And that's part of the reason why we're somewhat – we're not very, very empathetic about going one way or the other. Whatever is best for the customer I think serves our purposes well, and we're more than happy to accommodate that.

Keith F. Bachman

Analyst, BMO Capital Markets (United States)

Okay, thanks, guys.

Operator: At this point, we will turn the call back to NetApp for final remarks.

Thomas Georgens

President, Chief Executive Officer & Director, NetApp, Inc.

Okay. Well, thank you all for joining us. We appreciate your interest in NetApp, and see you all in 90 days. Take care.

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