OFF WALL STREET

INITIATION / SHORT

OFF WALL STREET CONSULTING GROUP, INC. / ONE BROADWAY, CAMBRIDGE, MA 02142
617.868.7880 / research@offwallstreet.com / www.offwallstreet.com

INITIATION: NetApp, Inc. (NTAP: $119.08) October 21, 2025

Position: **Sell** Setup: **Competition** Target: **$94**

$MM	2Q26e	3Q26e	4Q26e	1Q27e	FY 26e	FY 27e
Revs	1,682	1,666	1,759	1,582	6,666	6,778
Adjusted EPS $	1.91	1.99	2.11	1.71	7.55	8.05
Y/Y Gr	3%	4%	9%	11%	4%	7%
PE	n/a	n/a	n/a	n/a	15.8	14.8
Cnsns Revs	1,690	1,710	1,800	1,640	6,760	7,090
Cnsns Adj. EPS	1.88	2.06	2.26	1.85	7.76	8.55

Shares Out: 203M Market Cap: $24.2B FYE: Apr

CONCEPT

1. NTAP expects its revenue to reaccelerate to mid to high single-digits as a result of market share gains in All-Flash Arrays (AFAs), increasing consumption of its storage solutions in public clouds, and higher usage of its solutions for enterprise AI. However, industry observers told us that these objectives are likely unachievable because of lack of innovation in the company's storage solutions.

2. Part of NTAP's struggle with regard to innovative solutions results from its obsession for controlling operating costs. It spends far less on R&D as a percent of revenue than more innovative competitors such as Pure Storage (PSTG).

3. Materials costs represent ~90% of NTAP product COGS and ~60% of total COGS. The current increase in NAND price could lead to gross margin and EPS shortfalls in coming quarters.

To speak with the analyst on this name, please email research@offwallstreet.com, or call 617 868 7880.
For important disclosures, please refer to the end of this report.

SUMMARY

San Jose, CA, based NetApp (NTAP) provides enterprise storage solutions. NTAP's customers use its storage and software on premise, in the cloud, or in a hybrid environment comprising both on-prem and cloud. NTAP claims that its ONTAP operating system (OS), which includes data management and protection, is a competitive advantage because it allows customers to operate their storage solutions the same way regardless of storage type (file, block, or object) or location (on-prem or cloud).

The company's segments its business into Products, Hybrid Cloud Support & Professional Services and Public Cloud. Products include HDD (hard disk drive) products, All Flash products and hybrid products (which include both HDDs and flash). Product revenue was 46% of total revenue in FY 25 (which ended on April 25, 2025).

Hybrid Cloud Support includes hardware support contracts and software support contracts (which include upgrades, enhancements, bug fixes, and patch releases) for on-prem customers. Hybrid Cloud Professional Services comprise consulting, customer education, and training. Professional Services also include the company's Keystone Storage-as-a-service solution for on-prem customers. Hybrid Cloud Support and Hybrid Cloud Professional Services constituted 38% and 5%, respectively, of total sales in FY 25.

The Public Cloud segment provides enterprise-grade storage services natively embedded in the largest public cloud providers, including AWS, Azure, and Google Cloud. This segment comprises cloud storage, data services, operational services, and related support. Public Cloud was 10% of total revenue in FY 25.

NTAP revenue CAGR was 1.3%, 4.0%, and 0.7%, respectively, over the past three, five and ten fiscal years (April year-end). Recall that these periods have seen significant growth in cloud usage and adoption of AI. Nevertheless, NTAP thinks that it can accelerate growth to the mid to high single-digits in coming years.

The company has identified four areas that would propel this above trend revenue growth: All Flash, Block storage, Public Cloud, and AI. NTAP management thinks the company has meaningfully differentiated and superior products that would enable it to gain share, resulting in revenue acceleration. Our research, which included many conversations with industry participants, suggests that these hopes are unlikely to materialize.

Before we discuss the specific areas of our research, we note that one critical common theme pervaded our correspondents' comments: NTAP products lack innovation because every new feature has to conform to ONTAP, an OS that is more than thirty years old. The company spends ~15% on R&D as a proportion of sales, which is far less than the ~25% that its only other public pure-play storage competitor (Pure Storage, PSTG) spends. As a result, NTAP is unable to win new logos, and relies on customer retention, at which it is admittedly good, but which alone won't generate the type of revenue growth that the company is targeting and NTAP bulls expect.

With regard to All Flash, the industry participants with whom we spoke noted that all major storage vendors (PSTG, NTAP, DELL, HPE, IBM) now have all flash arrays. As a result, they were dubious that NTAP was positioned to gain share. They noted that shares shift around often – a notion that is supported by the calendar 2Q25 market share data, which showed NTAP losing share after gaining some in 1Q25. A couple of industry participants noted that ONTAP was originally written to manage hard drives. Subsequently, it was kludged to handle flash, and, as a result, it is less efficient than Purity (PSTG's OS), which was written for flash from the get-go.

With regard to Block storage, participants noted that this is a mature business in which all the major storage players participate. One speculated that when NTAP decided to enter the Block storage market, perhaps it was faster growing initially, but is growing slowly now. Another dismissed NTAP's claims as marketing hype. A third noted that his company had chosen Dell among the various options they considered for high-performance file storage. Interestingly, NTAP reported at its Analyst Day on June 11, 2024, that 20,000 customers were using its Block storage for running workloads. Fifteen months later, on September 11, 2025, the company gave the same Block storage customer count at a sell-side conference. Based on our research, NTAP's Block storage argument appears to be a nothingburger.

Regarding growth in Public Cloud, we note that NTAP has highlighted its 42% and 38% Y/Y growth, respectively, in FY 25 and FY 24, for first-party and marketplace revenue in Public Cloud. In 1Q26, this growth slowed to 33% Y/Y. We note that in absolute terms, first-party and marketplace revenues of $416M in FY 25 were just 6% of total revenue, and likely too small to act as the primary engine for mid to high single-digit total revenue growth.

First-party revenue is where NTAP gets revenue share from hyperscaler customers using ONTAP storage solutions on the hyperscaler's own console. Marketplace revenue is derived from NTAP customers which wish to manage their own cloud storage infrastructure.

Industry participants told us that this growth is likely resulting from customers moving workloads from on-prem to cloud. More importantly, they said that once a customer moves to the cloud, there are two threats. One, customers who use ONTAP on a third-party basis may question why they are paying a premium for using storage solutions on the cloud when the hyperscalers themselves have compelling storage offerings. Second, the first-party NTAP offerings on hyperscaler consoles are expensive. Therefore, one participant told us, it is likely that when a CTO is evaluating alternatives, a technical consultant suggests: "Why are you paying high-priced talent to use a bespoke storage platform when the regular storage platform within the cloud provider meets 80%-90% of your needs?" If these correspondents are right, it appears that Public Cloud won't generate the kind of revenue growth NTAP anticipates.

That brings us to AI, the final purported growth engine. NTAP contends that because a large position of the world's unstructured data, the foundation of GenAI, resides on NTAP storage today, it is uniquely positioned to dominate Gen AI storage. Industry participants say it is not as simple as that. One told us that in AI, storage is an afterthought. Customers expect to drop in a storage solution that works. In his opinion, that is why the AI storage solution winners are likely to be DDN, WEKA and VAST, which have roots in high-performance computing, rather than NTAP.

Last week, at its Insight 2025 customer event in Las Vegas, NTAP introduced an all-flash AFX array for AI that disaggregates storage and compute, and an AI data engine (AIDE). We note that VAST Data came up with the notion of disaggregated storage and compute seven years ago, and HPE, Qumolo, and PSTG already have products based on the concept. The idea that NTAP has some novel advantage that would enable it to outrace others in AI storage solutions appears to be foolhardy.

There are a couple of other problems with bullish notions on NTAP. Material costs account for ~90% of hybrid cloud COGS. NAND prices have been up recently, which may pressure product gross margin. Bulls project gross margin to keep going up. Also, interestingly, two of the executives that delivered full-throated pitches about NTAP's bright prospects moved on in less than a year after delivering their rosy portrayals. The CFO retired, only to wind up as CFO of MongoDB in a couple of months, and the Chief Product Officer, who screamed about NTAP's new products ("new, new, new, new, oh my freaking lord"), perhaps decided that the new products were not worth screaming about.

What do we think NTAP is worth if our thesis is correct? We note that the company has traded at an average EV multiple of ~2.7x two-year forward sales over the past five years. Today, it trades at 3.27x. If it were to trade at the average, the share price equivalent would be $94. That is our initial price target.

Share Borrow Information:

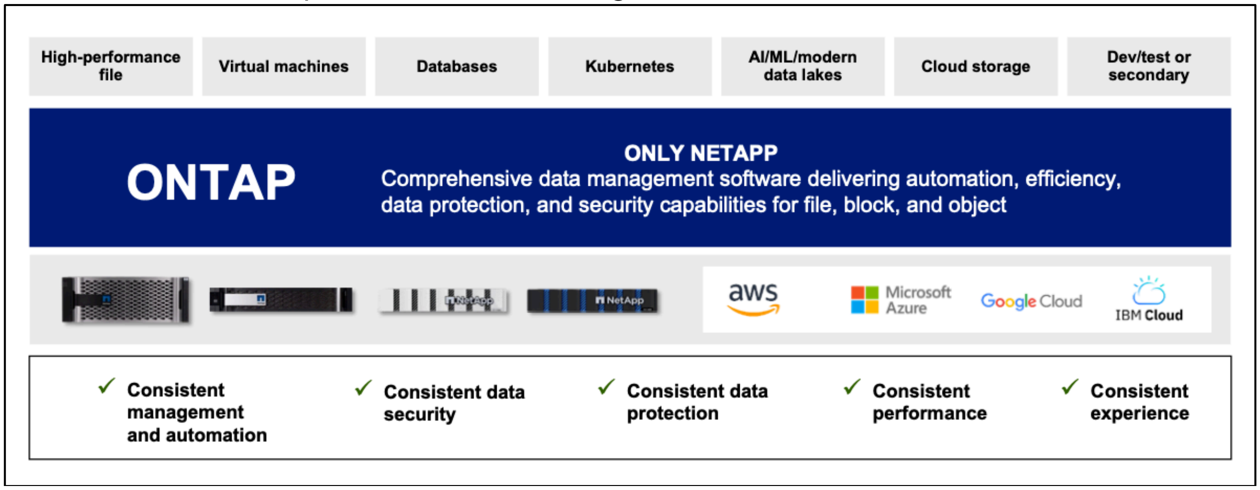
Total Supply	Short Interest	Available to Borrow	Date:
107.9M	9.7M	98.2M	10.17.2025

Source: PB Optimize

BACKGROUND

NTAP sells enterprise-class storage solutions. Founded by Dave Hitz, James Lau and Michael Malcolm, the company went public in 1995. The company provides both on-prem and public cloud storage solutions. The on-prem solutions include hardware (HDDs, all-flash and HDD-flash hybrid products), the ONTAP OS that provides data management and protection, support and professional services. The public cloud portfolio comprises storage solutions offered on the largest public clouds, natively on hyperscaler consoles as well as on hyperscaler marketplaces for customers who wish to manage their own cloud infrastructure. Exhibit 1 is a depiction of the solutions the company offers.

Exhibit 1: Pictorial depiction of NTAP storage solutions



Source: Company reports

Exhibit 2a shows NTAP revenue by category for recent periods. Note that hybrid product revenue and support still account for the vast majority of revenue.

Exhibit 2a: NTAP revenue trend by category

(Amounts in $M)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Hybrid cloud product revenue	590	706	747	806	669	768	758	845	654
Hybrid cloud support revenue	611	623	631	623	631	635	621	625	647
Hybrid cloud professional & other services revenue	77	79	77	87	82	87	88	98	97
Total hybrid cloud revenue	1,278	1,408	1,455	1,516	1,382	1,490	1,467	1,568	1,398
Public cloud revenue	154	154	151	152	159	168	174	164	161
Total net revenues	1,432	1,562	1,606	1,668	1,541	1,658	1,641	1,732	1,559
Product % of sales	41%	45%	47%	48%	43%	46%	46%	49%	42%
Hybrid cloud support % of sales	43%	40%	39%	37%	41%	38%	38%	36%	42%
Hybrid cloud professional services % of sales	5%	5%	5%	5%	5%	5%	5%	6%	6%
Public cloud % of sales	11%	10%	9%	9%	10%	10%	11%	9%	10%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
Y/Y Hybrid cloud product revenue	-25%	-16%	10%	8%	13%	9%	1%	5%	-2%
Y/Y Hybrid cloud support revenue	2%	3%	2%	4%	3%	2%	-2%	0%	3%
Y/Y Hybrid cloud professional & other services revenue	1%	3%	-1%	-1%	6%	10%	14%	13%	18%
Total hybrid cloud revenue	-12%	-7%	6%	6%	8%	6%	1%	3%	1%
Y/Y Public cloud revenue	17%	8%	1%	1%	3%	9%	15%	8%	1%
Y/Y Total net revenues	-10%	-6%	5%	6%	8%	6%	2%	4%	1%

Source: Company reports

Exhibit 2b shows gross margin by category for recent periods. Note that materials costs (such as costs associated with HDDs and NAND flash memory) are ~90% of hybrid cloud COGS. Based on the company's filings, materials costs also include freight costs. The company recently raised its target Public Cloud gross margin to 80%-85% because of depreciation costs associated with initially installed hardware on Azure is rolling off.

Exhibit 2b: NTAP gross margin trend by category

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Hybrid cloud product gross margin	49.7%	50.2%	46.5%	55.1%	55.3%	61.0%	62.5%	61.3%	59.9%	60.3%	56.7%	55.4%	54.0%
Hybrid cloud support gross margin	92.8%	92.6%	92.9%	91.8%	92.3%	92.0%	92.2%	92.1%	92.1%	92.0%	92.3%	92.3%	92.3%
Hybrid cloud professional & other services gross margin	31.6%	29.9%	35.9%	37.5%	24.7%	24.1%	24.7%	23.0%	22.0%	26.4%	28.4%	28.6%	29.9%
Total hybrid cloud gross margin	66.4%	66.1%	66.6%	69.4%	71.1%	72.7%	73.4%	71.8%	72.4%	71.8%	70.1%	68.4%	70.0%
Public cloud gross margin	69.7%	68.3%	68.7%	65.6%	66.9%	66.2%	65.6%	68.4%	71.1%	73.8%	76.4%	79.3%	80.1%
Total GM	65.7%	65.4%	65.6%	68.0%	69.6%	71.1%	71.7%	70.5%	71.3%	71.0%	69.8%	68.9%	70.4%
Materials costs % of hybrid cloud COGS	93%	95%	94%	94%	88%	86%	89%	89%	88%	89%	89%	90%	89%

Source: Company reports

Hybrid cloud revenues consist of revenues from sales and service of both hybrid storage and all-flash storage. Exhibit 3 presents that breakdown for recent quarterly periods.

Exhibit 3: NTAP product revenue trend by category

(Amounts in $M)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
AFA revenue anualized run rate	2,807	3,200	3,400	3,600	3,400	3,800	3,800	4,100	3,600
AFA revenue	702	800	850	900	850	950	950	1,025	900
Y/Y change	-6%	3%	21%	17%	21%	19%	12%	14%	6%
Hybrid array revenue	576	608	605	616	532	540	517	543	498
Y/Y change	-19%	-18%	-11%	-7%	-8%	-11%	-15%	-12%	-6%

Source: Company reports

Exhibit 4 depicts the company's revenue trend by customer geography. Note that US public sector revenues have declined Y/Y for two quarters now, and declined especially sharply in 1Q26.

Exhibit 4: NTAP revenue trend by customer geography

(Amounts in $M)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Americas Commercial revenue	584	582	657	681	595	630	670	730	668
US Public Sector revenue	170	207	145	167	168	232	163	159	123
Revenue from EMEA customers	446	525	567	566	513	543	559	589	503
Revenue from APAC customers	232	248	237	254	265	253	249	254	265
Total net revenues	1,432	1,562	1,606	1,668	1,541	1,658	1,641	1,732	1,559
Americas Commercial % of sales	41%	37%	41%	41%	39%	38%	41%	42%	43%
US Public Sector % of sales	12%	13%	9%	10%	11%	14%	10%	9%	8%
EMEA customers % of sales	31%	34%	35%	34%	33%	33%	34%	34%	32%
APAC customers % of sales	16%	16%	15%	15%	17%	15%	15%	15%	17%
Total net revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%
Americas Commercial % of sales	-10%	-5%	3%	10%	2%	8%	2%	7%	12%
US Public Sector % of sales	-3%	-11%	-1%	2%	-1%	12%	13%	-5%	-27%
EMEA customers % of sales	-12%	-7%	11%	0%	15%	3%	-1%	4%	-2%
APAC customers % of sales	-9%	-2%	1%	9%	14%	2%	5%	0%	0%
Y/Y Total net revenues	-10%	-6%	5%	5%	8%	6%	2%	4%	1%

Source: Company reports

Two distributors, Arrow Electronics and Synnex, are NTAP's only 10%+ customers (Exhibit 5).

Exhibit 5: NTAP large customers

	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Arrow Electronics % of sales	25%	24%	24%	23%	24%	22%	21%	21%	23%	21%	20%	20%	23%
Synnex % of sales	21%	20%	21%	22%	21%	22%	21%	24%	22%	24%	26%	24%	21%

Source: Company reports

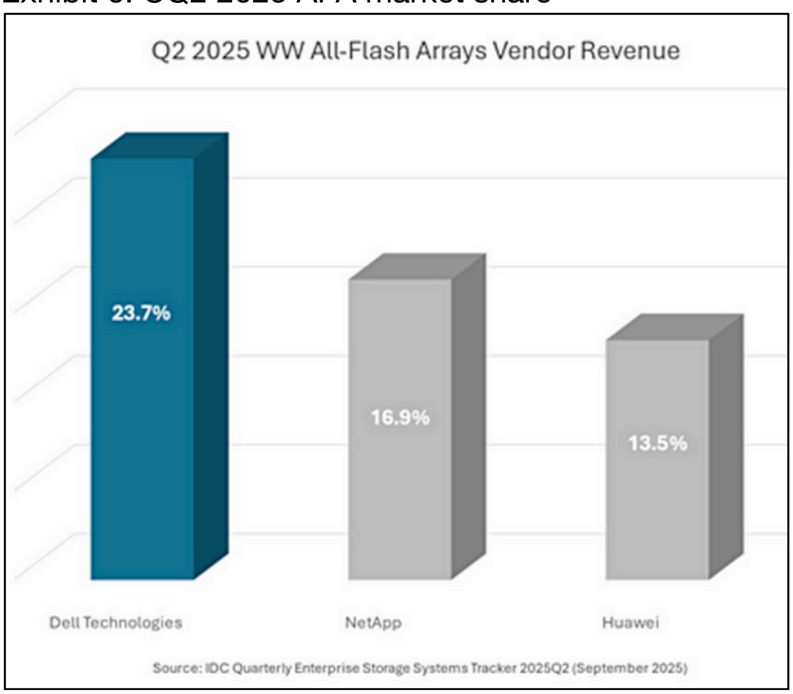
NTAP's primary competitors for enterprise storage solutions are PSTG, DELL, HPE, IBM and Hitachi. In AI, the company competes with storage solutions from DDN, WEKA and VAST Data.

DISCUSSION

1. NTAP's claims of market share in AFAs appears to be exaggerated.

On its 4Q25 call in May, NTAP boasted that it had gained 300 basis points of share in AFAs in calendar 2024, attributing it to organizations seeking out NTAP solutions to build future-proof AI-ready infrastructure. It also noted on the 1Q26 call that it had the #1 market share in calendar Q1 25. Well, that occupation of the pole position lasted just one quarter. In CQ2 25, Dell leapfrogged NTAP, holding the #1 market share with a 23.7% share, compared to 16.9% share for NTAP (Exhibit 6).

Exhibit 6: CQ2 2025 AFA market share



Source: IDC

Specifically, with regard to AI, VAST Data, claimed to have grown revenue by nearly 5x Y/Y in its Fiscal 1Q26 (ending April). While VAST Data's ARR is much smaller ($200M+) than NTAP (ARR of $3.6B) in AFAs, the fact that it added nearly as much in ARR as NTAP over the course of twelve months suggests that, contrary to management's claims, NTAP may actually be losing momentum in AFAs for AI.

2. NTAP has identified Support & Services revenue as a growth area, highlighting Keystone (its Storage as a service, or STaaS, offering) as a key driver of revenue growth. However, Keystone is a small contributor (~$75M), and revenue growth in the rest of Support & Services seems to be minimal.

In Exhibit 7, we show NTAP's Support & Service revenue trends. While the company does not disclose Support revenue explicitly, it has indicated that the Support revenue stream is about half of Hybrid Cloud revenue. The remainder of Support & Services revenue comes from Subscription Services, which includes Keystone. Note that Y/Y growth in Subscription Services revenue has been tame. Based on recent trends, Support & Services revenue hardly appears to be the growth engine NTAP management claims.

Exhibit 7: NTAP Support & Services revenue trend

(Amounts in $M)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Support revenue	639	704	728	758	691	745	734	784	699
Subscription revenue	203	152	132	104	181	145	150	103	206
Total	842	856	859	862	872	890	883	887	905
Y/Y Support revenue	-12%	-7%	6%	6%	8%	6%	1%	3%	1%
Y/Y Subscription revenue	167%	132%	-16%	-15%	-11%	-5%	14%	-1%	14%
Total	4%	4%	2%	3%	4%	4%	3%	3%	4%

Source: Company reports, OWS estimates

3. Revenue from NTAP's Public Cloud offerings, other than first-party and marketplaces, appears to be declining. This may pressure Public Cloud revenue growth.

In Exhibit 8, we show our estimate of NTAP's public cloud revenue components. NTAP has not disclosed quarterly first-party and marketplace revenue. However, using the annual revenue disclosure and reported Y/Y quarterly revenue growth figures, we have estimated NTAP's quarterly first-party and marketplace revenue.

Exhibit 8: Non-First-party & marketplace revenue trend

(Amounts in $M)	1Q25	2Q25	3Q25	4Q25	1Q26
First party & marketplace revenue	92	102	106	117	123
First party & marketplace revenue % of public cloud revenue	58%	60%	61%	71%	76%
Remainder of Public Cloud revenue	67	66	68	47	38
Spot revenue	23	23	20	6	-
Remainder of Public Cloud revenue ex-Spot	44	43	48	41	38
Y/Y change	-33%	-28%	-7%	-14%	-13%

Source: Company reports

The company divested its FinOps product, Spot, in FQ4 25. As a result, we have subtracted Spot revenue (estimated, based on company comments) to analyze non-first-party and marketplace revenues. Note that these revenues, which primarily are related to data manageability and operational services, have been declining.

4. As a result of its focus on controlling costs, NTAP spends less on R&D than its competitors. As a result, it has developed a reputation for not being innovative.

In Exhibit 9, we compare the R&D spending of NTAP and PSTG, its only public pure-play storage solutions competitor. Note that in the last three fiscal years, NTAP has spent 10 percentage points less than PSTG on R&D as a percent of sales. It is not because NTAP has one OS, PSTG too has one OS (Purity) that controls all its storage offerings.

This is problematic because NTAP won’t overcome its legacy rap unless it produces differentiated products rather than me-too copycats, such as its block storage products and the latest AFX array for AI. However, given its focus on controlling operating costs and maintaining compatibility with ONTAP, it defaults to ‘safe mode’ which works for retaining existing customers, but not for winning new ones.

Exhibit 9: Comparison of R&D spending by NTAP and PSTG

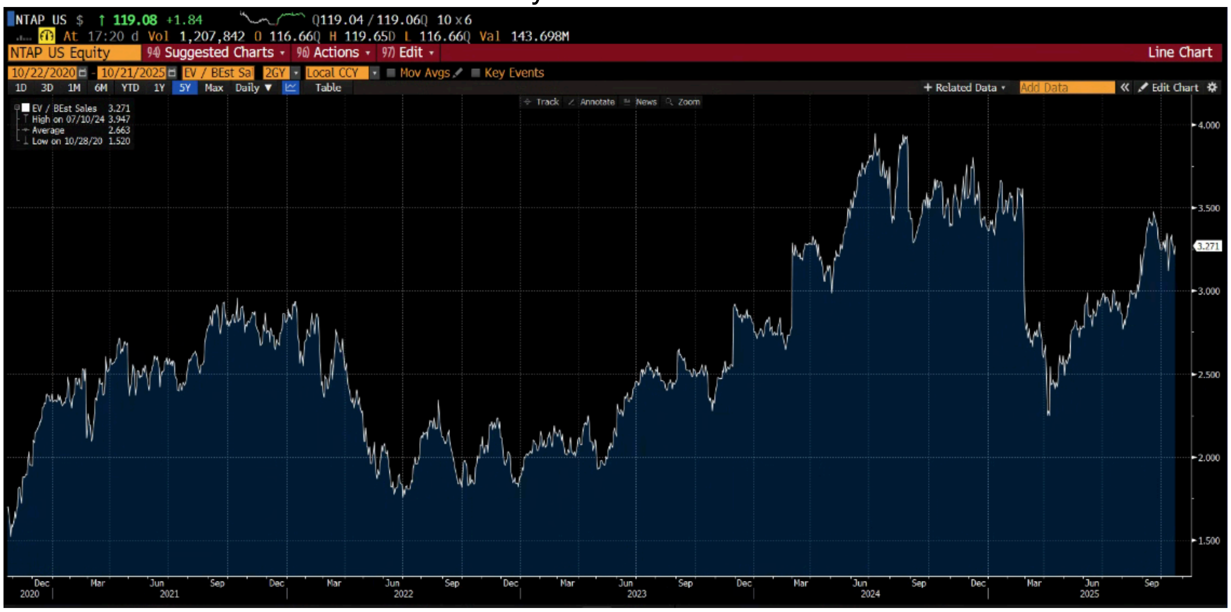
(Amounts in $M)	FY 23	FY24	FY 25
NTAP			
Product revenue	3,049	2,849	3,040
Services revenue	3,313	3,419	3,532
Total net revenue	6,362	6,268	6,572
R&D	956	1,029	1,012
R&D % of sales	15.0%	16.4%	15.4%
PSTG			
Product revenue	1,792	1,623	1,699
Subscription services revenue	961	1,208	1,469
Total net revenue	2,753	2,831	3,168
R&D	693	737	804
R&D % of sales	25.2%	26.0%	25.4%

Source: Company reports

VALUATION

Over the past five years, NTAP's price to forward two-year sales multiple has ranged from 1.5x to 4.0x, with an average multiple of 2.7x and a current multiple of 3.3x (Exhibit 10). Because we think NTAP's revenue estimates will come down due to competition, we apply a 2.7x multiple to our FY 27 sales estimate of $6.78B to obtain a $94 price target. We note that our target may prove conservative if investors come to view NTAP as a low growth, competitively disadvantaged business, and shares may rerate lower, as occurred most recently in 2022 and early 2023.

Exhibit 10: Trend of NTAP Price to 2-year forward sales estimate



Source: Bloomberg

MANAGEMENT INCENTIVES

According to the 2025 proxy statement, the annual incentive compensation plan (ICP) for top management will be based on the following metrics for FY 26:

Adjusted Operating Income (AOI): 50%
Revenue: 30%
Cloud Storage revenue: 10%
Block storage (All-flash SAN Array, or ASA) revenue growth: 10%

The only revenue growth metric for ICP is ASA revenue growth, which, according to the company, was up 268% in FY 25. NTAP does not report ASA revenue. We suspect ASA revenue is a small piece of all-flash revenue, which grew 16% in FY 25, but just 6% in 1Q26 (see Exhibit 3).

We note that AOI excludes expense related to amortization of intangible assets and restructuring expense, but does include stock-based compensation expense (which is 11% of GAAP operating costs). Moreover, it is adjusted for currency fluctuations. In FY 25, the AOI target was $1.500B, AOI was $1.497B, GAAP operating income was $1.337B, and non-GAAP operating income was $1.862B. Given the significant weight allocated to AOI, we expect management will continue to favor strategies that keep opex low, such as minimizing R&D expenditures. This may hamper product innovation, and increase technology deficits vis-a-vis with newer competitors such as WEKA and VAST Data.

Revenue for ICP purposes is also adjusted for currency fluctuations.

Cloud storage revenue for ICP purposes in FY 25 was $479M, which is different from Public Cloud revenue of $665M. It is unclear what accounted for the difference.

With respect to long-term equity awards to executives, 50% are based on total shareholder return (TSR) versus a peer group, and 50% are based on billings over three years. NTAP's billings trend is shown in Exhibit 11, and appears to be coming up against strong comparisons.

Exhibit 11: NTAP billings trend

(Amounts in $M)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26
Net revenue	1,432	1,562	1,606	1,668	1,541	1,658	1,641	1,732	1,559
Change in deferred revenue & financed unearned services	(133)	(108)	81	146	(92)	(72)	72	300	(48)
Billings	1,299	1,454	1,687	1,814	1,449	1,586	1,713	2,032	1,511
Y/Y change billings	-17%	-9%	7%	8%	12%	9%	2%	12%	4%

Source: Company reports

RISKS

The primary risk to our thesis is that the AI opportunity for NTAP turns of to be greater than we anticipate. While our conversations with industry participants suggest that this is unlikely, currently, the amounts of money being spent on activities related to AI are staggering. If NTAP somehow gets a piece of that, our thesis may not play out as expected.

ACCOUNTING

(1 = no significant issues, 2 = some issues, 3 = major issues)

Score: 2

NTAP reports non-GAAP results, which exclude substantial amounts of stock-based compensation expense. Below, in Exhibit 12, we show the differences between GAAP and non-GAAP results in recent periods.

Exhibit 12: Comparison of NTAP GAAP and non-GAAP income in recent periods

	FY 24	FY 24 per share	FY 25	FY 25 per share
GAAP net income	986	4.64	1,186	5.67
Adjustments:				
Amortization of intangible assets	57	0.27	47	0.22
Stock-based compensation	357	1.68	386	1.85
Litigation settlements	(5)	(0.02)	-	-
Restructuring charges	44	0.21	83	0.40
Acquisition-related expense	10	0.05	5	0.02
Gains/losses on the sale or derecognition of assets	-	-	7	0.03
Gain on sale of equity investments	-	-	(10)	(0.05)
Income tax effects	(74)	(0.35)	(149)	(0.71)
Resolution of income tax matters	-	-	(39)	(0.19)
Non-GAAP net income	1,375	6.47	1,516	7.25
GAAP income from operations	1,214		1,337	
Adjustments:				
Amortization of intangible assets	57		47	
Stock-based compensation	357		386	
Restructuring charges	44		83	
Acquisition-related expense	10		5	
Gains/losses on the sale or derecognition of assets	-		4	
Non-GAAP income from operations	1,682		1,862	

Source: Company reports

FINANCIAL PROJECTIONS

a. Financial assumptions.

(Amounts in $M)	2Q26e	3Q26e	4Q26e	1Q27e	2Q27e	3Q27e	4Q27e
Total hybrid cloud revenue	1,511	1,489	1,592	1,418	1,535	1,514	1,620
Total hybrid cloud GP	1,042	1,027	1,099	978	1,059	1,045	1,118
Public cloud revenue	171	177	167	164	175	181	171
Public cloud GP	141	146	137	135	143	148	140
Total hybrid cloud gross margin	69.0%	69.0%	69.0%	69.0%	69.0%	69.0%	69.0%
Public cloud gross margin	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%	82.0%
AFA revenue	998	998	1,076	945	1,047	1,047	1,130
Y/Y change	5%	5%	5%	5%	5%	5%	5%
Hybrid array revenue	513	491	516	473	487	467	490
Y/Y change	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Total hybrid cloud revenue	1%	1%	2%	1%	2%	2%	2%
Y/Y Public cloud revenue	2%	2%	2%	2%	2%	2%	2%

b. Quarterly projections.

(Amounts in $M)	1Q26	2Q26e	3Q26e	4Q26e	1Q27e	2Q27e	3Q27e	4Q27e
Total net revenue	1,559	1,682	1,666	1,759	1,582	1,710	1,695	1,791
Non-GAAP GP	1,108	1,183	1,173	1,236	1,113	1,202	1,193	1,258
Non-GAAP S&M costs	424	424	404	414	430	432	412	423
Non-GAAP R&D costs	217	227	225	239	212	231	229	244
Non-GAAP G&A costs	66	58	57	70	61	59	58	72
Non-GAAP operating income	401	474	487	512	410	480	494	520
Interest income	36	35	35	35	35	35	35	35
Interest expense	(29)	(25)	(25)	(25)	(25)	(25)	(25)	(25)
Other income, net	(12)	-	-	-	-	-	-	-
Non-GAAP pretax income	396	484	497	522	420	490	504	530
Income taxes	82	99	102	107	86	101	103	109
Non-GAAP net income	314	385	395	415	334	390	401	421
Diluted shares	203	201	199	197	195	193	191	189
Diluted non-GAAP EPS	1.55	1.91	1.99	2.11	1.71	2.02	2.10	2.23
Non-GAAP tax rate	20.7%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%	20.5%

c. Annual projections.

(Amounts in $M)	FY 23	FY24	FY 25	FY 26e	FY 27e
Total net revenue	6,362	6,268	6,572	6,666	6,778
Non-GAAP GP	4,275	4,496	4,671	4,699	4,766
Non-GAAP S&M costs	1,668	1,662	1,684	1,666	1,696
Non-GAAP R&D costs	845	897	877	908	917
Non-GAAP G&A costs	223	255	248	251	250
Non-GAAP operating income	1,539	1,682	1,862	1,874	1,904
Interest income	69	112	112	141	140
Interest expense	(67)	(64)	(64)	(104)	(100)
Other income, net	46	1	(2)	(12)	-
Litigation settlements	-	(5)	-	-	-
Gain on sale of equity investment	(32)	-	(7)	-	-
Non-GAAP pretax income	1,555	1,726	1,901	1,899	1,944
Income tax adjustments	325	351	385	390	399
Non-GAAP net income	1,230	1,375	1,516	1,509	1,546
Diluted shares	220	213	209	200	192
Diluted non-GAAP EPS	5.59	6.47	7.25	7.55	8.05
Non-GAAP tax rate	20.9%	20.3%	20.3%	20.5%	20.5%