

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In millions)  
(Unaudited)

	<u>July 26,</u> <u>2019</u>	<u>April 26,</u> <u>2019</u>
<b>ASSETS</b>		
Current assets:		
Cash, cash equivalents and investments	\$ 3,532	\$ 3,899
Accounts receivable	542	1,216
Inventories	116	131
Other current assets	326	364
Total current assets	4,516	5,610
Property and equipment, net	754	759
Goodwill and purchased intangible assets, net	1,832	1,782
Other non-current assets	709	590
Total assets	\$ 7,811	\$ 8,741
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 348	\$ 542
Accrued expenses	633	851
Commercial paper notes	30	249
Current portion of long-term debt	400	400
Short-term deferred revenue and financed unearned services revenue	1,764	1,825
Total current liabilities	3,175	3,867
Long-term debt	1,145	1,144
Other long-term liabilities	882	797
Long-term deferred revenue and financed unearned services revenue	1,746	1,843
Total liabilities	6,948	7,651
Stockholders' equity	863	1,090
Total liabilities and stockholders' equity	\$ 7,811	\$ 8,741

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended	
	July 26, 2019	July 27, 2018
<b>Revenues:</b>		
Product	\$ 644	\$ 875
Software maintenance	250	229
Hardware maintenance and other services	342	370
Net revenues	<u>1,236</u>	<u>1,474</u>
<b>Cost of revenues:</b>		
Cost of product	312	398
Cost of software maintenance	10	7
Cost of hardware maintenance and other services	98	106
Total cost of revenues	<u>420</u>	<u>511</u>
Gross profit	816	963
<b>Operating expenses:</b>		
Sales and marketing	405	409
Research and development	215	208
General and administrative	71	73
Restructuring charges	21	19
Total operating expenses	<u>712</u>	<u>709</u>
Income from operations	104	254
Other income, net	<u>15</u>	<u>18</u>
Income before income taxes	119	272
Provision (benefit) for income taxes	<u>16</u>	<u>(11)</u>
Net income	<u>\$ 103</u>	<u>\$ 283</u>
<b>Net income per share:</b>		
Basic	<u>\$ 0.43</u>	<u>\$ 1.08</u>
Diluted	<u>\$ 0.42</u>	<u>\$ 1.05</u>
<b>Shares used in net income per share calculations:</b>		
Basic	<u>239</u>	<u>262</u>
Diluted	<u>243</u>	<u>269</u>
Cash dividends declared per share	<u>\$ 0.48</u>	<u>\$ 0.40</u>

**NETAPP, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In millions)

	<b>Three Months Ended</b>	
	<b>July 26, 2019</b>	<b>July 27, 2018</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 103	\$ 283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	49
Stock-based compensation	42	40
Deferred income taxes	(7)	(26)
Other items, net	6	8
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	672	423
Inventories	15	25
Accounts payable	(195)	(177)
Accrued expenses	(277)	(221)
Deferred revenue and financed unearned services revenue	(154)	(87)
Long-term taxes payable	(3)	5
Changes in other operating assets and liabilities, net	59	4
Net cash provided by operating activities	310	326
<b>Cash flows from investing activities:</b>		
Redemptions of investments, net	1,027	248
Purchases of property and equipment	(32)	(64)
Acquisitions of businesses, net of cash acquired	(56)	—
Other investing activities, net	(1)	2
Net cash provided by investing activities	938	186
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock under employee stock award plans	54	63
Payments for taxes related to net share settlement of stock awards	(71)	(84)
Repurchase of common stock	(250)	(500)
Repayments of commercial paper notes, net	(219)	(185)
Dividends paid	(115)	(105)
Other financing activities, net	(2)	(1)
Net cash used in financing activities	(603)	(812)
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>	(3)	(14)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>	642	(314)
<b>Cash, cash equivalents and restricted cash:</b>		
Beginning of period	2,331	2,947
End of period	\$ 2,973	\$ 2,633

**NETAPP, INC.**  
**SUPPLEMENTAL DATA**

(In millions except net income per share, percentages, DSO, DIO, DPO, CCC and Inventory Turns)  
(Unaudited)

	<u>Q1 FY'20</u>	<u>Q4 FY'19</u>	<u>Q1 FY'19</u>
<b>Revenues</b>			
Product	\$ 644	\$ 1,000	\$ 875
<i>Strategic*</i>	\$ 337	\$ 623	\$ 475
<i>Mature*</i>	\$ 307	\$ 377	\$ 400
Software Maintenance	\$ 250	\$ 242	\$ 229
Hardware Maintenance and Other Services	\$ 342	\$ 350	\$ 370
<i>Hardware Maintenance Support Contracts</i>	\$ 284	\$ 284	\$ 303
<i>Professional and Other Services</i>	\$ 58	\$ 66	\$ 67
<b>Net Revenues</b>	<b>\$ 1,236</b>	<b>\$ 1,592</b>	<b>\$ 1,474</b>

\* In Q1 FY'20 we made changes to the products and solutions contained in each of the Strategic and Mature product groupings. Mature now includes OEM and all products related to disk and hybrid arrays. Strategic now includes add-on software, private cloud solutions, and all products related to All-Flash Arrays. Revenues for previous quarters have been recast in accordance with the revised product grouping methodology for comparability.

**Geographic Mix**

	<u>% of Q1 FY'20 Revenue</u>	<u>% of Q4 FY'19 Revenue</u>	<u>% of Q1 FY'19 Revenue</u>
Americas	51%	57%	57%
<i>Americas Commercial</i>	38%	45%	46%
<i>U.S. Public Sector</i>	13%	11%	11%
EMEA	33%	29%	29%
Asia Pacific	16%	14%	14%

**Pathways Mix**

	<u>% of Q1 FY'20 Revenue</u>	<u>% of Q4 FY'19 Revenue</u>	<u>% of Q1 FY'19 Revenue</u>
Direct	19%	24%	29%
Indirect	81%	76%	71%

**Non-GAAP Gross Margins**

	<u>Q1 FY'20</u>	<u>Q4 FY'19</u>	<u>Q1 FY'19</u>
Non-GAAP Gross Margin	67.2%	65.2%	66.2%
Product	53.4%	55.3%	55.7%
Software Maintenance	96.0%	95.9%	96.9%
Hardware Maintenance and Other Services	71.9%	72.3%	72.2%

**Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate**

	<b>Q1 FY'20</b>	<b>Q4 FY'19</b>	<b>Q1 FY'19</b>
Non-GAAP Income from Operations	\$ 178	\$ 358	\$ 326
% of Net Revenues	14.4%	22.5%	22.1%
Non-GAAP Income before Income Taxes	\$ 193	\$ 372	\$ 344
Non-GAAP Effective Tax Rate	18.7%	18.1%	18.3%

**Non-GAAP Net Income**

	<b>Q1 FY'20</b>	<b>Q4 FY'19</b>	<b>Q1 FY'19</b>
Non-GAAP Net Income	\$ 157	\$ 305	\$ 281
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	243	249	269
Non-GAAP Income per Share, Diluted	\$ 0.65	\$ 1.22	\$ 1.04

**Select Balance Sheet Items**

	<b>Q1 FY'20</b>	<b>Q4 FY'19</b>	<b>Q1 FY'19</b>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,510	\$ 3,668	\$ 3,260
DSO (days)	40	70	38
DIO (days)	25	21	17
DPO (days)	75	87	76
CCC (days)	(10)	3	(20)
Inventory Turns	14	17	21

*Days sales outstanding (DSO) is defined as accounts receivable divided by net revenues, multiplied by the number of days in the quarter.*

*Days inventory outstanding (DIO) is defined as net inventories divided by cost of revenues, multiplied by the number of days in the quarter.*

*Days payables outstanding (DPO) is defined as accounts payable divided by cost of revenues, multiplied by the number of days in the quarter.*

*Cash conversion cycle (CCC) is defined as DSO plus DIO minus DPO.*

*Inventory turns is defined as annualized cost of revenues divided by net inventories.*

**Select Cash Flow Statement Items**

	<b>Q1 FY'20</b>	<b>Q4 FY'19</b>	<b>Q1 FY'19</b>
Net Cash Provided by Operating Activities	\$ 310	\$ 399	\$ 326
Purchases of Property and Equipment	\$ 32	\$ 35	\$ 64
Free Cash Flow	\$ 278	\$ 364	\$ 262
Free Cash Flow as a % of Net Revenues	22.5%	22.9%	17.8%

*Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less purchases of property and equipment.*

*Some items may not add or recalculate due to rounding.*

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**INCOME STATEMENT INFORMATION**  
(In millions, except net income per share amounts)

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>NET INCOME</b>	\$ 103	\$ 396	\$ 283
Adjustments:			
Amortization of intangible assets	11	8	13
Stock-based compensation	42	37	40
Restructuring charges	21	16	19
Gain on sale or derecognition of assets	—	(73)	—
Income tax effects	(20)	(31)	(40)
Resolution of income tax examinations	—	(48)	—
Income tax benefit of ASC 606 adoption	—	—	(34)
<b>NON-GAAP NET INCOME</b>	<u>\$ 157</u>	<u>\$ 305</u>	<u>\$ 281</u>
<b>COST OF REVENUES</b>	\$ 420	\$ 566	\$ 511
Adjustments:			
Amortization of intangible assets	(11)	(8)	(9)
Stock-based compensation	(3)	(4)	(4)
<b>NON-GAAP COST OF REVENUES</b>	<u>\$ 406</u>	<u>\$ 554</u>	<u>\$ 498</u>
<b>COST OF PRODUCT REVENUES</b>	\$ 312	\$ 457	\$ 398
Adjustments:			
Amortization of intangible assets	(11)	(8)	(9)
Stock-based compensation	(1)	(2)	(1)
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 300</u>	<u>\$ 447</u>	<u>\$ 388</u>
<b>COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	\$ 98	\$ 99	\$ 106
Adjustment:			
Stock-based compensation	(2)	(2)	(3)
<b>NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	<u>\$ 96</u>	<u>\$ 97</u>	<u>\$ 103</u>
<b>GROSS PROFIT</b>	\$ 816	\$ 1,026	\$ 963
Adjustments:			
Amortization of intangible assets	11	8	9
Stock-based compensation	3	4	4
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 830</u>	<u>\$ 1,038</u>	<u>\$ 976</u>

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**INCOME STATEMENT INFORMATION**  
(In millions, except net income per share amounts)

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>SALES AND MARKETING EXPENSES</b>	\$ 405	\$ 439	\$ 409
Adjustments:			
Amortization of intangible assets	—	—	(4)
Stock-based compensation	(18)	(15)	(17)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 387</u>	<u>\$ 424</u>	<u>\$ 388</u>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 215	\$ 205	\$ 208
Adjustment:			
Stock-based compensation	(15)	(11)	(12)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 200</u>	<u>\$ 194</u>	<u>\$ 196</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 71	\$ 69	\$ 73
Adjustment:			
Stock-based compensation	(6)	(7)	(7)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 65</u>	<u>\$ 62</u>	<u>\$ 66</u>
<b>RESTRUCTURING CHARGES</b>	\$ 21	\$ 16	\$ 19
Adjustment:			
Restructuring charges	(21)	(16)	(19)
<b>NON-GAAP RESTRUCTURING CHARGES</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	\$ —	\$ (73)	\$ —
Adjustment:			
Gain on sale or derecognition of assets	—	73	—
<b>NON-GAAP GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>OPERATING EXPENSES</b>	\$ 712	\$ 656	\$ 709
Adjustments:			
Amortization of intangible assets	—	—	(4)
Stock-based compensation	(39)	(33)	(36)
Restructuring charges	(21)	(16)	(19)
Gain on sale or derecognition of assets	—	73	—
<b>NON-GAAP OPERATING EXPENSES</b>	<u>\$ 652</u>	<u>\$ 680</u>	<u>\$ 650</u>

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**INCOME STATEMENT INFORMATION**  
(In millions, except net income per share amounts)

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>INCOME FROM OPERATIONS</b>	\$ 104	\$ 370	\$ 254
Adjustments:			
Amortization of intangible assets	11	8	13
Stock-based compensation	42	37	40
Restructuring charges	21	16	19
Gain on sale or derecognition of assets	—	(73)	—
<b>NON-GAAP INCOME FROM OPERATIONS</b>	<u>\$ 178</u>	<u>\$ 358</u>	<u>\$ 326</u>
<b>INCOME BEFORE INCOME TAXES</b>	\$ 119	\$ 384	\$ 272
Adjustments:			
Amortization of intangible assets	11	8	13
Stock-based compensation	42	37	40
Restructuring charges	21	16	19
Gain on sale or derecognition of assets	—	(73)	—
<b>NON-GAAP INCOME BEFORE INCOME TAXES</b>	<u>\$ 193</u>	<u>\$ 372</u>	<u>\$ 344</u>
<b>PROVISION (BENEFIT) FOR INCOME TAXES</b>	\$ 16	\$ (12)	\$ (11)
Adjustments:			
Income tax effects	20	31	40
Resolution of income tax examinations	—	48	—
Income tax benefit of ASC 606 adoption	—	—	34
<b>NON-GAAP PROVISION FOR INCOME TAXES</b>	<u>\$ 36</u>	<u>\$ 67</u>	<u>\$ 63</u>
<b>NET INCOME PER SHARE</b>	\$ 0.42	\$ 1.59	\$ 1.05
Adjustments:			
Amortization of intangible assets	0.05	0.03	0.05
Stock-based compensation	0.17	0.15	0.15
Restructuring charges	0.09	0.06	0.07
Gain on sale or derecognition of assets	—	(0.29)	—
Income tax effects	(0.08)	(0.12)	(0.15)
Resolution of income tax examinations	—	(0.19)	—
Income tax benefit of ASC 606 adoption	—	—	(0.13)
<b>NON-GAAP NET INCOME PER SHARE</b>	<u>\$ 0.65</u>	<u>\$ 1.22</u>	<u>\$ 1.04</u>



**RECONCILIATION OF NON-GAAP TO GAAP  
GROSS MARGIN  
(\$ in millions)**

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>Gross margin-GAAP</b>	66.0%	64.4%	65.3%
Cost of revenues adjustments	1.1%	0.8%	0.9%
<b>Gross margin-Non-GAAP</b>	67.2%	65.2%	66.2%
GAAP cost of revenues	\$ 420	\$ 566	\$ 511
Cost of revenues adjustments:			
Amortization of intangible assets	(11)	(8)	(9)
Stock-based compensation	(3)	(4)	(4)
Non-GAAP cost of revenues	\$ 406	\$ 554	\$ 498
Net revenues	\$ 1,236	\$ 1,592	\$ 1,474

**RECONCILIATION OF NON-GAAP TO GAAP  
PRODUCT GROSS MARGIN  
(\$ in millions)**

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>Product gross margin-GAAP</b>	51.6%	54.3%	54.5%
Cost of product revenues adjustments	1.9%	1.0%	1.1%
<b>Product gross margin-Non-GAAP</b>	53.4%	55.3%	55.7%
GAAP cost of product revenues	\$ 312	\$ 457	\$ 398
Cost of product revenues adjustments:			
Amortization of intangible assets	(11)	(8)	(9)
Stock-based compensation	(1)	(2)	(1)
Non-GAAP cost of product revenues	\$ 300	\$ 447	\$ 388
Product revenues	\$ 644	\$ 1,000	\$ 875

**RECONCILIATION OF NON-GAAP TO GAAP  
HARDWARE MAINTENANCE AND OTHER SERVICES GROSS MARGIN  
(\$ in millions)**

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>Hardware maintenance and other services gross margin-GAAP</b>	71.3%	71.7%	71.4%
Cost of hardware maintenance and other services revenues adjustment	0.6%	0.6%	0.8%
<b>Hardware maintenance and other services gross margin-Non-GAAP</b>	71.9%	72.3%	72.2%
GAAP cost of hardware maintenance and other services revenues	\$ 98	\$ 99	\$ 106
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(2)	(2)	(3)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 96	\$ 97	\$ 103
Hardware maintenance and other services revenues	\$ 342	\$ 350	\$ 370

**RECONCILIATION OF NON-GAAP TO GAAP  
EFFECTIVE TAX RATE**

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
<b>GAAP effective tax rate</b>	13.4%	(3.1)%	(4.0)%
Adjustments:			
Income tax effects	5.3%	8.3%	9.8%
Resolution of income tax examinations	—%	12.9%	—%
Income tax benefit of ASC 606 adoption	—%	—%	12.5%
<b>Non-GAAP effective tax rate</b>	<b>18.7%</b>	<b>18.1%</b>	<b>18.3%</b>

**RECONCILIATION OF NET CASH PROVIDED BY OPERATING ACTIVITIES  
TO FREE CASH FLOW (NON-GAAP)  
(In millions)**

	<u>Q1'FY20</u>	<u>Q4'FY19</u>	<u>Q1'FY19</u>
Net cash provided by operating activities	\$ 310	\$ 399	\$ 326
Purchases of property and equipment	(32)	(35)	(64)
<b>Free cash flow</b>	<b>\$ 278</b>	<b>\$ 364</b>	<b>\$ 262</b>

*Some items may not add or recalculate due to rounding.*

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**EXPRESSED AS EARNINGS PER SHARE**  
**SECOND QUARTER FISCAL 2020**

	<u>Second Quarter</u> <u>Fiscal 2020</u>
Non-GAAP Guidance - Net Income Per Share	\$0.91 - \$0.99
Adjustments of Specific Items to Net Income	
Per Share for the Second Quarter Fiscal 2020:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.17)
Gain on sale or derecognition of assets	<u>0.17</u>
Total Adjustments	(0.05)
GAAP Guidance - Net Income Per Share	\$0.86 - \$0.94

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**FISCAL 2020**  
**(Unaudited)**

	<u><b>GROSS MARGIN</b></u>
Gross Margin - Non-GAAP Guidance	66% - 67%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	65% - 66%

	<u><b>OPERATING MARGIN</b></u>
Operating Margin - Non-GAAP Guidance	19% - 22%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(3)%
Gain on sale or derecognition of assets	1%
Operating Margin - GAAP Guidance	16% - 19%

	<u><b>EFFECTIVE TAX RATE</b></u>
Effective Tax Rate - Non-GAAP Guidance	18% - 19%
Adjustment:	
Income tax effects	1%
Effective Tax Rate - GAAP Guidance	19% - 20%

*Some items may not add or recalculate due to rounding*

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