

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

	July 28, 2017	April 28, 2017
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 5,321	\$ 4,921
Accounts receivable	518	731
Inventories	143	163
Other current assets	316	383
Total current assets	6,298	6,198
Property and equipment, net	799	799
Goodwill and purchased intangible assets, net	1,825	1,815
Other non-current assets	677	681
Total assets	\$ 9,599	\$ 9,493
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 289	\$ 347
Accrued expenses	653	782
Commercial paper notes	894	500
Current portion of long-term debt	749	749
Short-term deferred revenue and financed unearned services revenue	1,702	1,744
Total current liabilities	4,287	4,122
Long-term debt	745	744
Other long-term liabilities	250	249
Long-term deferred revenue and financed unearned services revenue	1,549	1,598
Total liabilities	6,831	6,713
Stockholders' equity	2,768	2,780
Total liabilities and stockholders' equity	\$ 9,599	\$ 9,493

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Revenues:		
Product	\$ 723	\$ 660
Software maintenance	234	241
Hardware maintenance and other services	368	393
Net revenues	<u>1,325</u>	<u>1,294</u>
Cost of revenues:		
Cost of product	371	359
Cost of software maintenance	7	8
Cost of hardware maintenance and other services	113	130
Total cost of revenues	<u>491</u>	<u>497</u>
Gross profit	834	797
Operating expenses:		
Sales and marketing	425	429
Research and development	193	207
General and administrative	68	68
Total operating expenses	<u>686</u>	<u>704</u>
Income from operations	148	93
Other income (expense), net	5	(1)
Income before income taxes	153	92
Provision for income taxes	17	28
Net income	<u>\$ 136</u>	<u>\$ 64</u>
Net income per share:		
Basic	<u>\$ 0.50</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.49</u>	<u>\$ 0.23</u>
Shares used in net income per share calculations:		
Basic	<u>270</u>	<u>279</u>
Diluted	<u>278</u>	<u>282</u>
Cash dividends declared per share	<u>\$ 0.200</u>	<u>\$ 0.190</u>

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

	Three Months Ended	
	July 28, 2017	July 29, 2016
Cash flows from operating activities:		
Net income	\$ 136	\$ 64
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	51	60
Stock-based compensation	48	52
Other items, net	7	12
Changes in assets and liabilities, net of acquisition of business:		
Accounts receivable	218	311
Inventories	20	17
Accounts payable	(58)	(30)
Accrued expenses	(135)	(198)
Deferred revenue and financed unearned services revenue	(107)	(83)
Changes in other operating assets and liabilities, net	70	23
Net cash provided by operating activities	250	228
Cash flows from investing activities:		
Redemptions of investments, net	112	313
Purchases of property and equipment	(36)	(36)
Acquisition of business, net of cash acquired	(24)	—
Other investing activities, net	5	(1)
Net cash provided by investing activities	57	276
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	48	42
Payments for taxes related to net share settlement of stock awards	(57)	(33)
Repurchase of common stock	(150)	(175)
Proceeds from issuance of commercial paper notes, net	394	—
Repayment of short-term loan	—	(850)
Dividends paid	(54)	(53)
Other financing activities, net	—	(2)
Net cash provided by (used in) financing activities	181	(1,071)
Effect of exchange rate changes on cash and cash equivalents	19	(7)
Net increase (decrease) in cash and cash equivalents	507	(574)
Cash and cash equivalents:		
Beginning of period	2,444	2,868
End of period	\$ 2,951	\$ 2,294

NETAPP, INC.
SUPPLEMENTAL DATA
(In millions except net income per share, percentages, DSO, DIO, DPO, CCC and Inventory Turns)
(Unaudited)

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Revenues			
Product (1)	\$ 723	\$ 852	\$ 660
<i>Strategic</i>	\$ 500	\$ 596	\$ 411
<i>Mature</i>	\$ 223	\$ 256	\$ 249
Software Maintenance	\$ 234	\$ 242	\$ 241
Hardware Maintenance and Other Services	\$ 368	\$ 387	\$ 393
<i>Hardware Maintenance Support Contracts</i>	\$ 298	\$ 313	\$ 323
<i>Professional and Other Services</i>	\$ 70	\$ 74	\$ 70
Net Revenues	\$ 1,325	\$ 1,481	\$ 1,294

	<u>% of Q1 FY'18 Revenue</u>	<u>% of Q4 FY'17 Revenue</u>	<u>% of Q1 FY'17 Revenue</u>
Geographic Mix			
Americas	55%	54%	57%
<i>Americas Commercial</i>	42%	42%	44%
<i>U.S. Public Sector</i>	13%	12%	13%
EMEA	30%	32%	30%
Asia Pacific	15%	14%	13%

	<u>% of Q1 FY'18 Revenue</u>	<u>% of Q4 FY'17 Revenue</u>	<u>% of Q1 FY'17 Revenue</u>
Pathways Mix			
Direct	20%	22%	23%
Indirect	80%	78%	77%

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	63.8%	62.5%	62.4%
Product	49.9%	48.9%	46.7%
Software Maintenance	97.0%	97.5%	96.7%
Hardware Maintenance and Other Services	70.1%	70.3%	67.9%

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 209	\$ 306	\$ 156
% of Net Revenues	15.8%	20.7%	12.1%
Non-GAAP Income before Income Taxes	\$ 214	\$ 307	\$ 155
Non-GAAP Effective Tax Rate	19.4%	22.1%	16.6%

Non-GAAP Net Income

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Non-GAAP Net Income	\$ 173	\$ 239	\$ 129
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	278	278	282
Non-GAAP Income per Share, Diluted	\$ 0.62	\$ 0.86	\$ 0.46

Select Balance Sheet Items

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,251	\$ 3,342	\$ 3,300
DSO (days)	36	45	35
DIO (days)	27	26	15
DPO (days)	54	56	44
CCC (days)	9	15	6
Inventory Turns	14	14	25

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

	<u>Q1 FY'18</u>	<u>Q4 FY'17</u>	<u>Q1 FY'17</u>
Net Cash Provided by Operating Activities	\$ 250	\$ 365	\$ 228
Purchases of Property and Equipment	\$ 36	\$ 38	\$ 36
Free Cash Flow	\$ 214	\$ 327	\$ 192
<i>Free Cash Flow as a % of Net Revenues</i>	16.2%	22.1%	14.8%

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

(1) Sales of certain products which should have been reported as strategic products were improperly reported as mature product revenues in Q1 FY'17. That period has been recast to reflect the appropriate classification.

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)

	Q1'FY18	Q4'FY17	Q1'FY17
NET INCOME	\$ 136	\$ 190	\$ 64
Adjustments:			
Amortization of intangible assets	13	13	11
Stock-based compensation	48	46	52
Income tax effect of non-GAAP adjustments	(24)	(10)	2
NON-GAAP NET INCOME	<u>\$ 173</u>	<u>\$ 239</u>	<u>\$ 129</u>
COST OF REVENUES	\$ 491	\$ 568	\$ 497
Adjustments:			
Amortization of intangible assets	(8)	(8)	(6)
Stock-based compensation	(4)	(4)	(5)
NON-GAAP COST OF REVENUES	<u>\$ 479</u>	<u>\$ 556</u>	<u>\$ 486</u>
COST OF PRODUCT REVENUES	\$ 371	\$ 444	\$ 359
Adjustments:			
Amortization of intangible assets	(8)	(8)	(6)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 362</u>	<u>\$ 435</u>	<u>\$ 352</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 113	\$ 118	\$ 130
Adjustment:			
Stock-based compensation	(3)	(3)	(4)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 110</u>	<u>\$ 115</u>	<u>\$ 126</u>
GROSS PROFIT	\$ 834	\$ 913	\$ 797
Adjustments:			
Amortization of intangible assets	8	8	6
Stock-based compensation	4	4	5
NON-GAAP GROSS PROFIT	<u>\$ 846</u>	<u>\$ 925</u>	<u>\$ 808</u>

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
SALES AND MARKETING EXPENSES	\$ 425	\$ 405	\$ 429
Adjustments:			
Amortization of intangible assets	(5)	(5)	(5)
Stock-based compensation	(21)	(20)	(23)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 399</u>	<u>\$ 380</u>	<u>\$ 401</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 193	\$ 191	\$ 207
Adjustment:			
Stock-based compensation	(15)	(13)	(15)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 178</u>	<u>\$ 178</u>	<u>\$ 192</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 68	\$ 70	\$ 68
Adjustment:			
Stock-based compensation	(8)	(9)	(9)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 60</u>	<u>\$ 61</u>	<u>\$ 59</u>
OPERATING EXPENSES	\$ 686	\$ 666	\$ 704
Adjustments:			
Amortization of intangible assets	(5)	(5)	(5)
Stock-based compensation	(44)	(42)	(47)
NON-GAAP OPERATING EXPENSES	<u>\$ 637</u>	<u>\$ 619</u>	<u>\$ 652</u>

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

	Q1'FY18	Q4'FY17	Q1'FY17
INCOME FROM OPERATIONS	\$ 148	\$ 247	\$ 93
Adjustments:			
Amortization of intangible assets	13	13	11
Stock-based compensation	48	46	52
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 209</u>	<u>\$ 306</u>	<u>\$ 156</u>
INCOME BEFORE INCOME TAXES	\$ 153	\$ 248	\$ 92
Adjustments:			
Amortization of intangible assets	13	13	11
Stock-based compensation	48	46	52
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 214</u>	<u>\$ 307</u>	<u>\$ 155</u>
PROVISION FOR INCOME TAXES	\$ 17	\$ 58	\$ 28
Adjustment:			
Income tax effect of non-GAAP adjustments	24	10	(2)
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 41</u>	<u>\$ 68</u>	<u>\$ 26</u>
NET INCOME PER SHARE	\$ 0.49	\$ 0.68	\$ 0.23
Adjustments:			
Amortization of intangible assets	0.05	0.05	0.04
Stock-based compensation	0.17	0.17	0.18
Income tax effect of non-GAAP adjustments	(0.09)	(0.04)	0.01
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.62</u>	<u>\$ 0.86</u>	<u>\$ 0.46</u>

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
Gross margin-GAAP	62.9%	61.6%	61.6%
Cost of revenues adjustments	0.9%	0.8%	0.9%
Gross margin-Non-GAAP	63.8%	62.5%	62.4%
GAAP cost of revenues	\$ 491	\$ 568	\$ 497
Cost of revenues adjustments:			
Amortization of intangible assets	(8)	(8)	(6)
Stock-based compensation	(4)	(4)	(5)
Non-GAAP cost of revenues	<u>\$ 479</u>	<u>\$ 556</u>	<u>\$ 486</u>
Net revenues	\$ 1,325	\$ 1,481	\$ 1,294

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
Product gross margin-GAAP	48.7%	47.9%	45.6%
Cost of product revenues adjustments	1.2%	1.1%	1.1%
Product gross margin-Non-GAAP	49.9%	48.9%	46.7%
GAAP cost of product revenues	\$ 371	\$ 444	\$ 359
Cost of product revenues adjustments:			
Amortization of intangible assets	(8)	(8)	(6)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 362</u>	<u>\$ 435</u>	<u>\$ 352</u>
Product revenues	\$ 723	\$ 852	\$ 660

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
Hardware maintenance and other services gross margin-GAAP	69.3%	69.5%	66.9%
Cost of hardware maintenance and other services revenues adjustment	0.8%	0.8%	1.0%
Hardware maintenance and other services gross margin-Non-GAAP	70.1%	70.3%	67.9%
GAAP cost of hardware maintenance and other services revenues	\$ 113	\$ 118	\$ 130
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(3)	(4)
Non-GAAP cost of hardware maintenance and other services revenues	<u>\$ 110</u>	<u>\$ 115</u>	<u>\$ 126</u>
Hardware maintenance and other services revenues	\$ 368	\$ 387	\$ 393

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
GAAP effective tax rate	11.1%	23.4%	30.4%
Adjustment:			
Tax effect of non-GAAP adjustments	<u>8.3%</u>	<u>(1.3)%</u>	<u>(13.8)%</u>
Non-GAAP effective tax rate	19.4%	22.1%	16.6%

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

	<u>Q1'FY18</u>	<u>Q4'FY17</u>	<u>Q1'FY17</u>
Net cash provided by operating activities	\$ 250	\$ 365	\$ 228
Purchases of property and equipment	<u>(36)</u>	<u>(38)</u>	<u>(36)</u>
Free cash flow	\$ 214	\$ 327	\$ 192

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 2018

	Second Quarter Fiscal 2018
Non-GAAP Guidance - Net Income Per Share	\$0.64 - \$0.72
Adjustments of Specific Items to Net Income Per Share for the Second Quarter Fiscal 2018:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.14)
Income tax effect of non-GAAP adjustments	0.02
Total Adjustments	(0.17)
GAAP Guidance - Net Income Per Share	\$0.47 - \$0.55

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