



# Sustained and Profitable Growth

Financial Update

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# Agenda

- 1) FY18 Look Back
- 2) 606 Impact
- 3) FY19 Guide
- 4) FY19 – FY21 Guide
- 5) Capital Allocation



# A Look Back at FY18

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	FY18 Guide*	Implied FY18 Performance**	Highlights
<b>Revenue</b>	Low-single digit growth	6% growth 	Double-digit product revenue growth YoY
<b>Gross Margin</b>	62-63%	63% 	+3 pts Product Margin YoY
<b>Operating Margin</b>	18-20%	19% 	+2 pts YoY
<b>EPS</b>	Low-double digit growth	25% growth 	Increasing leverage in the business model
<b>Free Cash Flow as a % of Revenue</b>	17-19%	~21%*** 	26 day improvement in CCC Returned ~70% of FCF to shareholders

\* FY18 guide provided on the Q4 FY17 earnings call

\*\* Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide

\*\*\* Free Cash Flow first 9 months of FY18

Gross Margin, Operating Margin, OPEX and EPS numbers and related metrics are presented on a Non-GAAP basis. Free cash flow is a non-GAAP number and is defined as net cash provided by operating activities less purchases of property and equipment. Refer to the appendix for a reconciliation between non-GAAP and GAAP numbers.

# A Look Back at FY18: Takeaways

Outpacing growth plan

Over 20% EPS growth year/year

# Consistent Execution

FY17

FY18

	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	↑	✓	✓	↑	↑	↑	↑
Gross Margin %	✓	✓	✓	↑	↑	↑	✓
Op Margin %	↑	↑	↑	↑	↑	↑	↑
EPS	↑	↑	↑	↑	↑	↑	↑



# 606 Impact to Guidance

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Transition from 605 to 606

	<b>FY19 – FY21</b>	<b>Impact to Guidance</b>
<b>Revenue</b>	Higher product revenue Lower maintenance revenue	Immaterial to the P&L
<b>Gross Margin</b>	Higher product margin Lower services margin	Immaterial to the P&L
<b>OPEX</b>	Commissions expensed as revenue is recognized	Immaterial to the P&L
<b>Operating Margin</b>	Immaterial	Immaterial to the P&L



## 606 Impact to Guidance: Takeaways







Immaterial to our guidance

Begin reporting in Q1 FY19



# Looking Forward to FY19

# Looking Forward to FY19

	2017 Analyst Day FY18-20	FY19 Expectations		Key Data Points
<b>Revenue</b>	Low-single digit growth	<b>Mid-single digit growth</b>		Cloud Data Services contributes ~1 ppt of growth
<b>Gross Margin</b>	62-64%	<b>~63%</b>		Improved product margins SaaS startup cost
<b>OPEX</b>	Minimal OPEX growth	<b>Minimal OPEX growth</b>		Relatively flat OPEX
<b>Operating Margin</b>	18-22%	<b>20-21%</b>		Continued leverage
<b>EPS</b>	Low-double digits	<b>Over 15% growth</b>		~18% tax rate 3rd consecutive year of double-digit EPS growth
<b>Free Cash Flow as a % of Revenue</b>	16-22%	<b>19-21%</b>		SaaS CAPEX

## Looking Forward to FY19: Takeaways







Sustained mid-single digit topline growth,  
driven by strong strategic product performance

Second consecutive year of  
over \$1B Free Cash Flow



# Looking Forward FY19 – FY21

# Looking Forward FY19 – FY21

	2017 Analyst Day FY18-20	2018 Analyst Day FY19-21	Key Drivers
<b>Revenue</b>	Low-single digit growth	<b>Mid-single digit growth</b>	 Flash and HCI share gains Cloud Data Services grows to \$400M-\$600M FY21
<b>Gross Margin</b>	62-64%	<b>63-65%</b>	 Improved product margins SaaS gross margin accretive
<b>OPEX</b>	Minimal OPEX growth	<b>Disciplined OPEX growth</b>	 Maintain disciplined approach to investments
<b>Operating Margin</b>	18-22%	<b>20-24%</b>	 Increased operating leverage SaaS operating margin accretive
<b>EPS</b>	Low-double digits	<b>Over 15% growth each year</b>	 ~18-20% Tax Rate
<b>Free Cash Flow as a % of Revenue</b>	16-22%	<b>19-24%</b>	 Increased operating leverage Significant SaaS contribution

# Looking Forward FY19 – FY21: Takeaways

Sustained mid-single digit revenue growth

Cloud is additive and accretive to our business

Improving Gross and Operating Margin





Free Cash Flow growing from 19% to 24% of Revenue



# Capital Allocation



# Capital Allocation

	2017 Analyst Day FY18-20	2018 Analyst Day FY19-21	Key Data Points
<b>Dividends</b>	Move towards 3% yield	<b>Doubling dividend</b> 	Effective Q1 FY19 Initially ~2.6% yield
<b>Share Repurchases</b>	Complete existing commitment by May	<b>New \$4B share repurchase commitment</b> 	Completed existing \$2.5B commitment New commitment to buy back ~25% of market cap
<b>Debt</b>	Potentially de-lever	<b>Slight de-levering</b> 	Maintain rating at least 2-3 notches above investment grade
<b>M&amp;A</b>	Disciplined approach	<b>Disciplined Approach</b> 	Confident in existing portfolio Focused on Cloud Infrastructure and Cloud Data Services

# Capital Allocation: Takeaways

Doubling dividend


\$4B buyback authorization



# Sustained and Profitable Growth

# Driving Sustained and Profitable Growth

- TAM expansion and share gains support sustained growth
- Cloud is additive and accretive to our business
- Leverage in the business model yields considerable free cash flow and earnings growth
- Strong commitment to shareholder returns through significant buybacks and dividend



# Appendix: GAAP to Non-GAAP Reconciliations

# Gross Margin Reconciliation

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**GROSS MARGIN**

	FY18 Guide*	FY18 Implied**	FY19 Expectations	FY19-FY21 Expectations
<b>GROSS MARGIN</b>	61% - 62%	62%	62%	62% - 64%
Adjustments:				
Cost of revenues adjustments	1%	1%	1%	1%
<b>NON-GAAP GROSS MARGIN</b>	62% - 63%	63%	63%	63% - 65%

\* FY18 guide provided on the Q4 FY17 earnings call

\*\*Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide

# Operating Margin Reconciliation

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**OPERATING MARGIN**

	FY18 Guide*	FY18 Implied**	FY19 Expectations	FY19-FY21 Expectations
<b>OPERATING MARGIN</b>	14% - 16%	19%	18% - 19%	17% - 21%
Adjustments				
Amortization of intangible assets	1%	1%	1%	1%
Stock-based compensation	3%	3%	2%	2%
Gain on sale of properties	-	(4)%	(1)%	-
<b>NON-GAAP OPERATING MARGIN</b>	18% - 20%	19%	20% - 21%	20% - 24%

\* FY18 guide provided on the Q4 FY17 earnings call

\*\*Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide

# Earnings Per Share Reconciliation

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**EARNINGS PER SHARE**

	<u>FY18</u> <u>Implied**</u>
<b>NET INCOME (LOSS) PER SHARE</b>	(\$0.07)
Adjustments	
Amortization of intangible assets	0.19
Stock-based compensation	0.59
Litigation Settlements	0.02
Gain on sale of properties	(0.79)
Tax reform	3.10
Non-GAAP tax adjustments	0.37
<b>NON-GAAP NET INCOME PER SHARE</b>	<u>\$3.41</u>

*\*\*Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide*



# Effective Tax Rate Reconciliation

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP TO GAAP**  
**EFFECTIVE TAX RATE**

	<u>FY19</u>	<u>FY19-FY21</u>
	<u>Expectations</u>	<u>Expectations</u>
<b>EFFECTIVE TAX RATE</b>	22%	22% - 24%
Adjustment:		
Non-GAAP tax adjustments	(4)%	(4)%
<b>NON-GAAP EFFECTIVE TAX RATE</b>	18%	18% - 20%

# Free Cash Flow as a % of Revenue

**NETAPP, INC.**  
**FREE CASH FLOW AS A PERCENTAGE OF REVENUE**

	FY18	First Nine Months of FY18	FY19	FY19 - FY21
	Guide*	Actuals	Expectations	Expectations
Net cash provided by operating activities as a % of revenue	20% - 22%	23%	23% - 25%	23% - 28%
Purchases of property and equipment as a % of revenue	(3)%	(2)%	(4)%	(4)%
<b>FREE CASH FLOW AS A % OF REVENUE</b>	<b>17% - 19%</b>	<b>21%</b>	<b>19% - 21%</b>	<b>19% - 24%</b>

\* FY18 guide provided on the Q4 FY17 earnings call