

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

	July 31, 2020	April 24, 2020
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 3,773	\$ 2,882
Accounts receivable	604	973
Inventories	136	145
Other current assets	304	274
Total current assets	4,817	4,274
Property and equipment, net	737	727
Goodwill and purchased intangible assets, net	2,178	1,822
Other non-current assets	684	699
Total assets	\$ 8,416	\$ 7,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 396	\$ 426
Accrued expenses	616	774
Commercial paper notes	150	522
Short-term deferred revenue and financed unearned services revenue	1,814	1,894
Total current liabilities	2,976	3,616
Long-term debt	2,630	1,146
Other long-term liabilities	720	714
Long-term deferred revenue and financed unearned services revenue	1,806	1,804
Total liabilities	8,132	7,280
Stockholders' equity	284	242
Total liabilities and stockholders' equity	\$ 8,416	\$ 7,522

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

	Three Months Ended	
	July 31, 2020	July 26, 2019
Revenues:		
Product	\$ 627	\$ 644
Software maintenance	301	250
Hardware maintenance and other services	375	342
Net revenues	1,303	1,236
Cost of revenues:		
Cost of product	316	312
Cost of software maintenance	15	10
Cost of hardware maintenance and other services	100	98
Total cost of revenues	431	420
Gross profit	872	816
Operating expenses:		
Sales and marketing	429	405
Research and development	233	215
General and administrative	61	71
Restructuring charges	5	21
Acquisition-related expense	8	—
Total operating expenses	736	712
Income from operations	136	104
Other income (expense), net	(32)	15
Income before income taxes	104	119
Provision for income taxes	27	16
Net income	\$ 77	\$ 103
Net income per share:		
Basic	\$ 0.35	\$ 0.43
Diluted	\$ 0.35	\$ 0.42
Shares used in net income per share calculations:		
Basic	221	239
Diluted	222	243

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

	Three Months Ended	
	July 31, 2020	July 26, 2019
Cash flows from operating activities:		
Net income	\$ 77	\$ 103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	49
Non-cash operating lease cost	13	13
Stock-based compensation	54	42
Deferred income taxes	—	(7)
Other items, net	25	(7)
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	391	672
Inventories	9	15
Accounts payable	(29)	(195)
Accrued expenses	(186)	(277)
Deferred revenue and financed unearned services revenue	(158)	(154)
Long-term taxes payable	6	(3)
Changes in other operating assets and liabilities, net	(11)	59
Net cash provided by operating activities	<u>240</u>	<u>310</u>
Cash flows from investing activities:		
Redemptions of investments, net	85	1,027
Purchases of property and equipment	(52)	(32)
Proceeds from sale of properties	6	—
Acquisitions of businesses, net of cash acquired	(350)	(56)
Other investing activities, net	—	(1)
Net cash provided by (used in) investing activities	<u>(311)</u>	<u>938</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	48	54
Payments for taxes related to net share settlement of stock awards	(33)	(71)
Repurchase of common stock	—	(250)
Repayments of commercial paper notes, original maturities of three months or less, net	(370)	(219)
Issuance of debt, net of issuance costs	2,057	—
Repayments and extinguishment of debt	(589)	—
Dividends paid	(107)	(115)
Other financing activities, net	(3)	(2)
Net cash provided by (used in) financing activities	<u>1,003</u>	<u>(603)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	43	(3)
Net increase in cash, cash equivalents and restricted cash	975	642
Cash, cash equivalents and restricted cash:		
Beginning of period	2,666	2,331
End of period	<u>\$ 3,641</u>	<u>\$ 2,973</u>

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

	Q1 FY'21	Q4 FY'20	Q1 FY'20
Revenues			
Product	\$ 627	\$ 793	\$ 644
Software Maintenance	\$ 301	\$ 267	\$ 250
Hardware Maintenance & Other Services	\$ 375	\$ 341	\$ 342
<i>Hardware Maintenance Support Contracts</i>	\$ 307	\$ 279	\$ 284
<i>Professional and Other Services</i>	\$ 68	\$ 62	\$ 58
Net Revenues	\$ 1,303	\$ 1,401	\$ 1,236

Product Revenues			
Total	\$ 627	\$ 793	\$ 644
<i>Software*</i>	\$ 311	\$ 407	\$ 306
<i>Hardware*</i>	\$ 316	\$ 386	\$ 338

* Our revenue recognition policy under GAAP defines a configured storage system, inclusive of the operating system software essential to its functionality, as a single performance obligation. We have provided a breakdown of our GAAP product revenues into the software and hardware components to display the significance of software included in total product revenues.

Geographic Mix

	% of Q1 FY'21 Revenue	% of Q4 FY'20 Revenue	% of Q1 FY'20 Revenue
Americas	54%	54%	51%
<i>Americas Commercial</i>	43%	43%	38%
<i>U.S. Public Sector</i>	12%	11%	13%
EMEA	29%	32%	33%
Asia Pacific	16%	14%	16%

Pathways Mix

	% of Q1 FY'21 Revenue	% of Q4 FY'20 Revenue	% of Q1 FY'20 Revenue
Direct	22%	23%	19%
Indirect	78%	77%	81%

Non-GAAP Gross Margins

	Q1 FY'21	Q4 FY'20	Q1 FY'20
Non-GAAP Gross Margin	68.0%	68.0%	67.2%
Product	51.4%	56.4%	53.4%
Software Maintenance	95.0%	94.4%	96.0%
Hardware Maintenance & Other Services	74.1%	74.5%	71.9%

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

	Q1 FY'21	Q4 FY'20	Q1 FY'20
Non-GAAP Income from Operations	\$ 213	\$ 324	\$ 178
% of Net Revenues	16.3%	23.1%	14.4%
Non-GAAP Income before Income Taxes	\$ 195	\$ 307	\$ 193
Non-GAAP Effective Tax Rate	16.4%	13.7%	18.7%

Non-GAAP Net Income

	<u>Q1 FY'21</u>	<u>Q4 FY'20</u>	<u>Q1 FY'20</u>
Non-GAAP Net Income	\$ 163	\$ 265	\$ 157
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	222	222	243
Non-GAAP Net Income per Share, Diluted	\$ 0.73	\$ 1.19	\$ 0.65

Select Balance Sheet Items

	<u>Q1 FY'21</u>	<u>Q4 FY'20</u>	<u>Q1 FY'20</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,620	\$ 3,698	\$ 3,510
DSO (days)	45	63	40
DPO (days)	90	84	75
Inventory Turns	13	13	14

Days sales outstanding (DSO) is defined as accounts receivable divided by net 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.

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

Select Cash Flow Statement Items

	<u>Q1 FY'21</u>	<u>Q4 FY'20</u>	<u>Q1 FY'20</u>
Net Cash Provided by Operating Activities	\$ 240	\$ 383	\$ 310
Purchases of Property and Equipment	\$ 52	\$ 24	\$ 32
Free Cash Flow	\$ 188	\$ 359	\$ 278
<i>Free Cash Flow as % of Net Revenues</i>	14.4%	25.6%	22.5%

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)

	Q1'FY21	Q4'FY20	Q1'FY20
NET INCOME	\$ 77	\$ 196	\$ 103
Adjustments:			
Amortization of intangible assets	10	9	11
Stock-based compensation	54	35	42
Asset impairment	—	10	—
COVID-19 charges	—	3	—
Restructuring charges	5	—	21
Acquisition-related expense	8	—	—
Debt extinguishment costs	14	—	—
Income tax effects	(16)	12	(20)
Income tax expenses from integration of acquired companies	11	—	—
NON-GAAP NET INCOME	<u>\$ 163</u>	<u>\$ 265</u>	<u>\$ 157</u>
COST OF REVENUES	\$ 431	\$ 460	\$ 420
Adjustments:			
Amortization of intangible assets	(10)	(9)	(11)
Stock-based compensation	(4)	(3)	(3)
NON-GAAP COST OF REVENUES	<u>\$ 417</u>	<u>\$ 448</u>	<u>\$ 406</u>
COST OF PRODUCT REVENUES	\$ 316	\$ 355	\$ 312
Adjustments:			
Amortization of intangible assets	(10)	(9)	(11)
Stock-based compensation	(1)	—	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 305</u>	<u>\$ 346</u>	<u>\$ 300</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 100	\$ 90	\$ 98
Adjustment:			
Stock-based compensation	(3)	(3)	(2)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 97</u>	<u>\$ 87</u>	<u>\$ 96</u>
GROSS PROFIT	\$ 872	\$ 941	\$ 816
Adjustments:			
Amortization of intangible assets	10	9	11
Stock-based compensation	4	3	3
NON-GAAP GROSS PROFIT	<u>\$ 886</u>	<u>\$ 953</u>	<u>\$ 830</u>

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

	Q1'FY21	Q4'FY20	Q1'FY20
SALES AND MARKETING EXPENSES	\$ 429	\$ 389	\$ 405
Adjustments:			
Stock-based compensation	(25)	(16)	(18)
COVID-19 charges	—	(3)	—
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 404</u>	<u>\$ 370</u>	<u>\$ 387</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 233	\$ 212	\$ 215
Adjustment:			
Stock-based compensation	(19)	(12)	(15)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 214</u>	<u>\$ 200</u>	<u>\$ 200</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 61	\$ 63	\$ 71
Adjustment:			
Stock-based compensation	(6)	(4)	(6)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 55</u>	<u>\$ 59</u>	<u>\$ 65</u>
RESTRUCTURING CHARGES	\$ 5	\$ —	\$ 21
Adjustment:			
Restructuring charges	(5)	—	(21)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ 8	\$ —	\$ —
Adjustment:			
Acquisition-related expense	(8)	—	—
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 736	\$ 664	\$ 712
Adjustments:			
Stock-based compensation	(50)	(32)	(39)
COVID-19 charges	—	(3)	—
Restructuring charges	(5)	—	(21)
Acquisition-related expense	(8)	—	—
NON-GAAP OPERATING EXPENSES	<u>\$ 673</u>	<u>\$ 629</u>	<u>\$ 652</u>

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

	Q1'FY21	Q4'FY20	Q1'FY20
INCOME FROM OPERATIONS	\$ 136	\$ 277	\$ 104
Adjustments:			
Amortization of intangible assets	10	9	11
Stock-based compensation	54	35	42
COVID-19 charges	—	3	—
Restructuring charges	5	—	21
Acquisition-related expense	8	—	—
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 213</u>	<u>\$ 324</u>	<u>\$ 178</u>
OTHER INCOME (EXPENSE), NET	\$ (32)	\$ (27)	\$ 15
Adjustments:			
Debt extinguishment costs	14	—	—
Asset impairment	—	10	—
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ (18)</u>	<u>\$ (17)</u>	<u>\$ 15</u>
INCOME BEFORE INCOME TAXES	\$ 104	\$ 250	\$ 119
Adjustments:			
Amortization of intangible assets	10	9	11
Stock-based compensation	54	35	42
Asset impairment	—	10	—
COVID-19 charges	—	3	—
Restructuring charges	5	—	21
Acquisition-related expense	8	—	—
Debt extinguishment costs	14	—	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 195</u>	<u>\$ 307</u>	<u>\$ 193</u>
PROVISION FOR INCOME TAXES	\$ 27	\$ 54	\$ 16
Adjustments:			
Income tax effects	16	(12)	20
Income tax expenses from integration of acquired companies	(11)	—	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 32</u>	<u>\$ 42</u>	<u>\$ 36</u>
NET INCOME PER SHARE	\$ 0.35	\$ 0.88	\$ 0.42
Adjustments:			
Amortization of intangible assets	0.05	0.04	0.05
Stock-based compensation	0.24	0.16	0.17
Asset impairment	—	0.05	—
COVID-19 charges	—	0.01	—
Restructuring charges	0.02	—	0.09
Acquisition-related expense	0.04	—	—
Debt extinguishment costs	0.06	—	—
Income tax effects	(0.07)	0.05	(0.08)
Income tax expenses from integration of acquired companies	0.05	—	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.73</u>	<u>\$ 1.19</u>	<u>\$ 0.65</u>

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

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
Gross margin-GAAP	66.9%	67.2%	66.0%
Cost of revenues adjustments	1.1%	0.9%	1.1%
Gross margin-Non-GAAP	68.0%	68.0%	67.2%
GAAP cost of revenues	\$ 431	\$ 460	\$ 420
Cost of revenues adjustments:			
Amortization of intangible assets	(10)	(9)	(11)
Stock-based compensation	(4)	(3)	(3)
Non-GAAP cost of revenues	\$ 417	\$ 448	\$ 406
Net revenues	\$ 1,303	\$ 1,401	\$ 1,236

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

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
Product gross margin-GAAP	49.6%	55.2%	51.6%
Cost of product revenues adjustments	1.8%	1.1%	1.9%
Product gross margin-Non-GAAP	51.4%	56.4%	53.4%
GAAP cost of product revenues	\$ 316	\$ 355	\$ 312
Cost of product revenues adjustments:			
Amortization of intangible assets	(10)	(9)	(11)
Stock-based compensation	(1)	—	(1)
Non-GAAP cost of product revenues	\$ 305	\$ 346	\$ 300
Product revenues	\$ 627	\$ 793	\$ 644

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

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
Hardware maintenance and other services gross margin-GAAP	73.3%	73.6%	71.3%
Cost of hardware maintenance and other services revenues adjustment	0.8%	0.9%	0.6%
Hardware maintenance and other services gross margin-Non-GAAP	74.1%	74.5%	71.9%
GAAP cost of hardware maintenance and other services revenues	\$ 100	\$ 90	\$ 98
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(3)	(2)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 97	\$ 87	\$ 96
Hardware maintenance and other services revenues	\$ 375	\$ 341	\$ 342

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

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
GAAP effective tax rate	26.0%	21.6%	13.4%
Adjustments:			
Income tax effects	1.0%	(7.9)%	5.3%
Income tax expenses from integration of acquired companies	(10.6)%	—%	—%
Non-GAAP effective tax rate	16.4%	13.7%	18.7%

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

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
Net cash provided by operating activities	\$ 240	\$ 383	\$ 310
Purchases of property and equipment	(52)	(24)	(32)
Free cash flow	\$ 188	\$ 359	\$ 278

**RECONCILIATION OF NET REVENUES
TO BILLINGS (NON-GAAP)
(In millions)**

	<u>Q1'FY21</u>	<u>Q4'FY20</u>	<u>Q1'FY20</u>
Net revenues	\$ 1,303	\$ 1,401	\$ 1,236
Change in deferred revenue and financed unearned services revenue*	(158)	147	(154)
Billings	\$ 1,145	\$ 1,548	\$ 1,082

* As reported on our Condensed Consolidated Statements of Cash Flows

**NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
SECOND QUARTER FISCAL 2021**

	<u>Second Quarter Fiscal 2021</u>
Non-GAAP Guidance - Net Income Per Share	\$0.66 - \$0.74
Adjustments of Specific Items to Net Income Per Share for the Second Quarter Fiscal 2021:	
Amortization of intangible assets	(0.07)
Stock-based compensation expense	(0.20)
Restructuring charges	(0.17)
Income tax effects	0.06
Total Adjustments	(0.38)
GAAP Guidance - Net Income Per Share	\$0.28 - \$0.36

Some items may not add or recalculate due to rounding.

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