

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

	<u>October 29, 2021</u>	<u>April 30, 2021</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 4,548	\$ 4,596
Accounts receivable	647	945
Inventories	155	114
Other current assets	319	346
Total current assets	<u>5,669</u>	<u>6,001</u>
Property and equipment, net	549	525
Goodwill and purchased intangible assets, net	2,137	2,140
Other non-current assets	867	694
Total assets	<u><u>\$ 9,222</u></u>	<u><u>\$ 9,360</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 432	\$ 420
Accrued expenses	796	970
Short-term deferred revenue and financed unearned services revenue	1,967	2,062
Total current liabilities	<u>3,195</u>	<u>3,452</u>
Long-term debt	2,634	2,632
Other long-term liabilities	735	650
Long-term deferred revenue and financed unearned services revenue	1,899	1,941
Total liabilities	<u>8,463</u>	<u>8,675</u>
Stockholders' equity	759	685
Total liabilities and stockholders' equity	<u><u>\$ 9,222</u></u>	<u><u>\$ 9,360</u></u>

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

	Three Months Ended		Six Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Net revenues:				
Product	\$ 814	\$ 749	\$ 1,544	\$ 1,376
Services	<u>752</u>	<u>667</u>	<u>1,480</u>	<u>1,343</u>
Net revenues	<u>1,566</u>	<u>1,416</u>	<u>3,024</u>	<u>2,719</u>
Cost of revenues:				
Cost of product	372	360	701	676
Cost of services	<u>135</u>	<u>123</u>	<u>265</u>	<u>238</u>
Total cost of revenues	<u>507</u>	<u>483</u>	<u>966</u>	<u>914</u>
Gross profit	<u>1,059</u>	<u>933</u>	<u>2,058</u>	<u>1,805</u>
Operating expenses:				
Sales and marketing	465	432	916	861
Research and development	<u>216</u>	<u>212</u>	<u>426</u>	<u>445</u>
General and administrative	<u>76</u>	<u>67</u>	<u>142</u>	<u>128</u>
Restructuring charges	7	37	29	42
Acquisition-related expense	<u>1</u>	<u>3</u>	<u>2</u>	<u>11</u>
Total operating expenses	<u>765</u>	<u>751</u>	<u>1,515</u>	<u>1,487</u>
Income from operations	294	182	543	318
Other expense, net	<u>(14)</u>	<u>(7)</u>	<u>(26)</u>	<u>(39)</u>
Income before income taxes	280	175	517	279
Provision for income taxes	<u>56</u>	<u>38</u>	<u>91</u>	<u>65</u>
Net income	<u>\$ 224</u>	<u>\$ 137</u>	<u>\$ 426</u>	<u>\$ 214</u>
Net income per share:				
Basic	<u>\$ 1.00</u>	<u>\$ 0.62</u>	<u>\$ 1.91</u>	<u>\$ 0.96</u>
Diluted	<u>\$ 0.98</u>	<u>\$ 0.61</u>	<u>\$ 1.86</u>	<u>\$ 0.96</u>
Shares used in net income per share calculations:				
Basic	<u>223</u>	<u>222</u>	<u>223</u>	<u>222</u>
Diluted	<u>229</u>	<u>224</u>	<u>229</u>	<u>223</u>

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

	Three Months Ended		Six Months Ended	
	October 29, 2021	October 30, 2020	October 29, 2021	October 30, 2020
Cash flows from operating activities:				
Net income	\$ 224	\$ 137	\$ 426	\$ 214
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	46	56	92	105
Non-cash operating lease cost	15	13	28	26
Stock-based compensation	62	49	115	103
Deferred income taxes	(17)	—	(32)	—
Other items, net	(16)	3	(12)	28
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	5	(194)	292	197
Inventories	(47)	20	(41)	29
Accounts payable	62	(30)	11	(59)
Accrued expenses	36	117	(206)	(69)
Deferred revenue and financed unearned services revenue	(15)	40	(97)	(118)
Long-term taxes payable	(57)	(52)	(65)	(46)
Changes in other operating assets and liabilities, net	—	2	29	(9)
Net cash provided by operating activities	<u>298</u>	<u>161</u>	<u>540</u>	<u>401</u>
Cash flows from investing activities:				
Redemptions of investments, net	15	22	26	107
Purchases of property and equipment	(46)	(40)	(97)	(92)
Proceeds from sale of properties	—	—	—	6
Acquisitions of businesses, net of cash acquired	—	—	(14)	(350)
Other investing activities, net	—	8	—	8
Net cash used in investing activities	<u>(31)</u>	<u>(10)</u>	<u>(85)</u>	<u>(321)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	—	1	53	49
Payments for taxes related to net share settlement of stock awards	(6)	(1)	(63)	(34)
Repurchase of common stock	(125)	—	(225)	—
Repayments of commercial paper notes, original maturities of three months or less, net	—	(50)	—	(420)
Issuance of debt, net of issuance costs	—	—	—	2,057
Repayments and extinguishment of debt	—	(100)	—	(689)
Dividends paid	(112)	(107)	(224)	(214)
Other financing activities, net	—	—	(2)	(3)
Net cash (used in) provided by financing activities	<u>(243)</u>	<u>(257)</u>	<u>(461)</u>	<u>746</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
	(8)	1	(13)	44
Net change in cash, cash equivalents and restricted cash	16	(105)	(19)	870
Cash, cash equivalents and restricted cash:				
Beginning of period	4,500	3,641	4,535	2,666
End of period	<u>\$ 4,516</u>	<u>\$ 3,536</u>	<u>\$ 4,516</u>	<u>\$ 3,536</u>

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

In the first quarter of fiscal year 2022, the Company introduced two segments for financial reporting purposes: Hybrid Cloud and Public Cloud. Prior period disclosures have been revised for comparability.

Revenues by Segment

	Q2'FY22	Q1'FY22	Q2'FY21
Product	\$ 814	\$ 730	\$ 749
Support	590	578	553
Professional and Other Services	75	71	67
Hybrid Cloud Segment Net Revenues	1,479	1,379	1,369
Public Cloud Segment Net Revenues	87	79	47
Net Revenues	<u>1,566</u>	<u>1,458</u>	<u>1,416</u>

Gross Profit by Segment

	Q2'FY22	Q1'FY22	Q2'FY21
Product	\$ 445	\$ 404	\$ 397
Support	542	530	503
Professional and Other Services	21	20	17
Hybrid Cloud Segment Gross Profit	1,008	954	917
Public Cloud Segment Gross Profit	62	56	31
Total Segments Gross Profit	<u>1,070</u>	<u>1,010</u>	<u>948</u>
Amortization of Intangible Assets	(7)	(7)	(12)
Stock-based Compensation	(4)	(4)	(3)
Unallocated Cost of Revenues	(11)	(11)	(15)
Gross Profit	<u>1,059</u>	<u>999</u>	<u>933</u>

Gross Margin by Segment

	Q2'FY22	Q1'FY22	Q2'FY21
Product	54.7%	55.3%	53.0%
Support	91.9%	91.7%	91.0%
Professional and Other Services	28.0%	28.2%	25.4%
Hybrid Cloud Segment Gross Margin	68.2%	69.2%	67.0%
Public Cloud Segment Gross Margin	71.3%	70.9%	66.0%

Product Revenues

	Q2'FY22	Q1'FY22	Q2'FY21
Total	\$ 814	\$ 730	\$ 749
Software*	475	414	417
Hardware*	339	316	332

* 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.

Software and recurring support and public cloud revenue

	Q2'FY22	Q1'FY22	Q2'FY21
Product - Software	\$ 475	\$ 414	\$ 417
Support	590	578	553
Public Cloud	87	79	47
Software and recurring support and public cloud revenue*	<u>1,152</u>	<u>1,071</u>	<u>1,017</u>

Software and recurring support and public cloud revenue as a percentage of net revenues	74%	73%	72%
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*Software and recurring support and public cloud revenue is a non-GAAP measure because it includes the software component of our product revenues, but not the hardware component.

Geographic Mix

	% of Q2 FY'22 Revenue	% of Q1 FY'22 Revenue	% of Q2 FY'21 Revenue
Americas	55%	54%	55%
<i>Americas Commercial</i>	43%	43%	40%
<i>U.S. Public Sector</i>	12%	11%	15%
EMEA	29%	31%	30%
Asia Pacific	15%	15%	15%

Pathways Mix

	% of Q2 FY'22 Revenue	% of Q1 FY'22 Revenue	% of Q2 FY'21 Revenue
Direct	24%	23%	25%
Indirect	76%	77%	75%

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

	Q2'FY22	Q1'FY22	Q2'FY21
Non-GAAP Income from Operations	\$ 374	\$ 336	\$ 291
% of Net Revenues	23.9%	23.0%	20.6%
Non-GAAP Income before Income Taxes	\$ 360	\$ 324	\$ 278
Non-GAAP Effective Tax Rate	18.9%	18.8%	15.1%

Non-GAAP Net Income

	Q2'FY22	Q1'FY22	Q2'FY21
Non-GAAP Net Income	\$ 292	\$ 263	\$ 236
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	229	229	224
Non-GAAP Net Income per Share, Diluted	\$ 1.28	\$ 1.15	\$ 1.05

Select Balance Sheet Items

	Q2'FY22	Q1'FY22	Q2'FY21
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,866	\$ 3,904	\$ 3,651
DSO (days)	38	41	51
DPO (days)	78	73	69
Inventory Turns	13	17	17

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

	Q2'FY22	Q1'FY22	Q2'FY21
Net Cash Provided by Operating Activities	\$ 298	\$ 242	\$ 161
Purchases of Property and Equipment	\$ 46	\$ 51	\$ 40
Free Cash Flow	\$ 252	\$ 191	\$ 121
Free Cash Flow as % of Net Revenues	16.1%	13.1%	8.5%

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

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

	Q2'FY22	Q1'FY22	Q2'FY21
NET INCOME	\$ 224	\$ 202	\$ 137
Adjustments:			
Amortization of intangible assets	10	9	15
Stock-based compensation	62	53	49
Litigation settlements	—	2	5
Restructuring charges	7	22	37
Acquisition-related expense	1	1	3
Gain on sale of equity investment	—	—	(6)
Income tax effects	(13)	(26)	(9)
Income tax expenses from integration of acquired companies	1	—	5
NON-GAAP NET INCOME	<u>\$ 292</u>	<u>\$ 263</u>	<u>\$ 236</u>
COST OF REVENUES			
Adjustments:			
Amortization of intangible assets	(7)	(7)	(12)
Stock-based compensation	(4)	(4)	(3)
NON-GAAP COST OF REVENUES	<u>\$ 496</u>	<u>\$ 448</u>	<u>\$ 468</u>
COST OF PRODUCT REVENUES			
Adjustments:			
Amortization of intangible assets	(2)	(2)	(7)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 369</u>	<u>\$ 326</u>	<u>\$ 352</u>
COST OF SERVICES REVENUES			
Adjustments:			
Amortization of intangible assets	(5)	(5)	(5)
Stock-based compensation	(3)	(3)	(2)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 127</u>	<u>\$ 122</u>	<u>\$ 116</u>
GROSS PROFIT			
Adjustments:			
Amortization of intangible assets	7	7	12
Stock-based compensation	4	4	3
NON-GAAP GROSS PROFIT	<u>\$ 1,070</u>	<u>\$ 1,010</u>	<u>\$ 948</u>

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

	Q2'FY22	Q1'FY22	Q2'FY21
SALES AND MARKETING EXPENSES	\$ 465	\$ 451	\$ 432
Adjustments:			
Amortization of intangible assets	(3)	(2)	(3)
Stock-based compensation	(29)	(26)	(24)
NON-GAAP SALES AND MARKETING EXPENSES	<u><u>\$ 433</u></u>	<u><u>\$ 423</u></u>	<u><u>\$ 405</u></u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 216	\$ 210	\$ 212
Adjustment:			
Stock-based compensation	(19)	(15)	(15)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u><u>\$ 197</u></u>	<u><u>\$ 195</u></u>	<u><u>\$ 197</u></u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 76	\$ 66	\$ 67
Adjustments:			
Stock-based compensation	(10)	(8)	(7)
Litigation settlements	—	(2)	(5)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u><u>\$ 66</u></u>	<u><u>\$ 56</u></u>	<u><u>\$ 55</u></u>
RESTRUCTURING CHARGES	\$ 7	\$ 22	\$ 37
Adjustment:			
Restructuring charges	(7)	(22)	(37)
NON-GAAP RESTRUCTURING CHARGES	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>
ACQUISITION-RELATED EXPENSE	\$ 1	\$ 1	\$ 3
Adjustment:			
Acquisition-related expense	(1)	(1)	(3)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>
OPERATING EXPENSES	\$ 765	\$ 750	\$ 751
Adjustments:			
Amortization of intangible assets	(3)	(2)	(3)
Stock-based compensation	(58)	(49)	(46)
Litigation settlements	—	(2)	(5)
Restructuring charges	(7)	(22)	(37)
Acquisition-related expense	(1)	(1)	(3)
NON-GAAP OPERATING EXPENSES	<u><u>\$ 696</u></u>	<u><u>\$ 674</u></u>	<u><u>\$ 657</u></u>

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

	Q2'FY22	Q1'FY22	Q2'FY21
INCOME FROM OPERATIONS	\$ 294	\$ 249	\$ 182
Adjustments:			
Amortization of intangible assets	10	9	15
Stock-based compensation	62	53	49
Litigation settlements	—	2	5
Restructuring charges	7	22	37
Acquisition-related expense	1	1	3
NON-GAAP INCOME FROM OPERATIONS	\$ 374	\$ 336	\$ 291
OTHER EXPENSE, NET	\$ (14)	\$ (12)	\$ (7)
Adjustment:			
Gain on sale of equity investment	—	—	(6)
NON-GAAP OTHER EXPENSE, NET	\$ (14)	\$ (12)	\$ (13)
INCOME BEFORE INCOME TAXES	\$ 280	\$ 237	\$ 175
Adjustments:			
Amortization of intangible assets	10	9	15
Stock-based compensation	62	53	49
Litigation settlements	—	2	5
Restructuring charges	7	22	37
Acquisition-related expense	1	1	3
Gain on sale of equity investment	—	—	(6)
NON-GAAP INCOME BEFORE INCOME TAXES	\$ 360	\$ 324	\$ 278
PROVISION FOR INCOME TAXES	\$ 56	\$ 35	\$ 38
Adjustments:			
Income tax effects	13	26	9
Income tax expenses from integration of acquired companies	(1)	—	(5)
NON-GAAP PROVISION FOR INCOME TAXES	\$ 68	\$ 61	\$ 42
NET INCOME PER SHARE	\$ 0.98	\$ 0.88	\$ 0.61
Adjustments:			
Amortization of intangible assets	0.04	0.04	0.07
Stock-based compensation	0.27	0.23	0.22
Litigation settlements	—	0.01	0.02
Restructuring charges	0.03	0.10	0.17
Acquisition-related expense	—	—	0.01
Gain on sale of equity investment	—	—	(0.03)
Income tax effects	(0.06)	(0.11)	(0.04)
Income tax expenses from integration of acquired companies	—	—	0.02
NON-GAAP NET INCOME PER SHARE	\$ 1.28	\$ 1.15	\$ 1.05

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

	Q2'FY22	Q1'FY22	Q2'FY21
Gross margin-GAAP	67.6%	68.5%	65.9%
Cost of revenues adjustments	0.7%	0.8%	1.1%
Gross margin-Non-GAAP	68.3%	69.3%	66.9%
GAAP cost of revenues	\$ 507	\$ 459	\$ 483
Cost of revenues adjustments:			
Amortization of intangible assets	(7)	(7)	(12)
Stock-based compensation	(4)	(4)	(3)
Non-GAAP cost of revenues	<u>\$ 496</u>	<u>\$ 448</u>	<u>\$ 468</u>
Net revenues	\$ 1,566	\$ 1,458	\$ 1,416

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

	Q2'FY22	Q1'FY22	Q2'FY21
Product gross margin-GAAP	54.3%	54.9%	51.9%
Cost of product revenues adjustments	0.4%	0.4%	1.1%
Product gross margin-Non-GAAP	54.7%	55.3%	53.0%
GAAP cost of product revenues	\$ 372	\$ 329	\$ 360
Cost of product revenues adjustments:			
Amortization of intangible assets	(2)	(2)	(7)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 369</u>	<u>\$ 326</u>	<u>\$ 352</u>
Product revenues	\$ 814	\$ 730	\$ 749

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

	Q2'FY22	Q1'FY22	Q2'FY21
Services gross margin-GAAP	82.0%	82.1%	81.6%
Cost of services revenues adjustment	1.1%	1.1%	1.0%
Services gross margin-Non-GAAP	83.1%	83.2%	82.6%
GAAP cost of services revenues	\$ 135	\$ 130	\$ 123
Cost of services revenues adjustments:			
Amortization of intangible assets	(5)	(5)	(5)
Stock-based compensation	(3)	(3)	(2)
Non-GAAP cost of services revenues	<u>\$ 127</u>	<u>\$ 122</u>	<u>\$ 116</u>
Services revenues	\$ 752	\$ 728	\$ 667

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

	<u>Q2'FY22</u>	<u>Q1'FY22</u>	<u>Q2'FY21</u>
GAAP effective tax rate	20.0%	14.8%	21.7%
Adjustments:			
Income tax effects	(0.8)%	4.1%	(3.8)%
Income tax expenses from integration of acquired companies	(0.4)%	—%	(2.9)%
Non-GAAP effective tax rate	18.9%	18.8%	15.1%

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

	<u>Q2'FY22</u>	<u>Q1'FY22</u>	<u>Q2'FY21</u>
Net cash provided by operating activities	\$ 298	\$ 242	\$ 161
Purchases of property and equipment	(46)	(51)	(40)
Free cash flow	\$ 252	\$ 191	\$ 121

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

	<u>Q2'FY22</u>	<u>Q1'FY22</u>	<u>Q2'FY21</u>
Net revenues	\$ 1,566	\$ 1,458	\$ 1,416
Change in deferred revenue and financed unearned services revenue*	(15)	(82)	40
Billings	\$ 1,551	\$ 1,376	\$ 1,456

* As reported on our Condensed Consolidated Statements of Cash Flows

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
THIRD QUARTER FISCAL 2022

	<u>Third Quarter Fiscal 2022</u>
Non-GAAP Guidance - Net Income Per Share	\$ 1.21 - \$ 1.31
Adjustments of Specific Items to Net Income Per Share for the Third Quarter Fiscal 2022:	
Amortization of intangible assets	(\$0.04)
Stock-based compensation expense	(\$0.27)
Income tax effects	\$ 0.03
Total Adjustments	(\$0.28)
GAAP Guidance - Net Income Per Share	\$ 0.93 - \$ 1.03

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
FISCAL 2022
(Unaudited)

GROSS MARGIN	
Gross Margin - Non-GAAP Guidance	~68%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	~67%
OPERATING MARGIN	
Operating Margin - Non-GAAP Guidance	23% - 24%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(4)%
Operating Margin - GAAP Guidance	18% - 19%
EFFECTIVE TAX RATE	
Effective Tax Rate - Non-GAAP Guidance	~19%
Adjustment:	
Income tax effects	2%
Effective Tax Rate - GAAP Guidance	~21%

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
FISCAL 2022

Fiscal 2022	
Non-GAAP Guidance - Net Income Per Share	\$4.90 - \$5.10
Adjustments of Specific Items to Net Income	
Per Share for Fiscal 2022:	
Amortization of intangible assets	(\$0.17)
Stock-based compensation expense	(\$1.06)
Income tax effects	\$0.13
Total Adjustments	(\$1.10)
GAAP Guidance - Net Income Per Share	\$3.80 - \$4.00

Some items may not add or recalculate due to rounding.

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