

NetApp usage of non-GAAP financial information

To supplement NetApp's condensed consolidated financial statement information presented in accordance with generally accepted accounting principles in the United States (GAAP), NetApp provides investors with certain non-GAAP measures, including, but not limited to, historical non-GAAP operating results, non-GAAP net income, non-GAAP effective tax rate, free cash flow, billings, and historical and projected non-GAAP earnings per diluted share. NetApp also presents the hardware and software components of our GAAP product revenues. Because 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, hardware and software components of our product revenues are considered non-GAAP measures. The hardware and software components of our product revenues are derived from an estimated fair value allocation of the transaction price of our contracts with customers, down to the level of the product hardware and software components. This allocation is primarily based on the contractual prices at which NetApp has historically billed customers for such respective components.

NetApp believes that the presentation of non-GAAP net income, non-GAAP effective tax rates, and non-GAAP earnings per share data, when shown in conjunction with the corresponding GAAP measures, provides useful information to investors and management regarding financial and business trends relating to its financial condition and results of operations.

NetApp believes that the presentation of free cash flow, which it defines as the net cash provided by operating activities less cash used to acquire property and equipment, to be a liquidity measure that provides useful information to management and investors because it reflects cash that can be used to, among other things, invest in its business, make strategic acquisitions, repurchase common stock, and pay dividends on its common stock. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statement of cash flows.

NetApp believes that the presentation of the software and hardware components of our product revenues is meaningful to investors and management as it illustrates the significance of the Company's software and provides improved visibility into the value created by our software innovation and R&D investment.

NetApp approximates billings by adding net revenues as reported on our Condensed Consolidated Statements of Operations for the period to the change in total deferred revenue and financed unearned services revenue as reported on our Condensed Consolidated Statements of Cash Flows for the same period. Billings is a performance measure that NetApp believes provides useful information to management and investors because it approximates the amounts under purchase orders received by us during a given period that have been billed.

NetApp's management uses these non-GAAP measures in making operating decisions because it believes the measurements provide meaningful supplemental information regarding NetApp's ongoing operational performance. These non-GAAP financial measures are used to: (1) measure company performance against historical results, (2) facilitate comparisons to our competitors' operating results and (3) allow greater transparency with respect to information used by management in financial and operational decision making.

NetApp excludes the following items from its non-GAAP measures when applicable:

A. *Amortization of intangible assets.* NetApp records amortization of intangible assets that were acquired in connection with its business combinations. The amortization of intangible assets varies depending on the level of acquisition activity. Management finds it useful to exclude these charges to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods and in measuring operational performance.

B. *Stock-based compensation expenses.* NetApp excludes stock-based compensation expenses from its non-GAAP measures primarily because the amount can fluctuate based on variables unrelated to the performance of the underlying business. While management views stock-based compensation as a key element of our employee retention and long-term incentives, we do not view it as an expense to be used in evaluating operational performance in any given period.

C. *Litigation settlements.* NetApp may periodically incur charges or benefits related to litigation settlements. NetApp excludes these charges and benefits, when significant, because it does not believe they are reflective of ongoing business and operating results.

D. *Acquisition-related expenses.* NetApp excludes acquisition-related expenses, including (a) due diligence, legal and other one-time integration charges and (b) write down of assets acquired that NetApp does not intend to use in its ongoing business, from its non-GAAP measures, primarily because they are not related to our ongoing business or cost base and, therefore, are less useful for future planning and forecasting.

E. *Restructuring charges.* These charges consist of restructuring charges that are incurred based on the particular facts and circumstances of restructuring decisions, including employment and contractual settlement terms, and other related charges, and can vary in size and frequency. We therefore exclude them in our assessment of operational performance.

F. *Asset impairments.* These are non-cash charges to write down assets when there is an indication that the asset has become impaired. Management finds it useful to exclude these non-cash charges due to the unpredictability of these events in its assessment of operational performance.

G. *Gains/losses on the sale or derecognition of assets.* These are gains/losses from the sale of our properties and other transactions in which we transfer control of assets to a third party. Management believes that these transactions do not reflect the results of our underlying, on-going business and, therefore, are less useful for future planning and forecasting.

H. *Gains/losses on the sale of investments in equity securities.* These are gains/losses from the sale of our investment in certain equity securities. Typically, such investments are sold as a result of a change in control of the underlying businesses. Management believes that these transactions do not reflect the results of our underlying, on-going business and, therefore, are less useful for future planning and forecasting.

I. *Debt extinguishment costs.* NetApp excludes certain non-recurring expenses incurred as a result of the early extinguishment of debt. Management believes such nonrecurring costs do not reflect the results of its underlying, on-going business and, therefore, are less useful for future planning and forecasting.

J. *Income tax adjustments.* NetApp's non-GAAP tax provision is based upon a projected annual non-GAAP effective tax rate for the first three quarters of the fiscal year and an actual non-GAAP tax provision for the fourth quarter of the fiscal year. The non-GAAP tax provision also excludes, when applicable, (a) tax charges or benefits in the current period that relate to one or more prior fiscal periods that are a result of events such as changes in tax legislation, authoritative guidance, income tax audit settlements, statute lapses and/or court decisions, (b) tax charges or benefits that are attributable to unusual or non-recurring book and/or tax accounting method changes, (c) tax charges that are a result of a non-routine foreign cash repatriation, (d) tax charges or benefits that are a result of infrequent restructuring of the Company's tax structure, (e) tax charges or benefits that are a result of a change in valuation allowance, and (f) tax charges resulting from the integration of intellectual property from acquisitions. Management believes that the use of non-GAAP tax provisions provides a more meaningful measure of the Company's operational performance.

These non-GAAP measures are not in accordance with, or an alternative for, measures prepared in accordance with GAAP, and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. NetApp believes that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. NetApp management compensates for these limitations by analyzing current and projected results on a GAAP basis as well as a non-GAAP basis. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with generally accepted accounting principles in the United States. The non-GAAP financial measures are meant to supplement, and be viewed in conjunction with, GAAP financial measures.

NETAPP, INC.

SUPPLEMENTAL DATA

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

RECONCILIATION OF SEGMENTS GROSS PROFIT TO TOTAL GROSS PROFIT*

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Revenues by Segment								
Product	\$ 2,991	\$ 730	\$ 814	\$ 846	\$ 894	\$ 3,284	\$ 786	\$ 837
Support	2,277	578	590	586	590	2,344	598	607
Professional and Other Services	277	71	75	72	76	294	76	77
Hybrid Cloud Segment Net Revenues	5,545	1,379	1,479	1,504	1,560	5,922	1,460	1,521
Public Cloud Segment Net Revenues	199	79	87	110	120	396	132	142
Net Revenues	\$ 5,744	\$ 1,458	\$ 1,566	\$ 1,614	\$ 1,680	\$ 6,318	\$ 1,592	\$ 1,663
Gross Profit by Segment								
Product	\$ 1,589	\$ 404	\$ 445	\$ 442	\$ 452	\$ 1,743	\$ 391	\$ 420
Support	2,076	530	542	541	547	2,160	555	562
Professional and Other Services	71	20	21	26	22	89	24	23
Hybrid Cloud Segment Gross Profit	3,736	954	1,008	1,009	1,021	3,992	970	1,005
Public Cloud Segment Gross Profit	134	56	62	78	82	278	92	97
Total Segments Gross Profit	3,870	1,010	1,070	1,087	1,103	4,270	1,062	1,102
Amortization of Intangible Assets	(41)	(7)	(7)	(9)	(10)	(33)	(11)	(10)
Stock-based Compensation	(14)	(4)	(4)	(5)	(4)	(17)	(5)	(5)
Unallocated Cost of Revenues	(55)	(11)	(11)	(14)	(14)	(50)	(16)	(15)
Gross Profit	\$ 3,815	\$ 999	\$ 1,059	\$ 1,073	\$ 1,089	\$ 4,220	\$ 1,046	\$ 1,087
Gross Margin by Segment								
Product	53.1%	55.3%	54.7%	52.2%	50.6%	53.1%	49.7%	50.2%
Support	91.2%	91.7%	91.9%	92.3%	92.7%	92.2%	92.8%	92.6%
Professional and Other Services	25.6%	28.2%	28.0%	36.1%	28.9%	30.3%	31.6%	29.9%
Hybrid Cloud Segment Gross Margin	67.4%	69.2%	68.2%	67.1%	65.4%	67.4%	66.4%	66.1%
Public Cloud Segment Gross Margin	67.3%	70.9%	71.3%	70.9%	68.3%	70.2%	69.7%	68.3%

*Effective July 30, 2021, our Chief Operating Decision Maker, who is our Chief Executive Officer, realigned internal reporting for the purposes of evaluating performance and allocating resources. This resulted in the creation of two reportable segments for financial reporting purposes: Public Cloud and Hybrid Cloud.

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Software and recurring Support and public cloud revenue								
Product - Software	\$1,636	\$414	\$475	\$507	\$530	\$1,926	\$476	\$495
Support	\$2,277	\$578	\$590	\$586	\$590	\$2,344	\$598	\$607
Public Cloud	\$199	\$79	\$87	\$110	\$120	\$396	\$132	\$142
Software and recurring Support and public cloud revenue*	\$4,112	\$1,071	\$1,152	\$1,203	\$1,240	\$4,666	\$1,206	\$1,244

*Software and recurring Support and 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 FY 2021 Revenue	% of Q1 FY 2022 Revenue	% of Q2 FY 2022 Revenue	% of Q3 FY 2022 Revenue	% of Q4 FY 2022 Revenue	% FY 2022 Revenue	% of Q1 FY 2023 Revenue	% of Q2 FY 2023 Revenue
Americas	54%	54%	55%	56%	54%	55%	54%	54%
<i>Americas Commercial</i>	43%	43%	43%	47%	45%	45%	42%	40%
<i>U.S. Public Sector</i>	11%	11%	12%	9%	9%	10%	12%	14%
EMEA	31%	31%	29%	32%	32%	31%	31%	32%
Asia Pacific	15%	15%	15%	12%	14%	14%	15%	14%

Pathways Mix

	% of FY 2021 Revenue	% of Q1 FY 2022 Revenue	% of Q2 FY 2022 Revenue	% of Q3 FY 2022 Revenue	% of Q4 FY 2022 Revenue	% FY 2022 Revenue	% of Q1 FY 2023 Revenue	% of Q2 FY 2023 Revenue
Direct	23%	23%	24%	21%	24%	23%	21%	23%
Indirect	77%	77%	76%	79%	76%	77%	79%	77%

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

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Non-GAAP Income from Operations	\$1,184	\$336	\$374	\$404	\$382	\$1,496	\$360	\$393
% of Net Revenues	20.6%	23.0%	23.9%	25.0%	22.7%	23.7%	22.6%	23.6%
Non-GAAP Income Before Income Taxes	\$1,123	\$324	\$360	\$389	\$361	\$1,434	\$343	\$416
Non-GAAP Effective Tax Rate	18.3%	18.8%	18.9%	15.2%	10.2%	15.7%	21.6%	21.6%

Non-GAAP Net Income

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Non-GAAP Net Income	\$917	\$263	\$292	\$330	\$324	\$1,209	\$269	\$326
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	226	229	229	229	228	229	224	220
Non-GAAP Net Income per Share, Diluted	\$4.06	\$1.15	\$1.28	\$1.44	\$1.42	\$5.28	\$1.20	\$1.48

Select Balance Sheet Items

	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	Q1 FY'23	Q2 FY'23
Deferred Revenue and Financed Unearned Services Revenue	\$3,904	\$3,866	\$3,969	\$4,232	\$4,170	\$4,051
DSO (days)	41	38	45	67	49	50
DPO (days)	73	78	73	93	86	92
Inventory Turns	17	13	13	12	9	9

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

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Net Cash Provided by (used in) Operating Activities	\$1,333	\$242	\$298	\$260	\$411	\$1,211	\$281	\$214
Purchases of Property and Equipment	\$162	\$51	\$46	\$61	\$68	\$226	\$65	\$77
Free Cash Flow	\$1,171	\$191	\$252	\$199	\$343	\$985	\$216	\$137
Free Cash Flow as % of Net Revenues	20.4%	13.1%	16.1%	12.3%	20.4%	15.6%	13.6%	8.2%

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)

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
	\$	\$	\$	\$	\$	\$	\$	\$
NET INCOME	730	202	224	252	259	937	214	750
Adjustments:								
Amortization of intangible assets	49	9	10	13	14	46	17	17
Stock-based compensation	197	53	62	64	66	245	67	78
Asset impairment	-	-	-	-	-	-	-	-
Litigation settlements	5	2	-	-	-	2	-	-
COVID-19 charges	-	-	-	-	-	-	-	-
Restructuring charges	42	22	7	-	4	33	11	11
Acquisition-related expense	16	1	1	6	5	13	10	5
Gain on sale or derecognition of assets	(156)	-	-	-	-	-	-	-
Debt extinguishment costs	14	-	-	-	-	-	-	-
Gain on sale of equity investment	(6)	-	-	-	-	-	(32)	-
Income tax effects	(20)	(26)	(13)	(5)	(24)	(68)	(18)	(11)
Income tax expenses from integration of acquired companies	46	-	1	-	-	1	-	-
Income tax benefit from intra-entity intellectual property transfer	-	-	-	-	-	-	-	(524)
NON-GAAP NET INCOME	<u>\$ 917</u>	<u>\$ 263</u>	<u>\$ 292</u>	<u>\$ 330</u>	<u>\$ 324</u>	<u>\$ 1,209</u>	<u>\$ 269</u>	<u>\$ 326</u>
COST OF REVENUES	1,929	459	507	541	591	2,098	546	576
Adjustments:								
Amortization of intangible assets	(41)	(7)	(7)	(9)	(10)	(33)	(11)	(10)
Stock-based compensation	(14)	(4)	(4)	(5)	(4)	(17)	(5)	(5)
NON-GAAP COST OF REVENUES	<u>\$ 1,874</u>	<u>\$ 448</u>	<u>\$ 496</u>	<u>\$ 527</u>	<u>\$ 577</u>	<u>\$ 2,048</u>	<u>\$ 530</u>	<u>\$ 561</u>
COST OF PRODUCT REVENUES	\$ 1,432	\$ 329	\$ 372	\$ 407	\$ 446	\$ 1,554	\$ 397	\$ 418
Adjustments:								
Amortization of intangible assets	(26)	(2)	(2)	(2)	(3)	(9)	(1)	-
Stock-based compensation	(4)	(1)	(1)	(1)	(1)	(4)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 1,402</u>	<u>\$ 326</u>	<u>\$ 369</u>	<u>\$ 404</u>	<u>\$ 442</u>	<u>\$ 1,541</u>	<u>\$ 395</u>	<u>\$ 417</u>
COST OF SERVICES REVENUES	\$ 497	\$ 130	\$ 135	\$ 134	\$ 145	\$ 544	\$ 149	\$ 158
Adjustments:								
Amortization of intangible assets	(15)	(5)	(5)	(7)	(7)	(24)	(10)	(10)
Stock-based compensation	(10)	(3)	(3)	(4)	(3)	(13)	(4)	(4)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 472</u>	<u>\$ 122</u>	<u>\$ 127</u>	<u>\$ 123</u>	<u>\$ 135</u>	<u>\$ 507</u>	<u>\$ 135</u>	<u>\$ 144</u>

GROSS PROFIT	\$	3,815	\$	999	\$	1,059	\$	1,073	\$	1,089	\$	4,220	\$	1,046	\$	1,087
Adjustments:																
Amortization of intangible assets		41		7		7		9		10		33		11		10
Stock-based compensation		14		4		4		5		4		17		5		5
NON-GAAP GROSS PROFIT	<u>\$</u>	<u>3,870</u>	<u>\$</u>	<u>1,010</u>	<u>\$</u>	<u>1,070</u>	<u>\$</u>	<u>1,087</u>	<u>\$</u>	<u>1,103</u>	<u>\$</u>	<u>4,270</u>	<u>\$</u>	<u>1,062</u>	<u>\$</u>	<u>1,102</u>
SALES AND MARKETING EXPENSES	\$	1,744	\$	451	\$	465	\$	461	\$	480	\$	1,857	\$	458	\$	479
Adjustments:																
Amortization of intangible assets		(8)		(2)		(3)		(4)		(4)		(13)		(6)		(7)
Stock-based compensation		(92)		(26)		(29)		(30)		(30)		(115)		(28)		(35)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$</u>	<u>1,644</u>	<u>\$</u>	<u>423</u>	<u>\$</u>	<u>433</u>	<u>\$</u>	<u>427</u>	<u>\$</u>	<u>446</u>	<u>\$</u>	<u>1,729</u>	<u>\$</u>	<u>424</u>	<u>\$</u>	<u>437</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$	881	\$	210	\$	216	\$	220	\$	235	\$	881	\$	240	\$	243
Adjustment:																
Stock-based compensation		(64)		(15)		(19)		(19)		(22)		(75)		(24)		(26)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$</u>	<u>817</u>	<u>\$</u>	<u>195</u>	<u>\$</u>	<u>197</u>	<u>\$</u>	<u>201</u>	<u>\$</u>	<u>213</u>	<u>\$</u>	<u>806</u>	<u>\$</u>	<u>216</u>	<u>\$</u>	<u>217</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$	257	\$	66	\$	76	\$	65	\$	72	\$	279	\$	72	\$	67
Adjustments:																
Stock-based compensation		(27)		(8)		(10)		(10)		(10)		(38)		(10)		(12)
Litigation settlements		(5)		(2)		-		-		-		(2)		-		-
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$</u>	<u>225</u>	<u>\$</u>	<u>56</u>	<u>\$</u>	<u>66</u>	<u>\$</u>	<u>55</u>	<u>\$</u>	<u>62</u>	<u>\$</u>	<u>239</u>	<u>\$</u>	<u>62</u>	<u>\$</u>	<u>55</u>

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

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
RESTRUCTURING CHARGES	\$ 42	\$ 22	\$ 7	\$ -	\$ 4	\$ 33	\$ 11	\$ 11
Adjustment:								
Restructuring charges	(42)	(22)	(7)	-	(4)	(33)	(11)	(11)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ACQUISITION-RELATED EXPENSE	\$ 16	\$ 1	\$ 1	\$ 6	\$ 5	\$ 13	\$ 10	\$ 5
Adjustment:								
Acquisition-related expense	(16)	(1)	(1)	(6)	(5)	(13)	(10)	(5)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
GAIN ON SALE OR DERECOGNITION OF ASSETS	\$ (156)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Adjustment:								
Gain on sale or derecognition of assets	156	-	-	-	-	-	-	-
NON-GAAP GAIN ON SALE OR DERECOGNITION OF ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OPERATING EXPENSES	\$ 2,784	\$ 750	\$ 765	\$ 752	\$ 796	\$ 3,063	\$ 791	\$ 805
Adjustments:								
Amortization of intangible assets	(8)	(2)	(3)	(4)	(4)	(13)	(6)	(7)
Stock-based compensation	(183)	(49)	(58)	(59)	(62)	(228)	(62)	(73)
Litigation settlements	(5)	(2)	-	-	-	(2)	-	-
COVID-19 charges	-	-	-	-	-	-	-	-
Restructuring charges	(42)	(22)	(7)	-	(4)	(33)	(11)	(11)
Acquisition-related expense	(16)	(1)	(1)	(6)	(5)	(13)	(10)	(5)
Gain on sale or derecognition of assets	156	-	-	-	-	-	-	-
NON-GAAP OPERATING EXPENSES	<u>\$ 2,686</u>	<u>\$ 674</u>	<u>\$ 696</u>	<u>\$ 683</u>	<u>\$ 721</u>	<u>\$ 2,774</u>	<u>\$ 702</u>	<u>\$ 709</u>
INCOME FROM OPERATIONS	\$ 1,031	\$ 249	\$ 294	\$ 321	\$ 293	\$ 1,157	\$ 255	\$ 282
Adjustments:								
Amortization of intangible assets	49	9	10	13	14	46	17	17
Stock-based compensation	197	53	62	64	66	245	67	78
Litigation settlements	5	2	-	-	-	2	-	-
Restructuring charges	42	22	7	-	4	33	11	11
Acquisition-related expense	16	1	1	6	5	13	10	5
Gain on sale or derecognition of assets	(156)	-	-	-	-	-	-	-
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 1,184</u>	<u>\$ 336</u>	<u>\$ 374</u>	<u>\$ 404</u>	<u>\$ 382</u>	<u>\$ 1,496</u>	<u>\$ 360</u>	<u>\$ 393</u>

OTHER INCOME (EXPENSE), NET	\$	(69)	\$	(12)	\$	(14)	\$	(15)	\$	(21)	\$	(62)	\$	15	\$	23
Adjustments:																
Debt extinguishment costs		14		-		-		-		-		-		-		-
Gain on sale of equity investment		(6)		-		-		-		-		-		(32)		-
NON-GAAP OTHER INCOME (EXPENSE), NET	\$	(61)	\$	(12)	\$	(14)	\$	(15)	\$	(21)	\$	(62)	\$	(17)	\$	23
INCOME BEFORE INCOME TAXES	\$	962	\$	237	\$	280	\$	306	\$	272	\$	1,095	\$	270	\$	305
Adjustments:														-		-
Amortization of intangible assets		49		9		10		13		14		46		17		17
Stock-based compensation		197		53		62		64		66		245		67		78
Litigation settlements		5		2		-		-		-		2		-		-
Restructuring charges		42		22		7		-		4		33		11		11
Acquisition-related expense		16		1		1		6		5		13		10		5
Gain on sale or derecognition of assets		(156)		-		-		-		-		-		-		-
Debt extinguishment costs		14		-		-		-		-		-		-		-
Gain on sale of equity investment		(6)		-		-		-		-		-		(32)		-
NON-GAAP INCOME BEFORE INCOME TAXES	\$	1,123	\$	324	\$	360	\$	389	\$	361	\$	1,434	\$	343	\$	416
(BENEFIT) PROVISION FOR INCOME TAXES	\$	232	\$	35	\$	56	\$	54	\$	13	\$	158	\$	56	\$	(445)
Adjustments:														-		-
Income tax effects		20		26		13		5		24		68		18		11
Income tax expenses from integration of acquired companies		(46)		-		(1)		-		-		(1)		-		-
Income tax benefit from intra-entity intellectual property transfer		-		-		-		-		-		-		-		524
NON-GAAP PROVISION FOR INCOME TAXES	\$	206	\$	61	\$	68	\$	59	\$	37	\$	225	\$	74	\$	90
NET INCOME PER SHARE	\$	3.23	\$	0.88	\$	0.98	\$	1.10	\$	1.14	\$	4.09	\$	0.96	\$	3.41
Adjustments:																
Amortization of intangible assets		0.22		0.04		0.04		0.06		0.06		0.20		0.08		0.08
Stock-based compensation		0.87		0.23		0.27		0.28		0.29		1.07		0.30		0.35
Litigation settlements		0.02		0.01		-		-		-		0.01		-		-
Restructuring charges		0.19		0.10		0.03		-		0.02		0.14		0.05		0.05
Acquisition-related expense		0.07		-		-		0.03		0.02		0.06		0.04		0.02
Gain on sale or derecognition of assets		(0.69)		-		-		-		-		-		-		-
Debt extinguishment costs		0.06		-		-		-		-		-		-		-
Gain on sale of equity investment		(0.03)		-		-		-		-		-		(0.14)		-
Income tax effects		(0.09)		(0.11)		(0.06)		(0.02)		(0.11)		(0.30)		(0.08)		(0.05)
Income tax expenses from integration of acquired companies		0.20		-		-		-		-		0.00		-		-
Income tax benefit from intra-entity intellectual property transfer		-		-		-		-		-		-		-		(2.38)
NON-GAAP NET INCOME PER SHARE	\$	4.06	\$	1.15	\$	1.28	\$	1.44	\$	1.42	\$	5.28	\$	1.20	\$	1.48

RECONCILIATION OF NON-GAAP TO GAAP

GROSS MARGIN

(\$ in millions)

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Gross margin-GAAP	66.4%	68.5%	67.6%	66.5%	64.8%	66.8%	65.7%	65.4%
Cost of revenues adjustments	1.0%	0.8%	0.7%	0.9%	0.8%	0.8%	1.0%	0.9%
Gross margin-Non-GAAP	67.4%	69.3%	68.3%	67.3%	65.7%	67.6%	66.7%	66.3%
GAAP cost of revenues	\$ 1,929	\$ 459	\$ 507	\$ 541	\$ 591	\$ 2,098	\$ 546	\$ 576
Cost of revenues adjustments:								
Amortization of intangible assets	(41)	(7)	(7)	(9)	(10)	(33)	(11)	(10)
Stock-based compensation	(14)	(4)	(4)	(5)	(4)	(17)	(5)	(5)
Non-GAAP cost of revenues	\$ 1,874	\$ 448	\$ 496	\$ 527	\$ 577	\$ 2,048	\$ 530	\$ 561
Net revenues	\$ 5,744	\$ 1,458	\$ 1,566	\$ 1,614	\$ 1,680	\$ 6,318	\$ 1,592	\$ 1,663

RECONCILIATION OF NON-GAAP TO GAAP

PRODUCT GROSS MARGIN

(\$ in millions)

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Product gross margin-GAAP	52.1%	54.9%	54.3%	51.9%	50.1%	52.7%	49.5%	50.1%
Cost of product revenues adjustments	1.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.1%
Product gross margin-Non-GAAP	53.1%	55.3%	54.7%	52.2%	50.6%	53.1%	49.7%	50.2%
GAAP cost of product revenues	\$ 1,432	\$ 329	\$ 372	\$ 407	\$ 446	\$ 1,554	\$ 397	\$ 418
Cost of product revenues adjustments:								
Amortization of intangible assets	(26)	(2)	(2)	(2)	(3)	(9)	(1)	-
Stock-based compensation	(4)	(1)	(1)	(1)	(1)	(4)	(1)	(1)
Non-GAAP cost of product revenues	\$ 1,402	\$ 326	\$ 369	\$ 404	\$ 442	\$ 1,541	\$ 395	\$ 417
Product revenues	\$ 2,991	\$ 730	\$ 814	\$ 846	\$ 894	\$ 3,284	\$ 786	\$ 837

RECONCILIATION OF NON-GAAP TO GAAP

SERVICES GROSS MARGIN

(\$ in millions)

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Services gross margin-GAAP	81.9%	82.1%	82.0%	82.6%	81.6%	82.1%	81.5%	80.9%
Cost of services revenues adjustments	1.0%	1.1%	1.1%	1.4%	1.3%	1.2%	1.7%	1.7%
Services gross margin-Non-GAAP	82.9%	83.2%	83.1%	84.0%	82.8%	83.3%	83.3%	82.6%
GAAP cost of services revenues	\$ 497	\$ 130	\$ 135	\$ 134	\$ 145	\$ 544	\$ 149	\$ 158
Cost of services revenues adjustments:								
Amortization of intangible assets	(15)	(5)	(5)	(7)	(7)	(24)	(10)	(10)
Stock-based compensation	(10)	(3)	(3)	(4)	(3)	(13)	(4)	(4)
Non-GAAP cost of services revenues	\$ 472	\$ 122	\$ 127	\$ 123	\$ 135	\$ 507	\$ 135	\$ 144
Services revenues	\$ 2,753	\$ 728	\$ 752	\$ 768	\$ 786	\$ 3,034	\$ 806	\$ 826

RECONCILIATION OF NON-GAAP TO GAAP

EFFECTIVE TAX RATE

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
GAAP effective tax rate	24.1%	14.8%	20.0%	17.6%	4.8%	14.4%	20.7%	(145.9%)
Adjustments:								
Income tax effects	(1.0%)	4.1%	(0.8%)	(2.5%)	5.5%	1.4%	0.8%	41.6%
Income tax expenses from integration of acquired companies	(4.8%)	- %	(0.4%)	- %	- %	(0.1%)	- %	- %
Income tax benefit from intra-entity intellectual property transfer	- %	- %	- %	- %	- %	- %	- %	126%
Non-GAAP effective tax rate	18.3%	18.8%	18.9%	15.2%	10.2%	15.7%	21.6%	21.6%

RECONCILIATION OF NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

TO FREE CASH FLOW (NON-GAAP)

(In millions)

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Net cash provided by (used in) operating activities	\$ 1,333	\$ 242	\$ 298	\$ 260	\$ 411	\$ 1,211	\$ 281	\$ 214
Purchases of property and equipment	(162)	(51)	(46)	(61)	(68)	(226)	(65)	(77)
Free cash flow	\$ 1,171	\$ 191	\$ 252	\$ 199	\$ 343	\$ 985	\$ 216	\$ 137

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

	FY 2021	Q1 FY'22	Q2 FY'22	Q3 FY'22	Q4 FY'22	FY 2022	Q1 FY'23	Q2 FY'23
Net revenues	\$ 5,744	\$ 1,458	\$ 1,566	\$ 1,614	\$ 1,680	\$ 6,318	\$ 1,592	\$ 1,663
Change in deferred revenue and financed unearned services revenue*	193	(82)	(15)	143	338	384	(32)	(61)
Billings	\$ 5,937	\$ 1,376	\$ 1,551	\$ 1,757	\$ 2,018	\$ 6,702	\$ 1,560	\$ 1,602

* As reported on our Condensed Consolidated Statements of Cash Flows

Some items may not add or recalculate due to rounding

DOLLAR-BASED NET REVENUE RETENTION RATE (NON-GAAP) DEFINITION

Dollar-based net revenue retention rate (DBNRR) for Public Cloud is a Non-GAAP metric calculated by dividing the approximate total revenue from our Public Cloud customer base at the end of a period ("Cloud Current Period revenue") by the approximate revenue of the same group of customers at the beginning of that 12-month period. Cloud Current Period revenue includes existing customer renewals and expansion, is net of existing customer contraction and churn, and excludes new customers. Amounts used in the calculation of DBNRR differ from revenues recognized in accordance with US GAAP as they are derived from contract values prior to the reallocation of total contract value across

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
THIRD QUARTER FISCAL 2023
(Unaudited)

	<u>Third Quarter Fiscal 2023</u>
Gross Margin - Non-GAAP Guidance	~67%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	<u>~66%</u>

	<u>Third Quarter Fiscal 2023</u>
Operating Margin - Non-GAAP Guidance	22% - 23%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(5)%
Operating Margin - GAAP Guidance	<u>16% - 17%</u>

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

	<u>Third Quarter Fiscal 2023</u>
Net Income Per Share - Non-GAAP Guidance	\$1.25 - \$1.35
Adjustments:	
Amortization of intangible assets	(\$0.08)
Stock-based compensation expense	(\$0.35)
Income tax effects	\$0.06
Net Income Per Share - GAAP Guidance	<u>\$0.88 - \$0.98</u>

	<u>Third Quarter Fiscal 2023</u>
Effective Tax Rate - Non-GAAP Guidance	21% - 22%
Adjustment:	
Income tax effects	3%
Effective Tax Rate - GAAP Guidance	<u>24% - 25%</u>

Some items may not add or recalculate due to rounding

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
FISCAL 2023
(Unaudited)

	Fiscal 2023
Gross Margin - Non-GAAP Guidance	66% - 67%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	65% - 66%

	Fiscal 2023
Operating Margin - Non-GAAP Guidance	~23%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(5)%
Operating Margin - GAAP Guidance	~17%

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
FISCAL 2023
(Unaudited)

	Fiscal 2023
Net Income Per Share - Non-GAAP Guidance	\$5.30 - \$5.50
Adjustments:	
Amortization of intangible assets	(\$0.31)
Stock-based compensation expense	(\$1.37)
Restructuring charges	(\$0.10)
Acquisition-related expenses	(\$0.07)
Gain on sale of equity investment	\$0.14
Income tax benefit from intra-entity intellectual property transfer	\$2.37
Income tax effects	\$0.33
Net Income Per Share - GAAP Guidance	\$6.29 - \$6.49

	Fiscal 2023
Net cash provided by operating activities	> \$1,400
Adjustment:	
Purchases of property and equipment	~ (\$300)
Free cash flow	> \$1,100

Public Cloud annualized revenue run rate (ARR) is calculated as the annualized value of all Public Cloud customer commitments with the assumption that any commitment expiring during the next 12 months will be renewed with its existing terms

Some items may not add or recalculate due to rounding