

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

October 25, 2019

April 26,  
2019

**ASSETS**

Current assets:

Cash, cash equivalents and investments	\$	2,987	\$	3,899
Accounts receivable		780		1,216
Inventories		111		131
Other current assets		313		364
Total current assets		4,191		5,610

Property and equipment, net		746		759
Goodwill and purchased intangible assets, net		1,821		1,782
Other non-current assets		714		590
Total assets	\$	<u>7,472</u>	\$	<u>8,741</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:

Accounts payable	\$	382	\$	542
Accrued expenses		606		851
Commercial paper notes		498		249
Current portion of long-term debt		—		400
Short-term deferred revenue and financed unearned services revenue		1,718		1,825
Total current liabilities		3,204		3,867
Long-term debt		1,145		1,144
Other long-term liabilities		837		797
Long-term deferred revenue and financed unearned services revenue		1,750		1,843
Total liabilities		6,936		7,651

Stockholders' equity		536		1,090
Total liabilities and stockholders' equity	\$	<u>7,472</u>	\$	<u>8,741</u>

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Revenues:</b>				
Product	\$ 771	\$ 913	\$ 1,415	\$ 1,788
Software maintenance	254	236	504	465
Hardware maintenance and other services	346	368	688	738
Net revenues	<u>1,371</u>	<u>1,517</u>	<u>2,607</u>	<u>2,991</u>
<b>Cost of revenues:</b>				
Cost of product	341	428	653	826
Cost of software maintenance	11	8	21	15
Cost of hardware maintenance and other services	94	107	192	213
Total cost of revenues	<u>446</u>	<u>543</u>	<u>866</u>	<u>1,054</u>
Gross profit	<u>925</u>	<u>974</u>	<u>1,741</u>	<u>1,937</u>
<b>Operating expenses:</b>				
Sales and marketing	389	408	794	817
Research and development	209	211	424	419
General and administrative	69	69	140	142
Restructuring charges	—	—	21	19
Gain on sale or derecognition of assets	(38)	—	(38)	—
Total operating expenses	<u>629</u>	<u>688</u>	<u>1,341</u>	<u>1,397</u>
Income from operations	296	286	400	540
Other income, net	3	7	18	25
Income before income taxes	299	293	418	565
Provision for income taxes	56	52	72	41
Net income	<u>\$ 243</u>	<u>\$ 241</u>	<u>\$ 346</u>	<u>\$ 524</u>
<b>Net income per share:</b>				
Basic	<u>\$ 1.03</u>	<u>\$ 0.93</u>	<u>\$ 1.46</u>	<u>\$ 2.02</u>
Diluted	<u>\$ 1.03</u>	<u>\$ 0.91</u>	<u>\$ 1.44</u>	<u>\$ 1.96</u>
<b>Shares used in net income per share calculations:</b>				
Basic	<u>235</u>	<u>258</u>	<u>237</u>	<u>260</u>
Diluted	<u>236</u>	<u>264</u>	<u>240</u>	<u>267</u>

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

	Three Months Ended		Six Months Ended	
	October 25, 2019	October 26, 2018	October 25, 2019	October 26, 2018
<b>Cash flows from operating activities:</b>				
Net income	\$ 243	\$ 241	\$ 346	\$ 524
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	50	49	99	98
Stock-based compensation	40	38	82	78
Deferred income taxes	(16)	1	(23)	(25)
Gain on sale or derecognition of assets	(38)	—	(38)	—
Other items, net	7	3	13	11
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(237)	(154)	435	269
Inventories	5	11	20	36
Accounts payable	38	50	(157)	(127)
Accrued expenses	(38)	59	(315)	(162)
Deferred revenue and financed unearned services revenue	(43)	(42)	(197)	(129)
Long-term taxes payable	(46)	(68)	(49)	(63)
Changes in other operating assets and liabilities, net	(18)	(23)	41	(19)
Net cash provided by (used in) operating activities	(53)	165	257	491
<b>Cash flows from investing activities:</b>				
Redemptions of investments, net	119	241	1,146	489
Purchases of property and equipment	(36)	(43)	(68)	(107)
Proceeds from sale of properties	96	—	96	—
Acquisitions of businesses, net of cash acquired	—	(3)	(56)	(3)
Other investing activities, net	(1)	—	(2)	2
Net cash provided by investing activities	178	195	1,116	381
<b>Cash flows from financing activities:</b>				
Proceeds from issuance of common stock under employee stock award plans	1	2	55	65
Payments for taxes related to net share settlement of stock awards	(3)	(5)	(74)	(89)
Repurchase of common stock	(500)	(561)	(750)	(1,061)
Proceeds from (repayments of) commercial paper notes, net	468	50	249	(135)
Repayment of long-term debt	(400)	—	(400)	—
Dividends paid	(111)	(102)	(226)	(207)
Other financing activities, net	—	(1)	(2)	(2)
Net cash used in financing activities	(545)	(617)	(1,148)	(1,429)
<b>Effect of exchange rate changes on cash, cash equivalents and restricted cash</b>				
	(2)	(11)	(5)	(25)
<b>Net increase (decrease) in cash, cash equivalents and restricted cash</b>				
	(422)	(268)	220	(582)
<b>Cash, cash equivalents and restricted cash:</b>				
Beginning of period	2,973	2,633	2,331	2,947
End of period	<u>\$ 2,551</u>	<u>\$ 2,365</u>	<u>\$ 2,551</u>	<u>\$ 2,365</u>

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

	Q2 FY'20	Q1 FY'20	Q2 FY'19
<b>Revenues</b>			
Product	\$ 771	\$ 644	\$ 913
<i>Strategic*</i>	\$ 442	\$ 337	\$ 485
<i>Mature*</i>	\$ 329	\$ 307	\$ 428
Software Maintenance	\$ 254	\$ 250	\$ 236
Hardware Maintenance and Other Services	\$ 346	\$ 342	\$ 368
<i>Hardware Maintenance Support Contracts</i>	\$ 286	\$ 284	\$ 303
<i>Professional and Other Services</i>	\$ 60	\$ 58	\$ 65
<b>Net Revenues</b>	<b>\$ 1,371</b>	<b>\$ 1,236</b>	<b>\$ 1,517</b>

\* In Q1 FY'20 we made changes to the products and solutions contained in each of the Strategic and Mature product groupings. Strategic now includes All-flash FAS products, including all related add-on hardware and OS software, private cloud solutions, enterprise software license agreements and other optional add-on software products. Mature now includes Hybrid FAS products, including all related add-on hardware and OS software, OEM products, and branded E-Series. Prior to this change, Hybrid FAS and branded E-Series were included in Strategic, while all add-on hardware and OS software were included in Mature. For comparability, Strategic and Mature revenues presented for the prior year period have been recast based on the revised groupings.

**Geographic Mix**

	% of Q2 FY'20 Revenue	% of Q1 FY'20 Revenue	% of Q2 FY'19 Revenue
Americas	56%	51%	57%
<i>Americas Commercial</i>	42%	38%	44%
<i>U.S. Public Sector</i>	14%	13%	14%
EMEA	29%	33%	28%
Asia Pacific	14%	16%	15%

**Pathways Mix**

	% of Q2 FY'20 Revenue	% of Q1 FY'20 Revenue	% of Q2 FY'19 Revenue
Direct	21%	19%	23%
Indirect	79%	81%	77%

**Non-GAAP Gross Margins**

	Q2 FY'20	Q1 FY'20	Q2 FY'19
Non-GAAP Gross Margin	68.6%	67.2%	64.9%
Product	57.3%	53.4%	54.1%
Software Maintenance	95.7%	96.0%	96.6%
Hardware Maintenance and Other Services	73.7%	71.9%	71.5%

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

	Q2 FY'20	Q1 FY'20	Q2 FY'19
Non-GAAP Income from Operations	\$ 309	\$ 178	\$ 336
% of Net Revenues	22.5%	14.4%	22.1%
Non-GAAP Income before Income Taxes	\$ 312	\$ 193	\$ 343
Non-GAAP Effective Tax Rate	17.6%	18.7%	18.5%

**Non-GAAP Net Income**

	Q2 FY'20	Q1 FY'20	Q2 FY'19
Non-GAAP Net Income	\$ 257	\$ 157	\$ 280
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	236	243	264
Non-GAAP Income per Share, Diluted	\$ 1.09	\$ 0.65	\$ 1.06

**Select Balance Sheet Items**

	Q2 FY'20	Q1 FY'20	Q2 FY'19
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,468	\$ 3,510	\$ 3,206
DSO (days)	52	40	46
DIO (days)	23	25	14
DPO (days)	78	75	79
CCC (days)	(4)	(10)	(19)
Inventory Turns	16	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**

	Q2 FY'20	Q1 FY'20	Q2 FY'19
Net Cash Provided by (Used in) Operating Activities	\$ (53)	\$ 310	\$ 165
Purchases of Property and Equipment	\$ 36	\$ 32	\$ 43
Free Cash Flow	\$ (89)	\$ 278	\$ 122
Free Cash Flow as a % of Net Revenues	(6.5)%	22.5%	8.0%

*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)

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>NET INCOME</b>	\$ 243	\$ 103	\$ 241
Adjustments:			
Amortization of intangible assets	11	11	12
Stock-based compensation	40	42	38
Restructuring charges	—	21	—
Gain on sale or derecognition of assets	(38)	—	—
Income tax effects	1	(20)	(11)
<b>NON-GAAP NET INCOME</b>	<u>\$ 257</u>	<u>\$ 157</u>	<u>\$ 280</u>
<b>COST OF REVENUES</b>	\$ 446	\$ 420	\$ 543
Adjustments:			
Amortization of intangible assets	(11)	(11)	(9)
Stock-based compensation	(4)	(3)	(2)
<b>NON-GAAP COST OF REVENUES</b>	<u>\$ 431</u>	<u>\$ 406</u>	<u>\$ 532</u>
<b>COST OF PRODUCT REVENUES</b>	\$ 341	\$ 312	\$ 428
Adjustments:			
Amortization of intangible assets	(11)	(11)	(9)
Stock-based compensation	(1)	(1)	—
<b>NON-GAAP COST OF PRODUCT REVENUES</b>	<u>\$ 329</u>	<u>\$ 300</u>	<u>\$ 419</u>
<b>COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	\$ 94	\$ 98	\$ 107
Adjustment:			
Stock-based compensation	(3)	(2)	(2)
<b>NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES</b>	<u>\$ 91</u>	<u>\$ 96</u>	<u>\$ 105</u>
<b>GROSS PROFIT</b>	\$ 925	\$ 816	\$ 974
Adjustments:			
Amortization of intangible assets	11	11	9
Stock-based compensation	4	3	2
<b>NON-GAAP GROSS PROFIT</b>	<u>\$ 940</u>	<u>\$ 830</u>	<u>\$ 985</u>

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

	Q2'FY20	Q1'FY20	Q2'FY19
<b>SALES AND MARKETING EXPENSES</b>	\$ 389	\$ 405	\$ 408
Adjustments:			
Amortization of intangible assets	—	—	(3)
Stock-based compensation	(17)	(18)	(16)
<b>NON-GAAP SALES AND MARKETING EXPENSES</b>	<u>\$ 372</u>	<u>\$ 387</u>	<u>\$ 389</u>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	\$ 209	\$ 215	\$ 211
Adjustment:			
Stock-based compensation	(13)	(15)	(12)
<b>NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES</b>	<u>\$ 196</u>	<u>\$ 200</u>	<u>\$ 199</u>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>	\$ 69	\$ 71	\$ 69
Adjustment:			
Stock-based compensation	(6)	(6)	(8)
<b>NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>\$ 63</u>	<u>\$ 65</u>	<u>\$ 61</u>
<b>RESTRUCTURING CHARGES</b>	\$ —	\$ 21	\$ —
Adjustment:			
Restructuring charges	—	(21)	—
<b>NON-GAAP RESTRUCTURING CHARGES</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	\$ (38)	\$ —	\$ —
Adjustment:			
Gain on sale or derecognition of assets	38	—	—
<b>NON-GAAP GAIN ON SALE OR DERECOGNITION OF ASSETS</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>OPERATING EXPENSES</b>	\$ 629	\$ 712	\$ 688
Adjustments:			
Amortization of intangible assets	—	—	(3)
Stock-based compensation	(36)	(39)	(36)
Restructuring charges	—	(21)	—
Gain on sale or derecognition of assets	38	—	—
<b>NON-GAAP OPERATING EXPENSES</b>	<u>\$ 631</u>	<u>\$ 652</u>	<u>\$ 649</u>

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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>INCOME FROM OPERATIONS</b>	\$ 296	\$ 104	\$ 286
Adjustments:			
Amortization of intangible assets	11	11	12
Stock-based compensation	40	42	38
Restructuring charges	—	21	—
Gain on sale or derecognition of assets	(38)	—	—
<b>NON-GAAP INCOME FROM OPERATIONS</b>	<u>\$ 309</u>	<u>\$ 178</u>	<u>\$ 336</u>
<b>INCOME BEFORE INCOME TAXES</b>	\$ 299	\$ 119	\$ 293
Adjustments:			
Amortization of intangible assets	11	11	12
Stock-based compensation	40	42	38
Restructuring charges	—	21	—
Gain on sale or derecognition of assets	(38)	—	—
<b>NON-GAAP INCOME BEFORE INCOME TAXES</b>	<u>\$ 312</u>	<u>\$ 193</u>	<u>\$ 343</u>
<b>PROVISION FOR INCOME TAXES</b>	\$ 56	\$ 16	\$ 52
Adjustment:			
Income tax effects	(1)	20	11
<b>NON-GAAP PROVISION FOR INCOME TAXES</b>	<u>\$ 55</u>	<u>\$ 36</u>	<u>\$ 63</u>
<b>NET INCOME PER SHARE</b>	\$ 1.03	\$ 0.42	\$ 0.91
Adjustments:			
Amortization of intangible assets	0.05	0.05	0.05
Stock-based compensation	0.17	0.17	0.14
Restructuring charges	—	0.09	—
Gain on sale or derecognition of assets	(0.16)	—	—
Income tax effects	—	(0.08)	(0.04)
<b>NON-GAAP NET INCOME PER SHARE</b>	<u>\$ 1.09</u>	<u>\$ 0.65</u>	<u>\$ 1.06</u>

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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>Gross margin-GAAP</b>	67.5%	66.0%	64.2%
Cost of revenues adjustments	1.1%	1.1%	0.7%
<b>Gross margin-Non-GAAP</b>	68.6%	67.2%	64.9%
GAAP cost of revenues	\$ 446	\$ 420	\$ 543
Cost of revenues adjustments:			
Amortization of intangible assets	(11)	(11)	(9)
Stock-based compensation	(4)	(3)	(2)
Non-GAAP cost of revenues	<u>\$ 431</u>	<u>\$ 406</u>	<u>\$ 532</u>
Net revenues	\$ 1,371	\$ 1,236	\$ 1,517



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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>Product gross margin-GAAP</b>	55.8%	51.6%	53.1%
Cost of product revenues adjustments	1.6%	1.9%	1.0%
<b>Product gross margin-Non-GAAP</b>	57.3%	53.4%	54.1%
GAAP cost of product revenues	\$ 341	\$ 312	\$ 428
Cost of product revenues adjustments:			
Amortization of intangible assets	(11)	(11)	(9)
Stock-based compensation	(1)	(1)	—
Non-GAAP cost of product revenues	\$ 329	\$ 300	\$ 419
Product revenues	\$ 771	\$ 644	\$ 913

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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>Hardware maintenance and other services gross margin-GAAP</b>	72.8%	71.3%	70.9%
Cost of hardware maintenance and other services revenues adjustment	0.9%	0.6%	0.5%
<b>Hardware maintenance and other services gross margin-Non-GAAP</b>	73.7%	71.9%	71.5%
GAAP cost of hardware maintenance and other services revenues	\$ 94	\$ 98	\$ 107
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(2)	(2)
Non-GAAP cost of hardware maintenance and other services revenues	\$ 91	\$ 96	\$ 105
Hardware maintenance and other services revenues	\$ 346	\$ 342	\$ 368

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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
<b>GAAP effective tax rate</b>	18.7%	13.4%	17.7%
Adjustment:			
Income tax effects	(1.1)%	5.3%	0.8%
<b>Non-GAAP effective tax rate</b>	17.6%	18.7%	18.5%

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

	<u>Q2'FY20</u>	<u>Q1'FY20</u>	<u>Q2'FY19</u>
Net cash provided by (used in) operating activities	\$ (53)	\$ 310	\$ 165
Purchases of property and equipment	(36)	(32)	(43)
<b>Free cash flow</b>	\$ (89)	\$ 278	\$ 122

*Some items may not add or recalculate due to rounding.*

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**EXPRESSED AS EARNINGS PER SHARE**  
**THIRD QUARTER FISCAL 2020**

	<u>Third Quarter Fiscal 2020</u>
Non-GAAP Guidance - Net Income Per Share	\$1.14 - \$1.22
Adjustments of Specific Items to Net Income Per Share for the Third Quarter Fiscal 2020:	
Amortization of intangible assets	(0.04)
Stock-based compensation expense	(0.17)
Income tax effects	<u>0.03</u>
Total Adjustments	(0.18)
GAAP Guidance - Net Income Per Share	\$0.96 - \$1.04

**NETAPP, INC.**  
**RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP**  
**FISCAL 2020**  
**(Unaudited)**

	<b>Fiscal 2020</b>
Gross Margin - Non-GAAP Guidance	67-68%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	66-67%

	<b>Fiscal 2020</b>
Operating Margin - Non-GAAP Guidance	21-22%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(3)%
Gain on sale or derecognition of assets	1%
Operating Margin - GAAP Guidance	18-19%

*Some items may not add or recalculate due to rounding*

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