

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

	July 29, 2022	April 29, 2022
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 3,439	\$ 4,134
Accounts receivable	865	1,230
Inventories	232	204
Other current assets	386	377
Total current assets	4,922	5,945
Property and equipment, net	622	602
Goodwill and purchased intangible assets, net	2,999	2,488
Other non-current assets	1,001	991
Total assets	\$ 9,544	\$ 10,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 515	\$ 607
Accrued expenses	722	925
Current portion of long-term debt	250	250
Short-term deferred revenue and financed unearned services revenue	2,088	2,171
Total current liabilities	3,575	3,953
Long-term debt	2,387	2,386
Other long-term liabilities	843	788
Long-term deferred revenue and financed unearned services revenue	2,082	2,061
Total liabilities	8,887	9,188
Stockholders' equity	657	838
Total liabilities and stockholders' equity	\$ 9,544	\$ 10,026

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

	Three Months Ended	
	July 29, 2022	July 30, 2021
Net revenues:		
Product	\$ 786	\$ 730
Services	806	728
Net revenues	<u>1,592</u>	<u>1,458</u>
Cost of revenues:		
Cost of product	397	329
Cost of services	149	130
Total cost of revenues	<u>546</u>	<u>459</u>
Gross profit	<u>1,046</u>	<u>999</u>
Operating expenses:		
Sales and marketing	458	451
Research and development	240	210
General and administrative	72	66
Restructuring charges	11	22
Acquisition-related expense	10	1
Total operating expenses	<u>791</u>	<u>750</u>
Income from operations	255	249
Other income (expense), net	15	(12)
Income before income taxes	270	237
Provision for income taxes	56	35
Net income	<u>\$ 214</u>	<u>\$ 202</u>
Net income per share:		
Basic	<u>\$ 0.97</u>	<u>\$ 0.91</u>
Diluted	<u>\$ 0.96</u>	<u>\$ 0.88</u>
Shares used in net income per share calculations:		
Basic	<u>220</u>	<u>223</u>
Diluted	<u>224</u>	<u>229</u>

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

	Three Months Ended	
	July 29, 2022	July 30, 2021
Cash flows from operating activities:		
Net income	\$ 214	\$ 202
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58	46
Non-cash operating lease cost	14	13
Stock-based compensation	67	53
Deferred income taxes	(15)	(15)
Other items, net	(66)	4
Changes in assets and liabilities, net of acquisitions of businesses:		
Accounts receivable	364	287
Inventories	(28)	6
Accounts payable	(90)	(51)
Accrued expenses	(208)	(242)
Deferred revenue and financed unearned services revenue	(32)	(82)
Long-term taxes payable	1	(8)
Changes in other operating assets and liabilities, net	2	29
Net cash provided by operating activities	<u>281</u>	<u>242</u>
Cash flows from investing activities:		
(Purchases) redemptions of investments, net	(131)	11
Purchases of property and equipment	(65)	(51)
Acquisitions of businesses, net of cash acquired	(491)	(14)
Other investing activities, net	59	—
Net cash used in investing activities	<u>(628)</u>	<u>(54)</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock under employee stock award plans	54	53
Payments for taxes related to net share settlement of stock awards	(52)	(57)
Repurchase of common stock	(350)	(100)
Dividends paid	(110)	(112)
Other financing activities, net	(1)	(2)
Net cash used in financing activities	<u>(459)</u>	<u>(218)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18)	(5)
Net change in cash, cash equivalents and restricted cash	(824)	(35)
Cash, cash equivalents and restricted cash:		
Beginning of period	4,119	4,535
End of period	<u>\$ 3,295</u>	<u>\$ 4,500</u>

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

Revenues by Segment

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Product	\$ 786	\$ 894	\$ 730
Support	598	590	578
Professional and Other Services	76	76	71
Hybrid Cloud Segment Net Revenues	1,460	1,560	1,379
Public Cloud Segment Net Revenues	132	120	79
Net Revenues	<u>\$ 1,592</u>	<u>\$ 1,680</u>	<u>\$ 1,458</u>

Gross Profit by Segment

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Product	\$ 391	\$ 452	\$ 404
Support	555	547	530
Professional and Other Services	24	22	20
Hybrid Cloud Segment Gross Profit	970	1,021	954
Public Cloud Segment Gross Profit	92	82	56
Total Segments Gross Profit	1,062	1,103	1,010
Amortization of Intangible Assets	(11)	(10)	(7)
Stock-based Compensation	(5)	(4)	(4)
Unallocated Cost of Revenues	(16)	(14)	(11)
Gross Profit	<u>\$ 1,046</u>	<u>\$ 1,089</u>	<u>\$ 999</u>

Gross Margin by Segment

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Product	49.7%	50.6%	55.3%
Support	92.8%	92.7%	91.7%
Professional and Other Services	31.6%	28.9%	28.2%
Hybrid Cloud Segment Gross Margin	66.4%	65.4%	69.2%
Public Cloud Segment Gross Margin	69.7%	68.3%	70.9%

Product Revenues

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Total	\$ 786	\$ 894	\$ 730
Software*	\$ 476	\$ 530	\$ 414
Hardware*	\$ 310	\$ 364	\$ 316

Software and recurring support and public cloud revenue

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Product - Software	\$ 476	\$ 530	\$ 414
Support	598	590	578
Public Cloud	132	120	79
Software and recurring support and public cloud revenue*	<u>\$ 1,206</u>	<u>\$ 1,240</u>	<u>\$ 1,071</u>

Software and recurring support and public cloud revenue as a percentage of net revenues	76%	74%	73%
---	-----	-----	-----

* 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, which are considered non-GAAP measures, to display the significance of software included in total product revenues. 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 Q1 FY'23 Revenue	% of Q4 FY'22 Revenue	% of Q1 FY'22 Revenue
Americas	54%	54%	54%
<i>Americas Commercial</i>	42%	45%	43%
<i>U.S. Public Sector</i>	12%	9%	11%
EMEA	31%	32%	31%
Asia Pacific	15%	14%	15%

Pathways Mix

	% of Q1 FY'23 Revenue	% of Q4 FY'22 Revenue	% of Q1 FY'22 Revenue
Direct	21%	24%	23%
Indirect	79%	76%	77%

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

	Q1'FY23	Q4'FY22	Q1'FY22
Non-GAAP Income from Operations	\$ 360	\$ 382	\$ 336
% of Net Revenues	22.6%	22.7%	23.0%
Non-GAAP Income before Income Taxes	\$ 343	\$ 361	\$ 324
Non-GAAP Effective Tax Rate	21.6%	10.2%	18.8%

Non-GAAP Net Income

	Q1'FY23	Q4'FY22	Q1'FY22
Non-GAAP Net Income	\$ 269	\$ 324	\$ 263
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	224	228	229
Non-GAAP Net Income per Share, Diluted	\$ 1.20	\$ 1.42	\$ 1.15

Select Balance Sheet Items

	Q1'FY23	Q4'FY22	Q1'FY22
Deferred Revenue and Financed Unearned Services Revenue	\$ 4,170	\$ 4,232	\$ 3,904
DSO (days)	49	67	41
DPO (days)	86	93	73
Inventory Turns	9	12	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

	Q1'FY23	Q4'FY22	Q1'FY22
Net Cash Provided by Operating Activities	\$ 281	\$ 411	\$ 242
Purchases of Property and Equipment	\$ 65	\$ 68	\$ 51
Free Cash Flow	\$ 216	\$ 343	\$ 191
<i>Free Cash Flow as % of Net Revenues</i>	13.6%	20.4%	13.1%

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)

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
NET INCOME	\$ 214	\$ 259	\$ 202
Adjustments:			
Amortization of intangible assets	17	14	9
Stock-based compensation	67	66	53
Litigation settlements	—	—	2
Restructuring charges	11	4	22
Acquisition-related expense	10	5	1
Gain on sale of equity investment	(32)	—	—
Income tax effects	(18)	(24)	(26)
NON-GAAP NET INCOME	<u>\$ 269</u>	<u>\$ 324</u>	<u>\$ 263</u>
COST OF REVENUES	\$ 546	\$ 591	\$ 459
Adjustments:			
Amortization of intangible assets	(11)	(10)	(7)
Stock-based compensation	(5)	(4)	(4)
NON-GAAP COST OF REVENUES	<u>\$ 530</u>	<u>\$ 577</u>	<u>\$ 448</u>
COST OF PRODUCT REVENUES	\$ 397	\$ 446	\$ 329
Adjustments:			
Amortization of intangible assets	(1)	(3)	(2)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 395</u>	<u>\$ 442</u>	<u>\$ 326</u>
COST OF SERVICES REVENUES	\$ 149	\$ 145	\$ 130
Adjustments:			
Amortization of intangible assets	(10)	(7)	(5)
Stock-based compensation	(4)	(3)	(3)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 122</u>
GROSS PROFIT	\$ 1,046	\$ 1,089	\$ 999
Adjustments:			
Amortization of intangible assets	11	10	7
Stock-based compensation	5	4	4
NON-GAAP GROSS PROFIT	<u>\$ 1,062</u>	<u>\$ 1,103</u>	<u>\$ 1,010</u>

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
SALES AND MARKETING EXPENSES	\$ 458	\$ 480	\$ 451
Adjustments:			
Amortization of intangible assets	(6)	(4)	(2)
Stock-based compensation	(28)	(30)	(26)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 424</u>	<u>\$ 446</u>	<u>\$ 423</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 240	\$ 235	\$ 210
Adjustments:			
Stock-based compensation	(24)	(22)	(15)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 216</u>	<u>\$ 213</u>	<u>\$ 195</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 72	\$ 72	\$ 66
Adjustments:			
Stock-based compensation	(10)	(10)	(8)
Litigation settlements	—	—	(2)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 62</u>	<u>\$ 62</u>	<u>\$ 56</u>
RESTRUCTURING CHARGES	\$ 11	\$ 4	\$ 22
Adjustments:			
Restructuring charges	(11)	(4)	(22)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ 10	\$ 5	\$ 1
Adjustments:			
Acquisition-related expense	(10)	(5)	(1)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 791	\$ 796	\$ 750
Adjustments:			
Amortization of intangible assets	(6)	(4)	(2)
Stock-based compensation	(62)	(62)	(49)
Litigation settlements	—	—	(2)
Restructuring charges	(11)	(4)	(22)
Acquisition-related expense	(10)	(5)	(1)
NON-GAAP OPERATING EXPENSES	<u>\$ 702</u>	<u>\$ 721</u>	<u>\$ 674</u>

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

	Q1'FY23	Q4'FY22	Q1'FY22
INCOME FROM OPERATIONS	\$ 255	\$ 293	\$ 249
Adjustments:			
Amortization of intangible assets	17	14	9
Stock-based compensation	67	66	53
Litigation settlements	—	—	2
Restructuring charges	11	4	22
Acquisition-related expense	10	5	1
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 360</u>	<u>\$ 382</u>	<u>\$ 336</u>
OTHER INCOME (EXPENSE), NET	\$ 15	\$ (21)	\$ (12)
Adjustments:			
Gain on sale of equity investment	(32)	—	—
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ (17)</u>	<u>\$ (21)</u>	<u>\$ (12)</u>
INCOME BEFORE INCOME TAXES	\$ 270	\$ 272	\$ 237
Adjustments:			
Amortization of intangible assets	17	14	9
Stock-based compensation	67	66	53
Litigation settlements	—	—	2
Restructuring charges	11	4	22
Acquisition-related expense	10	5	1
Gain on sale of equity investment	(32)	—	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 343</u>	<u>\$ 361</u>	<u>\$ 324</u>
PROVISION FOR INCOME TAXES	\$ 56	\$ 13	\$ 35
Adjustments:			
Income tax effects	18	24	26
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 74</u>	<u>\$ 37</u>	<u>\$ 61</u>
NET INCOME PER SHARE	\$ 0.96	\$ 1.14	\$ 0.88
Adjustments:			
Amortization of intangible assets	0.08	0.06	0.04
Stock-based compensation	0.30	0.29	0.23
Litigation settlements	—	—	0.01
Restructuring charges	0.05	0.02	0.10
Acquisition-related expense	0.04	0.02	—
Gain on sale of equity investment	(0.14)	—	—
Income tax effects	(0.08)	(0.11)	(0.11)
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.20</u>	<u>\$ 1.42</u>	<u>\$ 1.15</u>

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Gross margin-GAAP	65.7%	64.8%	68.5%
Cost of revenues adjustments	1.0%	0.8%	0.8%
Gross margin-Non-GAAP	66.7%	65.7%	69.3%
GAAP cost of revenues	\$ 546	\$ 591	\$ 459
Cost of revenues adjustments:			
Amortization of intangible assets	(11)	(10)	(7)
Stock-based compensation	(5)	(4)	(4)
Non-GAAP cost of revenues	<u>\$ 530</u>	<u>\$ 577</u>	<u>\$ 448</u>
Net revenues	\$ 1,592	\$ 1,680	\$ 1,458

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Product gross margin-GAAP	49.5%	50.1%	54.9%
Cost of product revenues adjustments	0.3%	0.4%	0.4%
Product gross margin-Non-GAAP	49.7%	50.6%	55.3%
GAAP cost of product revenues	\$ 397	\$ 446	\$ 329
Cost of product revenues adjustments:			
Amortization of intangible assets	(1)	(3)	(2)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 395</u>	<u>\$ 442</u>	<u>\$ 326</u>
Product revenues	\$ 786	\$ 894	\$ 730

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Services gross margin-GAAP	81.5%	81.6%	82.1%
Cost of services revenues adjustments	1.7%	1.3%	1.1%
Services gross margin-Non-GAAP	83.3%	82.8%	83.2%
GAAP cost of services revenues	\$ 149	\$ 145	\$ 130
Cost of services revenues adjustments:			
Amortization of intangible assets	(10)	(7)	(5)
Stock-based compensation	(4)	(3)	(3)
Non-GAAP cost of services revenues	<u>\$ 135</u>	<u>\$ 135</u>	<u>\$ 122</u>
Services revenues	\$ 806	\$ 786	\$ 728

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
GAAP effective tax rate	20.7%	4.8%	14.8%
Adjustments:			
Income tax effects	0.8%	5.5%	4.1%
Non-GAAP effective tax rate	21.6%	10.2%	18.8%

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Net cash provided by operating activities	\$ 281	\$ 411	\$ 242
Purchases of property and equipment	(65)	(68)	(51)
Free cash flow	\$ 216	\$ 343	\$ 191

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

	<u>Q1'FY23</u>	<u>Q4'FY22</u>	<u>Q1'FY22</u>
Net revenues	\$ 1,592	\$ 1,680	\$ 1,458
Change in deferred revenue and financed unearned services revenue*	(32)	338	(82)
Billings	\$ 1,560	\$ 2,018	\$ 1,376

* 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 2023

	<u>Second Quarter</u> <u>Fiscal 2023</u>
Non-GAAP Guidance - Net Income Per Share	\$1.28 - \$1.38
Adjustments of Specific Items to Net Income	
Per Share for the Second Quarter Fiscal 2023:	
Amortization of intangible assets	(\$0.08)
Stock-based compensation expense	(\$0.33)
Income tax effects	\$0.06
Total Adjustments	(\$0.35)
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 2023

	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% - 24%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(4)%
Operating Margin - GAAP Guidance	18% - 19%

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 2023

	Fiscal 2023
Non-GAAP Guidance - Net Income Per Share	\$5.40 - \$5.60
Adjustments of Specific Items to Net Income	
Per Share for Fiscal 2023:	
Amortization of intangible assets	(\$0.31)
Stock-based compensation expense	(\$1.33)
Restructuring charges	(\$0.05)
Acquisition-related expenses	(\$0.04)
Gain on sale of equity investment	\$0.14
Income tax effects	\$0.28
Total Adjustments	(\$1.31)
GAAP Guidance - Net Income Per Share	\$4.09 - \$4.29

Some items may not add or recalculate due to rounding.

Contacts:

(Press)
Chris Drago
1 831 900 8889
chris.drago@netapp.com

(Investors)
Lance Berger
1 408 822 6628
lance.berger@netapp.com