

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

	<u>January 27, 2023</u>	<u>April 29, 2022</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 3,141	\$ 4,134
Accounts receivable	821	1,230
Inventories	175	204
Other current assets	403	377
Total current assets	4,540	5,945
Property and equipment, net	667	602
Goodwill and purchased intangible assets, net	2,965	2,488
Other non-current assets	1,538	991
Total assets	\$ 9,710	\$ 10,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 432	\$ 607
Accrued expenses	835	925
Current portion of long-term debt	—	250
Short-term deferred revenue and financed unearned services revenue	2,126	2,171
Total current liabilities	3,393	3,953
Long-term debt	2,388	2,386
Other long-term liabilities	737	788
Long-term deferred revenue and financed unearned services revenue	2,090	2,061
Total liabilities	8,608	9,188
Stockholders' equity	1,102	838
Total liabilities and stockholders' equity	\$ 9,710	\$ 10,026

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Net revenues:				
Product	\$ 682	\$ 846	\$ 2,305	\$ 2,390
Services	844	768	2,476	2,248
Net revenues	<u>1,526</u>	<u>1,614</u>	<u>4,781</u>	<u>4,638</u>
Cost of revenues:				
Cost of product	367	407	1,182	1,108
Cost of services	158	134	465	399
Total cost of revenues	<u>525</u>	<u>541</u>	<u>1,647</u>	<u>1,507</u>
Gross profit	<u>1,001</u>	<u>1,073</u>	<u>3,134</u>	<u>3,131</u>
Operating expenses:				
Sales and marketing	450	461	1,387	1,377
Research and development	230	220	713	646
General and administrative	59	65	198	207
Restructuring charges	87	—	109	29
Acquisition-related expense	3	6	18	8
Total operating expenses	<u>829</u>	<u>752</u>	<u>2,425</u>	<u>2,267</u>
Income from operations	172	321	709	864
Other income (expense), net	<u>5</u>	<u>(15)</u>	<u>43</u>	<u>(41)</u>
Income before income taxes	177	306	752	823
Provision (benefit) for income taxes	<u>112</u>	<u>54</u>	<u>(277)</u>	<u>145</u>
Net income	<u>\$ 65</u>	<u>\$ 252</u>	<u>\$ 1,029</u>	<u>\$ 678</u>
Net income per share:				
Basic	<u>\$ 0.30</u>	<u>\$ 1.13</u>	<u>\$ 4.72</u>	<u>\$ 3.04</u>
Diluted	<u>\$ 0.30</u>	<u>\$ 1.10</u>	<u>\$ 4.66</u>	<u>\$ 2.96</u>
Shares used in net income per share calculations:				
Basic	<u>216</u>	<u>223</u>	<u>218</u>	<u>223</u>
Diluted	<u>219</u>	<u>229</u>	<u>221</u>	<u>229</u>

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

	Three Months Ended		Nine Months Ended	
	January 27, 2023	January 28, 2022	January 27, 2023	January 28, 2022
Cash flows from operating activities:				
Net income	\$ 65	\$ 252	\$ 1,029	\$ 678
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	65	51	182	143
Non-cash operating lease cost	13	12	40	40
Stock-based compensation	93	64	238	179
Deferred income taxes	(7)	(34)	(577)	(66)
Other items, net	58	(23)	(69)	(35)
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	112	(155)	425	137
Inventories	69	(12)	29	(53)
Accounts payable	(145)	(1)	(173)	10
Accrued expenses	(9)	(1)	(117)	(207)
Deferred revenue and financed unearned services revenue	46	143	(47)	46
Long-term taxes payable	2	(1)	(82)	(66)
Changes in other operating assets and liabilities, net	15	(35)	(6)	(6)
Net cash provided by operating activities	<u>377</u>	<u>260</u>	<u>872</u>	<u>800</u>
Cash flows from investing activities:				
(Purchases) redemptions of investments, net	(132)	10	(474)	36
Purchases of property and equipment	(58)	(61)	(200)	(158)
Acquisitions of businesses, net of cash acquired	—	(345)	(491)	(359)
Other investing activities, net	1	—	60	—
Net cash used in investing activities	<u>(189)</u>	<u>(396)</u>	<u>(1,105)</u>	<u>(481)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	54	52	108	105
Payments for taxes related to net share settlement of stock awards	(11)	(6)	(74)	(69)
Repurchase of common stock	(200)	(125)	(700)	(350)
Repayments and extinguishment of debt	—	—	(250)	—
Dividends paid	(108)	(111)	(326)	(335)
Other financing activities, net	—	—	(2)	(2)
Net cash used in financing activities	<u>(265)</u>	<u>(190)</u>	<u>(1,244)</u>	<u>(651)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
	47	(13)	4	(26)
Net change in cash, cash equivalents and restricted cash	(30)	(339)	(1,473)	(358)
Cash, cash equivalents and restricted cash:				
Beginning of period	2,676	4,516	4,119	4,535
End of period	<u>\$ 2,646</u>	<u>\$ 4,177</u>	<u>\$ 2,646</u>	<u>\$ 4,177</u>

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

Revenues by Segment

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Product	\$ 682	\$ 837	\$ 846
Support	616	607	586
Professional and Other Services	78	77	72
Hybrid Cloud Segment Net Revenues	1,376	1,521	1,504
Public Cloud Segment Net Revenues	150	142	110
Net Revenues	<u>\$ 1,526</u>	<u>\$ 1,663</u>	<u>\$ 1,614</u>

Gross Profit by Segment

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Product	\$ 317	\$ 420	\$ 442
Support	572	562	541
Professional and Other Services	28	23	26
Hybrid Cloud Segment Gross Profit	917	1,005	1,009
Public Cloud Segment Gross Profit	103	97	78
Total Segments Gross Profit	1,020	1,102	1,087
Amortization of Intangible Assets	(11)	(10)	(9)
Stock-based Compensation	(8)	(5)	(5)
Unallocated Cost of Revenues	(19)	(15)	(14)
Gross Profit	<u>\$ 1,001</u>	<u>\$ 1,087</u>	<u>\$ 1,073</u>

Gross Margin by Segment

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Product	46.5%	50.2%	52.2%
Support	92.9%	92.6%	92.3%
Professional and Other Services	35.9%	29.9%	36.1%
Hybrid Cloud Segment Gross Margin	66.6%	66.1%	67.1%
Public Cloud Segment Gross Margin	68.7%	68.3%	70.9%

Product Revenues

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Total	\$ 682	\$ 837	\$ 846
Software*	\$ 390	\$ 495	\$ 507
Hardware*	\$ 292	\$ 342	\$ 339

Software and recurring support and public cloud revenue

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Product - Software	\$ 390	\$ 495	\$ 507
Support	616	607	586
Public Cloud	150	142	110
Software and recurring support and public cloud revenue*	<u>\$ 1,156</u>	<u>\$ 1,244</u>	<u>\$ 1,203</u>

Software and recurring support and public cloud revenue as a percentage of net revenues	76%	75%	75%
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* 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 Q3 FY'23 Revenue	% of Q2 FY'23 Revenue	% of Q3 FY'22 Revenue
Americas	54%	54%	56%
<i>Americas Commercial</i>	44%	40%	47%
<i>U.S. Public Sector</i>	10%	14%	9%
EMEA	32%	32%	32%
Asia Pacific	14%	14%	12%

Pathways Mix

	% of Q3 FY'23 Revenue	% of Q2 FY'23 Revenue	% of Q3 FY'22 Revenue
Direct	22%	23%	21%
Indirect	78%	77%	79%

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

	Q3'FY23	Q2'FY23	Q3'FY22
Non-GAAP Income from Operations	\$ 372	\$ 393	\$ 404
% of Net Revenues	24.4%	23.6%	25.0%
Non-GAAP Income before Income Taxes	\$ 377	\$ 416	\$ 389
Non-GAAP Effective Tax Rate	20.2%	21.6%	15.2%

Non-GAAP Net Income

	Q3'FY23	Q2'FY23	Q3'FY22
Non-GAAP Net Income	\$ 301	\$ 326	\$ 330
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	219	220	229
Non-GAAP Net Income per Share, Diluted	\$ 1.37	\$ 1.48	\$ 1.44

Select Balance Sheet Items

	Q3'FY23	Q2'FY23	Q3'FY22
Deferred Revenue and Financed Unearned Services Revenue	\$ 4,216	\$ 4,051	\$ 3,969
DSO (days)	49	50	45
DPO (days)	75	92	73
Inventory Turns	12	9	13

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

	Q3'FY23	Q2'FY23	Q3'FY22
Net Cash Provided by Operating Activities	\$ 377	\$ 214	\$ 260
Purchases of Property and Equipment	\$ 58	\$ 77	\$ 61
Free Cash Flow	\$ 319	\$ 137	\$ 199
<i>Free Cash Flow as % of Net Revenues</i>	20.9%	8.2%	12.3%

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)

	Q3'FY23	Q2'FY23	Q3'FY22
NET INCOME	\$ 65	\$ 750	\$ 252
Adjustments:			
Amortization of intangible assets	17	17	13
Stock-based compensation	93	78	64
Restructuring charges	87	11	—
Acquisition-related expense	3	5	6
Income tax effects	(33)	(11)	(5)
Resolution of income tax matters	69	—	—
Income tax benefit from intra-entity intellectual property transfer	—	(524)	—
NON-GAAP NET INCOME	<u>\$ 301</u>	<u>\$ 326</u>	<u>\$ 330</u>
COST OF REVENUES	\$ 525	\$ 576	\$ 541
Adjustments:			
Amortization of intangible assets	(11)	(10)	(9)
Stock-based compensation	(8)	(5)	(5)
NON-GAAP COST OF REVENUES	<u>\$ 506</u>	<u>\$ 561</u>	<u>\$ 527</u>
COST OF PRODUCT REVENUES	\$ 367	\$ 418	\$ 407
Adjustments:			
Amortization of intangible assets	—	—	(2)
Stock-based compensation	(2)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 365</u>	<u>\$ 417</u>	<u>\$ 404</u>
COST OF SERVICES REVENUES	\$ 158	\$ 158	\$ 134
Adjustments:			
Amortization of intangible assets	(11)	(10)	(7)
Stock-based compensation	(6)	(4)	(4)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 141</u>	<u>\$ 144</u>	<u>\$ 123</u>
GROSS PROFIT	\$ 1,001	\$ 1,087	\$ 1,073
Adjustments:			
Amortization of intangible assets	11	10	9
Stock-based compensation	8	5	5
NON-GAAP GROSS PROFIT	<u>\$ 1,020</u>	<u>\$ 1,102</u>	<u>\$ 1,087</u>

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
SALES AND MARKETING EXPENSES	\$ 450	\$ 479	\$ 461
Adjustments:			
Amortization of intangible assets	(6)	(7)	(4)
Stock-based compensation	(40)	(35)	(30)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 404</u>	<u>\$ 437</u>	<u>\$ 427</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 230	\$ 243	\$ 220
Adjustments:			
Stock-based compensation	(32)	(26)	(19)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 198</u>	<u>\$ 217</u>	<u>\$ 201</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 59	\$ 67	\$ 65
Adjustments:			
Stock-based compensation	(13)	(12)	(10)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 46</u>	<u>\$ 55</u>	<u>\$ 55</u>
RESTRUCTURING CHARGES	\$ 87	\$ 11	\$ —
Adjustments:			
Restructuring charges	(87)	(11)	—
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ 3	\$ 5	\$ 6
Adjustments:			
Acquisition-related expense	(3)	(5)	(6)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 829	\$ 805	\$ 752
Adjustments:			
Amortization of intangible assets	(6)	(7)	(4)
Stock-based compensation	(85)	(73)	(59)
Restructuring charges	(87)	(11)	—
Acquisition-related expense	(3)	(5)	(6)
NON-GAAP OPERATING EXPENSES	<u>\$ 648</u>	<u>\$ 709</u>	<u>\$ 683</u>

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

	Q3'FY23	Q2'FY23	Q3'FY22
INCOME FROM OPERATIONS	\$ 172	\$ 282	\$ 321
Adjustments:			
Amortization of intangible assets	17	17	13
Stock-based compensation	93	78	64
Restructuring charges	87	11	—
Acquisition-related expense	3	5	6
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 372</u>	<u>\$ 393</u>	<u>\$ 404</u>
INCOME BEFORE INCOME TAXES	\$ 177	\$ 305	\$ 306
Adjustments:			
Amortization of intangible assets	17	17	13
Stock-based compensation	93	78	64
Restructuring charges	87	11	—
Acquisition-related expense	3	5	6
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 377</u>	<u>\$ 416</u>	<u>\$ 389</u>
PROVISION (BENEFIT) FOR INCOME TAXES	\$ 112	\$ (445)	\$ 54
Adjustments:			
Income tax effects	33	11	5
Resolution of income tax matters	(69)	—	—
Income tax benefit from intra-entity intellectual property transfer	—	524	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 76</u>	<u>\$ 90</u>	<u>\$ 59</u>
NET INCOME PER SHARE	\$ 0.30	\$ 3.41	\$ 1.10
Adjustments:			
Amortization of intangible assets	0.08	0.08	0.06
Stock-based compensation	0.42	0.35	0.28
Restructuring charges	0.40	0.05	—
Acquisition-related expense	0.01	0.02	0.03
Income tax effects	(0.15)	(0.05)	(0.02)
Resolution of income tax matters	0.32	—	—
Income tax benefit from intra-entity intellectual property transfer	—	(2.38)	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.37</u>	<u>\$ 1.48</u>	<u>\$ 1.44</u>

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

	Q3'FY23	Q2'FY23	Q3'FY22
Gross margin-GAAP	65.6%	65.4%	66.5%
Cost of revenues adjustments	1.2%	0.9%	0.9%
Gross margin-Non-GAAP	66.8%	66.3%	67.3%
GAAP cost of revenues	\$ 525	\$ 576	\$ 541
Cost of revenues adjustments:			
Amortization of intangible assets	(11)	(10)	(9)
Stock-based compensation	(8)	(5)	(5)
Non-GAAP cost of revenues	<u>\$ 506</u>	<u>\$ 561</u>	<u>\$ 527</u>
Net revenues	\$ 1,526	\$ 1,663	\$ 1,614

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Product gross margin-GAAP	46.2%	50.1%	51.9%
Cost of product revenues adjustments	0.3%	0.1%	0.4%
Product gross margin-Non-GAAP	46.5%	50.2%	52.2%
GAAP cost of product revenues	\$ 367	\$ 418	\$ 407
Cost of product revenues adjustments:			
Amortization of intangible assets	—	—	(2)
Stock-based compensation	(2)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 365</u>	<u>\$ 417</u>	<u>\$ 404</u>
Product revenues	\$ 682	\$ 837	\$ 846

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Services gross margin-GAAP	81.3%	80.9%	82.6%
Cost of services revenues adjustments	2.0%	1.7%	1.4%
Services gross margin-Non-GAAP	83.3%	82.6%	84.0%
GAAP cost of services revenues	\$ 158	\$ 158	\$ 134
Cost of services revenues adjustments:			
Amortization of intangible assets	(11)	(10)	(7)
Stock-based compensation	(6)	(4)	(4)
Non-GAAP cost of services revenues	<u>\$ 141</u>	<u>\$ 144</u>	<u>\$ 123</u>
Services revenues	\$ 844	\$ 826	\$ 768

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
GAAP effective tax rate	63.3%	(145.9)%	17.6%
Adjustments:			
Income tax effects	(4.1)%	41.6%	(2.5)%
Resolution of income tax matters	(39.0)%	—%	—%
Income tax benefit from intra-entity intellectual property transfer	—%	126.0%	—%
Non-GAAP effective tax rate	20.2%	21.6%	15.2%

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Net cash provided by operating activities	\$ 377	\$ 214	\$ 260
Purchases of property and equipment	(58)	(77)	(61)
Free cash flow	\$ 319	\$ 137	\$ 199

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

	<u>Q3'FY23</u>	<u>Q2'FY23</u>	<u>Q3'FY22</u>
Net revenues	\$ 1,526	\$ 1,663	\$ 1,614
Change in deferred revenue and financed unearned services revenue*	46	(61)	143
Billings	\$ 1,572	\$ 1,602	\$ 1,757

* As reported on our Condensed Consolidated Statements of Cash Flows

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
FOURTH QUARTER FISCAL 2023

	Fourth Quarter Fiscal 2023
Non-GAAP Guidance - Net Income Per Share	\$1.30-\$1.40
Adjustments of Specific Items to Net Income Per Share for the Fourth Quarter Fiscal 2023:	
Amortization of intangible assets	(\$0.08)
Stock-based compensation expense	(\$0.35)
Income tax effects	\$0.05
Total Adjustments	(\$0.38)
GAAP Guidance - Net Income Per Share	\$0.92-\$1.02

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	(5)%
Restructuring charges	(2)%
Operating Margin - GAAP Guidance	15% - 16%

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	\$5.30 - \$5.50
Adjustments of Specific Items to Net Income	
Per Share for Fiscal 2023:	
Amortization of intangible assets	(\$0.31)
Stock-based compensation expense	(\$1.43)
Restructuring charges	(\$0.49)
Acquisition-related expenses	(\$0.08)
Gain on sale of equity investment	\$0.15
Resolution of income tax matters	(\$0.31)
Income tax benefit from intra-entity intellectual property transfer	\$2.38
Income tax effects	\$0.27
Total Adjustments	\$0.18
GAAP Guidance - Net Income Per Share	\$5.48 - \$5.68

Some items may not add or recalculate due to rounding.

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