

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

	<u>October 27, 2023</u>	<u>April 28, 2023</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 2,620	\$ 3,070
Accounts receivable	787	987
Inventories	122	167
Other current assets	464	456
Total current assets	3,993	4,680
Property and equipment, net	623	650
Goodwill and purchased intangible assets, net	2,911	2,940
Other non-current assets	1,546	1,548
Total assets	\$ 9,073	\$ 9,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 411	\$ 392
Accrued expenses	919	857
Current portion of long-term debt	400	—
Short-term deferred revenue and financed unearned services revenue	2,003	2,218
Total current liabilities	3,733	3,467
Long-term debt	1,991	2,389
Other long-term liabilities	580	708
Long-term deferred revenue and financed unearned services revenue	1,999	2,095
Total liabilities	8,303	8,659
Stockholders' equity	770	1,159
Total liabilities and stockholders' equity	\$ 9,073	\$ 9,818

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

	Three Months Ended		Six Months Ended	
	October 27, 2023	October 28, 2022	October 27, 2023	October 28, 2022
Net revenues:				
Product	\$ 706	\$ 837	\$ 1,296	\$ 1,623
Services	856	826	1,698	1,632
Net revenues	<u>1,562</u>	<u>1,663</u>	<u>2,994</u>	<u>3,255</u>
Cost of revenues:				
Cost of product	276	418	541	815
Cost of services	176	158	347	307
Total cost of revenues	<u>452</u>	<u>576</u>	<u>888</u>	<u>1,122</u>
Gross profit	<u>1,110</u>	<u>1,087</u>	<u>2,106</u>	<u>2,133</u>
Operating expenses:				
Sales and marketing	461	479	929	937
Research and development	262	243	509	483
General and administrative	75	67	149	139
Restructuring charges	5	11	31	22
Acquisition-related expense	3	5	6	15
Total operating expenses	<u>806</u>	<u>805</u>	<u>1,624</u>	<u>1,596</u>
Income from operations	304	282	482	537
Other income, net	11	23	19	38
Income before income taxes	315	305	501	575
Provision (benefit) for income taxes	82	(445)	119	(389)
Net income	<u>\$ 233</u>	<u>\$ 750</u>	<u>\$ 382</u>	<u>\$ 964</u>
Net income per share:				
Basic	<u>\$ 1.12</u>	<u>\$ 3.46</u>	<u>\$ 1.82</u>	<u>\$ 4.40</u>
Diluted	<u>\$ 1.10</u>	<u>\$ 3.41</u>	<u>\$ 1.79</u>	<u>\$ 4.34</u>
Shares used in net income per share calculations:				
Basic	<u>208</u>	<u>217</u>	<u>210</u>	<u>219</u>
Diluted	<u>211</u>	<u>220</u>	<u>214</u>	<u>222</u>

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

	Three Months Ended		Six Months Ended	
	October 27, 2023	October 28, 2022	October 27, 2023	October 28, 2022
Cash flows from operating activities:				
Net income	\$ 233	\$ 750	\$ 382	\$ 964
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	64	59	128	117
Non-cash operating lease cost	12	13	23	27
Stock-based compensation	93	78	180	145
Deferred income taxes	(7)	(555)	(13)	(570)
Other items, net	(25)	(61)	(27)	(127)
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(147)	(51)	185	313
Inventories	9	(12)	46	(40)
Accounts payable	70	62	14	(28)
Accrued expenses	137	100	48	(108)
Deferred revenue and financed unearned services revenue	(108)	(61)	(241)	(93)
Long-term taxes payable	(111)	(85)	(110)	(84)
Changes in other operating assets and liabilities, net	(85)	(23)	(27)	(21)
Net cash provided by operating activities	<u>135</u>	<u>214</u>	<u>588</u>	<u>495</u>
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	264	(211)	72	(342)
Purchases of property and equipment	(38)	(77)	(73)	(142)
Acquisitions of businesses, net of cash acquired	—	—	—	(491)
Other investing activities, net	1	—	—	59
Net cash provided by (used in) investing activities	<u>227</u>	<u>(288)</u>	<u>(1)</u>	<u>(916)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	—	—	52	54
Payments for taxes related to net share settlement of stock awards	(20)	(11)	(85)	(63)
Repurchase of common stock	(300)	(150)	(700)	(500)
Repayments and extinguishment of debt	—	(250)	—	(250)
Dividends paid	(103)	(108)	(209)	(218)
Other financing activities, net	2	(1)	—	(2)
Net cash used in financing activities	<u>(421)</u>	<u>(520)</u>	<u>(942)</u>	<u>(979)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash				
	(26)	(25)	(26)	(43)
Net change in cash, cash equivalents and restricted cash	(85)	(619)	(381)	(1,443)
Cash, cash equivalents and restricted cash:				
Beginning of period	2,026	3,295	2,322	4,119
End of period	<u>\$ 1,941</u>	<u>\$ 2,676</u>	<u>\$ 1,941</u>	<u>\$ 2,676</u>

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

Revenues by Segment

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Product	\$ 706	\$ 590	\$ 837
Support	623	611	607
Professional and Other Services	79	77	77
Hybrid Cloud Segment Net Revenues	1,408	1,278	1,521
Public Cloud Segment Net Revenues	154	154	142
Net Revenues	\$ 1,562	\$ 1,432	\$ 1,663

Gross Profit by Segment

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Product	\$ 431	\$ 326	\$ 420
Support	573	564	562
Professional and Other Services	19	19	23
Hybrid Cloud Segment Gross Profit	1,023	909	1,005
Public Cloud Segment Gross Profit	102	103	97
Total Segments Gross Profit	1,125	1,012	1,102
Amortization of Intangible Assets	(8)	(9)	(10)
Stock-based Compensation	(7)	(7)	(5)
Unallocated Cost of Revenues	(15)	(16)	(15)
Gross Profit	\$ 1,110	\$ 996	\$ 1,087

Gross Margin by Segment

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Product	61.0%	55.3%	50.2%
Support	92.0%	92.3%	92.6%
Professional and Other Services	24.1%	24.7%	29.9%
Hybrid Cloud Segment Gross Margin	72.7%	71.1%	66.1%
Public Cloud Segment Gross Margin	66.2%	66.9%	68.3%

Product Revenues

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Total	\$ 706	\$ 590	\$ 837
Software*	\$ 398	\$ 342	\$ 495
Hardware*	\$ 308	\$ 248	\$ 342

Software and recurring support and public cloud revenue

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Product - Software	\$ 398	\$ 342	\$ 495
Support	623	611	607
Public Cloud	154	154	142
Software and recurring support and public cloud revenue*	\$ 1,175	\$ 1,107	\$ 1,244

Software and recurring support and public cloud revenue as a percentage of net revenues	75%	77%	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 Q2 FY'24 Revenue	% of Q1 FY'24 Revenue	% of Q2 FY'23 Revenue
Americas	50%	53%	51%
<i>Americas Commercial</i>	37%	41%	37%
<i>U.S. Public Sector</i>	13%	12%	14%
EMEA	34%	31%	34%
Asia Pacific	16%	16%	15%

** Effective in Q1 FY'24, management began evaluating revenues by geographic region based on the location to which products and services are delivered, rather than based on the location from which the customer relationship is managed. Prior year percentages have been conformed to the current year presentation.

Pathways Mix

	% of Q2 FY'24 Revenue	% of Q1 FY'24 Revenue	% of Q2 FY'23 Revenue
Direct	23%	24%	23%
Indirect	77%	76%	77%

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

	Q2'FY24	Q1'FY24	Q2'FY23
Non-GAAP Income from Operations	\$ 419	\$ 309	\$ 393
% of Net Revenues	26.8%	21.6%	23.6%
Non-GAAP Income before Income Taxes	\$ 425	\$ 317	\$ 416
Non-GAAP Effective Tax Rate	21.4%	21.5%	21.6%

Non-GAAP Net Income

	Q2'FY24	Q1'FY24	Q2'FY23
Non-GAAP Net Income	\$ 334	\$ 249	\$ 326
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	211	216	220
Non-GAAP Net Income per Share, Diluted	\$ 1.58	\$ 1.15	\$ 1.48

Select Balance Sheet Items

	Q2'FY24	Q1'FY24	Q2'FY23
Deferred Revenue and Financed Unearned Services Revenue	\$ 4,002	\$ 4,182	\$ 4,051
DSO (days)	46	41	50
DPO (days)	83	72	92
Inventory Turns	15	13	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

	Q2'FY24	Q1'FY24	Q2'FY23
Net Cash Provided by Operating Activities	\$ 135	\$ 453	\$ 214
Purchases of Property and Equipment	\$ 38	\$ 35	\$ 77
Free Cash Flow	\$ 97	\$ 418	\$ 137
<i>Free Cash Flow as % of Net Revenues</i>	6.2%	29.2%	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)

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
NET INCOME	\$ 233	\$ 149	\$ 750
Adjustments:			
Amortization of intangible assets	14	15	17
Stock-based compensation	93	87	78
Restructuring charges	5	26	11
Acquisition-related expense	3	3	5
Litigation settlements	(5)	—	—
Income tax effects	(9)	(31)	(11)
Income tax benefit from intra-entity intellectual property transfer	—	—	(524)
NON-GAAP NET INCOME	<u>\$ 334</u>	<u>\$ 249</u>	<u>\$ 326</u>
COST OF REVENUES	\$ 452	\$ 436	\$ 576
Adjustments:			
Amortization of intangible assets	(8)	(9)	(10)
Stock-based compensation	(7)	(7)	(5)
NON-GAAP COST OF REVENUES	<u>\$ 437</u>	<u>\$ 420</u>	<u>\$ 561</u>
COST OF PRODUCT REVENUES	\$ 276	\$ 265	\$ 418
Adjustments:			
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 275</u>	<u>\$ 264</u>	<u>\$ 417</u>
COST OF SERVICES REVENUES	\$ 176	\$ 171	\$ 158
Adjustments:			
Amortization of intangible assets	(8)	(9)	(10)
Stock-based compensation	(6)	(6)	(4)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 162</u>	<u>\$ 156</u>	<u>\$ 144</u>
GROSS PROFIT	\$ 1,110	\$ 996	\$ 1,087
Adjustments:			
Amortization of intangible assets	8	9	10
Stock-based compensation	7	7	5
NON-GAAP GROSS PROFIT	<u>\$ 1,125</u>	<u>\$ 1,012</u>	<u>\$ 1,102</u>

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
SALES AND MARKETING EXPENSES	\$ 461	\$ 468	\$ 479
Adjustments:			
Amortization of intangible assets	(6)	(6)	(7)
Stock-based compensation	(37)	(36)	(35)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 418</u>	<u>\$ 426</u>	<u>\$ 437</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 262	\$ 247	\$ 243
Adjustments:			
Stock-based compensation	(35)	(32)	(26)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 227</u>	<u>\$ 215</u>	<u>\$ 217</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 75	\$ 74	\$ 67
Adjustments:			
Stock-based compensation	(14)	(12)	(12)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 61</u>	<u>\$ 62</u>	<u>\$ 55</u>
RESTRUCTURING CHARGES	\$ 5	\$ 26	\$ 11
Adjustments:			
Restructuring charges	(5)	(26)	(11)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ 3	\$ 3	\$ 5
Adjustments:			
Acquisition-related expense	(3)	(3)	(5)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 806	\$ 818	\$ 805
Adjustments:			
Amortization of intangible assets	(6)	(6)	(7)
Stock-based compensation	(86)	(80)	(73)
Restructuring charges	(5)	(26)	(11)
Acquisition-related expense	(3)	(3)	(5)
NON-GAAP OPERATING EXPENSES	<u>\$ 706</u>	<u>\$ 703</u>	<u>\$ 709</u>

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
INCOME FROM OPERATIONS	\$ 304	\$ 178	\$ 282
Adjustments:			
Amortization of intangible assets	14	15	17
Stock-based compensation	93	87	78
Restructuring charges	5	26	11
Acquisition-related expense	3	3	5
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 419</u>	<u>\$ 309</u>	<u>\$ 393</u>
OTHER INCOME, NET	\$ 11	\$ 8	\$ 23
Adjustments:			
Litigation settlements	(5)	—	—
NON-GAAP OTHER INCOME, NET	<u>\$ 6</u>	<u>\$ 8</u>	<u>\$ 23</u>
INCOME BEFORE INCOME TAXES	\$ 315	\$ 186	\$ 305
Adjustments:			
Amortization of intangible assets	14	15	17
Stock-based compensation	93	87	78
Restructuring charges	5	26	11
Acquisition-related expense	3	3	5
Litigation settlements	(5)	—	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 425</u>	<u>\$ 317</u>	<u>\$ 416</u>
PROVISION (BENEFIT) FOR INCOME TAXES	\$ 82	\$ 37	\$ (445)
Adjustments:			
Income tax effects	9	31	11
Income tax benefit from intra-entity intellectual property transfer	—	—	524
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 91</u>	<u>\$ 68</u>	<u>\$ 90</u>
NET INCOME PER SHARE	\$ 1.10	\$ 0.69	\$ 3.41
Adjustments:			
Amortization of intangible assets	0.07	0.07	0.08
Stock-based compensation	0.44	0.40	0.35
Restructuring charges	0.02	0.12	0.05
Acquisition-related expense	0.01	0.01	0.02
Litigation settlements	(0.02)	—	—
Income tax effects	(0.04)	(0.14)	(0.05)
Income tax benefit from intra-entity intellectual property transfer	—	—	(2.38)
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.58</u>	<u>\$ 1.15</u>	<u>\$ 1.48</u>

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Gross margin-GAAP	71.1%	69.6%	65.4%
Cost of revenues adjustments	1.0%	1.1%	0.9%
Gross margin-Non-GAAP	72.0%	70.7%	66.3%
GAAP cost of revenues	\$ 452	\$ 436	\$ 576
Cost of revenues adjustments:			
Amortization of intangible assets	(8)	(9)	(10)
Stock-based compensation	(7)	(7)	(5)
Non-GAAP cost of revenues	\$ 437	\$ 420	\$ 561
Net revenues	\$ 1,562	\$ 1,432	\$ 1,663

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Product gross margin-GAAP	60.9%	55.1%	50.1%
Cost of product revenues adjustments	0.1%	0.2%	0.1%
Product gross margin-Non-GAAP	61.0%	55.3%	50.2%
GAAP cost of product revenues	\$ 276	\$ 265	\$ 418
Cost of product revenues adjustments:			
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	\$ 275	\$ 264	\$ 417
Product revenues	\$ 706	\$ 590	\$ 837

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Services gross margin-GAAP	79.4%	79.7%	80.9%
Cost of services revenues adjustments	1.6%	1.8%	1.7%
Services gross margin-Non-GAAP	81.1%	81.5%	82.6%
GAAP cost of services revenues	\$ 176	\$ 171	\$ 158
Cost of services revenues adjustments:			
Amortization of intangible assets	(8)	(9)	(10)
Stock-based compensation	(6)	(6)	(4)
Non-GAAP cost of services revenues	\$ 162	\$ 156	\$ 144
Services revenues	\$ 856	\$ 842	\$ 826

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
GAAP effective tax rate	26.0%	19.9%	(145.9)%
Adjustments:			
Income tax effects	(4.6)%	1.6%	41.6%
Income tax benefit from intra-entity intellectual property transfer	—%	—%	126.0%
Non-GAAP effective tax rate	21.4%	21.5%	21.6%

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Net cash provided by operating activities	\$ 135	\$ 453	\$ 214
Purchases of property and equipment	(38)	(35)	(77)
Free cash flow	\$ 97	\$ 418	\$ 137

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

	<u>Q2'FY24</u>	<u>Q1'FY24</u>	<u>Q2'FY23</u>
Net revenues	\$ 1,562	\$ 1,432	\$ 1,663
Change in deferred revenue and financed unearned services revenue*	(108)	(133)	(61)
Billings	\$ 1,454	\$ 1,299	\$ 1,602

* 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 2024

	Third Quarter Fiscal 2024
Non-GAAP Guidance - Net Income Per Share	\$1.64-\$1.74
Adjustments of Specific Items to Net Income Per Share for the Third Quarter Fiscal 2024:	
Amortization of intangible assets	(\$0.07)
Stock-based compensation expense	(\$0.44)
Income tax effects	\$0.04
Total Adjustments	(\$0.47)
GAAP Guidance - Net Income Per Share	\$1.17-\$1.27

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
Fiscal 2024

	Fiscal 2024
Gross Margin - Non-GAAP Guidance	~71%
Adjustment:	
Cost of revenues adjustments	(1)%
Gross Margin - GAAP Guidance	~70%
	Fiscal 2024
Operating Margin - Non-GAAP Guidance	~26%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(6)%
Operating Margin - GAAP Guidance	~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 2024

	Fiscal 2024
Non-GAAP Guidance - Net Income Per Share	\$6.05-\$6.25
Adjustments of Specific Items to Net Income	
Per Share for Fiscal 2024:	
Amortization of intangible assets	(\$0.27)
Stock-based compensation expense	(\$1.73)
Restructuring charges	(\$0.15)
Acquisition-related expenses	(\$0.03)
Litigation Settlement	\$0.02
Income tax effects	\$0.26
Total Adjustments	(\$1.90)
GAAP Guidance - Net Income Per Share	\$4.15-\$4.35

Some items may not add or recalculate due to rounding.

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