

NetApp Financial Analyst Day 2017



Safe Harbor

Each of the presentations today will contain forward-looking statements and projections about our strategy, products, shareholder returns, as well as our future results, performance or achievements, financial and otherwise. These statements and projections reflect management's current expectations, estimates and assumptions based on the information currently available to us and are not guarantees of future performance. Actual results may differ materially from our statements or projections for a variety of reasons, including general economic and market conditions, and matters specific to the company's business, such as transitions in the IT industry, rapid technological change, market acceptance of our data fabric strategy, customer demand for our products and services and the success of our corporate transformation. These and other equally important factors that may affect our future results are described in reports and documents we file from time to time with the SEC, including the factors described under the section titled "Risk Factors" in our most recent filings on Form 10-K and Form 10-Q available at www.sec.gov. The forward-looking statements made in these presentations are being made as of the time and date of the live presentation. If these presentations are reviewed after the time and date of the live presentation, even if subsequently made available by us, on our web site or otherwise, these presentations may not contain current or accurate information. Except as required by law, we disclaim any obligation to update or revise any forward-looking statement based on new information, future events or otherwise.

The non-GAAP to GAAP reconciliation of the financial information presented is available on our website at www.netapp.com.

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Financial Update

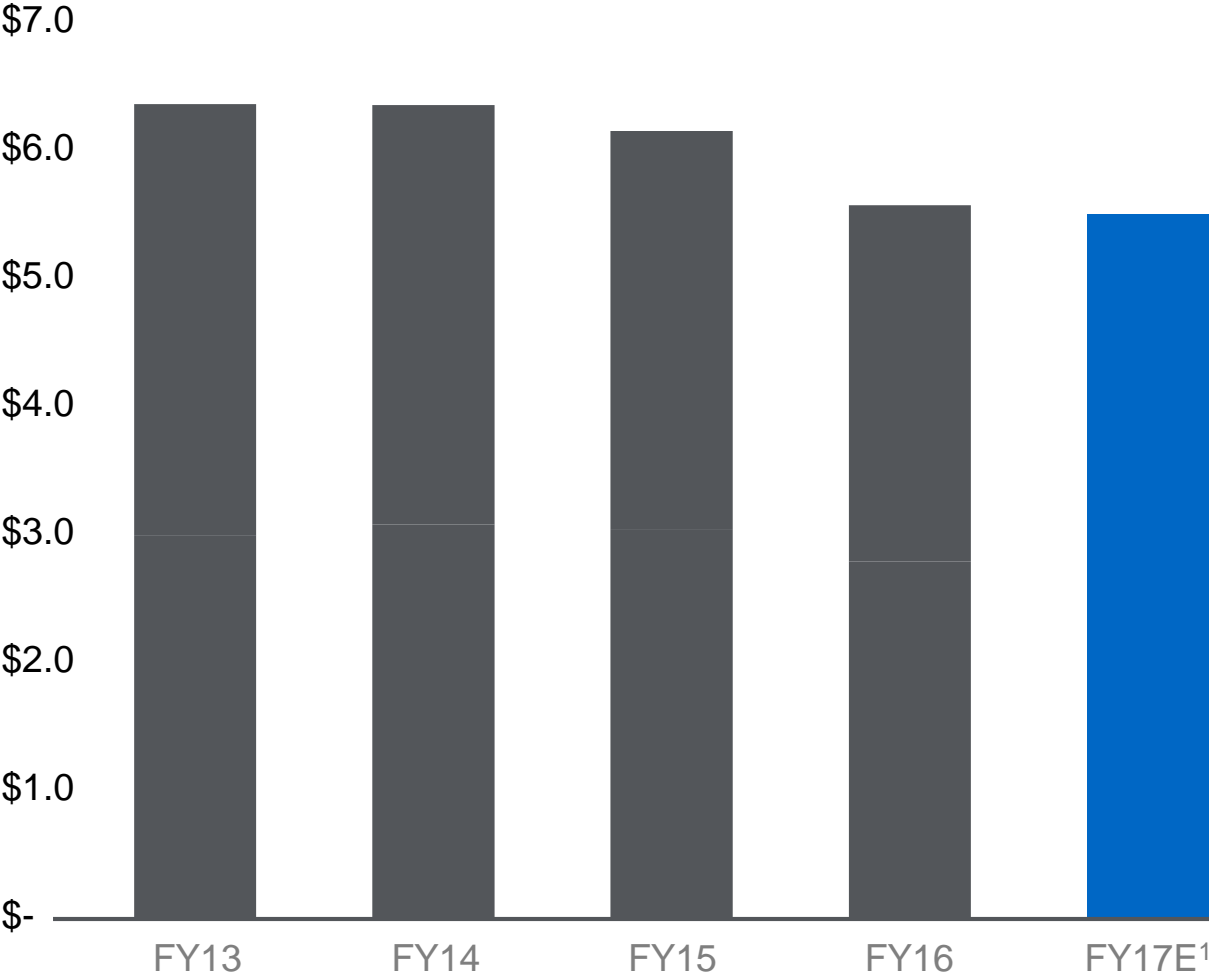
Transformation and Growth

Ron Pasek

Executive Vice President and Chief Financial Officer



Revenue

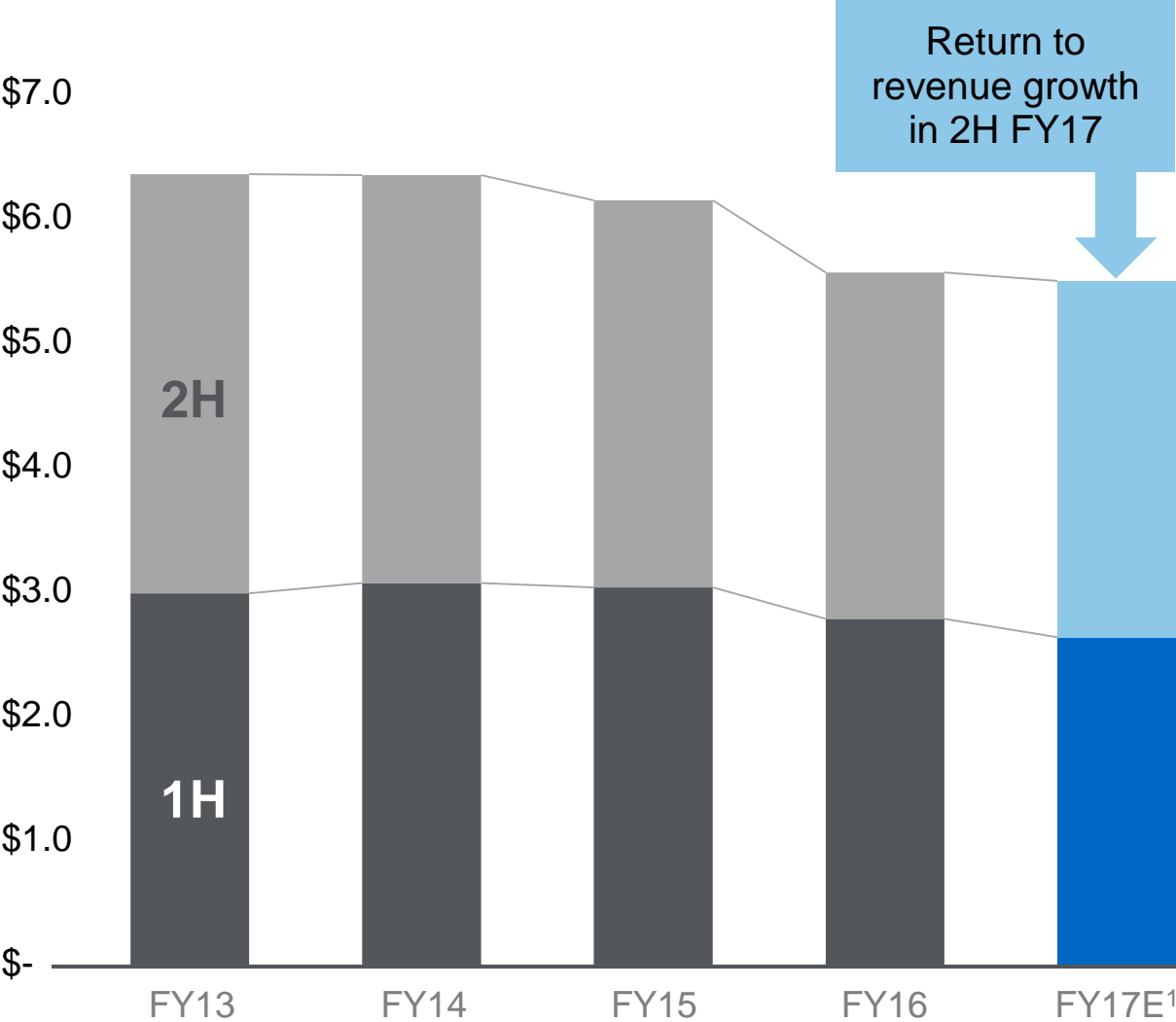


(\$'s in Billions)

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¹FY17 based on the midpoint of Q4 guidance

Revenue

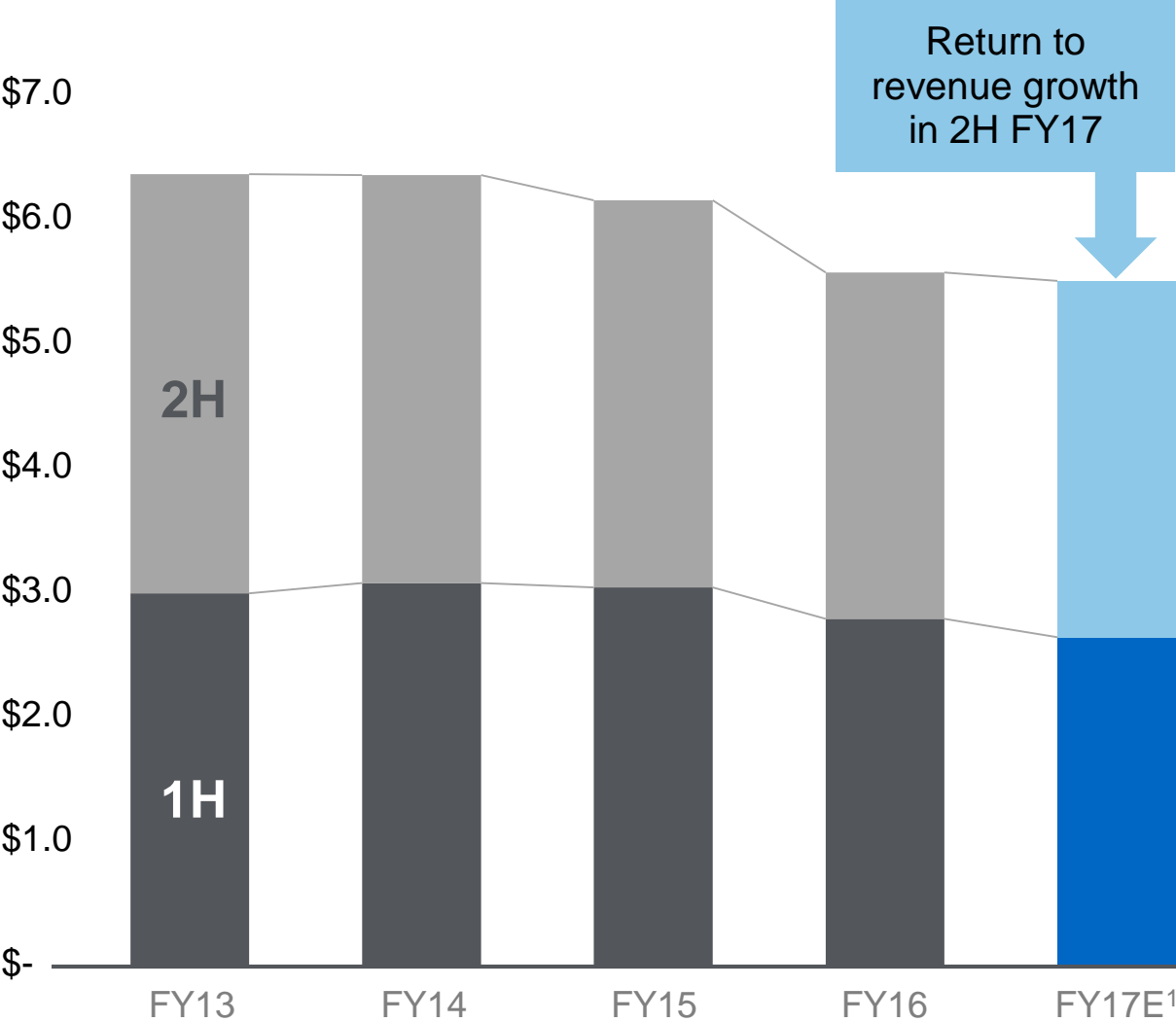


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Revenue



Action Plan

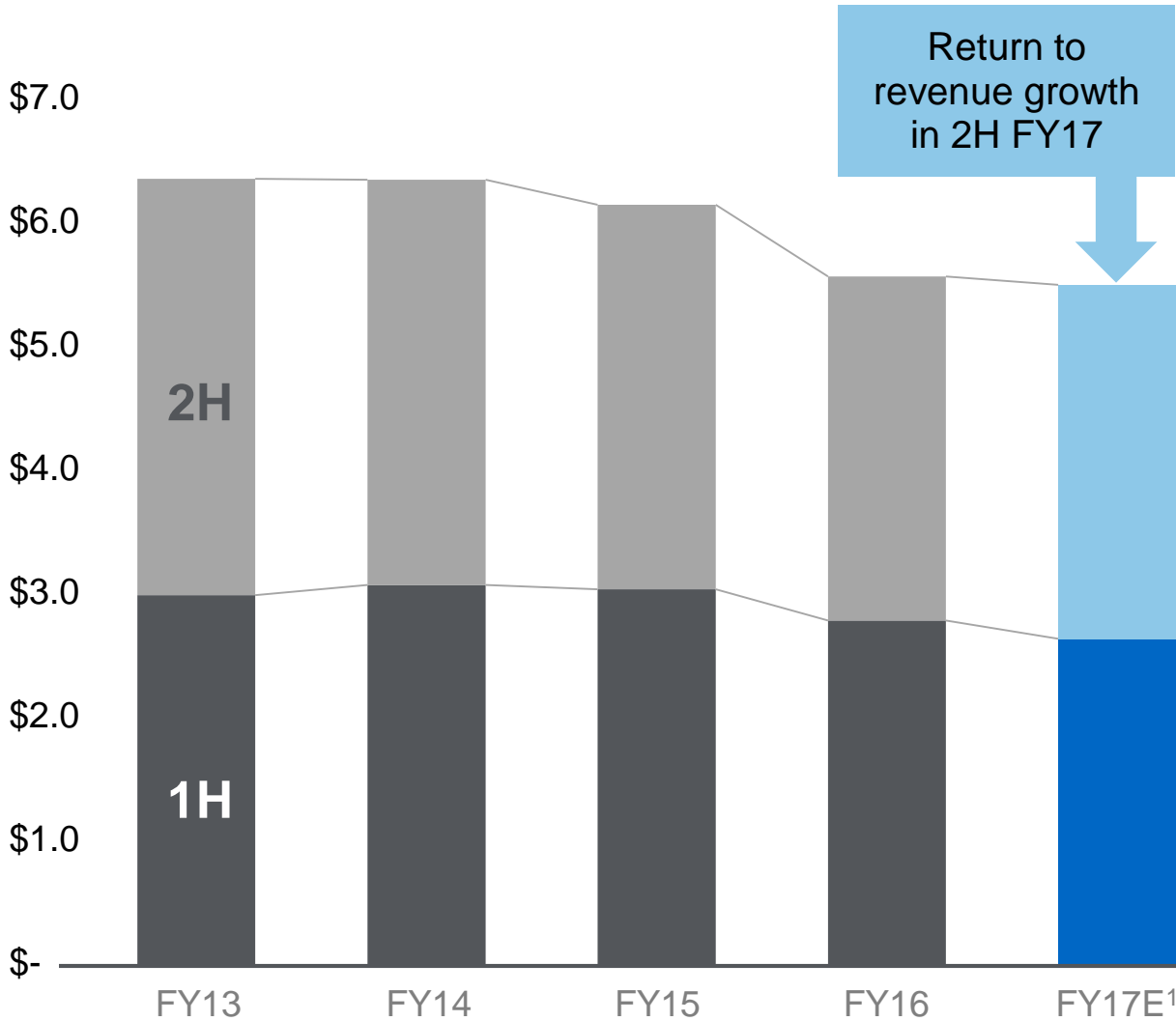
- Reaching new buyers
- Right touch sales model
- Led by flash, our portfolio is aligned to customers' IT spending priorities

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Revenue



Action Plan

- Reaching new buyers
- Right touch sales model
- Led by flash, our portfolio is aligned to customers' IT spending priorities

FY18–FY20



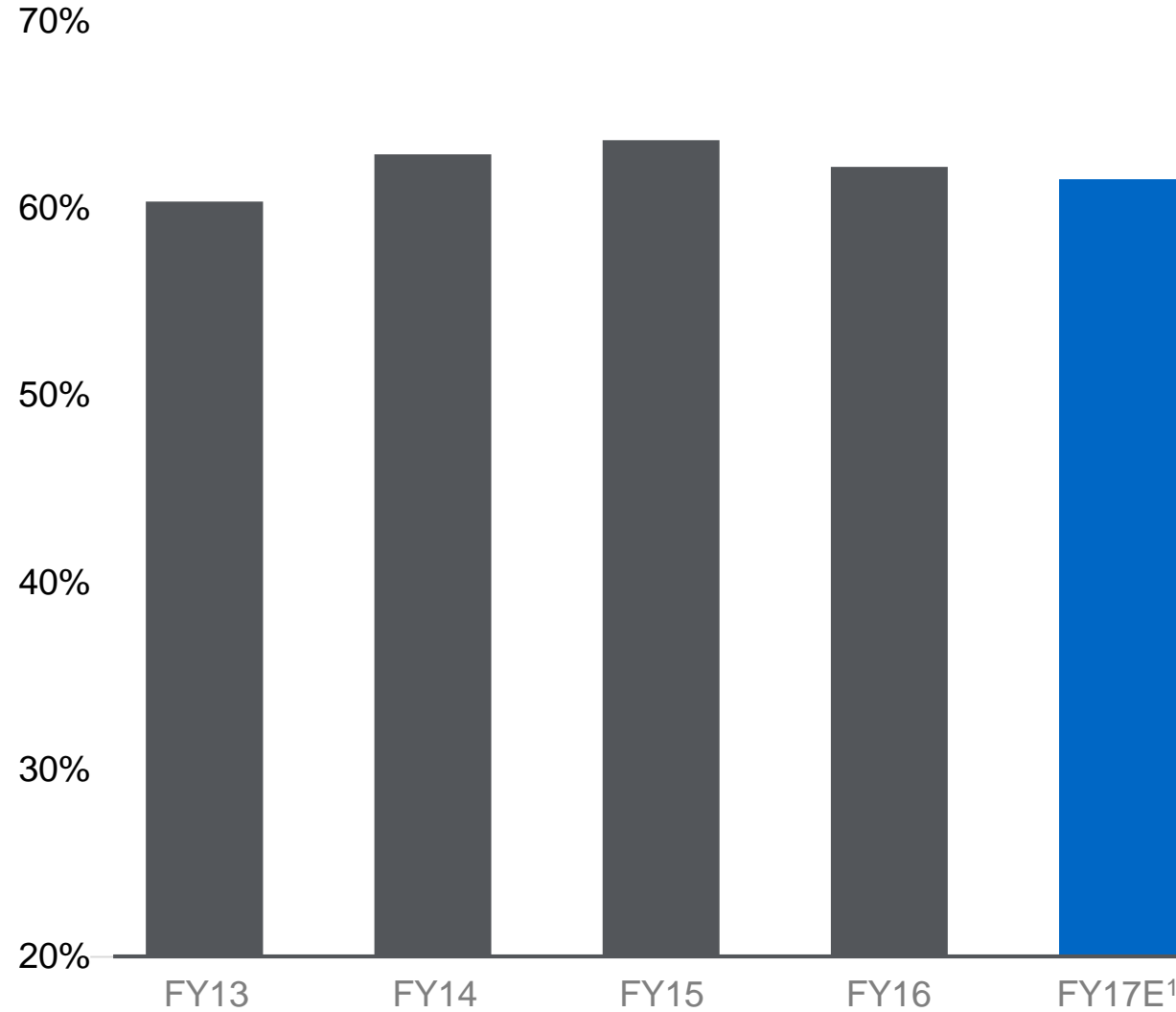
Low Single Digit Growth

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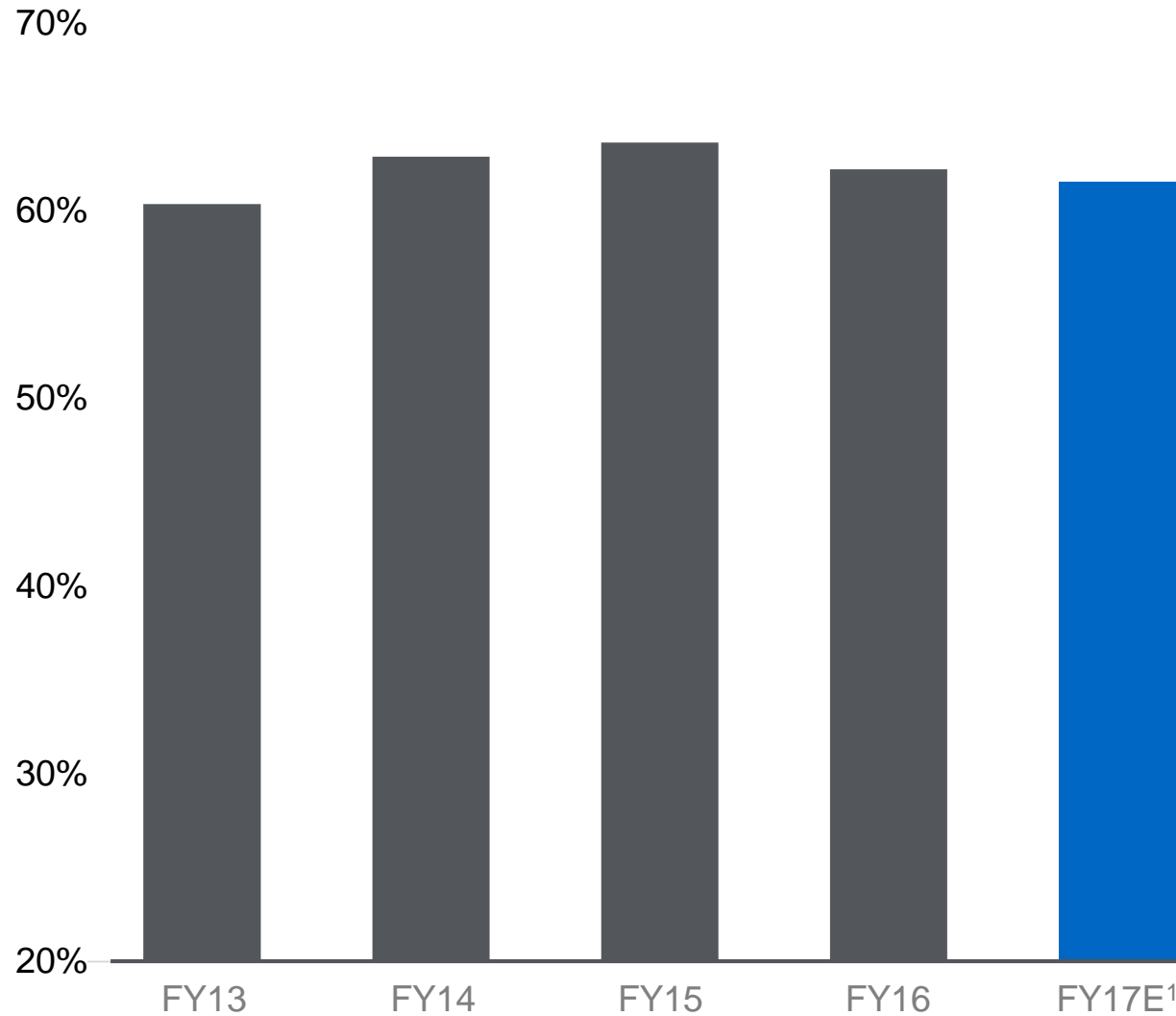
Gross Margin % (Non-GAAP)*



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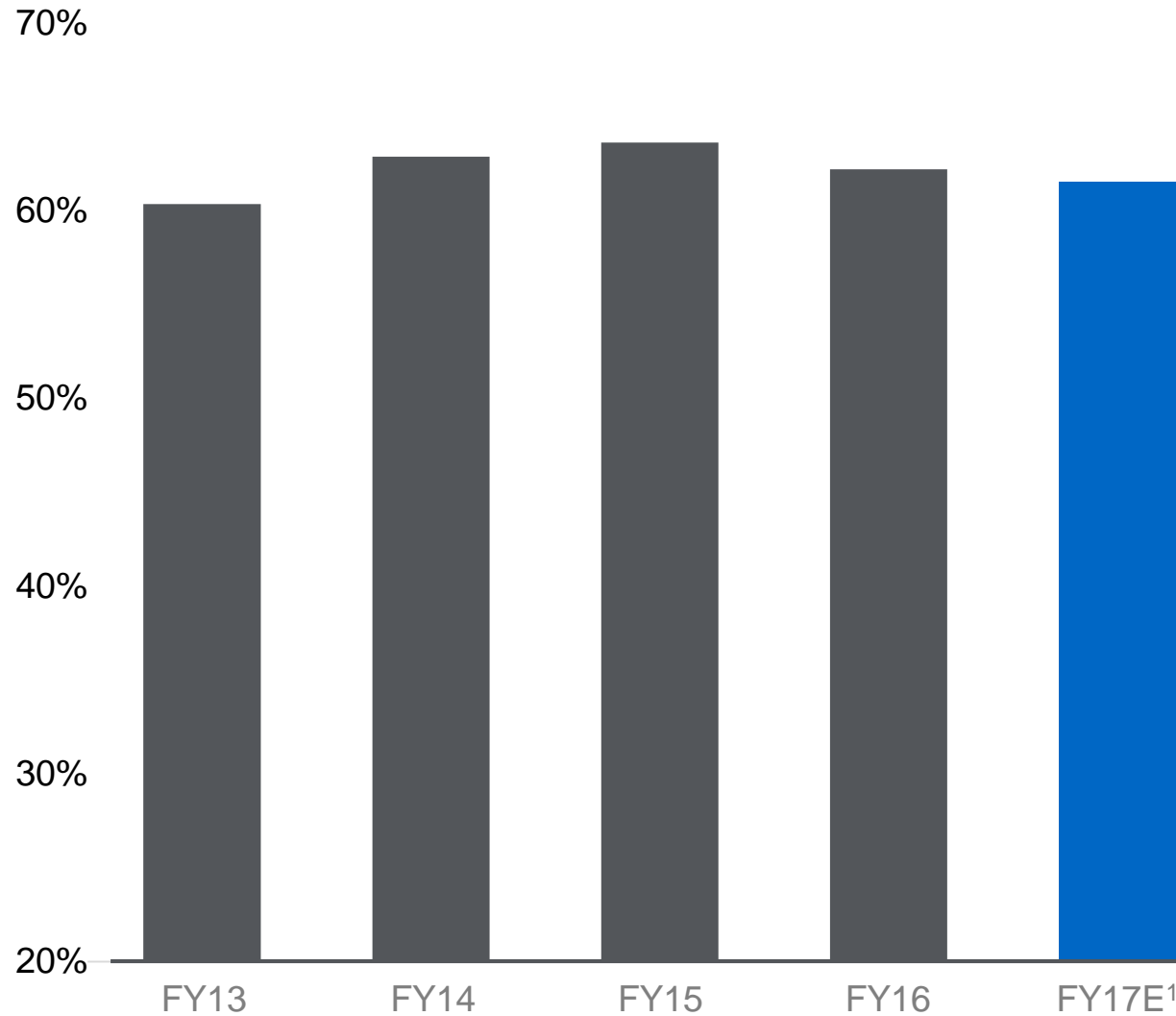
Action Plan

- Rationalization of promotions
- Increased software content
- Sales discipline

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Gross Margin % (Non-GAAP)*



Action Plan

- Rationalization of promotions
- Increased software content
- Sales discipline

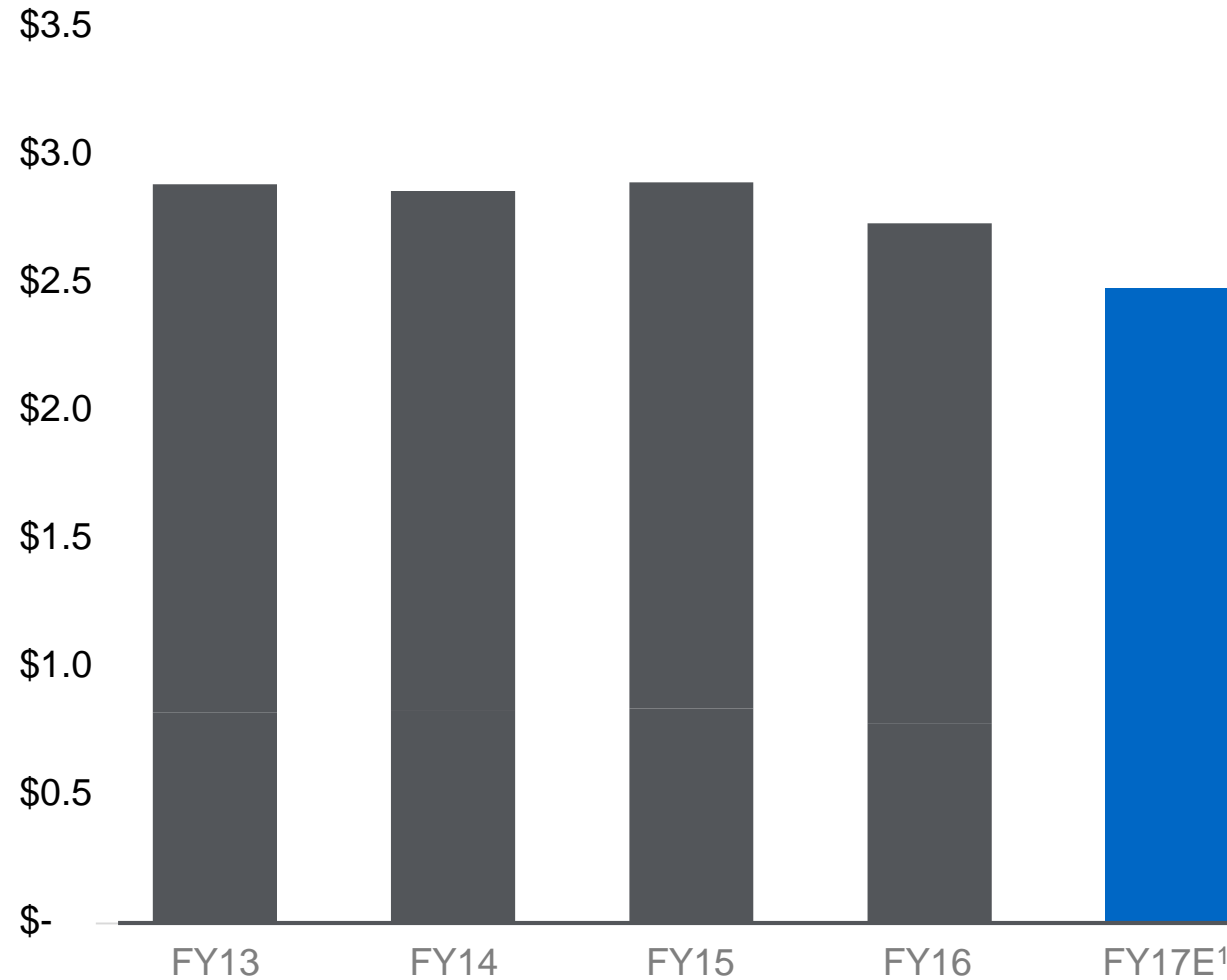
FY18–FY20



**62-64%
Gross Margin**

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Operating Expenses (Non-GAAP)*

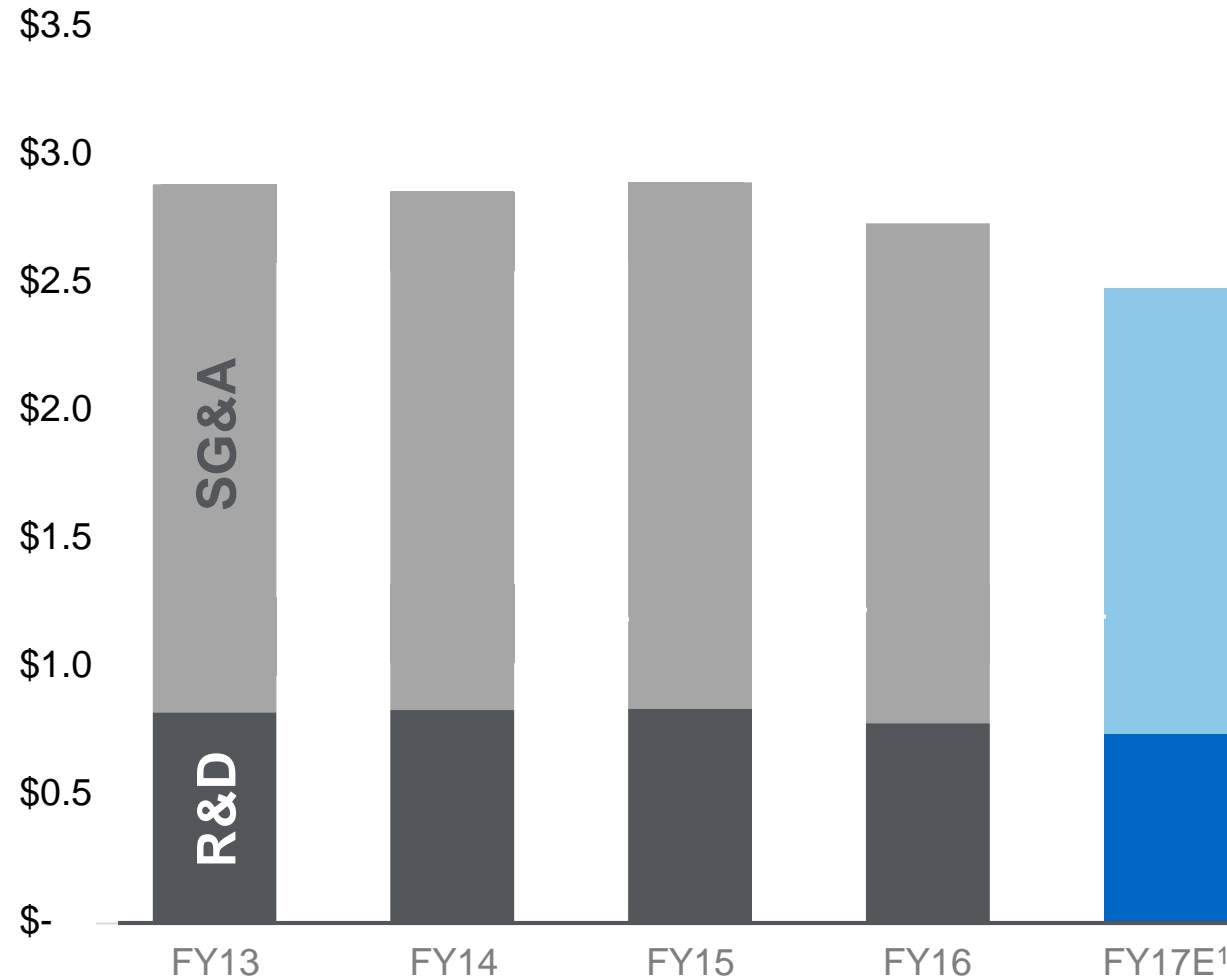


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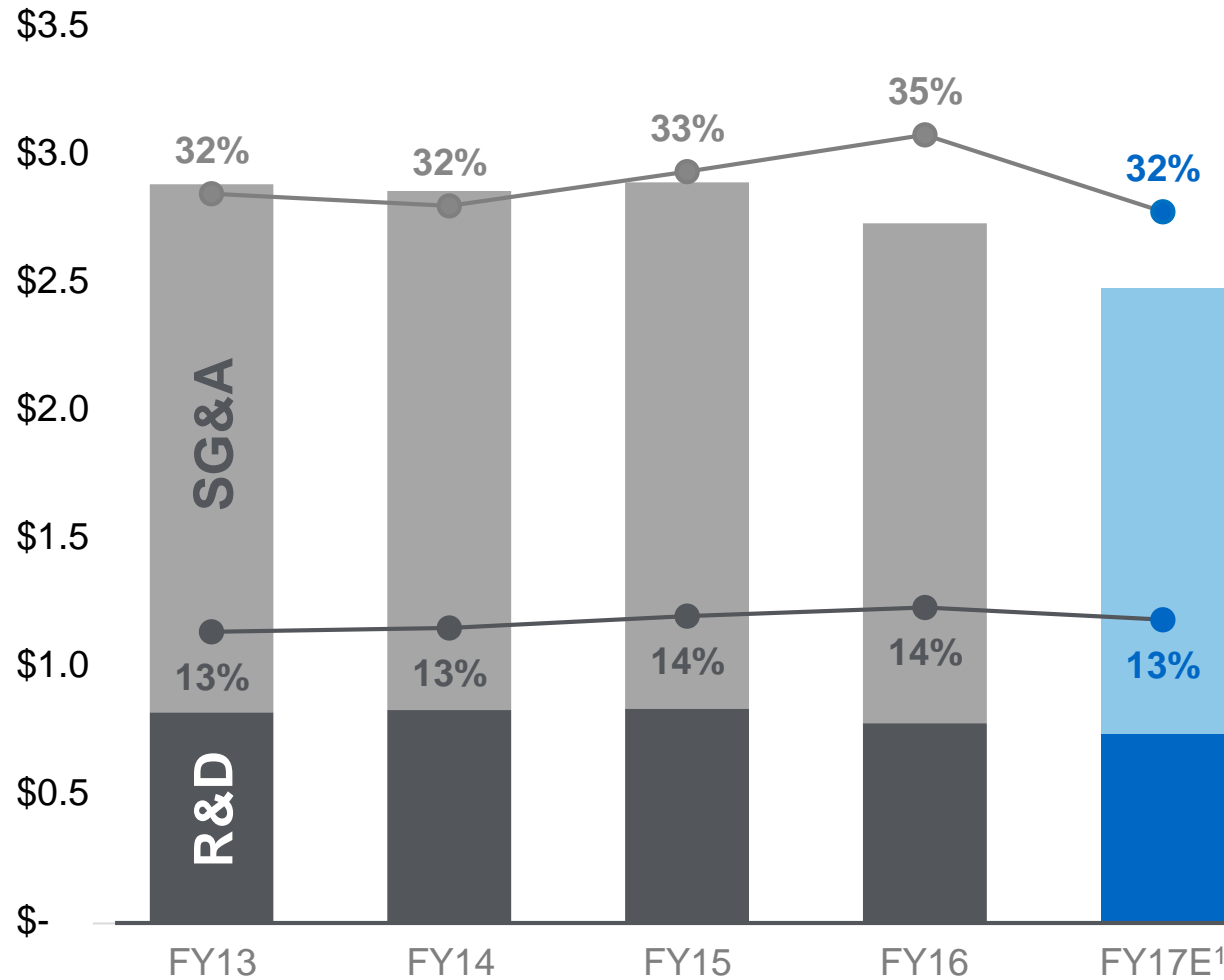


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Operating Expenses and as a % of Revenue (Non-GAAP)*

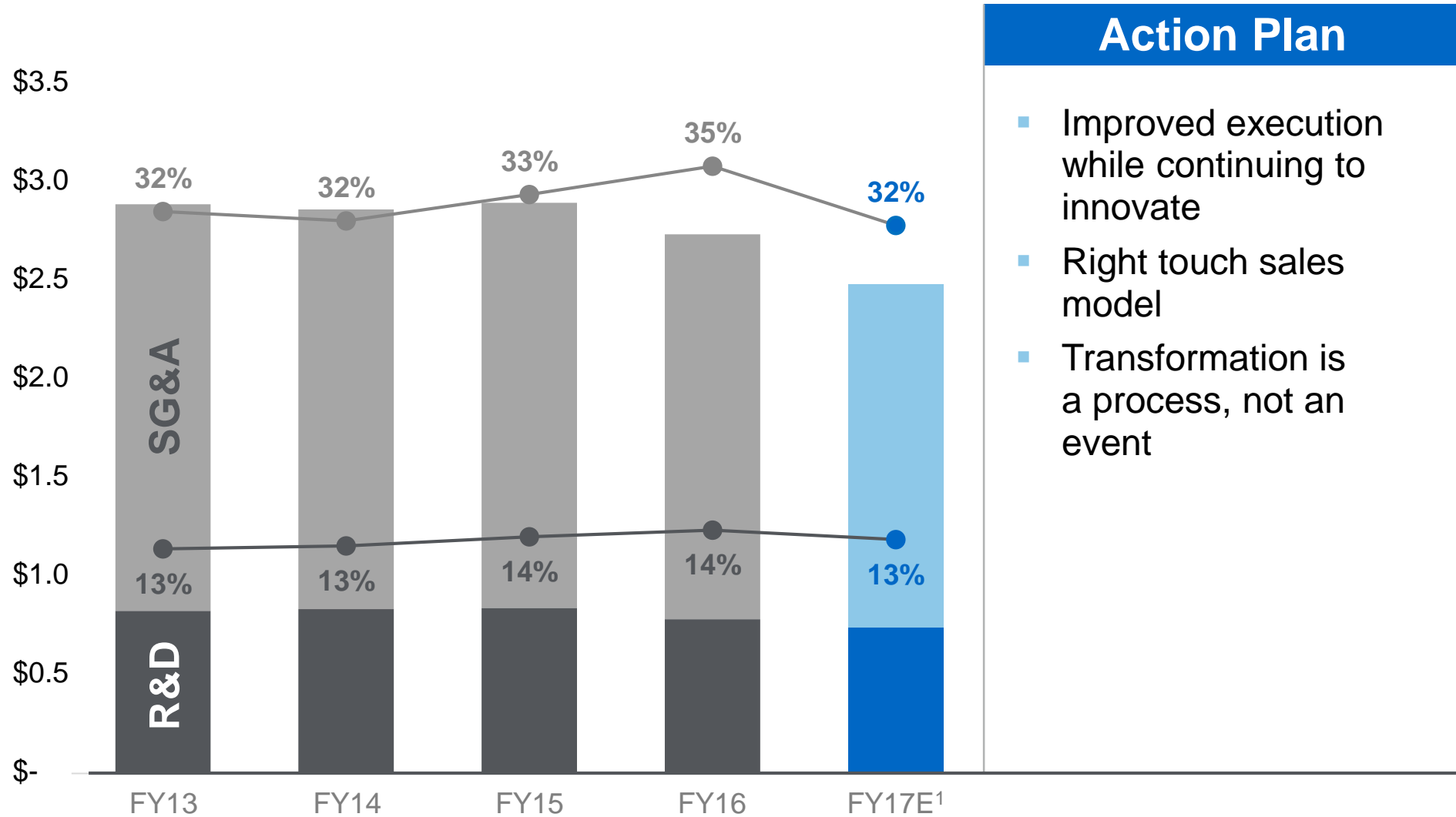


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Operating Expenses and as a % of Revenue (Non-GAAP)*



Action Plan

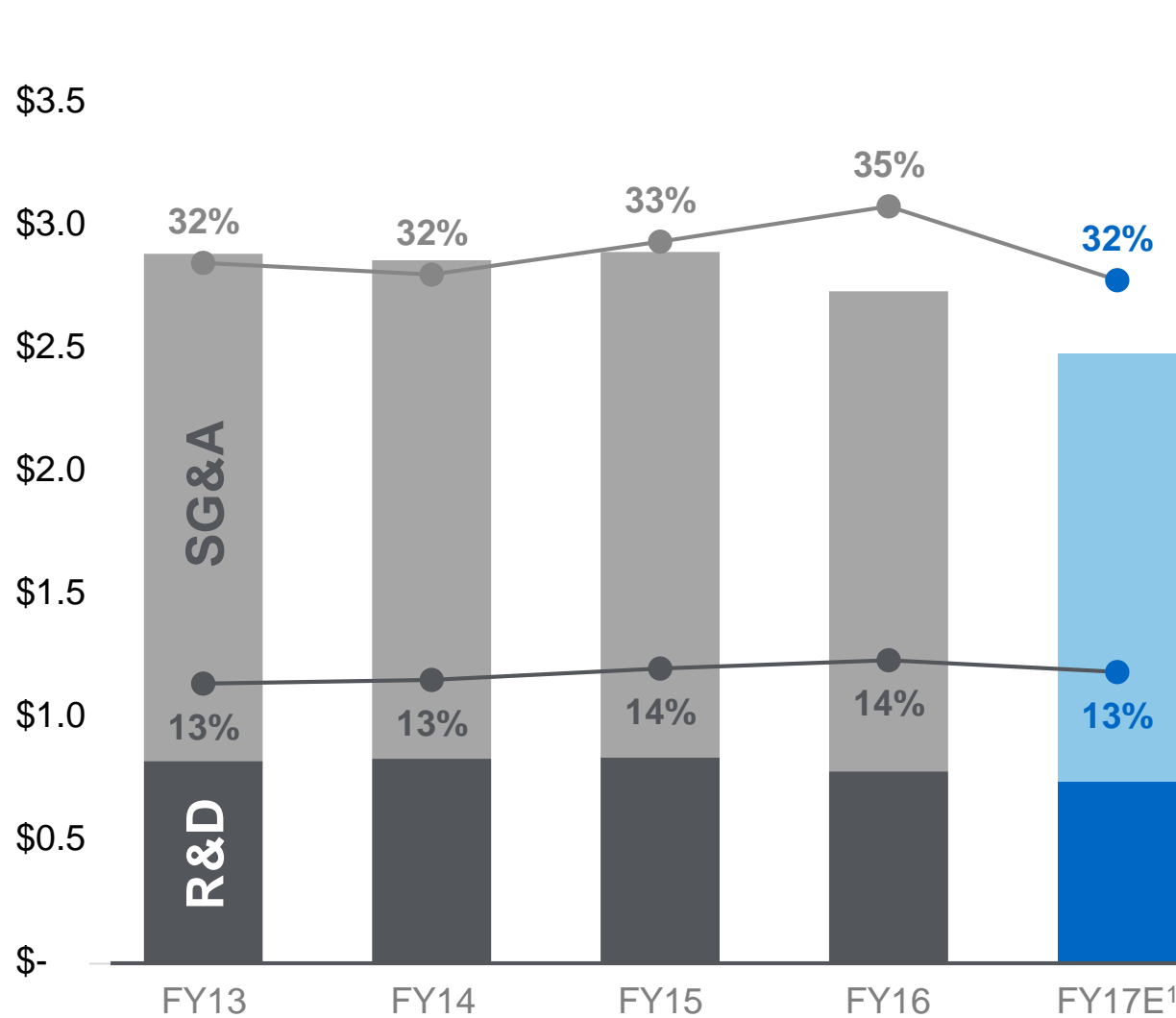
- Improved execution while continuing to innovate
- Right touch sales model
- Transformation is a process, not an event

(\$'s in Billions)

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Operating Expenses and as a % of Revenue (Non-GAAP)*



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Action Plan

- Improved execution while continuing to innovate
- Right touch sales model
- Transformation is a process, not an event

FY18–FY20



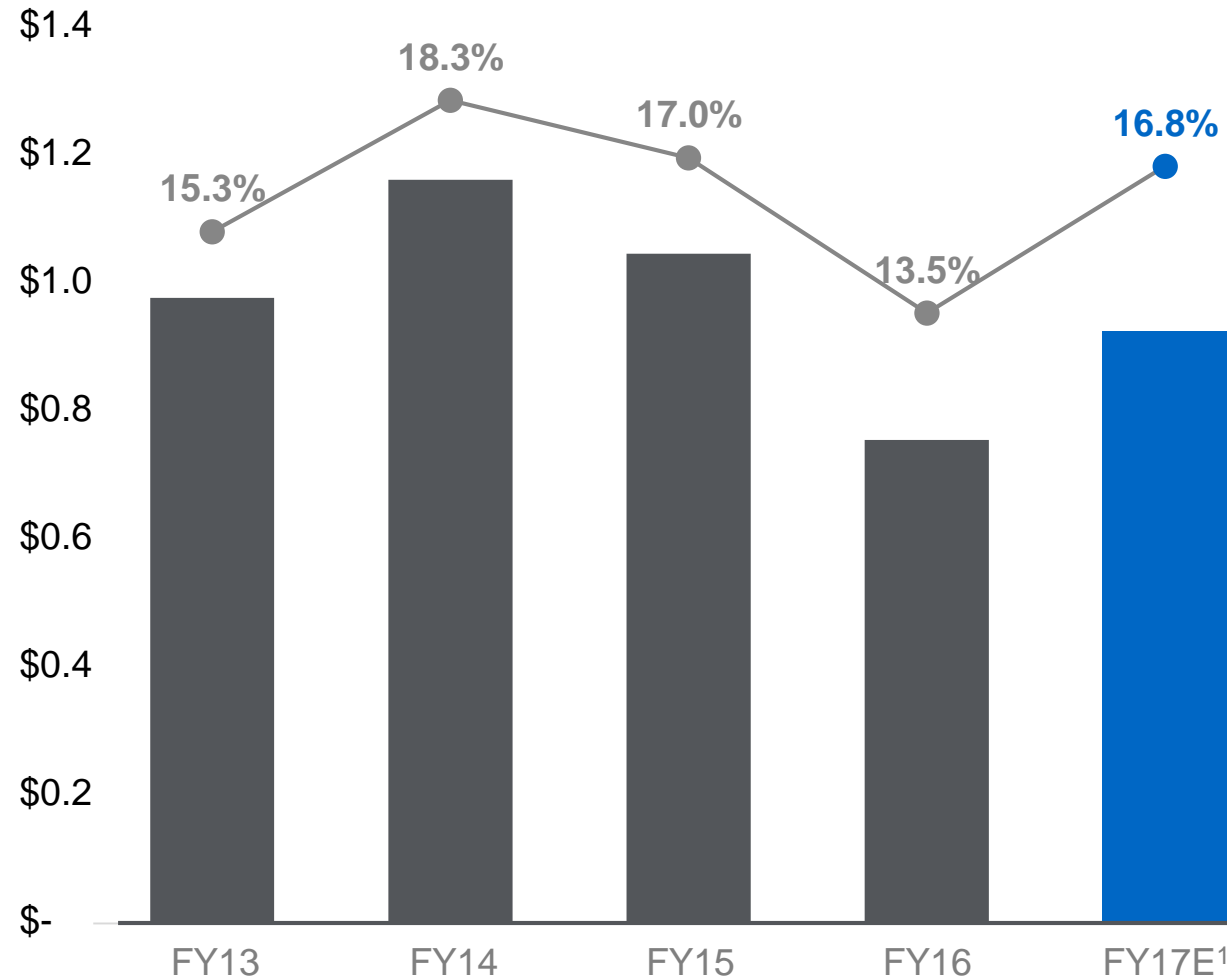
**Minimal
Operating
Expense Growth**

% of Revenue

SG&A: 30-31%

R&D: 12-13%

Operating Margin \$ and as a % of Revenue (Non-GAAP)*

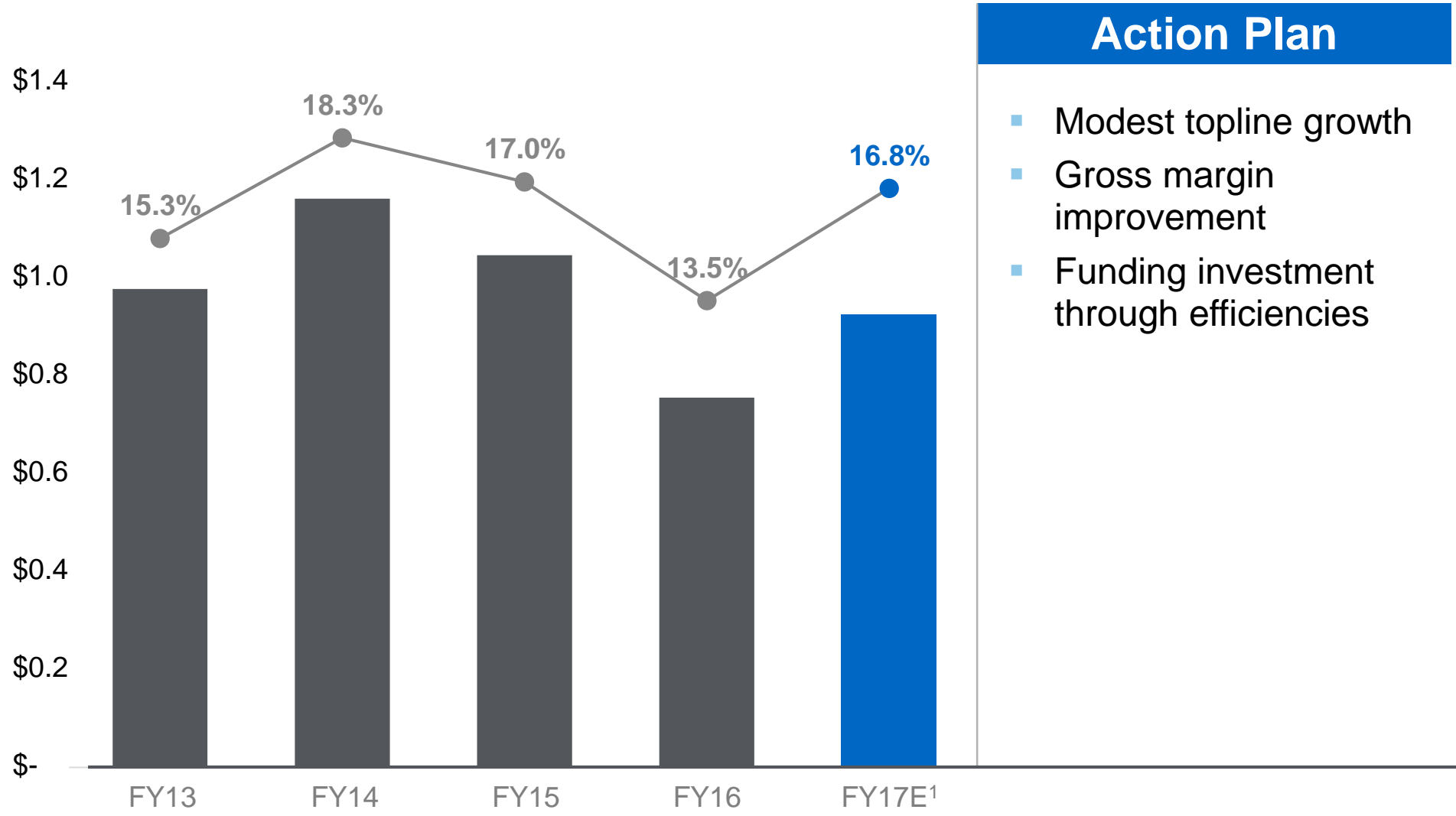


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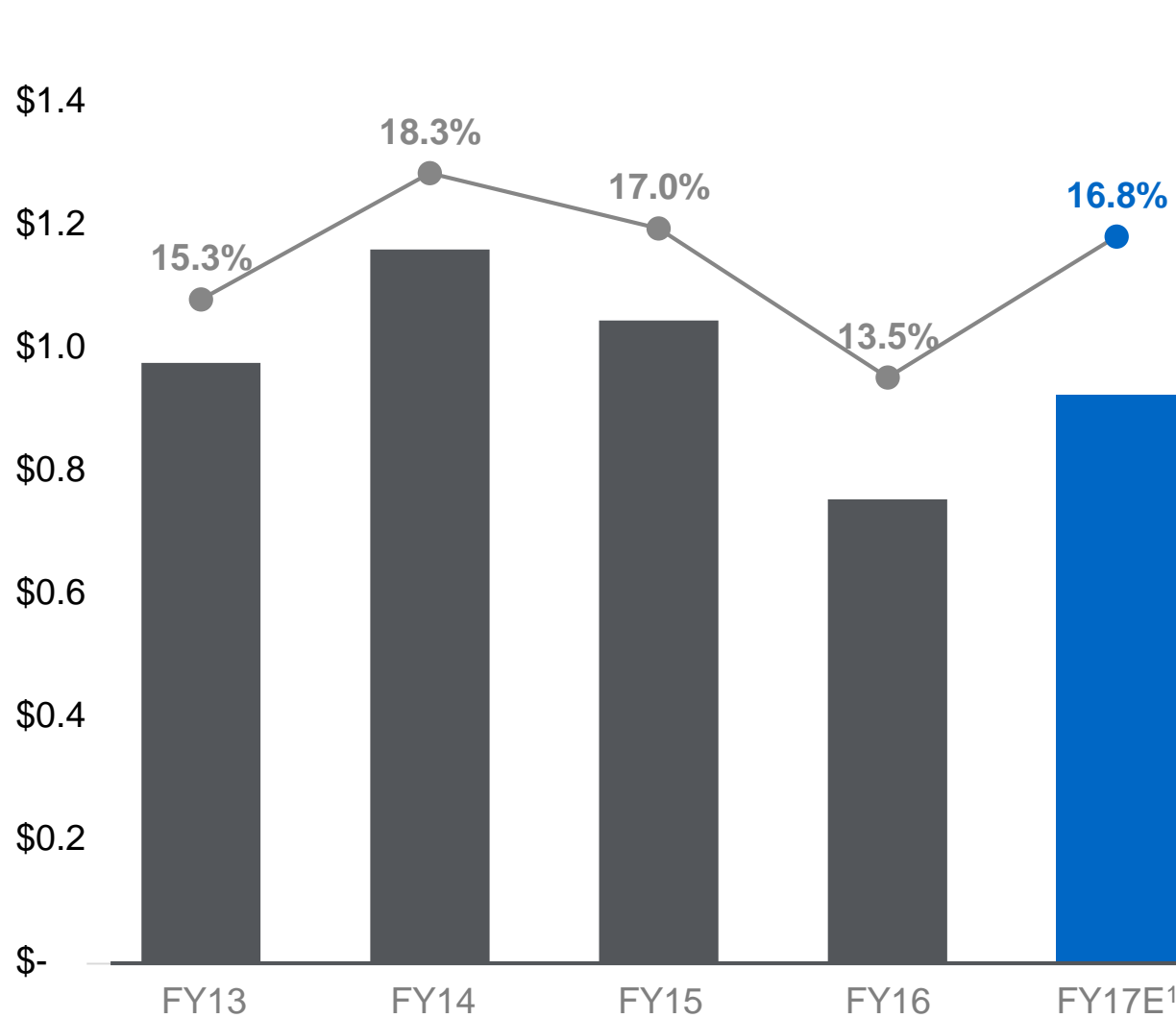
Operating Margin \$ and as a % of Revenue (Non-GAAP)*



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Operating Margin \$ and as a % of Revenue (Non-GAAP)*



Action Plan

- Modest topline growth
- Gross margin improvement
- Funding investment through efficiencies

FY18–FY20

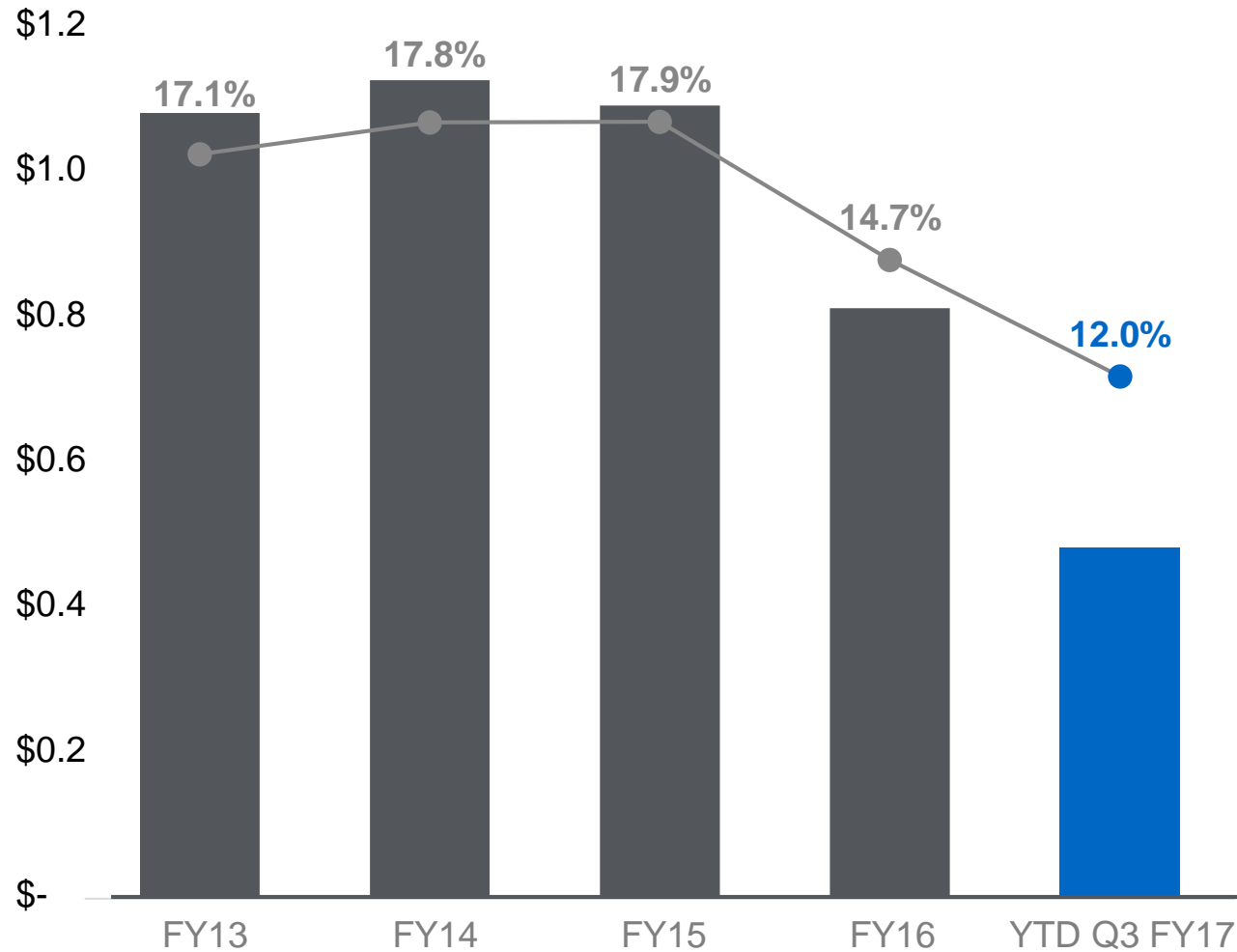


18-22% of Revenue

(\$'s in Billions)

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Free Cash Flow \$ and as a % of Revenue (Non-GAAP)*

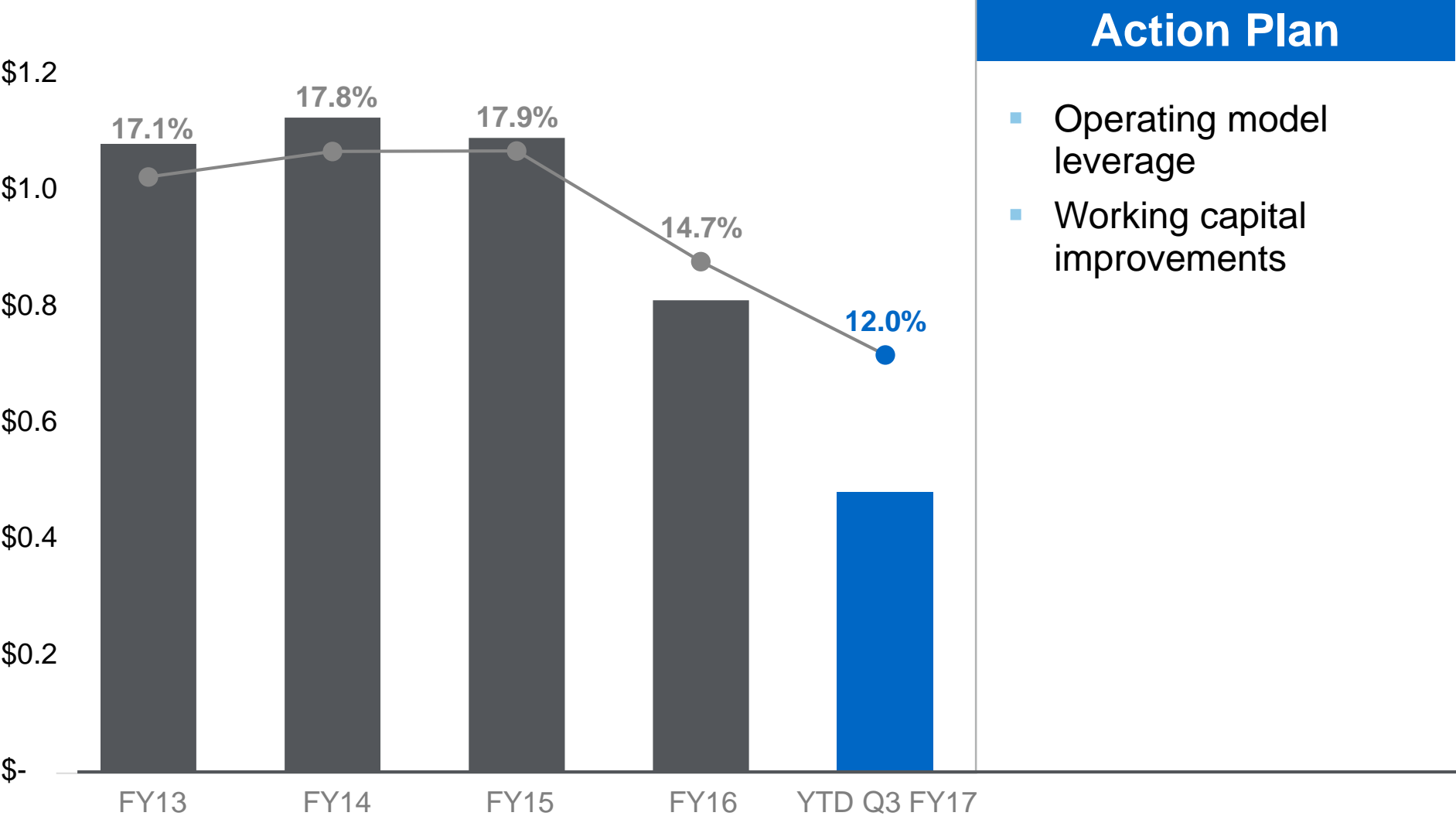


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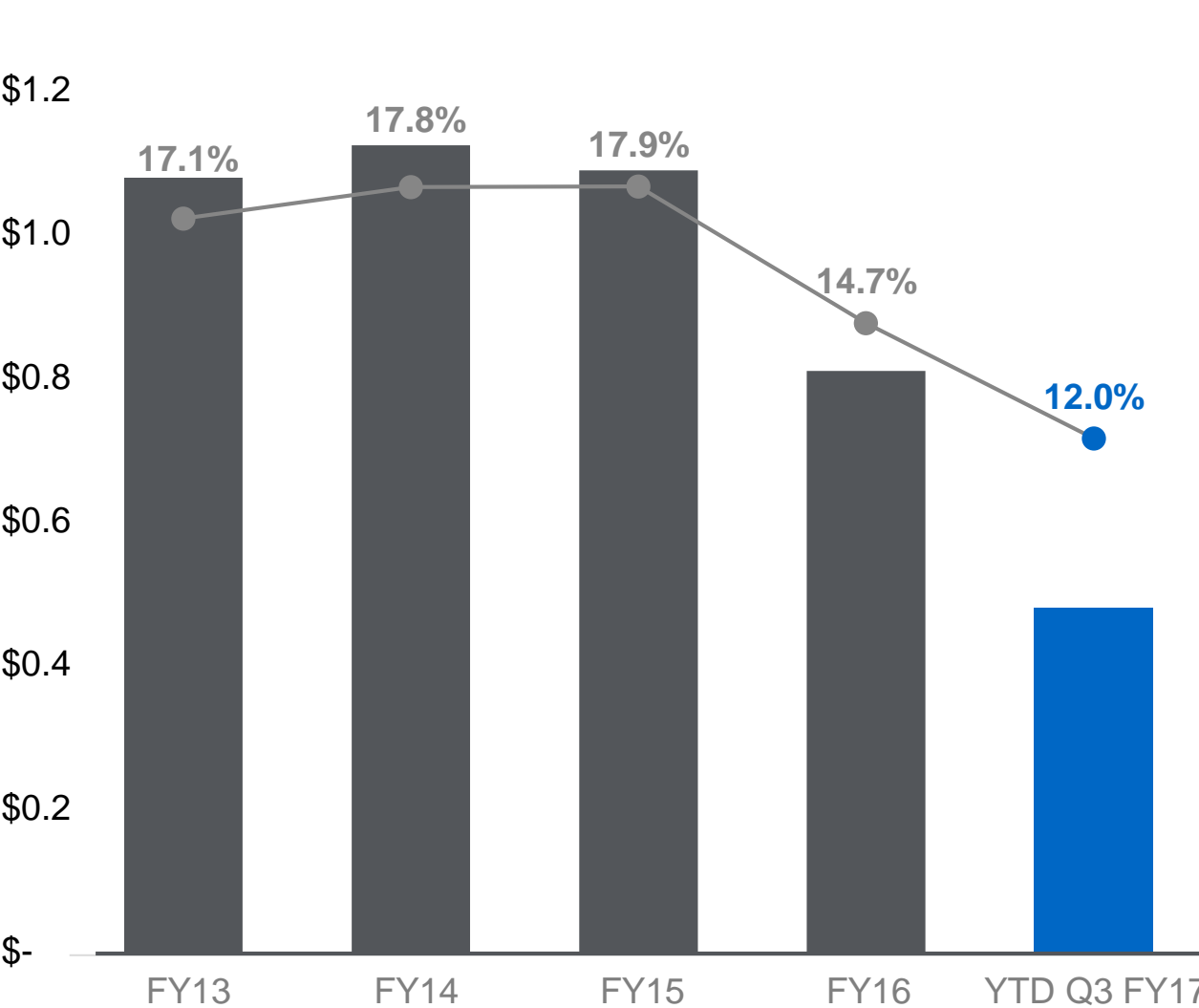
Free Cash Flow \$ and as a % of Revenue (Non-GAAP)*



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Free Cash Flow \$ and as a % of Revenue (Non-GAAP)*



Action Plan

- Operating model leverage
- Working capital improvements

FY18–FY20

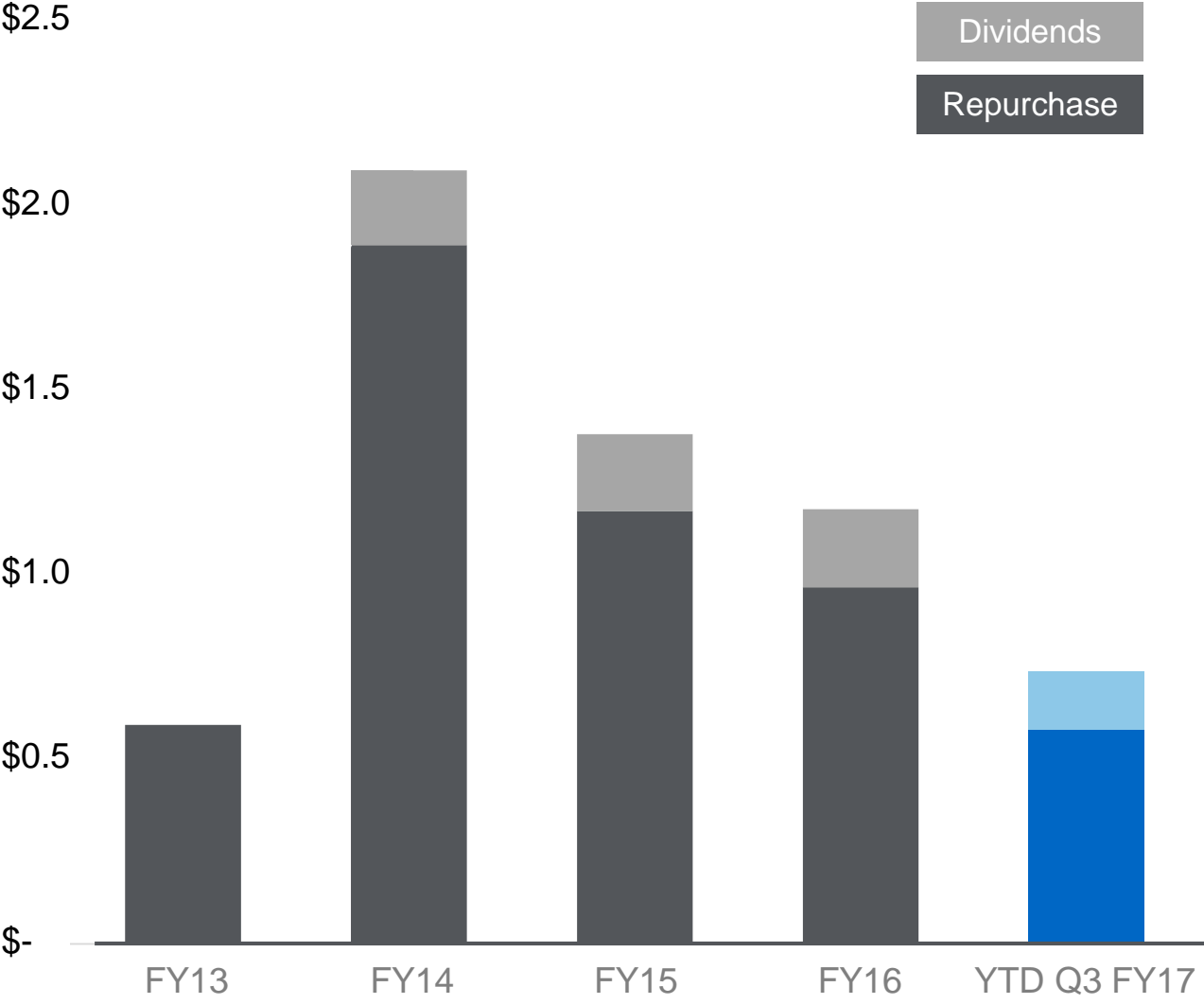


16-22% of Revenue

(\$'s in Billions)

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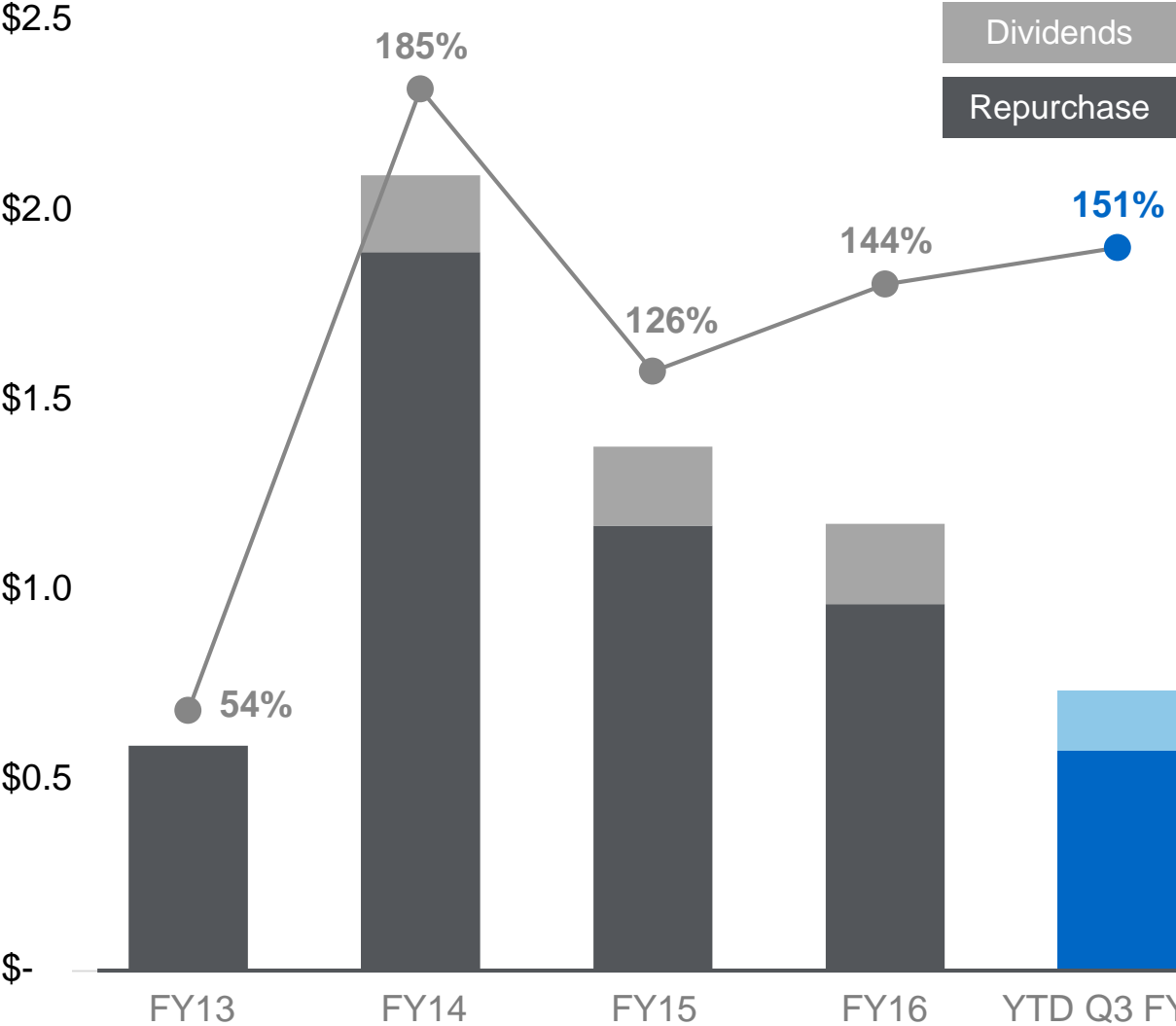
Returning Cash to Shareholders



(\$'s in Billions)

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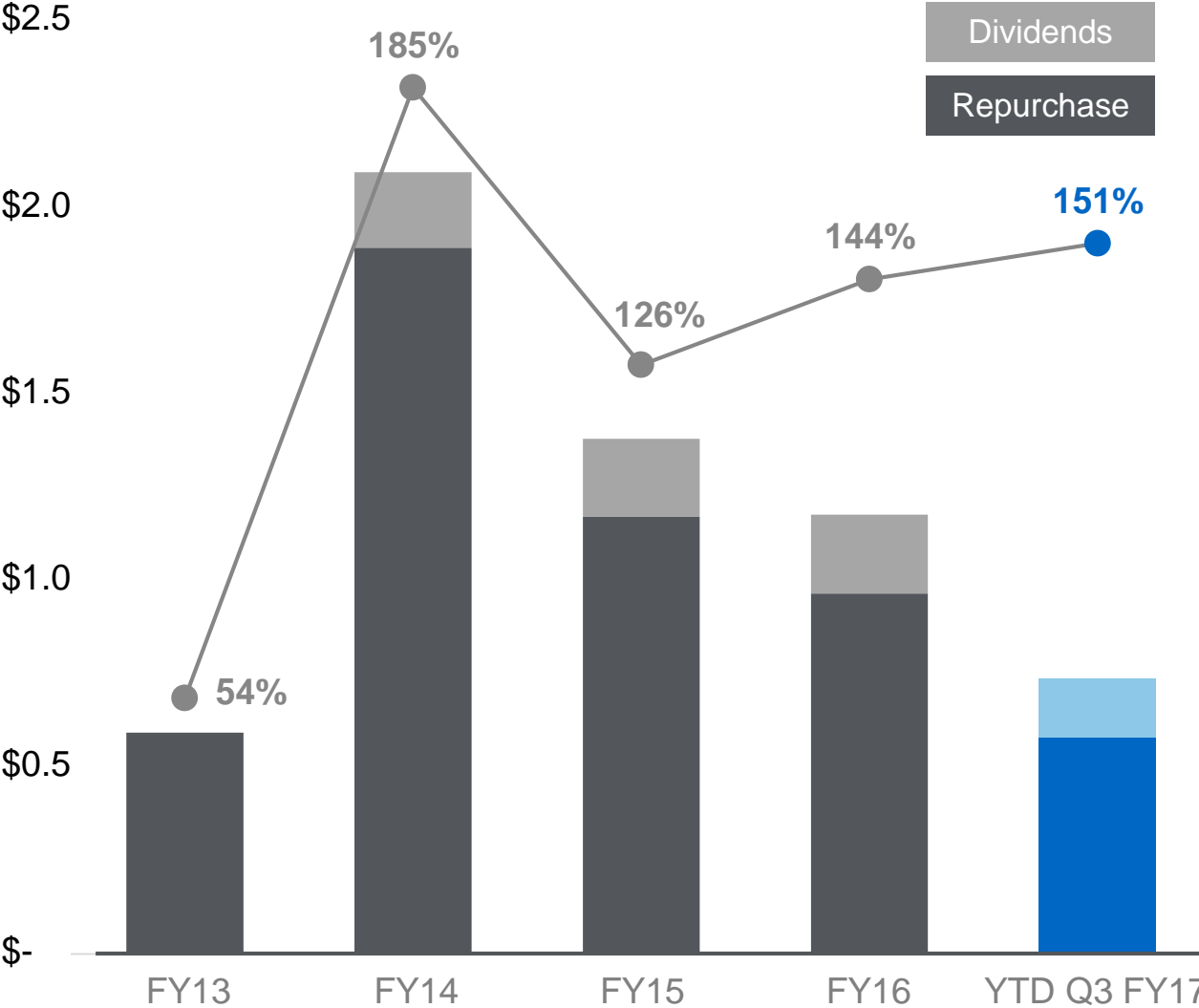
Returning Cash to Shareholders as a % of Free Cash Flow (Non-GAAP)*



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Returning Cash to Shareholders as a % of Free Cash Flow (Non-GAAP)*



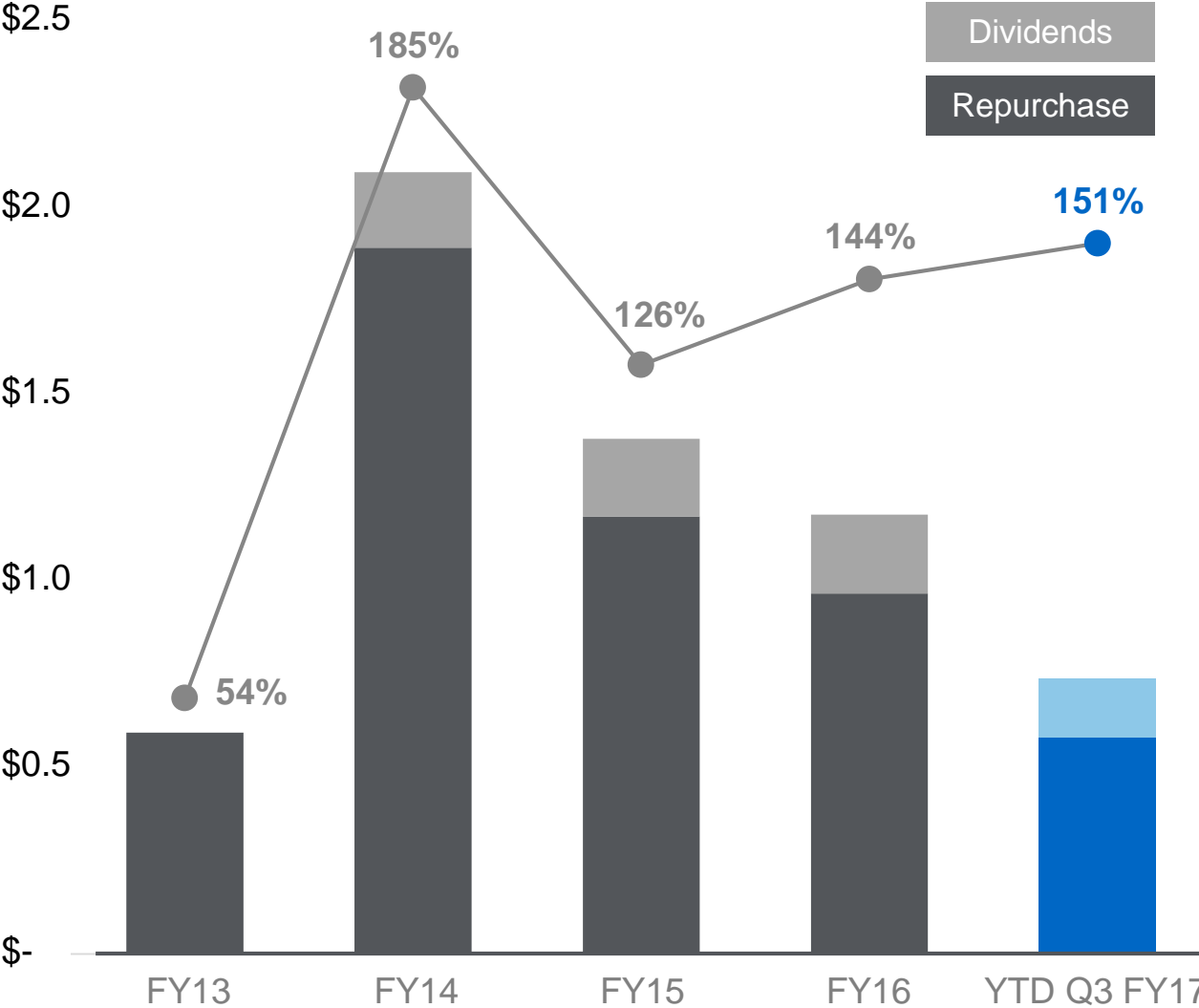
Action Plan

- Maintain dividend program with regular increases
- \$2.5B repurchase authorization completed by the end of May 2018

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Returning Cash to Shareholders as a % of Free Cash Flow (Non-GAAP)*



Action Plan

- Maintain dividend program with regular increases
- \$2.5B repurchase authorization completed by the end of May 2018

FY18–FY20

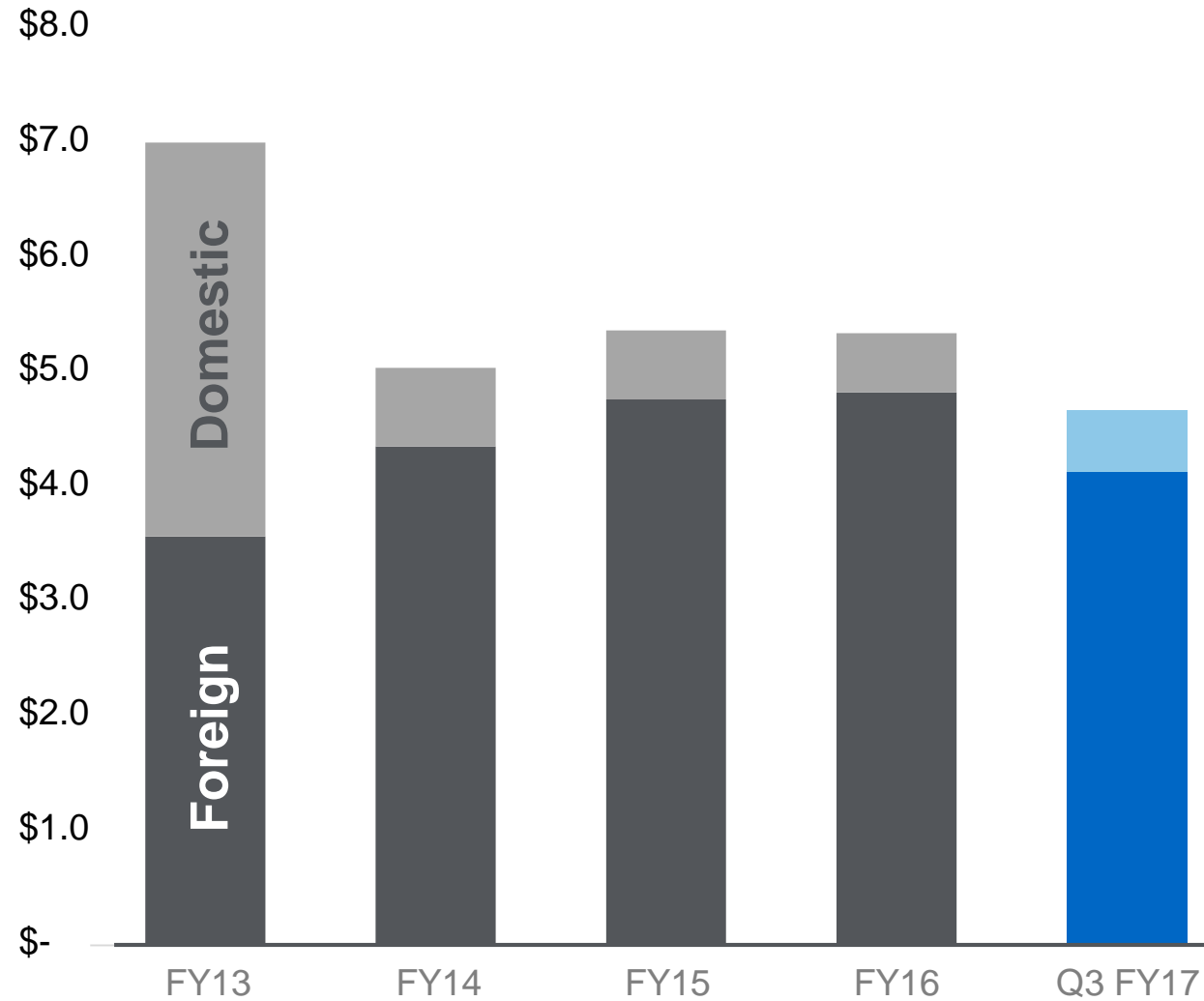
Strong History of Returning Excess Cash to Shareholders



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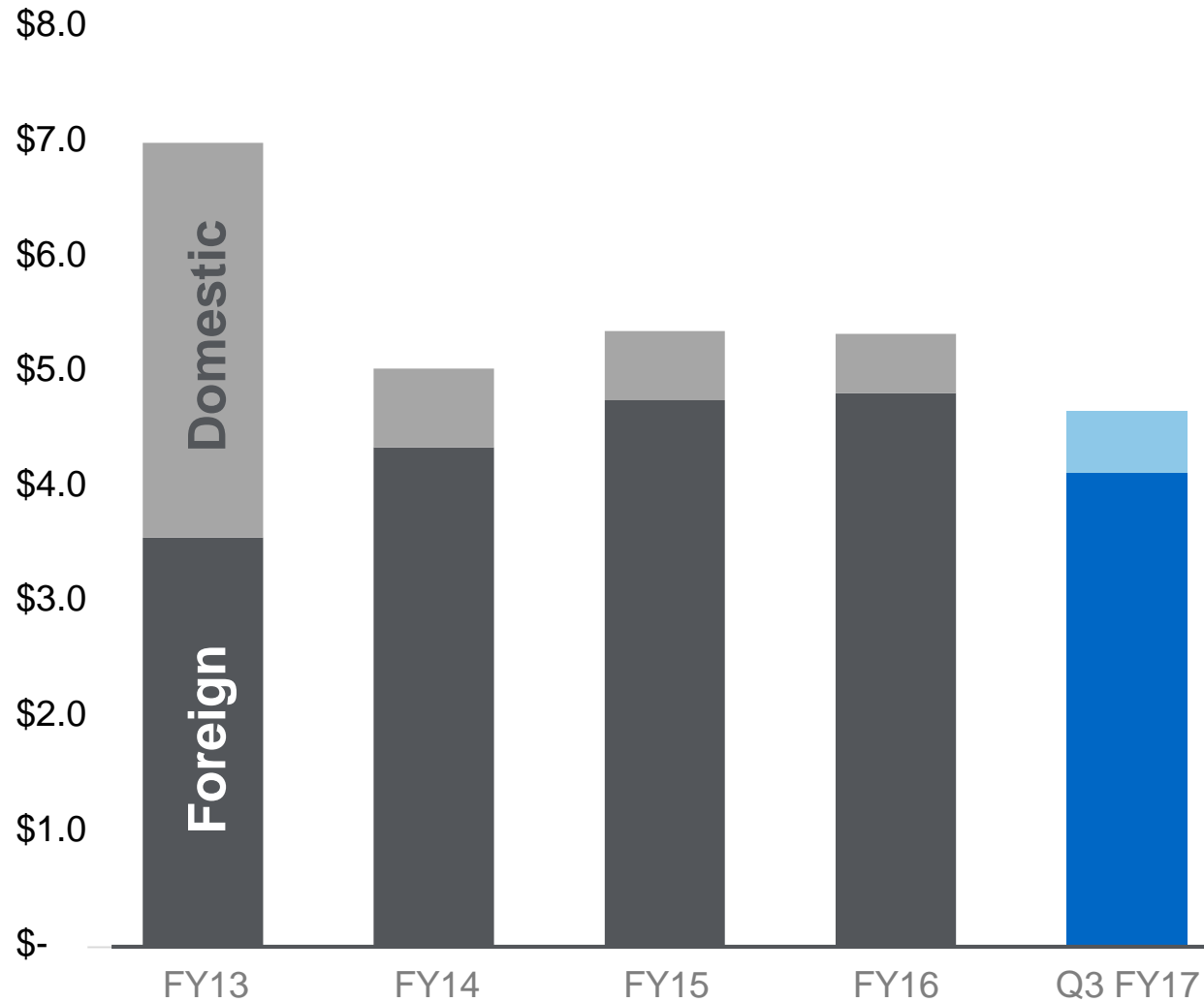
Cash Balance



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Cash Balance



Implications of US Tax Reform*

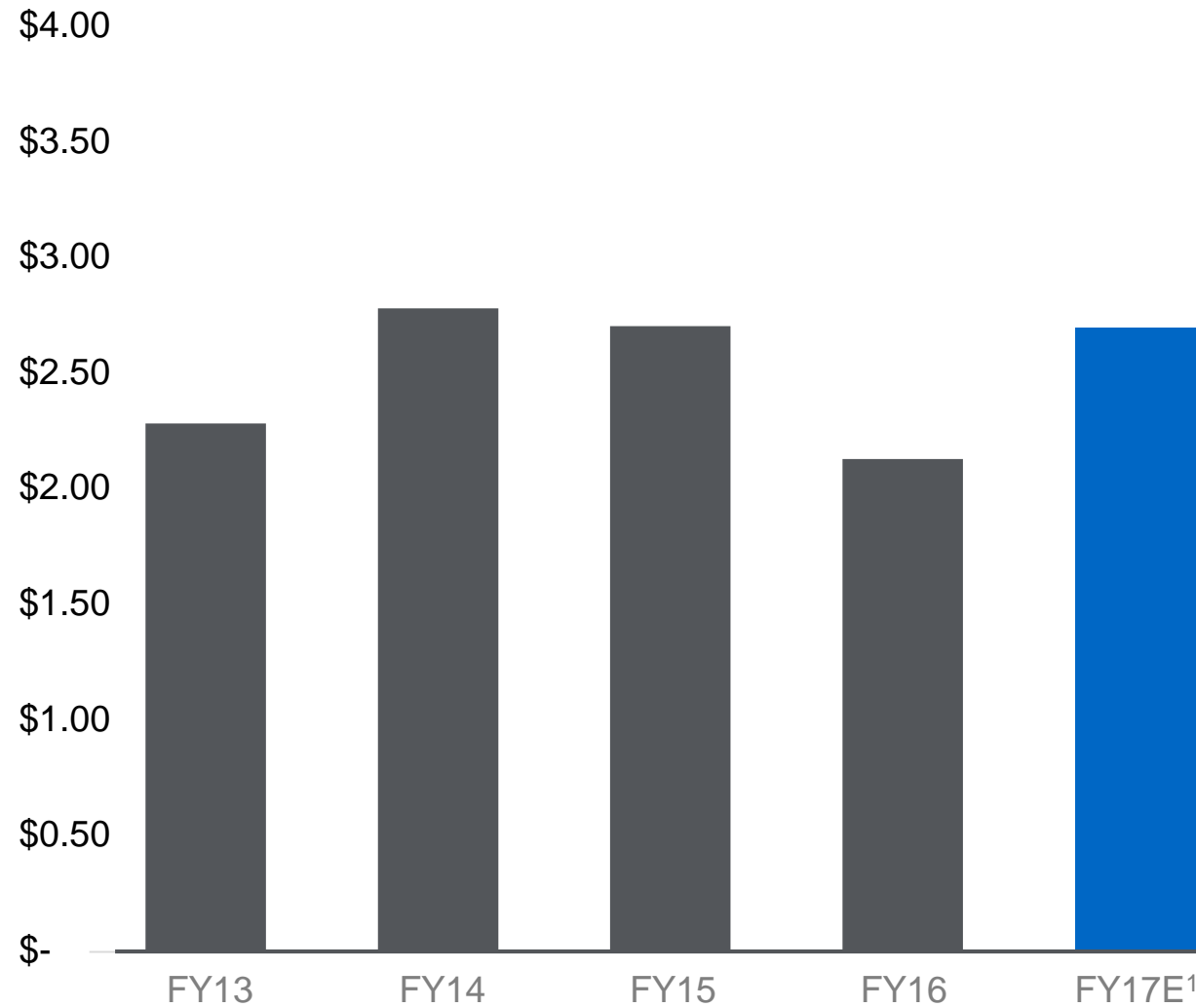
- Increase dividend to ~ 3%+ yield
- New share repurchases commitment
- Perhaps slightly less debt
- No change to M&A posture

*As used in this presentation, "US Tax Reform" refers to the potential passage and adoption of legislation that would reduce the US corporate tax rate and potentially allow or require repatriation of existing foreign earnings.

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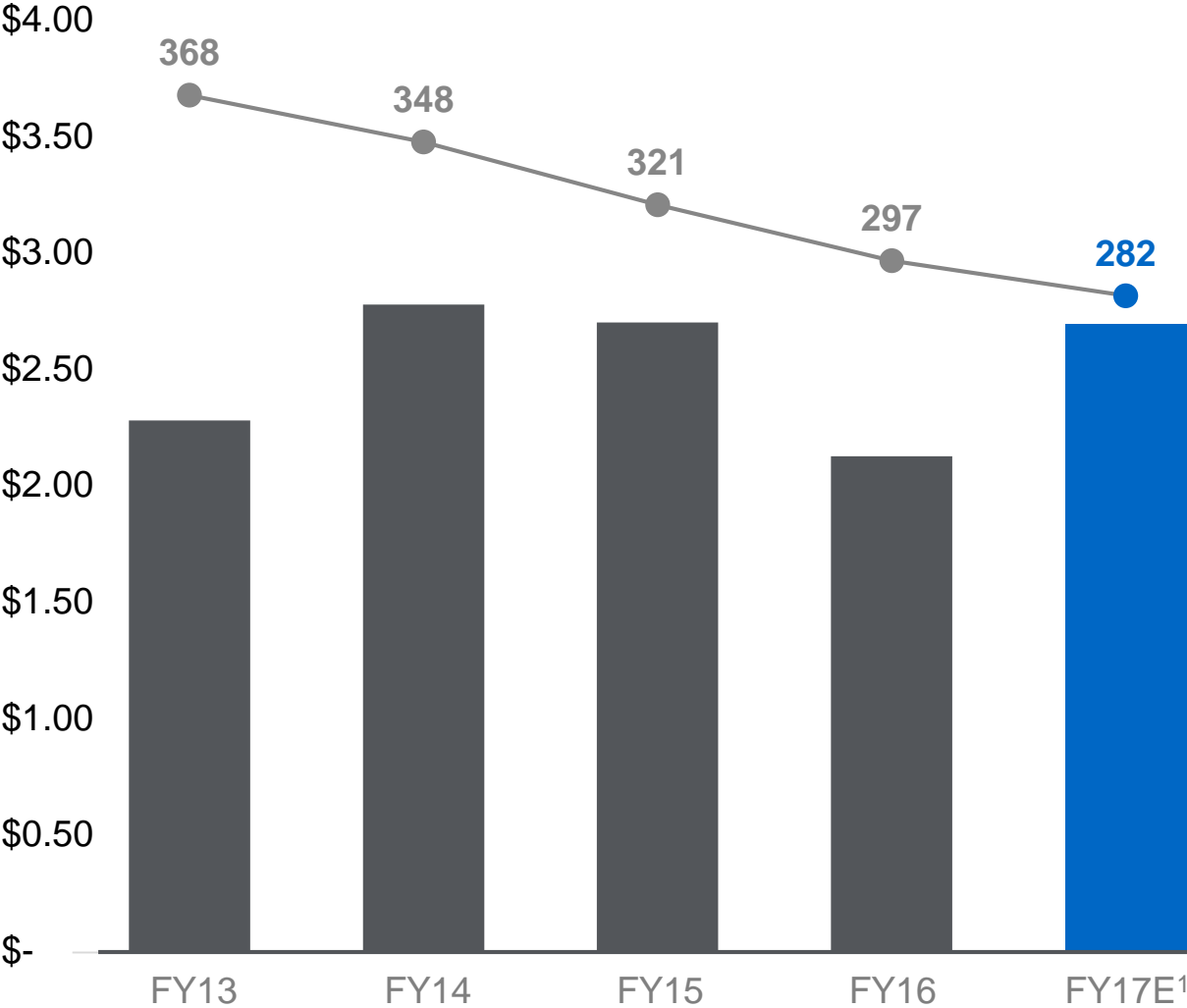
EPS (Non-GAAP)*



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EPS (Non-GAAP)* and Weighted Average Diluted Sharecount

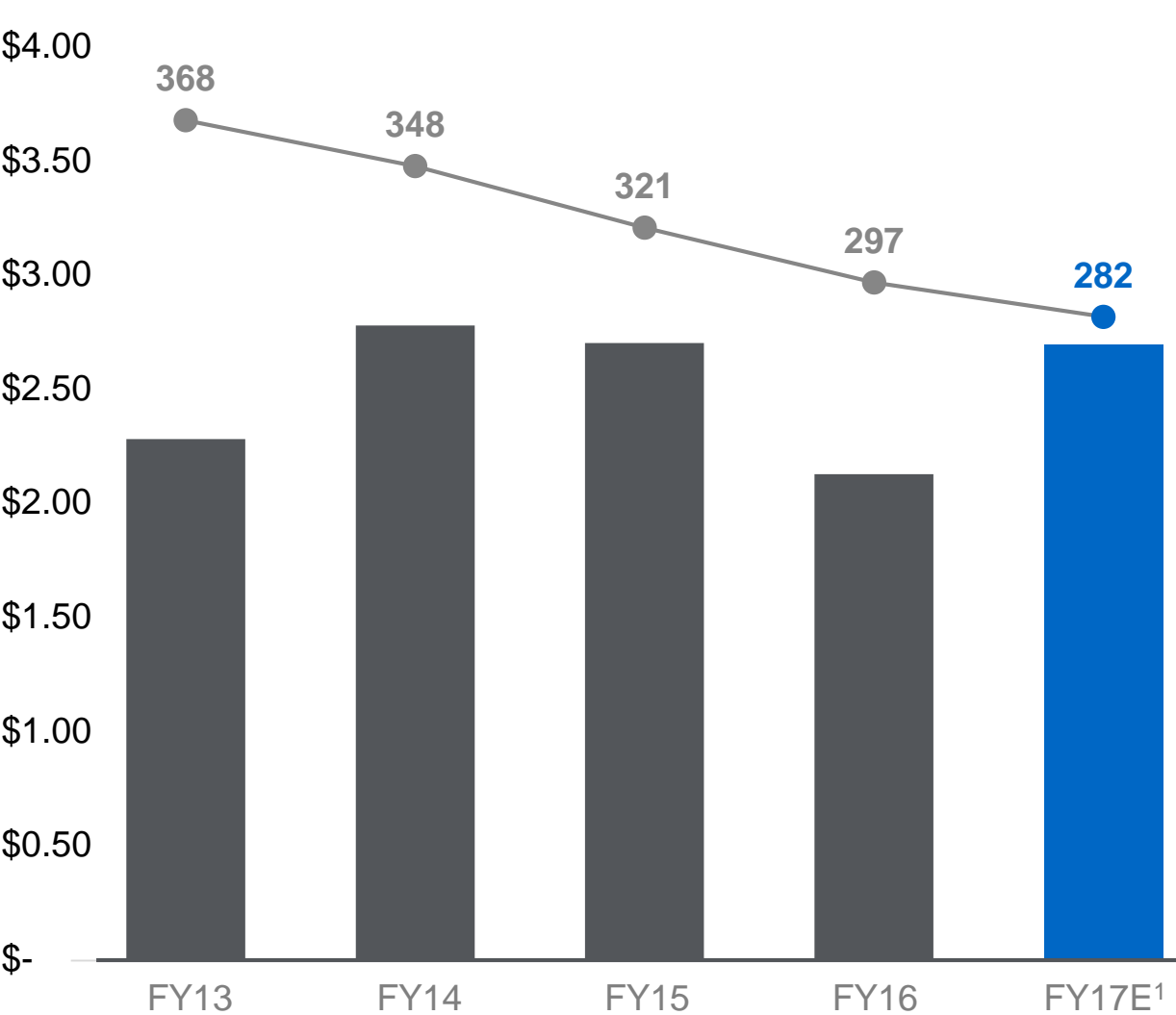


(Shares in Millions)

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EPS (Non-GAAP)* and Weighted Average Diluted Sharecount



Action Plan

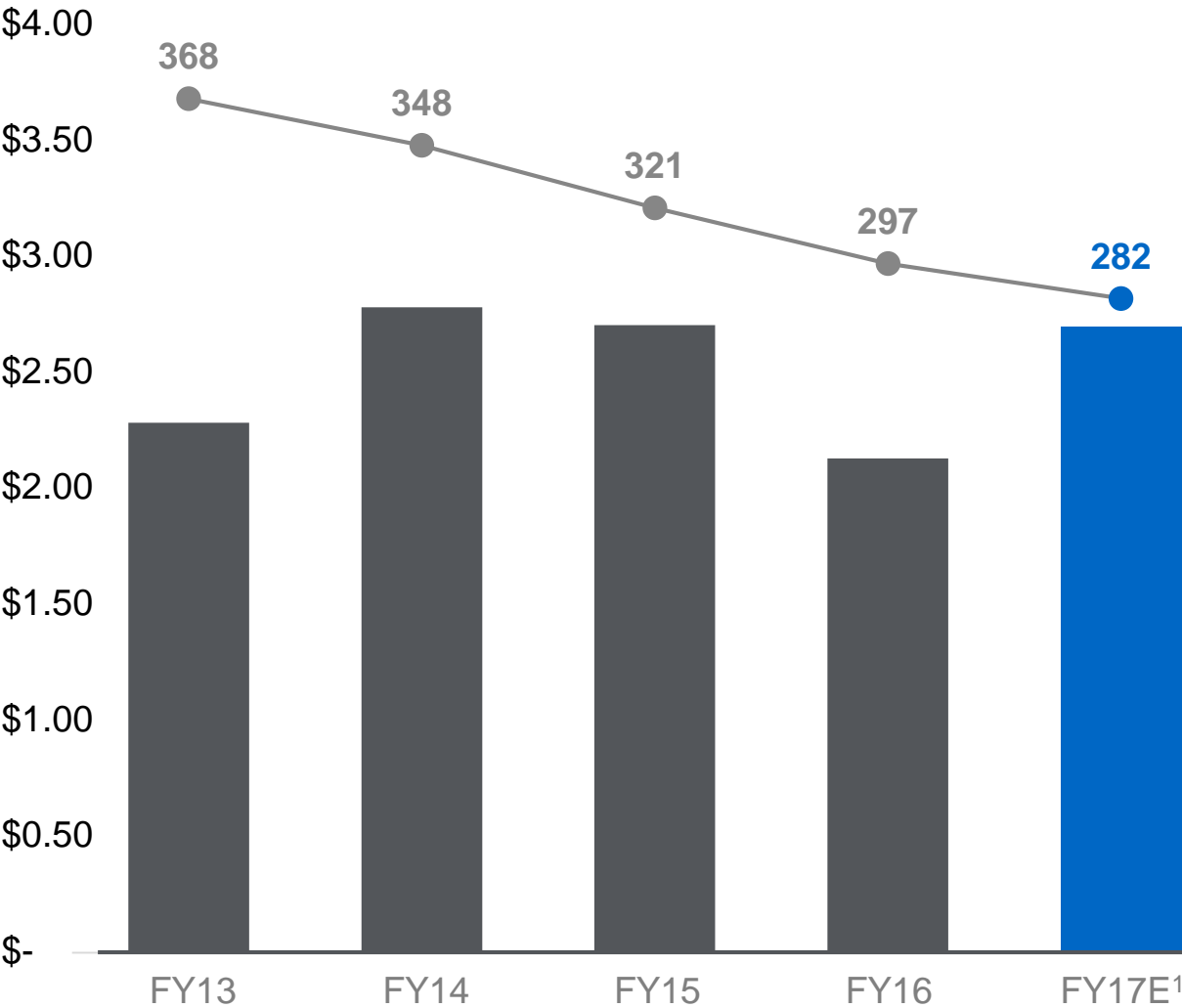
- Modest topline growth
- Operating model leverage
- Increased focus on equity issuance
- Completion of share repurchase commitments

(Shares in Millions)

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EPS (Non-GAAP)* and Weighted Average Diluted Sharecount



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Action Plan

- Modest topline growth
- Operating model leverage
- Increased focus on equity issuance
- Completion of share repurchase commitments

FY18–FY20



**EPS Growth
Low Double
Digits**

Financial Summary



**Huge improvement
in execution**



Financial Summary



**Huge improvement
in execution**



**Strategic leverage
in our business
model**



Financial Summary



**Huge improvement
in execution**



**Strategic leverage
in our business
model**



**Consistent cash
return to
shareholders**



NetApp
FY13
Non-GAAP to GAAP Reconciliation

(Millions)	<u>Non-GAAP</u>	<u>Non-GAAP Adjustments</u>				<u>GAAP</u>
		<u>Stock-based compensation</u>	<u>Amortization of intangible assets</u>	<u>Acquisition related expenses</u>	<u>Non-cash interest expense & Gain on investments</u>	<u>Income tax effect of non-GAAP adjustments</u>
Revenues						
Product	4,092	-	-	-	-	4,092
Software maintenance	893	-	-	-	-	893
Hardware maintenance and other services	1,347	-	-	-	-	1,347
Total Revenues	6,332	-	-	-	-	6,332
Cost of revenues						
Cost of product	1,899	6	55	-	-	1,960
Cost of software maintenance	28	-	-	-	-	28
Cost of hardware maintenance and other services	563	19	1	-	-	583
Total cost of revenues	2,490	25	56	-	-	2,571
Gross Profit	3,842	(25)	(56)	-	-	3,761
Operating expenses						
Sales and marketing	1,813	132	30	-	-	1,975
Research and development	820	84	-	-	-	904
General and administrative	237	35	-	-	-	272
Acquisition related expenses	-	-	-	2	-	2
Total operating expense	2,870	251	30	2	-	3,153
Income from operations	972	(276)	(86)	(2)	-	608
Other Income (expense), net	18				(59)	(41)
Pre-tax Profit	990	(276)	(86)	(2)	(59)	567
Income Tax	150				(88)	62
Net Income	840	(276)	(86)	(2)	(59)	505

NetApp
FY14
Non-GAAP to GAAP Reconciliation

(Millions)	<u>Non-GAAP</u>	<u>Non-GAAP Adjustments</u>				<u>GAAP</u>	
		<u>Stock-based compensation</u>	<u>Amortization of intangible assets</u>	<u>Restructuring</u>	<u>Non-cash interest expense</u>	<u>Income tax effect of non-GAAP adjustments</u>	
Revenues							
Product	3,944	-	-	-		3,944	
Software maintenance	915	-	-	-		915	
Hardware maintenance and other services	1,466	-	-	-		1,466	
Total revenues	6,325	-	-	-		6,325	
Cost of revenues							
Cost of product	1,717	5	55	-		1,777	
Cost of software maintenance	31	-	-	-		31	
Cost of hardware maintenance and other services	579	17	2	-		598	
Total cost of revenues	2,327	22	57	-		2,406	
Gross Profit	3,998	(22)	(57)	-		3,919	
Operating expenses							
Sales and marketing	1,771	125	2	-		1,898	
Research and development	830	88	-	-		918	
General and administrative	243	38	-	-		281	
Restructuring	-	-	-	88		88	
Acquisition related expenses	-	-	-	-		-	
Total operating expense	2,844	251	2	88		3,185	
Income from operations	1,154	(273)	(59)	(88)		734	
Other Income (expense), net	15				(8)	7	
Pre-tax Profit	1,169	(273)	(59)	(88)	(8)	-	741
Income Tax	201					(98)	103
Net Income	968	(273)	(59)	(88)	(8)	98	638

NetApp
FY15
Non-GAAP to GAAP Reconciliation

(Millions)	<u>Non-GAAP</u>	Non-GAAP Adjustments			<u>GAAP</u>
		<u>Stock-based compensation</u>	<u>Amortization of intangible assets</u>	<u>Income tax effect of non-GAAP adjustments</u>	<u>Settlement of income tax audit</u>
Revenues					
Product	3,655	-	-		3,655
Software maintenance	899	-	-		899
Hardware maintenance and other services	1,569	-	-		1,569
Total revenues	6,123	-	-		6,123
Cost of revenues					
Cost of product	1,591	6	61		1,658
Cost of software maintenance	35	-	-		35
Cost of hardware maintenance and other services	579	16	2		597
Total cost of revenues	2,205	22	63		2,290
Gross Profit	3,918	(22)	(63)		3,833
Operating expenses					
Sales and marketing	1,796	116	2		1,914
Research and development	836	84	-		920
General and administrative	247	37	-		284
Total operating expense	2,879	237	2		3,118
Income from operations	1,039	(259)	(65)		715
Other Income (expense), net	(3)				(3)
Pre-tax Profit	1,036	(259)	(65)		712
Income Tax	171			(66)	152
Net Income	865	(259)	(65)	66	560

NetApp, Inc.
FY16
Non-GAAP to GAAP Reconciliation

<u>Non-GAAP</u>	<u>Non-GAAP Adjustments</u>								<u>GAAP</u>	
(Millions)	<u>Stock-based compensation</u>	<u>Amortization of intangible assets</u>	<u>Asset impairment</u>	<u>Restructuring</u>	<u>Acquisition- related expense</u>	<u>Gain on sale of properties</u>	<u>Income tax effect of non-GAAP adjustments</u>	<u>Income tax expense from integration of intellectual properties from acquisitions</u>	<u>Settlement of income tax audit</u>	
Revenues										
Product	2,986									2,986
Software maintenance	949									949
Hardware maintenance and other services	1,611									1,611
Total revenues	5,546									5,546
Cost of revenues										
Cost of product	1,487	5	61	5						1,558
Cost of software maintenance	37	-	-							37
Cost of hardware maintenance and other services	553	19	-	6						578
Total cost of revenues	2,077	24	61	11	-					2,173
Gross Profit	3,469	(24)	(61)	(11)	-					3,373
Operating Expenses										
Sales and marketing	1,676	110	6	-	-					1,792
Research and development	777	84	-	-	-					861
General and administrative	265	42	-	-	-					307
Restructuring	-	-	-	-	108					108
Acquisition-related expense	-	-	-	-		8				8
Gain on sale of properties	-	-	-	-			(51)			(51)
Total operating expense	2,718	236	6	-	108	8	(51)			3,025
Income from operations	751	(260)	(67)	(11)	(108)	(8)	51			348
Other Income (expense), net	(3)									(3)
Pre-tax Profit	748	(260)	(67)	(11)	(108)	(8)	51	-	-	345
Income Tax	115						(86)	64	23	116
Net Income	633	(260)	(67)	(11)	(108)	(8)	51	86	(64)	229

NetApp, Inc.
FY17- Estimated¹
Non-GAAP to GAAP Reconciliation

(Millions)	<u>Non-GAAP</u>	<u>Non-GAAP Adjustments</u>					<u>GAAP</u>
		<u>Stock-based compensation</u>	<u>Amortization of intangible assets</u>	<u>Restructuring</u>	<u>Gain on Sale of Properties</u>	<u>Tax Effect of Non- Gaap Items</u>	
Total revenues	5,478						5,478
Total cost of revenues	2,088	17	29				2,134
Gross Profit	3,390	(17)	(29)				3,344
Operating Expenses							
Research and development	726	60	-				786
Sales, marketing, general and administrative	1,743	118	19				1,880
Restructuring	-		-	52			52
Gain on sale of properties	-				(10)		(10)
Total operating expense	2,469	178	19	52	(10)		2,708
Income from operations	921	(195)	(48)	(52)	10		636
Other Income (expense), net	(1)						(1)
Pre-tax Profit	920	(195)	(48)	(52)	10	-	635
Income Tax	163					(22)	141
Net Income	757	(195)	(48)	(52)	10	22	494

¹FY17 based on the midpoint guidance

NETAPP, INC.
RECONCILIATION OF NON-GAAP TO GAAP
EARNINGS PER SHARE

	FY13	FY14	FY15	FY16	FY17 (e) ¹
NET INCOME PER SHARE	\$ 1.37	\$ 1.83	\$ 1.75	\$ 0.77	\$ 1.75
Adjustments:					
Amortization of intangible assets	0.23	0.17	0.20	0.23	0.17
Stock-based compensation	0.75	0.79	0.81	0.88	0.69
Asset impairment	-	-	-	0.04	-
Restructuring and other charges	-	0.25	-	0.36	0.18
Acquisition-related expense	0.01	-	-	0.03	-
Gain on sale of properties	-	-	-	(0.17)	(0.03)
Non-cash interest expense	0.16	0.02	-	-	-
Income tax effect of non-GAAP adjustments	(0.24)	(0.28)	(0.21)	(0.29)	(0.08)
Income tax expenses from integration of intellectual properties from acquisition	-	-	-	0.22	-
Settlement of income tax audit	-	-	0.15	0.08	-
NON-GAAP NET INCOME PER SHARE	\$ 2.28	\$ 2.78	\$ 2.70	\$ 2.13	\$ 2.68

¹FY17 based on the midpoint guidance

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

	FY13	FY14	FY15	FY16	YTD Q3 FY17
Net cash provided by operating activities	\$ 1,386	\$ 1,350	\$ 1,268	\$ 974	\$ 621
Purchases of property and equipment	(303)	(221)	(175)	(160)	(137)
Free cash flow	\$ 1,083	\$ 1,129	\$ 1,093	\$ 814	\$ 484

Some items may not add or recalculate due to rounding