

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

	<u>October 27, 2017</u>	<u>April 28, 2017</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 5,965	\$ 4,921
Accounts receivable	584	731
Inventories	108	163
Other current assets	363	383
Total current assets	<u>7,020</u>	<u>6,198</u>
Property and equipment, net	795	799
Goodwill and purchased intangible assets, net	1,859	1,815
Other non-current assets	634	681
Total assets	<u>\$ 10,308</u>	<u>\$ 9,493</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 379	\$ 347
Accrued expenses	722	782
Commercial paper notes	718	500
Current portion of long-term debt	750	749
Short-term deferred revenue and financed unearned services revenue	1,645	1,744
Total current liabilities	<u>4,214</u>	<u>4,122</u>
Long-term debt	1,540	744
Other long-term liabilities	255	249
Long-term deferred revenue and financed unearned services revenue	1,522	1,598
Total liabilities	<u>7,531</u>	<u>6,713</u>
Stockholders' equity	<u>2,777</u>	<u>2,780</u>
Total liabilities and stockholders' equity	<u>\$ 10,308</u>	<u>\$ 9,493</u>

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

	Three Months Ended		Six Months Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Revenues:				
Product	\$ 807	\$ 710	\$ 1,530	\$ 1,370
Software maintenance	240	242	474	483
Hardware maintenance and other services	375	388	743	781
Net revenues	<u>1,422</u>	<u>1,340</u>	<u>2,747</u>	<u>2,634</u>
Cost of revenues:				
Cost of product	399	376	770	735
Cost of software maintenance	6	7	13	15
Cost of hardware maintenance and other services	115	128	228	258
Total cost of revenues	<u>520</u>	<u>511</u>	<u>1,011</u>	<u>1,008</u>
Gross profit	902	829	1,736	1,626
Operating expenses:				
Sales and marketing	420	418	845	847
Research and development	194	200	387	407
General and administrative	69	69	137	137
Total operating expenses	<u>683</u>	<u>687</u>	<u>1,369</u>	<u>1,391</u>
Income from operations	219	142	367	235
Other income (expense), net	6	—	11	(1)
Income before income taxes	225	142	378	234
Provision for income taxes	50	33	67	61
Net income	<u>\$ 175</u>	<u>\$ 109</u>	<u>\$ 311</u>	<u>\$ 173</u>
Net income per share:				
Basic	<u>\$ 0.65</u>	<u>\$ 0.39</u>	<u>\$ 1.15</u>	<u>\$ 0.62</u>
Diluted	<u>\$ 0.64</u>	<u>\$ 0.38</u>	<u>\$ 1.12</u>	<u>\$ 0.61</u>
Shares used in net income per share calculations:				
Basic	<u>269</u>	<u>278</u>	<u>270</u>	<u>278</u>
Diluted	<u>275</u>	<u>284</u>	<u>277</u>	<u>283</u>
Cash dividends declared per share	<u>\$ 0.200</u>	<u>\$ 0.190</u>	<u>\$ 0.400</u>	<u>\$ 0.380</u>

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

	Three Months Ended		Six Months Ended	
	October 27, 2017	October 28, 2016	October 27, 2017	October 28, 2016
Cash flows from operating activities:				
Net income	\$ 175	\$ 109	\$ 311	\$ 173
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	51	57	102	117
Stock-based compensation	39	51	87	103
Other items, net	32	1	39	13
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(69)	(47)	149	264
Inventories	35	(16)	55	1
Accounts payable	92	17	34	(13)
Accrued expenses	67	60	(68)	(138)
Deferred revenue and financed unearned services revenue	(76)	(96)	(183)	(179)
Changes in other operating assets and liabilities, net	(32)	22	38	45
Net cash provided by operating activities	<u>314</u>	<u>158</u>	<u>564</u>	<u>386</u>
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	(64)	(123)	48	190
Purchases of property and equipment	(29)	(56)	(65)	(92)
Acquisitions of businesses, net of cash acquired	(51)	—	(75)	—
Other investing activities, net	—	—	5	(1)
Net cash provided by (used in) investing activities	<u>(144)</u>	<u>(179)</u>	<u>(87)</u>	<u>97</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	9	19	57	61
Payments for taxes related to net share settlement of stock awards	(3)	(3)	(60)	(36)
Repurchase of common stock	(150)	(117)	(300)	(292)
Proceeds from (repayments of) commercial paper notes, net	(176)	—	218	—
Issuance of long-term debt, net	795	—	795	—
Repayment of short-term loan	—	—	—	(850)
Dividends paid	(54)	(52)	(108)	(105)
Other financing activities, net	(1)	(1)	(1)	(3)
Net cash provided by (used in) financing activities	<u>420</u>	<u>(154)</u>	<u>601</u>	<u>(1,225)</u>
Effect of exchange rate changes on cash and cash equivalents	(6)	(6)	13	(13)
Net increase (decrease) in cash and cash equivalents	584	(181)	1,091	(755)
Cash and cash equivalents:				
Beginning of period	2,951	2,294	2,444	2,868
End of period	<u>\$ 3,535</u>	<u>\$ 2,113</u>	<u>\$ 3,535</u>	<u>\$ 2,113</u>

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

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Revenues			
Product (1)	\$ 807	\$ 723	\$ 710
<i>Strategic</i>	\$ 557	\$ 500	\$ 452
<i>Mature</i>	\$ 250	\$ 223	\$ 258
Software Maintenance	\$ 240	\$ 234	\$ 242
Hardware Maintenance and Other Services	\$ 375	\$ 368	\$ 388
<i>Hardware Maintenance Support Contracts</i>	\$ 306	\$ 298	\$ 316
<i>Professional and Other Services</i>	\$ 69	\$ 70	\$ 72
Net Revenues	\$ 1,422	\$ 1,325	\$ 1,340

	% of Q2 FY'18 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'17 Revenue
Geographic Mix			
Americas	56%	55%	57%
<i>Americas Commercial</i>	40%	42%	42%
<i>U.S. Public Sector</i>	16%	13%	16%
EMEA	30%	30%	30%
Asia Pacific	14%	15%	13%

	% of Q2 FY'18 Revenue	% of Q1 FY'18 Revenue	% of Q2 FY'17 Revenue
Pathways Mix			
Direct	22%	20%	22%
Indirect	78%	80%	78%

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	64.3%	63.8%	62.7%
Product	51.8%	49.9%	48.2%
Software Maintenance	97.5%	97.0%	97.1%
Hardware Maintenance and Other Services	69.9%	70.1%	67.8%

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 272	\$ 209	\$ 204
% of Net Revenues	19.1%	15.8%	15.2%
Non-GAAP Income before Income Taxes	\$ 278	\$ 214	\$ 204
Non-GAAP Effective Tax Rate	19.4%	19.4%	17.3%

Non-GAAP Net Income

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Non-GAAP Net Income	\$ 223	\$ 173	\$ 169
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	275	278	284
Non-GAAP Income per Share, Diluted	\$ 0.81	\$ 0.62	\$ 0.60

Select Balance Sheet Items

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,167	\$ 3,251	\$ 3,201
DSO (days)	37	36	37
DIO (days)	19	27	17
DPO (days)	66	54	45
CCC (days)	(10)	9	9
Inventory Turns	19	14	21

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

	<u>Q2 FY'18</u>	<u>Q1 FY'18</u>	<u>Q2 FY'17</u>
Net Cash Provided by Operating Activities	\$ 314	\$ 250	\$ 158
Purchases of Property and Equipment	\$ 29	\$ 36	\$ 56
Free Cash Flow	\$ 285	\$ 214	\$ 102
<i>Free Cash Flow as a % of Net Revenues</i>	20.0%	16.2%	7.6%

Free cash flow is a non-GAAP measure and is defined as net cash provided by operating activities less purchases of property and equipment.

(1) Sales of certain products which should have been reported as strategic products were improperly reported as mature product revenues in Q2 FY'17. That period has been recast to reflect the appropriate classification.

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)

	Q2'FY18	Q1'FY18	Q2'FY17
NET INCOME	\$ 175	\$ 136	\$ 109
Adjustments:			
Amortization of intangible assets	14	13	11
Stock-based compensation	39	48	51
Income tax effect of non-GAAP adjustments	(5)	(24)	(2)
NON-GAAP NET INCOME	<u>\$ 223</u>	<u>\$ 173</u>	<u>\$ 169</u>
COST OF REVENUES	\$ 520	\$ 491	\$ 511
Adjustments:			
Amortization of intangible assets	(9)	(8)	(7)
Stock-based compensation	(3)	(4)	(4)
NON-GAAP COST OF REVENUES	<u>\$ 508</u>	<u>\$ 479</u>	<u>\$ 500</u>
COST OF PRODUCT REVENUES	\$ 399	\$ 371	\$ 376
Adjustments:			
Amortization of intangible assets	(9)	(8)	(7)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 389</u>	<u>\$ 362</u>	<u>\$ 368</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 115	\$ 113	\$ 128
Adjustment:			
Stock-based compensation	(2)	(3)	(3)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 113</u>	<u>\$ 110</u>	<u>\$ 125</u>
GROSS PROFIT	\$ 902	\$ 834	\$ 829
Adjustments:			
Amortization of intangible assets	9	8	7
Stock-based compensation	3	4	4
NON-GAAP GROSS PROFIT	<u>\$ 914</u>	<u>\$ 846</u>	<u>\$ 840</u>

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
SALES AND MARKETING EXPENSES	\$ 420	\$ 425	\$ 418
Adjustments:			
Amortization of intangible assets	(5)	(5)	(4)
Stock-based compensation	(16)	(21)	(21)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 399</u>	<u>\$ 399</u>	<u>\$ 393</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 194	\$ 193	\$ 200
Adjustment:			
Stock-based compensation	(12)	(15)	(17)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 182</u>	<u>\$ 178</u>	<u>\$ 183</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 69	\$ 68	\$ 69
Adjustment:			
Stock-based compensation	(8)	(8)	(9)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 61</u>	<u>\$ 60</u>	<u>\$ 60</u>
OPERATING EXPENSES	\$ 683	\$ 686	\$ 687
Adjustments:			
Amortization of intangible assets	(5)	(5)	(4)
Stock-based compensation	(36)	(44)	(47)
NON-GAAP OPERATING EXPENSES	<u>\$ 642</u>	<u>\$ 637</u>	<u>\$ 636</u>

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

	Q2'FY18	Q1'FY18	Q2'FY17
INCOME FROM OPERATIONS	\$ 219	\$ 148	\$ 142
Adjustments:			
Amortization of intangible assets	14	13	11
Stock-based compensation	39	48	51
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 272</u>	<u>\$ 209</u>	<u>\$ 204</u>
INCOME BEFORE INCOME TAXES	\$ 225	\$ 153	\$ 142
Adjustments:			
Amortization of intangible assets	14	13	11
Stock-based compensation	39	48	51
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 278</u>	<u>\$ 214</u>	<u>\$ 204</u>
PROVISION FOR INCOME TAXES	\$ 50	\$ 17	\$ 33
Adjustment:			
Income tax effect of non-GAAP adjustments	5	24	2
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 55</u>	<u>\$ 41</u>	<u>\$ 35</u>
NET INCOME PER SHARE	\$ 0.64	\$ 0.49	\$ 0.38
Adjustments:			
Amortization of intangible assets	0.05	0.05	0.04
Stock-based compensation	0.14	0.17	0.18
Income tax effect of non-GAAP adjustments	(0.02)	(0.09)	(0.01)
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.81</u>	<u>\$ 0.62</u>	<u>\$ 0.60</u>

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
Gross margin-GAAP	63.4%	62.9%	61.9%
Cost of revenues adjustments	0.8%	0.9%	0.8%
Gross margin-Non-GAAP	64.3%	63.8%	62.7%
GAAP cost of revenues	\$ 520	\$ 491	\$ 511
Cost of revenues adjustments:			
Amortization of intangible assets	(9)	(8)	(7)
Stock-based compensation	(3)	(4)	(4)
Non-GAAP cost of revenues	<u>\$ 508</u>	<u>\$ 479</u>	<u>\$ 500</u>
Net revenues	\$ 1,422	\$ 1,325	\$ 1,340

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
Product gross margin-GAAP	50.6%	48.7%	47.0%
Cost of product revenues adjustments	1.2%	1.2%	1.1%
Product gross margin-Non-GAAP	51.8%	49.9%	48.2%
GAAP cost of product revenues	\$ 399	\$ 371	\$ 376
Cost of product revenues adjustments:			
Amortization of intangible assets	(9)	(8)	(7)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 389</u>	<u>\$ 362</u>	<u>\$ 368</u>
Product revenues	\$ 807	\$ 723	\$ 710

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
Hardware maintenance and other services gross margin-GAAP	69.3%	69.3%	67.0%
Cost of hardware maintenance and other services revenues adjustment	0.5%	0.8%	0.8%
Hardware maintenance and other services gross margin-Non-GAAP	69.9%	70.1%	67.8%
GAAP cost of hardware maintenance and other services revenues	\$ 115	\$ 113	\$ 128
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(2)	(3)	(3)
Non-GAAP cost of hardware maintenance and other services revenues	<u>\$ 113</u>	<u>\$ 110</u>	<u>\$ 125</u>
Hardware maintenance and other services revenues	\$ 375	\$ 368	\$ 388

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
GAAP effective tax rate	22.2%	11.1%	23.2%
Adjustment:			
Tax effect of non-GAAP adjustments	(2.8)%	8.3%	(5.9)%
Non-GAAP effective tax rate	19.4%	19.4%	17.3%

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

	<u>Q2'FY18</u>	<u>Q1'FY18</u>	<u>Q2'FY17</u>
Net cash provided by operating activities	\$ 314	\$ 250	\$ 158
Purchases of property and equipment	(29)	(36)	(56)
Free cash flow	\$ 285	\$ 214	\$ 102

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 2018

	Third Quarter Fiscal 2018
Non-GAAP Guidance - Net Income Per Share	\$0.86 - \$0.94
Adjustments of Specific Items to Net Income	
Per Share for the Third Quarter Fiscal 2018:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.14)
Gain on sale of properties	0.80
Income tax effect of non-GAAP adjustments	(0.29)
Total Adjustments	0.32
GAAP Guidance - Net Income Per Share	\$1.18 - \$1.26

Press Contact:

Madge Miller

NetApp

1 408 419 5263

madge.miller@netapp.com

Investor Contact:

Kris Newton

NetApp

1 408 822 3312

kris.newton@netapp.com