

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

	<u>January 26, 2018</u>	<u>April 28, 2017</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 5,619	\$ 4,921
Accounts receivable	754	731
Inventories	98	163
Other current assets	295	383
Total current assets	<u>6,766</u>	<u>6,198</u>
Property and equipment, net	741	799
Goodwill and purchased intangible assets, net	1,845	1,815
Other non-current assets	435	681
Total assets	<u>\$ 9,787</u>	<u>\$ 9,493</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 458	\$ 347
Accrued expenses	739	782
Commercial paper notes	632	500
Current portion of long-term debt	—	749
Short-term deferred revenue and financed unearned services revenue	1,719	1,744
Total current liabilities	<u>3,548</u>	<u>4,122</u>
Long-term debt	1,540	744
Other long-term liabilities	973	249
Long-term deferred revenue and financed unearned services revenue	1,550	1,598
Total liabilities	<u>7,611</u>	<u>6,713</u>
Stockholders' equity	<u>2,176</u>	<u>2,780</u>
Total liabilities and stockholders' equity	<u>\$ 9,787</u>	<u>\$ 9,493</u>

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Revenues:				
Product	\$ 920	\$ 784	\$ 2,450	\$ 2,154
Software maintenance	237	240	711	723
Hardware maintenance and other services	366	380	1,109	1,161
Net revenues	<u>1,523</u>	<u>1,404</u>	<u>4,270</u>	<u>4,038</u>
Cost of revenues:				
Cost of product	468	435	1,238	1,170
Cost of software maintenance	6	7	19	22
Cost of hardware maintenance and other services	108	111	336	369
Total cost of revenues	<u>582</u>	<u>553</u>	<u>1,593</u>	<u>1,561</u>
Gross profit	941	851	2,677	2,477
Operating expenses:				
Sales and marketing	423	381	1,268	1,228
Research and development	193	181	580	588
General and administrative	72	64	209	201
Restructuring charges	—	52	—	52
Gain on sale of properties	(218)	(10)	(218)	(10)
Total operating expenses	<u>470</u>	<u>668</u>	<u>1,839</u>	<u>2,059</u>
Income from operations	471	183	838	418
Other income (expense), net	14	—	25	(1)
Income before income taxes	485	183	863	417
Provision for income taxes	991	37	1,058	98
Net income (loss)	<u>\$ (506)</u>	<u>\$ 146</u>	<u>\$ (195)</u>	<u>\$ 319</u>
Net income (loss) per share:				
Basic	<u>\$ (1.89)</u>	<u>\$ 0.53</u>	<u>\$ (0.72)</u>	<u>\$ 1.15</u>
Diluted	<u>\$ (1.89)</u>	<u>\$ 0.52</u>	<u>\$ (0.72)</u>	<u>\$ 1.13</u>
Shares used in net income (loss) per share calculations:				
Basic	<u>268</u>	<u>274</u>	<u>269</u>	<u>277</u>
Diluted	<u>268</u>	<u>281</u>	<u>269</u>	<u>282</u>
Cash dividends declared per share	<u>\$ 0.200</u>	<u>\$ 0.190</u>	<u>\$ 0.600</u>	<u>\$ 0.570</u>

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

	Three Months Ended		Nine Months Ended	
	January 26, 2018	January 27, 2017	January 26, 2018	January 27, 2017
Cash flows from operating activities:				
Net income (loss)	\$ (506)	\$ 146	\$ (195)	\$ 319
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	48	56	150	173
Stock-based compensation	38	46	125	149
Deferred income taxes	214	45	258	73
Gain on sale of properties	(218)	(10)	(218)	(10)
Other items, net	(3)	7	(8)	(8)
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(157)	(56)	(8)	208
Inventories	10	(28)	65	(27)
Accounts payable	81	26	115	13
Accrued expenses	126	17	58	(121)
Deferred revenue and financed unearned services revenue	81	31	(102)	(148)
Long-term taxes payable	721	(9)	723	(16)
Changes in other operating assets and liabilities, net	(15)	(36)	21	16
Net cash provided by operating activities	420	235	984	621
Cash flows from investing activities:				
Redemptions (purchases) of investments, net	(226)	(188)	(178)	2
Purchases of property and equipment	(32)	(45)	(97)	(137)
Proceeds from sale of properties	210	—	210	—
Acquisitions of businesses, net of cash acquired	—	—	(75)	—
Other investing activities, net	(6)	3	(1)	2
Net cash used in investing activities	(54)	(230)	(141)	(133)
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	100	51	157	112
Payments for taxes related to net share settlement of stock awards	(7)	(6)	(67)	(42)
Repurchase of common stock	(150)	(284)	(450)	(576)
Proceeds from (repayments of) commercial paper notes, net	(86)	392	132	392
Issuance of long-term debt, net	—	—	795	—
Repayment of short-term loan	—	—	—	(850)
Repayment of long-term debt	(750)	—	(750)	—
Dividends paid	(53)	(52)	(161)	(157)
Other financing activities, net	(5)	(4)	(6)	(7)
Net cash provided by (used in) financing activities	(951)	97	(350)	(1,128)
Effect of exchange rate changes on cash and cash equivalents	24	(2)	37	(15)
Net increase (decrease) in cash and cash equivalents	(561)	100	530	(655)
Cash and cash equivalents:				
Beginning of period	3,535	2,113	2,444	2,868
End of period	<u>\$ 2,974</u>	<u>\$ 2,213</u>	<u>\$ 2,974</u>	<u>\$ 2,213</u>

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

	<u>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Revenues			
Product	\$ 920	\$ 807	\$ 784
<i>Strategic</i>	\$ 647	\$ 557	\$ 512
<i>Mature</i>	\$ 273	\$ 250	\$ 272
Software Maintenance	\$ 237	\$ 240	\$ 240
Hardware Maintenance and Other Services	\$ 366	\$ 375	\$ 380
<i>Hardware Maintenance Support Contracts</i>	\$ 299	\$ 306	\$ 313
<i>Professional and Other Services</i>	\$ 67	\$ 69	\$ 67
Net Revenues	\$ 1,523	\$ 1,422	\$ 1,404

	% of Q3 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'17 Revenue
Geographic Mix			
Americas	54%	56%	55%
<i>Americas Commercial</i>	44%	40%	44%
<i>U.S. Public Sector</i>	10%	16%	10%
EMEA	32%	30%	33%
Asia Pacific	14%	14%	13%

	% of Q3 FY'18 Revenue	% of Q2 FY'18 Revenue	% of Q3 FY'17 Revenue
Pathways Mix			
Direct	22%	22%	21%
Indirect	78%	78%	79%

	<u>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Non-GAAP Gross Margins			
Non-GAAP Gross Margin	62.6%	64.3%	61.5%
Product	50.2%	51.8%	45.7%
Software Maintenance	97.5%	97.5%	97.1%
Hardware Maintenance and Other Services	71.3%	69.9%	71.6%

	<u>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Non-GAAP Income from Operations, Income before Income Taxes & Effective Tax Rate			
Non-GAAP Income from Operations	\$ 310	\$ 272	\$ 284
% of Net Revenues	20.4%	19.1%	20.2%
Non-GAAP Income before Income Taxes	\$ 324	\$ 278	\$ 284
Non-GAAP Effective Tax Rate	15.7%	19.4%	18.6%

Non-GAAP Net Income

	<u>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Non-GAAP Net Income	\$ 273	\$ 223	\$ 231
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	276	275	281
Non-GAAP Income per Share, Diluted	\$ 0.99	\$ 0.81	\$ 0.82

Select Balance Sheet Items

	<u>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Deferred Revenue and Financed Unearned Services Revenue	\$ 3,269	\$ 3,167	\$ 3,234
DSO (days)	45	37	39
DIO (days)	15	19	21
DPO (days)	72	66	42
CCC (days)	(11)	(10)	17
Inventory Turns	24	19	18

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>Q3 FY'18</u>	<u>Q2 FY'18</u>	<u>Q3 FY'17</u>
Net Cash Provided by Operating Activities	\$ 420	\$ 314	\$ 235
Purchases of Property and Equipment	\$ 32	\$ 29	\$ 45
Free Cash Flow	\$ 388	\$ 285	\$ 190
<i>Free Cash Flow as a % of Net Revenues</i>	25.5%	20.0%	13.5%

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'FY18	Q2'FY18	Q3'FY17
NET INCOME (LOSS)	\$ (506)	\$ 175	\$ 146
Adjustments:			
Amortization of intangible assets	14	14	13
Stock-based compensation	38	39	46
Litigation settlements	5	—	—
Restructuring charges	—	—	52
Gain on sale of properties	(218)	—	(10)
Income tax effect of non-GAAP adjustments	84	(5)	(16)
Tax reform	856	—	—
NON-GAAP NET INCOME	<u>\$ 273</u>	<u>\$ 223</u>	<u>\$ 231</u>
COST OF REVENUES	\$ 582	\$ 520	\$ 553
Adjustments:			
Amortization of intangible assets	(10)	(9)	(8)
Stock-based compensation	(3)	(3)	(4)
NON-GAAP COST OF REVENUES	<u>\$ 569</u>	<u>\$ 508</u>	<u>\$ 541</u>
COST OF PRODUCT REVENUES	\$ 468	\$ 399	\$ 435
Adjustments:			
Amortization of intangible assets	(10)	(9)	(8)
Stock-based compensation	—	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 458</u>	<u>\$ 389</u>	<u>\$ 426</u>
COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	\$ 108	\$ 115	\$ 111
Adjustment:			
Stock-based compensation	(3)	(2)	(3)
NON-GAAP COST OF HARDWARE MAINTENANCE AND OTHER SERVICES REVENUES	<u>\$ 105</u>	<u>\$ 113</u>	<u>\$ 108</u>
GROSS PROFIT	\$ 941	\$ 902	\$ 851
Adjustments:			
Amortization of intangible assets	10	9	8
Stock-based compensation	3	3	4
NON-GAAP GROSS PROFIT	<u>\$ 954</u>	<u>\$ 914</u>	<u>\$ 863</u>

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

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
SALES AND MARKETING EXPENSES	\$ 423	\$ 420	\$ 381
Adjustments:			
Amortization of intangible assets	(4)	(5)	(5)
Stock-based compensation	(16)	(16)	(20)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 403</u>	<u>\$ 399</u>	<u>\$ 356</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 193	\$ 194	\$ 181
Adjustment:			
Stock-based compensation	(11)	(12)	(14)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 182</u>	<u>\$ 182</u>	<u>\$ 167</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 72	\$ 69	\$ 64
Adjustments:			
Stock-based compensation	(8)	(8)	(8)
Litigation settlements	(5)	-	-
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 59</u>	<u>\$ 61</u>	<u>\$ 56</u>
RESTRUCTURING CHARGES	\$ —	\$ —	\$ 52
Adjustment:			
Restructuring charges	—	—	(52)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAIN ON SALE OF PROPERTIES	\$ (218)	\$ —	\$ (10)
Adjustment:			
Gain on sale of properties	218	—	10
NON-GAAP GAIN ON SALE OF PROPERTIES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 470	\$ 683	\$ 668
Adjustments:			
Amortization of intangible assets	(4)	(5)	(5)
Stock-based compensation	(35)	(36)	(42)
Litigation settlements	(5)	—	—
Restructuring charges	—	—	(52)
Gain on sale of properties	218	—	10
NON-GAAP OPERATING EXPENSES	<u>\$ 644</u>	<u>\$ 642</u>	<u>\$ 579</u>

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

	Q3'FY18	Q2'FY18	Q3'FY17
INCOME FROM OPERATIONS	\$ 471	\$ 219	\$ 183
Adjustments:			
Amortization of intangible assets	14	14	13
Stock-based compensation	38	39	46
Litigation settlements	5	—	—
Restructuring charges	—	—	52
Gain on sale of properties	(218)	—	(10)
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 310</u>	<u>\$ 272</u>	<u>\$ 284</u>
INCOME BEFORE INCOME TAXES	\$ 485	\$ 225	\$ 183
Adjustments:			
Amortization of intangible assets	14	14	13
Stock-based compensation	38	39	46
Litigation settlements	5	—	—
Restructuring charges	—	—	52
Gain on sale of properties	(218)	—	(10)
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 324</u>	<u>\$ 278</u>	<u>\$ 284</u>
PROVISION FOR INCOME TAXES	\$ 991	\$ 50	\$ 37
Adjustments:			
Income tax effect of non-GAAP adjustments	(84)	5	16
Tax reform	(856)	—	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 51</u>	<u>\$ 55</u>	<u>\$ 53</u>
NET INCOME (LOSS) PER SHARE	\$ (1.89)	\$ 0.64	\$ 0.52
Adjustments:			
Amortization of intangible assets	0.05	0.05	0.05
Stock-based compensation	0.14	0.14	0.16
Litigation settlements	0.02	—	—
Restructuring charges	—	—	0.19
Gain on sale of properties	(0.81)	—	(0.04)
Income tax effect of non-GAAP adjustments	0.31	(0.02)	(0.06)
Tax reform	3.19	—	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 0.99</u>	<u>\$ 0.81</u>	<u>\$ 0.82</u>

In Q3'FY18, our GAAP net loss per share was calculated using basic shares of 268 million, as the impact of common stock equivalents would have been anti-dilutive. Additionally, each adjustment presented in the reconciliation was computed using basic shares. However, because we reported net income on a non-GAAP basis, non-GAAP net income per share was computed using diluted shares of 276 million. As a result of the difference in the number of shares, the summation of GAAP net loss per share and the adjustments does not equal non-GAAP net income per share.

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

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
Gross margin-GAAP	61.8%	63.4%	60.6%
Cost of revenues adjustments	0.9%	0.8%	0.9%
Gross margin-Non-GAAP	62.6%	64.3%	61.5%
GAAP cost of revenues	\$ 582	\$ 520	\$ 553
Cost of revenues adjustments:			
Amortization of intangible assets	(10)	(9)	(8)
Stock-based compensation	(3)	(3)	(4)
Non-GAAP cost of revenues	<u>\$ 569</u>	<u>\$ 508</u>	<u>\$ 541</u>
Net revenues	\$ 1,523	\$ 1,422	\$ 1,404

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

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
Product gross margin-GAAP	49.1%	50.6%	44.5%
Cost of product revenues adjustments	1.1%	1.2%	1.1%
Product gross margin-Non-GAAP	50.2%	51.8%	45.7%
GAAP cost of product revenues	\$ 468	\$ 399	\$ 435
Cost of product revenues adjustments:			
Amortization of intangible assets	(10)	(9)	(8)
Stock-based compensation	—	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 458</u>	<u>\$ 389</u>	<u>\$ 426</u>
Product revenues	\$ 920	\$ 807	\$ 784

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

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
Hardware maintenance and other services gross margin-GAAP	70.5%	69.3%	70.8%
Cost of hardware maintenance and other services revenues adjustment	0.8%	0.5%	0.8%
Hardware maintenance and other services gross margin-Non-GAAP	71.3%	69.9%	71.6%
GAAP cost of hardware maintenance and other services revenues	\$ 108	\$ 115	\$ 111
Cost of hardware maintenance and other services revenues adjustment:			
Stock-based compensation	(3)	(2)	(3)
Non-GAAP cost of hardware maintenance and other services revenues	<u>\$ 105</u>	<u>\$ 113</u>	<u>\$ 108</u>
Hardware maintenance and other services revenues	\$ 366	\$ 375	\$ 380

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

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
GAAP effective tax rate	204.3%	22.2%	20.2%
Adjustments:			
Tax effect of non-GAAP adjustments	(12.1)%	(2.8)%	(1.6)%
Tax reform	(176.5)%	—%	—%
Non-GAAP effective tax rate	15.7%	19.4%	18.6%

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

(In millions)

	<u>Q3'FY18</u>	<u>Q2'FY18</u>	<u>Q3'FY17</u>
Net cash provided by operating activities	\$ 420	\$ 314	\$ 235
Purchases of property and equipment	(32)	(29)	(45)
Free cash flow	\$ 388	\$ 285	\$ 190

Some items may not add or recalculate due to rounding.

NETAPP, INC.
RECONCILIATION OF NON-GAAP GUIDANCE TO GAAP
EXPRESSED AS EARNINGS PER SHARE
FOURTH QUARTER FISCAL 2018

	Fourth Quarter Fiscal 2018
Non-GAAP Guidance - Net Income Per Share	\$0.95 - \$1.03
Adjustments of Specific Items to Net Income	
Per Share for the Fourth Quarter Fiscal 2018:	
Amortization of intangible assets	(0.05)
Stock-based compensation expense	(0.13)
Income tax effect of non-GAAP adjustments	(0.02)
Total Adjustments	(0.20)
GAAP Guidance - Net Income Per Share	\$0.75 - 0.83

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