

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

	<u>October 28, 2022</u>	<u>April 29, 2022</u>
ASSETS		
Current assets:		
Cash, cash equivalents and investments	\$ 3,033	\$ 4,134
Accounts receivable	910	1,230
Inventories	244	204
Other current assets	416	377
Total current assets	4,603	5,945
Property and equipment, net	661	602
Goodwill and purchased intangible assets, net	2,982	2,488
Other non-current assets	1,534	991
Total assets	\$ 9,780	\$ 10,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 584	\$ 607
Accrued expenses	819	925
Current portion of long-term debt	—	250
Short-term deferred revenue and financed unearned services revenue	1,992	2,171
Total current liabilities	3,395	3,953
Long-term debt	2,387	2,386
Other long-term liabilities	737	788
Long-term deferred revenue and financed unearned services revenue	2,059	2,061
Total liabilities	8,578	9,188
Stockholders' equity	1,202	838
Total liabilities and stockholders' equity	\$ 9,780	\$ 10,026

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

	Three Months Ended		Six Months Ended	
	October 28, 2022	October 29, 2021	October 28, 2022	October 29, 2021
Net revenues:				
Product	\$ 837	\$ 814	\$ 1,623	\$ 1,544
Services	826	752	1,632	1,480
Net revenues	<u>1,663</u>	<u>1,566</u>	<u>3,255</u>	<u>3,024</u>
Cost of revenues:				
Cost of product	418	372	815	701
Cost of services	158	135	307	265
Total cost of revenues	<u>576</u>	<u>507</u>	<u>1,122</u>	<u>966</u>
Gross profit	<u>1,087</u>	<u>1,059</u>	<u>2,133</u>	<u>2,058</u>
Operating expenses:				
Sales and marketing	479	465	937	916
Research and development	243	216	483	426
General and administrative	67	76	139	142
Restructuring charges	11	7	22	29
Acquisition-related expense	5	1	15	2
Total operating expenses	<u>805</u>	<u>765</u>	<u>1,596</u>	<u>1,515</u>
Income from operations	282	294	537	543
Other income (expense), net	<u>23</u>	<u>(14)</u>	<u>38</u>	<u>(26)</u>
Income before income taxes	305	280	575	517
(Benefit) provision for income taxes	<u>(445)</u>	<u>56</u>	<u>(389)</u>	<u>91</u>
Net income	<u>\$ 750</u>	<u>\$ 224</u>	<u>\$ 964</u>	<u>\$ 426</u>
Net income per share:				
Basic	<u>\$ 3.46</u>	<u>\$ 1.00</u>	<u>\$ 4.40</u>	<u>\$ 1.91</u>
Diluted	<u>\$ 3.41</u>	<u>\$ 0.98</u>	<u>\$ 4.34</u>	<u>\$ 1.86</u>
Shares used in net income per share calculations:				
Basic	<u>217</u>	<u>223</u>	<u>219</u>	<u>223</u>
Diluted	<u>220</u>	<u>229</u>	<u>222</u>	<u>229</u>

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

	Three Months Ended		Six Months Ended	
	October 28, 2022	October 29, 2021	October 28, 2022	October 29, 2021
Cash flows from operating activities:				
Net income	\$ 750	\$ 224	\$ 964	\$ 426
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	59	46	117	92
Non-cash operating lease cost	13	15	27	28
Stock-based compensation	78	62	145	115
Deferred income taxes	(555)	(17)	(570)	(32)
Other items, net	(61)	(16)	(127)	(12)
Changes in assets and liabilities, net of acquisitions of businesses:				
Accounts receivable	(51)	5	313	292
Inventories	(12)	(47)	(40)	(41)
Accounts payable	62	62	(28)	11
Accrued expenses	100	36	(108)	(206)
Deferred revenue and financed unearned services revenue	(61)	(15)	(93)	(97)
Long-term taxes payable	(85)	(57)	(84)	(65)
Changes in other operating assets and liabilities, net	(23)	—	(21)	29
Net cash provided by operating activities	<u>214</u>	<u>298</u>	<u>495</u>	<u>540</u>
Cash flows from investing activities:				
(Purchases) redemptions of investments, net	(211)	15	(342)	26
Purchases of property and equipment	(77)	(46)	(142)	(97)
Acquisitions of businesses, net of cash acquired	—	—	(491)	(14)
Other investing activities, net	—	—	59	—
Net cash used in investing activities	<u>(288)</u>	<u>(31)</u>	<u>(916)</u>	<u>(85)</u>
Cash flows from financing activities:				
Proceeds from issuance of common stock under employee stock award plans	—	—	54	53
Payments for taxes related to net share settlement of stock awards	(11)	(6)	(63)	(63)
Repurchase of common stock	(150)	(125)	(500)	(225)
Repayments and extinguishment of debt	(250)	—	(250)	—
Dividends paid	(108)	(112)	(218)	(224)
Other financing activities, net	(1)	—	(2)	(2)
Net cash used in financing activities	<u>(520)</u>	<u>(243)</u>	<u>(979)</u>	<u>(461)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(25)	(8)	(43)	(13)
Net change in cash, cash equivalents and restricted cash	(619)	16	(1,443)	(19)
Cash, cash equivalents and restricted cash:				
Beginning of period	<u>3,295</u>	<u>4,500</u>	<u>4,119</u>	<u>4,535</u>
End of period	<u>\$ 2,676</u>	<u>\$ 4,516</u>	<u>\$ 2,676</u>	<u>\$ 4,516</u>

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

Revenues by Segment

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Product	\$ 837	\$ 786	\$ 814
Support	607	598	590
Professional and Other Services	77	76	75
Hybrid Cloud Segment Net Revenues	1,521	1,460	1,479
Public Cloud Segment Net Revenues	142	132	87
Net Revenues	<u>\$ 1,663</u>	<u>\$ 1,592</u>	<u>\$ 1,566</u>

Gross Profit by Segment

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Product	\$ 420	\$ 391	\$ 445
Support	562	555	542
Professional and Other Services	23	24	21
Hybrid Cloud Segment Gross Profit	1,005	970	1,008
Public Cloud Segment Gross Profit	97	92	62
Total Segments Gross Profit	1,102	1,062	1,070
Amortization of Intangible Assets	(10)	(11)	(7)
Stock-based Compensation	(5)	(5)	(4)
Unallocated Cost of Revenues	(15)	(16)	(11)
Gross Profit	<u>\$ 1,087</u>	<u>\$ 1,046</u>	<u>\$ 1,059</u>

Gross Margin by Segment

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Product	50.2%	49.7%	54.7%
Support	92.6%	92.8%	91.9%
Professional and Other Services	29.9%	31.6%	28.0%
Hybrid Cloud Segment Gross Margin	66.1%	66.4%	68.2%
Public Cloud Segment Gross Margin	68.3%	69.7%	71.3%

Product Revenues

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Total	\$ 837	\$ 786	\$ 814
Software*	\$ 495	\$ 476	\$ 475
Hardware*	\$ 342	\$ 310	\$ 339

Software and recurring support and public cloud revenue

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Product - Software	\$ 495	\$ 476	\$ 475
Support	607	598	590
Public Cloud	142	132	87
Software and recurring support and public cloud revenue*	<u>\$ 1,244</u>	<u>\$ 1,206</u>	<u>\$ 1,152</u>

Software and recurring support and public cloud revenue as a percentage of net revenues	75%	76%	74%
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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'23 Revenue	% of Q1 FY'23 Revenue	% of Q2 FY'22 Revenue
Americas	54%	54%	55%
<i>Americas Commercial</i>	40%	42%	43%
<i>U.S. Public Sector</i>	14%	12%	12%
EMEA	32%	31%	29%
Asia Pacific	14%	15%	15%

Pathways Mix

	% of Q2 FY'23 Revenue	% of Q1 FY'23 Revenue	% of Q2 FY'22 Revenue
Direct	23%	21%	24%
Indirect	77%	79%	76%

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

	Q2'FY23	Q1'FY23	Q2'FY22
Non-GAAP Income from Operations	\$ 393	\$ 360	\$ 374
% of Net Revenues	23.6%	22.6%	23.9%
Non-GAAP Income before Income Taxes	\$ 416	\$ 343	\$ 360
Non-GAAP Effective Tax Rate	21.6%	21.6%	18.9%

Non-GAAP Net Income

	Q2'FY23	Q1'FY23	Q2'FY22
Non-GAAP Net Income	\$ 326	\$ 269	\$ 292
Non-GAAP Weighted Average Common Shares Outstanding, Diluted	220	224	229
Non-GAAP Net Income per Share, Diluted	\$ 1.48	\$ 1.20	\$ 1.28

Select Balance Sheet Items

	Q2'FY23	Q1'FY23	Q2'FY22
Deferred Revenue and Financed Unearned Services Revenue	\$ 4,051	\$ 4,170	\$ 3,866
DSO (days)	50	49	38
DPO (days)	92	86	78
Inventory Turns	9	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

	Q2'FY23	Q1'FY23	Q2'FY22
Net Cash Provided by Operating Activities	\$ 214	\$ 281	\$ 298
Purchases of Property and Equipment	\$ 77	\$ 65	\$ 46
Free Cash Flow	\$ 137	\$ 216	\$ 252
<i>Free Cash Flow as % of Net Revenues</i>	8.2%	13.6%	16.1%

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'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
NET INCOME	\$ 750	\$ 214	\$ 224
Adjustments:			
Amortization of intangible assets	17	17	10
Stock-based compensation	78	67	62
Restructuring charges	11	11	7
Acquisition-related expense	5	10	1
Gain on sale of equity investment	—	(32)	—
Income tax effects	(11)	(18)	(13)
Income tax expenses from integration of acquired companies	—	—	1
Income tax benefit from intra-entity intellectual property transfer	(524)	—	—
NON-GAAP NET INCOME	<u>\$ 326</u>	<u>\$ 269</u>	<u>\$ 292</u>
COST OF REVENUES	\$ 576	\$ 546	\$ 507
Adjustments:			
Amortization of intangible assets	(10)	(11)	(7)
Stock-based compensation	(5)	(5)	(4)
NON-GAAP COST OF REVENUES	<u>\$ 561</u>	<u>\$ 530</u>	<u>\$ 496</u>
COST OF PRODUCT REVENUES	\$ 418	\$ 397	\$ 372
Adjustments:			
Amortization of intangible assets	—	(1)	(2)
Stock-based compensation	(1)	(1)	(1)
NON-GAAP COST OF PRODUCT REVENUES	<u>\$ 417</u>	<u>\$ 395</u>	<u>\$ 369</u>
COST OF SERVICES REVENUES	\$ 158	\$ 149	\$ 135
Adjustments:			
Amortization of intangible assets	(10)	(10)	(5)
Stock-based compensation	(4)	(4)	(3)
NON-GAAP COST OF SERVICES REVENUES	<u>\$ 144</u>	<u>\$ 135</u>	<u>\$ 127</u>
GROSS PROFIT	\$ 1,087	\$ 1,046	\$ 1,059
Adjustments:			
Amortization of intangible assets	10	11	7
Stock-based compensation	5	5	4
NON-GAAP GROSS PROFIT	<u>\$ 1,102</u>	<u>\$ 1,062</u>	<u>\$ 1,070</u>

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
SALES AND MARKETING EXPENSES	\$ 479	\$ 458	\$ 465
Adjustments:			
Amortization of intangible assets	(7)	(6)	(3)
Stock-based compensation	(35)	(28)	(29)
NON-GAAP SALES AND MARKETING EXPENSES	<u>\$ 437</u>	<u>\$ 424</u>	<u>\$ 433</u>
RESEARCH AND DEVELOPMENT EXPENSES	\$ 243	\$ 240	\$ 216

Adjustments:			
Stock-based compensation	(26)	(24)	(19)
NON-GAAP RESEARCH AND DEVELOPMENT EXPENSES	<u>\$ 217</u>	<u>\$ 216</u>	<u>\$ 197</u>
GENERAL AND ADMINISTRATIVE EXPENSES	\$ 67	\$ 72	\$ 76
Adjustments:			
Stock-based compensation	(12)	(10)	(10)
NON-GAAP GENERAL AND ADMINISTRATIVE EXPENSES	<u>\$ 55</u>	<u>\$ 62</u>	<u>\$ 66</u>
RESTRUCTURING CHARGES	\$ 11	\$ 11	\$ 7
Adjustments:			
Restructuring charges	(11)	(11)	(7)
NON-GAAP RESTRUCTURING CHARGES	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
ACQUISITION-RELATED EXPENSE	\$ 5	\$ 10	\$ 1
Adjustments:			
Acquisition-related expense	(5)	(10)	(1)
NON-GAAP ACQUISITION-RELATED EXPENSE	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
OPERATING EXPENSES	\$ 805	\$ 791	\$ 765
Adjustments:			
Amortization of intangible assets	(7)	(6)	(3)
Stock-based compensation	(73)	(62)	(58)
Restructuring charges	(11)	(11)	(7)
Acquisition-related expense	(5)	(10)	(1)
NON-GAAP OPERATING EXPENSES	<u>\$ 709</u>	<u>\$ 702</u>	<u>\$ 696</u>

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
INCOME FROM OPERATIONS	\$ 282	\$ 255	\$ 294
Adjustments:			
Amortization of intangible assets	17	17	10
Stock-based compensation	78	67	62
Restructuring charges	11	11	7
Acquisition-related expense	5	10	1
NON-GAAP INCOME FROM OPERATIONS	<u>\$ 393</u>	<u>\$ 360</u>	<u>\$ 374</u>
OTHER INCOME (EXPENSE), NET	\$ 23	\$ 15	\$ (14)
Adjustments:			
Gain on sale of equity investment	—	(32)	—
NON-GAAP OTHER INCOME (EXPENSE), NET	<u>\$ 23</u>	<u>\$ (17)</u>	<u>\$ (14)</u>
INCOME BEFORE INCOME TAXES	\$ 305	\$ 270	\$ 280
Adjustments:			
Amortization of intangible assets	17	17	10
Stock-based compensation	78	67	62
Restructuring charges	11	11	7
Acquisition-related expense	5	10	1
Gain on sale of equity investment	—	(32)	—
NON-GAAP INCOME BEFORE INCOME TAXES	<u>\$ 416</u>	<u>\$ 343</u>	<u>\$ 360</u>
(BENEFITS) PROVISION FOR INCOME TAXES	\$ (445)	\$ 56	\$ 56
Adjustments:			

Income tax effects	11	18	13
Income tax expenses from integration of acquired companies	—	—	(1)
Income tax benefit from intra-entity intellectual property transfer	524	—	—
NON-GAAP PROVISION FOR INCOME TAXES	<u>\$ 90</u>	<u>\$ 74</u>	<u>\$ 68</u>
NET INCOME PER SHARE	<u>\$ 3.41</u>	<u>\$ 0.96</u>	<u>\$ 0.98</u>
Adjustments:			
Amortization of intangible assets	0.08	0.08	0.04
Stock-based compensation	0.35	0.30	0.27
Restructuring charges	0.05	0.05	0.03
Acquisition-related expense	0.02	0.04	—
Gain on sale of equity investment	—	(0.14)	—
Income tax effects	(0.05)	(0.08)	(0.06)
Income tax benefit from intra-entity intellectual property transfer	(2.38)	—	—
NON-GAAP NET INCOME PER SHARE	<u>\$ 1.48</u>	<u>\$ 1.20</u>	<u>\$ 1.28</u>

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Gross margin-GAAP	65.4%	65.7%	67.6%
Cost of revenues adjustments	0.9%	1.0%	0.7%
Gross margin-Non-GAAP	66.3%	66.7%	68.3%
GAAP cost of revenues	\$ 576	\$ 546	\$ 507
Cost of revenues adjustments:			
Amortization of intangible assets	(10)	(11)	(7)
Stock-based compensation	(5)	(5)	(4)
Non-GAAP cost of revenues	<u>\$ 561</u>	<u>\$ 530</u>	<u>\$ 496</u>
Net revenues	\$ 1,663	\$ 1,592	\$ 1,566

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Product gross margin-GAAP	50.1%	49.5%	54.3%
Cost of product revenues adjustments	0.1%	0.3%	0.4%
Product gross margin-Non-GAAP	50.2%	49.7%	54.7%
GAAP cost of product revenues	\$ 418	\$ 397	\$ 372
Cost of product revenues adjustments:			
Amortization of intangible assets	—	(1)	(2)
Stock-based compensation	(1)	(1)	(1)
Non-GAAP cost of product revenues	<u>\$ 417</u>	<u>\$ 395</u>	<u>\$ 369</u>
Product revenues	\$ 837	\$ 786	\$ 814

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Services gross margin-GAAP	80.9%	81.5%	82.0%
Cost of services revenues adjustments	1.7%	1.7%	1.1%
Services gross margin-Non-GAAP	82.6%	83.3%	83.1%
GAAP cost of services revenues	\$ 158	\$ 149	\$ 135
Cost of services revenues adjustments:			
Amortization of intangible assets	(10)	(10)	(5)
Stock-based compensation	(4)	(4)	(3)
Non-GAAP cost of services revenues	\$ 144	\$ 135	\$ 127
Services revenues	\$ 826	\$ 806	\$ 752

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
GAAP effective tax rate	(145.9)%	20.7%	20.0%
Adjustments:			
Income tax effects	41.6%	0.8%	(0.8)%
Income tax expenses from integration of acquired companies	—%	—%	(0.4)%
Income tax benefit from intra-entity intellectual property transfer	126.0%	—%	—%
Non-GAAP effective tax rate	21.6%	21.6%	18.9%

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Net cash provided by operating activities	\$ 214	\$ 281	\$ 298
Purchases of property and equipment	(77)	(65)	(46)
Free cash flow	\$ 137	\$ 216	\$ 252

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

	<u>Q2'FY23</u>	<u>Q1'FY23</u>	<u>Q2'FY22</u>
Net revenues	\$ 1,663	\$ 1,592	\$ 1,566
Change in deferred revenue and financed unearned services revenue*	(61)	(32)	(15)
Billings	\$ 1,602	\$ 1,560	\$ 1,551

* 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 2023

	Third Quarter Fiscal 2023
Non-GAAP Guidance - Net Income Per Share	\$1.25-\$1.35
Adjustments of Specific Items to Net Income Per Share for the Third Quarter Fiscal 2023:	
Amortization of intangible assets	(\$0.08)
Stock-based compensation expense	(\$0.35)
Income tax effects	\$0.06
Total Adjustments	(\$0.37)
GAAP Guidance - Net Income Per Share	\$0.88-\$0.98

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%
Adjustments:	
Amortization of intangible assets	(1)%
Stock-based compensation expense	(5)%
Operating Margin - GAAP Guidance	~17%

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	(\$1.37)
Restructuring charges	(\$0.10)
Acquisition-related expenses	(\$0.07)
Gain on sale of equity investment	\$0.14
Income tax benefit from intra-entity intellectual property transfer	\$2.37
Income tax effects	\$0.33
Total Adjustments	\$0.99
GAAP Guidance - Net Income Per Share	\$6.29 - \$6.49

Some items may not add or recalculate due to rounding.

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