# Sustained and Profitable Growth

## Financial Update

Ron Pasek
Executive Vice President and Chief Financial Officer

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# Agenda

1) FY18 Look Back

2) 606 Impact

3) FY19 Guide

4) FY19 – FY21 Guide

5) Capital Allocation

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# A Look Back at FY18

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# A Look Back at FY18

| | FY18 Guide* | Implied FY18 Performance** | Highlights |
|---|---|---|---|
| **Revenue** | Low-single digit growth | **6% growth** | Double-digit product revenue growth YoY |
| **Gross Margin** | 62-63% | **63%** | +3 ppts Product Margin YoY |
| **Operating Margin** | 18-20% | **19%** | +2 ppts YoY |
| **EPS** | Low-double digit growth | **25% growth** | Increasing leverage in the business model |
| **Free Cash Flow as a % of Revenue** | 17-19% | **~21%*** ** | 26 day improvement in CCC<br>Returned ~70% of FCF to shareholders |

** FY18 guide provided on the Q4 FY17 earnings call*
*** Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide*
**** Free Cash Flow first 9 months of FY18*

Gross Margin, Operating Margin, OPEX and EPS numbers and related metrics are presented on a Non-GAAP basis. Free cash flow is a non-GAAP number and is defined as net cash provided by operating activities less purchases of property and equipment. Refer to the appendix for a reconciliation between non-GAAP and GAAP numbers.

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# A Look Back at FY18: Takeaways

Outpacing growth plan

Over 20% EPS growth year/year

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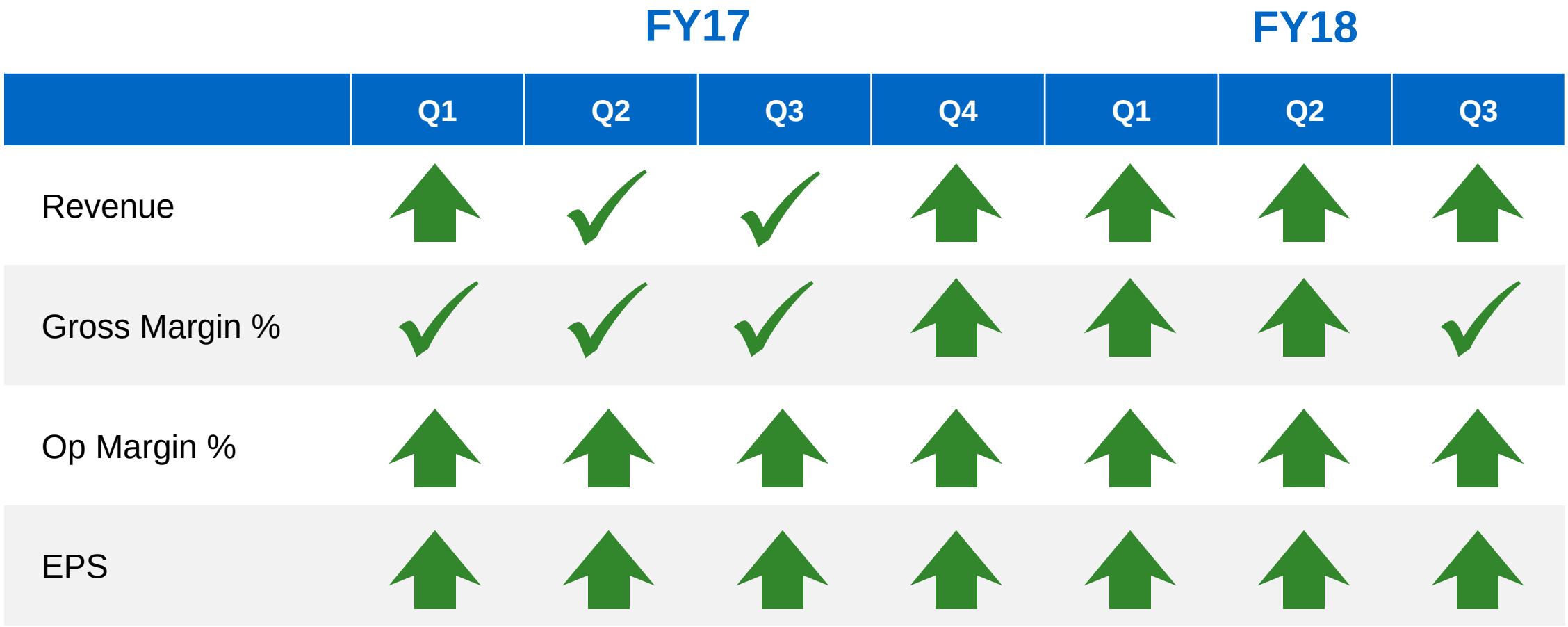
# Consistent Execution

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# 606 Impact to Guidance

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# 606 Impact to Guidance

## Transition from 605 to 606

| | FY19 – FY21 | Impact to Guidance |
|---|---|---|
| **Revenue** | Higher product revenue<br>Lower maintenance revenue | Immaterial to the P&L |
| **Gross Margin** | Higher product margin<br>Lower services margin | Immaterial to the P&L |
| **OPEX** | Commissions expensed as revenue is recognized | Immaterial to the P&L |
| **Operating Margin** | Immaterial | Immaterial to the P&L |

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# 606 Impact to Guidance: Takeaways

Immaterial to our guidance

Begin reporting in Q1 FY19

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# Looking Forward to FY19

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# Looking Forward to FY19

| | 2017 Analyst Day FY18-20 | FY19 Expectations | Key Data Points |
|---|---|---|---|
| **Revenue** | Low-single digit growth | **Mid-single digit growth** | Cloud Data Services contributes ~1 ppt of growth |
| **Gross Margin** | 62-64% | **~63%** | Improved product margins<br>SaaS startup cost |
| **OPEX** | Minimal OPEX growth | **Minimal OPEX growth** | Relatively flat OPEX |
| **Operating Margin** | 18-22% | **20-21%** | Continued leverage |
| **EPS** | Low-double digits | **Over 15% growth** | ~18% tax rate<br>3rd consecutive year of double-digit EPS growth |
| **Free Cash Flow as a % of Revenue** | 16-22% | **19-21%** | SaaS CAPEX |

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# Looking Forward to FY19: Takeaways

Sustained mid-single digit topline growth, driven by strong strategic product performance

Second consecutive year of over $1B Free Cash Flow

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# Looking Forward FY19 – FY21

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# Looking Forward FY19 – FY21

| | 2017 Analyst Day FY18-20 | 2018 Analyst Day FY19-21 | Key Drivers |
|---|---|---|---|
| **Revenue** | Low-single digit growth | **Mid-single digit growth** | Flash and HCI share gains<br>Cloud Data Services grows to $400M-$600M FY21 |
| **Gross Margin** | 62-64% | **63-65%** | Improved product margins<br>SaaS gross margin accretive |
| **OPEX** | Minimal OPEX growth | **Disciplined OPEX growth** | Maintain disciplined approach to investments |
| **Operating Margin** | 18-22% | **20-24%** | Increased operating leverage<br>SaaS operating margin accretive |
| **EPS** | Low-double digits | **Over 15% growth each year** | ~18-20% Tax Rate |
| **Free Cash Flow as a % of Revenue** | 16-22% | **19-24%** | Increased operating leverage<br>Significant SaaS contribution |

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# Looking Forward FY19 – FY21: Takeaways

Sustained mid-single digit revenue growth

Cloud is additive and accretive to our business

Improving Gross and Operating Margin

Free Cash Flow growing from 19% to 24% of Revenue

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# Capital Allocation

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# Capital Allocation

| | 2017 Analyst Day FY18-20 | 2018 Analyst Day FY19-21 | Key Data Points |
|---|---|---|---|
| **Dividends** | Move towards 3% yield | **Doubling dividend** | Effective Q1 FY19<br>Initially ~2.6% yield |
| **Share Repurchases** | Complete existing commitment by May | **New $4B share repurchase commitment** | Completed existing $2.5B commitment<br>New commitment to buy back ~25% of market cap |
| **Debt** | Potentially de-lever | **Slight de-levering** | Maintain rating at least 2-3 notches above investment grade |
| **M&A** | Disciplined approach | **Disciplined Approach** | Confident in existing portfolio<br>Focused on Cloud Infrastructure and Cloud Data Services |

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# Capital Allocation: Takeaways

Doubling dividend

$4B buyback authorization

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# Sustained and Profitable Growth

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# Driving Sustained and Profitable Growth

- TAM expansion and share gains support sustained growth
- Cloud is additive and accretive to our business
- Leverage in the business model yields considerable free cash flow and earnings growth
- Strong commitment to shareholder returns through significant buybacks and dividend

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# Appendix: GAAP to Non-GAAP Reconciliations

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# Gross Margin Reconciliation

**NETAPP, INC.**
**RECONCILIATION OF NON-GAAP TO GAAP**
**GROSS MARGIN**

| | FY18 Guide* | FY18 Implied** | FY19 Expectations | FY19-FY21 Expectations |
|---|---|---|---|---|
| **GROSS MARGIN** | 61% - 62% | 62% | 62% | 62% - 64% |
| Adjustments: | | | | |
| Cost of revenues adjustments | 1% | 1% | 1% | 1% |
| **NON-GAAP GROSS MARGIN** | 62% - 63% | 63% | 63% | 63% - 65% |

** FY18 guide provided on the Q4 FY17 earnings call*

***Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide*

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# Operating Margin Reconciliation

**NETAPP, INC.**
**RECONCILIATION OF NON-GAAP TO GAAP**
**OPERATING MARGIN**

| | FY18 Guide* | FY18 Implied** | FY19 Expectations | FY19-FY21 Expectations |
|---|---|---|---|---|
| **OPERATING MARGIN** | 14% - 16% | 19% | 18% - 19% | 17% - 21% |
| Adjustments | | | | |
| Amortization of intangible assets | 1% | 1% | 1% | 1% |
| Stock-based compensation | 3% | 3% | 2% | 2% |
| Gain on sale of properties | - | (4)% | (1)% | - |
| **NON-GAAP OPERATING MARGIN** | 18% - 20% | 19% | 20% - 21% | 20% - 24% |

** FY18 guide provided on the Q4 FY17 earnings call*

***Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide*

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# Earnings Per Share Reconciliation

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

| | FY18 Implied** |
|---|---|
| **NET INCOME (LOSS) PER SHARE** | ($0.07) |
| Adjustments | |
| Amortization of intangible assets | 0.19 |
| Stock-based compensation | 0.59 |
| Litigation Settlements | 0.02 |
| Gain on sale of properties | (0.79) |
| Tax reform | 3.10 |
| Non-GAAP tax adjustments | 0.37 |
| **NON-GAAP NET INCOME PER SHARE** | $3.41 |

***Implied by first 9 months of FY18 actuals and midpoint of the Q4 FY18 guide*

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# Effective Tax Rate Reconciliation

**NETAPP, INC.**
**RECONCILIATION OF NON-GAAP TO GAAP**
**EFFECTIVE TAX RATE**

| | FY19 Expectations | FY19-FY21 Expectations |
|---|---|---|
| **EFFECTIVE TAX RATE** | 22% | 22% - 24% |
| Adjustment: | | |
| Non-GAAP tax adjustments | (4)% | (4)% |
| **NON-GAAP EFFECTIVE TAX RATE** | 18% | 18% - 20% |

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# Free Cash Flow as a % of Revenue

**NETAPP, INC.**
**FREE CASH FLOW AS A PERCENTAGE OF REVENUE**

| | FY18 Guide* | First Nine Months of FY18 Actuals | FY19 Expectations | FY19 - FY21 Expectations |
|---|---|---|---|---|
| Net cash provided by operating activities as a % of revenue | 20% - 22% | 23% | 23% - 25% | 23% - 28% |
| Purchases of property and equipment as a % of revenue | (3)% | (2)% | (4)% | (4)% |
| **FREE CASH FLOW AS A % OF REVENUE** | 17% - 19% | 21% | 19% - 21% | 19% - 24% |

** FY18 guide provided on the Q4 FY17 earnings call*

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