



NetAppTM

**Shareholder Letter
Fiscal Year 2016**

To our Shareholders:

Over the past two decades, NetApp has built a powerful foundation of innovative, market-leading products, deep customer and partner relationships, global scale, and a talented, passionate team of employees. It is on this foundation that we are building to fundamentally transform NetApp to lead in the next era of IT.

Customers are transforming themselves to improve the efficiency of their businesses, build global business systems, and better serve their customers. To accomplish their business objectives, customers are looking for a broad range of IT capabilities, including consuming new architectures and types of storage systems as well as cloud-based solutions as alternatives to traditional IT.

Data is at the heart of our customers' transformation, and this is where NetApp has a profoundly important role to play. At its very core, our mission is to manage and protect the world's data. Our Data Fabric strategy carries our mission into the era of the hybrid cloud; it enables data management that seamlessly connects disparate clouds and data centers into a cohesive, integrated hybrid cloud. We uniquely enable IT organizations to manage, secure, and protect their data wherever access is needed in the fabric—from flash to disk to multiple cloud architectures—at the scale needed to accommodate the exponential data growth of the digital world.

Making the right long-term decisions to align our business with the changing market is crucial. When I took over as CEO, in the first quarter of fiscal 2016, we outlined a plan and took the first bold steps forward in our transformation to streamline the business and further advance our pivot to the growth areas of the market. We have a clear set of priorities:

- 1) Pivot aggressively toward the growth areas of the market.**
Our “Strategic” solutions—the NetApp clustered Data ONTAP operating system, our branded E-Series, all-flash arrays, hybrid cloud solutions, and NetApp OnCommand Insight—are the foundation of our pivot to the growth areas of the market. These solutions are tightly aligned with customer requirements in the data-powered digital era.
- 2) Reduce costs and systematically streamline our business while investing for the future.**
During the course of fiscal 2016, we began to permanently streamline our business to increase our effectiveness and flexibility. Over time, we believe that our investments in innovation and in streamlining the business will improve our operating margin and cash flow as we return to growth.
- 3) Remain committed to our capital allocation strategy.**
Our financial strength enables us to continue to invest in the long-term growth of our business while returning cash to shareholders through a combination of share repurchases and dividends. In fiscal 2016, we generated strong free cash flow of \$814 million and returned 140% to shareholders through a combination of dividends and stock repurchases. In addition, we continued to invest in the growth areas of the market, closing our largest acquisition to date, SolidFire. Capital allocation is an area of critical importance for our Board of Directors and our leadership team, and this area is one that we will consistently evaluate and revisit.

In addition, in fiscal 2016, we made progress to renew the organization and our leadership team with key additions. We also continued to drive a higher level of focus, inspection, and execution against our strategic priorities.

By coupling the strength of our Data Fabric strategy and the benefits we deliver to customers with a more efficient and agile business, we can generate long-term value for shareholders. I am very confident in NetApp's potential. We have a clear plan and many positives: Our Data Fabric strategy uniquely enables us to help customers achieve their strategic IT imperatives. Our Strategic solutions are growing well, and we have a large and growing installed base that will generate future streams of maintenance revenues. We are making substantial progress in the transition to clustered ONTAP and streamlining the company. And we have the financial strength to both invest for the future and return cash to shareholders.

We hold a unique position in our industry with the people, technologies, partnerships, scale, and financial strength needed to help enable our customers' success in this new data-powered digital era. I am honored to lead this great company during this critical time and I am excited to build on NetApp's powerful foundation. I would like to thank our over 10,000 employees around the world for their tireless work and dedication in fiscal 2016. And on behalf of all of us at NetApp, thank you to our shareholders, customers, and partners, for your continued support.

Sincerely,

George Kurian
Chief Executive Officer and President

