

NETSCOUT™

Q1 FY 2025 Conference Call

*NETSCOUT SYSTEMS, INC.
July 25, 2024*



Agenda

■ Introduction

- Tony Piazza, Deputy Chief Financial Officer
 - Safe Harbor & Non-GAAP Metrics

■ CEO Perspective

- Anil Singhal, President & Chief Executive Officer (CEO)
 - Summary Results, Business & Market Insights, FY'25 Outlook and Summary

■ COO Update

- Michael Szabados, Chief Operating Officer (COO)
 - Customer Wins, Go-to-Market Activities

■ CFO Financial Review

- Jean Bua, EVP and Chief Financial Officer (CFO)
 - Detailed Results, Revenue Trends, Balance Sheet & FCF, FY'25 Outlook



Safe Harbor

Forward Looking Statements: Certain information provided in this presentation includes forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Examples of forward-looking statements include statements regarding our future financial performance or position, results of operations, business strategy, plans and objectives of management for future operations, and other statements that are not historical fact. You can identify forward-looking statements by their use of forward-looking words such as “may,” “will,” “anticipate,” “expect,” “believe,” “estimate,” “intend,” “plan,” “should,” “seek,” or other comparable terms. Investors are cautioned that such forward-looking statements in this presentation including, without limitation, statements regarding NETSCOUT’s financial results, its financial outlook and expectations, that it is positioning NETSCOUT to win in the market, that it has an increased focus on cybersecurity, its intention to manage costs, its commitment to leveraging its “Visibility without Borders” platform to help customers address the performance, availability, and security challenges of the complex connected world, statements regarding charges and benefits resulting from the VSP, and statements relating to the potential benefit of a market for the Company’s products and regarding product releases, updates, and functionality all constitute forward looking statements that involve risks and uncertainties. Actual results could differ materially from the forward-looking statements due to known and unknown risks, uncertainties, assumptions, and other factors. Such factors include, but are not limited to, macroeconomic factors and slowdowns or downturns in economic conditions generally and in the market for advanced networks, service assurance and cybersecurity solutions specifically; the volatile foreign exchange environment; liquidity concerns at, and failures of, banks and other financial institutions; the Company’s relationships with strategic partners and resellers; dependence upon broad-based acceptance of the Company’s network performance management solutions; the presence of competitors with greater financial resources than the Company has, and their strategic response to the Company’s products; the Company’s ability to retain key executives and employees; the Company’s ability to realize the anticipated savings from recent restructuring actions and other expense management programs; lower than expected demand for the Company’s products and services; and the timing and magnitude of stock buyback activity based on market conditions, corporate considerations, debt agreements, and regulatory requirements. The risks included above are not exhaustive. We caution readers not to place undue reliance on any forward-looking statements included in this presentation which speak only as to the date of this presentation. We undertake no responsibility to update or revise any forward-looking statements, except as required by law. For a more detailed description of the risk factors associated with the Company, please refer to the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2024, filed with the Securities and Exchange Commission. NETSCOUT assumes no obligation to update any forward-looking information contained in this presentation or with respect to the announcements described herein.



Non-GAAP Financial Metrics

To supplement the financial measures presented in NETSCOUT's press release in accordance with accounting principles generally accepted in the United States (GAAP), NETSCOUT also reports the following non-GAAP measures: non-GAAP gross profit, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP diluted net income per share and non-GAAP earnings before interest and other expense, income taxes, depreciation, and amortization (Non-GAAP EBITDA) from operations. Non-GAAP gross profit removes expenses related to the amortization of acquired intangible assets, share based compensation expense, and acquisition-related depreciation expense. Non-GAAP income from operations includes the aforementioned adjustments, and also removes legal (benefit) expense related to civil judgments, restructuring charges and goodwill impairment charges. Non-GAAP operating margin includes the foregoing adjustments related to non-GAAP income from operations. Non-GAAP net income includes the foregoing adjustments related to non-GAAP income from operations, and also removes change in fair value of derivative instruments, net of related income tax effects. Non-GAAP diluted net income per share includes the foregoing adjustments related to non-GAAP net income. Non-GAAP EBITDA from operations includes the aforementioned items related to non-GAAP income from operations and also removes non-acquisition related depreciation expense. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures included in the attached tables within this press release.

These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures prepared in accordance with GAAP (gross profit, operating margin, net income, and diluted net income per share), and may have limitations because they do not reflect all NETSCOUT's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate NETSCOUT's results of operations in conjunction with the corresponding GAAP measures. The presentation of non-GAAP information is not meant to be considered superior to, in isolation from, or as a substitute for results prepared in accordance with GAAP. NETSCOUT believes these non-GAAP financial measures will enhance the reader's overall understanding of NETSCOUT's current financial performance and NETSCOUT's prospects for the future by providing a higher degree of transparency for certain financial measures and providing a level of disclosure that helps investors understand how the Company plans and measures its own business. NETSCOUT believes that providing these non-GAAP measures affords investors a view of NETSCOUT's operating results that may be more easily compared to peer companies and also enables investors to consider NETSCOUT's operating results on both a GAAP and non-GAAP basis during and following the integration period of NETSCOUT's acquisitions. Presenting the GAAP measures on their own, without the supplemental non-GAAP disclosures, might not be indicative of NETSCOUT's core operating results. Furthermore, NETSCOUT believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures provides useful information to management and investors regarding present and future business trends relating to its financial condition and results of operations.

NETSCOUT management regularly uses supplemental non-GAAP financial measures internally to understand, manage and evaluate its business and to make operating decisions. These non-GAAP measures are among the primary factors that management uses in planning and forecasting.





CEO Perspective

Anil Singhal
President and Chief Executive Officer

Q1 FY'25 Non-GAAP Financial Results

Non-GAAP (\$ in millions, except per share data)	Q1 FY'24 6/30/2023	Q1 FY'25 6/30/2024
Revenue	\$ 211.1	\$ 174.6
Gross Margin	78.3%	77.1%
Operating Margin	14.0%	8.0%
EPS	\$ 0.31	\$ 0.28

- Q1 revenue was at the higher end of the Company's expectations
- YoY revenue comparison would be relatively consistent excluding approximately \$37 million of backlog-related revenue in the prior year's quarter
- EPS exceeded expectations reflecting benefits from continued cost management initiatives and an unrealized gain on a foreign investment



Business and Market Insights

- **Service Assurance**
- **Cybersecurity**



FY'25 Outlook & Summary

- Reiterating our fiscal year 2025 revenue and non-GAAP EPS outlooks
- Expect to benefit from significant portion of savings in FY25 related to the voluntary separation program
- Priorities include enhancing our Cybersecurity offerings given the expanding cyber threat landscape and continuing to manage cost



COO Update

Michael Szabados
Chief Operating Officer

COO Highlights

- **Customer Wins**

- Service Assurance
- Cybersecurity

- **Go-To-Market Activities**

- Recent & Upcoming Customer Events



Financial Review

Q1 FY'25 Results

Jean Bua

Executive Vice President and Chief Financial Officer

Q1 FY'25 Results

(in millions except EPS and % data)

	Q1 FY'24 Non-GAAP 6/30/2023	Q1 FY'25 Non-GAAP 6/30/2024	% Change
Revenue:			
Product	\$ 94.7	\$ 61.2	-35.4%
Service	\$ 116.5	\$ 113.4	-2.6%
Total revenue	\$ 211.1	\$ 174.6	-17.3%
<i>Gross profit margin</i>	78.3%	77.1%	
<i>Operating Margin</i>	14.0%	8.0%	
Net income	\$ 22.7	\$ 20.6	-9.4%
Diluted net income per share	\$ 0.31	\$ 0.28	-9.7%
Diluted shares outstanding	73.0	72.8	

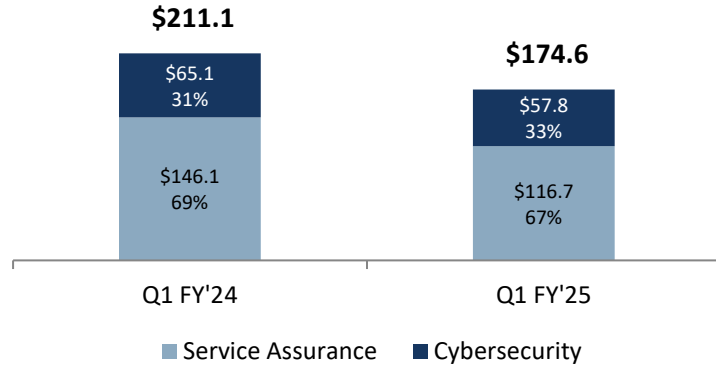
Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations.

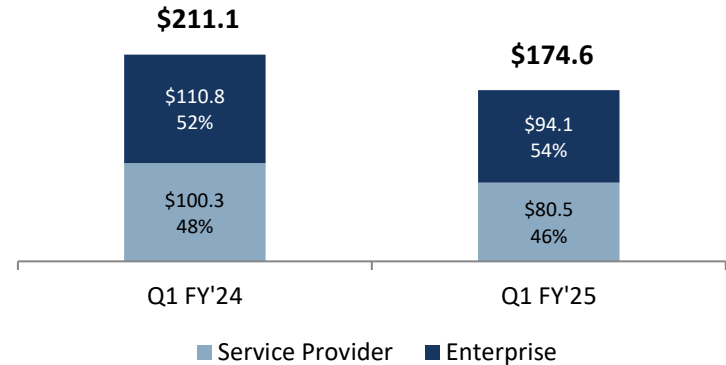


Q1 FY'25 Revenue Trends: Product Lines & Customer Verticals

Total GAAP & Non-GAAP Revenue by Product Line
(\$ in millions)



Total GAAP & Non-GAAP Revenue by Customer Vertical
(\$ in millions)

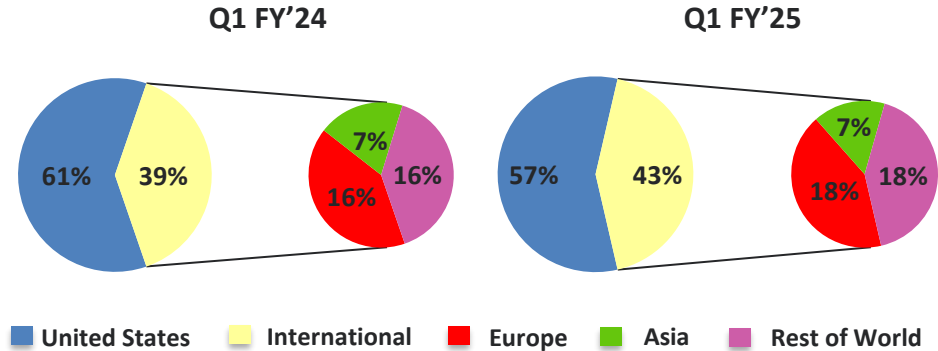


Figures in charts and tables may not total due to rounding



Q1 FY'25 Revenue Trends: Geographic Mix

	Q1 FY'24 6/30/23	Q1 FY'25 6/30/24
Total Revenue	\$211.1	\$174.6
United States	\$127.9	\$99.9
International	\$83.2	\$74.6
Europe	\$34.0	\$31.4
Asia	\$16.0	\$11.9
Rest of World	\$33.2	\$31.3



Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations



GAAP Balance Sheet & Free Cash Flow Review

(in millions)

<i>(Unaudited)</i>	Q1 FY'25 6/30/24	
Cash and Securities*	\$	407.2
Accounts Receivable, Net	\$	129.3
Inventories	\$	15.0
Goodwill & Intangible Assets, Net	\$	1,372.0
Total Long-Term Debt	\$	75.0
Total Deferred Revenue	\$	399.8
Total Stockholders' Equity	\$	1,432.0

* Cash and securities defined as cash, cash equivalents, short- and long-term marketable securities, and investments

	Q1 FY'25 6/30/2024
Operating Cash Flow	\$ 38.5
Purchase of Fixed Assets & Intangible Assets	\$ (1.3)
Free Cash Flow	\$ 37.2

Note: Free cash flow is defined as Operating Cash Flow less the purchase of fixed and intangible assets. The table above represents the reconciliation of GAAP to non-GAAP financial measures.

Financial Profile	
	Q1 FY'25 6/30/24
Cash and Securities position	\$407.2
Liquidity	5.6x
Gross leverage	0.4x
Net leverage	(1.6x)
Credit Facility Net Leverage	(0.9x)

- Liquidity calculated as available credit under the Company's senior secured credit facility plus cash and securities divided by the 12-month trailing adjusted non-GAAP EBITDA (as defined within the Company's senior secured credit facility).
- Gross Leverage is calculated as total debt plus contingent debt divided by the 12-month trailing adjusted non-GAAP EBITDA.
- Net leverage is calculated as total debt plus contingent debt minus cash and securities, divided by the 12-month trailing adjusted non-GAAP EBITDA
- As defined in the Company's senior secured credit facility, Credit Facility Net Leverage is calculated as total debt plus contingent debt minus the lesser of unrestricted cash and 125% of 12-month trailing adjusted non-GAAP EBITDA divided by the 12-month trailing adjusted non-GAAP EBITDA
- The Company's non-GAAP EBITDA from Operations as calculated in its press release may differ from the non-GAAP EBITDA as defined within the Company's senior secured credit facility

Figures in charts and tables may not total due to rounding



Reiterating FY'25 Non-GAAP Outlook

Revenue

\$ millions	FY'24 GAAP & Non-GAAP	FY'25 Outlook GAAP & Non-GAAP
Revenue	\$829.5	\$800-\$830

Other FY'25 Outlook Assumptions

- Anticipate annual tax rate of approx. 20%
- Anticipate approx. 73 million weighted average diluted shares outstanding

EPS (Diluted)

	FY'24	FY'25 EPS
GAAP EPS (diluted)	(\$2.07)*	(\$5.28) to (\$5.03)*
Adjustments	\$4.27	\$7.38 to \$7.33
Non-GAAP EPS (diluted)	\$2.20	\$2.10 to \$2.30

* GAAP EPS includes goodwill impairment charges in both years and restructuring charges in FY'25

See Appendix for GAAP-Non-GAAP Reconciliations



Appendix

The background of the slide is a dark, monochromatic photograph of a long, curved tunnel. The ceiling is composed of a grid of rectangular panels, and the walls and floor also appear to have a similar grid-like structure. The perspective is from the end of the tunnel, looking down its length as it curves away into the distance. The lighting is very low, creating a sense of depth and mystery.

Q1 FY'25 Results

	Q1 FY'24 GAAP 6/30/2023	Q1 FY'25 GAAP 6/30/2024	% Change		Q1 FY'24 Non-GAAP 6/30/2023	Q1 FY'25 Non-GAAP 6/30/2024	% Change
<i>(in millions except EPS and % data)</i>							
Revenue:							
Product	\$ 94.7	\$ 61.2	-35.4%		\$ 94.7	\$ 61.2	-35.4%
Service	\$ 116.5	\$ 113.4	-2.6%		\$ 116.5	\$ 113.4	-2.6%
Total revenue	\$ 211.1	\$ 174.6	-17.3%		\$ 211.1	\$ 174.6	-17.3%
Cost of revenue	\$ 50.4	\$ 44.4	-11.9%		\$ 45.8	\$ 40.1	-12.4%
Gross profit	\$ 160.7	\$ 130.2	-19.0%		\$ 165.3	\$ 134.5	-18.6%
Gross profit margin	76.1%	74.6%			78.3%	77.1%	
Operating expenses	\$ 165.4	\$ 593.5	258.8%		\$ 135.7	\$ 120.5	-11.2%
Income (loss) from operations	\$ (4.7)	\$ (463.3)	n/a		\$ 29.6	\$ 14.0	-52.7%
<i>Income (loss) from operations margin</i>	-2.2%	-265.3%			14.0%	8.0%	
Net income (loss)	\$ (4.2)	\$ (443.4)	n/a		\$ 22.7	\$ 20.6	-9.4%
Diluted net income (loss) per share	\$ (0.06)	\$ (6.20)	n/a		\$ 0.31	\$ 0.28	-9.7%
Diluted shares outstanding	71.5	71.5			73.0	72.8	

Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations.



GAAP to Non-GAAP Reconciliation: Q1'FY25, Q1'FY24, & Q4'FY24 Gross Profit, Income (loss) from Operations and Net Income (loss)

NETSCOUT SYSTEMS, INC.
Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Three Months Ended
	June 30,	2023	March 31,
	2024		2024
Revenue	\$ 174,565	\$ 211,138	\$ 203,443
Gross Profit (GAAP)	\$ 130,196	\$ 160,742	\$ 153,103
Share-based compensation expense (1)	3,320	2,911	2,305
Amortization of acquired intangible assets (2)	995	1,638	1,637
Acquisition related depreciation expense (3)	2	5	1
Non-GAAP Gross Profit	\$ 134,513	\$ 165,296	\$ 157,046
Loss from Operations (GAAP)	\$ (463,324)	\$ (4,695)	\$ (36,976)
GAAP Operating Margin	(265.4)%	(2.2)%	(18.2)%
Share-based compensation expense (1)	21,198	19,844	16,146
Amortization of acquired intangible assets (2)	12,609	14,345	14,184
Restructuring charges	16,563	—	—
Goodwill impairment	426,967	—	50,154
Acquisition related depreciation expense (3)	12	59	11
Legal expense (benefit) related to civil judgments (4)	—	41	(4,510)
Non-GAAP Income from Operations	\$ 14,025	\$ 29,594	\$ 39,009
Non-GAAP Operating Margin	8.0 %	14.0 %	19.2 %
Net Loss (GAAP)	\$ (443,376)	\$ (4,200)	\$ (32,419)
Share-based compensation expense (1)	21,198	19,844	16,146
Amortization of acquired intangible assets (2)	12,609	14,345	14,184
Restructuring charges	16,563	—	—
Goodwill impairment	426,967	—	50,154
Acquisition related depreciation expense (3)	12	59	11
Legal expense (benefit) related to civil judgments (4)	—	41	(4,510)
Change in fair value of derivative instrument (5)	—	(206)	—
Income tax adjustments (6)	(13,395)	(7,171)	(3,743)
Non-GAAP Net Income	\$ 20,578	\$ 22,712	\$ 39,823
Diluted Net Loss Per Share (GAAP)	\$ (6.20)	\$ (0.06)	\$ (0.46)
Share impact of non-GAAP adjustments identified above	6.48	0.37	1.01
Non-GAAP Diluted Net Income Per Share	\$ 0.28	\$ 0.31	\$ 0.55
Shares used in computing non-GAAP diluted net income per share	72,793	72,995	72,345



GAAP to Non-GAAP Reconciliation: Q1'FY25, Q1'FY24, & Q4'FY24 Itemization

NETSCOUT SYSTEMS, INC.
Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures - Continued
(In thousands)
(Unaudited)

	Three Months Ended		Three Months Ended	
	June 30,		March 31,	
	2024	2023	2024	
(1) Share-based compensation expense included in these amounts is as follows:				
Cost of product revenue	\$ 431	\$ 372	\$	303
Cost of service revenue	2,889	2,539	2,002	
Research and development	5,886	5,386	4,409	
Sales and marketing	7,504	7,284	5,736	
General and administrative	4,488	4,263	3,696	
Total share-based compensation expense	<u>\$ 21,198</u>	<u>\$ 19,844</u>	<u>\$ 16,146</u>	
(2) Amortization expense related to acquired software and product technology, tradenames, customer relationships included in these amounts is as follows:				
Cost of product revenue	\$ 995	\$ 1,638	\$	1,637
Operating expenses	11,614	12,707	12,547	
Total amortization expense	<u>\$ 12,609</u>	<u>\$ 14,345</u>	<u>\$ 14,184</u>	
(3) Acquisition related depreciation expense included in these amounts is as follows:				
Cost of product revenue	\$ 2	\$ 3	\$	1
Cost of service revenue	—	2	—	
Research and development	8	42	8	
Sales and marketing	2	8	2	
General and administrative	—	4	—	
Total acquisition related depreciation expense	<u>\$ 12</u>	<u>\$ 59</u>	<u>\$ 11</u>	
(4) Legal expense (benefit) related to civil judgments included in this amount is as follows:				
General and administrative	\$ —	\$ 41	\$	(4,510)
Total legal judgments expense	<u>\$ —</u>	<u>\$ 41</u>	<u>\$ (4,510)</u>	
(5) Change in fair value of derivative instrument included in this amount is as follows:				
Interest and other (income) expense, net	\$ —	\$ (206)	\$	—
Total change in fair value of derivative instrument	<u>\$ —</u>	<u>\$ (206)</u>	<u>\$ —</u>	
(6) Total income tax adjustment included in this amount is as follows:				
Tax effect of non-GAAP adjustments above	\$ (13,395)	\$ (7,171)	\$	(3,743)
Total income tax adjustments	<u>\$ (13,395)</u>	<u>\$ (7,171)</u>	<u>\$ (3,743)</u>	



FY'25 Financial Outlook: GAAP to Non-GAAP Reconciliation

NETSCOUT SYSTEMS, INC.

Reconciliation of GAAP Financial Outlook to Non-GAAP Financial Outlook (Unaudited)

(In millions, except net income per share - diluted)

	FY'24	FY'25
Revenue	\$ 829.5	~ \$800 million to ~\$830 million
GAAP net income (loss)	\$ (147.7)	(~\$380 million) to (~\$362 million)
Amortization of intangible assets	\$ 56.9	~\$50 million
Share-based compensation expenses	\$ 70.8	~\$68 million
Business development & integration expenses*	\$ 0.1	~Less than \$1 million
Gain on divestiture of a business	\$ (3.8)	—
Change in fair value of derivative instrument	\$ (0.2)	—
Legal (benefit) expense related to civil judgments	\$ (4.4)	—
Restructuring charges	\$ —	~\$18 million to ~\$22 million
Goodwill impairment	\$ 217.3	~\$427 million
Total adjustments	\$ 336.7	~\$564 million to ~\$567 million
Related impact of adjustments on income tax	\$ (29.8)	(~\$34 million)
Non-GAAP net income	\$ 159.1	~\$153 million to ~\$168 million
GAAP net income (loss) per share (diluted)	\$ (2.07)	(~\$5.28) to (~\$5.03)
Non-GAAP net income per share (diluted)	\$ 2.20	~\$2.10 to ~\$2.30
Average weighted shares outstanding (diluted GAAP)	71.5	~72 million
Average weighted shares outstanding (diluted Non-GAAP)	72.3	~73 million

*Business development & integration expenses include acquisition-related depreciation expense

**Figures in table may not total due to rounding





Thank You