

NETSCOUT™

Q2 FY 2021 Conference Call

*NETSCOUT SYSTEMS, INC.
October 29, 2020*



Agenda

- **Introduction & Safe Harbor**
 - Tony Piazza, Vice President, Corporate Finance
- **CEO Perspective**
 - Anil Singhal, President and CEO
- **COO Update**
 - Michael Szabados, COO
- **CFO Financial Review**
 - Jean Bua, EVP and CFO



Safe Harbor

Forward Looking Statements: Forward-looking statements in this communication are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this communication, which are not strictly historical statements, including without limitation, the fiscal year 2021 outlook for NetScout, including capital assumptions, color regarding earnings per share performance and operating expense distribution in the second half of fiscal year 2021, NetScout's ability to continue to navigate the global pandemic and macroeconomic uncertainty, that NetScout's business and operations have proven to be largely resilient due to our relevant solutions, trusted brand, strong customer relationships, dedicated team, and solid financial profile, that market trends such as, digital transformation, cloud migration, increased cyber threats, and 5G networks, position NetScout well as "Guardians of the Connected World" when we emerge from the global pandemic, constitute forward looking statements that involve risks and uncertainties. Actual results could differ materially from the forward-looking statements due to known and unknown risk, uncertainties, assumptions and other factors. Such factors include slowdowns or downturns in economic conditions generally and in the market for advanced network, service assurance and cybersecurity solutions specifically, including the potential impact of the COVID-19 pandemic; the volatile foreign exchange environment; 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 we have, and their strategic response to our products; our ability to retain key executives and employees; the Company's ability to realize anticipated savings from any 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. 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, 2020 and the Company's subsequent Quarterly Reports on Form 10-Q, all of which are on file with the Securities and Exchange Commission. NetScout assumes no obligation to update any forward-looking information contained in this communication or with respect to the announcements described herein.



Non-GAAP Financial Metrics

Regulation G Disclosure: This presentation makes reference to the following non-GAAP metrics: non-GAAP total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP income from operations, non-GAAP gross profit, non-GAAP operating margin, non-GAAP net income, and non-GAAP net income per share (diluted). Non-GAAP revenue (total, product and service) eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation, non-GAAP gross profit, non-GAAP income from operations includes the aforementioned revenue adjustments and also removes expenses related to the amortization of acquired intangible assets, share-based compensation, restructuring charges, intangible asset impairment charges, loss on divestiture, costs related to new accounting standard implementation, and certain expenses relating to acquisitions including depreciation costs, compensation for post-combination services and business development and integration costs while adding back transitional service agreement income. Non-GAAP operating margin is calculated based on the non-GAAP financial metrics discussed above. Non-GAAP net income includes the aforementioned items related to non-GAAP income from operations, and also removes changes in contingent consideration, net of related income tax effects. Non-GAAP diluted net income per share also excludes these expenses as well as the related impact of all these adjustments on the provision for income taxes. 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. 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 appendix. These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures prepared in accordance with GAAP (revenue, gross profit and operating margin, net income, cash flow from operations and diluted net income per share), and may have limitations in that they do not reflect all of 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. The reconciliation of these non-GAAP metrics to the comparable GAAP metrics are set forth in the accompanying tables in the appendix of this presentation and are available on our website at <http://ir.netscout.com>.



CEO Perspective

Anil Singhal
President and Chief Executive Officer

Q2 FY'21 Non-GAAP Financial Results

Non-GAAP (\$ in millions, except per share data)	Q2 FY'21 9/30/2020	Q2 FY'20 9/30/2019	1H FY'21 9/30/2020	1H FY'20 9/30/2019
Revenue	\$ 205.3	\$ 216.5	\$ 389.2	\$ 402.5
Gross Margin	74.7%	76.6%	74.7%	75.8%
Operating Margin	19.4%	14.6%	15.5%	10.9%
EPS	\$ 0.38	\$ 0.28	\$ 0.55	\$ 0.35

- Delivered solid EPS on lower revenue as we prudently managed costs.
- Service provider and security revenue grew.
- Lower federal government spending impacted enterprise revenue.

See Appendix for GAAP-Non-GAAP and GAAP-Non-GAAP Reconciliations.



Business Insights and Market Trends

- Service Provider Vertical
- Enterprise Vertical
- Security Market



FY'21 Outlook & Summary

- Our business has proven to be largely resilient during the global pandemic and uncertain macro-economic environment
- However, we are not immune, and expect FY'21 results to be affected:
 - Expect revenue to decline in the mid-to-upper single digits, on a percentage basis, compared with last fiscal year
 - Anticipate delivering annual EPS in-line with our FY'20 EPS number
- We are well-positioned when we emerge from the pandemic given our solution set and long-term market trends favoring NETSCOUT



COO Update

Michael Szabados
Chief Operating Officer

COO Highlights

- Customer Wins

- Go-to-Market Activities



Financial Review & FY'21 Outlook

Jean Bua

Executive Vice President and Chief Financial Officer

Q2 and 1H FY'21 Results

	Q2 FY'21 GAAP 9/30/2020	Q2 FY'20 GAAP 9/30/2019	% Change		1H FY'21 GAAP 9/30/2020	1H FY'20 GAAP 9/30/2019	% Change		Q2 FY'21 Non-GAAP 9/30/2020	Q2 FY'20 Non-GAAP 9/30/2019	% Change		1H FY'21 Non-GAAP 9/30/2020	1H FY'20 Non-GAAP 9/30/2019	% Change
<i>(in millions except EPS and % data)</i>															
Revenue:															
Product	\$ 92.0	\$ 102.8	-10.5%		\$ 163.7	\$ 178.5	-8.3%		\$ 92.0	\$ 102.8	-10.5%		\$ 163.7	\$ 178.5	-8.3%
Service	\$ 113.4	\$ 113.6	-0.3%		\$ 225.5	\$ 224.0	0.7%		\$ 113.4	\$ 113.7	-0.3%		\$ 225.5	\$ 224.0	0.6%
Total revenue	\$ 205.3	\$ 216.4	-5.1%		\$ 389.2	\$ 402.4	-3.3%		\$ 205.3	\$ 216.5	-5.1%		\$ 389.2	\$ 402.5	-3.3%
Cost of revenue	\$ 58.9	\$ 59.1	-0.4%		\$ 111.9	\$ 113.9	-1.8%		\$ 52.0	\$ 50.7	2.5%		\$ 98.6	\$ 97.5	1.2%
Gross profit	\$ 146.4	\$ 157.3	-6.9%		\$ 277.3	\$ 288.6	-3.9%		\$ 153.4	\$ 165.8	-7.5%		\$ 290.5	\$ 305.1	-4.8%
<i>Gross profit margin</i>	71.3%	72.7%			71.3%	71.7%			74.7%	76.6%			74.7%	75.8%	
Operating expenses	\$ 142.7	\$ 164.6	-13.3%		\$ 288.0	\$ 320.3	-10.1%		\$ 113.5	\$ 134.1	-15.4%		\$ 230.1	\$ 261.4	-12.0%
Income (loss) from operations	\$ 3.8	\$ (7.3)	-151.8%		\$ (10.7)	\$ (31.7)	-66.3%		\$ 39.8	\$ 31.6	25.9%		\$ 60.5	\$ 43.7	38.4%
<i>Income (loss) from operations margin</i>	1.8%	-3.4%			-2.8%	-7.9%			19.4%	14.6%			15.5%	10.9%	
Net income (loss)	\$ (3.7)	\$ (17.5)	-78.9%		\$ (21.1)	\$ (46.8)	-54.9%		\$ 28.2	\$ 21.4	32.2%		\$ 40.5	\$ 27.0	50.1%
Diluted net income (loss) per share	\$ (0.05)	\$ (0.23)	-78.3%		\$ (0.29)	\$ (0.61)	-52.5%		\$ 0.38	\$ 0.28	35.7%		\$ 0.55	\$ 0.35	57.1%
Diluted shares outstanding	73.1	75.7	-3.5%		72.7	76.5	-5.0%		73.6	76.3	-3.6%		73.5	77.4	-5.0%

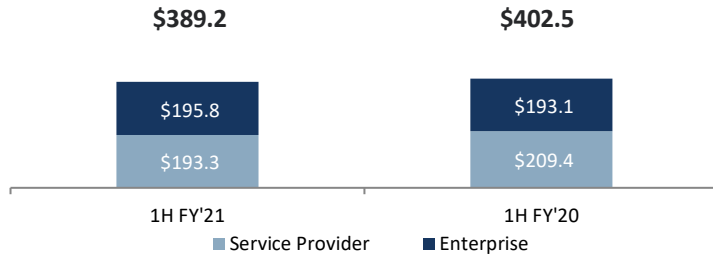
Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations.

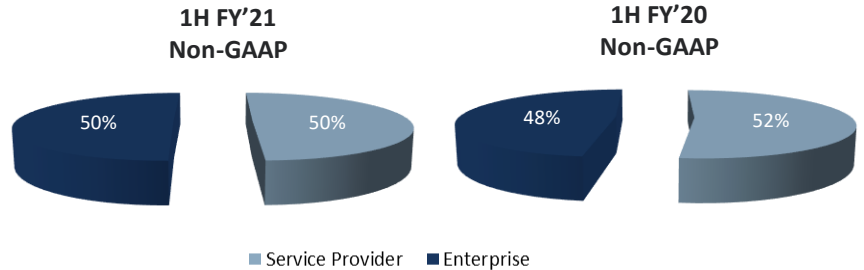


1st Half FY'21 Revenue Trends: Customer Verticals

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



Total Non-GAAP Revenue Composition by Customer Vertical



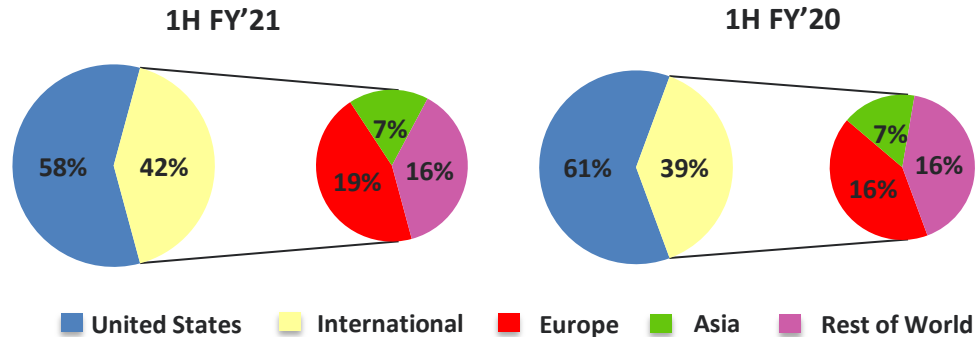
Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations



1st Half FY'21 Revenue Trends: Geographic Mix on a GAAP Basis

	1H FY'21 GAAP 9/30/20	1H FY'20 GAAP 9/30/19
Total Revenue	\$389.2	\$402.4
<i>United States</i>	\$227.4	\$246.6
<i>International</i>	\$161.8	\$155.8
<i>Europe</i>	\$72.7	\$65.2
<i>Asia</i>	\$27.6	\$25.7
<i>Rest of World</i>	\$61.5	\$64.9



Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations



GAAP Balance Sheet Highlights & Free Cash Flow

(in millions)

(Unaudited)	Q2 FY'21 9/30/20
<i>Cash and Securities*</i>	\$ 427.8
<i>Accounts Receivable, Net</i>	\$ 169.7
<i>Inventories</i>	\$ 26.2
<i>Total Long-Term Debt</i>	\$ 450.0
<i>Total Deferred Revenue</i>	\$ 335.8
<i>Total Stockholders' Equity</i>	\$ 1,939.3

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

Free Cash Flow			
	Q1 FY'21 6/30/2020	Q2 FY'21 9/30/2020	1H FY'21 9/30/2020
Operating Cash Flow	\$ 44.9	\$ 11.7	\$ 56.6
Purchase of Fixed Assets & Intangible Assets	\$ (6.8)	\$ (3.5)	\$ (10.3)
Free Cash Flow	\$ 38.1	\$ 8.3	\$ 46.3

Financial Profile	
	Q2 FY'21 9/30/2020
Cash and Securities position	\$427.8
Liquidity	3.6x
Gross leverage	2.2x
Net leverage	0.2x

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 in the Company's senior secured credit facility, gross leverage is calculated as total debt plus contingent liabilities divided by the 12-month trailing adjusted non-GAAP EBITDA.

Net leverage is calculated as total debt plus contingent liabilities minus cash and securities* divided by the 12-month trailing adjusted non-GAAP EBITDA (as defined within the Company's senior secured credit facility).

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



FY'21 Non-GAAP Outlook

- **Revenue** – expect a decline in the mid-to-upper single digits, on a percentage basis, compared with FY'20
- **EPS** – anticipate EPS in-line with our FY'20 EPS

FY'21 Capital Structure Items

- * Anticipate a tax rate of ~23%
- * Estimate ~74 million weighted average diluted shares outstanding



Upcoming Investor Event

Date	Event	Location
November 18, 2020	RBC Global Technology, Internet, Media, and Telecommunications Conference	Virtual



Appendix

The background of the slide is a dark, monochromatic photograph of a long, curved tunnel. The ceiling and floor are composed of a series of parallel, curved ribs that create a strong sense of perspective and depth, leading the eye towards a vanishing point in the distance. The lighting is subtle, highlighting the textures of the tunnel's structure.

GAAP to Non-GAAP Reconciliation: Q2'FY21, Q2'FY20, Q1'FY21, 1H'FY21 & 1H'FY20 Revenue

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 September 30,		Three Months Ended June 30,		Six Months Ended September 30,	
	2020	2019	2020		2020	2019
Product Revenue (GAAP)	\$ 91,979	\$ 102,775	\$ 116,538		\$ 163,672	\$ 178,494
Non-GAAP Product Revenue	<u>\$ 91,979</u>	<u>\$ 102,775</u>	<u>\$ 116,538</u>		<u>\$ 163,672</u>	<u>\$ 178,494</u>
Service Revenue (GAAP)	\$ 113,360	\$ 113,646	\$ 112,813		\$ 225,482	\$ 223,951
Service deferred revenue fair value adjustment	-	48	48		-	96
Non-GAAP Service Revenue	<u>\$ 113,360</u>	<u>\$ 113,694</u>	<u>\$ 112,861</u>		<u>\$ 225,482</u>	<u>\$ 224,047</u>
Revenue (GAAP)	\$ 205,339	\$ 216,421	\$ 183,815		\$ 389,154	\$ 402,445
Service deferred revenue fair value adjustment	1	48	2		3	96
Non-GAAP Revenue	<u>\$ 205,340</u>	<u>\$ 216,469</u>	<u>\$ 183,817</u>		<u>\$ 389,157</u>	<u>\$ 402,541</u>



GAAP to Non-GAAP Reconciliation: Q2'FY21, Q2'FY20, Q1'FY21, 1H'FY21 & 1H'FY20 Gross Profit, Income 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 September 30,		Three Months Ended June 30,		Six Months Ended September 30,	
	2020	2019	2020	2019	2020	2019
Gross Profit (GAAP)	\$ 146,439	\$ 157,289	\$ 130,835	\$ 130,835	\$ 277,274	\$ 288,570
Service deferred revenue fair value adjustment	1	48	2	2	3	96
Share-based compensation expense (1)	2,154	2,187	1,595	1,595	3,749	3,921
Amortization of acquired intangible assets (2)	4,765	6,225	4,735	4,735	9,500	12,455
Acquisition related depreciation expense (6)	5	6	6	6	11	19
Non-GAAP Gross Profit	\$ 153,364	\$ 165,755	\$ 137,173	\$ 137,173	\$ 290,537	\$ 305,061
Income (loss) from Operations (GAAP)	\$ 3,779	\$ (7,295)	\$ (14,487)	\$ (14,487)	\$ (10,708)	\$ (31,743)
Service deferred revenue fair value adjustment	1	48	2	2	3	96
Share-based compensation expense (1)	15,736	15,857	12,096	12,096	27,832	28,600
Amortization of acquired intangible assets (2)	20,128	22,357	19,996	19,996	40,124	44,730
Business development and integration expense (3)	-	39	16	16	16	18
New standard implementation expense (4)	-	-	-	-	-	9
Compensation for post-combination services (5)	63	135	64	64	127	328
Restructuring charges	(31)	150	93	93	62	273
Acquisition related depreciation expense (6)	60	69	61	61	121	190
Transitional service agreement income (7)	101	275	-	-	101	1,184
Legal judgments expense (8)	-	-	2,804	2,804	2,804	-
Non-GAAP Income from Operations	\$ 39,837	\$ 31,635	\$ 20,645	\$ 20,645	\$ 60,482	\$ 43,685
Net Loss (GAAP)	\$ (3,686)	\$ (17,472)	\$ (17,420)	\$ (17,420)	\$ (21,106)	\$ (46,815)
Service deferred revenue fair value adjustment	1	48	2	2	3	96
Share-based compensation expense (1)	15,736	15,857	12,096	12,096	27,832	28,600
Amortization of acquired intangible assets (2)	20,128	22,357	19,996	19,996	40,124	44,730
Business development and integration expense (3)	-	39	16	16	16	18
New standard implementation expense (4)	-	-	-	-	-	9
Compensation for post-combination services (5)	63	135	64	64	127	328
Restructuring charges	(31)	150	93	93	62	273
Acquisition related depreciation expense (6)	60	69	61	61	121	190
Change in contingent consideration	-	(6)	-	-	-	517
Legal judgments expense (8)	-	-	2,804	2,804	2,804	-
Income tax adjustments (9)	(4,027)	181	(5,496)	(5,496)	(9,523)	(994)
Non-GAAP Net Income	\$ 28,244	\$ 21,358	\$ 12,216	\$ 12,216	\$ 40,460	\$ 26,952
Diluted Net Loss Per Share (GAAP)	\$ (0.05)	\$ (0.23)	\$ (0.24)	\$ (0.24)	\$ (0.29)	\$ (0.61)
Share impact of non-GAAP adjustments identified above	0.43	0.51	0.41	0.41	0.84	0.96
Non-GAAP Diluted Net Income Per Share	\$ 0.38	\$ 0.28	\$ 0.17	\$ 0.17	\$ 0.55	\$ 0.35
Shares used in computing non-GAAP diluted net income per share	73,594	76,310	73,454	73,454	73,521	77,387



GAAP to Non-GAAP Reconciliation: Q2'FY21, Q2'FY20, Q1'FY21, 1H'FY21 & 1H'FY20 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		Six Months Ended	
	September 30,		June 30,		September 30,	
	2020	2019	2020		2020	2019
(1) Share-based compensation expense included in these amounts is as follows:						
Cost of product revenue	\$ 344	\$ 345	\$ 245	\$ 589	\$ 612	
Cost of service revenue	1,810	1,842	1,350	3,160	3,309	
Research and development	4,935	4,820	3,781	8,716	8,639	
Sales and marketing	5,357	5,288	3,992	9,349	9,423	
General and administrative	<u>3,290</u>	<u>3,552</u>	<u>2,728</u>	<u>6,018</u>	<u>6,617</u>	
Total share-based compensation expense	<u>\$ 15,736</u>	<u>\$ 15,857</u>	<u>\$ 12,096</u>	<u>\$ 27,832</u>	<u>\$ 28,600</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	\$ 4,765	\$ 6,225	\$ 4,735	\$ 9,500	\$ 12,455	
Operating expenses	15,363	16,132	15,261	30,624	32,275	
Total amortization expense	<u>\$ 20,128</u>	<u>\$ 22,357</u>	<u>\$ 19,996</u>	<u>\$ 40,124</u>	<u>\$ 44,730</u>	
(3) Business development and integration expense included in these amounts is as follows:						
Research and development	\$ -	\$ -	\$ -	\$ -	\$ 43	
General and administrative	-	39	16	16	(25)	
Total business development and integration expense	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 16</u>	<u>\$ 16</u>	<u>\$ 18</u>	
(4) New standard implementation expense included in these amounts is as follows:						
General and administrative	\$ -	\$ -	\$ -	\$ -	\$ 9	
Total new standard implementation expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>	
(5) Compensation for post-combination services included in these amounts is as follows:						
Research and development	\$ 62	\$ 135	\$ 63	\$ 125	\$ 328	
Sales and marketing	1	-	1	2	-	
Total compensation for post-combination services	<u>\$ 63</u>	<u>\$ 135</u>	<u>\$ 64</u>	<u>\$ 127</u>	<u>\$ 328</u>	
(6) Acquisition related depreciation expense included in these amounts is as follows:						
Cost of product revenue	\$ 3	\$ 4	\$ 4	\$ 7	\$ 14	
Cost of service revenue	2	2	2	4	5	
Research and development	42	48	42	84	131	
Sales and marketing	9	9	9	18	19	
General and administrative	4	6	4	8	21	
Total acquisition related depreciation expense	<u>\$ 60</u>	<u>\$ 69</u>	<u>\$ 61</u>	<u>\$ 121</u>	<u>\$ 190</u>	
(7) Transitional service agreement income included in these amounts is as follows:						
Research and development	\$ 11	\$ 10	\$ -	\$ 11	\$ 112	
Sales and marketing	16	42	-	16	168	
General and administrative	74	223	-	74	904	
Other Income (expense), net	(101)	(275)	-	(101)	(1,184)	
Total transitional service agreement income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
(8) Legal judgments expense included in these amounts is as follows:						
General and administrative	\$ -	\$ -	\$ 2,804	\$ 2,804	\$ -	
Total legal judgments expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,804</u>	<u>\$ 2,804</u>	<u>\$ -</u>	
(9) Total income tax adjustment included in these amounts is as follows:						
Tax effect of non-GAAP adjustments above	\$ (4,027)	\$ 181	\$ (5,496)	\$ (9,523)	\$ (994)	
Total income tax adjustments	<u>\$ (4,027)</u>	<u>\$ 181</u>	<u>\$ (5,496)</u>	<u>\$ (9,523)</u>	<u>\$ (994)</u>	





Thank You