

# NETSCOUT™

## Q2 FY 2019 Conference Call

*NETSCOUT SYSTEMS, INC.  
November 1, 2018*



# Agenda

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- **Introduction & Safe Harbor**
  - Andrew Kramer, Vice President of Investor Relations
- **CEO Perspective**
  - Anil Singhal, President and CEO
- **COO Update**
  - Michael Szabados, Chief Operating Officer
- **Financial Review and FY'19 Outlook**
  - Jean Bua, EVP and CFO



# Safe Harbor

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**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 statements related to the Company's financial guidance; statements regarding future demand and revenue for the Company's products by specific customers, certain pipelines or by customers in general; statements about the benefits of the Company's incumbency with tier-one customers, statements related to new or enhanced products and solutions, and the timing of introduction of such products and solutions into the market, and market acceptance of such products and solutions; statements related to specific partnership or partnerships in general; statements regarding the extent of our deployment of our software-only platform, statements regarding shifts in market trends including revenue trends, increased investment in 5G networks, and in customer actions, expectations and demand for such products, including the Company's ability to gain traction based on these changes; statements regarding go-to-market and other sales and marketing initiatives; statements related to the benefits and timelines of recent cost-reduction initiatives and related restructuring activities and future spending plans; and statements regarding the Company's ability to improve gross and operating profit margins constitute forward-looking statements which 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; 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 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. 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, 2018 and the Company's subsequent Quarterly Report 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 certain non-GAAP measures such as non-GAAP total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP income from operations, non-GAAP net income, non-GAAP diluted net income per share, non-GAAP gross margin, non-GAAP operating margin, non-GAAP EPS and free cash flow. Non-GAAP revenue (total, product and service) eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation, as well as revenue impacted by the amortization of intangible assets. Non-GAAP income from operations includes Non-GAAP income from operations includes the aforementioned revenue adjustments and also removes expenses related to the amortization of acquired intangible assets, stock-based compensation, restructuring charges, expenses related to the implementation of a new accounting standard, and certain expenses relating to acquisitions including depreciation costs, compensation for post-combination services, intangible asset impairment charges, and business development and integration costs. 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, 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. NETSCOUT also references pro forma fiscal year 2018 non-GAAP revenue, which includes all of the aforementioned revenue adjustments for non-GAAP revenue and also removes revenue associated with the HNT tools business for comparability purposes with the Company's updated fiscal year 2019 guidance. 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 and operating margin, net income, cash flow from operations and diluted earnings 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 would 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 provide 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  
Co-Founder, President and Chief Executive Officer

# Q2 FY'19 Financial & Operational Highlights

Non-GAAP (\$ in millions, except per share data)	Q2 FY'19 9/30/2018	Q2 FY'18 9/30/2017	1H FY'19 9/30/2018	1H FY'18 9/30/2017
Revenue	\$ 224.0	\$ 259.9	\$ 430.0	\$ 488.8
Gross Profit Margin	76.0%	75.5%	75.4%	75.7%
Operating Profit Margin	14.7%	16.3%	9.4%	11.6%
EPS	\$ 0.25	\$ 0.29	\$ 0.27	\$ 0.37

- Q219 revenue of \$224.0 million reflects lower revenue across our service assurance and security product lines within the service provider customer segment and relatively flat revenue in our enterprise customer segment
- Strong diluted EPS performance was driven primarily by lower quarterly spending and, to a lesser extent, improved gross margins
- Important financial, operational and strategic progress
  - Actions taken to lower operating costs
  - Continued investment in key development projects and go-to-market initiatives
  - Many of the revenue headwinds are dissipating



# Potential Earnings Power

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- Lower cost structure – on pace to exceed our initial cost-reduction target of \$50m
  - HNT Tools divestiture
  - VSP and other related measures
  - Low incremental OpEx requirements
- Higher gross margins
  - Continued adoption of the ISNG software by service providers



# Growth Opportunities

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## Service Provider Customer Segment

- Anticipating solid growth outside the US and meaningful contributions from 5G calibration projects while larger tier-one service providers limit spending on existing 4G networks
- 5G represents an important catalyst to drive higher spending
- In DDoS, we anticipate a more gradual recovery in spending than what we originally expected at the start of the year but remain optimistic about our longer-term growth prospects

## Enterprise Customer Segment

- Making steady progress in our efforts to expand our value proposition
- Pleased that AWS and Microsoft Azure have validated our capabilities
- Security has potential to become a major growth engine and we are investing accordingly





# Outlook & Summary

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- Updated our guidance for fiscal year 2019 revenue to primarily reflect the sale of the HNT tools business and a more modest second-half recovery in DDoS service provider revenue than we originally expected
- We remain on track to achieve our original non-GAAP diluted EPS guidance range and have further refined these targets
- We are focused on achieving our second-half goals and demonstrating that we can build the sales momentum necessary to achieve the long-term financial targets we outlined this past spring
- Thanks to my fellow guardians at NETSCOUT for their continued support and ongoing focus on moving our business forward



# COO Update

Michael Szabados  
Chief Operating Officer

# COO Highlights

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- Customer Wins



- Go-to-market Activity



# **Financial Review & FY'19 Outlook**

Jean Bua

Executive Vice President and Chief Financial Officer

# Q2 FY'19 and 1H FY'19 Results

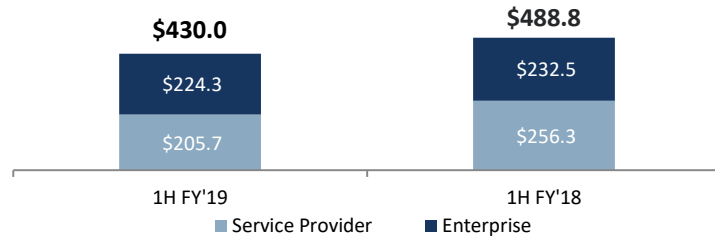
	Q2 FY'19 GAAP	Q2 FY'18 GAAP	% Change	Q2 FY'19 Non-GAAP	Q2 FY'18 Non-GAAP	% Change	1H FY '19 GAAP	1H FY '18 GAAP	% Change	1H FY'19 Non-GAAP	1H FY'18 Non-GAAP	% Change
(in millions except EPS and % data)	9/30/2018	9/30/2017		9/30/2018	9/30/2017		9/30/2018	9/30/2017		9/30/2018	9/30/2017	
Revenue:												
Product	\$ 110.8	\$ 143.0	-22.5%	\$ 110.8	\$ 143.7	-22.9%	\$ 207.7	\$ 251.6	-17.4%	\$ 208.1	\$ 253.1	-17.8%
Service	\$ 113.0	\$ 113.9	-0.8%	\$ 113.3	\$ 116.3	-2.5%	\$ 221.2	\$ 231.0	-4.2%	\$ 221.9	\$ 235.7	-5.9%
Total revenue	\$ 223.8	\$ 256.9	-12.9%	\$ 224.0	\$ 259.9	-13.8%	\$ 428.9	\$ 482.6	-11.1%	\$ 430.0	\$ 488.8	-12.0%
Cost of revenue	\$ 64.0	\$ 74.2	-13.8%	\$ 53.8	\$ 63.6	-15.3%	\$ 126.0	\$ 140.8	-10.5%	\$ 105.8	\$ 118.7	-10.9%
Gross profit	\$ 159.8	\$ 182.7	-12.5%	\$ 170.2	\$ 196.3	-13.3%	\$ 302.9	\$ 341.8	-11.4%	\$ 324.2	\$ 370.1	-12.4%
Gross profit margin	71.4%	71.1%		76.0%	75.5%		70.6%	70.8%		75.4%	75.7%	
Operating expenses	\$ 182.9	\$ 183.9	-0.5%	\$ 137.3	\$ 153.9	-10.7%	\$ 403.1	\$ 376.6	7.0%	\$ 283.9	\$ 313.1	-9.3%
Income (loss) from operations	\$ (23.1)	\$ (1.2)	1823.2%	\$ 32.9	\$ 42.4	-22.4%	\$ (100.2)	\$ (34.8)	187.7%	\$ 40.3	\$ 56.9	-29.3%
Income from operations margin	-10.3%	-0.5%		14.7%	16.3%		-23.4%	-7.2%		9.4%	11.6%	
Net income (loss)	\$ (26.4)	\$ (2.5)	970.4%	\$ 20.0	\$ 26.2	-23.7%	\$ (88.9)	\$ (26.7)	233.2%	\$ 22.1	\$ 33.8	-34.8%
Diluted net income (loss) per share	\$ (0.34)	\$ (0.03)	1033.3%	\$ 0.25	\$ 0.29	-13.8%	\$ (1.12)	\$ (0.30)	273.3%	\$ 0.27	\$ 0.37	-25.8%
Diluted shares outstanding	78.6	88.6	-11.2%	79.4	89.5	-11.3%	79.5	89.9	-11.6%	80.4	91.0	-11.7%

See Appendix for GAAP-Non-GAAP Reconciliations.  
Certain numbers may not total due to rounding.

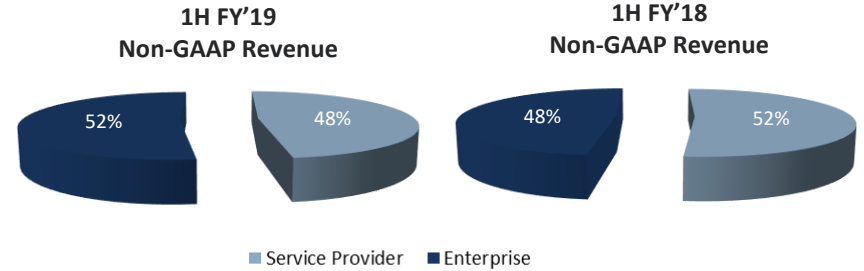


# 1H FY'19 Revenue Trends: Customer Verticals & Geographic Mix

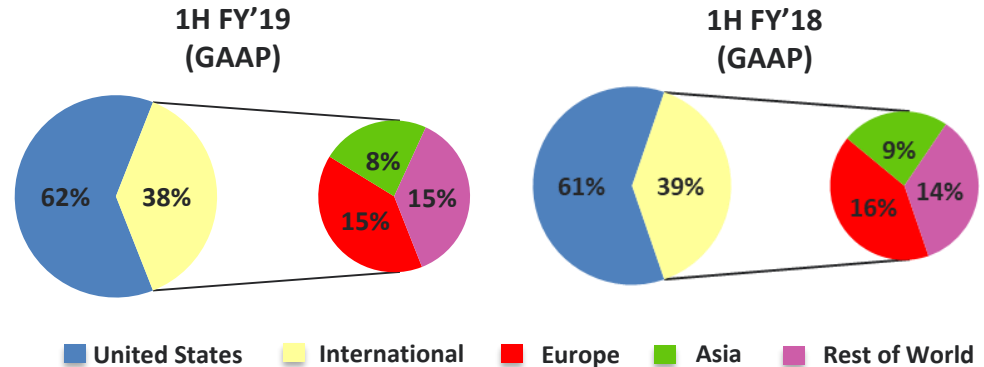
Total Non-GAAP Revenue by Customer Segment  
(\$ in millions)



Total Non-GAAP Revenue Composition by Customer Segment



	1H FY'19 GAAP 9/30/18	1H FY'18 GAAP 9/30/17
Total Revenue	\$428.9	\$482.6
United States	\$264.0	\$292.2
International	\$164.9	\$190.4
Europe	\$64.5	\$78.6
Asia	\$36.1	\$44.7
Rest of World	\$64.3	\$67.1



Figures in charts and tables may not total due to rounding

See Appendix for GAAP-Non-GAAP Reconciliations.



# Balance Sheet Highlights & Free Cash Flow

## (in millions)

<i>(Unaudited)</i>	Q2 FY'19 9/30/2018	
<i>Cash and Securities*</i>	\$	452.1
<i>Accounts Receivable, Net</i>	\$	184.2
<i>Inventories</i>	\$	31.0
<i>Total Long-Term Debt</i>	\$	600.0
<i>Total Deferred Revenue<sup>^</sup></i>	\$	307.2
<i>Total Stockholders' Equity</i>	\$	2,036.6

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

<sup>^</sup> Deferred revenue includes customer deposits

Free Cash Flow			
	Q1 FY'19 6/30/2018	Q2 FY'19 9/30/2018	1H FY'19 9/30/2018
Operating Cash Flow	\$ 25.5	\$ 7.2	\$ 32.7
Purchase of Fixed Assets & Intangible Assets	\$ (6.5)	\$ (5.7)	\$ (12.2)
Free Cash Flow	\$ 19.0	\$ 1.5	\$ 20.5

Financial Profile	
	Q2 FY'19 9/30/2018
Cash position	452.1
Liquidity	3.3x
Gross leverage	2.9x
Net leverage	0.8x

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. Available credit maximum is 4 times 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.



# FY'19 Guidance

Metric	Prior Guidance (July 2018)	Primary Factors for Changes	Updated Guidance (November 2018)
<b>GAAP Revenue</b>	Mid single-digit % decline to low single-digit % growth vs. FY'18 GAAP revenue of \$986.8 million	<ul style="list-style-type: none"> <li>HNT Tools divestiture (\$26 million)</li> <li>Lower than expected DDoS revenue (\$21 million)</li> </ul>	\$923 million to \$958 million
<b>Non-GAAP Revenue</b>	Mid single-digit % decline to low single-digit % growth vs. FY'18 non-GAAP revenue of \$999.3 million	<ul style="list-style-type: none"> <li>HNT Tools divestiture (\$26 million)</li> <li>Lower than expected DDoS revenue (\$21 million)</li> </ul>	\$925 million to \$960 million
<b>GAAP EPS (Diluted)</b>	(~190%) to (~\$140%) decline vs. FY'18 GAAP (diluted) EPS of \$0.90	<ul style="list-style-type: none"> <li>Lower anticipated revenue</li> <li>Cost-reduction initiatives</li> </ul>	(\$0.93) to (\$0.78)
<b>Non-GAAP EPS (Diluted)</b>	(~20%) decline to low double-digit % growth basis vs. FY'18 non-GAAP EPS (diluted) of \$1.41	<ul style="list-style-type: none"> <li>Lower anticipated revenue</li> <li>Cost-reduction initiatives</li> </ul>	\$1.30 to \$1.40

## **Other FY'19 Non-GAAP Guidance Assumptions**

- \* Gross profit margin anticipated to range from 75% to 76%
- \* Operating expenses expected to range from \$535 million to \$555 million
- \* Tax rate expected to be ~25%
- \* Interest & other expense of ~\$24 million for FY'19
- \* Weighted average of ~80 million diluted shares outstanding





# Upcoming Investor Events

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Date	Event	Location
November 8, 2018	Stephens Fall Investment Conference	NYC
November 13, 2018	Needham Networking & Security Conference	NYC
November 14, 2018	RBC Capital TIMT Conference	NYC



# 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 dim, creating a sense of depth and mystery.

# FY'19 Guidance: GAAP to Non-GAAP Reconciliation

## NETSCOUT SYSTEMS, INC

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

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

	FY'18	FY'19	606 Adjustment	FY'19 (605 Comparison)
GAAP revenue	\$ 986.8	~\$923 million to ~\$958 million	~ \$26	~\$949 million to ~\$984 million
Deferred service revenue fair value adjustment	\$ 9.4	~\$1 million to ~\$2 million		~\$1 million to ~\$2 million
Deferred product revenue fair value adjustment	\$ 3.1	Less than \$1 million		Less than \$1 million
Non-GAAP revenue	\$ 999.3	~\$925 million to ~\$960 million	~ \$26	~\$951 million to ~\$986 million

	FY'18	FY'19		FY'19 (605 Comparison)
GAAP Net Income	\$ 79.8	(~\$74 million to ~\$63 million)	~ \$19	(~\$55 million to ~\$43 million)
Deferred service revenue fair value adjustment	\$ 9.4	~\$1 million		~\$1 million
Deferred product revenue fair value adjustment	\$ 3.1	Less than \$1 million		Less than \$1 million
Amortization of intangible assets	\$ 114.0	~\$112 million		~\$112 million
Share-based compensation expenses	\$ 47.3	~\$51 million to ~\$55 million		~\$51 million to ~\$55 million
Business development & integration expenses*	\$ 5.9	~\$4 million to ~\$5 million		~\$4 million to ~\$5 million
New accounting standard implementation	\$ 2.6	~\$1 million		~\$1 million
Loss on Divestiture	\$ -	~\$9million		~\$9million
Restructuring costs	\$ 5.2	~\$17 million to ~\$18 million		~\$17 million to ~\$18 million
Impairment of Intangibles	\$ -	~\$36 million		~\$36 million
Other income	\$ (0.1)	-		-
Total Adjustments	\$ 187.4	~\$232 million to ~\$238 million		~\$232 million to ~\$238 million
Related impact of adjustments on income tax	\$ (142.6)	(~\$58 million to ~\$59 million)		(~\$58 million to ~\$59 million)
Non-GAAP Net Income	\$ 124.6	~\$104 million to ~\$112 million	~ \$19	~\$124 million to ~\$131 million
GAAP net income per share (diluted)	\$ 0.90	(\$0.93) to (\$0.78)	~ \$0.24	(\$0.68) to (\$0.54)
Non-GAAP net income per share (diluted)	\$ 1.41	\$1.30 to \$1.40	~ \$0.24	\$1.54 to \$1.64

Average Weighted Shares Outstanding (diluted GAAP)	88.3	79.9 million	79.9 million
Average Weighted Shares Outstanding (diluted Non-GAAP)	88.3	79.9 million	79.9 million

\* Business development & integration expenses include compensation for post-combination services, deal-related compensation and acquisition-related depreciation expense



# GAAP to Non-GAAP Reconciliation: FY'18 Revenue to Pro Forma FY'18 Revenue\*

NETSCOUT SYSTEMS, INC.  
Reconciliation of Fiscal Year 2018 GAAP and Non-GAAP Revenue  
to Fiscal Year 2018 Pro Forma GAAP and Non-GAAP Revenue  
(Unaudited)  
(In millions)

	<u>FY'18</u>
GAAP Revenue	\$ 986.8
Non-GAAP Adjustments	12.5
Non-GAAP Revenue	<u>\$ 999.3</u>
Adjustments	
HNT Tools revenue	<u>(26.0)</u>
Pro Forma Non-GAAP Revenue	\$ 973.3
Non-GAAP Adjustments	<u>(12.5)</u>
Pro Forma GAAP Revenue	<u>\$ 960.8</u>

\* FY'18 revenue adjusted as part of assumptions for updated FY'19 guidance for comparative purposes only.



# Q3 FY'19 Guidance: GAAP to Non-GAAP Reconciliation

## NETSCOUT SYSTEMS, INC

Q3 FY'19 Reconciliation of GAAP Financial Guidance to Non-GAAP Financial Guidance  
(Unaudited)

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

	Q3 FY'18	Q3 FY'19	606 Adjustment	Q3 FY'19 (605 Comparison)
GAAP revenue	\$ 268.9	~\$230 million to ~\$250 million	~ \$16	~\$246 million to ~\$266 million
Deferred service revenue fair value adjustment	\$ 2.3	Less than \$1 million		Less than \$1 million
Deferred product revenue fair value adjustment	\$ 0.7	-		-
Amortization of intangible assets	\$ 0.0	-		-
Non-GAAP revenue	\$ 272.0	~\$230 million to ~\$250 million	~ \$16	~\$246 million to ~\$266 million

	Q3 FY'18	Q3 FY'19		Q3 FY'19 (605 Comparison)
GAAP Net Income (Loss)	\$ 89.7	(~\$16 million) to (~\$5 million)	~ \$12	(~\$4 million) to ~\$7 million
Deferred service revenue fair value adjustment	\$ 2.3	Less than \$1 million		Less than \$1 million
Deferred product revenue fair value adjustment	\$ 0.7	-		-
Amortization of intangible assets	\$ 27.5	~\$26 million		~\$26 million
Share-based compensation expenses	\$ 12.4	~\$14 million		~\$14 million
Business development & integration expenses*	\$ (1.6)	-		-
New accounting standard implementation	\$ 0.9	-		-
Restructuring costs	\$ 3.4	~\$14 million to ~\$15 million		~\$14 million to ~\$15 million
Total Adjustments	\$ 45.7	~\$55 million		~\$55 million
Related impact of adjustments on income tax	\$ (74.6)	(~\$14 million)		(~\$14 million)
Non-GAAP Net Income	\$ 60.7	~\$26 million to ~\$36 million	~ \$12	~\$38 million to ~\$48 million

GAAP net income per share (diluted)	\$ 1.02	(\$0.20) to (\$0.07)	~ \$0.15	(\$0.05) to \$0.08
Non-GAAP net income per share (diluted)	\$ 0.69	\$0.33 to \$0.45	~ \$0.15	\$0.48 to \$0.60

Average Weighted Shares Outstanding (diluted Non-GAAP)	87.9	79.4 million		79.4 million
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\* Business development & integration expenses include compensation for post-combination services and acquisition-related depreciation expense



# Total Revenue Composition

(in millions)

	Q2 FY'19 9/30/2018 GAAP	Q2 FY'18 9/30/2017 GAAP	1H FY'19 9/30/2018 GAAP	1H FY'18 9/30/2017 GAAP	Q2 FY'19 9/30/2018 Non-GAAP	Q2 FY'18 9/30/2017 Non-GAAP	1H FY'19 9/30/2018 Non-	1H FY'18 9/30/2017 Non-
<b>Total Revenue</b>	\$ 223.8	\$ 256.9	\$ 428.9	\$ 482.6	\$ 224.0	\$ 228.8	\$ 430.0	\$ 488.8
<i>Product Revenue</i>	\$ 110.8	\$ 149.3	\$ 207.7	\$ 264.1	\$ 110.8	\$ 143.7	\$ 208.1	\$ 253.1
<i>Service Revenue</i>	\$ 113.0	\$ 107.6	\$ 221.2	\$ 218.5	\$ 113.3	\$ 116.3	\$ 221.9	\$ 235.7

*Certain numbers may not total due to rounding*



# GAAP to Non-GAAP Reconciliation: Q2 FY'19, Q2 FY'18, Q1 FY'19, 1H FY'19 and 1H FY'18 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,	
	2018	2017	2018	2018	2017
Product Revenue (GAAP)	\$ 110,753	\$ 142,973	\$ 96,927	\$ 207,680	\$ 251,632
Product deferred revenue fair value adjustment	-	719	391	391	1,435
Amortization of acquired intangible assets (2)	-	2	-	-	4
Non-GAAP Product Revenue	<u>\$ 110,753</u>	<u>\$ 143,694</u>	<u>\$ 97,318</u>	<u>\$ 208,071</u>	<u>\$ 253,071</u>
Service Revenue (GAAP)	\$ 113,044	\$ 113,890	\$ 108,184	\$ 221,228	\$ 230,987
Service deferred revenue fair value adjustment	243	2,361	471	714	4,736
Non-GAAP Service Revenue	<u>\$ 113,287</u>	<u>\$ 116,251</u>	<u>\$ 108,655</u>	<u>\$ 221,942</u>	<u>\$ 235,723</u>
Revenue (GAAP)	\$ 223,797	\$ 256,863	\$ 205,111	\$ 428,908	\$ 482,619
Product deferred revenue fair value adjustment	-	719	391	391	1,435
Service deferred revenue fair value adjustment	243	2,361	471	714	4,736
Amortization of acquired intangible assets (2)	-	2	-	-	4
Non-GAAP Revenue	<u>\$ 224,040</u>	<u>\$ 259,945</u>	<u>\$ 205,973</u>	<u>\$ 430,013</u>	<u>\$ 488,794</u>



# GAAP to Non-GAAP Reconciliation: Q2 FY'19, Q2 FY'18, Q1 FY'19, 1H FY'19 and 1H FY'18 Gross Profit, Income from Operations and Net Income

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		Six Months Ended	
	September 30, 2018	2017	June 30, 2018	September 30, 2017	September 30, 2018	2017
Gross Profit (GAAP)	\$ 159,817	\$ 182,620	\$ 143,084	\$ 302,901	\$ 341,814	
Product deferred revenue fair value adjustment	-	719	391	391	1,435	
Service deferred revenue fair value adjustment	243	2,361	471	714	4,736	
Share-based compensation expense (1)	2,389	1,587	1,599	3,988	2,816	
Amortization of acquired intangible assets (2)	7,731	9,309	8,402	16,133	18,550	
Business development and integration expense (3)	-	(340)	-	-	649	
Acquisition related depreciation expense (6)	17	36	33	50	78	
Transitional service agreement income (7)	2	-	-	2	-	
Non-GAAP Gross Profit	<u>\$ 170,199</u>	<u>\$ 196,292</u>	<u>\$ 153,980</u>	<u>\$ 324,179</u>	<u>\$ 370,078</u>	
Loss from Operations (GAAP)	\$ (23,117)	\$ (1,239)	\$ (77,053)	\$ (100,170)	\$ (34,794)	
Product deferred revenue fair value adjustment	-	719	391	391	1,435	
Service deferred revenue fair value adjustment	243	2,361	471	714	4,736	
Share-based compensation expense (1)	17,418	12,598	12,965	30,383	22,829	
Amortization of acquired intangible assets (2)	25,712	27,607	31,867	57,579	55,231	
Business development and integration expense (3)	366	(1,244)	19	385	4,912	
New standard implementation expense (4)	54	431	762	816	431	
Compensation for post-combination services (5)	169	404	449	618	641	
Restructuring charges	2,472	291	1,147	3,619	458	
Impairment of intangible assets	-	-	35,871	35,871	-	
Acquisition related depreciation expense (6)	164	506	498	662	1,061	
Loss on divestiture	9,177	-	-	9,177	-	
Transitional service agreement income (7)	219	-	-	219	-	
Non-GAAP Income from Operations	<u>\$ 32,877</u>	<u>\$ 42,434</u>	<u>\$ 7,387</u>	<u>\$ 40,264</u>	<u>\$ 56,940</u>	
Net Loss (GAAP)	\$ (26,428)	\$ (2,468)	\$ (62,504)	\$ (88,932)	\$ (26,690)	
Product deferred revenue fair value adjustment	-	719	391	391	1,435	
Service deferred revenue fair value adjustment	243	2,361	471	714	4,736	
Share-based compensation expense (1)	17,418	12,598	12,965	30,383	22,829	
Amortization of acquired intangible assets (2)	25,712	27,607	31,867	57,579	55,231	
Business development and integration expense (3)	366	(1,244)	19	385	4,912	
New standard implementation expense (4)	54	431	762	816	431	
Compensation for post-combination services (5)	169	404	449	618	641	
Restructuring charges	2,472	291	1,147	3,619	458	
Impairment of intangible assets	-	-	35,871	35,871	-	
Acquisition related depreciation expense (6)	164	506	498	662	1,061	
Loss on divestiture	9,177	-	-	9,177	-	
Income tax adjustments (8)	(9,367)	(15,001)	(19,862)	(29,229)	(31,221)	
Non-GAAP Net Income	<u>\$ 19,980</u>	<u>\$ 26,204</u>	<u>\$ 2,074</u>	<u>\$ 22,054</u>	<u>\$ 33,823</u>	
Diluted Net Loss Per Share (GAAP)	\$ (0.34)	\$ (0.03)	\$ (0.78)	\$ (1.12)	\$ (0.30)	
Share impact of non-GAAP adjustments identified above	0.59	0.32	0.81	1.39	0.67	
Non-GAAP Diluted Net Income Per Share	<u>\$ 0.25</u>	<u>\$ 0.29</u>	<u>\$ 0.03</u>	<u>\$ 0.27</u>	<u>\$ 0.37</u>	
Shares used in computing non-GAAP diluted net income per share	79,363	89,525	81,424	80,385	90,980	





# GAAP to Non-GAAP Reconciliation: Q2 FY'19, Q2 FY'18, Q1 FY'19, 1H FY'19 and 1H FY'18 Itemization

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

	Three Months Ended		Three Months Ended		Six Months Ended	
	September 30,	September 30,	June 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2018	2017	2017
(1) Share-based compensation expense included in these amounts is as follows:						
Cost of product revenue	\$ 544	\$ 293	\$ 269	\$ 813	\$ 506	
Cost of service revenue	1,845	1,294	1,330	3,175	2,310	
Research and development	5,414	3,915	4,151	9,565	7,090	
Sales and marketing	6,043	4,147	4,359	10,402	7,591	
General and administrative	3,572	2,949	2,856	6,428	5,332	
Total share-based compensation expense	<u>\$ 17,418</u>	<u>\$ 12,598</u>	<u>\$ 12,965</u>	<u>\$ 30,383</u>	<u>\$ 22,829</u>	
(2) Amortization expense related to acquired software and product technology, tradenames, customer relationships included in these amounts is as follows:						
Total revenue adjustment	\$ -	\$ 2	\$ -	\$ -	\$ 4	
Cost of product revenue	7,731	9,307	8,402	16,133	18,546	
Operating expenses	17,981	18,298	23,465	41,446	36,681	
Total amortization expense	<u>\$ 25,712</u>	<u>\$ 27,607</u>	<u>\$ 31,867</u>	<u>\$ 57,579</u>	<u>\$ 55,231</u>	
(3) Business development and integration expense included in these amounts is as follows:						
Cost of product revenue	\$ -	\$ (106)	\$ -	\$ -	\$ 333	
Cost of service revenue	-	(234)	-	-	316	
Research and development	356	(401)	-	356	722	
Sales and marketing	-	(159)	-	-	977	
General and administrative	10	(304)	19	29	2,564	
Total business development and integration expense	<u>\$ 366</u>	<u>\$ (1,244)</u>	<u>\$ 19</u>	<u>\$ 385</u>	<u>\$ 4,912</u>	
(4) New standard implementation expense included in these amounts is as follows:						
General and administrative	\$ 54	\$ 431	\$ 762	\$ 816	\$ 431	
Total new standard implementation expense	<u>\$ 54</u>	<u>\$ 431</u>	<u>\$ 762</u>	<u>\$ 816</u>	<u>\$ 431</u>	
(5) Compensation for post-combination services included in these amounts is as follows:						
Cost of product revenue	\$ -	\$ -	\$ -	\$ -	\$ -	
Cost of service revenue	-	-	-	-	-	
Research and development	148	325	385	533	509	
Sales and marketing	7	62	12	19	115	
General and administrative	14	17	52	66	17	
Total compensation for post-combination services	<u>\$ 169</u>	<u>\$ 404</u>	<u>\$ 449</u>	<u>\$ 618</u>	<u>\$ 641</u>	
(6) Acquisition related depreciation expense included in these amounts is as follows:						
Cost of product revenue	\$ 11	\$ 16	\$ 13	\$ 24	\$ 42	
Cost of service revenue	6	20	20	26	36	
Research and development	115	311	308	421	665	
Sales and marketing	13	44	43	56	98	
General and administrative	19	115	116	135	230	
Total acquisition related depreciation expense	<u>\$ 164</u>	<u>\$ 506</u>	<u>\$ 498</u>	<u>\$ 662</u>	<u>\$ 1,061</u>	
(7) Transitional service agreement income amounts is as follows:						
Cost of service revenue	2	-	-	2	-	
Research and development	23	-	-	23	-	
Sales and marketing	50	-	-	50	-	
General and administrative	144	-	-	144	-	
Other Income (expense), net	(219)	-	-	(219)	-	
Total transitional service agreement income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
(8) Total income tax adjustment included in these amounts is as follows:						
Tax effect of non-GAAP adjustments above	<u>\$ (9,367)</u>	<u>\$ (15,001)</u>	<u>\$ (19,862)</u>	<u>\$ (29,229)</u>	<u>\$ (31,221)</u>	
Total income tax adjustments	<u>\$ (9,367)</u>	<u>\$ (15,001)</u>	<u>\$ (19,862)</u>	<u>\$ (29,229)</u>	<u>\$ (31,221)</u>	



# Supplementary Data: Reconciliation of Reclassification of GAAP Product and Service Revenue and Cost of Product and Service Revenue\*

## Supplementary Data

### NETSCOUT SYSTEMS, INC.

Reconciliation of Reclassification of Product and Service Revenue and Cost of Product and Service Revenue  
(In thousands)  
(Unaudited)

#### FY18 Quarterly GAAP Reclassification

	Q1 FY18			Q2 FY18			Q3 FY18			Q4 FY18		
	Q1 as Reported	Adjustment	Q1 as Reclassified	Q2 as Reported	Adjustment	Q2 as Reclassified	Q3 as Reported	Adjustment	Q3 as Reclassified	Q4 as Reported	Adjustment	Q4 as Reclassified
Revenue:												
Product	\$ 114,822	\$ (6,163)	\$ 108,659	\$ 149,281	\$ (6,308)	\$ 142,973	\$ 153,179	\$ (6,610)	\$ 146,569	\$ 128,845	\$ (6,628)	\$ 122,217
Service	\$ 110,934	\$ 6,163	\$ 117,097	\$ 107,582	\$ 6,308	\$ 113,890	\$ 115,765	\$ 6,610	\$ 122,375	\$ 106,379	\$ 6,628	\$ 113,007
Total GAAP revenue	\$ 225,756	\$ -	\$ 225,756	\$ 256,863	\$ -	\$ 256,863	\$ 268,944	\$ -	\$ 268,944	\$ 235,224	\$ -	\$ 235,224
Cost of revenue:												
Product	\$ 37,845	\$ (1,383)	\$ 36,462	\$ 45,841	\$ (1,470)	\$ 44,371	\$ 41,327	\$ (1,517)	\$ 39,810	\$ 39,513	\$ (1,528)	\$ 37,985
Service	\$ 28,717	\$ 1,383	\$ 30,100	\$ 28,402	\$ 1,470	\$ 29,872	\$ 23,182	\$ 1,517	\$ 24,699	\$ 27,078	\$ 1,528	\$ 28,606
Total GAAP cost of revenue	\$ 66,562	\$ -	\$ 66,562	\$ 74,243	\$ -	\$ 74,243	\$ 64,509	\$ -	\$ 64,509	\$ 66,591	\$ -	\$ 66,591

#### FY18 & FY17 Annual GAAP Reclassification

	FY18			FY17		
	YTD as Reported	Adjustment	YTD as Reclassified	YTD as Reported	Adjustment	YTD as Reclassified
Revenue:						
Product	\$ 546,127	\$ (25,709)	\$ 520,418	\$ 735,531	\$ (20,127)	\$ 715,404
Service	\$ 440,660	\$ 25,709	\$ 466,369	\$ 426,581	\$ 20,127	\$ 446,708
Total GAAP revenue	\$ 986,787	\$ -	\$ 986,787	\$ 1,162,112	\$ -	\$ 1,162,112
Cost of revenue:						
Product	\$ 164,526	\$ (5,898)	\$ 158,628	\$ 238,003	\$ (4,728)	\$ 233,275
Service	\$ 107,379	\$ 5,898	\$ 113,277	\$ 108,136	\$ 4,728	\$ 112,864
Total GAAP cost of revenue	\$ 271,905	\$ -	\$ 271,905	\$ 346,139	\$ -	\$ 346,139

Reclassification provided for comparative purposes only



# Supplementary Data: Reconciliation of Reclassification of Non-GAAP Product and Service Revenue and Cost of Product and Service Revenue\*

## Supplementary Data

### NETSCOUT SYSTEMS, INC.

#### Reconciliation of Reclassification of Product and Service Revenue and Cost of Product and Service Revenue (In thousands) (Unaudited)

#### FY18 Quarterly Non-GAAP Reclassification

	Q1 FY18			Q2 FY18			Q3 FY18			Q4 FY18		
	Q1 as Reported	Adjustment	Q1 as Reclassified	Q2 as Reported	Adjustment	Q2 as Reclassified	Q3 as Reported	Adjustment	Q3 as Reclassified	Q4 as Reported	Adjustment	Q4 as Reclassified
Revenue:												
Product	\$ 115,540	\$ (6,163)	\$ 109,377	\$ 150,002	\$ (6,308)	\$ 143,694	\$ 153,901	\$ (6,610)	\$ 147,291	\$ 129,757	\$ (6,628)	\$ 123,129
Service	\$ 113,309	\$ 6,163	\$ 119,472	\$ 109,943	\$ 6,308	\$ 116,251	\$ 118,110	\$ 6,610	\$ 124,720	\$ 108,707	\$ 6,628	\$ 115,335
Total non-GAAP revenue	\$ 228,849	\$ -	\$ 228,849	\$ 259,945	\$ -	\$ 259,945	\$ 272,011	\$ -	\$ 272,011	\$ 238,464	\$ -	\$ 238,464
Cost of revenue:												
Product	\$ 27,928	\$ (1,383)	\$ 26,545	\$ 36,331	\$ (1,470)	\$ 34,861	\$ 31,809	\$ (1,517)	\$ 30,292	\$ 29,681	\$ (1,528)	\$ 28,153
Service	\$ 27,135	\$ 1,383	\$ 28,518	\$ 27,322	\$ 1,470	\$ 28,792	\$ 22,173	\$ 1,517	\$ 23,690	\$ 25,831	\$ 1,528	\$ 27,359
Total non-GAAP cost of revenue	\$ 55,063	\$ -	\$ 55,063	\$ 63,653	\$ -	\$ 63,653	\$ 53,982	\$ -	\$ 53,982	\$ 55,512	\$ -	\$ 55,512

#### FY18 & FY17 Annual Non-GAAP Reclassification

	FY18			FY17		
	YTD as Reported	Adjustment	YTD as Reclassified	YTD as Reported	Adjustment	YTD as Reclassified
Revenue:						
Product	\$ 549,200	\$ (25,709)	\$ 523,491	\$ 753,756	\$ (20,127)	\$ 733,629
Service	\$ 450,069	\$ 25,709	\$ 475,778	\$ 446,057	\$ 20,127	\$ 466,184
Total non-GAAP revenue	\$ 999,269	\$ -	\$ 999,269	\$ 1,199,813	\$ -	\$ 1,199,813
Cost of revenue:						
Product	\$ 125,749	\$ (5,898)	\$ 119,851	\$ 194,468	\$ (4,728)	\$ 189,740
Service	\$ 102,461	\$ 5,898	\$ 108,359	\$ 103,575	\$ 4,728	\$ 108,303
Total non-GAAP cost of revenue	\$ 228,210	\$ -	\$ 228,210	\$ 298,043	\$ -	\$ 298,043

\* Reclassification provided for comparative purposes only





**Thank You**