

# NETSCOUT™

## Q2 FY 2020 Conference Call

*NETSCOUT SYSTEMS, INC.  
October 31, 2019*



# Agenda

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- **Introduction & Safe Harbor**
  - Tony Piazza, VP of Corporate Finance
- **CEO Perspective**
  - Anil Singhal, President and CEO
- **COO Update**
  - Michael Szabados, Chief Operating Officer
- **Financial Review and FY'20 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 for and revenue from the Company's products by specific customers, certain pipelines or by customers in general; 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 regarding the extent of the Company's deployment of its software-only platform, statements regarding shifts in market trends including revenue opportunities related to 5G networks; 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 and cost-control plans; and statements regarding the use of capital including repayment of debt, future share repurchases and the timing of those purchases, constitute forward-looking statements which 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 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, 2019 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 the following non-GAAP metrics: non-GAAP total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP gross profit, non-GAAP income from operations, 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 and 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. NETSCOUT also references organic 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 quarterly and year-to-date fiscal year 2019 results. 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'20 Highlights

Non-GAAP (\$ in millions, except per share data)	Q2 FY'20 9/30/2019	Q2 FY'19 9/30/2018	1H FY'20 9/30/2019	1H FY'19 9/30/2018
Revenue	\$ 216.5	\$ 224.0	\$ 402.5	\$ 430.0
Gross Margin	76.6%	76.0%	75.8%	75.4%
Operating Margin	14.6%	14.7%	10.9%	9.4%
EPS	\$ 0.28	\$ 0.25	\$ 0.35	\$ 0.27

- Revenue and EPS exceeded the high-end of our expectations for the quarter
- A large service provider transaction and strong government spending were key drivers of this quarter's solid results
- We continue to advance our product initiatives and go to market activities, with solid progress made on our sales force integration

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



# Business Highlights

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- Service Provider
  - Large cable operator deal completed
  - 5G perspective
- Enterprise
  - Strong government funding
  - Digital transformation perspective



# FY'20 Outlook & Summary

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- We remain excited about the opportunities we are seeing and our ability to capitalize on them
- We remain focused on generating low-single digit organic revenue growth, which would translate into a range of \$895 million to \$915 million of non-GAAP revenue for the fiscal year
- We are committed to continuing to manage our cost structure and delivering diluted non-GAAP EPS in the range of \$1.45 to \$1.50, which has been increased due to our capital structure management

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





# COO Update

Michael Szabados  
Chief Operating Officer

# COO Highlights

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- Customer wins
  
  
  
  
  
  
  
  
  
  
- Go-to-market activities



# **Financial Review & FY'20 Outlook**

Jean Bua

Executive Vice President and Chief Financial Officer

# Q2 and 1H FY'20 Results

(in millions except EPS and % data)

	Q2 FY'20 Non-GAAP 9/30/2019	Q2 FY'19 Non-GAAP 9/30/2018	% Change	Q2 FY'20 GAAP 9/30/2019	Q2 FY'19 GAAP 9/30/2018	% Change	1H FY'20 Non-GAAP 9/30/2019	1H FY'19 Non-GAAP 9/30/2018	% Change	1H FY'20 GAAP 9/30/2019	1H FY'19 GAAP 9/30/2018	% Change
Revenue:												
Product	\$ 102.8	\$ 110.8	-7.2%	\$ 102.8	\$ 110.8	-7.2%	\$ 178.5	\$ 208.1	-14.2%	\$ 178.5	\$ 207.7	-14.1%
Service	\$ 113.7	\$ 113.3	0.4%	\$ 113.6	\$ 113.0	0.5%	\$ 224.0	\$ 221.9	0.9%	\$ 224.0	\$ 221.2	1.2%
Total revenue	\$ 216.5	\$ 224.0	-3.4%	\$ 216.4	\$ 223.8	-3.3%	\$ 402.5	\$ 430.0	-6.4%	\$ 402.4	\$ 428.9	-6.2%
Cost of revenue	\$ 50.7	\$ 53.8	-5.8%	\$ 59.1	\$ 64.0	-7.6%	\$ 97.5	\$ 105.8	-7.9%	\$ 113.9	\$ 126.0	-9.6%
Gross profit	\$ 165.8	\$ 170.2	-2.6%	\$ 157.3	\$ 159.8	-1.6%	\$ 305.1	\$ 324.2	-5.9%	\$ 288.6	\$ 302.9	-4.7%
Gross profit margin	76.6%	76.0%		72.7%	71.4%		75.8%	75.4%		71.7%	70.6%	
Operating expenses	\$ 134.1	\$ 137.3	-2.3%	\$ 164.6	\$ 182.9	-10.0%	\$ 261.4	\$ 283.9	-7.9%	\$ 320.3	\$ 403.1	-20.5%
Income (loss) from operations	\$ 31.6	\$ 32.9	-3.8%	\$ (7.3)	\$ (23.1)	-68.4%	\$ 43.7	\$ 40.3	8.5%	\$ (31.7)	\$ (100.2)	-68.3%
Income (loss) from operations margin	14.6%	14.7%		-3.4%	-10.3%		10.9%	9.4%		-7.9%	-23.4%	
Net income (loss)	\$ 21.4	\$ 20.0	6.9%	\$ (17.5)	\$ (26.4)	-33.9%	\$ 27.0	\$ 22.1	22.2%	\$ (46.8)	\$ (88.9)	-47.4%
Diluted net income (loss) per share	\$ 0.28	\$ 0.25	12.0%	\$ (0.23)	\$ (0.34)	-32.4%	\$ 0.35	\$ 0.27	29.6%	\$ (0.61)	\$ (1.12)	-45.5%
Diluted shares outstanding	76.3	79.4	-3.8%	75.7	78.6	-3.7%	77.4	80.4	-3.7%	76.5	79.5	-3.8%

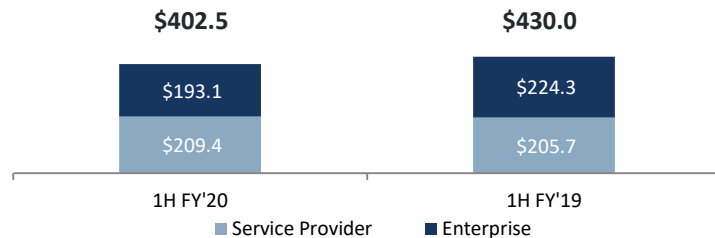
See Appendix for GAAP-Non-GAAP Reconciliations.



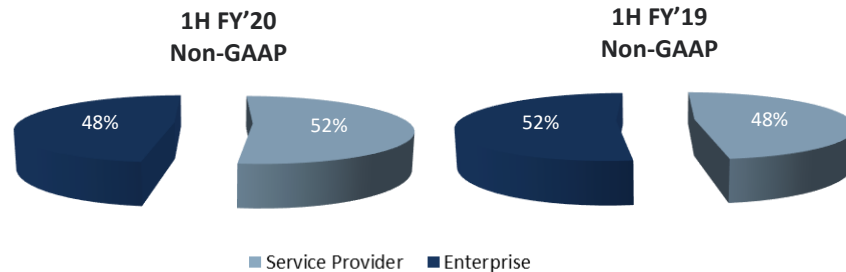
# 1<sup>st</sup> Half FY'20 Revenue Trends: Customer Verticals & Geographic Mix

Total Non-GAAP Revenue by Customer Segment

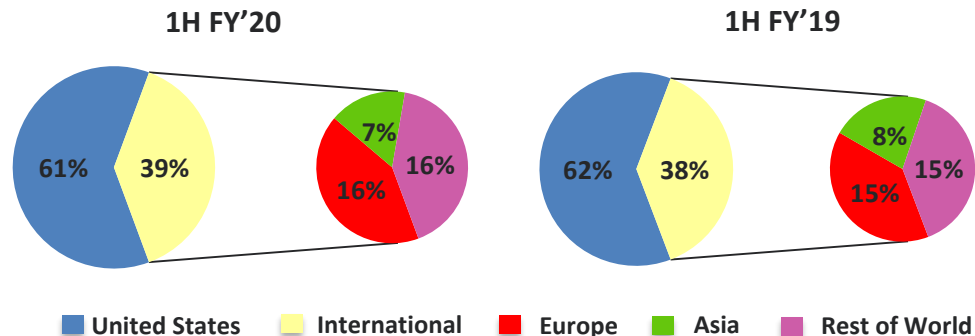
(\$ in millions)



Total Non-GAAP Revenue Composition by Customer Segment



	1H FY'20 GAAP 9/30/19	1H FY'19 GAAP 9/30/18
<b>Total Revenue</b>	\$402.4	\$428.9
<i>United States</i>	\$246.6	\$264.0
<i>International</i>	\$155.8	\$164.9
<i>Europe</i>	\$65.2	\$64.5
<i>Asia</i>	\$25.7	\$36.1
<i>Rest of World</i>	\$64.9	\$64.3



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'20 9/30/19	
<i>Cash and Securities*</i>	\$	307.8
<i>Accounts Receivable, Net</i>	\$	202.3
<i>Inventories</i>	\$	26.2
<i>Total Long-Term Debt</i>	\$	450.0
<i>Total Deferred Revenue</i>	\$	331.2
<i>Total Stockholders' Equity</i>	\$	1,940.3

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

Free Cash Flow			
	Q1 FY'20 6/30/2019	Q2 FY'20 9/30/2019	1H FY'20 9/30/2019
Operating Cash Flow	\$ 49.5	\$ (1.0)	\$ 48.5
Purchase of Fixed Assets & Intangible Assets	\$ (3.3)	\$ (5.8)	\$ (9.1)
Free Cash Flow	\$ 46.2	\$ (6.8)	\$ 39.4

Financial Profile	
	Q2 FY'20 9/30/2019
Cash and Securities position	\$307.8
Liquidity	3.0x
Gross leverage	2.2x
Net leverage	0.7X

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 as calculated in its press release may differ from the non-GAAP EBITDA as defined within the Company's senior secured credit facility



# FY'20 Guidance

## Revenue

\$ millions	FY'19 GAAP	FY'19 Non-GAAP	FY'20 Guidance GAAP & Non-GAAP
Revenue	\$909.9	\$911.5	~\$895 to ~\$915
HNT Tools	(\$18.0)	(\$18.0)	-
Organic Revenue	\$891.9	\$893.5	~\$895 to ~\$915

## EPS (Diluted)

	FY'19	FY'20 Guidance
GAAP EPS (diluted)	(\$0.93)	\$0.05 to \$0.10
Adjustments	\$2.31	\$1.40
Non-GAAP EPS (diluted)	\$1.38	\$1.45 to \$1.50

### Other FY'20 Guidance Assumptions

- \* Anticipated gross profit margin of approximately 76%
- \* Operating expenses expected to range from \$515 million to \$530 million
- \* Tax rate anticipated to range from 22% to 24%
- \* Interest & other expense of ~\$19 million
- \* Weighted average of ~76.7 million diluted shares outstanding



# Upcoming Investor Events

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Date	Event	Location
November 6, 2019	6 <sup>th</sup> Annual Bernstein Technology Innovation Summit	New York
November 12, 2019	Needham Security, Networking and Communications Conference	New York
November 14, 2019	Stephens Investment Conference	Nashville
November 20, 2019	RBC Capital Markets Technology, Internet, Media and Telecommunications Conference	New York
December 5, 2019	Credit Suisse 23 <sup>rd</sup> Annual Technology Conference	Scottsdale





# Appendix

The background of the slide is a dark, monochromatic photograph of a tunnel. The ceiling is composed of a series of curved, ribbed panels that create a strong sense of perspective, drawing the eye towards the vanishing point in the distance. The lighting is low, with subtle highlights on the ribs of the ceiling, creating a textured and atmospheric effect.

# FY'20 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'19	FY'20
GAAP revenue	\$ 909.9	~\$895 million to ~\$915 million
Deferred service revenue fair value adjustment	\$ 1.2	Less than \$1 million
Deferred product revenue fair value adjustment	\$ 0.4	-
Non-GAAP revenue	\$ 911.5	~\$895 million to ~\$915 million
HNT Tools Revenue	\$ (18.0)	-
Organic non-GAAP revenue	\$ 893.5	~\$895 million to ~\$915 million
	FY'19	FY'20
GAAP Net Income (Loss)	\$ (73.3)	~\$4 million to ~\$8 million
Deferred service revenue fair value adjustment	\$ 1.2	Less than \$1 million
Deferred product revenue fair value adjustment	\$ 0.4	-
Amortization of intangible assets	\$ 105.5	~\$90 million
Share-based compensation expenses	\$ 56.3	~\$50 million
Business development & integration expenses*	\$ 2.5	~\$1 million to \$2 million
New accounting standard implementation	\$ 0.9	-
Restructuring costs	\$ 18.7	Less than \$1 million
Impairment of Intangibles	\$ 35.9	-
Loss on divestiture	\$ 9.5	-
Change in contingent consideration	\$ 1.5	-
Total Adjustments	\$ 232.4	~\$141 million to ~\$142 million
Related impact of adjustments on income tax	\$ (49.9)	(~\$34 million)
Non-GAAP Net Income	\$ 109.2	~\$111 million to ~\$115 million
GAAP net income (loss) per share (diluted)	\$ (0.93)	~\$0.05 to ~\$0.10
Non-GAAP net income per share (diluted)	\$ 1.38	~\$1.45 to ~\$1.50
Average Weighted Shares Outstanding (diluted GAAP)	78.6	76.7 million
Average Weighted Shares Outstanding (diluted Non-GAAP)	79.3	76.7 million

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



# Q3 FY'20 Guidance: GAAP to Non-GAAP Reconciliation

## NETSCOUT SYSTEMS, INC

### Q3 FY'20 Reconciliation of GAAP Financial Guidance to Non-GAAP Financial Guidance (Unaudited)

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

	<u>Q3 FY'19</u>	<u>Q3 FY'20</u>
GAAP revenue	\$ 246.0	~\$245 million to ~\$255 million
Deferred service revenue fair value adjustment	\$ 0.2	-
Deferred product revenue fair value adjustment	\$ -	-
Non-GAAP revenue	<u>\$ 246.3</u>	<u>~\$245 million to ~\$255 million</u>
	<u>Q3 FY'19</u>	<u>Q3 FY'20</u>
GAAP Net Income (Loss)	\$ (3.6)	~\$17 million to ~\$19 million
Deferred service revenue fair value adjustment	\$ 0.2	Less than \$1 million
Deferred product revenue fair value adjustment	\$ -	-
Amortization of intangible assets	\$ 24.0	~\$23 million
Share-based compensation expenses	\$ 13.8	~\$11 million
Business development & integration expenses*	\$ 0.2	Less than \$1 million
New accounting standard implementation	\$ 0.1	-
Restructuring costs	\$ 13.9	-
Loss on divestiture	\$ -	-
Impairment of Intangibles	\$ -	-
Total Adjustments	\$ 52.1	~\$34 million
Related impact of adjustments on income tax	\$ (13.3)	(~\$8 million)
Non-GAAP Net Income	<u>\$ 35.2</u>	<u>~\$44 million to ~\$46 million</u>
	<u>Q3 FY'19</u>	<u>Q3 FY'20</u>
GAAP net income (loss) per share (diluted)	\$ (0.05)	~\$0.23 to ~\$0.26
Non-GAAP net income per share (diluted)	<u>\$ 0.45</u>	<u>~\$0.57 to ~\$0.60</u>
Average Weighted Shares Outstanding (diluted GAAP)	77.8	76.0 million
Average Weighted Shares Outstanding (diluted Non-GAAP)	78.2	76.0 million

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



# Total Revenue Composition

(in millions)

	Q2 FY'20 9/30/2019 GAAP	Q2 FY'19 9/30/2018 GAAP	1H FY'20 9/30/2019 GAAP	1H FY'19 9/30/2018 GAAP	Q2 FY'20 9/30/2019 Non-GAAP	Q2 FY'19 9/30/2018 Non-GAAP	1H FY'20 9/30/2019 Non-GAAP	1H FY'19 9/30/2018 Non-GAAP
<b>Total Revenue</b>	\$216.4	\$223.8	\$402.4	\$428.9	\$216.5	\$224.0	\$402.5	\$430.0
<i>Product Revenue</i>	\$102.8	\$110.8	\$178.5	\$207.7	\$102.8	\$110.8	\$178.5	\$208.1
<i>Service Revenue</i>	\$113.6	\$113.0	\$224.0	\$221.2	\$113.7	\$113.3	\$224.0	\$221.9

*Certain numbers may not total due to rounding*



# GAAP to Non-GAAP Reconciliation: Q2'FY20, Q2'FY19, Q1 FY'20, 1H'FY20 & 1H FY'19 Revenue

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Three Months Ended</u> <u>June 30,</u>		<u>Six Months Ended</u> <u>September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2019</u>	<u>2018</u>
Product Revenue (GAAP)	\$ 102,775	\$ 110,753	\$ 75,719	\$ 178,494	\$ 207,680	
Product deferred revenue fair value adjustment	-	-	-	-	391	
Non-GAAP Product Revenue	<u>\$ 102,775</u>	<u>\$ 110,753</u>	<u>\$ 75,719</u>	<u>\$ 178,494</u>	<u>\$ 208,071</u>	
Service Revenue (GAAP)	\$ 113,646	\$ 113,044	\$ 110,305	\$ 223,951	\$ 221,228	
Service deferred revenue fair value adjustment	48	243	48	96	714	
Non-GAAP Service Revenue	<u>\$ 113,694</u>	<u>\$ 113,287</u>	<u>\$ 110,353</u>	<u>\$ 224,047</u>	<u>\$ 221,942</u>	
Revenue (GAAP)	\$ 216,421	\$ 223,797	\$ 186,024	\$ 402,445	\$ 428,908	
Product deferred revenue fair value adjustment	-	-	-	-	391	
Service deferred revenue fair value adjustment	48	243	48	96	714	
Non-GAAP Revenue	<u>\$ 216,469</u>	<u>\$ 224,040</u>	<u>\$ 186,072</u>	<u>\$ 402,541</u>	<u>\$ 430,013</u>	



# GAAP to Non-GAAP Reconciliation: Q2'FY20, Q2'FY19, 1H'FY20 & 1H FY'19 Organic Non-GAAP Revenue

**NETSCOUT SYSTEMS, INC.**  
Reconciliation of GAAP Revenue to Non-GAAP Organic Revenue  
(In thousands)  
(Unaudited)

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2019	2018	2019	2018
GAAP Product Revenue	\$ 102,775	\$ 110,753	\$ 178,494	\$ 207,680
Adjustments	-	-	-	391
Non-GAAP Product Revenue	<u>\$ 102,775</u>	<u>\$ 110,753</u>	<u>\$ 178,494</u>	<u>\$ 208,071</u>
HNT Tools Product Revenue	-	(5,423)	-	(13,430)
Organic Non-GAAP Product Revenue	<u>\$ 102,775</u>	<u>\$ 105,330</u>	<u>\$ 178,494</u>	<u>\$ 194,641</u>
GAAP Service Revenue	\$ 113,646	\$ 113,044	\$ 223,951	\$ 221,228
Adjustments	48	243	96	714
Non-GAAP Service Revenue	<u>\$ 113,694</u>	<u>\$ 113,287</u>	<u>\$ 224,047</u>	<u>\$ 221,942</u>
HNT Tools Service Revenue	-	(2,145)	-	(4,555)
Organic Non-GAAP Service Revenue	<u>\$ 113,694</u>	<u>\$ 111,142</u>	<u>\$ 224,047</u>	<u>\$ 217,387</u>
GAAP Revenue	\$ 216,421	\$ 223,797	\$ 402,445	\$ 428,908
Adjustments	48	243	96	1,105
Non-GAAP Revenue	<u>\$ 216,469</u>	<u>\$ 224,040</u>	<u>\$ 402,541</u>	<u>\$ 430,013</u>
HNT Tools Revenue	-	(7,568)	-	(17,985)
Organic Non-GAAP Revenue	<u>\$ 216,469</u>	<u>\$ 216,472</u>	<u>\$ 402,541</u>	<u>\$ 412,028</u>



# GAAP to Non-GAAP Reconciliation: Q2'FY20, Q2'FY19, Q1'FY20, 1H'FY20 & 1H FY'19 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,	
	2019	2018	2019	2019	2018	2018
Gross Profit (GAAP)	\$ 157,289	\$ 159,817	\$ 131,281	\$ 288,570	\$ 302,901	
Product deferred revenue fair value adjustment	-	-	-	-	391	
Service deferred revenue fair value adjustment	48	243	48	96	714	
Share-based compensation expense (1)	2,187	2,389	1,734	3,921	3,988	
Amortization of acquired intangible assets (2)	6,225	7,731	6,230	12,455	16,133	
Acquisition related depreciation expense (6)	6	17	13	19	50	
Transitional service agreement income (7)	-	2	-	-	2	
Non-GAAP Gross Profit	<u>\$ 165,755</u>	<u>\$ 170,199</u>	<u>\$ 139,306</u>	<u>\$ 305,061</u>	<u>\$ 324,179</u>	
Loss from Operations (GAAP)	\$ (7,295)	\$ (23,117)	\$ (24,448)	\$ (31,743)	\$ (100,170)	
Product deferred revenue fair value adjustment	-	-	-	-	391	
Service deferred revenue fair value adjustment	48	243	48	96	714	
Share-based compensation expense (1)	15,857	17,418	12,743	28,600	30,383	
Amortization of acquired intangible assets (2)	22,357	25,712	22,373	44,730	57,579	
Business development and integration expense (3)	39	366	(21)	18	385	
New standard implementation expense (4)	-	54	9	9	816	
Compensation for post-combination services (5)	135	169	193	328	618	
Restructuring charges	150	2,472	123	273	3,619	
Impairment of intangible assets	-	-	-	-	35,871	
Acquisition related depreciation expense (6)	69	164	121	190	662	
Loss on divestiture	-	9,177	-	-	9,177	
Transitional service agreement income (7)	275	219	909	1,184	219	
Non-GAAP Income from Operations	<u>\$ 31,635</u>	<u>\$ 32,877</u>	<u>\$ 12,050</u>	<u>\$ 43,685</u>	<u>\$ 40,264</u>	
Net Loss (GAAP)	\$ (17,472)	\$ (26,428)	\$ (29,343)	\$ (46,815)	\$ (88,932)	
Product deferred revenue fair value adjustment	-	-	-	-	391	
Service deferred revenue fair value adjustment	48	243	48	96	714	
Share-based compensation expense (1)	15,857	17,418	12,743	28,600	30,383	
Amortization of acquired intangible assets (2)	22,357	25,712	22,373	44,730	57,579	
Business development and integration expense (3)	39	366	(21)	18	385	
New standard implementation expense (4)	-	54	9	9	816	
Compensation for post-combination services (5)	135	169	193	328	618	
Restructuring charges	150	2,472	123	273	3,619	
Impairment of intangible assets	-	-	-	-	35,871	
Acquisition related depreciation expense (6)	69	164	121	190	662	
Loss on divestiture	-	9,177	-	-	9,177	
Change in contingent consideration	(6)	-	523	517	-	
Income tax adjustments (8)	181	(9,367)	(1,175)	(994)	(29,229)	
Non-GAAP Net Income	<u>\$ 21,358</u>	<u>\$ 19,980</u>	<u>\$ 5,594</u>	<u>\$ 26,952</u>	<u>\$ 22,054</u>	
Diluted Net Loss Per Share (GAAP)	\$ (0.23)	\$ (0.34)	\$ (0.38)	\$ (0.61)	\$ (1.12)	
Share impact of non-GAAP adjustments identified above	0.51	0.59	0.45	0.96	1.39	
Non-GAAP Diluted Net Income Per Share	<u>\$ 0.28</u>	<u>\$ 0.25</u>	<u>\$ 0.07</u>	<u>\$ 0.35</u>	<u>\$ 0.27</u>	

Shares used in computing non-GAAP diluted net income per share

76,310  
23

79,363

78,487

77,387

October 31, 2019

# GAAP to Non-GAAP Reconciliation: Q2'FY20, Q2'FY19, Q1 FY'20, 1H'FY20 & 1H FY'19 Itemization

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

	Three Months Ended September 30,		Three Months Ended June 30,		Six Months Ended September 30,	
	2019	2018	2019		2019	2018
(1) Share-based compensation expense included in these amounts is as follows:						
Cost of product revenue	\$ 345	\$ 544	\$ 267	\$ 612	\$ 813	
Cost of service revenue	1,842	1,845	1,467	3,309	3,175	
Research and development	4,820	5,414	3,819	8,639	9,565	
Sales and marketing	5,288	6,043	4,135	9,423	10,402	
General and administrative	3,552	3,572	3,055	6,617	6,428	
Total share-based compensation expense	<u>\$ 15,857</u>	<u>\$ 17,418</u>	<u>\$ 12,743</u>	<u>\$ 28,600</u>	<u>\$ 30,383</u>	
(2) Amortization expense related to acquired software and product technology, trademarks, customer relationships included in these amounts is as follows:						
Cost of product revenue	\$ 6,225	\$ 7,731	\$ 6,230	\$ 12,455	\$ 16,133	
Operating expenses	16,132	17,981	16,143	32,275	41,446	
Total amortization expense	<u>\$ 22,357</u>	<u>\$ 25,712</u>	<u>\$ 22,373</u>	<u>\$ 44,730</u>	<u>\$ 57,579</u>	
(3) Business development and integration expense included in these amounts is as follows:						
Research and development	\$ -	\$ 356	\$ 43	\$ 43	\$ 396	
General and administrative	39	10	(64)	(25)	29	
Total business development and integration expense	<u>\$ 39</u>	<u>\$ 366</u>	<u>\$ (21)</u>	<u>\$ 18</u>	<u>\$ 385</u>	
(4) New standard implementation expense included in these amounts is as follows:						
General and administrative	\$ -	\$ 54	\$ 9	\$ 9	\$ 816	
Total new standard implementation expense	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 9</u>	<u>\$ 9</u>	<u>\$ 816</u>	
(5) Compensation for post-combination services included in these amounts is as follows:						
Research and development	\$ 135	\$ 148	\$ 193	\$ 328	\$ 533	
Sales and marketing	-	7	-	19	19	
General and administrative	-	14	-	-	66	
Total compensation for post-combination services	<u>\$ 135</u>	<u>\$ 169</u>	<u>\$ 193</u>	<u>\$ 328</u>	<u>\$ 618</u>	
(6) Acquisition related depreciation expense included in these amounts is as follows:						
Cost of product revenue	\$ 4	\$ 11	\$ 10	\$ 14	\$ 24	
Cost of service revenue	2	6	3	5	26	
Research and development	48	115	83	131	421	
Sales and marketing	9	13	10	19	56	
General and administrative	6	19	15	21	135	
Total acquisition related depreciation expense	<u>\$ 69</u>	<u>\$ 164</u>	<u>\$ 121</u>	<u>\$ 190</u>	<u>\$ 662</u>	
(7) Transitional service agreement income included in these amounts is as follows:						
Cost of service revenue	\$ -	\$ 2	\$ -	\$ -	\$ 2	
Research and development	10	23	102	112	23	
Sales and marketing	42	50	125	168	50	
General and administrative	223	144	681	904	144	
Other Income (expense), net	(275)	(219)	(909)	(1,184)	(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	\$ 181	\$ (9,367)	\$ (1,175)	\$ (994)	\$ (29,229)	
Total income tax adjustments	<u>\$ 181</u>	<u>\$ (9,367)</u>	<u>\$ (1,175)</u>	<u>\$ (994)</u>	<u>\$ (29,229)</u>	







**Thank You**