

NETSCOUT™

Q1 FY 2021 Conference Call

*NETSCOUT SYSTEMS, INC.
July 30, 2020*



Agenda

- **Introduction & Safe Harbor**
 - Tony Piazza, Vice President, Corporate Finance
- **CEO Perspective**
 - Anil Singhal, President and CEO
- **COO Update**
 - Michael Szabados, Chief Operating Officer
- **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 assumptions for NetScout, customer behaviors initiatives; that 5G is a longer-term growth opportunity and a driver of growth that will benefit NetScout's business in numerous ways, and that momentum for 5G initiatives may reaccelerate; that NetScout is committed to improving its operations and maintaining cost controls such that it should be able to provide leverage in its earnings per share over fiscal year 2020; that NetScout intends to maintain a solid financial position; and that NetScout should have the flexibility and liquidity required to continue to weather the global pandemic and challenging economic environment, while also investing in its technology and solution to maintain its leadership position within the industry, 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 which is 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 revenue, non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income, non-GAAP net income per share (diluted) and non-GAAP earnings before interest and other expense, income taxes, depreciation and amortization (EBITDA) from operations. Non-GAAP revenue eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation. Non-GAAP gross profit includes the aforementioned revenue adjustments and also removes expenses related to the amortization of acquired intangible assets, share-based compensation, and acquisition-related depreciation. Non-GAAP income from operations includes the aforementioned adjustments and also removes business development and integration expense, compensation for post-combination services, legal expenses related to a civil judgment, restructuring charges, and costs related to new accounting standard implementation, and adds back transitional service agreement income. Non-GAAP net income includes the foregoing adjustments related to non-GAAP income from operations, net of related income tax effects while removing transitional service agreement income and changes in contingent consideration. 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 (revenue, gross profit, operating margin, net income and diluted net income per share), and may have limitations because 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

Q1 FY'21 Non-GAAP Financial Results

Non-GAAP (\$ in millions, except per share data)	Q1 FY'21 6/30/2020	Q1 FY'20 6/30/2019
Revenue	\$ 183.8	\$ 186.1
Gross Margin	74.6%	74.9%
Operating Margin	11.2%	6.5%
EPS	\$ 0.17	\$ 0.07

- Strong EPS growth on relatively consistent revenue
- Strong Enterprise revenue growth; muted by SP project-based nature
- EPS growth driven by continued cost controls and reduced sales & marketing expenses primarily due to COVID-19 related restrictions

See Appendix for GAAP-Non-GAAP Reconciliations



Business Insights

- Market Perspective
- Enterprise Vertical
- Service Provider Vertical



FY'21 Outlook & Summary

- We will continue to defer providing fiscal year 2021 guidance until there is a clearer outlook on the duration and magnitude of the effects of the COVID-19 global pandemic
- We remain committed to improving operations, maintaining our disciplined cost control, and enhancing EPS performance
- With our strong financial profile and experienced team, NETSCOUT remains well-positioned to weather this global pandemic and challenging economic environment



COO Update

Michael Szabados
Chief Operating Officer

COO Highlights

- Customer wins

- Go-to-market activities



Financial Review & FY'21 Commentary

Jean Bua

Executive Vice President and Chief Financial Officer

Q1 FY'21 Results

(in millions except EPS and % data)

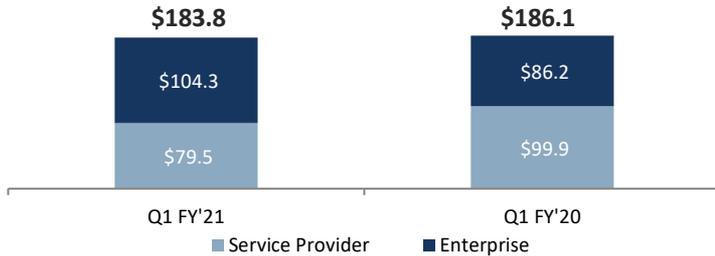
	Q1 FY'21 GAAP 6/30/2020	Q1 FY'20 GAAP 6/30/2019	% Change		Q1 FY'21 Non-GAAP 6/30/2020	Q1 FY'20 Non-GAAP 6/30/2019	% Change
Revenue:							
Product	\$ 71.7	\$ 75.7	-5.3%		\$ 71.7	\$ 75.7	-5.3%
Service	\$ 112.1	\$ 110.3	1.6%		\$ 112.1	\$ 110.4	1.5%
Total revenue	\$ 183.8	\$ 186.0	-1.2%		\$ 183.8	\$ 186.1	-1.2%
Cost of revenue	\$ 53.0	\$ 54.7	-3.1%		\$ 46.6	\$ 46.8	-0.4%
Gross profit	\$ 130.8	\$ 131.3	-0.4%		\$ 137.2	\$ 139.3	-1.5%
<i>Gross profit margin</i>	71.2%	70.6%			74.6%	74.9%	
Operating expenses	\$ 145.3	\$ 155.7	-6.7%		\$ 116.6	\$ 127.2	-8.3%
Income (loss) from operations	\$ (14.5)	\$ (24.4)	-40.6%		\$ 20.6	\$ 12.1	70.2%
<i>Income from operations margin</i>	-7.9%	-13.1%			11.2%	6.5%	
Net income (loss)	\$ (17.4)	\$ (29.3)	-40.6%		\$ 12.2	\$ 5.6	117.9%
Diluted net income (loss) per share	\$ (0.24)	\$ (0.38)	-36.8%		\$0.17	\$0.07	142.9%
Diluted shares outstanding	72.3	77.3	-6.5%		73.5	78.5	-6.4%

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



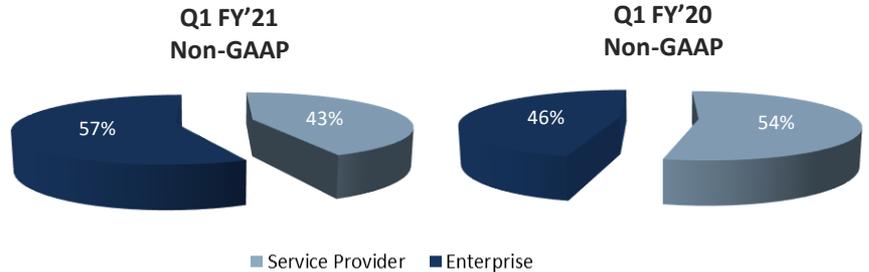
Q1 FY'21 Revenue Trends: Customer Verticals

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



Figures in charts and tables may not total due to rounding

Total Non-GAAP Revenue Composition by Customer Vertical



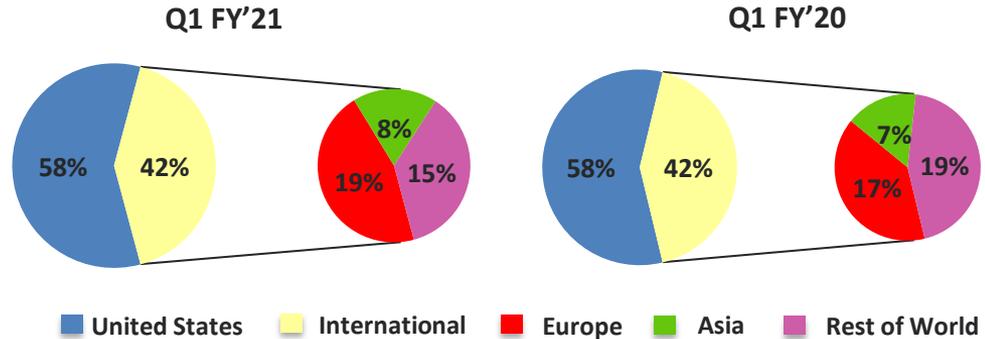
See Appendix for GAAP-Non-GAAP Reconciliations



Q1 FY'21 Revenue Trends: Geographic Mix on a GAAP Basis

	Q1 FY'21 GAAP 6/30/20	Q1 FY'20 GAAP 6/30/19
Total Revenue	\$183.8	\$186.0
<i>United States</i>	\$107.3	\$107.1
<i>International</i>	\$76.5	\$78.9
<i>Europe</i>	\$34.8	\$31.3
<i>Asia</i>	\$13.7	\$12.6
<i>Rest of World</i>	\$28.0	\$35.1

Figures in charts and tables may not total due to rounding



GAAP Balance Sheet Highlights & Free Cash Flow

(in millions)

<i>(Unaudited)</i>	Q1 FY'21 6/30/20
<i>Cash and Securities*</i>	\$ 426.5
<i>Accounts Receivable, Net</i>	\$ 138.8
<i>Inventories</i>	\$ 27.3
<i>Total Long-Term Debt</i>	\$ 450.0
<i>Total Deferred Revenue</i>	\$ 349.5
<i>Total Stockholders' Equity</i>	\$ 1,929.8

* 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
Operating Cash Flow	\$ 44.9
Purchase of Fixed Assets & Intangible Assets	\$ (6.8)
Free Cash Flow	\$ 38.1

Financial Profile	
	Q1 FY'21 6/30/2020
Cash and Securities position	\$426.5
Liquidity	3.6x
Gross leverage	2.3x
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



FY'21 Commentary

Given the continuing and rapidly evolving COVID-19 situation, it is not possible, with reasonable accuracy, to estimate the impact of the pandemic on future financial performance. Therefore, the Company will defer providing fiscal year 2021 guidance until there is a clearer outlook on the duration and magnitude of the effects of the global pandemic.

Q2 FY'21 Capital Structure Items

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



Upcoming Investor Events

Date	Event	Location
August 12, 2020	Oppenheimer 23 rd Annual Technology, Internet & Communications Conference	Virtual
September 15, 2020	Jefferies Virtual Software Conference	Virtual



Appendix

The background of the slide is a dark, monochromatic photograph of a tunnel. The ceiling is arched and features a series of parallel ribs that create a strong sense of perspective, drawing the eye towards the vanishing point in the distance. The floor is composed of a grid of rectangular panels, also receding into the distance. The overall atmosphere is mysterious and industrial.

GAAP to Non-GAAP Reconciliation: Q1'FY21, Q1'FY20 & Q4 FY'20 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 June 30,		Three Months Ended March 31,
	2020	2019	2020
Product Revenue (GAAP)	\$ 71,693	\$ 75,719	\$ 116,538
Non-GAAP Product Revenue	<u>\$ 71,693</u>	<u>\$ 75,719</u>	<u>\$ 116,538</u>
Service Revenue (GAAP)	\$ 112,122	\$ 110,305	\$ 112,813
Service deferred revenue fair value adjustment	2	48	48
Non-GAAP Service Revenue	<u>\$ 112,124</u>	<u>\$ 110,353</u>	<u>\$ 112,861</u>
Revenue (GAAP)	\$ 183,815	\$ 186,024	\$ 229,351
Service deferred revenue fair value adjustment	2	48	48
Non-GAAP Revenue	<u>\$ 183,817</u>	<u>\$ 186,072</u>	<u>\$ 229,399</u>



GAAP to Non-GAAP Reconciliation: Q1'FY21, Q1'FY20 & Q4'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 June 30,		Three Months Ended March 31,	
	2020	2019	2020	
Revenue (GAAP)	\$ 183,815	\$ 186,024	\$ 229,351	
Service deferred revenue fair value adjustment	2	48	48	
Non-GAAP Revenue	<u>\$ 183,817</u>	<u>\$ 186,072</u>	<u>\$ 229,399</u>	
Gross Profit (GAAP)	\$ 130,835	\$ 131,281	\$ 166,619	
Service deferred revenue fair value adjustment	2	48	48	
Share-based compensation expense (1)	1,595	1,734	1,416	
Amortization of acquired intangible assets (2)	4,735	6,230	6,297	
Acquisition related depreciation expense (6)	6	13	5	
Non-GAAP Gross Profit	<u>\$ 137,173</u>	<u>\$ 139,306</u>	<u>\$ 174,385</u>	
Income (loss) from Operations (GAAP)	\$ (14,487)	\$ (24,448)	\$ 12,562	
Service deferred revenue fair value adjustment	2	48	48	
Share-based compensation expense (1)	12,096	12,743	10,900	
Amortization of acquired intangible assets (2)	19,996	22,373	22,407	
Business development and integration expense (3)	16	(21)	335	
New standard implementation expense (4)	-	9	(5)	
Compensation for post-combination services (5)	64	193	125	
Restructuring charges	93	123	2,208	
Acquisition related depreciation expense (6)	61	121	61	
Transitional service agreement income (7)	-	909	53	
Legal judgments expense (8)	2,804	-	-	
Non-GAAP Income from Operations	<u>\$ 20,645</u>	<u>\$ 12,050</u>	<u>\$ 48,694</u>	
Net Income (loss) (GAAP)	\$ (17,420)	\$ (29,343)	\$ 7,336	
Service deferred revenue fair value adjustment	2	48	48	
Share-based compensation expense (1)	12,096	12,743	10,900	
Amortization of acquired intangible assets (2)	19,996	22,373	22,407	
Business development and integration expense (3)	16	(21)	335	
New standard implementation expense (4)	-	9	(5)	
Compensation for post-combination services (5)	64	193	125	
Restructuring charges	93	123	2,208	
Acquisition related depreciation expense (6)	61	121	61	
Change in contingent consideration	-	523	245	
Legal judgments expense (8)	2,804	-	-	
Income tax adjustments (9)	(5,496)	(1,175)	(6,239)	
Non-GAAP Net Income	<u>\$ 12,216</u>	<u>\$ 5,594</u>	<u>\$ 37,421</u>	
Diluted Net Income (loss) Per Share (GAAP)	\$ (0.24)	\$ (0.38)	\$ 0.10	
Share impact of non-GAAP adjustments identified above	0.41	0.45	0.40	
Non-GAAP Diluted Net Income Per Share	<u>\$ 0.17</u>	<u>\$ 0.07</u>	<u>\$ 0.50</u>	
Shares used in computing non-GAAP diluted net income per share	73,454	78,487	74,134	



GAAP to Non-GAAP Reconciliation: Q1'FY21, Q1'FY20 & Q4'FY20 Itemization

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

	Three Months Ended June 30,		Three Months Ended March 31,	
	2020	2019	2020	
(1) Share-based compensation expense included in these amounts is as follows:				
Cost of product revenue	\$ 245	\$ 267	\$	226
Cost of service revenue	1,350	1,467	1,190	1,190
Research and development	3,781	3,819	3,435	3,435
Sales and marketing	3,992	4,135	3,752	3,752
General and administrative	2,728	3,055	2,297	2,297
Total share-based compensation expense	<u>\$ 12,096</u>	<u>\$ 12,743</u>	<u>\$</u>	<u>10,900</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	\$ 4,735	\$ 6,230	\$	6,297
Operating expenses	15,261	16,143	16,110	16,110
Total amortization expense	<u>\$ 19,996</u>	<u>\$ 22,373</u>	<u>\$</u>	<u>22,407</u>
(3) Business development and integration expense included in these amounts is as follows:				
Research and development	\$ -	\$ 43	\$ -	-
General and administrative	16	(64)	335	335
Total business development and integration expense	<u>\$ 16</u>	<u>\$ (21)</u>	<u>\$</u>	<u>335</u>
(4) New standard implementation expense included in these amounts is as follows:				
General and administrative	\$ -	\$ 9	\$ (5)	(5)
Total new standard implementation expense	<u>\$ -</u>	<u>\$ 9</u>	<u>\$</u>	<u>(5)</u>
(5) Compensation for post-combination services included in these amounts is as follows:				
Research and development	\$ 63	\$ 193	\$	125
Sales and marketing	-	1	-	-
Total compensation for post-combination services	<u>\$ 64</u>	<u>\$ 193</u>	<u>\$</u>	<u>125</u>
(6) Acquisition related depreciation expense included in these amounts is as follows:				
Cost of product revenue	\$ 4	\$ 10	\$	3
Cost of service revenue	2	3	2	2
Research and development	42	83	42	42
Sales and marketing	9	10	9	9
General and administrative	4	15	5	5
Total acquisition related depreciation expense	<u>\$ 61</u>	<u>\$ 121</u>	<u>\$</u>	<u>61</u>
(7) Transitional service agreement income included in these amounts is as follows:				
Research and development	\$ -	\$ 102	\$	6
Sales and marketing	-	126	8	8
General and administrative	-	681	39	39
Other Income (expense), net	-	(909)	(63)	(63)
Total transitional service agreement income	<u>\$ -</u>	<u>\$ -</u>	<u>\$</u>	<u>-</u>
(8) Legal judgments expense included in these amounts is as follows:				
General and administrative	\$ 2,804	\$ -	\$	-
Total legal judgments expense	<u>\$ 2,804</u>	<u>\$ -</u>	<u>\$</u>	<u>-</u>
(9) Total income tax adjustment included in these amounts is as follows:				
Tax effect of non-GAAP adjustments above	\$ (5,496)	\$ (1,175)	\$	(6,239)
Total income tax adjustments	<u>\$ (5,496)</u>	<u>\$ (1,175)</u>	<u>\$</u>	<u>(6,239)</u>





Thank You