



**NETSCOUT SYSTEMS, INC.
Fourth-Quarter and Full Fiscal Year 2021 Financial Results Conference Call
Management's Prepared Remarks**

May 6, 2021

Tony Piazza: Introduction

Thank you, operator, and good morning everyone. Welcome to NETSCOUT'S fourth-quarter and full fiscal year 2021 conference call for the period ended March 31, 2021. Joining me today are:

- Anil Singhal, NETSCOUT's president and chief executive officer,
- Michael Szabados, NETSCOUT's chief operating officer; and
- Jean Bua, NETSCOUT's executive vice president and chief financial officer.

There is a slide presentation that accompanies our prepared remarks. You can advance the slides in the webcast viewer to follow our commentary. Both the slides and the prepared remarks can be accessed in multiple areas within the investor relations section of our website at ir.netscout.com including the IR landing page under financial results, the webcast itself, and under financial information on the quarterly results page.

Slide #3: Safe Harbor Statement

Moving on to slide number 3, today's conference call will include forward-looking statements. These statements may be prefaced by words such as "anticipate," "believe," and "expect" and will cover a range of topics that are not strictly historical facts such as our outlook, our market opportunities and market share, key business initiatives and future product plans, along with their potential impact on our financial performance. These forward-looking statements involve risks and uncertainties and actual results could differ materially from the forward-looking statements due to known and unknown risks, uncertainties, assumptions and other factors, which are described on this slide and in today's financial results press release as well as in the Company's Annual Report on Form 10-K for the year ended March 31, 2020

and subsequent quarterly reports on Form 10-Q. NETSCOUT assumes no obligation to update any forward-looking information contained in this communication or with respect to the announcements described herein.

Slide #4: Non-GAAP Reconciliation

Let's turn to slide number 4, which involves non-GAAP metrics. While this slide presentation includes both GAAP and non-GAAP results, unless otherwise stated, financial information discussed on today's conference call will be on a non-GAAP basis only. The rationale for providing non-GAAP measures, along with the limitations of relying solely on those measures, is detailed on this slide and in today's press release. These measures should not be considered in isolation from or as a substitute for financial information prepared in accordance with GAAP.

Reconciliations of all non-GAAP metrics with the applicable GAAP measures are provided in the appendix of this slide presentation and in today's earnings press release, both of which are available on our website.

I will now turn the call over to Anil for his prepared remarks. Anil ...

Anil Singhal:

Thank you, Tony. Good morning everybody and thank you for joining us today.

I am proud to report that we met the objectives that we set for fiscal year 2021 as we managed through the unprecedented and challenging environment created by the COVID-19 global pandemic. We served and supported our customers well, kept our team safe and productive, supported the communities that surround us, continued to invest for the future, and delivered on our financial goals of expanding operating leverage, growing diluted earnings per share, and generating strong free cash flow. Our performance demonstrates the importance of our smart visibility and cybersecurity solutions as well as the flexibility, agility, and resiliency of our business.

In addition to achieving our objectives, I am also pleased to report that we continued to focus on our social responsibility initiatives despite the restrictive pandemic environment. As a few examples, we provided sponsorships for: “Tech Goes Home” which addresses the digital divide; “Advancing Women of Color in Technology Coalition” that focuses on equality; our annual civic “hackathon” with Shooting Stars Foundation which helps foster students’ interest in STEM topics and community issues; and COVID vaccinations and aid to underserved communities.

Now, let’s move to slide number 6 for a brief recap of our quarterly and full fiscal year 2021 non-GAAP results and strategic highlights.

Slide #6: Q4'21 and Full FY'21 Financial & Strategic Highlights

- For the fourth quarter, we delivered stronger-than-anticipated diluted earnings per share results on overall revenue that was in-line with our expectations.
 - Revenue for the quarter was 213.4 million dollars with corresponding diluted earnings per share of 49 cents.
- For the full fiscal year 2021, revenue was 831.3 million dollars. Diluted earnings per share increased 8 percent, compared with the prior fiscal year, to 1 dollar and 70 cents. This was supported by more than a two-percentage-point increase in our operating margin over the prior fiscal year. We also delivered strong free cash flow of nearly 200 million dollars for the full fiscal year.
- From a strategic perspective, we continued to invest in and advance our product offerings for both our service provider and enterprise customer verticals. Part of this effort was combining elements of our service assurance and cybersecurity technologies to provide enhanced capabilities to our customers. This combination leverages the strengths of our smart visibility and smart edge protection offerings and fosters the convergence of IT operations with security operations. These solutions are designed to enhance our customers' current investment in our technology while reducing their total cost of ownership and increasing their return on investment. We have also focused on adapting our products to move from the core to the edge as technology evolves. At our recent Engage 21 technology and user conference, we launched our new Omnis brand, which has adaptors for 5G, cloud, cybersecurity, and analytics. More on this later.

Let's move to slide 7 for some further perspective as we review market trends and business insights.

Slide #7: Market Trends and Business Insights

Although the global pandemic created challenges on many fronts, it has highlighted the importance of technology and connection as the world was forced to quickly adapt, operate, and stay connected in different ways for work, education, commerce, healthcare, and other aspects of life. It is clear, that with greater reliance on technology, the need for actionable smart visibility and smart cybersecurity solutions to assure and secure our connected world and the end-user experience is vital.

As people around the world begin to get immunized, and eventually move from a reactive state to a proactive state in advancing their digital transformation initiatives in the post-COVID environment, we believe that three technology trends will be accelerated. The first, is expedited cloud migration for greater flexibility and agility to adapt to changing environments. The second, relates to enhanced protection against the evolving cybersecurity threat landscape given the unprecedented level of cyber and ransomware attacks over the past year. And the third, is greater momentum on building out 5G networks to leverage even greater technology and communication opportunities for advanced analytics use cases, including artificial intelligence and machine learning.

As this occurs, we believe that NETSCOUT is well-positioned to capitalize on these technology market trends. We experienced record registration for our recent Engage technology

and user event that we believe demonstrates the high-level of interest in these trends and our solutions. Michael will discuss our Engage 21 event in more detail during his remarks. Let me provide more color on the technology trends as I review our business verticals.

Service Provider Customer Vertical

In the service provider customer vertical, revenue grew approximately 5 percent in the quarter and was down approximately 5 percent for the full fiscal year, compared with the same periods in the prior fiscal year. The increase in the fourth quarter was primarily related to a Tier-1 North American carrier completing an initial purchase of our solutions for its 5G network. This is the second Tier-1 North American carrier to select our 5G solution. Michael will provide more insight on this and other deals that occurred in the quarter during his remarks.

In the service provider customer vertical, we see some momentum around 5G stand-alone network advancements given the competitive carrier environment, the recent spectrum auctions, and the trend toward private 5G networks. We continue to work with our customers as they plan their migrations and consider our “5G ready” solutions to avoid disruption given we are the incumbent and they have already made base investments. As these networks advance, with the new spectrum recently purchased at the FCC auctions in the United States and auctions in other countries, and more traffic is running over them, NETSCOUT’s smart visibility solutions will be important to maintain the control and user experience expected of the new technology.

We are also advancing our analytics products to support our customers in understanding their customers’ behaviors in order to assist in identifying new revenue sources to help

monetize their investments. In addition, we are focusing on mobile security to help customers deal with the volume, complexity, and risk associated with IoT devices as they start to become more prolific on the mobile service provider networks.

Enterprise Customer Vertical

Turning to our Enterprise customer vertical, revenue declined approximately 19 percent for the quarter and approximately 8 percent for the full fiscal year, compared with the same periods in the prior fiscal year. As discussed on prior calls, the primary drivers of the full fiscal year decline were lower spending in the federal government sector and the decrease in ancillary product lines like Fluke Systems.

Overall, we see opportunity in the enterprise vertical as we partner with leaders in the cloud industry and as customers move from a reactive state in the pandemic, to a proactive state where cloud migrations accelerate and as the cybersecurity threat landscape continues to challenge organizations. We have introduced our new Omnis solutions to better address these visibility and cybersecurity needs. These solutions help provide customers with the confidence and control to innovate and the ability to detect, investigate, and mitigate advanced cybersecurity threats, reducing the mean-time-to-resolution of issues, which saves time and cost. Our solutions, like Smart Edge Monitoring and Cyber Investigator, also leverage existing customers' investments to reduce total cost of ownership and enhance their return on investment while ensuring the user experience and security of their technology.

We also see opportunity in the enterprise vertical for 5G utilization as enterprises and

governments look to leverage 5G technology in private networks, through network slices, and at the edge, for industrial automation, telehealth, virtual reality and gaming, autonomous transportation, smart warehouses, homes, and cities, national defense, and other new use cases. As one of only a handful of vendors that have both service provider and enterprise knowledge, our capabilities with both scale and functionality should serve us and our customers well as these advancements occur over the longer term.

Michael will highlight some of the customer wins we experienced in this vertical during the quarter in his remarks.

Now let's move to slide number 8 to review our outlook.

Slide #8: Outlook & Summary

As we look forward, we are excited about the future and the opportunities we see to leverage the development investments we made in our solutions during fiscal year 2021 to address the long-term technology market trends that favor NETSCOUT.

For fiscal year 2022, we are focused on advancing our existing and new products, like Omnis, growing revenue, further enhancing our diluted earnings per share, and generating strong free cash flow. Jean will share more details related to our fiscal year 2022 financial outlook during her remarks.

Regarding revenue growth, we believe that as the global pandemic moves into the

rearview mirror, the movement to spend for the future should resume. Until then, we are being cautious with our outlook. Approximately 40 percent of our revenue has historically come from international markets, which appear to be recovering at a slower pace than the United States. Given our strong customer base and relationships, and approximately half of our total revenue historically coming from recurring service revenue, primarily associated with maintenance contracts, we expect service revenue to remain solid for the fiscal year. With these dynamics, we are targeting overall revenue growth for fiscal year 2022 in the low-single-digits. We will continue to monitor the macro-economic environment and recovery for improvements and will update our outlook on future calls as appropriate.

Our strategy going forward focuses on three main tenets. One, we will further expand within our existing customer base to access existing and incremental budget dollars for 5G, cloud, and smart DDoS use cases. Two, we will acquire new customers through targeting new logos with existing and new products, including a tier below where we may normally operate today. Our “software-centric” solutions should provide us with the flexibility to target and sell into this price-sensitive market with our automated and affordable solutions. And third, we will further expand into high-value adjacencies such as cybersecurity, beyond DDoS, and big data analytics, leveraging our smart data. We believe that we have all the right building blocks to address these areas and expect they will contribute to revenue growth in fiscal year 2022 and beyond.

From a cost and investment perspective, we will continue to exercise the disciplined cost control and prudent capital allocation philosophies that have served us well in the past. We are

committed to further enhancing our diluted earnings per share and generating solid free cash flow. This is important as the cost structure will be pressured as COVID restricted activities, such as travel and events, start to resume this fiscal year. Finally, we expect to maintain a strong financial profile to provide us the resources and flexibility required to advance our strategy.

In closing, I would like to thank my fellow NETSCOUT Guardians around the world for their tireless efforts, dedication, and flexibility, as well as our customers, partners, and other stakeholders for their support as we navigated the global pandemic this past fiscal year. Our resolve has been tested, but our “Lean But Not Mean” philosophy and culture has served us well in these trying times, as it has over our thirty-five plus years in business.

I look forward to sharing our progress and achievements with you over the course of fiscal year 2022 and beyond.

I'll turn the call over to Michael for his remarks at this point.

Slide #9: COO Update

Michael Szabados:

Thank you, Anil, and good morning everyone. Slide 10 outlines the areas I will cover.

Customer Wins:

Starting with customer wins in the service provider vertical, we are starting to see some momentum in the stand-alone 5G network deployments with multiple deals in the fourth quarter

with both tier-1 and tier-2 carriers in North America. We started to see 5G related projects with calibration a few years ago and should start to move to monitoring the core, the RAN, the edge, and user experience analytics over time.

For example, in the fourth quarter, we closed a low-eight-figure deal with a leading Tier-1 North American carrier that included more calibration services as well as comprehensive service assurance solutions for their 5G network. Consistently, with our customers' 5G implementations, our deployments include a combination of virtualized software and hardware components. This is the second tier-1 carrier in North America to utilize our 5G solutions. We also closed two smaller, low seven-figure deals, with regional Tier-2 providers in the fourth quarter, as they started implementing 5G standalone deployments. Both deals demonstrate our value in being able to provide consistent service assurance solutions as carriers transition from 4G to 5G, regardless of the size of the carrier.

In the enterprise vertical, we continue to serve our existing customers as well as pursue new logos. In the fourth quarter, we won a low-seven-figure deal with a North American insurance company. This is a new customer for us, and they bought our combined service assurance solution, including active, passive, virtual, and software components.

Finally, we also won several new logos in the fourth quarter with some smaller deals involving Arbor's enterprise cybersecurity product, Arbor Edge Defense, which can be a customer's first and last line of defense against cyberattacks, meaning it addresses both inbound and outbound threats. With the increased volume of cybersecurity threats over the past year, as

outlined in our recently issued Second-Half 2020 Threat Intelligence Report, and our enhanced focus on cybersecurity through our new Omnis security brand, we are targeting more activity in this area in the future.

Go-to-Market Activities:

On the go-to-market front, we continue to focus on our strategic partnerships and customer engagement.

Last month, we announced a partnership with Dell Technologies OEM Solutions group to certify Dell Technologies' OEM PowerEdge servers and PowerSwitch switches to work seamlessly with our nGenius Packet Flow Operating System (PFOS) and InfiniStreamNG (ISNG) software. We will be jointly selling these solutions to existing and new Dell accounts.

As Anil mentioned, last month we held our Engage 21 annual technology and user conference where we had record attendance with more than 4,200 registrants, including more than 1,000 first-time attendees. Over the two-week event, we showcased our Service Assurance and Cybersecurity capabilities and promoted our Visibility Without Borders campaign. The virtual conference was a combination of presentations, panel discussions, demonstrations, and hands-on training. The feedback from attendees was excellent.

With cloud migration being a key topic these days, one highly attended session was a panel discussion with VMWare, AWS, and NETSCOUT, discussing the approach and partnership in implementing consistent and contiguous traffic visibility across on-premises,

private cloud, and public cloud domains.

At the event, we also held a separate “Enterprise Security Day” attended by more than 1,500 people from both customer and prospect accounts. The external keynote was given by Alex Stamos, ex-CIO of Facebook, who discussed why cybersecurity leaders should employ a data-driven strategy to successfully navigate their post-breach responses and emerge better-defended on the other side.

Finally, at the event, we announced our OMNIS Cybersecurity platform, combining the power of NETSCOUT’s smart visibility technology with Arbor’s Smart Edge Defense technology. The combination results in extensive network traffic visibility, pre-and-post attack, from our service assurance solutions enhanced by Arbor’s proven detection and blocking cybersecurity capabilities so that we are truly assuring availability, performance, and security of our customers’ technology.

That concludes my prepared remarks, and I will now turn the call over to Jean.

Slide #11: CFO Review

Jean Bua:

Thank you, Michael, and good morning everyone. I will review key metrics for our fourth quarter and full fiscal year 2021 as well as comment on our fiscal year 2022 outlook. As a reminder, this review focuses on our non-GAAP results unless otherwise stated, and all reconciliations with our GAAP results appear in the presentation or the appendix.

Slide #12: Q4 and FY'21 Financial Results

Slide number 12 details the results for our fourth quarter and full fiscal year 2021. Focusing on the quarterly performance first, revenue declined 7.0 percent over the same quarter in the prior year to 213.4 million dollars. Product revenue declined 15.0 percent and service revenue grew 1.3 percent over the prior year's quarter.

Our fourth-quarter fiscal year 2021 gross profit margin was 77.2 percent, up 1.2 percentage points over the same quarter last year. Our "software-only" sales were 34 percent of service assurance product revenue compared with 23 percent in the fourth quarter of the prior year. Quarterly operating expenses decreased 7.0 percent from the prior year, primarily reflecting continued cost controls and pandemic-related cost reductions. We reported an operating profit margin of 22.4 percent, up 1.2 percentage points over the prior year, with diluted earnings per share of 49 cents.

For the full fiscal year 2021, revenue was 831.3 million dollars, which was a decrease of 6.8 percent over the prior year. The gross profit margin was 76.4 percent, flat compared with the prior year. Strong "software-only" sales at 33 percent of service assurance product revenue, versus 29 percent last fiscal year, produced higher margins that were offset by lower Radio Frequency Propagation Modeling margins and higher customer support costs. Annual operating expenses decreased 10.8 percent from the prior year, primarily due to continued cost controls, pandemic-related cost savings, and headcount management. We reported an operating profit margin of 20.8 percent, up 2.5 percentage points over the prior fiscal year, with diluted earnings per share of 1 dollar and 70 cents, an 8.3 percent increase compared with the prior fiscal year.

Slide #13: FY'21 Revenue Trends: Customer Verticals

Turning to slide 13, I'd like to review key revenue trends. For fiscal year 2021, revenue for the service provider customer vertical declined 5.5 percent while the enterprise vertical declined 8.2 percent.

Approximately 52 percent of total revenue was generated from the service provider customer vertical with the remainder from the enterprise customer vertical.

Slide #14: FY'21 Revenue Trends: Geographic Mix

Turning to slide 14, which shows our geographic revenue mix, on a GAAP basis. Revenue by geography was 58 percent in the United States and 42 percent internationally. Additionally, there were no customers that represented 10 percent or more of revenue for the full fiscal year.

Slide #15: GAAP Balance Sheet Highlights & Free Cash Flow

Slide 15 details our balance sheet highlights and free cash flow. We ended the quarter with cash, cash equivalents, short-term marketable securities, and long-term marketable securities of 476.5 million dollars, which is a decrease of 14.0 million dollars since the end of the third quarter. Free cash flow generated in the quarter was 89.1 million dollars. We repaid 100 million dollars of our revolving credit facility debt during the quarter and ended fiscal year 2021 with 350 million dollars of debt outstanding on our credit facility. We currently have capacity on our share repurchase authorization and plan to be active in the market depending on market conditions, even though we did not repurchase any of our common stock during the fourth quarter.

To briefly recap other balance sheet highlights, accounts receivable, net, was 197.7 million dollars, down by 10.3 million dollars since the end of December. DSOs were 75 days versus 73 days at the end of fiscal year 2020 and 70 days at the end of December 2020.

Slide #16: FY'22 Financial Outlook Commentary

Let's move to slide 16 for some commentary on our fiscal year 2022 financial outlook.

FY'22 Non-GAAP Financial Outlook

Anil noted in his earlier comments that the outlook takes into consideration the pandemic recovery and current macro-economic environment. The fiscal year 2022 revenue range is 835 to 865 million dollars, which implies low single-digit growth. The anticipated effective tax rate is between 20 and 22 percent. Assuming approximately 75 million weighted average diluted shares outstanding, the earnings per share range is between 1 dollar and 71 cents (\$1.71) and 1 dollar and 77 cents (\$1.77).

Q1 FY'22

I'd also like to offer some "color" on the first quarter. As we assess the opportunities in front of us, we currently anticipate flat to approximately 2 percent revenue growth with a corresponding increase in earnings per share.

That concludes my formal review of our financial results. Before we transition to Q&A, I'd like to quickly note that our upcoming IR conference participation is listed on slide 17. Thank you, and I'll now turn the call over to the operator to start Q&A.