



**NETSCOUT SYSTEMS, INC.**  
**Fourth-Quarter and Full Fiscal Year 2022 Financial Results Conference Call**  
**Management's Prepared Remarks**

**May 5, 2022**

### **Tony Piazza: Introduction**

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's fourth-quarter and full fiscal year 2022 conference call for the period ended March 31, 2022. 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 [www.netscout.com](http://www.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. Examples of forward-looking statements include statements regarding our future financial performance or position, results of operations, business strategy, plans and objectives of management for future operations, and other statements that are not historical fact. You can identify forward-looking statements by their use of forward-looking words such as "anticipate," "believe," "plan," "will," "should," "expect," or other comparable terms. We caution listeners not to place undue reliance on any forward-looking statements included in this presentation which speak only as of today's date. 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, 2021, 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.

**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 the slide presentation, in today's earnings press release, and on our website.

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

**Slide #5: CEO Perspective**  
**Anil Singhal:**

Thank you, Tony, and good morning, everyone. Welcome and thank you all for joining us today.

I am pleased to report that we met all our objectives for fiscal year 2022 and delivered a solid performance on multiple fronts. In line with our “NETSCOUT without Borders” strategy, we increased our existing customer business, forged new customer relationships, and advanced our cybersecurity agenda. These successes led to total revenue growth, driven by high-single digit product revenue growth, continued margin expansion, improved diluted EPS performance, and strong free cash flow generation on a year over year basis. On behalf of NETSCOUT, I would like to thank our employees, customers, and other stakeholders who contributed to our success in fiscal year 2022.

Let's now turn to slide number 6 for a brief recap and more detail on our fourth quarter and full fiscal year 2022 non-GAAP results.

**Slide #6: Q4 and FY22 Financial Results**

- For the fourth quarter, revenue was 191.2 million dollars and diluted earnings per share was 29 cents, both exceeding our objectives for the quarter.
- For the full fiscal year 2022, we delivered 855.6 million dollars in revenue. This represented total revenue growth of approximately 3 percent year over year. Our product revenue growth rate was over 8 percent year over year, more than double that of our

total revenue growth rate during the same period.

- Notably, we ended fiscal year 2022 with a substantial backlog of approximately 50 million dollars in unshipped orders. This excludes approximately 60 million dollars in radio frequency propagation modeling orders, which we expect to recognize as revenue in fiscal year 2023.
- Turning to margins, gross margin was 77.4 percent, up 100 basis points year over year, while our operating margin was 21.0 percent, up 20 basis points year over year.
- Our enhanced margin profile delivered diluted EPS of 1 dollar and eighty-four cents (\$1.84) in the fiscal year. This represented approximately 8 percent diluted EPS growth, more than twice that of our total annual revenue growth, on a year-over-year basis.
- Finally, we generated strong free cash flow of more than 285 million dollars in our fiscal year 2022.

Let's now move to slide 7 for some further perspective on market and business insights.

### **Slide #7: Market and Business Insights**

#### *Enterprise Customer Vertical*

Starting with our enterprise customer vertical, revenue grew more than 10 percent year over year for the full fiscal year 2022. Additionally, all key industry sectors in this vertical grew on an annual basis. These customers are increasingly focused on cybersecurity solutions and the acceleration of their digital transformations as they emerge from the pandemic and adjust to the “new normal” of today’s operating environment. As a result, we continue to see spending momentum in this vertical. Michael will highlight some of the enterprise customer wins we achieved in the fourth quarter during his remarks.

*Service Provider Customer Vertical*

Moving to our service provider customer vertical, revenue declined approximately 4 percent year over year for the full fiscal year 2022. Carriers continue to be in the early stages of 5G deployment as evidenced by the amount of radio frequency propagation modeling project orders we received during this fiscal year. The majority of these projects are expected to be completed and recognized as revenue in fiscal year 2023. Michael will comment on some of the service provider wins during 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 our core service assurance and DDoS security businesses as well as the new opportunities we see within the network detection and response areas of the cybersecurity market. Our Omnis solutions offer a uniquely differentiated approach compared to today's more traditional solutions, providing faster detection, investigation, and mitigation at larger scale than most current alternatives.

As we continue to expand our cybersecurity market footprint in fiscal year 2023, we also plan to disclose more information related to our cybersecurity business, including business size and revenue growth rates. Our cybersecurity business is comprised of our current Arbor security business along with our new Omnis cybersecurity solutions. As a baseline, in our fiscal year 2022, our cybersecurity business generated revenue of approximately 230 million dollars and delivered mid-single digit revenue growth year over year.

Moving to our current outlook for fiscal year 2023. We anticipate delivering higher revenue growth than last fiscal year, with expectations for revenue to be in the range of 895 million dollars to 925 million dollars. This represents a year-over-year revenue growth rate in the mid-to-high single digits. We expect our revenue expansion to be driven by a product revenue growth rate anticipated to be in the mid-single digit to mid-teens range. Regarding profitability, we anticipate diluted earnings per share will be in the range of 1 dollar and 97 cents (\$1.97) to 2 dollars and 3 cents (\$2.03). This represents a mid-to-high single-digit diluted EPS year-over-year growth rate. We are providing this outlook despite various cost headwinds, which are related to increased costs associated with travel and events as we return to in-person business operations as well as macro headwinds driven by the competitive labor market and elevated inflation. Our outlook also includes the estimated impact of a 150 million dollar accelerated share repurchase program and a 150 million dollar debt repayment, both of which we plan to execute in the first quarter of our fiscal year 2023. Jean will provide additional color and a recap on the numbers in her remarks.

Finally, given that our current 25 million share repurchase authorization is approaching completion, our Board recently authorized a new share repurchase program to allow for the repurchase of an additional 25 million shares of our common stock with no definitive time frame for execution.

In summary, we are very pleased with our fiscal year 2022 performance and excited about the opportunities we see for NETSCOUT in fiscal year 2023 and beyond. We are entering the new fiscal year with a solid foundation from which to continue growing and remain well-positioned to help our customers address the challenges and opportunities of the digital world.

We look forward to sharing our progress and achievements with you as the new fiscal year unfolds. With that, I'll turn the call over to Michael.

**Slide #9: COO Update**

**Michael Szabados:**

Thank you, Anil, and good morning, everyone. Slide 10 outlines the areas that I will be covering today, starting with customer wins.

***Customer Wins:***

In our enterprise customer vertical, we won a mid-seven figure deal in the fourth quarter with a large global healthcare customer. This customer was focused on enhancing its infrastructure to gain greater visibility and avoid disruptions as it prepares for the dramatic increase in business that it expects to occur following the pandemic. As part of this transaction, we provided a comprehensive solution combining our new Omnis cybersecurity and smart edge monitoring products with our service assurance solutions.

Separately, we won a high six-figure order from a large defense industry customer that had acquired a new division. After acquiring the division, this customer recognized the need for a stronger service assurance solution during the integration process. Notably, this is the second integration project that we have completed for this customer, and we won this deal on the back of our strong performance on the initial project. This customer has more divisions to upgrade beyond these first two.

Turning now to our service provider customer vertical. As mentioned earlier, we are still

in the early inning of 5G, and during the fourth quarter, we received additional radio frequency propagation modeling orders from two Tier-1 domestic carriers as they advanced their 5G network planning. The combined size of these orders was an eight-figure number in the mid-teens range, and we expect to recognize the revenue associated with these projects in our fiscal year 2023 as the projects are completed. We also received a mid-seven figure 5G-related order from a Tier-2 domestic carrier in the fourth quarter as the carrier continued to roll out its 5G network.

***Go-to-Market Activities:***

Now, turning to our go-to-market activities, where we are starting to focus on in-person events again to further engage with existing and prospective customers.

Just last week, we held our Annual Technology and User Summit, ENGAGE 2022, in Orlando, Florida. The theme at ENGAGE this year was “Omnis Wave of Innovation,” with a focus on demonstrating how our visibility platform and underlying deep packet inspection technology are being extended to adjacent areas, ranging from cybersecurity to adaptive DDOS, which incorporates our AIF intelligence feed, AI/Ops, 5G, analytics, and more. We experienced a strong customer and partner turnout, and it was wonderful to interact with many of our customers and partners in person again as we slowly move into the post-pandemic world.

In addition to ENGAGE, we recently came together with AWS to host a Security Immersion Day. Focused on our Omnis Cyber Investigator integration with AWS Security Hub, this event was also well attended. Moving forward, we plan to attend the Big 5G event in Austin, Texas, in mid-May.

Thank you, everyone. 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 2022 as well as comment on our fiscal year 2023 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 appendix. Regardless, I will note the nature of any such comparisons.

**Slide #12: Q4'22 and Full FY'22 Results**

Slide number 12 details the results for our fourth quarter and full fiscal year 2022. Focusing first on quarterly performance, as discussed on last quarter's earnings conference call, we experienced an acceleration of approximately 25 to 30 million dollars of orders in our third quarter that were previously expected in our fourth quarter. Accordingly, given our strong third quarter, fourth quarter revenue declined 10.4 percent year over year to 191.2 million dollars. We also ended the fourth quarter with a backlog of approximately 50 million dollars in unshipped orders. This excludes approximately 60 million dollars in radio frequency propagation modeling orders, which we expect to recognize as revenue in fiscal year 2023.

Our fourth-quarter fiscal year 2022 gross profit margin was 77.6 percent, up 0.4 percentage points over the same quarter last year, primarily attributable to product mix. Our

fourth quarter “software-only” revenue was 45 percent of our service assurance product revenue, compared to 34 percent in the same period in the prior fiscal year. Quarterly operating expenses increased 6.5 percent from the prior year, primarily attributable to increased travel and sales compensation costs. We reported an operating profit margin of 12.4 percent compared with 22.4 percent in the same quarter last year. Diluted earnings per share was 29 cents compared with 49 cents in the same quarter last year.

For the full fiscal year 2022, revenue was 855.6 million dollars, which was an increase of 2.9 percent over the prior year. Product revenue grew 8.6 percent and service revenue declined 1.8 percent over the prior year. Gross profit margin was 77.4 percent, an increase of 1 percentage point over the prior year. “Software-only” sales were 39 percent of service assurance product revenue in the full fiscal year, versus 33 percent last fiscal year, resulting in higher margins overall. Annual operating expenses increased 4.2 percent from the prior year, primarily due to investments in sales and marketing. We reported an operating profit margin of 21.0 percent, up 0.2 percentage points over the prior fiscal year, with diluted earnings per share of 1 dollar and 84 cents, an 8.2 percent increase compared with the same period in the prior fiscal year.

**Slide #13: FY'22 Revenue Trends: Customer Verticals**

Turning to slide 13, I'd now like to review key revenue trends. For fiscal year 2022, our enterprise customer vertical revenue grew 10.6 percent, while our service provider customer vertical revenue declined 4.0 percent, both on a year-over-year basis.

Approximately 51 percent of total revenue was generated from the enterprise customer

vertical, while the remaining 49 percent was from the service provider customer vertical.

**Slide #14: FY'22 Revenue Trends: Geographic Mix**

Turning to slide 14, which shows our geographic revenue mix on a GAAP basis. Revenue by geography continues to be domestically weighted. Both domestic and international revenue increased on a year-to-date basis. No customers represented 10% or more of total revenue in either the fourth quarter or 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 703.2 million dollars in cash, cash equivalents, and short-term and long-term marketable securities, representing an increase of 149.7 million dollars since the end of the third quarter. Free cash flow generated in the quarter was 152.2 million dollars, while free cash flow generated for the full fiscal year was 285.6 million dollars. Our strong free cash flow was partially attributable to the timing of orders in the second half of the fiscal year as well as an increase in multi-year maintenance renewals and customer prepayments. From a debt perspective, we ended the fiscal year with 350 million dollars outstanding on our 800-million-dollar revolving credit facility, which expires in July 2026.

To briefly recap other balance sheet highlights, accounts receivable, net, was 148.2 million dollars, down by 85.6 million dollars since the end of December. The DSO metric was 64 days versus 75 days at the end of fiscal year 2021 and 76 days at the end of December 2021.

**Slide #16: FY'23 Outlook**

Let's move to slide 16 for commentary on our outlook. I will focus my review on our non-GAAP Outlook.

***FY'23 Outlook***

As Anil mentioned, we plan to initiate two capital structure activities in our first quarter of fiscal year 2023. First is a 150 million dollar accelerated share repurchase program. We anticipate this will be completed in the fall and will consume the majority of the 5.8 million shares remaining in our existing 25 million share repurchase program authorization. Given this, our Board recently authorized a new share repurchase program to allow for the repurchase of an additional 25 million shares of our common stock with no definitive time frame for execution. Second is the debt repayment for up to 150 million dollars of the outstanding debt on our revolving credit facility, which, when completed, should bring the outstanding balance down to 200 million dollars. Both of these transaction will be funded from our cash balance.

For our fiscal year 2023 outlook, after taking these capital structure transactions into consideration, we anticipate revenue in the range of 895 million dollars to 925 million dollars, which implies a mid-to-high single-digit year-over-year growth rate. Additionally, for the first half of the fiscal year, we anticipate delivering revenue in the range of 46 to 48 percent of our full year revenue outlook, as determined by the mid-point of our provided revenue range.

The anticipated effective tax rate is expected to be between 20 and 22 percent. Assuming approximately 73 million to 74 million weighted average diluted shares outstanding, which

includes the estimated impact of the planned 150 million dollar accelerated share repurchase program, with a partial offset for employee stock compensation dilution, we expect non-GAAP diluted earnings per share to be between 1 dollar and 97 cents (\$1.97) and 2 dollars and 3 cents (\$2.03). This represents a mid-to-high single-digit diluted EPS year-over-year growth rate. This also incorporates our expectations for increased costs associated with travel and events as we return to in-person business operations as well as the persistence of macro headwinds, driven by the competitive labor market and elevated inflation.

### ***Q1 FY'23 Outlook***

I'd also like to offer some "color" on the first quarter. As we assess the opportunities in front of us, we currently anticipate a high-single digit revenue growth rate, with a similar increase in earnings per share. We estimate that diluted weighted average shares outstanding for the first quarter will be between 73 and 74 million shares, given the estimated impact of the planned accelerated share repurchase program.

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.