NETSCOUT SYSTEMS, INC.
Fourth Quarter and Full Fiscal Year 2025 Financial Results Conference Call
Management's Prepared Remarks

May 8, 2025

Slide #2: Introduction & Agenda

Tony Piazza:

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's fourth - quarter and full fiscal year 2025 conference call for the period ended March 31, 2025. 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, 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 facts. Actual results could differ materially from any forward-looking statements. These statements speak only as of today's date and involve risks and uncertainties, including but not limited to those described on this slide and in today's financial results press release, which are available on the Investor Relations section of our website, as well as in the Company's most recent Annual

Report on Form 10-K and subsequent filings with the Securities and Exchange Commission. NETSCOUT assumes no obligation to update any forward-looking information except as required by law.

Slide #4: Non-GAAP Financial Metrics

Let's now 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 financial results 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 financial results 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.

We closed fiscal year 2025 revenue on a strong note, with fourth-quarter revenue exceeding our expectations, driven by solid performance in our Cybersecurity product line. We're pleased with our full-year revenue performance, which was in line with our original guidance range provided at the beginning of the fiscal year and consistent with the prior year's revenue after adjusting for the divestiture of the Test Optimization business. More importantly, we were able to generate approximately 50 million dollars in additional revenue this year and ultimately overcome the challenge of backlog usage from the prior fiscal year. We delivered non-GAAP EPS growth for fiscal year 2025, driven by our continued focus on prudent cost management initiatives. With a strong financial foundation and a clear strategic direction entering fiscal year 2026, we believe NETSCOUT is well positioned to navigate the current macroeconomic uncertainty and deliver sustainable, long-term growth.

With that as a backdrop, let's now turn to slide number 6 for a brief high-level recap of our non-GAAP financial results for the fourth quarter and full fiscal year 2025. Jean will provide more detail on the results later in the call.

Slide #6: Q4 and FY'25 Non-GAAP Financial Results

- For the fourth quarter, revenue increased 1 percent to approximately 205 million dollars, and non-GAAP diluted earnings per share was 52 cents, down approximately 5 percent, on a year-over-year basis.
- For the full fiscal year 2025, we delivered revenue of approximately 823 million dollars, essentially flat year over year, down less than 1 percent. As I mentioned earlier, we are happy with this performance given the divestiture of the Test Optimization business and the previously mentioned prior year backlog-driven revenue gains. When adjusting for the sale of the Test Optimization business, revenue was consistent year over year, and adjusting for

the prior year's backlog benefits, would have resulted in mid-single digit revenue growth year over year.

- From a non-GAAP EPS perspective for the full fiscal year 2025, we delivered 2 dollars and 22 cents per diluted share, a 2 cent or approximately 1 percent improvement over fiscal year 2024. We achieved this performance due to our ongoing focus on efficiency, which has contributed to an improved cost structure. We plan to carry these cost management priorities into fiscal year 2026.

Now, let's turn to slide 7 where we'll dive deeper into our key business drivers and share some additional market insights.

Slide #7: Business and Market Insights

Service Assurance

Starting with our Service Assurance offerings. In fiscal year 2025, Service Assurance revenue declined approximately 4 percent year over year. This was partially attributable to the divestiture of the Test Optimization business in fiscal year 2024 and the lower level of radio frequency propagation modeling project revenue compared to last fiscal year.

As we consider the demand dynamics for the Service Assurance offerings moving forward, we continue to see service provider customers invest in 5G initiatives at a measured pace. Customers are also making investments in network performance and new services such as Fixed Wireless Access (FWA). We believe we remain well positioned to support both domestic and international carriers as customer demands evolve and innovative network technology trends materialize. We are in active discussions with our service provider customers to demonstrate the critical value of our enhanced Smart Data generated from Deep Packet Inspection (DPI) to accelerate service provider efforts in 5G NetOps, AIOps, and Mobile Network Security.

In the enterprise vertical, we are cautiously optimistic that the growth we experienced in the second half of fiscal year 2025 will continue into fiscal year 2026 as customers evolve their digital transformation and enhance monitoring at the edges of their networks. However, we recognize that the ongoing economic uncertainty may influence customer behavior, and we are actively monitoring these trends.

Cybersecurity

Shifting to our Cybersecurity offerings. In fiscal year 2025, our Cybersecurity offerings delivered nearly 7 percent year-over-year revenue growth, driven by strong momentum within our enterprise customer vertical. As highlighted in our recently released DDoS Threat Intelligence Report, heightened geopolitical tensions continue to drive up the number of DDoS attacks. At this time, AI/ML, automation, and the abuse of enterprise-grade infrastructure is enabling more sophisticated and agile attacks. This increases the need for proactive and adaptive defense measures to effectively mitigate evolving threats. Attacks have been powered by the Mirai malware created botnets, which caused service provider attacks to surge. With this high-activity threat landscape, companies are increasingly depending on NETSCOUT's scalable and real-time adaptable solutions for their cybersecurity protection needs. As we look to fiscal year 2026, we believe the value proposition of our solutions should continue to resonate with customers and expect our core portfolio as well as our newer offerings such as Adaptive DDoS, Mobile Security, and Distributed Threat Mitigation System (DTMD) solutions to fuel continued momentum in this space.

Michael will provide more insight regarding customer wins during his remarks.

Now, let's move to slide number 8 regarding our outlook and summary.

Slide #8: FY'26 Outlook & Summary

As we look ahead to fiscal year 2026, we remain encouraged by the momentum in our Cybersecurity offerings. While we remain cautious given the broader economic uncertainty, we're committed to continuing our investments in product related AI and cybersecurity solutions. We also plan to maintain our disciplined approach to cost management and preserve our strong financial position. Based on our current view, in fiscal year 2026 we expect to achieve year-over-year revenue growth, improve our operating margin and diluted EPS performance, and continue to generate solid free cash flow. Jean will provide more specifics on the outlook in her remarks.

Our long-term strategy remains unchanged— we will continue to invest in innovation, deepen relationships with our customers, and leverage our mission-critical solutions to support the evolving performance, availability, and security needs of today's complex digital environments. With a strong financial foundation and clear strategic direction, we believe NETSCOUT is well positioned for sustainable, long-term success.

We look forward to keeping you updated on our progress as we move through the new fiscal year.

Now, let's move to slide number 9 regarding our leadership transition.

Slide #9: Leadership Transition – COO and CFO

Before I turn the call over to our COO, Michael Szabados, I want to take a moment to address the announcement we made earlier today. As shared, both Michael and our CFO, Jean Bua, will be retiring and stepping down from their roles effective May 31, 2025. We appreciate their continued commitment to the Company as they transition into advisory roles through June 2026, ensuring a smooth leadership transition. As part of our succession plan, Sanjay Munshi, the Company's Deputy COO, and Tony Piazza, NETSCOUT's Deputy CFO, will become COO and CFO, respectively, and will join the executive team effective June 1, 2025. On behalf of our board and executive team, I want to thank Jean and Michael for their many contributions in support of NETSCOUT over the years and wish them well in their retirement. We are fortunate to have capable and experienced leaders like Sanjay and Tony ready to take on the roles of COO and CFO, and I look forward to working closely with each of them.

With that, I'll turn the call over to Michael.

Slide #10: COO Update

Michael Szabados:

Good morning, everyone and thank you, Anil, for the kind words. It has been a true pleasure working with you and the outstanding team over these many years. I am confident that the organization is in great hands with Sanjay stepping in as our new COO.

Moving on to our quarterly update, slide 11 outlines the areas that I will be covering today, starting with Q4 customer win highlights.

Slide #11: COO Highlights

Customer Wins:

Starting with our Service Assurance offering, one notable win this quarter was a competitive, low-seven figure deal with a new customer, which is a leading financial services company. They were utilizing a competitor's solution that was not satisfying their requirements. During our Proof of Concept (POC), we demonstrated how our solution delivers end-to-end network visibility -- from the customer's core network to their external trading partners. This significantly reduced issue resolution times from days to mere minutes, highlighting our clear operational advantage over their existing solution. The power of our Service Assurance offerings to address issues quickly and accurately, at scale, was the clear catalyst to this win.

In our Cybersecurity offering, we expanded our relationship with a leading cloud service provider with a mid-seven figure deal that included our Sightline detection and TMS mitigation solutions to enhance their security posture at their network edge as well as inside their data centers. The customer recognizes the value of our industry-leading scalability, advanced detection, and surgical mitigation and believes it is critical to supporting the growth of their cloud and AI services business amid increasingly larger and sophisticated DDoS attacks.

Go-to-Market Activities:

Turning briefly to our go-to-market activities, we continue to actively promote our offerings to both existing and prospective customers.

For example, in early March we participated in the Mobile World Congress (MWC) in Barcelona, where we held a series of productive meetings with both existing and prospective customers. Discussions centered around our latest innovations for enhancing our Smart Data to accelerate service provider efforts in 5G NetOps, AIOps, and Mobile Network Security. More recently in May, we participated in the RSA Security Conference in San Francisco where we demonstrated how our Visibility Without Borders solutions deliver next-generation performance management, network security, and DDoS protection to ensure security, performance, and availability for the most complex and mission-critical networks.

In June we will head to San Diego for Cisco Live where we will showcase our visibility and security solutions, which are designed to ensure organizations are operationally resilient by ensuring every interaction is safer, faster, and flawless – from the edge to the cloud. In early August we will be in Las Vegas participating in the Black Hat USA conference where we will demonstrate our DDoS Protection and Omnis Network Security Solutions to ensure performance, security, and availability for the world's most powerful digital ecosystems.

That concludes my final update. Thank you for your support over the years. I will now turn the call over to Jean.

Slide #12: CFO Financial Review

Jean Bua:

Thank you, Michael, and good morning, everyone. I will review key metrics for our fourth quarter and the full fiscal year 2025 and provide some additional commentary on our fiscal year 2026 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. Additionally, all comparisons are on a year-over-year basis unless otherwise noted.

Slide #13: Q4 and FY'25 Results

Slide number 13 details the results for the fourth quarter and full fiscal year 2025. Focusing on our quarterly performance first, total revenue for the fourth quarter of fiscal year 2025 was 205 million dollars, up 0.8 percent. Product revenue was 89.5 million dollars, an increase of 0.1 percent, and service revenue was 115.5 million dollars, an increase of 1.3 percent. At the end of the fourth quarter, our total combined product backlog was 33.1 million dollars, consisting of fulfillable backlog of 25.1 million dollars, 0.9 million dollars of radio frequency propagation modeling projects, and 7.1 million dollars related to one multi-year customer enterprise license commitment. Additionally, at the end of the fourth quarter there was 8.3 million dollars of radio frequency modeling projects in deferred revenue.

Gross profit margin was 79.2 percent in the fourth quarter, up two percentage points. Quarterly operating expenses decreased 2.5 percent, primarily due to the previously announced cost reduction actions and lower variable compensation expense. Accordingly, we reported an operating profit margin of 23.1 percent, compared with 19.2 percent in the same quarter last year. Diluted earnings per share was 52 cents, which included an unrealized loss on a foreign investment of approximately 3 cents. This was down 5.5 percent from 55 cents in the same quarter last year.

For the full fiscal year 2025, revenue was 822.7 million dollars, which was a decrease of 0.8 percentage points year over year. Normalizing for the Test Optimization business that we disposed of in FY24, total revenue would have been consistent year over year. Product revenue was 359.9 million dollars, a decline of 0.2 percent, and service revenue was 462.8 million dollars, a decline of 1.3 percent. Our gross profit margin was 80 percent, an increase of 0.6 percentage points. Annual operating expenses decreased 1.9 percent from the prior year, primarily due to previously announced cost reduction actions. We reported an operating profit margin of 23.7 percent, up 1.1 percentage points compared to the prior year. Diluted earnings per share was 2 dollars 22 cents, a 0.9 percent increase. Our annual tax rate was 19 percent compared to 17.2 percent in the prior year. As a reminder, the prior year tax rate was impacted by a valuation gain in a foreign investment with favorable tax treatment.

Slide #14: FY'25 Revenue Trends: Product Lines and Customer Verticals

Turning to slide 14, I will review key revenue trends by product lines and customer verticals. Please note that all comparisons here are on a year-over-year basis, consistent with our other remarks.

For the fiscal year 2025, our Service Assurance revenue decreased by 4.4 percent, while our Cybersecurity revenues grew by 6.6 percent. During the same period, our Service Assurance product line accounted for approximately 65 percent of our total revenue, while our Cybersecurity product line accounted for the remaining 35 percent.

Turning to our customer verticals. For the fiscal year 2025, our enterprise customer vertical revenue grew 7.5 percent while our service provider customer vertical revenue decreased 10.1

percent. During the same period, our enterprise customer vertical accounted for approximately 57 percent of our total revenue, while our service provider customer vertical accounted for the remaining 43 percent.

Slide #15: FY'25 Revenue Trends: Geographic Mix

Turning to slide 15, this shows our geographic revenue mix. For the fiscal year 2025, 57 percent of our revenue was derived from the United States, with the remaining 43 percent provided by international markets, which is consistent with the prior year. Also, no customer represented 10% or more of our total revenue in either the fourth quarter or full fiscal year 2025.

Slide #16: GAAP Balance Sheet & Free Cash Flow Review

Slide 16 details certain balance sheet and free cash flow items. We ended fiscal year 2025 with 492.5 million dollars in cash, cash equivalents, short- and long-term marketable securities, and investments, representing an increase of 68.4 million dollars since the end of fiscal year 2024. Free cash flow for the fourth quarter was 140 million dollars and 211 million dollars for the full fiscal year 2025. From a debt perspective, during the fourth quarter, we repaid the 75 million dollars that was outstanding on our 600 million dollar revolving credit facility. We did not repurchase any of our common stock during the fourth quarter. We currently have capacity in our share repurchase authorization and, subject to market conditions, intend to be active in the market during fiscal year 2026.

To briefly recap other balance sheet items, accounts receivable, net, was 163.7 million dollars, representing a decrease of 28.4 million dollars since March 31, 2024. The DSO metric at the end of the fourth quarter of fiscal year 2025 was 68 days, versus 81 days at the end of fiscal year 2024. The lower DSO metric in the fourth quarter of this fiscal year was due to the timing and composition of bookings.

Slide #17: FY'26 Outlook

Let's move to slide 17 for commentary on our outlook. I will focus my review on our non-GAAP targets for fiscal year 2026.

I would like to first address the current macro environment and the impact of the proposed tariff policies. As it stands, current global tariff regulations and negotiations are not expected to have a material impact on our business from a direct cost perspective. More than 80% of our revenue comes from services and software, which are largely unaffected by these tariffs. On the hardware side, most components for our appliances are sourced either domestically, from Canada or from Mexico, and are currently exempt under the USMCA arrangements. As such, our direct cost exposure is currently minimal and could be addressed through pricing adjustments or efficiency initiatives if required.

That said, broader tariff-related activity is contributing to some uncertainty in the global macroeconomic landscape. While we haven't seen a meaningful impact on customer demand or revenue so far, we are closely monitoring the situation for any potential shifts in customer behavior or market dynamics that could influence our outlook.

Moving on to our fiscal year 2026 outlook, we anticipate our fiscal year 2026 revenue to be in the range of approximately 825 million to 865 million dollars. Additionally, we anticipate non-GAAP diluted earnings per share within the range of 2 dollars and 25 cents to 2 dollars and 40 cents. The full year effective tax rate is expected to be approximately 20 percent. Our weighted average diluted shares outstanding is assumed to be approximately 74 to 75 million shares.

Finally, I would like to provide some "color" for the first quarter of fiscal year 2026. In comparison to the first quarter of last year, we anticipate our first-quarter fiscal year 2026 revenue to grow by approximately 3 percent to 5 percent with approximately the same growth rate for earnings per share.

That concludes my final formal review of our financial results. I'd like to quickly note that our upcoming IR conference participation is listed on slide 18.

As this is my final earnings call, I would like to note that the Company is in a strong position thanks to the dedication of our team and the strategic vision that has been built over the years. I would also like to take a moment to express my gratitude to all of my financial team members and Company colleagues. It has been an honor to serve alongside you. Thank you again for your trust and support.

With that, I'll now turn the call over to the operator for questions.