nGeniusONE AND THE POWER OF ADAPTIVE SERVICE INTELLIGENCE:

Market acceptance of the nGeniusONE service assurance platform has continued to grow since this offering was introduced two years ago. Powered by our patented and proprietary Adaptive Service Intelligence (ASI) technology, nGeniusONE helps both enterprises and service providers gain valuable, actionable insight into the live data traffic flowing over those networks. As a result, customers can further optimize the performance of their networks, identify and triage service and application delivery issues even before they impact the end user experience, and advance innovative technology initiatives with confidence. During fiscal year 2015, adoption of nGeniusONE progressed with virtually all of NetScout’s largest customers having completed their initial upgrades to nGeniusONE. Related to this, NetScout experienced exceptionally strong renewal rates for maintenance and support services throughout the year.

EXCELLENT FINANCIAL PERFORMANCE

NetScout reported fiscal year 2015 total revenue of $454 million, up 14% from the prior fiscal year. Our solid top-line performance reflected strong traction with our service provider customers, combined with increased demand by our government customers and modest expansion across our enterprise vertical. From a profitability perspective, NetScout delivered outstanding results. Even as we invested in customer-driven innovation and a high-touch sales organization, we elevated our non-GAAP operating margins to 29.5%, exceeding our target of 27% in the fourth year of a five-year plan. Non-GAAP net income climbed to $84.3 million, or $2.03 per diluted share, in fiscal year 2015.

Our strong operating performance resulted in another year of outstanding cash generation. We ended fiscal year 2015 with cash, cash equivalents, short and long-term marketable securities of nearly $265 million, up from $219 million at the end of fiscal year 2014, and our total liquidity exceeded $500 million. During the year, we repurchased 1 million shares at an average purchase price of $40.92 per share, totaling $40.9 million. Our increasingly robust financial foundation enables us to continue investing in our products, people, partners, programs and processes – either through internal initiatives or opportunistic M&A – as well as to return value via our stock repurchase activities.

On that note, we took additional steps entering fiscal year 2016 to improve the efficiency of our capital structure and return value to shareholders. Our Board approved a new 20 million share repurchase program in conjunction with our acquisition of Danaher’s Communications Business. To help finance this activity as well as to ensure that we have sufficient cash on hand to propel our business forward, we secured a new $800 million credit facility. Based on the strong cash generation characteristics of our business, we believe that adding leverage to the balance sheet is an appropriate step in the evolution of our capital structure.
ACCELERATING OUR STRATEGIC PROGRESS

The seeds of NetScout’s fiscal year 2015 performance were planted several years ago. The investments we made, both organically and through acquisition, enabled us to add new capabilities and functionality to our offerings, further expand our customer relationships globally and expand our total addressable market from $1 billion to roughly $4 billion. The progress we’ve made in recent years helps highlight the exciting potential for our nGeniusONE platform and ASI technology, not only in our core markets but in a number of growth-oriented, adjacent market segments. However, we recognized that extending our reach into new markets would require more than just increased investment in our technology and products; it would also require substantially stronger and more global sales channels, and access to a larger installed base of customers. We believe that the acquisition of Danaher Corporation’s Communications Business helps us in both of these areas and thus accelerates our strategy.

The acquisition includes three primary business units – Tektronix Communications, Arbor Networks, and the enterprise segment of Fluke Networks – each of which is well respected in the marketplace, with technologies and customer bases that are highly complementary to NetScout. This acquisition offers multiple advantages. First, it more than doubles our total addressable market to over $8 billion by expanding our range of market-leading offerings, jump-starting our entry into growth-oriented adjacencies such as cyber security, business intelligence and radio access network optimization, and extending our reach into the mid-tier of the enterprise market. Second, the solutions from each business use traffic-based data as key source technology, allowing us to consolidate on our patented ASI technology platform over time. Third, we will substantially strengthen our go-to-market capabilities in ways that will help us support a broader, more global and diverse customer base of service providers and enterprises. Finally, we will benefit from greater scale and a more strategic position with our customers. As a result, we believe that our Company will be poised to generate solid top-line growth over the next several years, which we expect will underpin the acceleration of non-GAAP profit margins, earnings and free cash flow, thanks to the scalability of our infrastructure along with prudent investment.

The feedback on this transaction from customers, partners, employees, and our shareholders regarding the potential of the combined company has been resoundingly positive. We are now focused on taking the necessary steps to realize this potential. There is considerable work ahead as we welcome over 2,000 new colleagues and many new customers to our Company. We look forward to learning from one another as we advance, refine and execute on our product roadmaps, and take the necessary steps to fortify and expand our customer relationships.

LOOKING AHEAD

We believe that NetScout’s future is very bright. The marketplace continues to evolve rapidly and our customers are looking to NetScout to help them advance their technology initiatives and innovate with confidence. We view NetScout’s solutions as being at the epicenter of many powerful technology trends such as IP convergence, mobility, AGL/ LTE connectivity and related new high-value service offerings, virtualization, cyber security, big data and the evolving Internet. Our recently completed acquisition better positions us to capitalize on these and other emerging market needs, and become a more strategic partner to our customers around the world in the process.

We move forward into our fourth decade of business with the technical, operational and financial resources necessary to innovate and support our global customer base’s near-term and longer-term requirements. In addition, we unveiled a refreshed NetScout brand this past spring with a more vibrant look and feel and a broader value proposition. From our logo to our language, the rebranding better reflects NetScout’s mission and the mission of those who use our solutions as evidenced in our new tag line, “Guardians of the Connected World.” We believe that our new marketing initiatives will help us further elevate our visibility among customers and prospects.

NetScout’s success would not be possible without the hard work and commitment of our talented workforce. In addition to thanking our employees, customers, partners and other stakeholders for their support, I’d also like to extend my appreciation to our shareholders for supporting our transaction and for their continued confidence in NetScout’s strategic direction. I look forward to sharing our progress and accomplishments with you.

Sincerely,

Anil K. Singhal
President, Chief Executive Officer and Chairman of the Board
July 22, 2015

FOR THE CONNECTED WORLD: SECURITY

By adding the Arbor Networks business, one of the world’s largest and most successful cyber security vendors, NetScout jump-starts its entry into cyber intelligence and cyber security with a technology and market leader. Arbor’s innovative solutions are relied upon by hundreds of service providers and enterprises to identify and mitigate high-volume Distributed Denial of Service (DDoS) attacks that attempt to bring down an online service. NetScout sees an exciting opportunity to accelerate Arbor’s progress into the enterprise market by leveraging its own large and loyal enterprise installed base. In addition, over the longer term, there are exciting product collaboration opportunities as NetScout’s ASI meta data can be used to introduce new capabilities that identify other types of security threats within Arbor’s suite of cyber analytics.

FOR THE CONNECTED WORLD: ENTERPRISES

The enterprise business of Fluke Networks enables NetScout to extend its reach into the mid-tier of the enterprise market with a broader range of monitoring and troubleshooting capabilities, including innovative tools used in Saas, cloud and wireless environments. This dynamic is expected to lead to high-value cross-selling opportunities over the longer term. Just as important, the combined Company will support a more global customer base and inherit a stronger reseller channel outside of the United States, with many leading VARS who are knowledgeable and capable of selling these sophisticated offerings.

FOR THE CONNECTED WORLD: THE “NEW” NETSCOUT

NetScout Systems moves forward into its fourth decade and another new era of growth and value creation. NetScout plays a vital role in helping our customers assure network availability, optimize the performance of the network and the services that are delivered across it, and gain time-sensitive insight into the end user experience. With the addition of award-winning network monitoring and security solutions from Danaher’s Communications Business, NetScout will be better positioned to innovate and address the dynamic, evolving service and cyber assurance needs of a larger, more diverse and more global base of service provider and enterprise customers. NetScout created significant value for shareholders during the past five-year period, and the Company remains optimistic about its potential over the next five-year cycle. As NetScout continues to generate solid top-line growth over the next several years, the Company expects that its non-GAAP profit margins, earnings and free cash flow will accelerate, thanks to the scalability of the infrastructure along with ongoing prudent investment.

FOR THE CONNECTED WORLD: SERVICE PROVIDERS

The acquisition of Danaher’s Communications Business will elevate NetScout’s value proposition to the service provider marketplace. By combining Tektronix’s subscriber-specific troubleshooting capabilities with NetScout’s holistic monitoring capabilities, we believe we can effectively address the near- and longer-term service assurance needs of service providers around the world. In addition, the Tektronix Communications business will help extend NetScout into complementary areas. For example, Tektronix offers solutions used by service providers to optimize the configuration and performance of the radio access network (“RAN”), the proverbial last mile. We believe that the acquisition of Tektronix provides NetScout the opportunity to further elevate our visibility among service providers and Enterprise customers. Tektronix offers sophisticated, customer experience management analytics that provide valuable insight into subscriber activity on the network, information that can further enhance the effectiveness of customer care, sales and marketing organizations.