

TO OUR STOCKHOLDERS



Fiscal year 2019 was marked by important progress that we believe will pave the road for better, more sustainable performance into the future. We delivered on our product development roadmaps to further elevate our value proposition, which contributed to improved results in our enterprise customer segment and helped us address the evolving requirements of our service provider customers. Just as important, we took steps to improve our profitability by restructuring key operations, selling non-core product lines and carefully managing spending. These efforts also enabled us to achieve our diluted non-GAAP EPS target even as we fell short of our revenue ambitions. We move into fiscal year 2020 with optimism that the most severe top-line headwinds have substantially dissipated, with excitement about the ongoing adoption of our software-centric product portfolio, and with enthusiasm about the potential of our newest product innovations.

FY'19 Results

NETSCOUT's FY'19 revenue performance was impacted by a challenging service provider spending environment, which affected both our service assurance and DDoS product areas. Additionally, we divested our handheld network test (HNT) tools business mid-way through the year. Despite these challenges, our restructuring and other cost-containment actions enabled us to deliver FY'19 non-GAAP diluted EPS above the mid-point of our original targets. We also produced solid free cash flow that once again exceeded non-GAAP net income.

FY'19 Progress & Achievements

During the past fiscal year, we continued to advance our product strategy, highlighted by completing the integration of key products and technologies that were acquired as part of the Danaher Communications Business acquisition. We move forward into fiscal year 2020 with a broader range of higher-margin, software-centric solutions that provide visibility across any type of infrastructure and into any service or application. Our solutions now address a larger range of use cases — from network, application and infrastructure performance management to big data, DDoS and advanced threat security analytics and across all network infrastructures and application environments.

We are starting to see our significant technology investments yield tangible results. We stabilized revenue from our two largest service provider customers and have successfully migrated most of our other tier-one operators to our software-based platform for service assurance. We delivered solid organic revenue growth in our enterprise customer segment over the last three quarters of the year. This reflected improved adoption of our broadened range of enterprise service assurance products in support of our customers' digital transformation initiatives, as well as better traction for our enterprise DDoS offerings.

At the same time, we took actions to improve our go-to-market effectiveness and reduce spending. We began the process of combining Arbor's security sales resources with our larger service assurance enterprise sales teams, which improves our sales coverage, particularly in international markets, and strengthens our ability to maximize cross-selling opportunities across network and security operations. Selling our HNT tools business in September 2018 further intensified our focus on our core enterprise service assurance offerings and removed approximately \$30 million of annual operating expenses from our cost structure. To further realign costs, we completed a restructuring with a voluntary separation program designed to generate annual run-rate savings of approximately \$23 million.



We also continued to control expenses without compromising important investments in product development, sales and marketing, and support. All totaled, these initiatives enabled us to remove over \$70 million from our run-rate operating costs.

Board Changes

Over the past few years, we have reshaped our Board of Directors by adding new directors with relevant domain expertise experience that can help us further advance key elements of our strategy. Al Grasso and Susan Spradley joined our Board at the start of fiscal year 2019, bringing decades of experience and insight into the security and service provider markets, respectively. In February 2019, we welcomed Vivian Vitale, a proven technology HR executive with expertise in helping industry leaders further scale their organizations. We also appointed Michael Szabados, NETSCOUT's COO, to our Board as Vice Chairman. In conjunction with these appointments, Vin Mullarkey retired from our Board after many years of service. I would like to thank Vin for his counsel and service over the past two decades.

Looking Ahead

As we move forward, we believe that NETSCOUT's focus on providing ultra high-definition visibility into real-time transactions embedded in network traffic is increasingly resonating in the marketplace. Our customers are challenged to efficiently and effectively transform and protect their infrastructures to support digital transformation without compromising their current capabilities. Data center transformation continues to open up new enterprise opportunity for us. Additionally, security represents a promising adjacency as our value proposition expands beyond DDoS. Although we do not expect substantial near-term improvement in carrier capital spending, we are well positioned to further fortify our incumbency in service assurance and DDoS while making the necessary investments to benefit from the eventual buildout of new 5G networks.

As we move into fiscal year 2020, our top priority is to produce top-line growth, which is fundamental to driving operating leverage, EPS growth and stronger free cash flow. More specifically, as outlined on our Fourth Quarter and Full Fiscal Year-End 2019 Earnings Call in May of this year, our FY'20 targets call for stable to low-single digit organic revenue growth through a mid-single digit increase in product revenue, which, at the higher end of our plans, can then be converted into mid-single digit EPS growth.

In closing, I would like to extend my gratitude to our stockholders for their continued support. I'd also like to thank my fellow Guardians at NETSCOUT for their efforts. I look forward to sharing our continued progress and achievements with you over the course of the coming year.

Sincerely,

Anil Singhal
Co-Founder, President, Chief Executive Officer and Chairman of the Board