

# NETSCOUT™

## Q2 FY 2018 Conference Call

*NETSCOUT SYSTEMS, INC.  
October 26, 2017*



# Agenda

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- **Introduction & Safe Harbor**
  - Andrew Kramer, Vice President of Investor Relations
- **CEO Perspective**
  - Anil Singhal, President and CEO
- **COO Update: Customer Use Cases & Business Initiatives**
  - Michael Szabados, Chief Operating Officer
- **Financial Review and Fiscal Year 2018 Outlook**
  - Jean Bua, EVP and CFO



# Safe Harbor

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**Forward Looking Statements:** Forward Looking Statements: Forward-looking statements in this communication are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this communication, which are not strictly historical statements, including without limitation, the statements related to the Company's financial guidance, estimated expenses, expected financial performance, statements regarding future demand and revenue for the Company's products by specific customers or by customers in general, statements related to operational and product-related integration initiatives, statements related to new and modified products and solutions, and the timing of introduction and the capabilities and market acceptance of such products and solutions, statements related to the Company's future spending, expense management and share repurchase activity, statements regarding the Company's ability to improve profitability with respect to development plans, expected future revenue and profitability associated with recent software-only deals, statements regarding go-to-market and other initiatives, statements regarding shifts in the market and in customer actions, expectations and demand for products, including the Company's ability to gain traction based on these changes, statements regarding development plans and statements about mitigating potential revenue risk by accelerating orders from customers, constitute forward-looking statements which involve risks and uncertainties. Actual results could differ materially from the forward-looking statements due to known and unknown risk, uncertainties, assumptions and other factors. Such factors include slowdowns or downturns in economic conditions generally and in the market for advanced network and service assurance solutions specifically; the volatile foreign exchange environment; the Company's relationships with strategic partners; dependence upon broad-based acceptance of the Company's network performance management solutions; the presence of competitors with greater financial resources than we have and their strategic response to our products; changes in the various factors impacting the Company's decisions regarding timing and volume of stock repurchases; our ability to retain key executives and employees; lower than expected demand for the Company's products and services; and the ability of NetScout to successfully complete the integration of the merged assets and the associated technology and achieve operational efficiencies. For a more detailed description of the risk factors associated with the Company, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2017 and subsequent Quarterly Report on Form 10-Q, which are 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.



# Non-GAAP Financial Metrics

**Regulation G Disclosure:** This presentation makes reference to certain non-GAAP measures such as non-GAAP total revenue, non-GAAP product revenue, non-GAAP service revenue, non-GAAP income from operations, non-GAAP net income, non-GAAP diluted net income per share, non-GAAP gross margin, non-GAAP operating margin, non-GAAP EPS and free cash flow. Non-GAAP revenue (total, product and service) eliminates the GAAP effects of acquisitions by adding back revenue related to deferred revenue revaluation, as well as revenue impacted by the amortization of intangible assets. Non-GAAP income from operations includes the aforementioned revenue adjustments and also removes expenses related to the amortization of acquired intangible assets, stock-based compensation, and certain expenses relating to acquisitions including depreciation costs, compensation for post-combination services and business development and integration costs. Non-GAAP operating margin is calculated based on the non-GAAP financial metrics discussed above. Non-GAAP net income includes the aforementioned items related to non-GAAP income from operations, net of related income tax effects. Non-GAAP diluted net income per share also excludes these expenses as well as the related impact of all these adjustments on the provision for income taxes. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures included in the appendix. These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures prepared in accordance with GAAP (revenue, gross and operating margin, net income, cash flow from operations and diluted earnings per share), and may have limitations in that they do not reflect all of NETSCOUT's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate NETSCOUT's results of operations in conjunction with the corresponding GAAP measures. The presentation of non-GAAP information is not meant to be considered superior to, in isolation from or as a substitute for results prepared in accordance with GAAP. NETSCOUT believes these non-GAAP financial measures will enhance the reader's overall understanding of NETSCOUT's current financial performance and NETSCOUT's prospects for the future by providing a higher degree of transparency for certain financial measures and providing a level of disclosure that helps investors understand how the Company plans and measures its own business. NETSCOUT believes that providing these non-GAAP measures affords investors a view of NETSCOUT's operating results that may be more easily compared to peer companies and also enables investors to consider NETSCOUT's operating results on both a GAAP and non-GAAP basis during and following the integration period of NETSCOUT's acquisitions. Presenting the GAAP measures on their own would not be indicative of NETSCOUT's core operating results. Furthermore, NETSCOUT believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures provide useful information to management and investors regarding present and future business trends relating to its financial condition and results of operations. NETSCOUT management regularly uses supplemental non-GAAP financial measures internally to understand, manage and evaluate its business and to make operating decisions. These non-GAAP measures are among the primary factors that management uses in planning and forecasting. The reconciliation of these non-GAAP metrics to the comparable GAAP metrics are set forth in the accompanying tables in the index of this presentation and are available on our website at <http://ir.netscout.com>.



# CEO Perspective

Anil Singhal  
Co-Founder, President and Chief Executive Officer

# Q2 FY'18 Highlights

| Non-GAAP<br>(\$ in millions, except per share data) | Q2 FY'18<br>9/30/2017 | Q2 FY'17<br>9/30/2016 | 1H FY'18<br>9/30/2017 | 1H FY'17<br>9/30/2016 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Revenue   | \$ 259.9              | \$ 283.3              | \$ 488.8              | \$ 561.2              |
| Gross Profit Margin                                 | 75.5%                 | 74.5%                 | 75.7%                 | 73.7%                 |
| Income from Operations Margin                       | 16.3%                 | 20.5%                 | 11.6%                 | 18.0%                 |
| EPS   | \$ 0.29               | \$ 0.39               | \$ 0.37               | \$ 0.67               |

- Q218 results ahead of plans entering the quarter
  - Higher-than-expected revenue due largely to certain service provider orders that were previously expected for the third quarter and accelerated into the second quarter
  - Gross margin improvement primarily reflects favorable shifts in product mix as we continue to make progress with our product strategy
  - Prudent cost management while funding development activities that we believe are critical to long-term growth and success
- Continued progress with the expansion of our product portfolio and capabilities

See Appendix for GAAP-Non-GAAP and GAAP-Non-GAAP Pro Forma Reconciliations.



# “Smart Data” Strategy and Product Development Highlights



# Outlook

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- Although NETSCOUT's results to date are slightly ahead of original expectations, there are some challenges ahead in the second half
- We have left our non-GAAP revenue and EPS guidance for the year unchanged
  - Delivering on our EPS targets continues to be our top priority
- We remain confident about our strategic direction and the potential to deliver tangible long-term value to all of stakeholders
  - NETSCOUT's Board authorized a new 25m share repurchase program





# COO Update

Michael Szabados  
Chief Operating Officer

# COO Highlights

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- Customer wins and use cases
  - Service Provider
  - Enterprise
  - DDoS
  
- Go-to-market activity



# **Financial Review & Fiscal Year 2018 Outlook**

Jean Bua

Executive Vice President and Chief Financial Officer

# Q2 FY'18 and 1H FY'18 Results

(in millions except EPS and % data)

|                                     | Q2 FY'18<br>GAAP<br>9/30/2017 | Q2 FY'17<br>GAAP<br>9/30/2016 | %<br>Change |  | Q2 FY'18<br>Non-GAAP<br>9/30/2017 | Q2 FY'17<br>Non-GAAP<br>9/30/2016 | %<br>Change |  | 1H FY'18<br>GAAP<br>9/30/2017 | 1H FY'17<br>GAAP<br>9/30/2016 | %<br>Change |  | 1H FY'18<br>Non-GAAP<br>9/30/2017 | 1H FY'17<br>Non-GAAP<br>9/30/2016 | %<br>Change |
|-------------------------------------|-------------------------------|-------------------------------|-------------|--|-----------------------------------|-----------------------------------|-------------|--|-------------------------------|-------------------------------|-------------|--|-----------------------------------|-----------------------------------|-------------|
| Revenue:                            |                               |                               |             |  |                                   |                                   |             |  |                               |                               |             |  |                                   |                                   |             |
| Product                             | \$ 149.3                      | \$ 168.9                      | -11.6%      |  | \$ 150.0                          | \$ 174.9                          | -14.2%      |  | \$ 264.1                      | \$ 333.5                      | -20.8%      |  | \$ 265.5                          | \$ 343.7                          | -22.7%      |
| Service                             | \$ 107.6                      | \$ 103.2                      | 4.3%        |  | \$ 109.9                          | \$ 108.4                          | 1.4%        |  | \$ 218.5                      | \$ 207.5                      | 5.3%        |  | \$ 223.3                          | \$ 217.5                          | 2.6%        |
| Total revenue                       | \$ 256.9                      | \$ 272.0                      | -5.6%       |  | \$ 259.9                          | \$ 283.3                          | -8.2%       |  | \$ 482.6                      | \$ 541.0                      | -10.8%      |  | \$ 488.8                          | \$ 561.2                          | -12.9%      |
| Cost of revenue                     | \$ 74.2                       | \$ 84.5                       | -12.1%      |  | \$ 63.6                           | \$ 72.3                           | -12.0%      |  | \$ 140.8                      | \$ 171.5                      | -17.9%      |  | \$ 118.7                          | \$ 147.5                          | -19.5%      |
| Gross profit                        | \$ 182.6                      | \$ 187.5                      | -2.6%       |  | \$ 196.3                          | \$ 211.0                          | -6.9%       |  | \$ 341.8                      | \$ 369.5                      | -7.5%       |  | \$ 370.1                          | \$ 413.7                          | -10.5%      |
| Gross profit margin                 | 71.1%                         | 68.9%                         |             |  | 75.5%                             | 74.5%                             |             |  | 70.8%                         | 68.3%                         |             |  | 75.7%                             | 73.7%                             |             |
| Operating expenses                  | \$ 183.9                      | \$ 186.7                      | -1.5%       |  | \$ 153.9                          | \$ 152.9                          | 0.6%        |  | \$ 376.6                      | \$ 379.4                      | -0.7%       |  | \$ 313.1                          | \$ 312.6                          | 0.2%        |
| Income (loss) from operations       | \$ (1.2)                      | \$ 0.8                        | -253.9%     |  | \$ 42.4                           | \$ 58.0                           | -26.9%      |  | \$ (34.8)                     | \$ (9.9)                      | 249.7%      |  | \$ 56.9                           | \$ 101.1                          | -43.7%      |
| Income from operations margin       | -0.5%                         | 0.3%                          |             |  | 16.3%                             | 20.5%                             |             |  | -7.2%                         | -1.8%                         |             |  | 11.6%                             | 18.0%                             |             |
| Net income (loss)                   | \$ (2.5)                      | \$ (1.3)                      | 94.9%       |  | \$ 26.2                           | \$ 36.4                           | -28.0%      |  | \$ (26.7)                     | \$ (10.3)                     | 160.0%      |  | \$ 33.8                           | \$ 62.8                           | -44.6%      |
| Diluted net income (loss) per share | \$ (0.03)                     | \$ (0.01)                     | 200.0%      |  | \$ 0.29                           | \$ 0.39                           | -25.6%      |  | \$ (0.30)                     | \$ (0.11)                     | 172.7%      |  | \$ 0.37                           | \$ 0.67                           | -44.8%      |
| Diluted shares outstanding          | 88.6                          | 91.9                          | -3.6%       |  | 89.5                              | 92.7                              | -3.4%       |  | 89.9                          | 92.6                          | -3.0%       |  | 91.0                              | 93.3                              | -2.5%       |

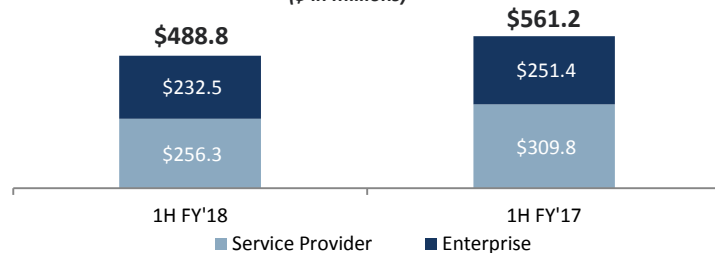
See Appendix for GAAP-Non-GAAP Reconciliations.



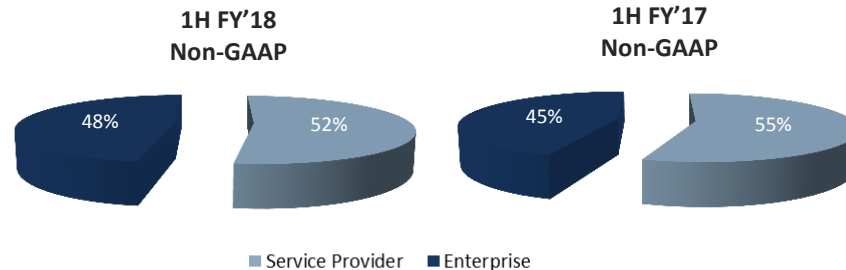
# 1H FY'18 Revenue Trends: Customer Verticals & Geographic Mix

Total Non-GAAP Revenue by Customer Segment

(\$ in millions)

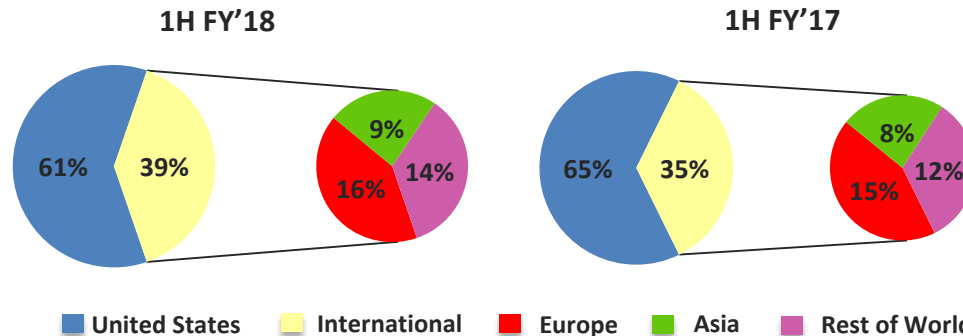


Total Non-GAAP Revenue Composition by Customer Segment



|                      | 1H FY'18<br>GAAP<br>9/30/17 | 1H FY'17<br>GAAP<br>9/30/16* |
|----------------------|-----------------------------|------------------------------|
| <b>Total Revenue</b> | \$482.6                     | \$541.0                      |
| <i>United States</i> | \$292.2                     | \$349.4                      |
| <i>International</i> | \$190.4                     | \$191.6                      |
| <i>Europe</i>        | \$78.6                      | \$82.7                       |
| <i>Asia</i>          | \$44.7                      | \$44.6                       |
| <i>Rest of World</i> | \$67.1                      | \$64.3                       |

GAAP Revenue By Geography



Figures in charts and tables may not total due to rounding.

\* Beginning in the first quarter of fiscal year 2018, the Company changed the structure of its sales force. As a result, consideration was given to this change when determining revenue by geography for the three and six months ended September 30, 2017. Prior periods in fiscal year 2017 were recast to conform to the current presentation.

See Appendix for GAAP-Non-GAAP Reconciliations.



# Balance Sheet Highlights & Free Cash Flow

(in millions)

| (Unaudited)                     | Balance Sheet Highlights<br>as of 9/30/2017 |       |
|---------------------------------|---|-------|
| <i>Cash and Securities*</i>     | \$  | 313.4 |
| <i>Accounts Receivable, Net</i> | \$  | 215.2 |
| <i>Inventories</i>              | \$  | 37.0  |
| <i>Total Long-Term Debt</i>     | \$  | 300.0 |
| <i>Total Deferred Revenue</i>   | \$  | 351.3 |

\* Cash and securities defined as cash, cash equivalents and short-term and long-term marketable securities

| Free Cash Flow                               |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | Q1 FY'18<br>6/30/2017 | Q2 FY'18<br>9/30/2017 | 1H FY'18<br>9/30/2017 |
| Operating Cash Flow                          | \$ 52.6               | \$ 18.8               | \$ 71.4               |
| Purchase of Fixed Assets & Intangible Assets | \$ (3.3)              | \$ (4.9)              | \$ (8.2)              |
| Free Cash Flow                               | \$ 49.3               | \$ 13.9               | \$ 63.2               |

| Financial Profile |                       |                     |
|-------------------|-----------------------|---------------------|
|                   | 1H FY'18<br>9/30/2017 | TARGET              |
| Cash position     | \$ 313.4              | Not to exceed \$500 |
| Liquidity         | 3.0x                  | 2x - 3x EBITDA      |
| Gross leverage    | 1.1x                  | 1x - 2x EBITDA      |

Liquidity calculated as available credit under the Company's senior secured credit facility plus cash and securities divided by the 12-month trailing adjusted non-GAAP EBITDA.

As defined in the Company's senior secured credit facility, gross leverage is calculated as total debt plus contingent liabilities divided by the 12-month trailing adjusted non-GAAP EBITDA.



# FY 2018 Guidance

(in billions except EPS)

| GAAP          | FY'17   | FY'18 Guidance<br>(on a % basis compared with FY'17) |
|---------------|---------|--|
| Revenue       | \$1.162 | Low single-digit growth                              |
| EPS (diluted) | \$0.36  | ~115% to ~160% growth                                |

| Non-GAAP      | FY'17  | FY'18 Guidance<br>(on a % basis compared with FY'17) |
|---------------|--------|--|
| Revenue       | \$1.2  | Relatively unchanged                                 |
| EPS (diluted) | \$1.92 | High-single to low double-digit % growth             |

## Other FY'18 Guidance Assumptions

- \* Improved gross margins as the primary factor for operating profit margin growth to 25%
- \* Plan to maintain relatively flat operating costs
- \* Tax rate expected in the 33% to 34% range
- \* Interest & other expense of \$10 million to \$12 million for FY'18
- \* ~89.9 million diluted shares outstanding (versus prior guidance of ~90.6 million diluted shares outstanding)
  - Assumes ~88.5 million diluted shares outstanding for Q3'18 and Q4'18
  - Incremental 7-cent benefit to FY'18 EPS related to share buyback through 1H FY'18

See Appendix for GAAP-Non-GAAP Reconciliations.



# Upcoming Investor Events

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| Date              | Event  | Location |
|-------------------|--|----------|
| November 7, 2017  | RBC Global TIMT Conference                         | NYC      |
| November 14, 2017 | Needham & Co. Networking & Security Conference     | NYC      |
| December 6, 2017  | Nasdaq London 37 <sup>th</sup> Investor Conference | London   |





# Appendix

The background of the slide is a dark, monochromatic photograph of a long, curved tunnel. The ceiling and floor are composed of a series of parallel, curved ribs that create a strong sense of perspective and depth, leading the eye towards a vanishing point in the distance. The lighting is subtle, highlighting the textures of the tunnel's structure.

# FY 2018 Guidance: GAAP to Non-GAAP Reconciliation

## (in millions except EPS)

**NETSCOUT SYSTEMS, INC.**  
**Reconciliation of GAAP Financial Guidance to Non-GAAP Financial Guidance**  
(Unaudited)  
(In millions, except net income per share - diluted)

|  | <u>FY'17</u>      | <u>FY'18 Updated (10/26/17)</u>                          |
|--|-------------------|--|
| GAAP revenue                                   | \$ 1,162.1        | <u>Low single-digit growth over FY'17</u>                |
| Deferred service revenue fair value adjustment | \$ 19.5           | ~\$7 million to ~\$9 million                             |
| Deferred product revenue fair value adjustment | \$ 6.8            | ~\$2 million to ~\$4 million                             |
| Amortization of intangible assets              | \$ 11.4           | -  |
| Non-GAAP revenue                               | <u>\$ 1,199.8</u> | <u>Relatively flat versus FY'17</u>                      |
|  |                   |  |
|  | <u>FY'17</u>      | <u>FY'18</u>   |
| GAAP Net Income                                | \$ 33.3           | <u>~105% to ~150% growth over FY'17</u>                  |
| Deferred service revenue fair value adjustment | \$ 19.5           | ~\$7 million to ~\$9million                              |
| Deferred product revenue fair value adjustment | \$ 6.8            | ~\$2 million to ~\$4 million                             |
| Amortization of intangible assets              | \$ 123.6          | ~\$110 million to ~\$112 million                         |
| Share-based compensation expenses              | \$ 39.2           | ~\$45 million to ~\$47 million                           |
| Business development & integration expenses    | \$ 20.3           | ~\$3 million to ~\$5 million                             |
| New accounting standard implementation         | \$ -              | ~\$1 million to ~\$2 million                             |
| Restructuring costs                            | \$ 4.0            | -  |
| Other income                                   | \$ (0.4)          | -  |
| Total Adjustments                              | \$ 212.9          | ~\$168 million to ~\$179 million                         |
| Related impact of adjustments on income tax    | \$ (67.7)         | (~\$56 million to ~\$60 million)                         |
| Non-GAAP Net Income                            | <u>\$ 178.5</u>   | <u>Mid-single to high single-digit growth over FY'17</u> |
|  |                   |  |
| GAAP net income per share (diluted)            | \$ 0.36           | <u>~115% to ~160% growth over FY'17</u>                  |
| Non-GAAP net income per share (diluted)        | <u>\$ 1.92</u>    | <u>High-single to low double-digit growth over FY'17</u> |
|  |                   |  |
| Average Weighted Shares Outstanding (diluted)  | 92.9              | 89.9   |

\*Business development & integration expenses include compensation for post-combination services and acquisition-related depreciation expense



# Q2 FY 2018 Guidance: GAAP to Non-GAAP Reconciliation

|  | <b>Q3 FY'18</b>                    |
|--|------------------------------------|
| GAAP revenue   | \$297 million to \$317 million     |
| Deferred service revenue fair value adjustment         | ~\$2 million                       |
| Deferred product revenue fair value adjustment         | ~\$1 million                       |
| Non-GAAP revenue                                       | \$300 million to \$320 million     |
|  |                                    |
| GAAP Net Income  | ~\$23 million to ~\$29 million     |
| Deferred service revenue fair value adjustment         | ~\$2 million                       |
| Deferred product revenue fair value adjustment         | ~\$1 million                       |
| Amortization of intangible assets                      | ~\$27 million to ~\$28 million     |
| Share-based compensation expenses                      | ~\$12 million to ~\$13 million     |
| Business development & integration expenses*           | -                                  |
| New accounting standard implementation                 | ~\$0.5 million                     |
| Total Adjustments                                      | ~\$43.5 million to ~\$45.5 million |
| Related impact of adjustments on income tax            | (~\$14 million to ~\$15 million)   |
| Non-GAAP Net Income                                    | ~\$53M to ~\$58M                   |
|  |                                    |
| GAAP net income per share (diluted)                    | \$0.26 to \$0.33                   |
| Non-GAAP net income per share (diluted)                | \$0.60 to \$0.66                   |
|  |                                    |
| Average Weighted Shares Outstanding (diluted GAAP)     | ~88.5 million                      |
| Average Weighted Shares Outstanding (diluted non-GAAP) | ~88.5 million                      |

\*Business development & integration expenses include compensation for post-combination services and acquisition-related depreciation expense



# Total Revenue Composition

(in millions)

|                        | Q2 FY'18<br>GAAP | Q2 FY'17<br>GAAP | Q2 FY'18<br>Non-GAAP | Q2 FY'17<br>Non-GAAP | 1H FY'18<br>GAAP | 1H FY'17<br>GAAP | 1H FY'18<br>Non-GAAP | 1H FY'17<br>Non-GAAP |
|------------------------|------------------|------------------|----------------------|----------------------|------------------|------------------|----------------------|----------------------|
| <b>Total Revenue</b>   | \$256.9          | \$272.0          | \$259.9              | \$283.3              | \$482.6          | \$541.0          | \$488.8              | \$561.2              |
| <i>Product Revenue</i> | \$149.3          | \$168.9          | \$150.0              | \$174.9              | \$264.1          | \$333.5          | \$265.5              | \$343.7              |
| <i>Service Revenue</i> | \$107.6          | \$103.2          | \$109.9              | \$108.4              | \$218.5          | \$207.5          | \$223.3              | \$217.5              |

*Certain numbers may not total due to rounding*



# GAAP to Non-GAAP Reconciliation: Q2 FY'18, Q2 FY'17, Q1 FY'18, 1H FY'18 and 1H FY'17 Revenue

**NETSCOUT SYSTEMS, INC.**  
Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures  
(In thousands, except per share data)  
(Unaudited)

|  | Three Months Ended<br>September 30, |                   | Three Months Ended<br>June 30, | Six Months Ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|--------------------------------|-----------------------------------|-------------------|
|  | 2017                                | 2016              | 2017                           | 2017                              | 2016              |
| Product Revenue (GAAP)                         | \$ 149,281                          | \$ 168,873        | \$ 114,822                     | \$ 264,103                        | \$ 333,462        |
| Product deferred revenue fair value adjustment | 719                                 | 3,130             | 716                            | 1,435                             | 4,475             |
| Amortization of acquired intangible assets (2) | 2                                   | 2,869             | 2                              | 4                                 | 5,746             |
| Non-GAAP Product Revenue                       | <u>\$ 150,002</u>                   | <u>\$ 174,872</u> | <u>\$ 115,540</u>              | <u>\$ 265,542</u>                 | <u>\$ 343,683</u> |
| Service Revenue (GAAP)                         | \$ 107,582                          | \$ 103,175        | \$ 110,934                     | \$ 218,516                        | \$ 207,538        |
| Service deferred revenue fair value adjustment | 2,361                               | 5,218             | 2,375                          | 4,736                             | 10,001            |
| Non-GAAP Service Revenue                       | <u>\$ 109,943</u>                   | <u>\$ 108,393</u> | <u>\$ 113,309</u>              | <u>\$ 223,252</u>                 | <u>\$ 217,539</u> |
| Revenue (GAAP)                                 | \$ 256,863                          | \$ 272,048        | \$ 225,756                     | \$ 482,619                        | \$ 541,000        |
| Product deferred revenue fair value adjustment | 719                                 | 3,130             | 716                            | 1,435                             | 4,475             |
| Service deferred revenue fair value adjustment | 2,361                               | 5,218             | 2,375                          | 4,736                             | 10,001            |
| Amortization of acquired intangible assets (2) | 2                                   | 2,869             | 2                              | 4                                 | 5,746             |
| Non-GAAP Revenue                               | <u>\$ 259,945</u>                   | <u>\$ 283,265</u> | <u>\$ 228,849</u>              | <u>\$ 488,794</u>                 | <u>\$ 561,222</u> |



# GAAP to Non-GAAP Reconciliation: Q2 FY'18, Q2 FY'17, Q1 FY'18, 1H FY'18 and 1H FY'17 Gross Profit, Income from Operations and Net Income

**NETSCOUT SYSTEMS, INC.**  
Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures  
(In thousands, except per share data)  
(Unaudited)

|  | Three Months Ended |            | Three Months Ended |             | Six Months Ended |  |
|--|--------------------|------------|--------------------|-------------|------------------|--|
|  | September 30,      |            | June 30,           |             | September 30,    |  |
|  | 2017               | 2016       | 2017               | 2017        | 2016             |  |
| Gross Profit (GAAP)  | \$ 182,620         | \$ 187,538 | \$ 159,194         | \$ 341,814  | \$ 369,456       |  |
| Product deferred revenue fair value adjustment                 | 719                | 3,130      | 716                | 1,435       | 4,475            |  |
| Service deferred revenue fair value adjustment                 | 2,361              | 5,218      | 2,375              | 4,736       | 10,001           |  |
| Share-based compensation expense (1)                           | 1,587              | 1,511      | 1,229              | 2,816       | 2,504            |  |
| Amortization of acquired intangible assets (2)                 | 9,309              | 13,253     | 9,241              | 18,550      | 26,499           |  |
| Business development and integration expense (3)               | (340)              | (68)       | 989                | 649         | 90               |  |
| Compensation for post-combination services (5)                 | -                  | 381        | -                  | -           | 525              |  |
| Acquisition related depreciation expense (6)                   | 36                 | (12)       | 42                 | 78          | 153              |  |
| Non-GAAP Gross Profit  | \$ 196,292         | \$ 210,951 | \$ 173,786         | \$ 370,078  | \$ 413,703       |  |
| Income (Loss) from Operations (GAAP)                           | \$ (1,239)         | \$ 805     | \$ (33,555)        | \$ (34,794) | \$ (9,949)       |  |
| Product deferred revenue fair value adjustment                 | 719                | 3,130      | 716                | 1,435       | 4,475            |  |
| Service deferred revenue fair value adjustment                 | 2,361              | 5,218      | 2,375              | 4,736       | 10,001           |  |
| Share-based compensation expense (1)                           | 12,598             | 11,678     | 10,231             | 22,829      | 19,810           |  |
| Amortization of acquired intangible assets (2)                 | 27,607             | 30,812     | 27,624             | 55,231      | 61,630           |  |
| Business development and integration expense (3)               | (1,244)            | 2,977      | 6,156              | 4,912       | 6,646            |  |
| New standard implementation expense (4)                        | 431                | -          | -                  | 431         | -                |  |
| Compensation for post-combination services (5)                 | 404                | 2,867      | 237                | 641         | 4,582            |  |
| Restructuring charges  | 291                | (105)      | 167                | 458         | 1,929            |  |
| Acquisition related depreciation expense (6)                   | 506                | 666        | 555                | 1,061       | 2,025            |  |
| Non-GAAP Income from Operations                                | \$ 42,434          | \$ 58,048  | \$ 14,506          | \$ 56,940   | \$ 101,149       |  |
| Net Loss (GAAP)  | \$ (2,468)         | \$ (1,266) | \$ (24,222)        | \$ (26,690) | \$ (10,264)      |  |
| Product deferred revenue fair value adjustment                 | 719                | 3,130      | 716                | 1,435       | 4,475            |  |
| Service deferred revenue fair value adjustment                 | 2,361              | 5,218      | 2,375              | 4,736       | 10,001           |  |
| Share-based compensation expense (1)                           | 12,598             | 11,678     | 10,231             | 22,829      | 19,810           |  |
| Amortization of acquired intangible assets (2)                 | 27,607             | 30,812     | 27,624             | 55,231      | 61,630           |  |
| Business development and integration expense (3)               | (1,244)            | 2,977      | 6,156              | 4,912       | 6,646            |  |
| New standard implementation expense (4)                        | 431                | -          | -                  | 431         | -                |  |
| Compensation for post-combination services (5)                 | 404                | 2,867      | 237                | 641         | 4,582            |  |
| Restructuring charges  | 291                | (105)      | 167                | 458         | 1,929            |  |
| Acquisition related depreciation expense (6)                   | 506                | 666        | 555                | 1,061       | 2,025            |  |
| Other income   | -                  | -          | -                  | -           | -                |  |
| Income tax adjustments (7)                                     | (15,001)           | (19,544)   | (16,220)           | (31,221)    | (38,072)         |  |
| Non-GAAP Net Income  | \$ 26,204          | \$ 36,433  | \$ 7,619           | \$ 33,823   | \$ 62,762        |  |
| Diluted Net Loss Per Share (GAAP)                              | \$ (0.03)          | \$ (0.01)  | \$ (0.27)          | \$ (0.30)   | \$ (0.11)        |  |
| Share impact of non-GAAP adjustments identified above          | 0.32               | 0.40       | 0.35               | 0.67        | 0.78             |  |
| Non-GAAP Diluted Net Income Per Share                          | \$ 0.29            | \$ 0.39    | \$ 0.08            | \$ 0.37     | \$ 0.67          |  |
| Shares used in computing non-GAAP diluted net income per share | 89,525             | 92,716     | 92,209             | 90,980      | 93,337           |  |



# GAAP to Non-GAAP Reconciliation: Q2 FY'18, Q2 FY'17, Q1 FY'18, 1H FY'18 and 1H FY'17 Itemization

NETSCOUT SYSTEMS, INC.  
Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures - Continued  
(In thousands, except per share data)  
(Unaudited)

|   | Three Months Ended<br>September 30, |                    | Three Months Ended<br>June 30, | Six Months Ended<br>September 30, |                    |
|---|-------------------------------------|--------------------|--------------------------------|-----------------------------------|--------------------|
|   | 2017                                | 2016               | 2017                           | 2017                              | 2016               |
| (1) Share-based compensation expense included in these amounts is as follows:   |                                     |                    |                                |                                   |                    |
| Cost of product revenue   | \$ 293                              | \$ 266             | \$ 213                         | \$ 506                            | \$ 461             |
| Cost of service revenue   | 1,294                               | 1,245              | 1,016                          | 2,310                             | 2,043              |
| Research and development  | 3,815                               | 3,872              | 3,175                          | 7,090                             | 6,505              |
| Sales and marketing   | 4,147                               | 3,726              | 3,444                          | 7,591                             | 6,337              |
| General and administrative  | 2,949                               | 2,569              | 2,383                          | 5,332                             | 4,464              |
| Total share-based compensation expense  | <u>\$ 12,598</u>                    | <u>\$ 11,678</u>   | <u>\$ 10,231</u>               | <u>\$ 22,829</u>                  | <u>\$ 19,810</u>   |
| (2) Amortization expense related to acquired software and product technology, tradenames, customer relationships included in these amounts is as follows: |                                     |                    |                                |                                   |                    |
| Total revenue adjustment  | \$ 2                                | \$ 2,869           | \$ 2                           | \$ 4                              | \$ 5,746           |
| Cost of product revenue   | 9,307                               | 10,384             | 9,239                          | 18,546                            | 20,753             |
| Operating expenses  | 18,298                              | 17,559             | 18,383                         | 36,681                            | 35,131             |
| Total amortization expense  | <u>\$ 27,607</u>                    | <u>\$ 30,812</u>   | <u>\$ 27,624</u>               | <u>\$ 55,231</u>                  | <u>\$ 61,630</u>   |
| (3) Business development and integration expense included in these amounts is as follows:   |                                     |                    |                                |                                   |                    |
| Cost of product revenue   | \$ (106)                            | \$ (68)            | \$ 439                         | \$ 333                            | \$ 90              |
| Cost of service revenue   | (234)                               | -                  | 550                            | 316                               | -                  |
| Research and development  | (401)                               | -                  | 1,123                          | 722                               | -                  |
| Sales and marketing   | (199)                               | 24                 | 1,176                          | 977                               | 34                 |
| General and administrative  | (304)                               | 3,021              | 2,868                          | 2,564                             | 6,522              |
| Total business development and integration expense  | <u>\$ (1,244)</u>                   | <u>\$ 2,977</u>    | <u>\$ 6,156</u>                | <u>\$ 4,912</u>                   | <u>\$ 6,646</u>    |
| (4) New standard implementation expense included in these amounts is as follows:  |                                     |                    |                                |                                   |                    |
| General and administrative  | \$ 431                              | \$ -               | \$ -                           | \$ 431                            | \$ -               |
| Total new standard implementation expense   | <u>\$ 431</u>                       | <u>\$ -</u>        | <u>\$ -</u>                    | <u>\$ 431</u>                     | <u>\$ -</u>        |
| (5) Compensation for post-combination services included in these amounts is as follows:   |                                     |                    |                                |                                   |                    |
| Cost of product revenue   | \$ -                                | \$ 113             | \$ -                           | \$ -                              | \$ 155             |
| Cost of service revenue   | -                                   | 288                | -                              | -                                 | 370                |
| Research and development  | 325                                 | 768                | 194                            | 509                               | 1,561              |
| Sales and marketing   | 62                                  | 720                | 53                             | 115                               | 1,726              |
| General and administrative  | 17                                  | 998                | -                              | 17                                | 770                |
| Total compensation for post-combination services  | <u>\$ 404</u>                       | <u>\$ 2,867</u>    | <u>\$ 237</u>                  | <u>\$ 641</u>                     | <u>\$ 4,582</u>    |
| (6) Acquisition related depreciation expense included in these amounts is as follows:   |                                     |                    |                                |                                   |                    |
| Cost of product revenue   | \$ 16                               | \$ (32)            | \$ 26                          | \$ 42                             | \$ 85              |
| Cost of service revenue   | 20                                  | 20                 | 16                             | 36                                | 68                 |
| Research and development  | 311                                 | 488                | 344                            | 655                               | 1,360              |
| Sales and marketing   | 44                                  | 67                 | 54                             | 98                                | 213                |
| General and administrative  | 115                                 | 123                | 115                            | 230                               | 299                |
| Total acquisition related depreciation expense  | <u>\$ 506</u>                       | <u>\$ 666</u>      | <u>\$ 555</u>                  | <u>\$ 1,061</u>                   | <u>\$ 2,025</u>    |
| (7) Total income tax adjustment included in these amounts is as follows:  |                                     |                    |                                |                                   |                    |
| Tax effect of non-GAAP adjustments above  | \$ (15,001)                         | \$ (19,544)        | \$ (16,220)                    | \$ (31,221)                       | \$ (38,072)        |
| Total income tax adjustments  | <u>\$ (15,001)</u>                  | <u>\$ (19,544)</u> | <u>\$ (16,220)</u>             | <u>\$ (31,221)</u>                | <u>\$ (38,072)</u> |





**Thank You**