

NETSCOUT SYSTEMS, INC.

Second Quarter Fiscal Year 2027 Financial Results Conference Call

Management's Prepared Remarks

November 5, 2026

Scott Dressel: Slide #2: Introduction & Agenda

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's second-quarter fiscal year 2027 conference call for the period ended September 30, 2026. Joining me today are:

- Anil Singhal, NETSCOUT's President and Chief Executive Officer, and
- Tony Piazza, NETSCOUT's Executive Vice President and Chief Financial Officer.

Please note that a slide presentation 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 and the quarterly results page.

Slide #3: Forward-Looking Statements

As discussed in detail on slide number 3, today's conference call will include certain forward-looking statements about NETSCOUT's views on expected results of future performance and business strategy. These statements speak only as of today's date and involve risks, uncertainties and assumptions that may cause actual results to differ materially, including but not limited to those described in the Company's filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and quarterly reports on Form 10-Q.

Slide #4: Non-GAAP Financial Metrics

As discussed in detail on slide number 4, today's conference call will also include discussion of certain non-GAAP financial measures that the Company believes to be useful for investors. While this slide presentation includes both GAAP and non-GAAP results, other than revenue and balance sheet information, which are presented in accordance with GAAP, we will focus our discussion on non-GAAP financial information. 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 to the nearest 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…

Anil Singhal:

Slide #5: CEO Perspective

Thank you, Scott, and good morning, everyone. We appreciate you joining us today.

Our second-quarter results were consistent with our expectations, and our first half performance keeps us on track to achieve our objectives for fiscal year 2027. Our continued focus on cost discipline supported operating margin expansion from the prior year. We were also active in our share repurchase program during the quarter, reflecting our commitment to returning capital to shareholders. With that foundation, we are reaffirming our full-year outlook.

In October, we hosted our annual ENGAGE Technology and User Summit, showcasing our newest solutions to more than 400 customers and partners. These innovations extend our scalable DPI-derived, AI-ready Smart Data into AIOps and agentic workflows as well as strengthen our cybersecurity and DDoS attack protection portfolio. While customer AI adoption is still in its early stages, we view this as a strong long-term opportunity. As investments mature, we will be well positioned to expand within our installed base and capture new opportunities.

With that context, let me turn to slide 6 for a brief review of our financial performance.

Slide #6: Q2 FY'27 Financial Highlights

For the second quarter of fiscal year 2027:

- Total revenue grew 1.4 percent to 222.2 million dollars, reflecting the timing of certain orders pulled into Q1 from Q2 as discussed last quarter;
- Operating margins expanded; and
- Diluted earnings per share increased to 71 cents, compared with 62 cents.

For the first half of fiscal year 2027:

- Revenue grew nearly 7 percent to approximately 433 million dollars, reflecting growth in both Cybersecurity and Service Assurance;
- Gross and operating margins expanded; and
- Diluted earnings per share increased to 1 dollar and 23 cents, compared with 95 cents.

Now let's turn to slide 7 for some perspective on our business and some market insights.

Slide #7: Business and Market Insights

Service Assurance

Starting with Service Assurance, revenue increased approximately 8 percent for the first half of the fiscal year, driven by the timing of strong federal government-related orders.

Enterprise customers continue to turn to NETSCOUT to close the visibility gaps created by hybrid cloud, automation and AI workloads, and we strengthened our solutions during the quarter.

- We expanded our data platform, which observes digital interactions and converts packets in real time into compact, contextualized evidence for observability, service assurance, cybersecurity and AI. By applying early semantic extraction at the point of observation, our AI systems reason from actual data rather than inference. In our internal testing, this approach meaningfully reduced AI-token consumption and mean time to knowledge, helping customers improve decision confidence and lower the cost of AI-driven analysis.
- We launched nGenius Copilot, a conversational AI extension to nGeniusONE that turns natural-language questions into evidence-based answers, increasing usability for a broader range of professionals.

Our Service Provider customers remain focused on reducing network cost and complexity, as well as improving automation across fixed, mobile and edge environments. Our 5G observability solutions give them end-to-end visibility for standalone 5G networks and support emerging use cases, including fixed wireless access and network slicing. Carrier spending remains disciplined and tight. Even so, customers continue to select NETSCOUT to help improve efficiency and monetize their next-generation network investments.

Beginning in fiscal year 2028, we will rename Service Assurance as Network Observability to better align with industry terminology. Network Observability is the term the industry now uses for these solutions, and the new name reflects how our customers see this part of our business and the broader opportunity set our solutions are starting to address.

Cybersecurity

Turning to Cybersecurity, revenue increased approximately 4 percent in the first half of the fiscal year reflecting contribution from our expanded Arbor Cloud capacity.

Cybersecurity continues to be an important, long-term growth opportunity as the threat environment continues to intensify and DDoS attacks become more frequent, sophisticated and difficult to mitigate. In our First Half 2026 DDoS Threat Intelligence Report released in October, we noted that high-capacity attacks are no longer anomalies and are now routine. Adversaries are increasingly using residential proxies, short-duration attacks and DDoS-for-hire services. This means customers require finer-grained network controls, selective mitigation and more scrubbing capacity at the network edge. To address this expanding need,

- We have extended Adaptive DDoS Protection from the attack target to its source by automatically detecting and mitigating outbound attack traffic, helping service providers stop compromised subscriber devices before they disrupt their networks, consume costly capacity or attack organizations across the internet.
- Secondly, we have enhanced Arbor Edge Defense to identify attack sources hidden behind content delivery network proxies, adding an independent layer of protection for enterprises revenue-generating applications without requiring CDN provider replacements.

AI

Regarding AI, our packet-derived Smart Data differentiates NETSCOUT by providing AI models with the quality operational context needed for more effective reasoning and outcomes. Customers are buying AI solutions designed for Service Assurance and using them for Cybersecurity applications, bringing the two areas closer together.

In September, we unveiled Model Context Protocol, or MCP, connectivity to our Omnis AI Insights solution. It gives AI assistants and agents on-demand access to AI-ready Smart Data, NETSCOUT's real-time operational evidence, providing the trusted context they need to support more accurate and informed decisions. Customers can stream Smart Data into the platforms they already use and add capabilities to their existing NETSCOUT infrastructure without re-platforming.

While customers are still defining their AI strategies, we are encouraged by the level of engagement and expect adoption to build over time. Moreover, our installed base and incumbency provides a meaningful advantage as programs move into production.

ENGAGE 2026

That brings me back to ENGAGE 2026. Our theme, "Moving from Proactive to Predictive," spoke to how our customers are advancing beyond monitoring to detect issues earlier, predict outcomes more accurately, gain greater insight and automate more decisions. Our AI-ready Smart Data, our values, and our customer focus provide the trusted foundation for that shift. With more than four decades of experience adapting to each era of technological change, expanding our purpose and innovating solutions, we are built to help our customers as their AI strategies evolve.

Customer Wins

Turning to customer wins, we saw continued demand across both Service Assurance, or Network Observability, and Cybersecurity offerings. New and existing customers invested in new solutions, upgrades and maintenance services. Second quarter highlights included wins from two long-standing customers:

- We secured a high seven-figure win with a leading U.S. financial institution to build out new infrastructure to support customer-facing networks, as well as upgrade internal unified communications and network performance capabilities. The repeat business underscores the strength of our relationship and our mission-critical role ensuring the performance and resilience of its digital environment, including in large, multi-cluster Kubernetes deployments.

- We also won a low seven-figure order with a leading global service provider that relies on our Arbor products to deliver a managed DDoS service to its own customers. The customer purchased our Adaptive DDoS Protection solution, which leverages our ATLAS Intelligence Feed, to combat the increasing frequency and complexity of DDoS attacks, including outbound and carpet-bombing attacks, as it adapts to a rapidly expanding threat environment.

With that, let's move to slide 8 and review our outlook.

Slide #8: FY'27 Outlook & Summary

We remain focused on profitable growth, healthy free cash flow generation and long-term shareholder value. Based on our first half results, we are reaffirming our full fiscal year 2027 outlook.

Customers remain disciplined in their spending, and we are managing the business accordingly. At the same time, we see meaningful long-term opportunities in network observability, AIOps, and DDoS attack protection. We will keep investing in innovation, including using our data and intelligence to power AI-driven workflows that enhance resilience and service reliability for our customers. We look forward to sharing our progress with you throughout the remainder of the fiscal year.

Before I turn the call over to Tony, I want to briefly address a leadership change we recently disclosed. Sanjay Munshi resigned as Chief Operating Officer, effective October 22. We thank Sanjay for his contributions to NETSCOUT and wish him well.

Our experienced leadership team knows our business, customers and partners, and members of that team have assumed additional responsibilities. We remain focused on executing our strategy, serving our customers and delivering on our fiscal 2027 priorities.

With that, I will turn the call over to Tony for a review of our financial performance and our outlook.

Tony Piazza:

Thank you, Anil, and good morning, everyone. We appreciate you joining us.

I'll start by walking you through the key financial metrics for the second quarter and first half of fiscal year 2027. After that, I'll share some additional commentary on our full fiscal year 2027 outlook, including some color on our expectations for the third quarter. As a reminder, other than revenue and balance sheet information, which are on a GAAP basis, this review focuses on our non-GAAP results. All reconciliations with our GAAP results appear in the presentation appendix. I will note the nature of any such comparisons accordingly. Also, all comparisons are on a year-over-year basis, unless otherwise noted.

Slide #10: Q2 and 1H FY'27 Results

Slide number 10 details the results for the second quarter and first half of fiscal year 2027.

Focusing on the quarterly performance, total revenue increased to 222.2 million dollars, compared with 219.0 million dollars in the same period last fiscal year. As a reminder, these results reflect the timing of government-related orders that were received earlier than anticipated and benefited the first quarter.

- Product revenue was 89.9 million dollars, down 5.1 percent, reflecting the timing of government-related orders as mentioned.
- Service revenue was 132.3 million dollars, up 6.4 percent.
- We ended the second quarter with total product backlog of approximately 21 million dollars, which included 15 million dollars of fulfillable backlog.

The gross profit margin was 80.9 percent, compared with 81.4 percent in the prior-year period, reflecting overhead costs associated with the DDoS asset acquisition. Quarterly operating expenses were 116.9 million dollars, down 2.7 percent year over year. As we noted last quarter, the comparison benefited from our ENGAGE user summit shifting from the second quarter last year to the third quarter this year, along with continued cost discipline.

Operating margin was 28.3 percent, compared with 26.5 percent in the same quarter last year. We delivered net income of 52.8 million dollars, or diluted earnings per share of 71 cents, compared with net income of 45.1 million dollars, or 62 cents per diluted share, in the year-ago quarter.

For the first half of fiscal year 2027, total revenue was 432.6 million dollars, an increase of 6.6 percent, and diluted earnings per share was 1 dollar and 23 cents, compared to 95 cents for corresponding period last fiscal year.

Slide #11: 1H FY'27 Revenue Trends: Product Lines and Customer Verticals

Let's turn to slide 11, where I'll walk you through the key revenue trends by product lines and customer verticals. As a reminder, revenue presented is on a GAAP basis, and all comparisons continue to be on a year-over-year basis.

For the first half of fiscal year 2027, Service Assurance revenue increased by 8.2 percent, and Cybersecurity revenue grew by 3.8 percent. During the same period, Service Assurance accounted for approximately 66 percent of our total revenue, and Cybersecurity accounted for the remaining 34 percent. As Anil noted, beginning in fiscal 2028, we will report Service Assurance as Network Observability.

Turning to our customer verticals, for the first half of fiscal year 2027, Enterprise revenue grew 9.1 percent, while Service Provider revenue grew 2.8 percent. During the same period, Enterprise accounted for approximately 62 percent of our total revenue, and Service Provider accounted for the remaining 38 percent.

Additionally, no customer accounted for more than 10 percent of our revenue for the second quarter or the first half of fiscal year 2027.

Slide #12: 1H FY'27 Revenue Trends: Geographic Mix

Turning to slide 12, for the first half of fiscal year 2027, 57 percent of our revenue was generated from the United States, with the remaining 43 percent coming from international markets, which is consistent with the prior year.

Slide #13: Balance Sheet & Free Cash Flow Review

Slide 13 shows key balance sheet items and free cash flow for the period. We ended the second quarter of fiscal year 2027 with 571.3 million dollars in cash, cash equivalents, and short- and long-term marketable securities, compared with 705.1 million dollars at the end of fiscal year 2026. Free cash flow was a use of 17.8 million dollars for the second quarter driven by the timing of working capital.

We repurchased approximately 2 million shares of our common stock for approximately 77 million dollars during the second quarter. We currently have capacity under our share repurchase authorization and, subject to market conditions, intend to remain active in the market during the remainder of fiscal year 2027. From a debt perspective, we have no outstanding balance on our 600 million dollar revolving credit facility, which expires in October 2029.

Slide #14: FY'27 Outlook

Let's move to slide 14 for our fiscal year 2027 outlook and some additional color on the third quarter.

As Anil noted, we are reaffirming the fiscal year 2027 outlook we provided last quarter. We continue to expect year-over-year growth in both revenue and earnings, with the following assumptions for the full fiscal year:

- Revenue in the range of 885 to 915 million dollars;
- Non-GAAP EPS in the range of 2 dollars 65 cents to 2 dollars 80 cents;
- A non-GAAP effective tax rate of approximately 20 percent, and
- Weighted average diluted shares outstanding of approximately 74 to 75 million.

Next, let me provide some color on our third-quarter outlook. As a reminder, last year's third quarter included approximately 15 million dollars of revenue from orders that customers pulled forward from the fourth quarter, which makes for a tough comparison. Based on our current pipeline and the expected timing of customers' projects and orders, we expect third-quarter revenue in the range of 240 million to 250 million dollars. Excluding the $15 million pulled forward last year, that would imply growth in the low to mid-single digits. As mentioned earlier, third-quarter operating expenses will also include the costs of our ENGAGE user summit, which shifted from the second quarter last year to the

third quarter this year. As a result, we expect third-quarter non-GAAP diluted earnings per share for Q3 in the range of 90 to 95 cents.

In summary, we continue to execute on our plan and remain focused on achieving our fiscal year 2027 objectives. Our capital allocation priorities remain consistent: investing in profitable growth, maintaining a strong financial position, and returning excess capital to shareholders over time, primarily through share repurchases.

We believe NETSCOUT is well positioned to support customers as their network, security and operations environments become more complex. Our expertise in network observability and cybersecurity, together with our AI-ready Smart Data platform, gives customers a trusted foundation for digital transformation and AI-enabled operations.

That concludes my formal review of our financial results and outlook. Before we transition to Q&A, please note that our upcoming investor conference schedule is provided on slide 15.

We will be attending the RBC and Needham investor conferences later this month and the UBS conference in December. We hope to see many of you there.

Thanks again for joining the call; I will now turn it over to the operator for questions. Operator…