NetScout Systems, Inc.
Fourth-Quarter and Fiscal Year End 2016 Financial Results Conference Call
Management's Prepared Remarks

May 5, 2016

A. Kramer: Safe Harbor Statement and Other Details

Thank you and good morning everyone. Welcome to NetScout's fiscal year 2016 fourth-quarter and year-end conference call for the periods ended March 31, 2016. Joining me on this morning's call are:

- Anil Singhal, NetScout's co-founder, president and CEO;
- Michael Szabados, NetScout's chief operating officer; and
- Jean Bua, NetScout's executive vice president and chief financial officer

We have included a slide presentation that accompanies our prepared remarks. For those listeners who have dialed into the call this morning and would like to view this slide presentation, you can find it by going to our website at www.netscout.com/investors and then clicking on today's webcast. You can advance the slides in the webcast viewer to follow along with our commentary. We will try to remember to call out the slide number we are referencing in our remarks.

In terms of our agenda for today's call, Anil Singhal will share his perspective on our fourth-quarter results and offer his perspective on our outlook for the upcoming year, as it relates to the opportunities and challenges that we believe lie ahead. Our COO Michael Szabados will offer some insights on our integration progress and recent wins that can help illustrate the opportunities that we are seeing in the marketplace. CFO Jean Bua will then provide greater detail and insight into our financial results and our guidance for fiscal year 2017.

Slide #3: Safe Harbor Statement and Non-GAAP Financial Metrics

Moving on to slide #3:

Safe Harbor Statement

I would like to remind everybody listening that forward-looking statements in this conference call are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended, and other federal securities laws. Investors are cautioned that statements in this conference call, which are not strictly historical statements, including without limitation, the statements related to the financial guidance for NetScout and all of the other various product development, sales and marketing, expense management, integration and other initiatives planned for fiscal year 2017 and beyond, 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 are detailed on this slide and I strongly encourage you to review them in detail. For an even 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, 2015 and the Company's subsequent Quarterly Reports on Form 10-Q, all of 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 Reconciliation

Finally, I would like to remind you all that while the 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. This slide also provides information about the use of GAAP and non-GAAP measures, and we encourage you to review this in detail since non-GAAP measures are not intended to be a substitute for the equivalent GAAP metric. Non-GAAP items are described and reconciled to GAAP results in today's press release and they are included at the end of the slide presentation that is made available online on our website.

As Jean will note, the timing and magnitude of the acquisition will skew period-to-period comparisons and potential discussions related to growth rates. Accordingly, we will be providing additional non-GAAP pro forma details to provide an "apples-to-apples" comparison between fiscal years 2015 and 2016 so that you can better understand the recent performance trends as well as provide further context for our fiscal year 2017 guidance. Nevertheless, when we do note a growth rate, we will strive to clarify the nature of the comparison. There is an appendix at the end of the slide presentation that provides a reconciliation of the non-GAAP pro forma financials, the trailing 8 quarters of pro forma revenue along with other supplemental detail.

As we detailed in our press release today, NetScout reported fourth -quarter results that were at the high end of the revised forecast we offered in late January. While revenue for the year was modestly lower than originally contemplated, we were successful in preserving our earnings performance. At the same time, as we move into the new fiscal year, we believe we are well positioned to continue making progress on addressing the needs of our customers worldwide while generating improved profitability on relatively modest organic expansion. With that as a high level background, I will turn the call over to Anil to provide some further context and color to our performance and outlook. Anil, please go ahead.

Anil Singhal:

Thank you Andy. Good morning to everyone listening and thank you for joining us today.

As Andy mentioned, I will first recap our results this quarter and full fiscal year, together with recent highlights and accomplishments. I will then discuss our FY17 strategy as well as the dynamics that have shaped our fiscal year 2017 guidance. There are several slides that will accompany my comments, so let's begin on slide number 5.

Slide #5: Q4 FY16 Performance

For the fourth quarter of fiscal year 2016, we generated revenue of 308.7 million dollars and diluted EPS of 44 cents, both of which were at the high end of the updated guidance we shared with you in late January. For the year, we finished with revenue of approximately 1.025 billion dollars, EPS of one dollar and ninety one cents per share, and healthy free cash flow of over 100 million dollars when adjusted for certain one-time payments related to the acquisition and other timing-related items. We also deployed our capital thoughtfully, repurchasing over 10 million shares of our stock during the past fiscal year.

As you know, the timing and magnitude of our acquisition of the Danaher Communications Business has skewed comparisons with NetScout's results in the prior fiscal year. The table on this slide provides a pro forma comparison of key metrics for the full year for fiscal years 2015 and 2016, as if the acquisition had been completed on April 1, 2014. Jean will provide a more detailed review of the pro forma performance later on the call, but I'd like to make a several observations:

- In terms of the pro forma performance, we generated pro forma annual revenue growth of 2.5 percent. We generated solid pro forma growth in the service provider segment, thanks in part to a very strong year at our Arbor cybersecurity division. In the enterprise, Arbor also generated high-single digit growth and our nGeniusONE product grew in the low single digits. However, these results were more than offset by an expected decline in our enterprise business primarily associated with transitional challenges with the Fluke portfolio.

- As you can see from this slide, on relatively modest organic revenue growth, we have already improved the combined company's pro forma non-GAAP operating profitability from 18.8 percent to 21.0 percent. The improvement in profitability reflects our progress in driving operating synergies related to the acquisition and overall prudent cost control. We believe that the profitability of our business will continue to strengthen in fiscal year 2017 with an additional 2 to 4-plus percentage point improvement in our pro forma operating profitability in fiscal year 2017 on anticipated relatively modest organic revenue growth. We also expect that this operating leverage will help us generate excellent free cash flow well in excess of what we delivered this past year.
- We move into next year in a very strong market position with no material change in the competitive landscape in terms of the end-markets we target. We anticipate that our top line will strengthen despite the fluid service provider spending environment as our investments in a range of exciting product development and go-to-market initiatives yield a new product cycle to support the next-generation technology requirements of our customers. I will cover this in more detail shortly.

Slide #6: Our Investments Leading to Today

Turning to slide number 6, about three years ago, we recognized that an increasingly connected world would create both challenge and opportunity in our marketplace, and we began making strategic investments to position us to thrive over the long term. Our investments, both organic and through acquisitions, were designed to help support and accelerate our customers' digital transformation initiatives. NetScout's technology leadership was built upon leveraging IP-based intelligence to create smart data, and the acquisition of the Danaher Communications Business and other technology assets, provide us with Smart Analytics, across multiple dimensions, to further extend our value proposition in service assurance, cybersecurity and later this year, big data.

More specifically, the addition of Tektronix Communications brings a wealth of expertise in the areas of subscriber troubleshooting, radio access network monitoring and customer experience management analytics. VSS complements our own network packet broker capabilities with a range of features and functionality to aggregate traffic for security applications where NetScout had yet focus development. From a security perspective, Arbor brings proven market-leading capabilities to help service providers and enterprises to fortify and enhance their network security. The acquired portions of Fluke Networks bring analytics that help smaller and medium-size enterprises troubleshoot network and application issues with particular strength in non-wire infrastructures such as cloud and WiFi environments.

As a result, we are now participating in a much larger total addressable market with proven market-leading products and next-gen analytics; we have established relationships with a larger, more diverse and more global set of customers – over 4,000 worldwide; and we have substantially greater operational scale to leverage our collective sales and engineering talent along with the underlying ASI technology platform to drive both revenue and cost synergies.

Slide #7: Leveraging NetScout's ASI Technology Platform

Let's move to slide number 7. The value of Smart Analytics is amplified with the use of Smart Data that takes advantage of IP Intelligence. We are opening ASI to a broader range of non-wired data sources, including server data, synthetic agents and WiFi networks, and we are making ASI data available to third-party applications and analytic engines. As a result, customers can get more value from their investment in our technology to help drive an even better ROI on their technology infrastructure investments and further reduce the risks related to downtime, poor user experiences and compromised security.

Supporting customers with their virtualization and cloud-based infrastructure initiatives is just one area where ASI tips the scales in our favor. Although industry experts believe that service providers and high-end enterprises are likely to move more cautiously with service assurance-related virtualization initiatives, NetScout's ASI technology will play an important role in positioning us to win this technology turn and even potentially accelerate this transition for customers, as we have been able to do multiple times during the last two decades. Our differentiators include:

- Proven software technology has been deployed by enterprise customers during the past several years to help them monitor their virtual server environments;
- Our incumbency in the legacy network will ensure continuity and consistency in how service providers manage their hybrid physical and virtual environment;

- As noted on this slide, our patented ASI technology is a "green technology." It was designed from ground up to require the least amount of hardware while delivering scalable performance to deliver a superior total cost of ownership for Cloud, SDN and Virtualization environments;
- By bringing together best-in-class, real-time monitoring with world-renown troubleshooting capability, we can help carriers reduce costs and improve service velocity by automating how they create, delivery and modify services and applications; and
- We have the technical expertise, go-to-market strategy and financial foundation to help our customers move at whatever pace they are comfortable to introduce virtualization into their networks.

We are actively engaged in trials with a number of our service provider customers and others have already selected us to support their proof-of-concept projects. We recently held an investor webcast on this topic and our customer-facing marketing programs are ramping to drive further thought leadership and broader industry awareness of our capabilities in this area.

Slide 8: Delivering Customer-driven Innovation in FY '17

Slide number 8 helps showcase our ability to combine Smart Data with Smart Analytics. More specifically, we are making significant investment today to leverage our ASI technology to help integrate an extensive range of features, functionality and capability that currently reside across a variety of disparate legacy product platforms. While we will continue to support these legacy platforms, we believe this new product cycle that will be kicked off this quarter and continue throughout the calendar year will play an important role in reinvigorating top-line growth while helping us improve bottom-line leverage. I'd like to highlight a few areas where we expect customers will realize substantially greater value through a combination of next-generation instrumentation and superior analytics:

- Integrated Probing Solution. In the service provider market, we plan to unveil the Infinistream NG at our upcoming Engage user conference next week. This next-generation probing solution supports our nGeniusONE platform and the best-in-class subscriber troubleshooting analytics from Tektronix in 4G networks. This instrumentation is platform agnostic – meaning that customers can deploy it as a traditional bundled appliance, license the software for a white-box server or use it as embedded software in NFV and Cloud environments. We plan to further enhance the offering with troubleshooting support for other network architectures and protocols by the middle of the calendar year. Because this platform relies on the NetScout architecture, we believe that it can play an important role in driving improved gross margin over the coming quarters as customer adoption accelerates.
- Big Data. In the analytics arena for service providers, we are advancing a new big data solution for the second half of the calendar year that builds upon Tektronix's expertise with subscriber experience with substantially greater scalability that takes advantage of our rich ASI meta data. In addition to our own analytic solution, we see potential partnership opportunities with other customer experience management vendors who are increasingly recognizing the value of the high-volume, real-time traffic data we collect. We also plan to deliver an equivalent big data analytics package for enterprises, complete with an ecosystem of technology partners, available by the end of this calendar year.

- In the enterprise market, we are focusing on integrating unique features and functionality from Fluke's offerings and capabilities that can make NetScout an even more strategic partner in helping enterprises manage their IT infrastructure and applications. For example, we plan to combine NetScout's robust packet-level and NetFlow capabilities with Fluke's strengths in analyzing machine data as well as analyzing active, synthetic traffic and WiFi traffic. As a result, NetScout will be able to provide enterprises with a much more complete view into their wired, wireless, private cloud and public cloud infrastructures, as well as further enhance how enterprises triage application issues. By doing this, we can fortify and expand our share of our customers' budgets by accessing areas of spend that were previously not available to NetScout.
- Cybersecurity. Three months ago, Arbor launched a new product, Spectrum, that extends its capabilities beyond DDoS by targeting a different network security challenge – advanced persistent threat. We've already closed a number of sales and are seeing the sales pipeline build. We see opportunity to further enhance this platform with richer, ASI from NetScout's enterprise monitoring solutions.
- Packet Flow Switching or Network Packet Broker. We are seeing that the combination of the VSS Packet Broker platform with our own suite of Packet Flow Switches has great potential. We recently announced the formal introduction of the industry's highest capacity packet flow switch, the 6010, and are seeing good traction in the service provider market.

Slide #9: FY'17 Outlook

Clearly, there are a lot of exciting development initiatives now underway at NetScout. I'd like to conclude my remarks on slide number 9 by reiterating my view into our outlook for the coming year. Simply stated, fiscal year 2017 represents an important year of transition for NetScout and we expect it to be another year of meaningful profit margin improvement on relatively modest revenue growth. We also expect that the combination of improved operating profitability and greater working capital efficiency will support strong gains in free cash flow.

We appreciate the support we've received in recent months from our shareholders – both those that are newer to our story and those that have owned us when we were much smaller. Although our short-term revenue outlook for the business is not very robust, we believe that we are making the necessary investments in both our R&D and go-to-market programs, which we anticipate will begin to reaccelerate our top-line trajectory as we move into calendar year 2017. Despite this, we expect to make notable progress this year toward our longer-term target of 31%+ operating margins. Our team is very excited about the opportunities that lie ahead, and we are committed to taking the steps that we believe will be necessary to deliver value over the long term for shareholders and other key stakeholders. Finally, I'd like to thank our employees around the globe for staying focused and helping advance our mission during a year of tremendous change at our Company. That concludes my remarks and I'll turn the call over to Michael at this point.

Slide 11: COO Highlights

Michael Szabados:

Thank you Anil and good morning everyone. Slide number 11 provides an overview of the areas I plan to cover. First, I'd like to update you on our integration efforts. Next, I will highlight some key customer wins that illustrate our ability to capitalize on some of the major technology trends that Anil noted in his commentary. I will close by commenting on our go-to-market plans for the coming fiscal year.

I am pleased to report that we've met our key milestones for fiscal year 2016 on the integration front. Most importantly, we have successfully completed the work to wind down the operational transition services agreements with Danaher Corporation. From a systems perspective, we have brought all employees onto our corporate network and related IT system infrastructure, and completely integrated the acquired portions of the Fluke Networks business into our enterprise systems environment. We have started fiscal year 2017 with our service provider and enterprise sales forces using a consistent CRM and sales compensation platform. From an HR perspective, we're moving into fiscal year 2017 with normalized compensation practices, under which all performance-related incentive bonus programs are now tied primarily to NetScout's overall results. We also successfully completed the manufacturing transition for both Fluke's systems and portable tools, and are now poised to take advantage of supply chain synergies. Similarly, we have completely integrated our technical support organizations

As we move forward, there is more integration work to do in fiscal year 2017. One area where we expect to make progress this year is in aligning and integrating the NetScout and former

Tektronix Communications business processes and IT systems, which we expect will result in operational synergies, as well as improved visibility in our combined businesses.

Wins / Use Cases

While the acquisition and integration of Danaher's Communications Business has been a major undertaking, we have not lost sight of the customer and we've continued to build our position as a trusted partner to some of the world's largest and most innovative organizations.

In the service provider market, we've continued to drive expansion within some of our largest customers while also capturing new logos. One of the more recent new customer wins was in the Far East where the customer is now in the process of deploying the probing solutions from NetScout in combination with geo-analytics for the radio access network (RAN) from Tektronix Communications. This is a great example of the value of providing an end-to-end solution from the RAN to the mobile core.

Anil commented earlier that NetScout has gained extensive experience in supporting enterprise virtualization projects with most of those deployments focusing on server virtualization where our solutions were used to provide visibility into the communications between the components of virtualized applications and services. Our large enterprise customers are also starting to re-architect their data centers with software defined networks (SDN) as the foundation. These customers are recognizing that NetScout can help these projects achieve their goals by providing them with greater visibility into this fragile, complex service delivery infrastructure. During the quarter, we won a new six-figure deal to help a major U.S. car manufacturer support a major initiative to modernize and consolidate their data center infrastructure leveraging Cisco's SDN technology, called Application Centric Infrastructure (ACI).

NetScout's ability to provide timely, actionable intelligence into the performance of mission-critical business applications is fundamental for helping enterprises deliver a world-class online commerce experience. One of the largest online travel exchanges made a major investment in our nGeniusONE and related instrumentation to ensure minimal latency in quickly processing searches and delivering results to millions of customers daily. In fact, this customer has been relying on NetScout as its primary tool to maintain and improve their online business performance.

Regardless of whether a transaction occurs online or in retail store, the world's largest credit card issuers are relying on NetScout to monitor their networks and ensure the performance of their new digital and mobile payment options. The rapid adoption of Apple Pay has been a driver in multiple deals where credit card firms purchased additional instrumentation to help monitor the performance of their transaction processing using Apple devices.

On the cybersecurity side of our business, the volume and complexity of attack campaigns on enterprises continues to rise. 95% of chief security officers expect to be to hit with an advanced attack campaign in the next 12 months and although more than 75 billion dollars was spent on security solutions over the past five years alone, security teams still lack the tools to prove and resolve advanced threats to the network. In addition to protecting the network from high volume and application-specific attacks, Arbor has expanded its portfolio to target advanced threats with the introduction of its Spectrum platform. One of the first customers for Spectrum was an IT agency for a large federal government in Europe that has been a long-standing Arbor customer for DDoS. With Spectrum, their large security team now has access to a tool that enables them to investigate threats with substantially greater efficiency and effectiveness.

Go to Market

Before I conclude, I'd like to highlight the progress and plans surrounding our go-to-market capabilities.

As we mentioned in earlier calls, we quickly integrated the sales forces targeting the service provider and enterprise markets. We've completed all of the necessary cross-training activity to ensure the success of our direct sales force. We've enabled cross-selling of products, such as the VSS packet broker or packet flow switches where collaboration with the Tektronix Communications and Fluke Networks businesses had been fairly limited, and we are now focusing the VSS sales specialists on targeted applications such as security where we have the features and functionality to provide customers with a compelling solution.

We have also invested in our global enterprise channel partner program with the launch of Connect360. This is a multi-tiered program that unifies previously separate channel strategies across our enterprise network product lines spanning service assurance solutions and portable network analysis and troubleshooting tools. It is focused on providing both global and regional partners with the resources, training and other pre- and post-sales support necessary to market NetScout's entire enterprise product portfolio.

We recently held our first combined Sales Kick Off event for over 1,000 sales, sales engineering, marketing, support and operations professionals from across our global organization. Next week we are holding our Engage User Conference in Dallas, Texas. We expect over 700 CIOs, CSOs, senior-level network operations, cybersecurity and line of business professionals from top service providers and MSOs, large enterprises and prominent government agencies, as well as NetScout resellers and channel partners. We believe that the combination of these events will enable us to hit the ground running in fiscal year 2017.

As we move forward, we continue to invest in educating the market about the new NetScout brand, representing the largest collection of technical and sales resources dedicated to assuring the performance and security of the world's digital business. Our message is resonating with customers and prospects, and we expect our efforts will help us both accelerate our sales cycles and expand our access to new segments of the market.

That concludes my prepared remarks and I will turn the call over to Jean.

Slide 12: CFO Review

Jean Bua:

Thank you Michael and good morning everyone.

This morning, I will plan to review key fiscal year 2016 metrics for both the fourth quarter and full year, and then I will discuss our guidance for the upcoming fiscal year. There are a number of acquisition-related items that impacted our GAAP results so our convention will be to refer to our non-GAAP results unless otherwise noted. On a related note, and consistent with our comments earlier on the call, the timing and magnitude of the acquisition will impact comparisons with the prior year periods and any other extrapolations of our fourth-quarter and full year results may not be representative. When possible, we will frame our results against prior periods on a pro forma basis. As noted earlier on the call, there is an appendix at the end of the slide presentation that provides a reconciliation of the non-GAAP pro forma financials, the trailing 8 quarters of pro forma revenue along with other supplemental detail.

Slide 13: Reported Q4 and FY'16 Income Statement

To begin our financial discussion, we will be starting with slide number 13 of our presentation. I'll briefly cover our fourth-quarter performance and focus more of my time on the full-year results on a pro forma basis.

On a year-over-year, pro forma basis, revenue growth was 3.4 percent. Our earnings per share for the quarter was 44 cents which includes the repurchase of approximately 4.9 million shares. Our operating margin for the fourth quarter was 22.4 percent.

Since our last quarter's call, many investors have inquired about the status of the four large deals that affected our outlook for the fourth quarter of fiscal year 2016. As an update, one of those deals has since closed, and one is still under negotiation. The other two deals appear less likely to materialize in the near term based on the financial priorities of each customer.

The other details for our reported fourth and full fiscal year operating performance are provided on this slide and in the interest of time, I would summarize them to say that they reflect positively on our ability to balance the funding of key development, go-to-market and integration activities with overall prudent expense management. We were pleased that our efforts to manage our cost structure enabled us to preserve our earnings performance at the high end of our revised EPS guidance range and at the mid-point of our original EPS guidance range.

Slide 14: Pro Forma FY'15 and FY'16 Operating Results

With the year now completed, we thought it would be helpful to walk through the business in more detail and to discuss the performance on an easier, more comparable basis which is to include the Danaher Communications Business transaction as if it had been completed on April 1, 2014. Let's turn to slide 14 for this review. Please note that a reconciliation of the annual pro forma results, along with the trailing eight quarters of revenue is available in the appendix of these slides, and it is available for downloading on our website.

Revenue

For the full fiscal year, total pro forma revenue was approximately one billion, one hundred and ninety nine million dollars ($1.199 billion), up 2.5 percent over the prior year. Service provider grew about 8 percent on a year over year basis while Enterprise declined about 3 percent.

Within the Service Provider market, the combination of the acquired Tektronix Communications business and NetScout still grew in the mid-single digits despite the order delays that impacted the fourth quarter. Arbor's growth within service provider was in the upper teens. Pro forma enterprise revenue declined in the low single digits. Arbor continued to make progress in the Enterprise market and grew revenue in the upper single digits while nGeniusONE experienced low single digit growth. However, these gains were more than offset by a decline in Enterprise revenue from Fluke due to the transition of sales personnel and channel partners at the time of the acquisition.

Pro forma product revenue for fiscal year 2016 was 761.4 million dollars, or 64 percent of total revenue, which was essentially flat with the prior period. Service revenue of 437.3 million represented 36 percent of total pro forma revenue, and grew by 6.7 percent. In terms of other key revenue trends, we've included the revenue by segment and revenue by geography detail in our appendix as well. The trends for the full year on both a reported and pro forma basis were largely consistent with recent quarters.

From a profitability perspective, we are making tangible progress in improving the profitability of the combined company. As many of you will recall, our registration statement and other deal-related communications outlined NetScout's goal for identifying, removing and beginning to realize run-rate cost synergies of 45 million to 55 million dollars during the first 12 months of combined operations. Thus far, we have already captured about half of these synergies. To date, the synergies we've gained have been heavily skewed toward operating costs, although with the upcoming launch of Inifinistream NG, we expect to start to realize gross margin synergies as this platform gains traction with service providers.

Pro forma gross margin in fiscal year 2016 was 75.0 percent versus 74.4 percent for the pro forma fiscal year 2015. The improved gross profit margin reflects a combination of the overall revenue mix and the initial steps we have taken since closing the transaction to optimize certain smaller product areas.

Pro forma operating margin in fiscal year 2016 was 21 percent, an improvement of 2.2 percentage points from 18.8 percent in fiscal year 2015. In addition to modestly higher revenue and improved gross margin, we benefited from steps to realign resources within our R&D functions and to integrate certain sales and marketing functions.

Slide 15: Balance Sheet Highlights, Free Cash Flow and Share Repurchase

Slide 15 details our balance sheet highlights and free cash flow. These details are on a reported basis since the financial position reflects a definite point in time.

We ended the quarter with cash, cash equivalents, short-term marketable securities and long-term marketable securities of 352.1 million dollars, which declined sequentially by 24.1 million dollars. We used approximately 49 million dollars in cash and added an additional 50 million dollars of debt from our senior secured revolving credit facility to fund our share repurchase activity in the quarter. At the end of the fiscal year, we had 500 million dollars of available credit on our existing facility, which leaves us with total liquidity of just over 850 million dollars. As you can see from this slide, our current financial profile is generally in line with the key metrics we shared with you last quarter.

Share Repurchase Activity

During the quarter, we took important steps to return capital to shareholders. NetScout repurchased nearly 4.9 million shares of common stock during the fourth fiscal quarter at an average price of 20 dollars and 28 cents ($20.28) per share, totaling approximately 99.0 million dollars in the aggregate. For fiscal year 2016, NetScout repurchased a total of 10.1 million shares of its common stock at an average price of twenty nine dollars and eighty four cents ($29.84) per share, totaling approximately 302.8 million dollars in the aggregate.

We move forward into fiscal year 2017 approximately half-way through our 20 million share repurchase plan that the Board authorized last year, just prior to the completion of the acquisition. Our capital deployment priorities are to maintain financial capacity to further invest in our product development, either through in-house development or through acquired technologies. We currently seek to distribute excess cash flow to our shareholders through share repurchase and we expect to be active on the share repurchase front in fiscal year 2017.

Free Cash Flow

From a cash flow perspective, in fiscal year 2016, our free cash flow was 64.9 million dollars although the adjusted free cash flow for 2016 would have been over 100 million dollars. There were two notable items that impacted free cash flow in fiscal year 2016. First, there was approximately 24 million dollars in one-time payments for business development and integration-related activities including investment banking fees and other professional services directly in support of the transaction. Second, the timing of remittances from Danaher for certain accounts receivables collected under our transitional services agreement also reduced our free cash flow by approximately 17 million dollars. Our fourth-quarter fiscal year 2016 free cash flow was 23.6 million dollars.

Other Balance Sheet Highlights

In terms of a brief recap of other balance sheet highlights, accounts receivable net of allowances was 247.2 million dollars, up nominally from the prior quarter. At the end of our fiscal year 2015, accounts receivable was 82.2 million dollars. The increase in accounts receivable from the prior year end reflects the incremental receivables from the acquired business. Days sales outstanding was 80 days for the quarter versus a DSO of 71 days for the prior quarter and 61 days at this time last year. The increase reflects the timing of billings in the quarter and the overall mix of business in the quarter, particularly as it relates to certain service provider projects.

Slide 16: FY 2017 Non-GAAP Guidance

Let's move to slide 16 to review our guidance. As we outlined in today's press release, NetScout's non-GAAP guidance for fiscal year 2017 is as follows. We anticipate revenue between 1.2 billion dollars and one billion, two hundred and fifty million dollars ($1.2 billion and $1.25 billion). In terms of net income per diluted share, our guidance ranges from one dollar and eighty five cents ($1.85) to two dollars and ten cents ($2.10). This guidance assumes an operating margin of approximately 23 percent to approximately 25 percent, and also assumes the average shares outstanding will be approximately 94 million. Hence, the current earnings per share guidance range for fiscal year 2017 does not yet reflect any share repurchases. As is our practice, we will update the earnings per share guidance range based on the share repurchase activity.

Revenue

Overall revenue growth within guidance ranges from flat to about 4 percent growth. Looking at our revenue growth areas by each of our total addressable markets can help you better appreciate our revenue outlook.

Our largest addressable market is service assurance, which may be referred to by some as network performance management. Since inception, this is where we have had tremendous success and where we are the market leader. This is a relatively mature market where our pre-acquisition growth had outpaced the mid-single digit historical growth in this market.

The service provider market includes Tier-1 carriers, international non Tier-1 carriers and cable companies. Within the Tier-1 carriers, we see certain Tier-1 service providers who are focused on quality and customer experience across their infrastructure, and we are helping them with our real-time operational intelligence and analytics from the RAN to their data centers.

These customers continue to invest in improving the user experience on their networks and benefit from NetScout's ability to scale, be cost effective and real time. Other Tier-1 service providers are managing near-term capital and operating spending pressures, and are moving more deliberately with their spend. International non-Tier 1 carriers are in various stages of the 4G lifecycle from deployment through rolling out application within the EMEA and Asia-Pac regions. We are excited about our partnership with a China-based OEM as well as a recent large order from an EMEA carrier. Cable companies are increasingly seeing value in our solutions to help them deliver high-quality WiFi service, improve how customers access content inside and outside the home, and monitor key aspects of their voice and IP networks for their growing base of business customers. Within cable, we continue to see good growth although this has represented a smaller area of spend compared with our tier-1 customer base.

In the enterprise service assurance market, we believe that we will see overall growth in fiscal year 2017 as we leverage our proven product portfolio across a larger sales base which includes the legacy NetScout sales force, the now integrated Fluke sales force and the enhanced channel partner program. As Michael noted, we see opportunity to build further momentum in certain product areas such as packet flow switching, where we can extend our penetration into the Fluke installed base of SMB customers. Additionally, we have new products that will focus on operational intelligence and analytics for custom applications as well as products for further "end to end" visibility such as Infrastructure Performance Management (IPM).

Our second largest addressable market is cybersecurity. Arbor is the market leader in DDoS and has recently introduced a new advanced persistent threat product. We expect that cybersecurity will remain a growth area for NetScout in fiscal year 2017 as customers invest to protect their infrastructure against attacks that are increasing in size, scale and complexity. Although the DDoS market is maturing and Arbor has a commanding market leadership position, we still believe that Arbor will grow alongside the market's forecasted growth rate in the low double digits. Arbor's entry into advanced threat provides further upside for growth as adoption ramps and we build further momentum through product integration and tactical cross-selling initiatives. Part of our product strategy as outlined by Anil is to differentiate our APT offering through faster recognition of a threat by introducing network behavior into the analysis.

As Anil mentioned, we are also excited about our future growth potential in markets including Big Data, virtualization, the cloud and 5G. We are an operational intelligence and analytics company with product differentiation based on quality data, real-time agility, scalability and cost efficiency.

Based on this guidance, we currently estimate that product revenue performance will range from relatively flat to up modestly with service revenue anticipated to grow in the low single digits. In terms of the phasing of our revenue throughout the fiscal year, we currently anticipate our first-half revenue will be relatively flat on a pro forma basis. For the first quarter, we anticipate around 2 percent growth over the first quarter of last year on a combined business basis. We continue to analyze our pipeline for the second quarter. However, we face a difficult comparison due to the timing and magnitude of a large service provider project that was completed in the second quarter of last year. We expect that our efforts to deliver new products, features and functionality during the course of calendar year 2016 will play an important role in helping us accelerate our revenue trajectory in the second half of the year in combination with the historical strength that we normally see in the second half of any given fiscal year.

Operating Profitability

To further amplify Anil's earlier comments in terms of our expected profitability, we plan to benefit the run-rate savings from recent integration activity and there is additional opportunity to drive further acquisition-related synergies such as generating a modest improvement in gross margin, normalizing sales compensation programs and realigning and/or consolidating certain go-to-market resources, and consolidating facilities. Additionally, we plan to remain disciplined in managing our overall cost structure, which includes keeping overall headcount relatively static and carefully managing other discretionary spending. At the same time, as Anil stated, we are funding the investments in research and development and our go-to-market initiatives in order to bring next-generation products to the marketplace while also supporting the ongoing needs of customers for our legacy offerings.

Given these dynamics, we expect that pro forma operating margins will range from approximately 23 percent at the low end of revenue guidance to 25 percent-plus at the high end. This guidance represents significant improvement from the prior year on relatively modest organic growth. While this year's free cash flow was impacted by some large one-time items related to the acquisitions, we do not expect our capital intensity to change materially and, accordingly, we expect that our actual free cash flow in fiscal year 2017 should more than double. More specifically, given the guidance range, we believe that fiscal year 2017 free cash flow should be between 85 to 95 percent of expected non-GAAP net income.

Additionally, we have finished the first phase of analyzing our tax structure and believe that we will be able to reduce our tax rate by more than the originally estimated 2 percentage points. There is still work to do to enact and transition to a new tax structure, and this work will proceed through fiscal year 2017 with the initial benefits beginning to be realized in fiscal year 2018.

I'd like to quickly cover some other modeling assumptions for our earnings per share guidance. Based on 300 million dollars in draw downs on our credit facility, we expect interest expense of approximately 10 million dollars and a tax rate in the range of 34.5 to 35 percent.

During the first quarter of our new fiscal year, we always hold our annual sales meeting as well as our annual user forum, Engage, as Michael discussed. As such, our costs related to these events impact our first quarter profitability. We believe that our earnings for the first quarter of fiscal year 2017 will still show at least an upper teens-percent increase over the pro forma diluted earnings per share of 21 cents in the first quarter of fiscal year 2016, which assumes a roughly 35 percent tax rate and 94 million shares outstanding.

That concludes my formal review of our financial results. Before we transition to Q&A, I'd like to thank our shareholders for their support and feedback during the past several months. NetScout remains committed to being proactive with helping our shareholders better appreciate all of the exciting areas of opportunity for NetScout. As Anil noted, we held a webcast on virtualization last month that received very positive feedback from investors, and we hope to build on that with additional technology education-oriented webinars over the course of fiscal year 2017.

In terms of near-term activity, May and June is a very busy time for us in terms of conference participation. To that end:

- We will participate in nine investor conferences between May 12 and June 9 with participation at events held by firms that currently cover NetScout like Needham & Company, B. Riley & Company, DA Davidson, Craig-Hallum and Stephens & Company. This is augmented by our participation at the Jefferies, J.P. Morgan, Stifel & Company and Robert Baird investor conferences.
- If you are unable to attend any of those events live, most of them will be webcast and you access those from our IR website.

That concludes our prepared remarks this morning. Thank you again for joining us and we're now ready to answer questions. Operator, you may now begin the Q&A session.