



NETSCOUT SYSTEMS, INC.
Third Quarter Fiscal Year 2023 Financial Results Conference Call
Management's Prepared Remarks

January 26, 2023

Slide #2: Introduction

Tony Piazza:

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's third-quarter fiscal year 2023 conference call for the period ended December 31, 2022. Joining me today are:

- Anil Singhal, NETSCOUT's president and chief executive officer,
- Michael Szabados, NETSCOUT's chief operating officer, and
- Jean Bua, NETSCOUT's executive vice president and chief financial officer.

There is a slide presentation that 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 under financial results, the webcast itself, and under financial information on the quarterly results page.

Slide #3: Safe Harbor Statement

Moving on to slide number 3, today's conference call will include forward-looking statements. Examples of forward-looking statements include statements regarding our future financial performance or position, results of operations, business strategy, plans and objectives of management for future operations, and other statements that are not historical fact. You can identify forward-looking statements by their use of forward-looking words such as "anticipate," "believe," "plan," "will," "should," "expect," or other comparable terms. We caution listeners not to place undue reliance on any forward-looking statements included in this presentation which speak only as of today's date. These forward-looking statements involve risks and

uncertainties, and actual results could differ materially from the forward-looking statements due to known and unknown risks, uncertainties, assumptions, and other factors, including but not limited to those described on this slide and in today's financial results press release. 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, 2022, 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.

Slide #4: Non-GAAP Reconciliation

Let's now turn to slide number 4, which involves non-GAAP metrics. While this 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. The rationale for providing non-GAAP measures along with the limitations of relying solely on those measures is detailed on this slide and in today's press release. 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 with the applicable GAAP measures are provided in the appendix of the slide presentation, in today's earnings press release, and on our website.

I will now turn the call over to Anil for his prepared remarks. Anil...

Slide #5: CEO Perspective
Anil Singhal:

Thank you, Tony, and good morning, everyone. Welcome and thank you all for joining us today.

Let's now turn to slide number 6 for a brief recap of our non-GAAP financial results in the third quarter and first nine months of our fiscal year 2023.

Slide #6: Q3 & YTD FY'23 Non-GAAP Financial Results

In the third quarter, we delivered solid financial results with

- Q3 revenue of 269.5 million dollars, representing year-over-year growth of approximately 3 percent.
- This revenue increase was driven by product revenue growth of 3.5 percent and service revenue growth of 2 percent, both on a year-over-year basis.
- As a result of this top-line growth and our healthy operating leverage, we delivered one dollar (\$1.00) of diluted earnings per share in the third quarter, representing a growth rate of approximately 12 percent year over year.
- Our service assurance performance was strong and was supported by the acceleration of service provider orders previously forecast to occur in our fourth quarter. As such, we achieved higher quarterly sales, margins, and profitability on a year-over-year basis.
- Now, moving to the first nine months of fiscal year 2023. During the period, revenue was 706.4 million dollars, growing by more than 6 percent year over year. On a year-over-year basis, product revenue grew nearly 10 percent and service revenue grew approximately 3 percent, while service assurance revenue grew by more than 8 percent and cybersecurity revenue grew by more than one percent.

- Additionally, we delivered one dollar and eighty-one cents (\$1.81) of diluted earnings per share in the first nine months of fiscal year 2023, representing approximately 16 percent year-over-year growth, more than double that of our revenue growth rate over the same period.

Now, let's move to slide 7 for some further perspective on market and business insights.

Slide #7: Market and Business Insights

Service Provider Customer Vertical

In our service provider customer vertical, revenue grew by more than 9 percent year over year in the first nine months of fiscal year 2023. This increase was primarily driven by higher revenue related to radio frequency propagation modeling projects from Tier-1 carriers in North America. In addition, as mentioned earlier, we received some service provider customer orders in our third quarter that we had previously forecast to occur in our fourth quarter. Overall, both domestically and internationally, we continue to see carriers invest in their 5G-related network deployments.

Enterprise Customer Vertical

In our enterprise customer vertical, revenue grew by approximately 3 percent year over year in the first nine months of fiscal year 2023. This expansion was driven by growth in both our service assurance and cybersecurity business lines during the period. Notably, enterprises continued to require those solutions capable of helping them to better protect their systems and accelerate their digital transformations. To better address these market trends, we are focused on leveraging our growing suite of comprehensive offerings to provide customers with an integrated

platform for service assurance and cybersecurity solutions. As the market for these solutions grows and converges, we are pleased to see that this approach is resonating with our customers.

Michael will provide more insight regarding customer wins within our verticals during his remarks.

Now, let's move to slide number 8 to review our outlook.

Slide #8: Outlook & Summary

NETSCOUT continues to play a mission-critical role for organizations around the globe. As "Guardians of the Connected World," we provide our customers with what we believe to be unparalleled visibility into the performance and security of their digital operations. We are a trusted brand with more than three decades of operating experience, and our customers utilize our solutions to navigate and capitalize on the opportunities and challenges of today's digital landscape.

Given our solid year-to-date performance, along with the acceleration of service provider orders, we now have increased visibility into our full fiscal year outlook. As such, we are updating our fiscal year 2023 outlook, which we most recently shared on our second quarter earnings call. We are narrowing our target total revenue range to be between 905 and 915 million dollars, from the prior range of 895 to 925 million dollars, with the mid-point of both ranges remaining the same. In addition, we are increasing our non-GAAP diluted earnings per share range to now be between 2 dollars and 6 cents (\$2.06) and 2 dollars and 10 cents (\$2.10), from the prior range of 1 dollar and 97 cents (\$1.97) cent to 2 dollars and 3 cents (\$2.03). Jean will provide additional color on our outlook in her remarks.

As we continue to closely monitor today's macro environment, we recognize that the current landscape remains dynamic. Nevertheless, we believe that we are well-positioned for the future and remain focused on achieving our long-term objectives. In addition, we plan to continue managing our operations prudently, with a balanced approach to revenue growth and profitability.

Before I close my commentary, I wanted to mention for those that may have missed it, that we announced yesterday the addition of Shannon Nash and Marlene Pelage to the NETSCOUT Board of Directors. Shannon and Marlene are two accomplished professionals who will bring additional financial and operational expertise, as well as other valuable experience to the Board. We are confident that they will play an important role as we advance our business. I personally look forward to working with them both.

With that, I'll turn the call over to Michael.

Slide #9: COO Update

Michael Szabados:

Thank you, Anil, and good morning, everyone. Slide 10 outlines the areas that I will be covering today, starting with customer wins.

Customer Wins:

In our service provider customer vertical, we remained focused on supporting providers as

they further advanced their network buildouts. Through this focus, our robust portfolio of offerings, and established incumbency, we continued to expand our installed base. During the quarter, for example, a long-standing, Tier-1 North American carrier customer placed orders with us amounting to close to mid-eight figures. Consistent with Anil's earlier comment, we had expected to receive a portion of these orders in our fourth quarter.

Orders from this customer were for a combination of our service assurance and cybersecurity solutions, which included 5G core and RAN service assurance, additional radio frequency propagation modeling, and our Cyberstream and Omnis Cyber Intelligence solutions, with this being the first time this customer purchased certain cybersecurity solutions from us. Importantly, these orders represented successful expansion within and outside of our traditional projects and in certain cases, we replaced competitors' products. Today, this customer is utilizing our solutions within both its mobile business and corporate IT systems, and we remain excited about this collaboration as a model for additional customer engagement going forward.

Now, turning to our enterprise customer vertical. We received two notable mid-seven-figure orders during the quarter. One was from a financial institution, while the other was from a healthcare organization, both of which are large-scale and long-standing customers. These wins represent an expansion of our service assurance footprint to new, mission-critical applications that are directly relevant to these customers' success in their markets. Our ability to win these deals and continue expanding our footprint with our customers is a testament to the strength of our platform offerings, established incumbency, and ability to expand further within our existing customer base.

Go-to-Market Activities:

We also remained focused on driving business performance through go-to-market activities. During the quarter, we continued to attend more in-person events and collaborate with our partners. In November, we attended the AWS re:Invent conference, where we showcased NETSCOUT's platform as well as our collaborations with AWS. At the event, we announced the successful interoperability between our Omnis Cyber Intelligence and Amazon Web Services' Amazon Security Lake. By providing comprehensive network visibility, contextual cybersecurity investigation, and smart detection, Omnis Cyber Intelligence can pair with Amazon Security Lake to deliver advance network detection and response insights, ultimately allowing companies to better manage threats across complex hybrid-cloud infrastructures.

In line with this progress, we also continued to capture mindshare with industry publications, winning two prestigious awards in recognition of our service assurance and cybersecurity solutions during the quarter.

- For service assurance, we received Frost & Sullivan's 2022 Global Company of the Year Award for our wireless network monitoring and service assurance solutions. Frost & Sullivan presented us with this recognition based on our compelling customer value proposition, customer experience, strong brand equity, and overall solid performance.
- In addition, we received Security Today's 2022 CyberSecured Award for Network Security. This recognition was based on the Arbor Edge Defense solution's ability to effectively stop both inbound and outbound threats, and in doing so, to serve as

both the first and last line of defense for organizations.

Finally, I'd like to touch on our Annual Engage Technology and User Summit. Usually, this event is held in April, and I provide everyone with an event preview on our third quarter call. However, this year, to better align with our customers' planning and budgeting cycles, we plan to hold our Engage 2023 Summit in October. Thus, I will provide everyone with an update on this event later in the year, as we move closer to its arrival.

Thank you, everyone. That concludes my remarks, and I will now turn the call over to Jean.

Slide #11: CFO Review

Jean Bua:

Thank you, Michael, and good morning, everyone. I will review key metrics for our third quarter and first nine months of fiscal year 2023 and provide some additional commentary on our fiscal year 2023 outlook. As a reminder, this review focuses on our non-GAAP results unless otherwise stated, and all reconciliations with our GAAP results appear in the presentation appendix. Regardless, I will note the nature of any such comparisons.

Slide #12: Q3 & YTD FY'23 Results

Slide number 12 details the results for the third quarter and first nine months of our fiscal year 2023. Focusing first on our quarterly performance, total revenue grew 2.8 percent year over year to 269.5 million dollars. Product revenue grew 3.5 percent, and service revenue grew 2 percent, both on a year-over-year basis. At the end of the third quarter, our "backlog" was approximately 54 million dollars, consisting of approximately 31 million dollars of

fulfillable orders and approximately 23 million dollars of radio frequency propagation modeling projects, with most of the radio frequency propagation modeling amount categorized as deferred revenue from a financial reporting perspective. As a reminder, while fulfillable orders are those we consider ready and available to be converted into revenue upon shipment or fulfillment, the radio frequency propagation modeling projects require certain execution steps, in conjunction with the carrier's timing, before they can convert to revenue.

Gross profit margin was 80.5 percent in the third quarter, up 1.7 percentage points year over year. This quarter's gross margin was impacted by the acceleration of a high-margin radio frequency propagation modeling project that was expected to occur in our fourth quarter. Quarterly operating expenses increased 1.7 percent year over year, mostly due to the return of "pre-pandemic" activities, such as travel and events. We reported an operating profit margin of 35.5 percent, compared with 33.2 percent in the same quarter last year. Diluted earnings per share was 1 dollar, compared with 89 cents in the same quarter last year, representing an increase of 12.4 percent year over year.

Slide #13: Y T D FY'23 Revenue Trends: Customer Verticals & Product Lines

Turning to slide 13, I'd now like to review key revenue trends by customer verticals and product lines. Please note that all comparisons here are on a year-over-year basis, consistent with our other remarks.

For the first nine months of fiscal year 2023, our service provider customer vertical revenue grew 9.3 percent, while our enterprise customer vertical revenue grew 3.2 percent, both on a year-over-year basis. During the same period, our service provider customer vertical accounted for approximately 52 percent of our total revenue, while our enterprise customer

vertical accounted for the remaining 48 percent.

Now, turning to our product lines. For the first nine months of fiscal year 2023, our service assurance revenue increased by 8.1 percent, while our cybersecurity revenue increased by 1.4 percent, both on a year-over-year basis. During the same period, our service assurance product line accounted for approximately 75 percent of our total revenue, while our cybersecurity product line accounted for the remaining 25 percent.

Slide #14: FY'23 Revenue Trends: Geographic Mix

Turning to slide 14, which shows our geographic revenue mix. In the first nine months of fiscal year 2023, our revenue was more concentrated in the U.S. year over year, primarily due to the increase in revenue related to radio frequency propagation modeling projects from Tier-1 domestic carriers. Additionally, one customer represented 10% or more of our total revenue in the third quarter and first nine months of our fiscal year 2023.

Slide #15: GAAP Balance Sheet Highlights & Free Cash Flow

Slide 15 details our balance sheet highlights and free cash flow. We ended the third quarter with 416.2 million dollars in cash, cash equivalents, and short- and long-term marketable securities, representing an increase of 49.1 million dollars since the end of the second quarter of fiscal year 2023. Free cash flow for the quarter was 43.2 million dollars. During the third quarter of fiscal year 2023, we concluded our Accelerated Share Repurchase (ASR) transaction, receiving the final 1.3 million shares, which resulted in a total repurchase amount of 150 million dollars, or approximately 4.6 million shares, at a weighted average price per share of 32 dollars and 97 cents (\$32.97). From a debt perspective, we ended the third quarter of fiscal year 2023

with 200 million dollars outstanding on our 800-million-dollar revolving credit facility, which expires in July 2026.

To briefly recap our other balance sheet highlights, accounts receivable, net, was 215.8 million dollars, representing an increase of 67.6 million dollars since March 31, 2022. The DSO metric at the end of the third quarter of fiscal year 2023 was 69 days, versus 76 days at the end of the third quarter of fiscal year 2022 and 64 days at the end of fiscal year 2022.

Slide #16: FY'23 Outlook

Let's move to slide 16 for commentary on our outlook. I will focus my review on our non-GAAP targets for fiscal year 2023.

FY'23 Outlook

As Anil noted earlier, we are updating our non-GAAP outlook for fiscal year 2023 that was last presented on October 27, 2022, during our second quarter fiscal year 2023 earnings call.

We now anticipate revenue in the range of 905 to 915 million dollars. The midpoint of this range remains the same as that of our prior range and continues to imply a mid-single-digit topline growth rate. In addition, we now anticipate non-GAAP diluted earnings per share to be between 2 dollars and 6 cents (\$2.06) and 2 dollars and 10 cents (\$2.10), increasing the midpoint by 8 cents and implying a low-double-digit year-over-year growth rate for our bottom line. This forecast utilizes an anticipated effective tax rate in the range of 20 to 22 percent. It also assumes between 73 and 74 million weighted average diluted shares outstanding, which includes the impact of the 150 million dollar accelerated share repurchase program, with a partial offset for stock compensation dilution. The increase in our non-GAAP diluted EPS outlook is primarily

attributable to the recent large radio frequency propagation modeling project leveraging library data, which has an above-average gross margin when compared with similar projects. It is also due to the slower return of pre-pandemic travel-related costs than was originally anticipated, as well as continued cost management efforts.

That concludes my formal review of our financial results. Thank you, and I'll now turn the call over to the operator for Q&A.