NETSCOUT SYSTEMS, INC.
Fourth Quarter and Full Fiscal Year 2024 Financial Results Conference Call
Management's Prepared Remarks

May 9, 2024

Slide #2: Introduction
Tony Piazza:

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's fourth - quarter and full fiscal year 2024 conference call for the period ended March 31, 2024. 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. Actual results could differ materially from any forward-looking statements. These statements speak only as of today's date and involve risks and uncertainties, including but not limited to those described on this slide and in today's financial results press release, which are available on the Investor Relations section of our website, as well as in the Company's most recent Annual

Report on Form 10-K and subsequent SEC filings, on file with the Securities and Exchange Commission. NETSCOUT assumes no obligation to update any forward-looking information except as required by law.

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.

In fiscal year 2024, strong Cybersecurity revenue growth was a highlight for

NETSCOUT as customers continued to prioritize cybersecurity spending amid heightened geopolitical tensions and the expanding cyber threat landscape. This strength was more than offset by the constrained customer spending environment affecting our Service Assurance offerings, primarily related to our domestic service provider customers. Despite the topline headwind, our diligent cost containment actions and flexible cost structure contributed to non-GAAP earnings per share growth year over year.

With that as a backdrop, let's now turn to slide number 6 for a brief high-level recap of our non-GAAP financial results for the fourth quarter and full fiscal year 2024. Jean will provide more detail on the results later in the call.

Slide #6: Q4 and Full FY'24 Non-GAAP Financial Results

- For the fourth quarter, we delivered revenue of approximately 203 million dollars, down 2 percent (2%), and non-GAAP diluted earnings per share of 55 cents ($0.55), up 17 cents ($0.17) or approximately 45 percent (45%), both on a year-over-year basis.
- For the full fiscal year 2024, we delivered revenue of approximately 830 million dollars, representing a decline of approximately 9 percent (9%) year over year, due in part to a lower level of our Service Assurance radio frequency propagation modeling project revenue compared to an unusually high level in fiscal year 2023. When excluding the radio frequency propagation modeling project revenue from total revenues, the decline was approximately 3 percent (3%) year over year.
- From a non-GAAP EPS perspective for the full fiscal year 2024, we delivered 2 dollars and 20 cents ($2.20) per diluted share, a 2 cent or approximately 1 percent (1%) improvement over fiscal year 2023. We achieved this result despite the revenue headwinds, partially due

to our cost containment actions taken during the fiscal year.

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

Slide #7: Business and Market Insights

Service Assurance

Starting with our Service Assurance offerings. In fiscal year 2024, Service Assurance revenue declined approximately 18 percent (18%) year over year. This was primarily attributable to lower radio frequency propagation modeling project revenue year over year as well as constrained spending from the domestic Tier-1 carrier market as previously discussed. Excluding the impact of radio frequency propagation modeling project revenue, Service Assurance revenues were down approximately 11 percent (11%) year over year.

As we consider the demand dynamics for the Service Assurance offerings moving forward, we continue to see customers being cautious as budgets remain tight and the number of required approvals remain elevated. While we expect relative stability in the enterprise vertical as customers continue to prioritize mission critical solutions and monitoring at the edge, we believe the ongoing headwinds in the service provider vertical will persist for much of fiscal year 2025. The demand dynamic for service providers is an issue that is primarily domestic. Domestic service providers remain cautious in their spending decisions as the initial 5G standalone infrastructure deployed has not yet delivered a return on investment with network traffic below capacity and no materially new applications driving increased demand. This has caused providers to delay significant further investments until a monetization strategy becomes clearer to obtain acceptable returns on investments.

Strategically, we continue to be ready to support both the domestic and international carriers as the customer demand markets progress and as emerging network technology trends gain momentum. For example, Fixed Wireless Access has been a promising long-term opportunity although service providers currently already have the bandwidth to support recent deployments. Additionally, network slicing also offers long-term opportunities for NETSCOUT but is still in early stages. We are also encouraged by 5G investment activity at international carriers. While international carrier spending levels tend to be lower than the domestic market, they remain an important contributor to long-term growth. Finally, NETSCOUT is actively taking early steps of bringing new value creation opportunities as it collaborates with customers to fully unlock the critical value of our Smart Data generated from Deep Packet Inspection (DPI) technology. This relates to the increasing needs and requirements of emerging AIOps strategies, toolsets, and applications. In the future, we intend to be an important contributor to this emerging technology market as we make our Smart Data available for customer AI use cases in partnership with other technology innovators in this field.

Cybersecurity

Shifting to our Cybersecurity offerings. In fiscal year 2024, our Cybersecurity offerings delivered approximately 15 percent (15%) revenue growth year over year, which was the result of growth in both our service provider and enterprise customer verticals. In addition, we believe customers prioritized spending amid heightened geopolitical tensions and the expanding threat landscape. As revealed in our recently released DDoS Threat Intelligence Report, politically motivated hacktivist groups and an increase in DNS water torture attacks contributed to over 7 million DDoS attacks globally in the second half of 2023. This is an increase of 15 percent (15%) from the first half of the year. With this high-activity threat landscape, companies are increasingly depending on NETSCOUT for their Cybersecurity protection needs. As we look to fiscal year 2025, we believe the value proposition of our solutions should continue to resonate with customers and expect our core as well as newer offerings such as Adaptive DDoS, Mobile Security, and Omnis Cyber Intelligence solutions to fuel continued momentum in this space.

Michael and Jean will provide more insight regarding customer wins as well as product offering and customer vertical performance during their remarks.

Now, let's move to slide number 8 regarding our outlook and summary.

Slide #8: FY'25 Outlook & Summary

As we look forward to fiscal year 2025, we are encouraged by the momentum in our Cybersecurity offerings. We have begun to take further actions that will enhance our focus on Cybersecurity. This includes increased R&D investment as well as go-to-market strategy modifications. Also, we recognize the lingering headwinds in the domestic service provider vertical of our Service Assurance offering. This will likely create a top-line offset resulting in a flat to slightly down revenue scenario for the new fiscal year despite the continued growth in our Cybersecurity offerings. We are continuing to align our cost structure with the current demand environment. We have implemented a Voluntary Separation Program (VSP) as part of a restructuring effort focused on reducing headcount as we seek to execute on our strategic priorities, preserve earnings for shareholders, and position NETSCOUT for long-term success. Jean will provide more specifics on the outlook in her remarks.

NETSCOUT has always been and remains a long-term focused company, and we believe we are well positioned to benefit from future fundamental demand trends as enterprises and service providers require leading Cybersecurity and Service Assurance solutions to deliver actionable visibility at scale. We remain confident that our "Visibility Without Borders" platform is essential for helping customers tackle the performance, availability, and cybersecurity challenges of the increasingly complex connected digital world as we also remain committed to delivering long-term shareholder value.

We look forward to sharing our progress with everyone on our next quarterly earnings call.

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 win highlights in the fourth quarter.

Slide #10: COO Highlights

Customer Wins:

In our Cybersecurity offering, we secured multiple seven figure DDoS related deals with both new and existing customers across various geographic markets and industry sectors as customers continue to prioritize investments that protect them against the expanding cybersecurity threat landscape. For example, we won a low-seven figure deal as we acquired a new financial industry enterprise customer in the Middle East. We had been engaged with the customer over multiple years pitching the value proposition of our leading DDoS capabilities while they were leveraging a competitor's managed service. Although an unfortunate catalyst, the customer experienced a challenging cyberattack and we were able to quickly demonstrate our superior capabilities during the situation. This persuaded the customer to buy a full solution suite in a multi-solution purchase with us that included Arbor Edge Defense, Arbor Cloud, Managed Services, and a resident engineer, bringing the capability on-prem and in-house for better control of their cyber defenses.

Shifting to our Service Assurance offering, and particularly the service provider vertical, we continue to benefit from contracts in support of 5G deployments, upgrades, and capacity expansions both domestically and internationally, albeit at a somewhat muted pace given the constrained spending environment in this customer vertical. One example win during the quarter was a 5G-related mid-teen, eight-figure deal with a leading Asian Tier-1 service provider that we already support with our solutions through prior 4G network efforts. Given our strong historical performance and incumbent relationship, they selected NETSCOUT to provide visibility for their 5G network. In the bigger picture, we believe the deal is the first of other potential opportunities with this customer as they expand their 5G network in the future.

Go-to-Market Activities:

Turning to our go-to-market activities, we attended Mobile World Congress (MWC) in Barcelona in late February, where we held many productive meetings with existing and prospective customers to discuss our latest offerings including Service Assurance, AI/ML analytics, and Cybersecurity solutions related to 5G network visibility and cybersecurity requirements. More recently in May, we attended the RSA Security Conference in San Francisco where we showcased our Cybersecurity solutions and held valuable meetings with existing and prospective customers. In June, we will head to Las Vegas for Cisco Live as well as the Splunk User Conference and look forward to meetings with customers and partners, both current and prospective, and demonstrating our "Visibility without Borders" platform offering.

In our effort to expand our market presence, we recently entered into a technology alliance with Palo Alto Networks, which includes other companies such as Nvidia, in order to help customers protect against cyber attacks in the nascent private 5G network space. This is a good example of the type of value-creating alliances we are establishing to benefit our customers and our business prospects.

That concludes my remarks. Thank you, everyone. I will now turn the call over to Jean for a review of our financial results.

Slide #11: CFO Financial Review

Jean Bua:

Thank you, Michael, and good morning, everyone. I will review key metrics for our fourth quarter and full fiscal year 2024 and provide some additional commentary on our fiscal year 2025 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: Q4 & Full FY'24 Results

Slide number 12 details the results for the fourth quarter and full fiscal year 2024.

Focusing on our quarterly performance, total revenue was 203.4 million dollars, down 2.2 percent (2.2%). Product revenue was 89.4 million dollars, a decrease of 2.0 percent (2.0%), while service revenue was 114 million dollars, a decrease of 2.4 percent (2.4%), all comparisons are on a year-over-year basis.

Gross profit margin was 77.2 percent (77.2%) in the fourth quarter, down 0.4 percentage points year over year. Quarterly operating expenses decreased 8.3 percent (8.3%) year over year, primarily due to cost containment efforts. Accordingly, we reported an operating profit margin of 19.2 percent (19.2%), compared with 15.7 percent (15.7%) in the same quarter last year. Diluted earnings per share was fifty-five cents ($0.55), up 44.7 percent (44.7%) from thirty-eight cents ($0.38) in the same quarter last year.

For the full fiscal year 2024, revenue was 829.5 million dollars, which was a decrease of 9.3 percent (9.3%) over the prior year for the reasons previously stated. Product revenue was 360.4 million dollars, a decline of 20 percent (20%), and service revenue was 469 million dollars, an increase of 1.1 percent (1.1%) over the prior year. Gross profit margin was 79.4 percent (79.4%), an increase of 1.9 percentage points. The improved gross profit margin is attributable to less contribution from lower-margin radio frequency propagation modeling project revenue and lower variable compensation expenses year over year. Annual operating expenses decreased 6.1 percent (6.1%) from the prior year, primarily due to previously mentioned cost containment actions. We reported a consistent operating profit margin year over year of 22.6 percent (22.6%). Diluted earnings per share was 2 dollars and 20 cents, a point 9 percent (0.9%) increase year over year, primarily driven through cost containment actions. Additionally, we had an investment valuation increase in a minority held investment with a favorable tax treatment. This, in combination with the finalization of certain tax positions, reduced our annual tax rate to 17.2 percent (17.2%).

Slide #13: FY'24 Revenue Trends: Product Lines and Customer Verticals

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

For the full year of fiscal year 2024, our Cybersecurity revenues increased by 15.3 percent (15.3%), while our Service Assurance revenue decreased by 17.8 percent (17.8%), for the reasons Anil previously mentioned. During the same period, our Service Assurance product line accounted for approximately 67 percent (67%) of our total revenue, while our Cybersecurity product line accounted for the remaining 33 percent (33%).

Turning to our customer verticals. For the full fiscal year 2024, our enterprise customer vertical revenue was consistent with the prior year, while our service provider customer vertical revenue decreased 17.7 percent (17.7%). During the same period, our enterprise customer vertical accounted for approximately 53 percent (53%) of our total revenue, while our service provider customer vertical accounted for the remaining 47 percent (47%).

Slide #14: FY'24 Revenue Trends: Geographic Mix

Turning to slide 14, this shows our geographic revenue mix. For the full fiscal year 2024, 57 percent (57%) of our revenue was derived from the United States, with the remaining 43 percent (43%) provided by international markets. Regarding the mix shift versus a year ago, international fiscal year 2024 revenues benefited from growth in both Cybersecurity and Service

Assurance offerings, while domestic revenues were primarily impacted by the headwinds related to the Tier-1 domestic service providers as previously discussed. Also, no customer represented 10% or more of our total revenue in the fourth quarter or for the full fiscal year 2024.

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

Slide 15 details our balance sheet highlights and free cash flow. We ended the fourth quarter with 424.1 million dollars in cash, cash equivalents, short- and long-term marketable securities, and investments, representing an increase of 94 million dollars since the end of the third quarter of fiscal year 2024. Free cash flow for the year was 52.5 million dollars. From a debt perspective, we ended the fourth quarter of fiscal year 2024 with 100 million dollars outstanding on our 800-million-dollar revolving credit facility, which expires in July 2026. Also, for the full fiscal year 2024, we repurchased approximately 1.8 million shares of our common stock for approximately 50 million dollars. We currently have capacity in our share repurchase authorization and, subject to market conditions, plan to be active in the market during the first half of the fiscal year 2025.

To briefly recap other balance sheet highlights, accounts receivable, net, was 192.1 million dollars, representing an increase of 48.2 million dollars since March 31, 2023. The DSO metric at the end of the fourth quarter of fiscal year 2024 was 81 days, versus 58 days at the end of fiscal year 2023. The higher DSO metric in the fourth quarter of this fiscal year was due to the timing and composition of bookings.

Slide #16: FY'25 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 2025.

FY'25 Outlook

We anticipate our fiscal year 2025 revenue to be approximately 800 million to 830 million dollars. We anticipate non-GAAP diluted earnings per share within the range of 2 dollars and 10 cents ($2.10) to 2 dollars and thirty cents ($2.30), with the mid-point flat year over year. The effective tax rate is expected to be approximately 20 percent (20%) as we return to a normalized effective tax rate. Our weighted average diluted shares outstanding is assumed to be approximately 74 million shares, which does not currently assume any planned repurchase activity.

NETSCOUT's fiscal year 2025 guidance reflects the Company's anticipated benefits associated with the previously mentioned Voluntary Separation Program (VSP) restructuring actions and ongoing cost management initiatives. In conjunction with these actions, the Company expects to record GAAP restructuring charges primarily in the first quarter of fiscal year 2025 attributable to one-time separation payments in the range of approximately 18 million to 22 million dollars in aggregate. The Company expects that these actions will generate annual run-rate savings in a similar range with approximately 75 percent of the benefit expected in fiscal year 2025 due to the timing of these actions. This is an estimated range and will be finalized as the program is completed.

Finally, I would like to provide some "color" for the first half of fiscal year 2025. Assuming the mid-point of our revenue range, we anticipate a revenue skew of approximately 45 percent in the first half of the fiscal year and 55 percent in the second half. This is primarily attributable to the prior fiscal year's first quarter benefitting from the usage of approximately 35 million to 40 million dollars from backlog. Accordingly, we expect first quarter fiscal year 2025 revenue to be in the range of 165 million to 175 million dollars. As a result, we expect corresponding non-GAAP earnings per share in the range of 8 cents ($0.08) to 17 cents ($0.17) due to continued cost containment efforts partially offsetting the revenue backlog usage's impact.

That concludes my formal review of our financial results. Before we transition to Q&A, I'd like to quickly note that our upcoming IR conference participation is listed on slide 17. Thank you, and I'll now turn the call over to the operator for questions.