NETSCOUT SYSTEMS, INC.
Third Quarter Fiscal Year 2025 Financial Results Conference Call
Management's Prepared Remarks

January 30, 2025

Slide #2: Introduction
Tony Piazza:

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's third quarter fiscal year 2025 conference call for the period ended December 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 Financial Metrics

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.

We delivered Q3 fiscal year 2025 revenue and earnings results that exceeded our expectations with strong performance across both our Cybersecurity and Service Assurance product lines. These results reflect solid execution and the strength of our differentiated solutions in addressing the evolving needs of our customers. It's important to note that certain customer orders initially anticipated in the fourth quarter were instead received in the third quarter, as customers leveraged their calendar year end budgets. While the timing accelerated certain revenues into Q3, the contribution of these early orders has reinforced our confidence in achieving our full fiscal year 2025 goals and expectations. As we capitalize on opportunities and address the complexities of today's market, we remain confident in our ability to deliver value and meet our customer's cybersecurity and service assurance needs now and into the future.

Let's turn to slide number 6 for a brief recap of our non-GAAP financial results for the third quarter and first nine months of fiscal year 2025.

Slide #6: Q3 and First Nine-Months FY'25 Non-GAAP Financial Results

- For the third quarter:
  - Revenue was approximately 252 million dollars, up approximately 16 percent compared to the prior year period. This performance was driven by strong results in both our Cybersecurity and Service Assurance product lines.
  - Diluted earnings per share was 94 cents for the third quarter, which was up approximately 29 percent from the prior year.
- For the first nine months of the fiscal year 2025, or the period ended December 31, 2024,
  - Revenue was approximately 618 million dollars, down approximately 1 percent year over year, reflecting the impact of previously disclosed headwinds. This included unusually high levels of backlog-related revenue and the Test Optimization business

divestiture that both benefited the prior year's results and affected the comparison.

- The corresponding diluted earnings per share for the first nine months of the fiscal year 2025 was one dollar and seventy cents ($1.70), an increase of approximately 3 percent year-over 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, revenue in the third quarter increased approximately 9 percent, driven by the acceleration of a large service provider order previously expected in our fourth quarter. For the first nine months of fiscal year 2025, Service Assurance revenue was down approximately 5 percent primarily due to the previously disclosed backlog and divestiture related headwinds.

In the service provider customer vertical of our Service Assurance business, carriers continue to invest in 5G initiatives at a measured pace as they manage investments against monetization opportunities. On the enterprise front, customers are seeking solutions capable of better advancing their digital transformations and extending visibility to the edges of their networks. Our new edge solutions are gaining traction in this area.

Cybersecurity

Moving to our Cybersecurity offering, revenue in the third quarter increased approximately

29 percent, and increased approximately 7 percent for the first nine months of fiscal year 2025. Cybersecurity continues to represent a solid growth opportunity for NETSCOUT as customers prioritize spending to protect themselves from the expanding cyber threat landscape, not only related to the data center but at the edge of their networks as well. Accordingly, we continue to enhance our cybersecurity offerings with solutions like Adaptive DDoS. For example, we recently announced that our Arbor Edge Defense (AED) and Arbor Enterprise Manager (AEM) products were now updated with artificial intelligence and machine learning technology as part of our Adaptive DDoS Protection Solution to combat AI-enabled DDoS threats.

Michael will provide more insight regarding customer wins in our offering areas during his remarks.

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

Slide #8: FY'25 Outlook & Summary

Given our strong performance in the third quarter, along with the acceleration of certain orders, we now have increased visibility and confidence in achieving our full fiscal year 2025 financial objectives. As such, with one quarter remaining in the fiscal year, we are updating our fiscal year 2025 outlook, narrowing the ranges, while maintaining the midpoints from previous guidance for revenue and non-GAAP net income per share. Jean will provide additional color on our outlook in her remarks.

Looking ahead, we remain focused on executing effectively as we position the Company for fiscal year 2026 and beyond. At the same time, we continue to leverage the strength of our

"Visibility Without Borders" platform to enable customers to address the performance, availability, and security challenges inherent in today's complex digital landscape.

We look forward to sharing our progress with everyone at the conclusion of our fiscal year.

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 I will be covering today, starting with Q3 customer win highlights:

Slide #10: COO Highlights

Customer Wins:

Starting with our Service Assurance offerings, one notable win this quarter in the service provider customer vertical was a high-teen, eight figure order from a long-standing, Tier-1 North American carrier customer for 5G-related solutions as they further expand their network capacity. As Anil pointed out, this order was received earlier than anticipated in our fiscal year. We remain focused on supporting our carrier customers as they further advance their 5G network evolutions.

In the enterprise customer vertical of our Service Assurance offering, we are seeing a growing need for network visibility at the edges of customers' networks. One notable deal was a multi-year Enterprise License Agreement (ELA) order with an aggregate value in the mid-teen eight figure range with annual amounts in the low-seven figure range. This win was from a leading domestic healthcare provider customer who had grown through acquisition and attempted, with limited success, to address user experience challenges at its remote clinics and physician offices using competitor and home-grown solutions. The customer plans to roll out our visibility solutions to thousands of locations over multiple years and phases during the ELA period.

Shifting to our Cybersecurity offering, we won a mid-seven figure order from a long-standing North American cable operator. This customer purchased our new Arbor Distributed Threat Mitigation System (DTMS) solution that allows them to dynamically allocate their DDoS mitigation capacity to protect the emerging new edges of their network.

Go-to-Market Activities:

Turning briefly to our go-to-market activities, we continue to actively promote our offerings to both existing and prospective customers at key industry events.

In early December we participated in the AWS re:Invent conference in Las Vegas where we demonstrated how NETSCOUT's visibility, resiliency, and security solutions combined with the value of our Smart Data, unlock the power of exceptional user experiences in the AWS cloud ecosystem. We partnered with Palo Alto Networks to demonstrate the power of NETSCOUT's Smart Data to take threat detection and response to the next level to protect and secure multi-cloud and hybrid cloud environments.

We plan to be an active participant in Mobile World Congress in Barcelona in early March where we will present our latest innovations for enhancing our Smart Data to accelerate service provider efforts in 5G NetOps, AIOps, and Mobile Network Security. At the same time, we will have a NETSCOUT team at the 2025 HIMSS Global Conference in Las Vegas where we will demonstrate how NETSCOUT's visibility and security solutions are protecting the performance and availability of essential healthcare networks, applications, and services for some of the world's leading healthcare organizations.

And finally, in late April we will be attending the RSA Conference 2025 in San Francisco where we will showcase how NETSCOUT's "Visibility Without Borders" platform combines our nGenius Performance Management, Arbor DDoS Protection, and Omnis Network Security solutions to provide end-to-end security, performance and availability for the world's most powerful digital ecosystems.

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

Slide #11: CFO Financial 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 2025 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. Additionally, all comparisons are on a year-over-year basis unless otherwise noted.

Slide #12: Q3 FY'25 Results

Slide number 12 details the results for the third quarter and first nine months of fiscal year 2025. Focusing on our quarterly performance, total revenue for the third quarter of fiscal year 2025 was 252 million dollars, up 15.6 percent. Product revenue was 128.2 million dollars, an increase of 33.8 percent, while service revenue was 123.8 million dollars, an increase of 1.3 percent.

Gross profit margin was 82.8 percent in the third quarter, up one percentage point. Quarterly operating expenses increased 3.2 percent. Accordingly, we reported an operating profit margin of 35.6 percent, compared with 29 percent in the same quarter last year. Diluted earnings per share was 94 cents, which included an unrealized loss on a foreign investment of approximately 7 cents. This was up 28.8 percent from 73 cents in the same quarter last year.

Slide #13: YTD FY'25 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 first nine months of fiscal year 2025, our Service Assurance revenue decreased by 5.5 percent, while our Cybersecurity revenues grew by 7.4 percent. As a reminder, we entered the prior fiscal year with approximately 50 million dollars of backlog which we did not get the benefit of this fiscal year. During the same period, our Service Assurance product line accounted for approximately 65 percent of our total revenue, while our Cybersecurity product line accounted for the remaining 35 percent.

Turning to our customer verticals. For the first nine months of fiscal year 2025, our enterprise customer vertical revenue grew 3.7 percent while our service provider customer vertical revenue decreased 7.2 percent. During the same period, our enterprise customer vertical accounted for approximately 57 percent of our total revenue, while our service provider customer vertical accounted for the remaining 43 percent.

Slide #14: FY'25 Revenue Trends: Geographic Mix

Turning to slide 14, this shows our geographic revenue mix. For the first nine months of fiscal year 2025, 59 percent of our revenue was derived from the United States, with the remaining 41 percent provided by international markets. Also, one customer represented 10% or more of our total revenue in the third quarter as well as for the first nine months of fiscal year 2025.

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

Slide 15 details certain balance sheet and free cash flow items. We ended the third quarter with 427.9 million dollars in cash, cash equivalents, short- and long-term marketable securities, and investments, representing an increase of 3.8 million dollars since the end of fiscal year 2024. Free cash flow for the quarter was 39.6 million dollars. We currently have capacity in our share repurchase authorization and, subject to market conditions, intend to be active in the market during fiscal year 2025. From a debt perspective, we ended the third quarter of fiscal year 2025 with 75 million dollars outstanding on our $600 million revolving credit facility, which expires in October 2029. In the fourth quarter of fiscal year 2025 we intend to fully repay the outstanding 75 million dollars of debt.

To briefly recap other balance sheet items, accounts receivable, net, was 214.6 million dollars, representing an increase of 22.5 million dollars since March 31, 2024. The DSO metric at the end of the third quarter of fiscal year 2025 was 75 days, versus 90 days for the same period in the prior year, and 81 days at the end of fiscal year 2024. The lower DSO metric in the third 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

As Anil noted earlier, with one quarter remaining in the fiscal year, we are narrowing our fiscal year 2025 outlook ranges, while maintaining the revenue and non-GAAP diluted earnings per share mid-points that were presented in October 2024 during our second quarter earnings call for fiscal year 2025. For fiscal year 2025, we now anticipate revenue in the range of 810 million dollars to 820 million dollars. Additionally, we now anticipate non-GAAP diluted earnings per share within the range of 2 dollars and 15 cents to 2 dollars and 25 cents. The full year effective tax rate is expected to be approximately 20 percent. Our weighted average diluted shares outstanding is assumed to be approximately 73 million shares, which incorporates our year-to-date share repurchase activity but does not assume any further repurchase activity.

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