NETSCOUT

NETSCOUT SYSTEMS, INC.
First Quarter Fiscal Year 2026 Financial Results Conference Call
Management's Prepared Remarks

August 7, 2025

Slide #2: Introduction & Agenda

Paul Canavan:

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's first - quarter fiscal year 2026 conference call for the period ended June 30, 2025. Joining me today are:

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

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

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

Slide #4: Non-GAAP Financial Metrics

As discussed in detail on slide number 4, today's conference call will also include discussion of certain non-GAAP financial measures that the company believes to be useful for investors. While this slide presentation includes both GAAP and non-GAAP results, 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 financial results 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 to the nearest GAAP measures are provided in the appendix of the slide presentation, in today's financial results press release, and on our website.

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

Slide #5: CEO Perspective
Anil Singhal:

Thank you, Paul, and good morning, everyone. Thank you all for joining us today.

We delivered a solid start to fiscal year 2026, with Q1 performance reflecting strong execution and positive momentum across both our top- and bottom-lines. Growth in our Cybersecurity and Service Assurance product lines supported these results as we continue to position NETSCOUT for long-term success in the market.

Let's turn to slide number 6 to review some non-GAAP financial highlights for the first quarter of our fiscal year 2026.

Slide #6: Q1 FY'26 Non-GAAP Financial Highlights

- Revenue was approximately 187 million dollars, representing a 7 percent year-over-year increase driven by strong growth in our Cybersecurity area and the timing of orders received.

- We expanded both our gross and operating profit margins during the quarter and delivered non-GAAP diluted earnings per share of 34 cents, an increase of approximately 21 percent year over year. This result reflects the benefits of restructuring and cost management initiatives that we executed in the past fiscal year. As such, these effects will begin to normalize in our year-over-year comparisons starting in the second quarter.

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

Slide #7: Business and Market Insights

Service Assurance

Starting with our Service Assurance offering, revenue in the first quarter increased approximately 1 percent year over year. The growth was driven by our Enterprise customer vertical, which offset a decline in our Service Provider customer vertical.

In the Service Assurance space, our Enterprise customers are investing in digital transformation initiatives, AI ops, and enhanced visibility at the network edge. We experienced solid growth across most of our major sectors in this customer vertical.

On the Service Provider side, we continued to see both domestic and international carriers invest in 5G related initiatives. They are proceeding at a measured pace, aligning investments with clearly defined monetization opportunities, such as fixed wireless access and private 5G.

While we remain mindful of ongoing macroeconomic uncertainty, we believe NETSCOUT is well positioned to capture further opportunities by delivering differentiated value in this evolving environment. This was recently demonstrated at the TM Forum's NeuroNOC Catalyst, where our Omnis AI Insights Solution showcased how high-value network data can drive closed-loop automation and self-healing of networks. This provided strong validation of our ability to support AI-driven operations in complex 5G environments, reinforcing our role as a technology partner for next-gen telecom transformation.

Cybersecurity

Moving to our Cybersecurity offering, revenue in the first quarter increased approximately 18 percent year over year driven by strong growth in both our Enterprise and Service Provider customer verticals. Customers continue to prioritize spending in this area as they seek to protect themselves against an increasingly complex and expanding cyber threat landscape. We believe Cybersecurity continues to represent a strong growth opportunity for NetScout, and we continue to advance our portfolio with new innovations in this area.

For example, we recently announced new AI-backed enhancements to our NETSCOUT Arbor Edge Defense and NETSCOUT Arbor Enterprise Manager Adaptive Distributed Denial of Services (DDoS) solutions to help customers further automate operations, enhance defense, and improve reporting. These powerful enhancements are designed to leverage AI and our ATLAS Intelligence Feed to automate defenses against an expanding array of attack vectors, enabling customers to mitigate up to 80% of all DDoS attacks without the need for further analysis.

We also announced that our Omnis Cyber Intelligence platform aligns with the NIST Zero Trust security framework. We believe this further reinforces our product offerings and strengthens our relevance as a strategic partner for U.S. federal agencies in both service assurance and cybersecurity. Finally, we introduced Adaptive Threat Analytics, a key enhancement to our Omnis Network Detection and Response (NDR) solution. It empowers SOC analysts with faster, smarter incident response through continuous packet capture and enriched metadata. This innovation improves our competitive edge in a market where speed and precision in threat response are critical.

Customer Wins

Our solutions continue to gain strong traction with customers seeking to enhance both visibility and cybersecurity capabilities, leading to robust multi-solution wins across key verticals.

Notably, we secured a high seven-figure order, earlier than anticipated, with a U.S. government agency that has been a long-standing and loyal customer. This order consisted of both service assurance and cybersecurity solutions, including our newer Omnis AI and Cyber Intelligence products. This customer values our solutions for the Smart Data we provide, which they are leveraging to enhance user experience and support AI-driven operations and initiatives.

We also won a low seven-figure deal with a major Latin American financial institution, where we replaced two incumbent vendors in a competitive situation focused on online banking applications. This customer purchased both service assurance and cybersecurity solutions and is exploring our Omnis AI products. Our clear differentiator was our integrated platform, which combines cybersecurity, performance, and user experience visibility with valuable Smart Data to support AI ops initiatives.

These wins demonstrate the value of our innovative and integrated solutions, solid reputation, and strong customer relationships which help organizations address the performance, availability, and security needs of the connected digital world. Additionally, they reflect the momentum we're building as we continue to execute our strategy.

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

Slide #8: FY'26 Outlook & Summary

Looking ahead, we remain cautiously optimistic amid ongoing macroeconomic uncertainty. Our focus remains firmly on driving product innovation, returning to annual revenue growth and enhancing margins through disciplined cost management.

Based on our first quarter performance and a solid pipeline, we are reaffirming our fiscal year 2026 revenue and non-GAAP EPS outlook. Tony will provide a recap of the outlook in his remarks.

Looking ahead, during the second quarter we are hosting our customers and partners at our Annual ENGAGE Technology and User Summit in late September in Arlington, Texas. At ENGAGE 2025, we will be showcasing both our existing solutions as well as our latest AIOps innovations. We will demonstrate how our highly curated data drives improved business outcomes across key ecosystems focusing on cybersecurity as well as network and service observability. We will also be highlighting how our solutions provide protection against modern-day DDoS attacks with our AI-Powered Arbor DDoS Protection.

Longer term, we are committed to empowering our customers to meet the demands of today's connected, complex digital landscape by delivering mission-critical solutions that address performance, ensure availability and safeguard security.

We look forward to sharing our progress with you throughout the remainder of our fiscal year.

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

Slide #9: CFO Financial Review

Tony Piazza:

Thank you, Anil, and good morning, everyone. Thank you for joining us. I'll start by walking you through the key financial metrics for the first quarter of our fiscal year 2026. After that, I'll share some additional commentary on our outlook for the remainder of the fiscal year, including some "color" on our expectations for Q2. 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. I will note the nature of any such comparisons accordingly. All comparisons are on a year-over-year basis unless otherwise noted.

Slide #10 Q1 FY'26 Non-GAAP Results

Slide number 10 details the results for the first quarter of our fiscal year 2026. Total revenue for the first quarter increased 7 percent to 186.7 million dollars. Product revenue increased 19.3 percent to 73 million dollars while service revenue increased 0.3 percent to 113.8 million dollars.

Gross profit margin increased by 1.6 percentage points to 78.7 percent in the first quarter, primarily driven by product volume and mix. Quarterly operating expenses were relatively consistent year over year as the final quarter of benefit from the prior year's restructuring helped offset higher employee-related expenses, commissions, and professional fees. Accordingly, we reported an operating profit margin of 14.2 percent, compared with 8 percent in the same quarter last year. Diluted earnings per share was 34 cents, up 21.4 percent from 28 cents in the same quarter last year. Both the current and prior year quarters included unrealized gains related to a foreign investment. In the current quarter, this resulted in a benefit of approximately 3 cents per share, compared to a benefit of approximately 10 cents per share in the same quarter last year.

Slide #11: Q1 FY'26 Revenue Trends: Product Lines and Customer Verticals

Turning to slide 11, 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 quarter of fiscal year 2026, Service Assurance revenue increased by 1.4 percent, and Cybersecurity revenue grew by 18.3 percent. During the same period, our Service Assurance product line accounted for approximately 63 percent of our total revenue, and our Cybersecurity product line accounted for the remaining 37 percent.

Turning to our customer verticals. For the first quarter of fiscal year 2026, our enterprise customer vertical revenue grew 17.7 percent while our service provider customer vertical revenue decreased 5.6 percent. During the same period, our enterprise customer vertical accounted for approximately 59 percent of our total revenue, while our service provider customer vertical accounted for the remaining 41 percent.

Slide #12: Q1 FY'26 Revenue Trends: Geographic Mix

Turning to slide 12, this slide shows our revenue split between the U.S. and international markets. For the first quarter of fiscal year 2026, 54 percent of our revenue was generated from the United States, with the remaining 46 percent coming from international markets. Additionally, no single customer accounted for 10% or more of our total revenue during the first quarter.

Slide #13: GAAP Balance Sheet & Free Cash Flow Review

Slide 13 outlines selected balance sheet items alongside free cash flow for the period. We ended the first quarter of fiscal year 2026 with 543.5 million dollars in cash, cash equivalents, short- and long-term marketable securities, and investments, representing an increase of 51 million dollars since the end of fiscal year 2025. Free cash flow for the quarter was 71.7 million dollars. During the first quarter we repurchased approximately 761 thousand shares of our common stock for approximately 15 million dollars at an average share price of 19 dollars and 72 cents per share. We currently have capacity under our share repurchase authorization and, subject to market conditions, intend to remain active in the market through the rest of fiscal year 2026. From a liquidity perspective, we have no outstanding balance on our $600 million-dollar revolving credit facility as of June 30, 2025, which expires in October 2029.

To briefly recap other balance sheet items, accounts receivable, net, was 92.2 million dollars, representing a decrease of 71.5 million dollars since March 31, 2025. Days Sales Outstanding (DSO) at the end of the first quarter of fiscal year 2026 was 41 days, compared with 63 days in the same period in the prior year. The improvement in DSOs in the first quarter reflects the timing and composition of bookings.

Slide #14: FY'26 Outlook

Let's move to slide 14 for commentary on our outlook. I will focus my remarks on our non-GAAP targets for fiscal year 2026.

FY'26 Outlook

As Anil noted earlier, we are reaffirming our non-GAAP outlook for fiscal year 2026 that we presented during our fourth quarter and full fiscal year 2025 earnings call in May. As a reminder, for our fiscal year 2026, we continue to anticipate revenue in the range of 825 million dollars to 865 million dollars, and non-GAAP diluted earnings per share within the range of 2 dollars and 25 cents to 2 dollars and 40 cents. The full year effective tax rate is expected to be approximately 20 percent. Our weighted average diluted shares outstanding are assumed to be approximately 74 million shares, which does not incorporate any future share repurchase activities. I would also like to note that on August 4th, we successfully completed the sale of our entire previously disclosed foreign investment for the equivalent of approximately 12 million dollars. Our outlook anticipated that this investment would have a relatively neutral impact on our full fiscal year financial performance, which remains the case as a result of this transaction.

Finally, let me now provide some "color" for our second quarter expectations.

We currently anticipate year-over-year second quarter revenue growth in the range of 4% and 6%. In terms of non-GAAP earnings per share, we anticipate a range of 43 cents to 45 cents for the quarter. This outlook reflects several key factors:

- the shift in timing of our annual ENGAGE customer event, which will occur in Q2 this fiscal year verses Q3 last fiscal year,
- the normalization of operating expenses in Q2, as benefits from the prior year's restructuring actions lapse,
- and the impact of the sale of our previously disclosed foreign investment in Q2, which will offset the gain recorded in Q1 and is expected to have a relatively neutral effect on our full fiscal year outlook.

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 15. Thank you, and I'll now turn the call over to the operator for questions.