NETSCOUT SYSTEMS, INC.

First Quarter Fiscal Year 2027 Financial Results Conference Call

Management's Prepared Remarks

August 6, 2026

Scott Dressel: Slide #2: Introduction & Agenda

Thank you, operator, and good morning, everyone. Welcome to NETSCOUT's first-quarter fiscal year 2027 conference call for the period ended June 30, 2026. 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.

Please note that a slide presentation 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 and the quarterly results page.

Slide #3: Forward-Looking Statements

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 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 filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K and quarterly reports on Form 10-Q.

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, other than revenue and balance sheet information, which are presented in accordance with GAAP, we will focus our discussion on non-GAAP financial information. 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…

Anil Singhal:

Slide #5: CEO Perspective

Thank you, Scott, and good morning, everyone. We appreciate you joining us today.

In the first quarter of fiscal year 2027, we delivered strong top- and bottom-line results, as enterprises and service providers continued to rely on NETSCOUT for mission-critical, high-fidelity visibility across increasingly complex digital environments. We executed well against our strategic priorities and believe we are well positioned to achieve our fiscal 2027 objectives of investing in innovation, driving profitable growth, expanding margins, and generating solid free cash flow.

Service Assurance performed well, reflecting in part government-related demand, while Cybersecurity delivered results consistent with the prior year. Overall, our first-quarter results reflect disciplined execution and keep us on track with our full-year outlook.

Our investments in innovation continue to yield differentiated patented technologies that generate compact, high-fidelity, AI-ready Smart Data. These capabilities provide customers with a trusted data foundation for advanced analytics, automation, and AI-enabled decision-making across observability, AIOps, service assurance, cybersecurity, and DDoS attack protection solutions.

In June, we reached an important milestone with the granting of our 750th patent, demonstrating the strength of our R&D engine and the durability of our technology moat around our Smart Data platform and AI-enabled applications. Digital complexity and fragmented visibility increase the need for trusted data, stronger resilience, and more efficient operations. We believe our portfolio helps customers manage that complexity, reduce risk, and improve efficiency, all of which reinforce the long-term growth potential of our business.

With that context, let me turn to slide 6 for a brief review of our first quarter fiscal year 2027 financial performance, for the period ended June 30, 2026.

Slide #6: Q1 FY'27 Financial Highlights

For the first quarter:

- Total revenue increased by 13 percent to 210 million dollars, compared with 187 million dollars for the same period last fiscal year.
- We expanded both our gross and operating margins nicely in the quarter.
- Diluted earnings per share was 52 cents, compared with 34 cents in the same period last fiscal year.

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

Slide #7: Business and Market Insights

Service Assurance

Starting with a review of our Service Assurance offerings. Revenue grew approximately 20 percent year over year, benefiting in part from government-related orders, including orders that were received earlier than anticipated, as the customers advanced their deployment plans. Growth also reflected sales of our newest innovations, including our Omnis Sensor and Streamer products, which make our high-fidelity meta-data available in observability, cybersecurity, and AIOps platforms across our partner ecosystem. This enables our customers to leverage the real-time visibility we provide to improve automated workflows and critical investigations across the business.

Enterprise customers are turning to our Service Assurance solutions to close visibility gaps created by hybrid cloud, remote work, automation, and AI workloads. These environments are inherently complex, with more traffic paths, potential points of failure, and operational silos across network, application, observability, and security teams. With greater exposure to downtime, the consequences can be significant from an operational, legal, and financial standpoint.

Our Service Provider customers remain focused on reducing network cost and complexity. They are also working to improve automation across fixed, mobile, and edge environments. NETSCOUT's 5G observability solutions give customers end-to-end visibility for standalone 5G networks. They also support mission-critical applications and emerging use cases, including fixed wireless access, network slicing, and immersive services. Carrier spending remains disciplined. Even so, we continue to see opportunities for our solutions to help customers improve efficiency and monetize next-generation network investments.

Cybersecurity

Turning to Cybersecurity, revenue increased approximately 1 percent year over year. We achieved that growth despite a difficult comparison to the prior-year period, which grew in the high teens due to the timing of some large projects. Both our Enterprise and Carrier Service Provider customer verticals grew modestly in the quarter, and we continue to view Cybersecurity as an important, long-term growth opportunity for NETSCOUT.

Our previously disclosed May acquisition of DigiCert's DDoS attack protection business assets, together with our recently announced capacity expansion, reflect a deliberate strategy to scale Arbor Cloud with greater control, efficiency, and speed. By bringing the platform's back-end infrastructure fully in-house, we have created the operational and architectural foundation to invest more quickly and efficiently in capacity. That work culminated in the doubling of our mitigation capability to 33 terabits per second. It also gives us tighter alignment between infrastructure and threat intelligence, faster innovation cycles, and improved margin potential through immediately accretive recurring revenue. These actions strengthen Arbor Cloud as a more resilient, vertically integrated cloud platform. They also position NETSCOUT to help customers respond to the rapidly escalating scale and complexity of attacks, while delivering consistent, high-performance protection for mission-critical, always-on digital environments.

Turning to AI… we believe it is creating a long-term growth opportunity across our portfolio. It is also bringing Service Assurance and Cybersecurity closer together, as customers look for solutions that can automate workflows, support AI-enabled applications, and handle larger volumes of data across hybrid environments. These trends increase the need for trusted visibility, observability, and cybersecurity. They also reinforce the value of NETSCOUT's Smart Data. With packet-level precision, automation, and analytics, our AI-ready Smart Data helps customers find root causes faster, improve efficiency, strengthen cyber resilience, and connect more effectively with broader observability, security operations, and emerging agentic AI frameworks.

Customer Wins

Turning to customer wins, we saw continued demand across both Service Assurance and Cybersecurity. In the quarter, we secured new customers and repeat business from existing customers who are investing in new solutions, upgrades, and maintenance services. These wins demonstrate the continued relevance of our portfolio, the depth of our customer relationships, and the opportunity to expand across our installed base. Highlights from the first quarter included the following:

- First, we completed multiple government agency related deals in Service Assurance and Cybersecurity with an aggregate value in the low-eight digits that included our Omnis Sensor, Streamer, and Cyber Intelligence solutions. Another agency selected NETSCOUT to support modernization and Zero Trust security at the edge.

- Second, we signed a multi-million dollar agreement with a long-standing international Service Provider customer. The customer expanded its NETSCOUT cybersecurity portfolio to strengthen DDoS attack protection in response to a heightened threat environment.

- Third, we secured a seven-figure deal with a U.S. financial institution that included our Omnis KlearSight Sensor. This solution addresses visibility challenges in large, multi-cluster Kubernetes deployments. The customer selected NETSCOUT for our ability to deliver deep, actionable, real-time insight into system performance, health, and cost drivers for customer-facing banking applications in virtual environments.

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

Slide #8: FY'27 Outlook & Summary

With a solid start to the fiscal year, we remain focused on profitable growth, healthy free cash flow generation, and long-term shareholder value, and we are reaffirming our full FY27 outlook. Customers remain disciplined in their overall spending, and we are managing the business with that environment in mind. At the same time, we see meaningful, long-term opportunities in AIOps, observability, service assurance, cybersecurity, and DDoS attack protection. We will continue to invest in innovation, with a focus on advanced cybersecurity capabilities, adaptive DDoS protection, and using our data and intelligence to power AI-driven workflows in observability and service assurance, all aimed at enhancing resilience and service reliability for our customers. We will also maintain disciplined cost management and a balanced approach to capital allocation to support attractive returns for our shareholders.

Finally, we are looking forward to hosting customers and partners at our annual ENGAGE Technology and User Summit in Texas in October. This year's theme is "Moving from Proactive to Predictive," and reflects an important shift in our markets. Customers want to move beyond monitoring. They want to detect issues earlier, predict outcomes faster and more accurately, explain what is happening, and automate more decisions. ENGAGE 2026 will demonstrate how NETSCOUT's AI-ready Smart Data provides the trusted data foundation for that shift. That includes support for observability, cybersecurity, AIOps, and emerging agentic operations, while also helping customers control costs and keep their data secure and on premises. We will feature our newest innovations, including nGenius Copilot, which gives users access to Smart Data in natural language. We will also showcase evidence-driven cybersecurity incident response and AI-powered adaptive DDoS attack protection.

With that, I will turn the call over to Tony for a review of our financial performance and our outlook.

Slide #9: CFO Financial Review

Tony Piazza:

Thank you, Anil, and good morning, everyone. We appreciate you joining us. I'll start by walking you through the key financial metrics for our first quarter of fiscal year 2027. After that, I'll share some additional commentary on our second quarter and full fiscal year 2027 financial outlook. As a reminder, other than revenue and balance sheet information, which are on a GAAP basis, this review focuses on our non-GAAP results. All reconciliations with our GAAP results appear in the presentation appendix. I will note the nature of any such comparisons accordingly. Also, all comparisons are on a year-over-year basis unless otherwise noted.

Slide #10: Q1 FY'27 Results

Slide number 10 details the results for the first quarter of fiscal year 2027.

Total revenue was 210.4 million dollars, up 12.7 percent from the same period last fiscal year. The quarter benefited in part from government-related orders, including some that were awarded ahead of our expectations, positively impacting revenue timing.

- Product revenue totaled 86 million dollars, up 17.8 percent compared with the same prior year period.

- Service revenue was 124.4 million dollars, an increase of 9.4 percent year over year, benefiting from revenue contributed by the recently acquired cloud DDoS business and from favorable timing of certain service renewal orders compared to the prior year. For fiscal year 2027, we continue to expect Service revenue to grow in the low-single digits.
- We ended the first quarter with total product backlog of approximately 33 million dollars, which included 28 million dollars of fulfillable backlog.

In the first quarter, the gross profit margin increased 190 basis points to 80.6 percent, reflecting higher product gross margins due to favorable product mix. Quarterly operating expenses were 126 million dollars, up 4.6 percent year over year, primarily reflecting overhead costs associated with the recent DDoS acquisition, higher sales commissions on increased revenue, and the timing of variable incentive compensation expense. The operating margin improved 660 basis points to 20.8 percent, reflecting revenue growth, favorable product mix, and disciplined expense management. We delivered net income of 38.6 million dollars, or diluted earnings per share of 52 cents, an increase over the year ago quarter's net income of 24.7 million dollars, or 34 cents per diluted share.

Slide #11: Q1 FY'27 Revenue Trends: Product Lines and Customer Verticals

Let's turn to slide 11, where I'll walk you through the key revenue trends by product lines and customer verticals.

For the first quarter of fiscal year 2027, Service Assurance revenue increased by 19.7 percent, and Cybersecurity revenue grew by 0.6 percent. During the same period, Service Assurance accounted for 67 percent of our total revenue, and Cybersecurity accounted for the remaining 33 percent. As noted earlier, Service Assurance benefited in part from government-related orders, including some received earlier than expected, while Cybersecurity faced a more difficult comparison, as the same quarter in the prior year grew approximately 18 percent.

Turning to our customer verticals. For the first quarter, Enterprise revenue grew by 19.1 percent and Service Provider revenue grew by 3.3 percent. During the same period, Enterprise accounted for 63 percent of our total revenue, and Service Provider accounted for the remaining 37 percent.

Additionally, no customer accounted for more than 10% of our revenue for the first quarter of fiscal year 2027.

Slide #12: Q1 FY'27 Revenue Trends: Geographic Mix

Turning to slide 12, for the first quarter of fiscal year 2027, the U.S. represented 59 percent of revenue and international represented 41 percent of revenue.

Slide #13: Balance Sheet & Free Cash Flow Review

Slide 13 shows key balance sheet items and free cash flow for the period.

We ended the first quarter of fiscal year 2027 with 668.5 million dollars in cash, cash equivalents, and short- and long-term marketable securities, compared with 705.1 million dollars at the end of fiscal year 2026. Free cash flow was 44.3 million dollars for the first quarter. The reduction in cash primarily reflects the May 1st acquisition of the DDoS assets of DigiCert, Inc., which we previously disclosed and discussed as a subsequent event on our Q4 FY'26 earnings call. We did not repurchase shares during the first quarter and remain committed to our share repurchase program.

Slide #14: FY'27 Outlook

Let's move to slide 14 for our fiscal year 2027 outlook and some additional color on the second quarter.

As Anil noted earlier, we are reaffirming our full fiscal year 2027 outlook provided last quarter. We continue to expect year-over-year growth in both revenue and earnings, with the following assumptions for the full fiscal year:

- Revenue in the range of 885 to 915 million dollars;
- Non-GAAP EPS in the range of 2 dollars 65 cents to 2 dollars 80 cents;
- A non-GAAP effective tax rate of approximately 20 percent, and
- Weighted average diluted shares outstanding of approximately 74 to 75 million.

For the second quarter, we expect revenue to be broadly consistent with the prior-year period, reflecting the previously mentioned acceleration of orders into Q1 and a strong comparison with the prior year's second quarter, when revenue grew nearly 15 percent and benefited from orders accelerated from the third quarter. As a result, we expect first-half revenue growth in the mid-single digits. We expect Q2 EPS to grow in the high single digits, driven in part by our ENGAGE conference shifting from Q2 in the prior year to Q3 this fiscal year.

In summary, we delivered a strong first quarter and solid start to our fiscal year. We remain focused on executing against our fiscal year 2027 objectives. Our capital allocation priorities remain consistent: investing in profitable growth, maintaining a strong financial position, and returning excess capital to shareholders over time, primarily through share repurchases.

Longer term, we believe NETSCOUT is well positioned to support customers as their network, security, and operations environments become more complex. Our expertise in Cybersecurity, Service Assurance, and network observability, together with our AI-ready Smart Data platform, gives customers a trusted foundation for digital transformation and AI-enabled operations.

That concludes my review of our financial results and outlook.

Please note that we plan to attend the B. Riley's Consumer and TMT Conference in New York in September. We look forward to seeing some of you there.

With that, let's open it up for questions. Operator...