

NETSCOUT SYSTEMS INC

Form 425

February 04, 2015

Investor Presentation

Anil Singhal, President & CEO

NetScout Systems, Inc.

February 2015

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Pursuant to Rule 425 under the Securities Act of 1933, as amended  
and deemed filed pursuant to Rule 14a-12

under the Securities Exchange Act of 1934, as amended

Subject Company: NetScout Systems, Inc.

(Commission File No. 000-26251)

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**Additional Information and Where You Can Find It**

NetScout's Registration Statement on Form S-4, Proxy Statement and other documents concerning the proposed acquisition of Danaher's Communications business have been filed with the Securities and Exchange Commission (the SEC). Investors are urged to read the S-4 Registration Statement and Proxy Statement, along with other relevant documents filed with the SEC as well any amendments or supplements to those documents because they will contain important information. Security holders may obtain a free copy of the Registration Statement and Proxy Statement (when it is available) and other documents filed by NetScout with the SEC at the SEC's website at [www.sec.gov](http://www.sec.gov). The Registration Statement and Proxy Statement, along with other documents, may also be obtained for free by contacting Andrew Kramer, Vice President of Investor Relations, by telephone at 978-614-4000, by email at [ir@netscout.com](mailto:ir@netscout.com), or by mail at Investor Relations, NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886. This communication is not a solicitation of a proxy from any security holder of NetScout. However, NetScout, Danaher and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from NetScout's stockholders in connection with the proposed transaction. Information about NetScout's directors and executive officers and their beneficial ownership of NetScout's common stock may be found in its preliminary proxy statement filed with the SEC on January 9, 2015 as amended. This document can be obtained free of charge from the SEC website at [www.sec.gov](http://www.sec.gov).

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Safe Harbor & Non-GAAP Financial Metrics

Forward-looking statements in this communication are made pursuant to the safe harbor provisions of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this presentation are based on historical statements, including without limitation, the statements related to the timing associated with completing the merger with the communication business and the financial guidance for NetScout's fourth fiscal quarter and other financial guidance, constitute forward-looking statements which involve risks and uncertainties. Actual results could differ materially from the forward-looking statements due to a number of risk, uncertainties, assumptions and other factors. Such factors include slowdowns or downturns in economic conditions generally; changes in advanced network and service assurance solutions specifically, the Company's relationships with strategic partners, dependence on the acceptance of the Company's network performance management solutions, the presence of competitors with greater financial resources and their strategic response to our products, our ability to retain key executives and employees, the failure to obtain, delays in obtaining regulatory approvals related to obtaining shareholder or regulatory approvals; the anticipated tax treatment of the transaction and related transaction costs; unanticipated or unforeseen changes to or the effects on liabilities, future capital expenditures, revenue, expenses, synergies, indebtedness, financial results and future prospects; failure to consummate or delay in consummating the transaction for other reasons; and the ability of NetScout to integrate the merged assets and the associated technology and achieve operational efficiencies. For a more detailed description of the risks associated with the Company, please refer to the Company's Registration Statement on Form S-4, Annual Report on Form 10-K for the year ended March 31, 2014 and Quarterly Reports on Form 10-Q for the quarters ended June 30, 2014, September 30, 2014 and December 31, 2014, all of which are 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.

This presentation makes reference to certain non-GAAP measures such as non-GAAP revenue and non-GAAP earnings per share. These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for measures calculated in accordance with GAAP (revenue, net income and diluted net income per share), and may have limitations in that they do not reflect all of the Company's operations as determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate NetScout's performance in conjunction with the corresponding GAAP measures. The presentation of non-GAAP information is not meant to be considered a substitute for or as a substitute for results prepared in accordance with GAAP. NetScout believes these non-GAAP financial measures provide a better overall understanding of NetScout's current financial performance and NetScout's prospects for the future by providing a higher level of disclosure for certain financial measures and providing a level of disclosure that helps investors understand how the Company plans and manages its business. NetScout believes that providing these non-GAAP measures affords investors a view of NetScout's operating results compared to peer companies and also enables investors to consider NetScout's operating results on both a GAAP and non-GAAP basis following the integration period of NetScout's acquisitions. Presenting the GAAP measures on their own would not be indicative of the Company's operating results. Furthermore, NetScout believes that the presentation of non-GAAP measures when shown in conjunction with GAAP measures provide useful information to management and investors regarding present and future business trends relating to the Company's operations and results of operations. NetScout management regularly uses supplemental non-GAAP financial measures internally to understand and evaluate its business and to make operating decisions. These non-GAAP measures are among the primary factors that management uses in its financial reporting and forecasting. The reconciliation of these non-GAAP metrics to the comparable GAAP metrics are set forth in the accompanying financial statements in this presentation and are available on our website at

Forward Looking Statements:

Regulation G Disclosure:

<http://ir.netscout.com>.

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NetScout Today  
NASDAQ: NTCT  
Market Cap: \$1.5B (as of 2/3/15)  
\* non-GAAP

Market leader in network and application performance management differentiated by:

Core, patented technologies enabling the most powerful, real-time information capture and analytics from the most robust data source: network traffic

Deep domain expertise based on analyzing the world's most complex, mission-critical IP-based networks

Leveraging core technology to support a diverse, global and growing customer base spanning Fortune 1000 enterprises, top service providers and government agencies

Innovator in providing operational intelligence to help customers adapt to and thrive on major technology trends

International footprint with sales, support, and services in over 30 countries

400 man-years in core technology investment in the last 3 years; 70+ patents; numerous industry accolades; Three Decades of focus & experience

FY 14 revenue: \$397M, \$1.53 EPS\*

1000+ employees worldwide

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NetScout Investment Highlights

Market leader  
in network and application  
performance management

Award-winning solutions based on proprietary  
software:

ASI  
enabling  
real-time  
intelligence  
and analytics

Working with leading service provider and  
enterprise  
customers  
to  
achieve  
ROI  
and  
manage  
risk  
through  
operational  
intelligence  
gained from NetScout analytics

Financial strength  
built on profitability and cash  
flow arising from increasing revenue within  
scalable infrastructure

Capitalizing on attractive growth opportunities  
being  
shaped  
by  
today's  
IT  
trends

Announced

transformational  
acquisition  
of  
Danaher's Communications Business

Free  
Cash  
Flow  
(non-GAAP, \$ in  
millions)

\$309

\$352

\$397

FY '12

FY '13

FY '14

\$1.10

\$1.32

\$1.53

FY '12

FY '13

FY '14

\$57

\$83

\$97

FY '12

FY '13

FY '14

Total

Revenue

(non-GAAP, \$ in millions)

Earnings

Per Share

(non-GAAP)

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Mission-critical performance requires real-time, reliable,  
scalable analytics and intelligence

Providing Visibility into the Network and the  
Services and Applications that Run Over Them

Service Providers

Enterprise

ROI:

ROI:

Reduce costs

Reduce costs

Improve productivity

Improve productivity

Generate incremental revenue

Generate incremental revenue

Risks:

Risks:

Outages/downtime

Outages/downtime

Cyber attacks

Cyber attacks

Non-compliance/fines

Non-compliance/fines

Reputational damage

Reputational damage

Voice

Data

Video

Healthcare

Financial Services

Government

Retail

Manufacturing

High Tech

Utilities & Energy

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4G/LTE:  
Global deployments  
Consumer adoption

Services deployed (e.g.  
VoLTE)

Network analytics

Geo-analytics

Virtualization

Voice/video/data  
convergence

Big Data  
Source: Ericsson Mobility Report, May 2014  
Carrier Trends Driving Future Growth  
Service  
Providers:  
Monetize  
their  
investment  
and  
retain  
customers

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Mobility: BYOD

Virtualization

Unified communications

Converged infrastructure

Cloud-based services

Big Data

Internet of things  
Enterprises:  
Uptime  
and user experience with cost-effective delivery  
Enterprise Trends Driving Future Growth



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Network Monitoring

Service Assurance

Cyber Intelligence

Packet

Flow

Intelligent Edge

Processing

Smart

Data Reduction

Third-Party

Platforms

BI/Analytics

CEM

Marketing Intelligence

NetScout Technology & Product Strategy

Scalable, Real-Time, Actionable Intelligence

Custom HW

COTS HW

NFV

Virtual Machine

ASI on a Brick

Proposed Acquisition of Danaher's  
Communications Business  
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Confidential Business Information

Announced on October 13, 2014

NetScout to acquire most of Danaher's Communications  
business\*

Structured as Reverse Morris Trust

DHR shareholders will receive an aggregate of 62.5 million  
NetScout  
shares,  
valued  
at  
approximately  
\$2.3  
billion  
1

DHR Shareholders will own approximately 59.5% of NetScout,  
NTCT shareholders will own approximately 40.5% on a fully  
diluted basis

NetScout senior management team to lead combined company;  
NetScout board of directors to expand with the addition of DHR  
EVP Jim Lico

Expected to close during the first half of NetScout's FY16,  
subject to approval by NetScout shareholders, regulatory  
approvals and other conditions

\*  
Includes  
TekComms,  
Arbor  
Networks,  
VSS  
Monitoring  
and  
Enterprise  
Network  
Solutions  
( ENS ) of FNET, excludes Data Communications Installer ( DCI ) and Communications  
Service Providers ( CSP ) portfolios of FNET

Based on NTCT closing stock price of \$36.55 on 2/3/15

Transaction Structure

DHR

Shareholders

NetScout

Shareholders

NetScout

DHR

~59.5% owned

by DHR stockholders and

~40.5% owned by current

NTCT stockholders

Danaher to spin-off or split-off (to be determined at later date) its

Communications business to DHR Shareholders

The separation is immediately followed by a merger with NetScout

1

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Go-to-Market  
More global and diverse  
Broader sales and  
channel presence  
worldwide  
More customers and  
more touch points within  
the customer  
Increased customer  
mindshare  
Best-In-Class  
Solutions  
Broader portfolio for  
service providers  
Extends reach into the  
mid-tier enterprise  
market  
Jump-starts our entry  
into Cyber Intelligence,  
RAN optimization, BI  
Next-Gen platform and  
software  
Financially Compelling  
Combined \$1.2B+  
revenue base\* positioned  
for growth  
Expected to be accretive  
to non-GAAP earnings  
1  
Expected Year 2 run-rate  
cost synergies of ~5% of  
total combined cost base\*  
Continued prudent cost  
control  
\*  
Non-GAAP  
1  
First full year of combined operations  
Roughly doubles our  
total addressable  
market to \$8B+  
Furthering our strategic



capabilities to our  
customers  
Increasing operating  
margins and cash flow  
Strategic Rationale for the Transaction

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Broader portfolio of  
complementary  
offerings for service  
providers  
Together, we can offer  
market-leading  
troubleshooting and  
performance monitoring  
capabilities across a broad  
spectrum of wireline/2G/3G  
and 4G networks  
Well positioned to win future  
technology turns  
Extends reach further into  
Radio Access Networks and  
Packet Flow Switches  
Proven Business Intelligence  
and Customer Experience  
Management offerings  
Extending our reach  
from the high-end into  
the mid-tier of the  
enterprise market  
Fluke Networks has a broad  
range of network monitoring  
solutions and troubleshooting  
tools sold into the mid-sized  
and smaller enterprises  
Complementary vertical focus  
in Software-as-a-Service,  
Cloud and WiFi monitoring  
Jump-starts our entry  
into Cyber Intelligence  
Arbor Networks is the market  
leader in Distributed Denial of  
Service attack detection and  
mitigation  
for service provider and large  
enterprise networks  
Highly complementary  
adjacent sector  
Arbor platform accelerates our

internal plans to help  
customers address advanced  
persistent threat, which we  
believe is an emerging growth  
area

Expanding our total addressable market to \$8B+ and  
capitalizing on investment in developing our Next-Gen platform  
Best-In-Class Solutions

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Stronger Go-to-Market Capabilities

Furthering our strategic capabilities to our customers

More global and

diverse

Broader customer footprint

outside of North America with

both service provider and

enterprise customers

International revenue will

increase from 25% of total

revenue to ~1/3 of total revenue

Extensive European and Asia-

Pacific operations for sales,

R&D and support

Strong relationships with Tier

One service providers in North

America, Europe and AP

1000s of enterprise customers

Broader sales and

channel presence

worldwide

Extensive direct sales presence

worldwide

Augmented direct presence with

very strong reseller channels

outside of the United States

Top VARs with the technical

knowledge and resources to

drive adoption in key

international markets like

Germany, Australia, and Japan

More customers

worldwide and more

touch points within

the customer

Loyal customer bases in both

the service provider and

enterprise markets

Excellent opportunities to

accelerate Arbor's expansion

into the enterprise market

Compelling cross-selling

opportunities within the

combined NetScout-Fluke base  
of enterprise customers  
Increased customer mindshare

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Service providers and enterprises have invested significantly in  
their

infrastructures during the past decade but they lack **holistic IT management**

Current solutions offer limited capability (component management), ineffective  
deployment

and  
poor  
quality

data  
feeds  
into

Big  
Data  
analytics

Acquiring Danaher's Communications business is a transformational  
transaction for NetScout, providing:

Expanded solutions for addressing customer needs in growing end markets

Go-to-market advantages

Scale and leverage

Virtualization

Cloud

SDN

Mobility

BYOD

Internet

iPhone

Voice

Cable

IP Convergence

10gig

40gig

100gig

Positioned to Capitalize on Powerful Long-  
Term Technology Trends

Compelling Financial Opportunity  
Compelling Financial Opportunity  
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Impressive Track Record of Performance

Revenue & EPS Performance

CAGRs at Mid-Point of Guidance

12% Revenue, 16% EPS

\$337

\$240

\$157

\$100

\$40

\$386

Free Cash Flow

1

Q3 FY 15

FY 14

FY 13

FY 12

FY 11

Cash and Securities

\$241

\$219

\$154

\$212

\$229

Accounts Receivable

\$83

\$61

\$74

\$70

\$63

Total Debt

\$0

\$0

\$0

\$62

\$68

Total Deferred Revenue

\$135

\$134

\$121

\$112

\$100

Total Stockholders

Equity

\$432

\$409

\$372

\$342

\$320

Free Cash Flow

\$49\*

\$97

\$83

\$57

\$60

Balance Sheet Highlights

Total Liquidity Exceeds \$490M

(\* ytd)

(\$ in millions)

(\$ in millions)

(

Non-GAAP)

Guidance as of 1/22/15

1

\$290

\$309

\$352

\$397

\$455-

\$460

\$285

\$334

\$1.04

\$1.10

\$1.32

\$1.53

\$1.87 -

\$1.91

\$1.05

\$1.35

FY '11

FY '12

FY '13

FY '14

FY '15

Guidance

9 Mos.

FY14

9 Mos.

FY15

\$-

\$100

\$200

\$300

\$400

FY '10

FY '11

FY '12

FY '13

FY '14

FY '15

YTD

FY '15 YTD FCF

FY '14 FCF

FY '13 FCF

FY '12 FCF

FY '11 FCF

FY '10 FCF

1

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Mid-cap technology leader positioned for solid double-digit revenue growth on a much larger, \$1B+ annual revenue base

We expect substantial operating leverage and strong free cash flow growth as we return non-GAAP gross margin to prior levels in the high-70% range, drive additional synergies across a range of functional areas and invest prudently across a scalable infrastructure

Potential to support incremental EPS gains as we currently evaluate strategies to drive tax efficiencies and capital deployment

Post-Acquisition NetScout

Operating targets attained  
assuming ~10% annual revenue  
growth

Current Operating  
Targets

Post-Acquisition

5-Year Operating  
Targets

Gross Margin

78

81%

75

78%+

Operating Margin

24

27%

26%

31%+



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Spent 400 man years in last 3 years on NextGen Technology

Significant growth drivers in Enterprise and Carrier segments

Acquisition of Danaher's Communications assets is expected to increase our TAM to \$8B+

We have a track record of executing on both technology and transformative acquisitions, like NetGen, in Nov. 2007

We

anticipate

that

superior

technology,

experience

and

execution

will

translate into significant ROI for current and future shareholders

Carrier / Service Provider

Enterprise

Performance

Service Assurance + Business

Intelligence + Customer

Experience Mgmt.

Network Performance Mgmt. +

Application Performance Mgmt.

Security

Distributed Denial of Service

(DDoS)

DDOS + Forensic (incl. Advanced

Persistent Threat)

Summary

Thank You

Appendix: Non-GAAP Measure Reconciliation

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Non-GAAP Measure Reconciliation:

Revenue, EPS and Free Cash Flow

Free Cash Flow

(\$ in millions)

YTD Q3 FY'15

Operating Cash Flow

57.3

\$

Purchase of Fixed Assets & Intangible Assets

(8.8)

\$

Free Cash Flow

48.5

\$

(in thousands, except per share data)

For the Fiscal Years Ended

March 31,

2011

2012

2013

2014

GAAP Revenue

290,540

\$

308,679

\$

350,550

\$

396,647

\$

Deferred revenue fair value adjustment / Impact of accounting change

(797)

312

1,215

558

Non-GAAP Revenue

289,743

\$

308,991

\$

351,765

\$

397,205

\$  
 GAAP Gross profit  
 229,179  
 \$  
 243,007  
 \$  
 276,542  
 \$  
 312,134  
 \$  
 Deferred revenue fair value adjustment  
 132  
 312  
 1,215  
 558  
 Inventory fair value adjustment  
 -  
 -  
 453  
 -  
 Share-based compensation expense (1)  
 352  
 419  
 577  
 969  
 Amortization of acquired intangible assets (2)  
 3,980  
 4,651  
 4,547  
 3,333  
 Compensation for post combination services (4)  
 -  
 10  
 14  
 34  
 Non-GAAP Gross profit  
 232,714  
 \$  
 248,399  
 \$  
 283,348  
 \$  
 317,028  
 \$  
 GAAP Income from operations  
 58,065  
 \$  
 53,683  
 \$  
 64,529

\$  
 78,014  
 \$  
 Deferred revenue fair value adjustment  
 132  
 312  
 1,215  
 558  
 Inventory fair value adjustment  
 -  
 -  
 453  
 -  
 Share-based compensation expense (1)  
 6,439  
 8,702  
 9,580  
 12,930  
 Amortization of acquired intangible assets (2)  
 5,887  
 6,782  
 7,424  
 6,765  
 Business development and integration expense (3)  
 755  
 4,347  
 1,618  
 523  
 Compensation for post combination services (4)  
 -  
 438  
 2,721  
 2,215  
 Restructuring charges  
 -  
 603  
 1,065  
 -  
 Non-GAAP Income from operations  
 70,349  
 \$  
 74,867  
 \$  
 88,605  
 \$  
 101,005  
 \$  
 GAAP Net income  
 37,265  
 \$



32,428  
 \$  
 40,609  
 \$  
 49,106  
 \$  
 Deferred revenue fair value adjustment / Impact of accounting change  
 (797)  
 312  
 1,215  
 558  
 Inventory fair value adjustment  
 -  
 -  
 453  
 -  
 Share-based compensation expense (1)  
 6,439  
 8,702  
 9,580  
 12,930  
 Amortization of acquired intangible assets (2)  
 5,887  
 6,782  
 7,424  
 6,765  
 Business development and integration expense (3)  
 755  
 4,715  
 1,618  
 523  
 Compensation for post combination services (4)  
 -  
 438  
 2,721  
 2,215  
 Loss on extinguishment of debt (5)  
 -  
 603  
 -  
 -  
 Income tax adjustments (6)  
 (4,668)  
 (7,700)  
 (8,671)  
 (7,879)  
 Restructuring charges  
 -  
 690  
 1,065

-

Non-GAAP Net income  
 44,881  
 \$  
 46,970  
 \$  
 56,014  
 \$  
 64,218  
 \$

GAAP Diluted Net income per share  
 0.87  
 \$  
 0.76  
 \$  
 0.96  
 \$  
 1.17  
 \$

Share impact of non-GAAP adjustments identified above  
 0.17  
 0.34  
 0.36  
 0.36

Non-GAAP Diluted net income per share  
 1.04  
 \$  
 1.10  
 \$  
 1.32  
 \$  
 1.53  
 \$

Shares used in computing non-GAAP diluted net income per share  
 42,973  
 42,750  
 42,322  
 41,955

(1) Share-based compensation expense included in these amounts is as follows:

Cost of product revenue  
 134  
 \$  
 192  
 \$  
 235  
 \$  
 228  
 \$

Cost of service revenue  
 218

227  
 342  
 741  
 Research and development  
 1,651  
 2,486  
 2,944  
 4,361  
 Sales and marketing  
 2,527  
 3,052  
 3,035  
 3,791  
 General and administrative  
 1,909  
 2,745  
 3,024  
 3,809  
 Total share-based compensation expense

6,439  
 \$  
 8,702  
 \$  
 9,580  
 \$  
 12,930  
 \$

(2) Amortization expense related to acquired software and product technology included in these amounts is as follows:

Cost of product revenue  
 3,980  
 \$  
 4,651  
 \$  
 4,547  
 \$  
 3,333  
 \$

Operating expenses  
 1,907  
 2,131  
 2,877  
 3,432  
 Total amortization expense  
 5,887  
 \$  
 6,782  
 \$  
 7,424  
 \$  
 6,765

\$  
 (3) Business development and integration expense included in these amounts is as follows:

Cost of service revenue

-  
 10

-  
 -

Research and development

-  
 1,545  
 15

-

Sales and marketing

-  
 346  
 10

-

General and administrative

755  
 2,446  
 1,593  
 523

Other income (expense), net

-  
 368  
 -  
 -

Total business development and integration expense

755  
 \$  
 4,715  
 \$  
 1,618  
 \$  
 523  
 \$

(4) Compensation for post combination services included in these amounts is as follows:

Cost of product revenue

-  
 -  
 10  
 23

Cost of service revenue

-  
 -  
 4  
 11

Research and development

-

438  
 1,670  
 902  
 Sales and marketing  
 -  
 -  
 64  
 153  
 General and administrative  
 -  
 -  
 973  
 1,126  
 Total compensation for post combination services  
 -  
 \$  
 438  
 \$  
 2,721  
 \$  
 2,215  
 \$  
 Loss on extinguishment of debt included in this amount is as follows:  
 Interest and other income (expense), net  
 -  
 \$  
 690  
 \$  
 -  
 \$  
 -  
 \$  
 (6) Total income tax adjustment is as follows:  
 Tax effect of non-GAAP adjustments above at 38%  
 (5,021)  
 (8,452)  
 (9,149)  
 (8,737)  
 Tax impact of non-GAAP reconciling items in loss jurisdictions  
 -  
 752  
 478  
 858  
 Total income tax adjustments  
 (5,021)  
 \$  
 (7,700)  
 \$  
 (8,671)  
 \$

(7,879)

\$

NetScout Systems, Inc.

Reconciliation of Current GAAP to Current and Historical Non-GAAP Financial Measures

(In thousands, except per share data)

Three Months Ended

September 30,

2014

2013

2014

2014

2013

GAAP Revenue

122,833

\$

110,428

\$

103,599

\$

334,284

\$

284,330

\$

Deferred revenue fair value adjustment

-

140

-

18

419

Non-GAAP Revenue

122,833

\$

110,568

\$

103,599

\$

334,302

\$

284,749

\$

GAAP Gross profit

95,851

\$

86,826

\$

82,004

\$

263,111

\$

224,102

\$  
 Deferred revenue fair value adjustment  
 -  
 140  
 -  
 18  
 419  
 Share-based compensation expense (1)  
 379  
 256  
 407  
 1,074  
 740  
 Amortization of acquired intangible assets (2)  
 905  
 837  
 923  
 2,762  
 2,480  
 Compensation for post combination services (4)  
 2  
 8  
 9  
 19  
 25  
 Non-GAAP Gross profit  
 97,137  
 \$  
 88,067  
 \$  
 83,343  
 \$  
 266,984  
 \$  
 227,766  
 \$  
 GAAP Income from operations  
 27,939  
 \$  
 27,264  
 \$  
 18,644  
 \$  
 66,185  
 \$  
 52,029  
 \$  
 Deferred revenue fair value adjustment  
 -  
 140

-  
 18  
 419  
 Share-based compensation expense (1)  
 4,150  
 3,217  
 4,495  
 11,947  
 9,959  
 Amortization of acquired intangible assets (2)  
 1,726  
 1,697  
 1,779  
 5,301  
 5,051  
 Business development and integration expense (3)  
 4,698  
 78  
 1,477  
 6,175  
 482  
 Compensation for post combination services (4)  
 312  
 530  
 545  
 1,393  
 1,685  
 Non-GAAP Income from operations  
 38,825  
 \$  
 32,926  
 \$  
 26,940  
 \$  
 91,019  
 \$  
 69,625  
 \$  
 GAAP Net income  
 17,629  
 \$  
 17,294  
 \$  
 11,233  
 \$  
 40,338  
 \$  
 32,430  
 \$  
 Deferred revenue fair value adjustment



-  
140  
-  
18  
419  
Share-based compensation expense (1)  
4,150  
3,217  
4,495  
11,947  
9,959  
Amortization of acquired intangible assets (2)  
1,726  
1,697  
1,779  
5,301  
5,051  
Business development and integration expense (3)  
4,698  
78  
1,477  
6,175  
482  
Compensation for post combination services (4)  
312  
530  
545  
1,393  
1,685  
Income tax adjustments (5)  
(3,909)  
(1,941)  
(2,908)  
(8,727)  
(6,034)  
Non-GAAP Net income  
24,606  
\$  
21,015  
\$  
16,621  
\$  
56,445  
\$  
43,992  
\$  
GAAP Diluted Net income per share  
0.42  
\$  
0.41

\$  
 0.27  
 \$  
 0.97  
 \$  
 0.77  
 \$  
 Share impact of non-GAAP adjustments identified above  
 0.17  
 0.09  
 0.13  
 0.38  
 0.28  
 Non-GAAP Diluted net income per share  
 0.59  
 \$  
 0.50  
 \$  
 0.40  
 \$  
 1.35  
 \$  
 1.05  
 \$  
 Shares used in computing non-GAAP diluted net income per share  
 41,536  
 41,884  
 41,652  
 41,679  
 41,969  
 (1)  
 Share-based compensation expense included in these amounts  
 is as follows:  
 Cost of product revenue  
 85  
 \$  
 62  
 \$  
 93  
 \$  
 238  
 \$  
 174  
 \$  
 Cost of service revenue  
 294  
 194  
 314  
 836  
 566

Research and development

1,455

1,157

1,490

3,971

3,316

Sales and marketing

1,221

944

1,235

3,419

2,952

General and administrative

1,095

860

1,363

3,483

2,951

Total share-based compensation expense

4,150

\$

3,217

\$

4,495

\$

11,947

\$

9,959

\$

(2)

Amortization expense related to acquired software and product technology included in these amounts is as follows:

Cost of product revenue

905

\$

837

\$

923

\$

2,762

\$

2,480

\$

Operating expenses

821

860

856

2,539

2,571

Total amortization expense

1,726  
\$  
1,697  
\$  
1,779  
\$  
5,301  
\$  
5,051  
\$  
(3)  
Business development and integration expense included in  
these amounts is as follows:  
General and administrative  
4,698  
78  
1,477  
6,175  
482  
Total business development and integration expense  
4,698  
\$  
78  
\$  
1,477  
\$  
6,175  
\$  
482  
\$  
(4)  
Compensation for post combination services included in these  
amounts is as follows:  
Cost of product revenue  
1  
5  
6  
13  
17  
Cost of service revenue  
1  
3  
3  
6  
8  
Research and development  
211  
209  
215  
631

703  
 Sales and marketing  
 14  
 39  
 37  
 90  
 115  
 General and administrative  
 85  
 274  
 284  
 653  
 842  
 Total compensation for post combination services  
 312  
 \$  
 530  
 \$  
 545  
 \$  
 1,393  
 \$  
 1,685  
 \$  
 (5)  
 Total income tax adjustment is as follows:  
 Tax effect of non-GAAP adjustments above at 38%  
 (4,136)  
 \$  
 (2,149)  
 \$  
 (3,153)  
 \$  
 (9,437)  
 \$  
 (6,685)  
 \$  
 Tax impact of non-GAAP reconciling items in loss jurisdictions  
 227  
 208  
 245  
 710  
 651  
 Total income tax adjustments  
 (3,909)  
 \$  
 (1,941)  
 \$  
 (2,908)  
 \$

(8,727)

\$

(6,034)

\$

Three Months Ended

Nine Months Ended

December 31,

December 31,

Supporting Slides

23

24  
NetScout  
Systems  
Overview  
|  
January  
2015  
|  
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Inc.

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NetScout

Arbor

TekComms

FNET

FNET

Telecom

Service Providers

Large

Enterprises

Small and Medium

Enterprises

Field Technicians

and Engineers

Performance

Monitoring

Subscriber

Troubleshooting

Network

Security

Core Functionality

NetScout does not offer similar products;

Additional ASI-based products planned

NetScout does not offer similar products

NetScout addresses different customers

Best-in-Class Solutions:

Expanding Our Product Portfolio and Extending Our Reach

25  
NetScout  
Systems  
Overview  
|  
January  
2015  
|  
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NetScout  
TekComms  
Arbor  
FNET  
FNET

Telecom  
Service Providers  
Large  
Enterprises  
Small and Medium

Enterprises  
Field Technicians  
and Engineers  
Performance

Monitoring  
Subscriber  
Troubleshooting  
Network  
Security

NetScout and  
TekComms offer service  
assurance solutions for  
telecom networks

Customers will benefit  
from the union of the  
different and  
complementary service  
assurance capabilities  
from both businesses

NetScout: deployed  
primarily for proactive  
performance monitoring

TekComms: deployed  
primarily for subscriber  
troubleshooting  
Core Functionality  
Best-in-Class Solutions:  
Tektronix Communications

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NetScout  
Systems  
Overview  
|  
January  
2015  
|  
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Proven Track Record for Successful Integration

11/1/07

4/1/11

10/3/11

11/21/11

7/19/12

11/1/12

\$0.27

\$0.48

\$0.86

\$0.86

\$1.04

\$1.10

\$1.32

\$1.53

\$1.05

\$1.35

9.2%

14.5%

21.9%

22.4%

24.3%

24.2%

25.2%

25.4%

24.5%

27.2%

0.0%

5.0%

10.0%

15.0%

20.0%

25.0%

30.0%

\$-

\$0.25

\$0.50

\$0.75

\$1.00

\$1.25

\$1.50

\$1.75

FY07

FY08

FY09

FY10

FY11

FY12

FY13

FY14

FY14 9

mos.

FY15 9

mos.

Non-

GAAP EPS

Non-

GAAP Operating Margin



28  
NetScout  
Systems  
Overview  
|  
January  
2015  
|  
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Non-GAAP Measure Reconciliation:

NetScout and DHR Communications Historical Information

12-months

6-months

12-months

6-months

12-months

6-months

FY2014

FY2015

CY2013

CY2014

FY2014

FY2015

Revenue:

Product

234,268

\$

122,319

\$

623,632

\$

230,271

\$

857,900

\$

352,590

\$

Service

162,379

89,132

211,259

113,032

373,638

202,164

Total GAAP revenue

396,647

211,451

834,891

343,303

1,231,538

554,754

Non-GAAP Adjustments

558

18

558

18

Total Non-GAAP revenue

397,205

211,469

834,891

343,303

1,232,096

554,772

Cost of revenue:

Product

51,219

26,705

195,077

86,502

246,296

113,207

Service  
33,294

17,486

48,043

25,551

81,337

43,037

Total GAAP cost of revenue  
84,513

44,191

243,120

112,053

327,633

156,244

Non-GAAP Adjustments  
(4,336)

(2,569)

(9,344)

(5,021)

(13,680)

(7,590)

Total Non-GAAP cost of revenue  
80,177

41,622

233,776

107,032

313,953

148,654

Gross profit - GAAP

312,134

167,260

591,771

231,250

903,905

398,510

Non-GAAP Adjustments

4,894

2,587

9,344

5,021

14,238

7,608

Gross profit - Non-GAAP

317,028

169,847

601,115

236,271

918,143

406,118

Operating expenses:

Research and development

70,454

38,008

147,553

82,185

218,007

120,193

Sales and marketing

129,611

69,468

276,896

133,095

406,507

202,563

General and administrative

30,623

19,820

30,623

19,820

Impairment of intangible assets

31,063

31,063

-

Amortization of acquired intangible assets

3,432

1,718

19,661

8,274

23,093

9,992

Total operating expenses - GAAP

234,120

129,014

475,173

223,554

709,293

352,568

Non-GAAP Adjustments

(18,097)

(11,361)

(73,130)

(17,422)

(91,227)

(28,783)

Total operating expenses - Non-GAAP

216,023

117,653

402,043

206,132

618,066

323,785

Income from operations - GAAP

78,014

38,246

116,598

7,696

194,612

45,942

Non-GAAP Adjustments

22,991

13,948

82,474

22,443

105,465

36,391

Income from operations - Non-GAAP

101,005

52,194

199,072

30,139

300,077

82,333

Interest and other expense, net

(158)

(674)

(158)

(674)

Income before income tax expense

77,856

37,572

116,598

7,696

194,454

45,268

Income tax expense - GAAP

28,750

14,863

32,792

2,311

61,542

17,174

Non-GAAP Adjustments

(7,879)

(4,818)

(40,068)

(8,720)

(47,947)

(13,538)

Income tax expense - Non-GAAP

36,629

19,681

72,860

11,031

109,489

30,712

Net income - GAAP

49,106

\$

22,709

\$

83,806



\$  
5,385  
\$  
132,912  
\$  
28,094  
\$  
Non-GAAP Adjustments  
15,112  
  
9,130  
  
42,406  
  
13,723  
  
57,518  
  
22,853  
  
Net income - Non-GAAP  
64,218  
  
31,839  
  
126,212  
  
19,108  
  
190,430  
  
50,947  
  
WSO - diluted  
41,955  
  
41,732  
  
62,500  
  
62,500  
  
104,455  
  
104,232  
  
Diluted net income per share - GAAP  
1.17  
\$  
0.54

\$  
1.27  
\$  
0.27  
\$  
Diluted net income per share - Non-GAAP  
1.53  
\$  
0.76  
\$  
1.82  
\$  
0.49  
\$  
DHR Communications  
Combined Proforma  
NTCT