

NETSCOUT SYSTEMS INC

Form 425

February 04, 2015

Investor Presentation

Anil Singhal, President & CEO

NetScout Systems, Inc.

February 2015

Filed by NetScout Systems, Inc.

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. 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, 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.

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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

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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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NetScout
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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%+

19
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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

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NetScout
Systems
Overview
|
January
2015
|
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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

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Overview
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TekComms

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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

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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