

NETSCOUT SYSTEMS INC

Form 425

October 16, 2014

Q2 FY 2015 Conference Call

NetScout

October 16, 2014

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)

The following is a copy of slide deck presented during an investor conference call and web cast hosted by NetScout Systems, I

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Agenda

Introduction & Safe Harbor

Andrew Kramer, Vice President of Investor Relations

CEO Perspective

Anil Singhal, President and CEO

COO Update: Customer Use Cases & Business Initiatives

Michael Szabados, Chief Operating Officer

Financial Review and Fiscal Year 2015 Outlook

Jean Bua, SVP and CFO

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Additional Information and Where You Can Find It

NetScout will file a Registration Statement on Form S-4 containing a proxy statement/prospectus of NetScout and other documents concerning the proposed acquisition with the Securities and Exchange Commission (the SEC). Investors are urged to read the proxy statement/prospectus when it becomes available and other relevant documents filed with the SEC because they will contain important information. Security holders may obtain a free copy of the proxy statement/prospectus (when it is available) and other documents filed by

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NetScout with the SEC at the SEC's website at www.sec.gov. The proxy statement/prospectus and 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 definitive proxy statement relating to its 2014 Annual Meeting of Shareholders filed with the SEC on July 24, 2014. 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 Section 21E of the Securities Exchange Act of 1934, as amended, and other federal securities laws. Investors are cautioned that statements in this communication are strictly historical statements, including without limitation, our financial guidance for fiscal year 2015 and the anticipated timing of the proposed transaction involving NetScout's acquisition of communications business lines of Danaher Corporation, constitute forward-looking statements and involve risks and uncertainties. Actual results could differ materially from the forward-looking statements, including those related to our guidance in its strategic guidance and the timing associated with completing the acquisition of Danaher's Communications business. Risks and uncertainties include, but are not limited to, the following:

cause actual results to differ include, without limitation, risks and uncertainties associated with the failure to obtain, delays in or related to obtaining shareholder or regulatory approvals; the anticipated tax treatment of the transaction and related transaction; unforeseen changes to or the effects on liabilities, future capital expenditures, revenue, expenses, synergies, indebtedness, financial future prospects; failure to consummate or delay in consummating the transaction for other reasons; our ability to retain key executive slowdowns or downturns in economic conditions generally and in the market for advanced network and service assurance solutions; relationships with strategic partners; dependence upon broad-based acceptance of NetScout's network performance management to achieve and maintain a high rate of growth, introduction and market acceptance of new products and product enhancements; advantage of service provider opportunities; competitive pricing pressures; reliance on sole source suppliers; successful expansion and indirect distribution channels; and dependence on proprietary technology and the ability of NetScout to successfully integrate ONPATH Technologies, and achieve operational efficiencies. For a more detailed description of the risk factors associated with NetScout's Annual Report on Form 10-K for the fiscal year ended March 31, 2014 on file with the Securities and Exchange Commission, see our obligation to update any forward-looking information contained in this press release 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 prepared 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 NetScout's results determined in accordance with GAAP. These non-GAAP measures should only be used to evaluate NetScout's results of operations in conjunction with the corresponding GAAP measures. The presentation of non-GAAP information is not meant to be considered superior to, in isolation, results prepared in accordance with GAAP. NetScout believes these non-GAAP financial measures will enhance the reader's understanding of NetScout's current financial performance and NetScout's prospects for the future by providing a higher degree of transparency and providing a level of disclosure that helps investors understand how the Company plans and measures its own business. NetScout's presentation of these non-GAAP measures affords investors a view of NetScout's operating results that may be more easily compared to peer companies. Investors are encouraged to consider NetScout's operating results on both a GAAP and non-GAAP basis during and following the integration. Presenting the GAAP measures on their own would not be indicative of NetScout's core operating results. Furthermore, NetScout's presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures provide useful information to investors regarding present and future business trends relating to its financial condition and results of operations. NetScout maintains supplemental non-GAAP financial measures internally to understand, manage and evaluate its business and to make operating decisions. These non-GAAP measures are among the primary factors that management uses in planning and forecasting. The reconciliation of these non-GAAP measures to GAAP metrics are set forth in the accompanying tables in the index of this presentation and are available on our website at <http://ir.netscout.com>.

Forward Looking Statements:
Regulation G Disclosure:
<http://ir.netscout.com>.

CEO Perspective
Anil Singhal
Co-Founder, President and CEO
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NetScout Highlights

Very strong Q2

Reaffirm FY15 guidance

Revenue of \$450m-\$465m

Non-GAAP EPS of \$1.74 per
share to \$1.81 per share

Acquisition of Danaher's
Communications Business
Financial Highlights

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4 Key Questions about NetScout's Acquisition of
Danaher's Communication Business

1.

What is the growth profile of the businesses being
acquired?

2.

How do Tektronix and NetScout businesses

complement each other?

3.

Are we biting off too much?

4.

What synergies are possible?

Understanding the unique benefits of this acquisition.

Understanding the unique benefits of this acquisition.

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1a. Danaher's Communications Business

Track record of growth

Targeting markets
currently growing in the
mid-single digit to low

double digit range

Each business is
profitable with upside
Better Access to Service Providers
Jump Starting our Cyber Security Initiative
Broader Access in Enterprise

HQ: Plano, Texas

Leading provider of SP network monitoring solutions

125+ SP customers

4,000+ probes deployed worldwide, monitoring 500,000+ calls
per second

HQ: Burlington, MA

Leading provider of network DDoS attack detection and
mitigation for SP and Enterprise networks

300+ SP customers

Analyzes over 80TB/second of traffic worldwide

HQ: Everett, WA

Leading provider of network deployment and installation tools
for SP and Enterprise installers

1,000s of customers

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1b. A Closer Look

~50% of total revenue

~25% of total revenue

~25% of total revenue

It has consistently performed in the high-single digit revenue growth range.

A challenging 2014

Orders have turned positive

A growth outlook for 2015 with product revenue anticipated to reach the upper single digit growth rates

Track record of generating low double-digit growth since acquisition by Danaher in mid-2010

Strong base of both service provider and enterprise customers

We believe that Arbor's product revenue will grow in the combined business around the mid-teens

Complementary to NetScout

Reported overall growth in the mid to upper single digits

Product revenue positioned for continued growth in the mid to upper single digits over the coming years

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2. Top-line synergy and opportunities

Primary capabilities of Tektronix Communications (troubleshooting) and NetScout (monitoring) are very complementary and both are needed by service provider

Better positioned for future technology turns with a broader range

of service providers

Extend our reach into new, higher growth adjacent markets

Cyber Intelligence and Radio Access Networks, WiFi, BI

Expanding our customer base and geographic footprint

Opportunity with Fluke in the mid-tier of the market with complementary vertical focus (SAS, Cloud, WiFi)

International distribution channels

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3. Are we biting off more than we can chew?

No!

Proven experience in successfully integrating the transformative acquisition of Network General, which created an industry leader while assuring customer continuity

Proven experience in integrating small technology acquisitions
(five in the past 3 years)

Proven productivity and superior execution with R&D
distributed across 8 development centers and 5 time zones

Talent retention, product integration and improved performance

Compatible cultures with the Danaher Communications
business

Jim Lico, EVP of Danaher and responsible for Communications
business, to join NetScout's Board of Directors

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4. Operating Synergies

Meaningful synergies, in conjunction with anticipated revenue growth, will help us drive profitability substantially higher, particularly as we move out of year 1 and into year 2

Deal is accretive in the first full year of operation

Gross margin upside: leverage our purchasing power and extend our proven manufacturing techniques to improve product gross margin by a few percentage points over the next few years

Operational synergies arising from using common infrastructure platforms, and by eliminating or reducing expenses associated with programs and capabilities already in place

Initial estimate is to identify, remove and begin realizing synergies of about 5 percent on the 900 million dollars within the combined cost base of both organizations

Expect to realize the full effect of those initial actions in the second year of operations, while also exploring the potential to improve upon that as we more closely examine how to best align our go-to-market and related support programs and initiatives

Does not include any potential tax savings that we can realize moving forward after the acquisition closes

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COO Update

Michael Szabados

Chief Operating Officer

Financial Review
Fiscal Year 2015 Outlook
Jean Bua
SVP and Chief Financial Officer
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(in millions except for EPS)

Q2 FY'15

% Change

over Prior

Year

Q2 FY'15

% Change

over Prior

Year

Total Revenue

\$103.6

12%

\$103.6

12%

Product Revenue

\$58.0

11%

\$58.0

11%

Service Revenue

\$45.6

14%

\$45.6

15%

Gross Profit

\$83.3

13%

\$82.0

13%

%

80.4%

79.2%

Operating Income

\$26.9

19%

\$18.6

17%

%

26.0%

18.0%

Net Income

\$16.6

16%

\$11.2

14%

EPS

\$0.40

18%

\$0.27

13%

NON-GAAP
GAAP

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NetScout Q2 FY 2015 Growth
(in millions)
Non-GAAP
GAAP

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1H FY 2015 Income Statement
(in millions except for EPS)
NON-GAAP
GAAP
1H FY'15
% Change
over Prior

| | |
|-------------------------|--|
| Year | |
| 1H FY'15 | |
| % Change | |
| over Prior | |
| Year | |
| Total Revenue | |
| \$211.5 | |
| 21% | |
| \$211.5 | |
| 22% | |
| Product Revenue | |
| \$122.3 | |
| 28% | |
| \$122.3 | |
| 28% | |
| Service Revenue | |
| \$89.2 | |
| 13% | |
| \$89.1 | |
| 13% | |
| Gross Profit | |
| \$169.8 | |
| 22% | |
| \$167.3 | |
| 22% | |
| % | |
| 80.3% | |
| 79.1% | |
| Operating Income | |
| \$52.2 | |
| 42% | |
| \$38.2 | |
| 54% | |
| % | |
| 24.7% | |
| 18.1% | |
| Net Income | |
| \$31.8 | |
| 39% | |
| \$22.7 | |
| 50% | |
| EPS | |
| \$0.76 | |
| 38% | |
| \$0.54 | |
| 50% | |

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1H FY 2015 Product Revenue Composition
(Non-GAAP, in millions)
1H FY 15
% Change
over Prior
Year
Total Revenue

\$211.5

21%

Product Revenue

\$122.3

28%

Service Revenue

\$89.2

13%

1H FY'15 Product Revenue

1H FY'14 Product Revenue

42%

13%

45%

50%

39%

11%

Service Providers

Government Enterprise

General Enterprise

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1H FY 15
% Change
over Prior
Year
Total Revenue
\$211.5
21%

Product Revenue

\$122.3

28%

Service Revenue

\$89.2

13%

1H FY 2015 Product Revenue Growth by Sector

(Non-GAAP, in millions)

53%

12%

7%

24%

49%

-3%

0

20

40

60

80

100

120

1H FY'15

1H FY'14

Product Revenue and Growth

Government Enterprise

General Enterprise

Service Providers

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1H FY 2015 Total Revenue Composition
(Non-GAAP, in millions)
1H FY 15
% Change
over Prior
Year
Total Revenue

\$211.5

21%

Product Revenue

\$122.3

28%

Service Revenue

\$89.2

13%

Service Providers

Government Enterprise

General Enterprise

40%

14%

46%

1H FY'15 Total Revenue

34%

13%

53%

1H FY'14 Total Revenue

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21

1H FY 15

% Change

over Prior

Year

Total Revenue

\$211.5

21%

Product Revenue

\$122.3

28%

Service Revenue

\$89.2

13%

1H FY 2015 Total Revenue Growth by Sector

(Non-GAAP, in millions)

34%

0%

5%

14%

42%

3%

0

20

40

60

80

100

120

1H FY'15

1H FY'14

Total Revenue and Growth

Government Enterprise

General Enterprise

Service Providers

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1H FY 2015 Revenue by Geography
(GAAP, in millions)
1H FY 15
% Change
over Prior
Year
Total Revenue

\$211.5
22%
United States
\$165.4
28%
International
\$46.1
4%
Europe
\$20.0
-7%
Asia
\$11.4
6%
Rest of World
\$14.7
23%
1H FY'15
1H FY'14
78%
22%
5%
7%
10%
75%
25%
6%
12%
7%
United States
Europe
Asia
Rest of World

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Balance Sheet Highlights & Free Cash Flow
(in millions)
Ending
Balance
Sheet
Q2 FY 15
Ending

| | |
|--|------------------|
| Balance Sheet | |
| FY 14 | |
| % Change over Prior Year | |
| Cash and Securities | |
| | \$217.3 |
| | \$218.8 |
| | -1% |
| Accounts Receivables | |
| | \$49.8 |
| | \$60.5 |
| | -18% |
| Inventories | |
| | \$14.5 |
| | \$12.6 |
| | 15% |
| Total Debt | |
| | \$0.0 |
| | \$0.0 |
| | 0% |
| Total Deferred Revenue | |
| | \$117.6 |
| | \$133.9 |
| | -12% |
| Total Stockholders Equity | |
| | \$412.6 |
| | \$409.2 |
| | 1% |
| Total Liquidity > | |
| | \$465 million |
| | (\$ in millions) |
| | 1H FY'15 |
| Operating Cash Flow | |
| | 29.0 |
| | \$ |
| Purchase of Fixed Assets & Intangible Assets | |
| | (4.1) |
| | \$ |
| Free Cash Flow | |
| | 24.9 |
| | \$ |
| Free Cash Flow | |

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Guidance
FY 2015
(in millions except for EPS)
GAAP
Low
High
Revenue

\$450

\$465

EPS

\$1.32

\$1.39

EPS Increase from

Prior Year

13%

19%

Product revenue growth:

18% -

23%

7%

13%

13 -

17%

14%

\$450 -

\$465

290

309

352

397

200

250

300

350

400

450

500

FY '11

FY '12

FY '13

FY '14

FY '15

Non-GAAP Revenue (\$MM)

\$1.04

\$1.10

\$1.32

\$1.53

FY '11

FY '12

FY '13

FY '14

FY '15

Non-GAAP EPS (Non-GAAP)

20%

14 -

18%

16%

6%
\$1.74 -
\$1.81
\$0.60
\$0.80
\$1.00
\$1.20
\$1.40
\$1.60
\$1.80
\$2.00

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GAAP Reconciliation: Net Income

For
fiscal
year
2015,
the

non-GAAP

net

income

per

diluted

share

expectation excludes forecasted share-based compensation expenses of approximately \$17.0 million, estimated amortization of acquired intangible assets of approximately \$7.1 million, compensation for post combination services of approximately \$1.2 million, business development expenses of approximately \$1.5 million, and the related impact of these adjustments on the provision for income taxes of \$9.2 million.

Thank You

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Add GAAP to Non-GAAP Reconciliation

NetScout Systems, Inc.

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

(In thousands, except per share data)

Three Months Ended

June 30,

2014

2013

2014

2014

2013

GAAP Revenue

103,599

\$

92,097

\$

107,852

\$

211,451

\$

173,902

\$

Deferred revenue fair value adjustment

-

139

18

18

279

Non-GAAP Revenue

103,599

\$

92,236

\$

107,870

\$

211,469

\$

174,181

\$

GAAP Gross profit

82,004

\$

72,393

\$

85,256

\$

167,260

\$

137,276

\$

Deferred revenue fair value adjustment

-

139

18

18

279

Share-based compensation expense (1)

407

294

288

695

484

Amortization of acquired intangible assets (2)

923

824

934

1,857

1,643

Compensation for post combination services (4)

9

9

8

17

17

Non-GAAP Gross profit

83,343

\$

73,659

\$

86,504

\$

169,847

\$
139,699
\$
GAAP Income from operations
18,644
\$
15,882
\$
19,602
\$
38,246
\$
24,765
\$
Deferred revenue fair value adjustment
-

139

18

18

279

Share-based compensation expense (1)
4,495

3,930

3,302

7,797

6,742

Amortization of acquired intangible assets (2)
1,779

1,681

1,796

3,575

3,354

Business development and integration expense (3)
1,477

234

-

1,477

404

Compensation for post combination services (4)

545

711

536

1,081

1,155

Non-GAAP Income from operations

26,940

\$

22,577

\$

25,254

\$

52,194

\$

36,699

\$

GAAP Net income

11,233

\$

9,883

\$

11,476

\$

22,709

\$

15,136

\$

Deferred revenue fair value adjustment

-

139

18

18

279

Share-based compensation expense (1)

4,495

3,930

3,302

7,797

6,742

Amortization of acquired intangible assets (2)

1,779

1,681

1,796

3,575

3,354

Business development and integration expense (3)

1,477

234

-

1,477

404

Compensation for post combination services (4)

545

711

536

1,081

1,155

Income tax adjustments (5)

(2,908)

(2,308)

(1,910)

(4,818)

(4,093)

Non-GAAP Net income

16,621

\$

14,270

\$

15,218

\$

31,839

\$

22,977

\$

GAAP Diluted Net income per share

0.27

\$

0.24

\$

0.27

\$

0.54

\$

0.36

\$

Share impact of non-GAAP adjustments identified above

0.13

0.10

0.09

0.22

0.19

Non-GAAP Diluted net income per share

0.40

\$

0.34

\$

0.36

\$

0.76

\$

0.55

\$
Shares used in computing non-GAAP diluted net income per share
41,652

41,950

41,808

41,732

42,004

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

Cost of product revenue

93

\$

68

\$

60

\$

153

\$

112

\$

Cost of service revenue

314

226

228

542

372

Research and development

1,490

1,263

1,026

2,516

2,159

Sales and marketing

1,235

1,163

963

2,198

2,008

General and administrative

1,363

1,210

1,025

2,388

2,091

Total share-based compensation expense

4,495

\$

3,930

\$

3,302

\$

7,797

\$

6,742

\$

(2)

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

Cost of product revenue

923

\$

824

\$

934

\$

1,857

\$

1,643

\$

Operating expenses

856

857

862

1,718

1,711

Total amortization expense

1,779

\$

1,681

\$

1,796

\$

3,575

\$

3,354

\$

(3)

Business development and integration expense included in these amounts is as follows:

General and administrative

1,477

234

-

1,477

404

Total business development and integration expense

1,477

\$

234

\$

-

\$

1,477

\$

404

\$

Three Months Ended

Six Months Ended
September 30,
September 30,