

NETSCOUT SYSTEMS INC

Form 425

November 10, 2014

November 11, 2014

NetScout Systems, Inc.

2014 Technology, Internet, Media &

Telecommunications Conference

Filed by NetScout Systems, Inc.

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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)

The following is a copy of a slide deck to be presented by NetScout Systems, Inc. at an investor conference on November 11, 2014.

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Additional Information and Where You Can Find It

NetScout

will

file

a

Preliminary

Proxy

Statement

on

Schedule

14A

and

a

Registration

Statement on Form S-4 containing a prospectus of NetScout and other documents concerning the proposed acquisition with the Securities and Exchange Commission (SEC).

Investors are urged to read the proxy statement and prospectus when they become available and other relevant documents filed with the SEC because they will contain important

information. Security holders may obtain free copies of the proxy statement and prospectus (when they are available) and other documents filed by NetScout with the SEC at the SEC s

website at www.sec.gov. The proxy statement and the 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:

Forward-looking

statements

in

this
communication
are
made
pursuant
to
the
safe
harbor
provisions
of
Section

21E of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this communication which are not strictly historical statements. Actual results could differ materially from the forward-looking statements due to known and unknown risks, uncertainties, assumptions and other factors.

Such factors include the failure to obtain, delays in obtaining or adverse conditions related to

obtaining shareholder or regulatory approvals; the anticipated tax treatment of the transaction and related transactions; risks related to unforeseen changes to or the effects on liabilities, future capital expenditures, revenue, expenses, synergies, indebtedness, financial losses and future prospects; failure to consummate or delay in consummating the transaction for other reasons; our ability to recruit and retain executives and employees; slowdowns or downturns in economic conditions generally and in the market for advanced network assurance solutions specifically, the Company's relationships with strategic partners, dependence upon broad-based acceptance of the Company's network performance management solutions, the presence of competitors with greater financial resources than our own; our strategic response to our products; and the ability of NetScout to successfully integrate the merged assets and the associated technology to achieve operational efficiencies.

For a more detailed description of the risk factors associated with the Company, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended March 31,

2014

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.

Regulation
G

Disclosure:

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 prepared in accordance with GAAP (revenue, net income and diluted net income per share), and may have limitations in that all of NetScout's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be used in conjunction with 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 from or as a substitute for results prepared in accordance with GAAP. NetScout's non-GAAP financial measures will enhance the reader's overall understanding of NetScout's current financial performance and prospects for the future by providing a higher degree of transparency for certain financial measures and providing a level of disclosure that enables investors understand how the Company plans and measures its own business. NetScout believes that providing these non-GAAP measures affords investors a view of NetScout's operating results that may be more easily compared to peer companies and also enables investors to consider NetScout's operating results on both a GAAP and non-GAAP basis during and following the integration period of NetScout's acquisitions. Presenting the GAAP measures on their own would not be indicative of NetScout's core operating results. NetScout believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures provides important information to management and investors regarding present and future business trends relating to its financial condition and results of operations. NetScout management regularly uses supplemental non-GAAP financial measures internally to understand, manage and

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
metrics
to
the
comparable
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>.

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

Helping
our
customers
achieve
ROI
and
manage
risk
through
the
operational
intelligence
gained
from
our
analytics

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

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

Announced
transformational
acquisition

of
Danaher's Communications Business

Total
Revenue
(non-GAAP)
Earnings
Per Share
(non-GAAP)

Free
Cash
Flow
\$309
\$352
\$397
\$57
\$83
\$97
\$1.10
\$1.32
\$1.53
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Our Value Proposition for IT Operations

NetScout Enables Proactive Network, Service and UC Triage

ROI:

Reduce costs

Improve productivity

Generate incremental
revenue

Risks:

Outages/downtime

Cyber attacks

Non-compliance/fines

Reputational damage

Real-time

operational intelligence and analytics

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Mobility Trends Driving our Growth:

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

Service Providers:

Monetize their investment and retain customers

Trends Impacting Enterprise IT

Enterprise: **Uptime**
and user experience with cost-effective delivery
Incident
Incident
Session
Analysis

Packet
Analysis
IP Traffic Deep Dive
Problem Solved
Problem Solved
UMC/OSS
Service Dashboard
Service Monitors
Dependency Mapping
Component Performance
Management

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Mobility: BYOD

Virtualization

Unified
communications

Converged
infrastructure

Cloud-based services

Big Data

Internet of things
Network
Application
Server

Why NetScout will continue to win .

Today s fundamentals:

Secular IT Trends

Product Strategy

Financial Strength

Tomorrow s information:

ASI solving Big Data s

data problem

NetScout: Proven technology for proving change

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Revenue and EPS Performance
CAGRS at FY 15 Guidance Mid-points:
Revenue: 9.5% EPS: 11%
Guidance as of October 16, 2014
Non-GAAP, in millions except EPS
EPS range:
\$1.74 -
\$1.81

Revenue range:

\$450 -

\$465

\$174

\$211

\$0.55

\$0.76

\$290

\$309

\$352

\$397

\$465

\$1.04

\$1.10

\$1.32

\$1.53

\$1.81

FY '11

FY '12

FY '13

FY '14

FY '15

Guidance

1H'14

Q1'15

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Cumulative Free Cash Flow Generation (*in millions*)
Capital deployment priority: product development
\$-
\$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
\$40
\$100
\$157
\$240
\$337
\$362

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NetScout Investment Position:
Balance Sheet Highlights (*in millions*)
Total liquidity exceeds \$465M
Q2 FY 15
FY 14
FY 13
FY 12

FY 11

Cash and Securities

\$217

\$219

\$154

\$214

\$229

Accounts Receivable

\$50

\$61

\$74

\$70

\$63

Total Debt

\$0

\$0

\$0

\$62

\$68

Total Deferred Revenue

\$118

\$134

\$121

\$112

\$100

Total Stockholders

Equity

\$413

\$409

\$372

\$342

\$320

Free Cash Flow

\$25

\$97

\$83

\$57

\$60

NetScout Operating Targets
Operating targets
attained at mid-
teens revenue
growth.
Operating
Targets
FY 15

Guidance

(as of 10/16/14)

Gross Margin

78

81%

79

80%

R&D of Revenue

13

15%

15

16%

S&M of Revenue

33

35%

32

33%

G&A of Revenue

6

8%

6

7%

Operating Margin

24

27%

26

27%

Scalable organization increases operating leverage

Non-GAAP

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Strategic Direction and Opportunity

NetScout is **well positioned** within its core markets with a differentiated product portfolio, innovative technology and a compelling value proposition

Service providers and enterprises have

invested significantly in their infrastructures during the past decade but they lack **holistic**

IT management

Acquiring Danaher's Communications

Expanded solutions for addressing

customer needs

Go-to-market advantages

Scale and leverage

Virtualization

Cloud

SDN

Mobility

BYOD

Internet

iPhone

Voice

Cable

IP Convergence

10gig

40gig

100gig

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Business provides:

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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

Next-Gen platform and

software

Financially Compelling

\$1.2B+ revenue base*

positioned for growth

Accretive to non-GAAP

earnings

Year 2 run-rate cost

synergies of ~5% of total

combined cost base*

Continued prudent cost

control

NetScout to Acquire Danaher's Communications Business:

Strategic Rationale

*

Non-GAAP

1

First full year of combined operations

Doubles our total

addressable market to

\$8B+

Furthering our strategic

capabilities to our

customers

Increasing operating

margins and cash flow

1

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NetScout Systems Overview | November 11, 2014 | © 1992-2014 NetScout Systems, Inc. All rights reserved.
NetScout to Acquire Danaher's Communications Business:
Transaction Overview
Structure and
Consideration
Ownership
(2)
Board of

Directors
Management
Headquarters
Closing
Conditions

NetScout to acquire Danaher's Communications Group

NetScout
to
issue
62.5
million
shares,
valued
at
approximately
\$2.3
billion
(1)

Structured as Reverse Morris Trust

Danaher shareholders: 59.5%

NetScout shareholders: 40.5%

Current NetScout Board to remain in place

Anil Singhal to continue as Chairman of the Board

James A. Lico, EVP of Danaher, to join the Board, expanding it to 8 directors

NetScout CEO and other executives to continue in their respective roles

Westford, MA

Transaction anticipated to close in first 6 months of NetScout's FY 2016,
subject to NetScout shareholder and regulatory approvals, and receipt by
Danaher of a ruling by the U.S. Internal Revenue Service and opinions of
counsel regarding certain tax matters

(1)

Based on NetScout's closing share price of \$37.34 on November 4, 2014.

(2)

Includes estimated RSUs to be issued to SpinCo employees.

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Strategy:

Continued leadership in the major computing trends over the next decade

Helping our customers achieve ROI and manage risk through the operational intelligence gained from our analytics

Transformational acquisition positions NetScout with a broader, longer runway to drive revenue, profit and free cash flow growth over the long-

term.

Fundamentals:

Visionary leadership

Cutting edge technology: ASI and nGeniusONE

Brand recognition through market leadership

Scalable infrastructure requiring limited future investment

Solid cash flow and investment position

Proven track record of leadership and financial strength

Thank You

Appendix: Non-GAAP Measure Reconciliation

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Non-GAAP Measure Reconciliation:
Revenue, EPS and Free Cash Flow
(\$ 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

(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

132

312

1,215

558

Non-GAAP Revenue

290,672

\$

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
 233,643
 \$
 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
 71,278
 \$
 74,867
 \$
 88,605
 \$
 101,005
 \$
 GAAP Net income
 37,265
 \$
 32,428
 \$
 40,609
 \$
 49,106
 \$
 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	
4,715	
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)	
(5,021)	
(7,700)	
(8,671)	
(7,879)	
Restructuring charges	
-	
690	
1,065	
-	
Non-GAAP Net income	
45,457	
\$	
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
 0.19
 0.34
 0.36
 0.36
 Non-GAAP Diluted net income per share
 1.06
 \$
 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

-

-