

# Extreme Networks FQ3'17 Financial Results

May 3, 2017



# Cautionary Statement on Financial Measures

## Non-GAAP Measures:

*In preparing the accompanying information, the Company has excluded, where applicable, the impact of certain Non-GAAP costs as listed at the end of this presentation. The Company believes these Non-GAAP measures provide both management and investors with additional insight into its current operations, the trends affecting the Company and the Company's marketplace performance. Management believes these items allow readers to better correlate the Company's operating activities with the Company's ability to generate cash from operations. Accordingly, management uses these Non-GAAP measures along with comparable GAAP information when evaluating the Company's historical performance and future business activities. The Company's Non-GAAP measures may be different than those used by other companies and should be considered in conjunction with, and not as a substitute for, the Company's financial information presented in accordance with GAAP. Please refer to our earnings press release, which is posted on the "Investor Relations" section of our website and to pages 9-12 of this presentation for the required reconciliation to the most comparable GAAP financial measures.*

## Forward-Looking Statements:

*This presentation contains forward-looking statements concerning the expected financial performance of the Company. These forward-looking statements involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by these statements. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update these statements. For a detailed description of these risks and uncertainties please refer to our most recent reports on Form 10-K, Form 10-Q, and Form 8-K filed with the SEC.*



# FQ3'17 Financial Results

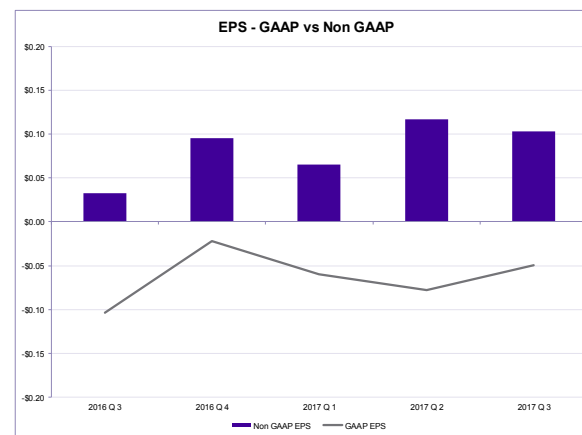
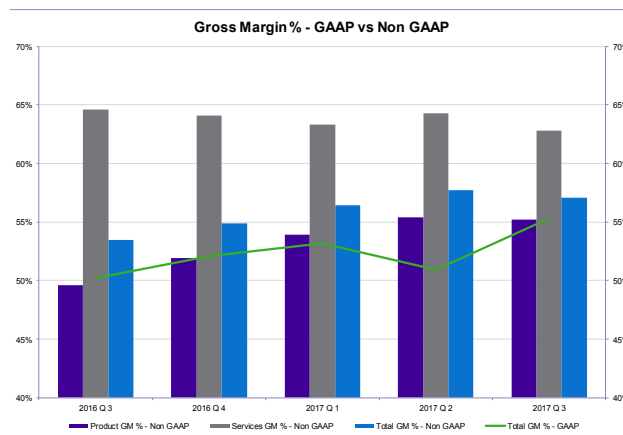
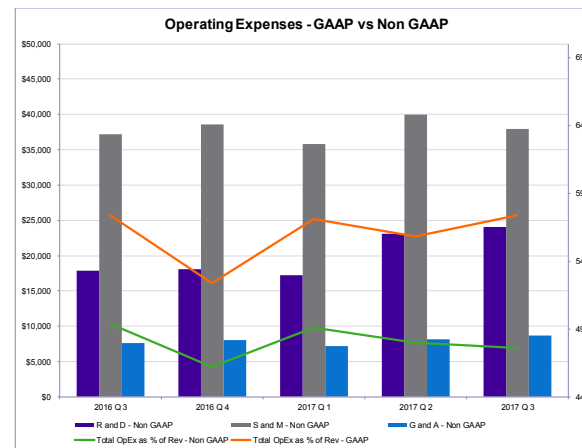
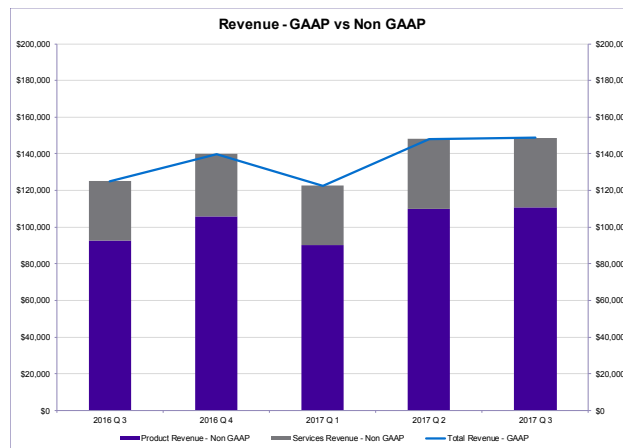


# Financial Highlights – Financial Operations

|                     | FY'16      |           | FY'17     |           |           | FQ3'17 v<br>FQ2'17 | FQ3'17 v<br>FQ3'16 |
|---------------------|------------|-----------|-----------|-----------|-----------|--------------------|--------------------|
|                     | Q3         | Q4        | Q1        | Q2        | Q3        |                    |                    |
| <b>GAAP</b>         |            |           |           |           |           |                    |                    |
| Product Revenue     | \$92,712   | \$106,019 | \$90,131  | \$109,789 | \$110,789 | \$1,000            | \$18,077           |
| Services Revenue    | \$32,175   | \$33,600  | \$32,511  | \$38,322  | \$37,875  | (\$447)            | \$5,700            |
| Total Revenue       | \$124,887  | \$139,619 | \$122,642 | \$148,111 | \$148,664 | \$553              | \$23,777           |
| Total GM %          | 50.2%      | 52.1%     | 53.2%     | 50.9%     | 55.3%     | 4.4%               | 5.1%               |
| Operating Income \$ | (\$8,911)  | (\$480)   | (\$4,759) | (\$7,362) | (\$3,246) | \$4,116            | \$5,665            |
| Operating Margin %  | -7.1%      | -0.3%     | -3.9%     | -5.0%     | -2.2%     | 2.8%               | 4.9%               |
| Net Income (Loss)   | (\$10,783) | (\$2,339) | (\$6,479) | (\$8,611) | (\$5,605) | \$3,006            | \$5,178            |
| EBITDA              | \$1,374    | \$10,032  | \$5,094   | \$63      | \$1,572   | \$1,509            | \$198              |
| EPS                 | (\$0.10)   | (\$0.02)  | (\$0.06)  | (\$0.08)  | (\$0.05)  | \$0.03             | \$0.05             |
| <b>Non GAAP</b>     |            |           |           |           |           |                    |                    |
| Product Revenue     | \$92,712   | \$106,019 | \$90,131  | \$109,789 | \$110,789 | \$1,000            | \$18,077           |
| Services Revenue    | \$32,552   | \$33,977  | \$32,644  | \$38,322  | \$37,875  | (\$447)            | \$5,323            |
| Total Revenue       | \$125,264  | \$139,996 | \$122,775 | \$148,111 | \$148,664 | \$553              | \$23,400           |
| Total GM %          | 53.4%      | 54.8%     | 56.3%     | 57.5%     | 57.0%     | -0.5%              | 3.6%               |
| Operating Income \$ | \$5,366    | \$12,065  | \$8,790   | \$13,988  | \$13,954  | (\$34)             | \$8,588            |
| Operating Margin %  | 4.3%       | 8.6%      | 7.2%      | 9.4%      | 9.4%      | 0.0%               | 5.1%               |
| Net Income (Loss)   | \$3,494    | \$10,206  | \$7,070   | \$12,739  | \$11,594  | (\$1,145)          | \$8,100            |
| EBITDA              | \$8,092    | \$15,018  | \$11,084  | \$17,518  | \$16,689  | (\$829)            | \$8,597            |
| EPS                 | \$0.03     | \$0.10    | \$0.07    | \$0.12    | \$0.10    | (\$0.02)           | \$0.07             |



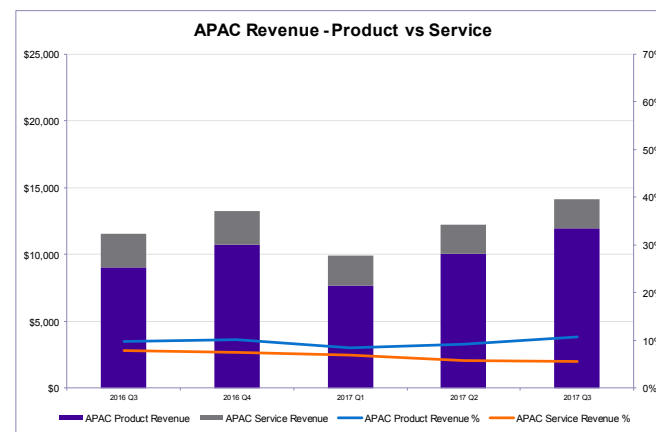
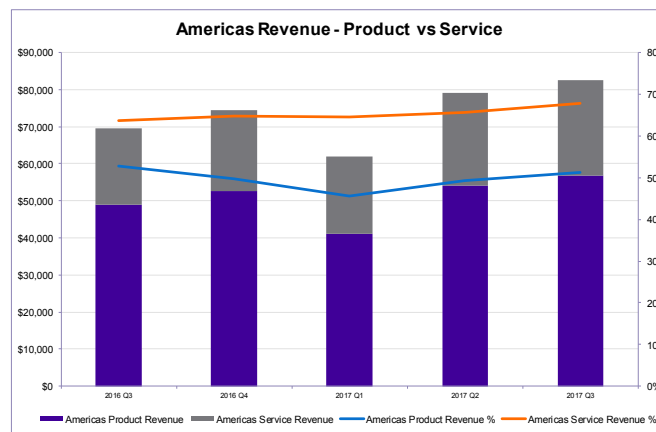
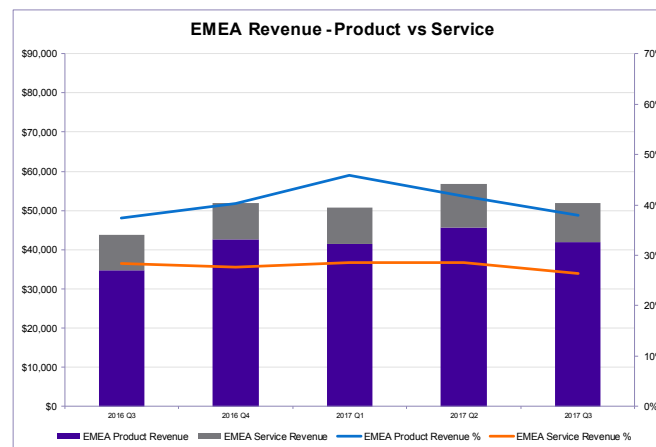
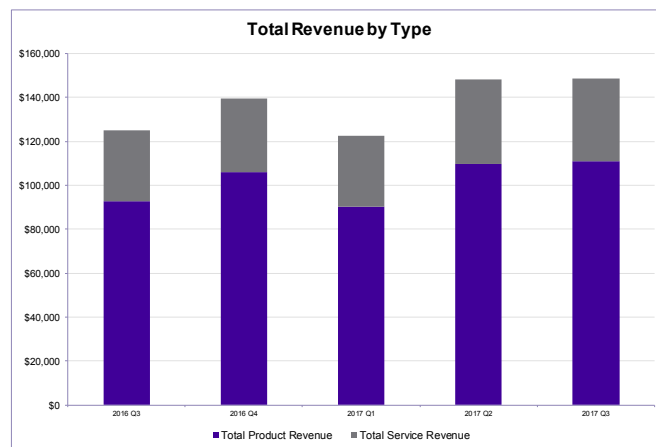
# Quarterly Results of Operations



## Historical Revenue by Geography:

|               | FY'16      |            | FY'17      |            |            | FQ3'17 v<br>FQ2'17 | FQ3'17 v<br>FQ3'16 |
|---------------|------------|------------|------------|------------|------------|--------------------|--------------------|
|               | Q3         | Q4         | Q1         | Q2         | Q3         |                    |                    |
| Product       |            |            |            |            |            |                    |                    |
| Americas      | \$ 48,974  | \$ 52,676  | \$ 41,068  | \$ 54,021  | \$ 56,836  | \$ 2,815           | \$ 7,862           |
| EMEA          | 34,693     | 42,611     | 41,377     | 45,728     | 41,956     | (3,772)            | 7,263              |
| APAC          | 9,045      | 10,730     | 7,686      | 10,040     | 11,997     | 1,957              | 2,952              |
| Total Product | 92,712     | 106,017    | 90,131     | 109,789    | 110,789    | 1,000              | 18,077             |
| Service       |            |            |            |            |            |                    |                    |
| Americas      | 20,510     | 21,770     | 20,974     | 25,157     | 25,698     | 541                | 5,188              |
| EMEA          | 9,138      | 9,318      | 9,273      | 10,955     | 10,019     | (936)              | 881                |
| APAC          | 2,527      | 2,512      | 2,264      | 2,210      | 2,158      | (52)               | (369)              |
| Total Service | 32,175     | 33,600     | 32,511     | 38,322     | 37,875     | (447)              | 5,700              |
| Total Revenue |            |            |            |            |            |                    |                    |
| Americas      | 69,484     | 74,446     | 62,042     | 79,178     | 82,534     | 3,356              | 13,050             |
| EMEA          | 43,831     | 51,929     | 50,650     | 56,683     | 51,975     | (4,708)            | 8,144              |
| APAC          | 11,572     | 13,242     | 9,950      | 12,250     | 14,155     | 1,905              | 2,583              |
| Total Revenue | \$ 124,887 | \$ 139,617 | \$ 122,642 | \$ 148,111 | \$ 148,664 | \$ 553             | \$ 23,777          |

# Revenue by Type



## Financial Highlights – Financial Position (GAAP)

|  | FY'16     |           | FY'17     |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
|  | Q3        | Q4        | Q1        | Q2        | Q3        |
| Cash and Securities Available for Sale | \$88,334  | \$94,122  | \$102,265 | \$103,786 | \$117,280 |
| AR                                     | \$62,670  | \$81,419  | \$68,246  | \$117,819 | \$101,960 |
| DSO                                    | 46        | 53        | 51        | 73        | 62        |
| Inventories                            | \$52,755  | \$40,989  | \$43,395  | \$47,394  | \$47,689  |
| DOI                                    | 96        | 68        | 89        | 74        | 82        |
| Debt Payable                           | \$58,750  | \$55,500  | \$51,890  | \$97,147  | \$94,924  |
| <b>Free Cash Flow</b>                  |           |           |           |           |           |
| Operating Cash Flow                    | \$4,946   | \$11,451  | \$9,575   | \$9,713   | \$24,673  |
| Capital Expenditures                   | (\$1,388) | (\$2,529) | (\$1,635) | (\$3,027) | (\$3,170) |
| Free Cash Flow                         | \$3,558   | \$8,922   | \$7,940   | \$6,686   | \$21,503  |



# GAAP to Non GAAP Reconciliations Revenue & Gross Margin

|  | FY'16             |                   | FY'17             |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | Q 3               | Q 4               | Q 1               | Q 2               | Q 3               |
| Product Revenue - GAAP Basis           | \$ 92,712         | \$ 106,019        | \$ 90,131         | \$ 109,789        | \$ 110,789        |
| Service Revenue - GAAP Basis           | 32,175            | 33,600            | 32,511            | 38,322            | 37,875            |
| <b>Total Revenue - GAAP Basis</b>      | <b>124,887</b>    | <b>139,619</b>    | <b>122,642</b>    | <b>148,111</b>    | <b>148,664</b>    |
| Deferred Service Revenue Adjustment    | 377               | 377               | 133               | -                 | -                 |
| Product Revenue - Non GAAP Basis       | 92,712            | 106,019           | 90,131            | 109,789           | 110,789           |
| Service Revenue - Non GAAP Basis       | 32,552            | 33,977            | 32,644            | 38,322            | 37,875            |
| <b>Total Revenue - Non GAAP Basis</b>  | <b>\$ 125,264</b> | <b>\$ 139,996</b> | <b>\$ 122,775</b> | <b>\$ 148,111</b> | <b>\$ 148,664</b> |
| <b>Gross Margin - GAAP Basis</b>       | <b>\$ 62,721</b>  | <b>\$ 72,677</b>  | <b>\$ 65,246</b>  | <b>\$ 75,354</b>  | <b>\$ 82,148</b>  |
| <b>Gross Margin % - GAAP Basis</b>     | <b>50.2%</b>      | <b>52.1%</b>      | <b>53.2%</b>      | <b>50.9%</b>      | <b>55.3%</b>      |
| Deferred Revenue Adjustment            | 377               | 377               | 133               | -                 | -                 |
| Adjustment to Acquired Inventories     | -                 | -                 | -                 | 2,300             | 1,963             |
| Integration Costs in Product COGS      | -                 | -                 | -                 | 5,517             | (413)             |
| Amortization of Product Intangibles    | 3,417             | 3,417             | 3,417             | 1,719             | 891               |
| Stock Comp in Product COGS             | 205               | 105               | 68                | 122               | 72                |
| Stock Comp in Service COGS             | 223               | 174               | 232               | 186               | 56                |
| <b>Gross Margin - Non GAAP Basis</b>   | <b>\$ 66,943</b>  | <b>\$ 76,750</b>  | <b>\$ 69,096</b>  | <b>\$ 85,198</b>  | <b>\$ 84,717</b>  |
| <b>Gross Margin % - Non GAAP Basis</b> | <b>53.4%</b>      | <b>54.8%</b>      | <b>56.3%</b>      | <b>57.5%</b>      | <b>57.0%</b>      |

# GAAP to Non GAAP Reconciliations

## Operating Income (Loss)

|   | FY'16           |                  | FY'17           |                  |                  |
|---|-----------------|------------------|-----------------|------------------|------------------|
|   | Q 3             | Q4               | Q 1             | Q2               | Q3               |
| <b>Operating Loss - GAAP Basis</b>          | \$ (8,911)      | \$ (480)         | \$ (4,759)      | \$ (7,362)       | \$ (3,245)       |
| <b>Operating Margin- GAAP Basis</b>         | -7.1%           | -0.3%            | -3.9%           | -5.0%            | -2.2%            |
| Deferred Revenue Adjustment                 | 377             | 377              | 133             | -                | -                |
| Adjustment to Acquired Inventories          | -               | -                | -               | 2,300            | 1,963            |
| Integration Costs in Product COGS           | -               | -                | -               | 5,517            | (413)            |
| Amortization of Product Intangibles         | 3,417           | 3,417            | 3,417           | 1,719            | 891              |
| Stock Comp in Product COGS                  | 205             | 105              | 68              | 122              | 72               |
| Stock Comp in Service COGS                  | 223             | 174              | 232             | 186              | 56               |
| Stock Comp in R&D                           | 996             | 768              | 1,062           | 906              | 625              |
| Stock Comp in Sales and Marketing           | 1,137           | 777              | 1,141           | 1,180            | 809              |
| Stock Comp in G&A                           | 942             | 849              | 972             | 987              | 911              |
| <b>Total Stock Comp</b>                     | <b>3,503</b>    | <b>2,673</b>     | <b>3,475</b>    | <b>3,381</b>     | <b>2,473</b>     |
| Executive Transition in Sales and Marketing | 1,067           | 9                | -               | -                | -                |
| Executive Transition in G&A                 | 328             | 762              | 34              | -                | -                |
| <b>Total Executive Transition Costs</b>     | <b>1,395</b>    | <b>771</b>       | <b>34</b>       | <b>-</b>         | <b>-</b>         |
| Restructuring Charges, net                  | 1,358           | 998              | -               | 1,853            | 7,719            |
| Amortization of Non Product Intangibles     | 4,142           | 4,142            | 4,142           | 2,175            | 1,192            |
| Litigation                                  | 85              | 167              | 27              | 236              | (44)             |
| Acquisition and Integration Costs           | -               | -                | 2,321           | 4,169            | 3,418            |
| <b>Operating Income - Non GAAP Basis</b>    | <b>\$ 5,366</b> | <b>\$ 12,065</b> | <b>\$ 8,790</b> | <b>\$ 13,988</b> | <b>\$ 13,954</b> |
| <b>Operating Margin - Non GAAP Basis</b>    | <b>4.3%</b>     | <b>8.6%</b>      | <b>7.2%</b>     | <b>9.4%</b>      | <b>9.4%</b>      |

# GAAP to Non GAAP Reconciliations

## Net Income (Loss)

|   | FY'16            |                  | FY'17            |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
|   | Q 3              | Q4               | Q 1              | Q2               | Q3               |
| <b>Net Loss - GAAP Basis</b>                | \$ (10,783)      | \$ (2,339)       | \$ (6,479)       | \$ (8,611)       | \$ (5,605)       |
| Shares - GAAP Basis                         | 104,104          | 104,837          | 105,955          | 107,425          | 109,213          |
| <b>EPS - GAAP Basis</b>                     | \$ (0.10)        | \$ (0.02)        | \$ (0.06)        | \$ (0.08)        | \$ (0.05)        |
| Deferred Revenue Adjustment                 | 377              | 377              | 133              | -                | -                |
| Adjustment to Acquired Inventories          | -                | -                | -                | 2,300            | 1,963            |
| Integration Costs in Product COGS           | -                | -                | -                | 5,517            | (413)            |
| Amortization of Product Intangibles         | 3,417            | 3,417            | 3,417            | 1,719            | 891              |
| Stock Comp in Product COGS                  | 205              | 105              | 68               | 122              | 72               |
| Stock Comp in Service COGS                  | 223              | 174              | 232              | 186              | 56               |
| Stock Comp in R&D                           | 996              | 768              | 1,062            | 906              | 625              |
| Stock Comp in Sales and Marketing           | 1,137            | 777              | 1,141            | 1,180            | 809              |
| Stock Comp in G&A                           | 942              | 849              | 972              | 987              | 911              |
| <b>Total Stock Comp</b>                     | <b>3,503</b>     | <b>2,673</b>     | <b>3,475</b>     | <b>3,381</b>     | <b>2,473</b>     |
| Executive Transition in Sales and Marketing | 1,067            | 9                | -                | -                | -                |
| Executive Transition in G&A                 | 328              | 762              | 34               | -                | -                |
| <b>Total Executive Transition Costs</b>     | <b>1,395</b>     | <b>771</b>       | <b>34</b>        | <b>-</b>         | <b>-</b>         |
| Restructuring Charges, net                  | 1,358            | 998              | -                | 1,853            | 7,719            |
| Amortization of Non Product Intangibles     | 4,142            | 4,142            | 4,142            | 2,175            | 1,192            |
| Litigation                                  | 85               | 167              | 27               | 236              | (44)             |
| Acquisition and Integration Costs           | -                | -                | 2,321            | 4,169            | 3,418            |
| <b>Net Income - Non GAAP Basis</b>          | <b>3,494</b>     | <b>10,206</b>    | <b>7,070</b>     | <b>12,739</b>    | <b>11,594</b>    |
| Shares - Non GAAP Basis                     | 105,956          | 107,275          | 108,637          | 110,152          | 112,576          |
| <b>EPS - Non GAAP Basis</b>                 | <b>0.03</b>      | <b>0.10</b>      | <b>0.07</b>      | <b>0.12</b>      | <b>0.10</b>      |
| <b>Net Non GAAP Adjustments</b>             | <b>\$ 14,277</b> | <b>\$ 12,545</b> | <b>\$ 13,549</b> | <b>\$ 21,350</b> | <b>\$ 17,199</b> |



# GAAP to Non GAAP Reconciliations


## EBITDA

|   | FY'16           |                  | FY'17            |                  |                  |
|---|-----------------|------------------|------------------|------------------|------------------|
|   | Q 3             | Q4               | Q 1              | Q2               | Q3               |
| <b>Net Loss - GAAP Basis</b>                      | \$ (10,783)     | \$ (2,339)       | \$ (6,479)       | \$ (8,611)       | \$ (5,605)       |
| Interest  | 741             | 666              | 589              | 1,095            | 942              |
| Taxes   | 865             | 1,369            | 907              | 1,184            | 1,167            |
| Depreciation/Amortization                         | 10,551          | 10,336           | 10,077           | 6,395            | 5,069            |
| <b>EBITDA - GAAP</b>                              | <b>1,374</b>    | <b>10,032</b>    | <b>5,094</b>     | <b>63</b>        | <b>1,573</b>     |
| Net Non GAAP Adjustments                          | 14,277          | 12,545           | 13,549           | 21,350           | 17,199           |
| Amortization included in Net Non GAAP Adjustments | (7,559)         | (7,559)          | (7,559)          | (3,894)          | (2,083)          |
| <b>EBITDA - Non GAAP</b>                          | <b>\$ 8,092</b> | <b>\$ 15,018</b> | <b>\$ 11,084</b> | <b>\$ 17,518</b> | <b>\$ 16,689</b> |




# FQ4'17 Financial Guidance





## FQ4'17 Guidance – GAAP (in M's except EPS)

|                   | FQ3'17   | FQ4'17 Guidance   |
|-------------------|----------|-------------------|
| Revenue (\$M)     | \$148.7  | \$168.0 – \$178.0 |
| Gross Margin %    | 55.3%    | 55.6% - 56.6%     |
| Net Income (Loss) | (\$5.6)  | \$5.1 – \$8.5     |
| EPS: GAAP         | (\$0.05) | \$0.04 – \$0.07   |



## FQ4'17 Guidance – Non GAAP (in M's except EPS)

|                   | FQ3'17  | FQ4'17 Guidance   |
|-------------------|---------|-------------------|
| Revenue (\$M)     | \$148.7 | \$168.0 – \$178.0 |
| Gross Margin %    | 57.0%   | 56.5% - 57.5%     |
| Net Income (Loss) | \$11.6  | \$16.2 – \$19.6   |
| EPS: non-GAAP     | \$0.10  | \$0.14 - \$0.17   |

## FQ4'17 Guidance - GAAP to Non GAAP Reconciliation

|   | Gross Margin Rate | Operating Margin Rate | Earnings per Share |
|---|-------------------|-----------------------|--------------------|
| <b>GAAP</b>                             | 55.6% - 56.6%     | 4.4% - 6.1%           | \$0.04 - \$0.07    |
| Estimated adjustments for:              |                   |                       |                    |
| Amortization of product intangibles     | 0.6%              | 0.7%                  | \$ 0.01            |
| Stock based compensation                | 0.3%              | 2.2%                  | \$ 0.03            |
| Restructuring charge, net               | -                 | 1.2%                  | \$ 0.02            |
| Amortization of non product intangible: | -                 | 0.6%                  | \$ 0.01            |
| Acquisition and integration costs       | -                 | 1.7%                  | \$ 0.03            |
| <b>Non-GAAP</b>                         | 56.5% - 57.5%     | 11.0% - 12.3%         | \$0.14 - \$0.17    |

*\* The total of percentage rate changes may not equal the total change in all cases due to rounding.*





Thank You

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