

Extreme Networks FQ1'18 Financial Results

November 7, 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.

Adoption of New Accounting Standard:

With the adoption of new revenue recognition accounting guidance ("ASC 606") in FY'18, we have adjusted prior periods. The impact of these adjustments are reflected on the consolidated balance sheets and statements of operations data, noted with "as adjusted". For more information about the Company's new accounting standard adoption please refer to our reports on Form 10-K, Form 10-Q, and Form 8-K filed with the SEC.





FQ1'18 Financial Results

Financial Highlights – Financial Operations

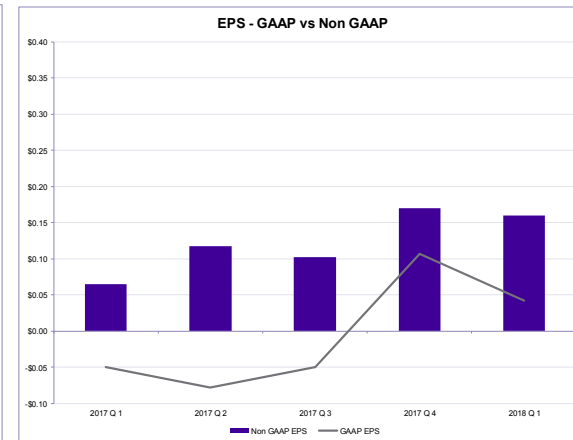
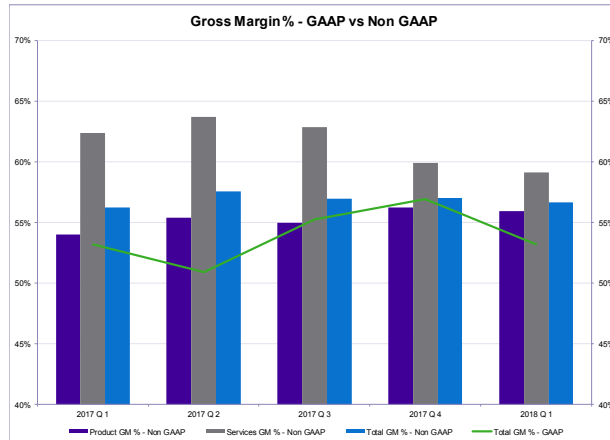
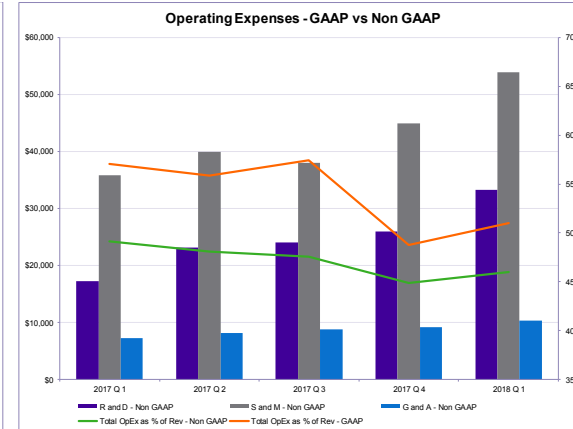
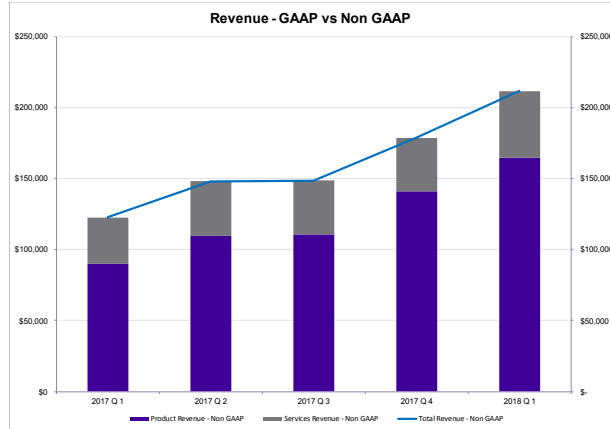
	FY'17				FY'17	FY'18	FQ1'18 v FQ4'17	FQ1'18 v FQ1'17	FQ1'18 v FQ1'17
	Q1	Q2	Q3	Q4	Q1	Q1			
	As Reported				As Adjusted	As Reported	As Reported	As Reported	As Adjusted
GAAP									
Product Revenue	\$90.1	\$109.8	\$110.8	\$140.8	\$90.1	\$164.8	\$24.0	\$74.7	\$74.7
Services Revenue	\$32.5	\$38.3	\$37.9	\$38.0	\$32.5	\$46.9	\$9.0	\$14.4	\$14.4
Total Revenue	\$122.6	\$148.1	\$148.7	\$178.8	\$122.6	\$211.7	\$33.0	\$89.1	\$89.1
Total GM %	53.2%	50.9%	55.3%	56.9%	53.7%	53.1%	-3.8%	-0.1%	-0.6%
Operating Income \$	(4.8)	(7.4)	(3.2)	\$14.6	(4.0)	\$4.5	(10.1)	\$9.3	\$8.5
Operating Margin %	-3.9%	-5.0%	-2.2%	8.2%	-3.3%	2.1%	-6.1%	6.0%	5.4%
Net Income (Loss)	(6.5)	(8.6)	(5.6)	\$12.2	(5.7)	\$4.4	(7.8)	\$10.9	\$10.1
EBITDA	\$5.1	\$0.1	\$1.6	\$18.9	\$5.9	\$15.2	(3.7)	\$10.1	\$9.3
EPS	(\$0.06)	(\$0.08)	(\$0.05)	\$0.11	(\$0.05)	\$0.04	(\$0.07)	\$0.10	\$0.09
Non GAAP									
Product Revenue	\$90.1	\$109.8	\$110.8	\$140.8	\$90.1	\$164.8	\$24.0	\$74.7	\$74.7
Services Revenue	\$32.6	\$38.3	\$37.9	\$38.0	\$32.6	\$46.9	\$8.9	\$14.3	\$14.3
Total Revenue	\$122.7	\$148.1	\$148.7	\$178.8	\$122.7	\$211.7	\$32.9	\$89.0	\$89.0
Total GM %	56.3%	57.5%	57.0%	57.1%	56.8%	56.7%	-0.4%	0.4%	-0.1%
Operating Income \$	\$8.8	\$14.0	\$14.0	\$21.9	\$9.6	\$22.5	\$0.6	\$13.7	\$12.9
Operating Margin %	7.2%	9.4%	9.4%	12.2%	7.8%	10.6%	-1.6%	3.4%	2.8%
Net Income (Loss)	\$7.1	\$12.7	\$11.6	\$19.4	\$7.9	\$18.6	(0.8)	\$11.5	\$10.7
EBITDA	\$11.1	\$17.5	\$16.7	\$24.3	\$11.9	\$25.2	\$0.9	\$14.1	\$13.3
EPS	\$0.07	\$0.12	\$0.10	\$0.17	\$0.07	\$0.16	(\$0.01)	\$0.09	\$0.09



Impact of New Accounting Standard – Financial Operations

	As Reported	Adjustment	As Adjusted
	Q1 2017	Q1 2017	Q1 2017
Total revenue	\$ 122.6	-	\$ 122.6
Total cost of revenue	57.4	(0.7)	56.7
Gross profit	65.2	0.7	65.9
Sales and marketing	37.0	(0.1)	36.9
Total operating expenses	70.0	(0.1)	69.9
Operating loss	(4.8)	0.8	(4.0)
Loss before taxes	(5.6)	0.8	(4.8)
Net loss	(6.5)	0.8	(5.7)
EPS	\$ (0.06)	\$ 0.01	\$ (0.05)
Shares	106	106	106

Quarterly Results of Operations

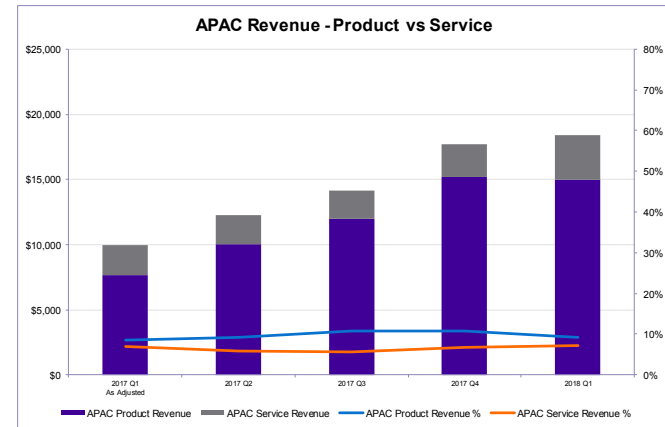
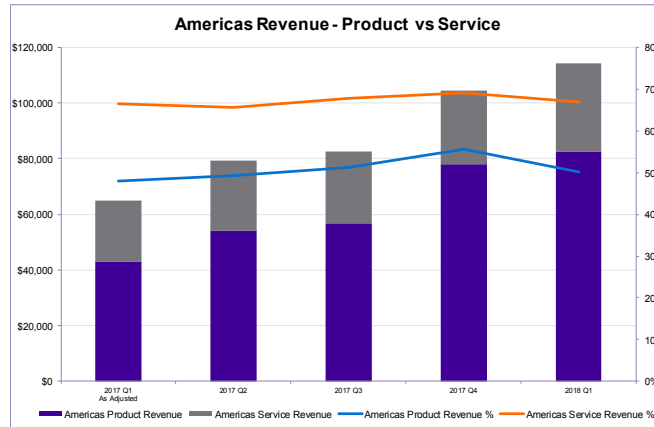
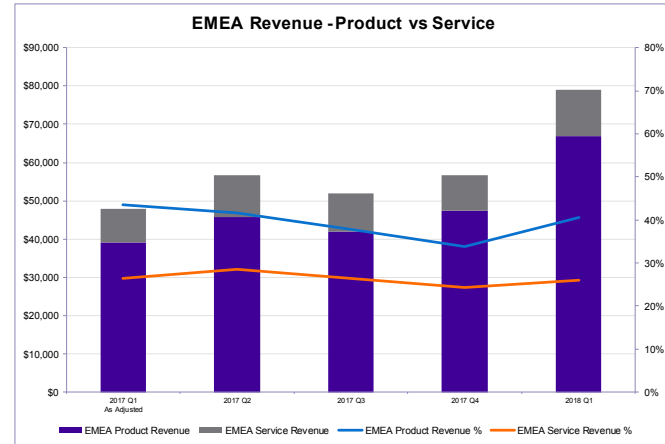
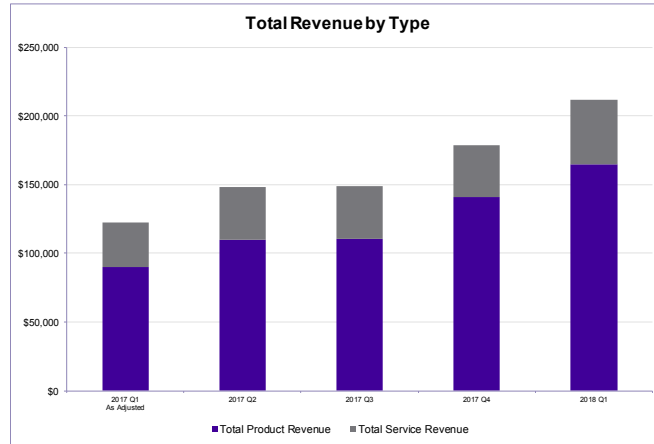


* 2017 Q1 data reflects as adjusted balances

Historical Revenue by Geography (GAAP):

	FY'17				FY'17	FY'18	FQ1'18 v	FQ1'18 v	FQ1'18 v
	Q1	Q2	Q3	Q4	Q1	Q1	FQ4'17	FQ1'17	FQ1'17
	As Reported				As Adjusted	As Reported	As Reported	As Reported	As Adjusted
Product									
Americas	\$ 41.1	\$ 54.0	\$ 56.8	\$ 78.1	\$ 43.2	\$ 82.9	\$ 4.8	\$ 41.8	\$ 39.7
EMEA	41.3	45.7	42.0	47.4	39.2	66.9	19.5	25.6	27.7
APAC	7.7	10.0	12.0	15.2	7.7	15.0	(0.2)	7.3	7.3
Total Product	\$ 90.1	\$ 109.8	\$ 110.8	\$ 140.8	\$ 90.1	\$ 164.8	\$ 24.0	\$ 74.7	\$ 74.7
Service									
Americas	\$ 21.0	\$ 25.2	\$ 25.7	\$ 26.2	\$ 21.6	\$ 31.3	\$ 5.1	\$ 10.3	\$ 9.7
EMEA	9.2	11.0	10.0	9.2	8.6	12.2	3.0	3.0	3.6
APAC	2.3	2.2	2.2	2.5	2.3	3.4	0.9	1.1	1.1
Total Service	\$ 32.5	\$ 38.3	\$ 37.9	\$ 38.0	\$ 32.5	\$ 46.9	\$ 9.0	\$ 14.5	\$ 14.4
Total Revenue									
Americas	\$ 62.1	\$ 79.2	\$ 82.5	\$ 104.4	\$ 64.8	\$ 114.2	\$ 9.8	\$ 52.1	\$ 49.4
EMEA	50.5	56.7	52.0	56.6	47.8	79.1	22.5	28.6	31.3
APAC	10.0	12.3	14.2	17.7	10.0	18.4	0.7	8.5	8.5
Total Revenue	\$ 122.6	\$ 148.1	\$ 148.7	\$ 178.7	\$ 122.6	\$ 211.7	\$ 33.0	\$ 89.1	\$ 89.2

Revenue by Type and by Geography



Financial Highlights – Financial Position (GAAP)

	FY'17				FY'17	FY'18
	Q1	Q2	Q3	Q4	Q4	Q1
	As Reported				As Adjusted	As Reported
Cash and Investments	\$102.3	\$103.8	\$117.3	\$130.5	\$130.5	\$154.1
AR	\$68.2	\$117.8	\$102.0	\$120.8	\$93.1	\$116.5
DSO	51	72	62	61	47	51
Inventories	\$43.4	\$47.4	\$47.7	\$45.9	\$47.4	\$58.1
DOI	89	74	82	67	71	67
Debt Payable	\$51.9	\$97.1	\$94.9	\$92.7	\$92.7	\$167.6
Free Cash Flow						
Operating Cash Flow	\$9.6	\$9.7	\$24.8	\$15.2	*	\$18.6
Capital Expenditures	(1.6)	(3.0)	(3.2)	(2.6)	*	(7.4)
Free Cash Flow	\$7.9	\$6.7	\$21.7	\$12.6	*	\$11.2

* The Company's adoption of ASC 606 did not result in changes to the Consolidated Statements of Cash Flows for prior periods.

Impact of New Accounting Standard – Balance Sheets

	As Reported Q4 2017	Adjustment Q4 2017	As Adjusted Q4 2017
Accounts receivable, net	\$ 120.8	\$ (27.7)	\$ 93.1
Inventories	45.9	1.5	47.4
Total current assets	325.0	(26.2)	298.8
Other assets	22.6	2.5	25.1
Total assets	<u>\$ 483.3</u>	<u>\$ (23.6)</u>	<u>\$ 459.7</u>
Accrued warranty	\$ 10.0	\$ 0.6	\$ 10.6
Other accrued liabilities	36.7	0.3	37.0
Deferred disty income	43.5	(43.5)	-
Total current liabilities	255.8	(42.6)	213.2
Accumulated deficit	(800.3)	19.0	(781.3)
Total stockholders' equity	<u>106.7</u>	<u>19.0</u>	<u>125.7</u>
Total liabilities and equity	<u>\$ 483.3</u>	<u>\$ (23.6)</u>	<u>\$ 459.7</u>

GAAP to Non GAAP Reconciliations

Revenue & Gross Margin

	FY'17				FY'17	FY'18
	Q 1	Q2	Q3	Q4	Q 1	Q 1
	As Reported				As Adjusted	As Reported
Product Revenue - GAAP Basis	\$ 90.1	\$ 109.8	\$ 110.8	\$ 140.8	\$ 90.1	\$ 164.8
Service Revenue - GAAP Basis	32.5	38.3	37.9	38.0	32.5	46.9
Total Revenue - GAAP Basis	122.6	148.1	148.7	178.7	122.6	211.7
Deferred Service Revenue Adjustment	0.1	-	-	-	-	-
Product Revenue - Non GAAP Basis	\$ 90.1	\$ 109.8	\$ 110.8	\$ 140.8	\$ 90.1	\$ 164.8
Service Revenue - Non GAAP Basis	32.6	38.3	37.9	38.0	32.6	46.9
Total Revenue - Non GAAP Basis	\$ 122.8	\$ 148.1	\$ 148.7	\$ 178.7	\$ 122.7	\$ 211.7
Gross Margin - GAAP Basis	\$ 65.2	\$ 75.4	\$ 82.1	\$ 101.7	\$ 65.9	\$ 112.4
Gross Margin % - GAAP Basis	53.2%	50.9%	55.3%	56.9%	53.7%	53.1%
Deferred Revenue Adjustment	0.1	-	-	-	0.1	-
Adjustment to Acquired Inventories	-	2.3	2.0	-	-	2.9
Integration Costs in Product COGS	-	5.5	(0.4)	(0.6)	-	1.8
Amortization of Product Intangibles	3.4	1.7	0.9	0.6	3.4	2.6
Stock Comp in Product COGS	0.1	0.1	0.1	0.1	0.1	0.1
Stock Comp in Service COGS	0.2	0.2	0.1	0.1	0.2	0.1
Stock Comp in COGS	0.3	0.3	0.1	0.2	0.3	0.2
Gross Margin - Non GAAP Basis	\$ 69.1	\$ 85.2	\$ 84.7	\$ 102.0	\$ 69.8	\$ 120.0
Gross Margin % - Non GAAP Basis	56.3%	57.5%	57.0%	57.1%	56.9%	56.7%

GAAP to Non GAAP Reconciliations

Operating Income (Loss)

	FY'17				FY'17	FY'18
	Q 1	Q2	Q3	Q4	Q 1	Q 1
	As Reported				As Adjusted	As Reported
Operating Income (Loss) - GAAP Basis	\$ (4.8)	\$ (7.4)	\$ (3.2)	\$ 14.6	\$ (4.0)	\$ 4.5
Operating Margin- GAAP Basis	-3.9%	-5.0%	-2.2%	8.2%	-3.3%	2.1%
Deferred Revenue Adjustment	0.1	-	-	-	0.1	-
Adjustment to Acquired Inventories	-	2.3	2.0	-	-	2.9
Integration Costs in Product COGS	-	5.5	(0.4)	(0.6)	-	1.8
Amortization of Product Intangibles	3.4	1.7	0.9	0.6	3.4	2.6
Total Stock Comp	3.5	3.4	2.5	3.3	3.5	4.8
Executive Transition in G&A	0.0	-	-	-	0.0	-
Total Executive Transition Costs	0.0	-	-	-	0.0	-
Restructuring Charges, net	-	1.9	7.7	(0.7)	-	-
Amortization of Non Product Intangibles	4.1	2.2	1.2	1.2	4.1	1.6
Litigation	0.0	0.2	(0.0)	0.2	0.0	-
Acquisition and Integration Costs	2.3	4.2	3.4	3.2	2.3	4.2
Operating Income - Non GAAP Basis	\$ 8.8	\$ 14.0	\$ 14.0	\$ 21.9	\$ 9.5	\$ 22.5
Operating Margin - Non GAAP Basis	7.2%	9.4%	9.4%	12.2%	7.8%	10.6%

GAAP to Non GAAP Reconciliations

Net Income (Loss)

Net Income (Loss) - GAAP Basis

Shares - GAAP Basis

EPS - GAAP Basis

Deferred Revenue Adjustment
Adjustment to Acquired Inventories
Integration Costs in Product COGS
Amortization of Product Intangibles
Total Stock Comp
Executive Transition in G&A
Total Executive Transition Costs
Restructuring Charges, net
Amortization of Non Product Intangibles
Litigation
Gain on Sale of Investment
Acquisition and Integration Costs

Net Non GAAP Adjustments

Net Income - Non GAAP Basis

Shares - Non GAAP Basis

EPS - Non GAAP Basis

FY'17					FY'17	FY'18
Q 1	Q2	Q3	Q4		Q 1	Q 1
As Reported					As Adjusted	As Reported
\$ (6.5)	\$ (8.6)	\$ (5.6)	\$ 12.2	\$ (5.6)	\$ 4.3	
106.0	107.4	109.2	114.5	106.0	116.3	
\$ (0.06)	\$ (0.08)	\$ (0.05)	\$ 0.11	\$ (0.05)	\$ 0.04	
0.1	-	-	-	0.1	-	
-	2.3	2.0	-	-	2.9	
-	5.5	(0.4)	(0.6)	-	1.8	
3.4	1.7	0.9	0.6	3.4	2.6	
3.5	3.4	2.5	3.3	3.5	4.8	
0.0	-	-	-	0.0	-	
0.0	-	-	-	0.0	-	
-	1.9	7.7	(0.7)	-	-	
4.1	2.2	1.2	1.2	4.1	1.6	
0.0	0.2	(0.0)	0.2	0.0	-	
-	-	-	-	-	(3.8)	
2.3	4.2	3.4	3.2	2.3	4.2	
13.5	21.4	17.2	7.2	13.5	14.3	
\$ 7.1	\$ 12.7	\$ 11.6	\$ 19.4	\$ 7.9	\$ 18.6	
108.6	110.2	112.6	114.5	108.6	116.3	
\$ 0.07	\$ 0.12	\$ 0.10	\$ 0.17	\$ 0.07	\$ 0.16	

GAAP to Non GAAP Reconciliations

EBITDA

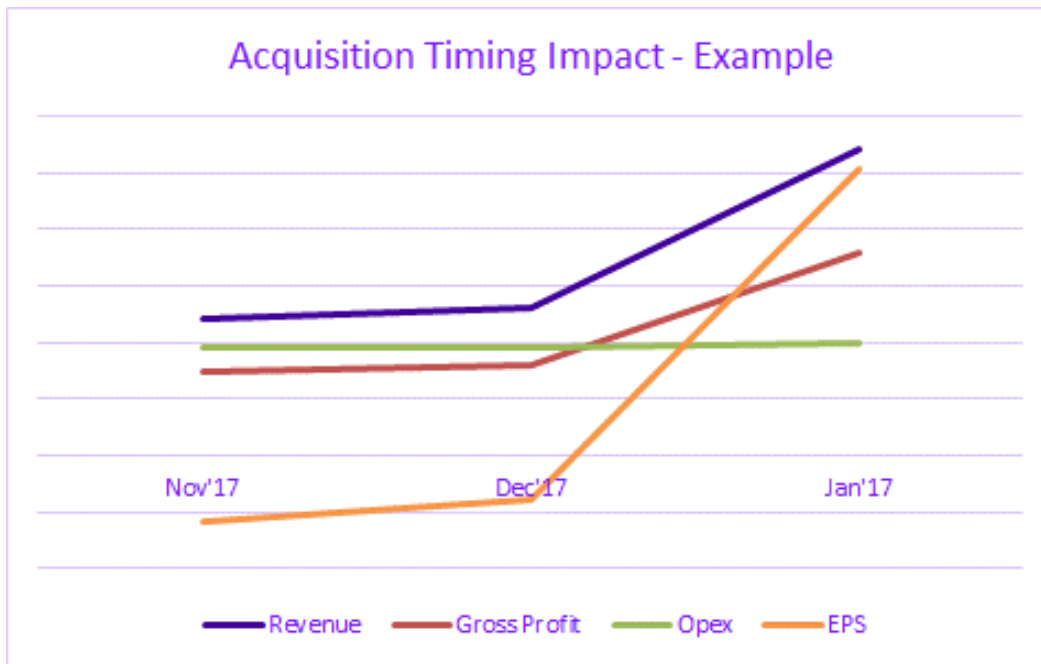
	FY'17				FY'17	FY'18
	Q 1	Q2	Q3	Q4	Q 1	Q 1
	As Reported				As Adjusted	As Reported
Net Income (Loss) - GAAP Basis	\$ (6.5)	\$ (8.6)	\$ (5.6)	\$ 12.2	\$ (5.7)	\$ 4.4
Interest	0.6	1.1	0.9	0.8	0.6	1.6
Taxes	0.9	1.2	1.2	1.1	0.9	1.7
Depreciation/Amortization	10.1	6.4	5.1	4.8	10.1	7.5
EBITDA - GAAP	5.1	0.1	1.6	18.9	5.8	15.2
Net Non GAAP Adjustments	13.5	21.4	17.2	7.2	13.5	14.3
Amortization included in Net Non GAAP Adjustments	(7.6)	(3.9)	(2.1)	(1.8)	(7.6)	(4.2)
EBITDA - Non GAAP	\$ 11.1	\$ 17.5	\$ 16.7	\$ 24.3	\$ 11.8	\$ 25.2


A man in a dark suit and tie stands in a modern office setting, looking out through a glass door. The image is overlaid with a semi-transparent purple filter.

FQ2'18 Financial Guidance

Impact of the Brocade Acquisition

The current quarter profitability is impacted by the mid-quarter acquisition of Brocade. Revenue linearity is heavily weighted towards January based on Brocade's fiscal reporting periods (FY'17 ended October 27, 2017) whereas cost of operations and services are relatively flat. This results in a dilutive earnings impact for the first two months of the acquisition as demonstrated below.





FQ2'18 Guidance – GAAP (in M's except EPS)

	FQ1'18	FQ2'18 Guidance
Revenue (\$M)	\$211.7	\$236.0 – \$246.0
Gross Margin %	53.1%	52.5% - 54.1%
Net Income (Loss)	\$4.4	(\$40.2) – (\$35.0)
EPS: GAAP	\$0.04	(\$0.36) – (\$0.31)

FQ2'18 Guidance – Non GAAP (in M's except EPS)

	FQ1'18	FQ2'18 Guidance
Revenue (\$M)	\$211.7	\$236.0 – \$246.0
Gross Margin %	56.7%	56.9% - 58.4%
Net Income (Loss)	\$18.6	\$12.5 – \$17.0
EPS: non-GAAP	\$0.16	\$0.10 - \$0.14

FQ2'18 Guidance - GAAP to Non GAAP Reconciliation

	Gross Margin Rate	Operating Margin Rate	Earnings per Share
GAAP	52.5% - 54.1%	(14.8)% - (12.1)%	(\$0.36) - (\$0.31)
Estimated adjustments for:			
Amortization of product intangibles	2.1%	3.7%	\$0.08
Stock based compensation	0.3%	2.3%	\$0.05
Amortization of non product intangibles	0.4%	2.3%	\$0.05
Acquisition and integration costs	1.5%	13.0%	\$0.28
Non-GAAP	56.9% - 58.4%	7.2% - 9.0%	\$0.10 - \$0.14

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



Thank You

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