

Extreme Networks FQ2'18 Financial Results

February 6, 2018

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 11-14 and 18 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.





FQ2'18 Financial Results



Financial Highlights – Financial Operations

	FY'17		FY'18		FQ2'18 v	FQ2'18 v
	Q2	Q2	Q1	Q2	FQ1'18	FQ2'17
	As Adjusted				As Adjusted	
GAAP						
Product Revenue	\$109.8	\$118.1	\$164.8	\$174.8	\$10.0	\$56.7
Services Revenue	\$38.3	\$38.3	\$46.9	\$56.3	\$9.4	\$18.0
Total Revenue	\$148.1	\$156.4	\$211.7	\$231.1	\$19.4	\$74.7
Total GM %	50.9%	50.9%	53.1%	55.8%	2.7%	4.9%
Operating Income \$	(\$7.4)	(\$3.0)	\$4.5	(\$31.1)	(\$35.6)	(\$28.1)
Operating Margin %	(5.0%)	(1.9%)	2.1%	(13.5%)	(15.6%)	(11.6%)
Net Income (Loss)	(\$8.6)	(\$4.2)	\$4.4	(\$31.9)	(\$36.3)	(\$27.7)
EBITDA	\$0.1	\$4.4	\$15.2	(16.7)	(31.9)	(21.1)
EPS	(\$0.08)	(\$0.04)	\$0.04	(\$0.28)	(\$0.32)	(\$0.24)
Non GAAP						
Product Revenue	\$109.8	\$118.1	\$164.8	\$174.8	\$10.0	\$56.7
Services Revenue	\$38.3	\$38.3	\$46.9	\$56.3	\$9.4	\$18.0
Total Revenue	\$148.1	\$156.4	\$211.7	\$231.1	\$19.4	\$74.7
Total GM %	57.5%	57.2%	56.7%	59.4%	2.7%	2.2%
Operating Income \$	\$14.0	\$18.4	\$22.5	\$20.3	(\$2.2)	\$1.9
Operating Margin %	9.4%	11.7%	10.6%	8.8%	(1.8%)	(2.9%)
Net Income (Loss)	\$12.7	\$17.1	\$18.6	\$16.4	(\$2.2)	(\$0.7)
EBITDA	\$17.5	\$21.9	\$25.2	\$24.9	(\$0.3)	\$3.0
EPS	\$0.12	\$0.16	\$0.16	\$0.14	(\$0.02)	(\$0.02)

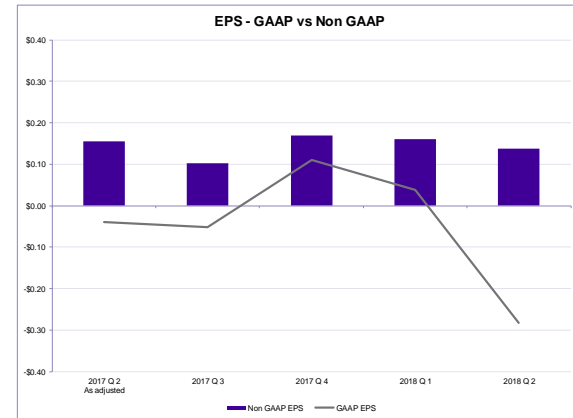
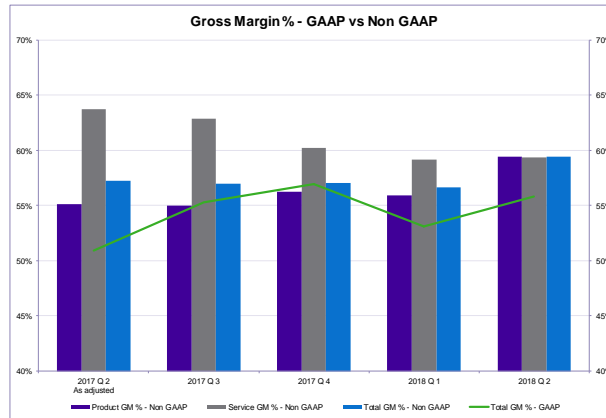
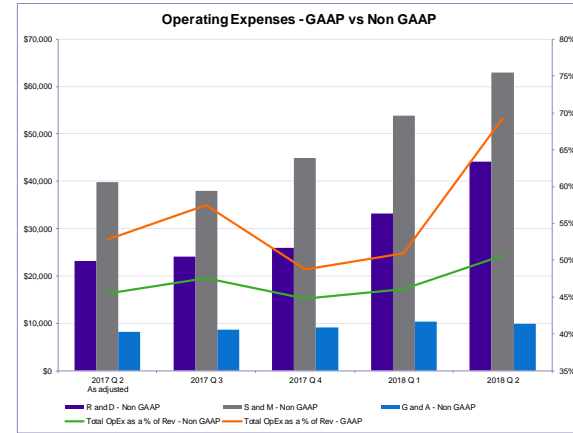
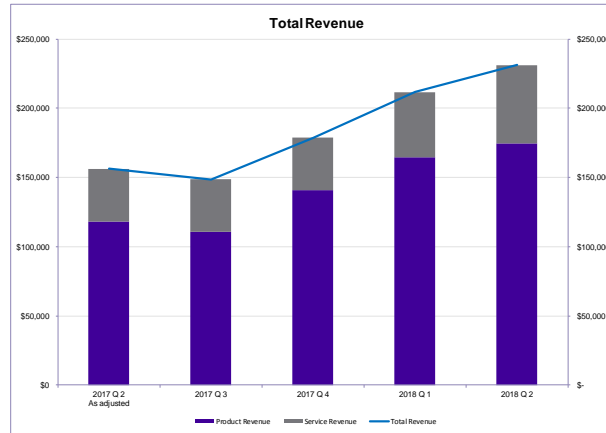


Impact of New Accounting Standard – Financial Operations

	As Reported	Adjustment	As Adjusted
	Q2 2017	Q2 2017	Q2 2017
Total revenue	\$ 148.1	\$ 8.3	\$ 156.4
Total cost of revenue	72.7	4.0	76.7
Gross profit	75.4	4.3	79.7
Sales and marketing	41.1	(0.1)	41.0
Total operating expenses	82.7	(0.1)	82.6
Operating loss	(7.4)	4.4	(3.0)
Loss before taxes	(7.4)	4.4	(3.0)
Net loss	(8.6)	4.4	(4.2)
EPS	\$ (0.08)	\$ 0.04	\$ (0.04)
Shares	107,425	107,425	107,425



Quarterly Results of Operations



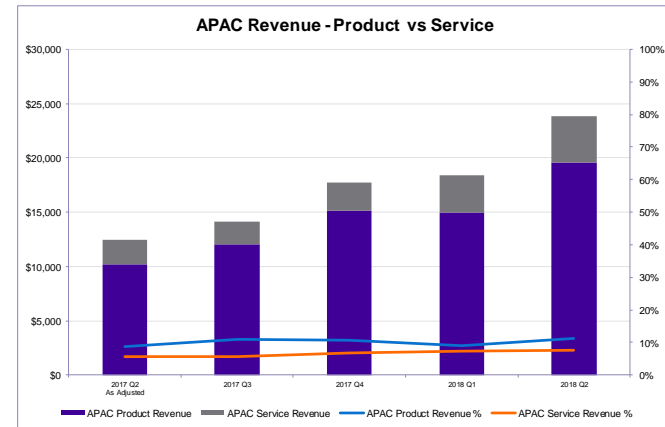
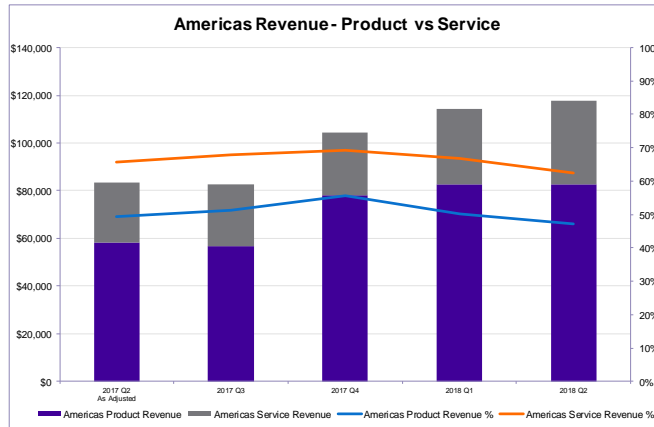
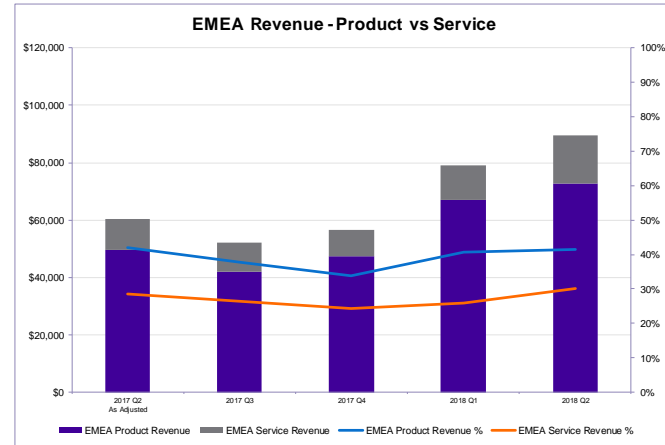
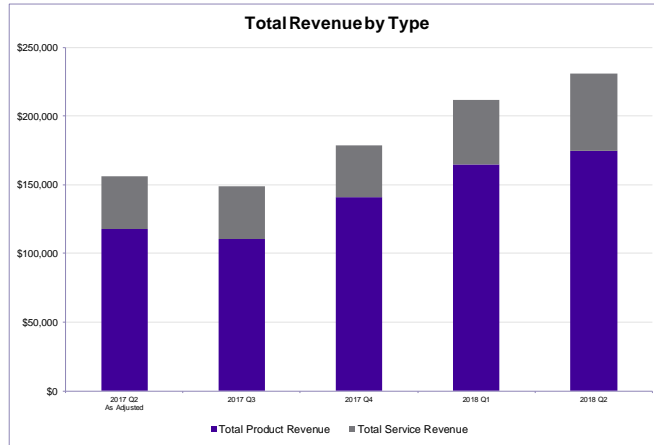
* 2017 Q2 data adjusted for ASC 606



Historical Revenue by Geography (GAAP):

	FY'17		FY'18		FQ2'18 v	FQ2'18 v
	Q2	Q2	Q1	Q2	FQ1'18	FQ2'17
	As Adjusted				As Adjusted	
Product						
Americas	\$ 54.0	\$ 58.4	\$ 82.9	\$ 82.5	\$ (0.4)	\$ 24.1
EMEA	45.7	49.5	66.9	72.7	5.8	23.2
APAC	10.0	10.2	15.0	19.6	4.6	9.4
Total Product	\$ 109.8	\$ 118.1	\$ 164.8	\$ 174.8	\$ 10.0	\$ 56.7
Service						
Americas	\$ 25.2	\$ 25.1	\$ 31.3	\$ 35.2	\$ 3.9	\$ 10.1
EMEA	11.0	11.0	12.2	16.9	4.7	5.9
APAC	2.2	2.2	3.4	4.2	0.8	2.0
Total Service	\$ 38.3	\$ 38.3	\$ 46.9	\$ 56.3	\$ 9.4	\$ 18.0
Total Revenue						
Americas	\$ 79.2	\$ 83.5	\$ 114.2	\$ 117.7	\$ 3.5	\$ 34.2
EMEA	56.7	60.5	79.1	89.6	10.5	29.1
APAC	12.3	12.4	18.4	23.8	5.4	11.4
Total Revenue	\$ 148.1	\$ 156.4	\$ 211.7	\$ 231.1	\$ 19.4	\$ 74.7

Revenue by Type and by Geography



Financial Highlights – Financial Position (GAAP)

	FY'17		FY'18	
	Q4	Q4	Q1	Q2
	As Adjusted			
Cash and ST Investments	\$130.5	\$130.5	\$154.1	\$128.2
AR	\$120.8	\$93.1	\$116.5	\$154.9
DSO	61	47	51	62
Inventories	\$45.9	\$47.4	\$58.1	\$83.4
DOI	67	71	67	98
Debt Payable	\$92.7	\$92.7	\$167.6	\$183.1
Free Cash Flow				
Operating Cash Flow	\$15.2	*	\$18.6	\$(4.4)
Capital Expenditures	\$(2.6)	*	\$(7.4)	\$(5.9)
Free Cash Flow	\$12.6	*	\$11.2	\$(10.2)

* 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	Adjustment	As Adjusted
	Q4 2017	Q4 2017	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'18	
	Q2	Q2	Q 1	Q2
	As Adjusted			
Product Revenue	\$ 109.8	\$ 118.1	\$ 164.8	\$ 174.8
Service Revenue	38.3	38.3	46.9	56.3
Total Revenue	148.1	156.4	211.7	231.1
Gross Margin - GAAP Basis	\$ 75.4	\$ 79.7	\$ 112.4	\$ 128.9
Gross Margin % - GAAP Basis	50.9%	50.8%	53.1%	55.8%
Adjustment to Acquired Inventories	2.3	2.3	2.9	1.2
Integration Costs in Product COGS	5.5	5.5	1.8	2.2
Integration Costs in Service COGS	-	-	-	0.5
Amortization of Product Intangibles	1.7	1.7	2.6	4.0
Stock Comp in Product COGS	0.1	0.1	0.1	0.1
Stock Comp in Service COGS	0.2	0.2	0.1	0.3
Stock Comp in COGS	0.3	0.3	0.2	0.4
Gross Margin - Non GAAP Basis	\$ 85.2	\$ 89.5	\$ 120.0	\$ 137.3
Gross Margin % - Non GAAP Basis	57.5%	57.2%	56.7%	59.4%

GAAP to Non GAAP Reconciliations

Operating Income (Loss)

	FY'17		FY'18	
	Q2	Q2	Q 1	Q2
	As Adjusted			
Operating Income (Loss) - GAAP Basis	\$ (7.4)	\$ (3.0)	\$ 4.5	\$ (31.1)
Operating Margin- GAAP Basis	-5.0%	-1.9%	2.1%	-13.5%
Adjustment to Acquired Inventories	2.3	2.3	2.9	1.2
Integration Costs in Product COGS	5.5	5.5	1.8	2.2
Integration Costs in Service COGS	-	-	-	0.5
Amortization of Product Intangibles	1.7	1.7	2.6	4.0
Total Stock Comp	3.4	3.4	4.8	7.0
Restructuring Charges, net	1.9	1.9	-	-
Amortization of Non Product Intangibles	2.2	2.2	1.6	2.7
Litigation	0.2	0.2	-	(0.4)
Integration Costs in OpEx	4.2	4.2	4.2	34.1
Operating Income - Non GAAP Basis	<u>\$ 14.0</u>	<u>\$ 18.4</u>	<u>\$ 22.5</u>	<u>\$ 20.3</u>
Operating Margin - Non GAAP Basis	9.4%	11.7%	10.6%	8.8%

GAAP to Non GAAP Reconciliations

Net Income (Loss)

	FY'17		FY'18	
	Q2	Q2	Q 1	Q2
	As Adjusted			
Net Income (Loss) - GAAP Basis	\$ (8.6)	\$ (4.2)	\$ 4.4	\$ (31.9)
Shares - GAAP Basis	107.4	107.4	118.4	113.3
EPS - GAAP Basis	\$ (0.08)	\$ (0.04)	\$ 0.04	\$ (0.28)
Adjustment to Acquired Inventories	2.3	2.3	2.9	1.2
Integration Costs in Product COGS	5.5	5.5	1.8	2.2
Integration Costs in Service COGS	-	-	-	0.5
Amortization of Product Intangibles	1.7	1.7	2.6	4.0
Total Stock Comp	3.4	3.4	4.8	7.0
Restructuring Charges, net	1.9	1.9	-	-
Amortization of Non Product Intangibles	2.2	2.2	1.6	2.7
Litigation	0.2	0.2	-	(0.4)
Gain on Sale of Investment	-	-	(3.8)	-
Tax Adjustment	-	-	-	(3.1)
Integration and Acquisition Costs in OpEx	4.2	4.2	4.2	34.1
Net Non GAAP Adjustments	21.4	21.4	14.3	48.3
Net Income - Non GAAP Basis	\$ 12.7	\$ 17.1	\$ 18.6	\$ 16.4
Shares - Non GAAP Basis	110.2	110.2	118.4	119.6
EPS - Non GAAP Basis	\$ 0.12	\$ 0.16	\$ 0.16	\$ 0.14



GAAP to Non GAAP Reconciliations

EBITDA

	FY'17		FY'18	
	Q2	Q2	Q 1	Q2
	As Adjusted			
Net Income (Loss) - GAAP Basis	\$ (8.6)	\$ (4.2)	\$ 4.4	\$ (31.9)
Interest	1.1	1.1	1.6	1.8
Taxes	1.2	1.2	1.7	1.5
Depreciation/Amortization	6.4	6.4	7.5	11.9
EBITDA - GAAP	0.1	4.4	15.2	(16.7)
Net Non GAAP Adjustments	21.4	21.4	14.2	48.3
Amortization included in Net Non GAAP Adjustments	(3.9)	(3.9)	(4.2)	(6.7)
EBITDA - Non GAAP	\$ 17.5	\$ 21.9	\$ 25.2	\$ 24.9



FQ3'18 Financial Guidance



FQ3'18 Guidance – GAAP (in M's except EPS)

	FQ2'18	FQ3'18 Guidance
Revenue (\$M)	\$231.1	\$262.0 – \$272.0
Gross Margin %	55.8%	56.1% – 58.4%
Net Income (Loss)	(\$31.9)	(\$1.6) – (\$10.4)
EPS: GAAP	(\$0.28)	(\$0.01) – (\$0.09)



FQ3'18 Guidance – Non GAAP (in M's except EPS)

	FQ2'18	FQ3'18 Guidance
Revenue (\$M)	\$231.1	\$262.0 – \$272.0
Gross Margin %	59.4%	58.9% – 61.1%
Net Income	\$16.4	\$20.4 – \$29.2
EPS: non-GAAP	\$0.14	\$0.17 – \$0.24



FQ3'18 Guidance - GAAP to Non GAAP Reconciliation

	Gross Margin Rate	Operating Margin Rate	Earnings per Share
GAAP	56.1% - 58.4%	(2.5)% - 0.8%	(\$0.09) - (\$0.01)
Estimated adjustments for:			
Amortization of product intangibles	1.7%	0.6%	\$0.01
Stock based compensation	0.2%	3.2%	\$0.07
Inventory adjustments	0.4%	0.4%	\$0.01
Amortization of non product intangibles	-	1.7%	\$0.04
Restructuring charges, net	-	1.6%	\$0.04
Acquisition and integration costs	0.5%	4.1%	\$0.09
Non-GAAP	58.9% - 61.1%	9.2% - 12.2%	\$0.17 - \$0.24

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



Extreme[®]

Connect Beyond the Network

Thank You

WWW.EXTREMENETWORKS.COM

