



Extreme Networks FQ4'18 Financial Results

August 8, 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 13-16 and 20 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.



FQ4'18 Financial Results



Financial Highlights – Financial Operations

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
GAAP					
Product Revenue	\$140.9	\$203.5	\$221.3	\$460.4	\$764.4
Services Revenue	\$38.0	\$58.5	\$57.0	\$146.7	\$218.7
Total Revenue	\$178.9	\$262.0	\$278.3	\$607.1	\$983.1
Total GM %	57.4%	54.6%	54.0%	54.5%	54.4%
Operating Income (Loss) \$	\$15.7	(\$8.2)	(\$3.4)	\$6.0	(\$38.2)
Operating Margin %	8.8%	(3.1%)	(1.2%)	1.0%	(3.9%)
Net Income (Loss)	\$13.2	(\$13.6)	(\$5.6)	(\$1.7)	(\$46.8)
EBITDA	\$19.9	\$5.5	\$13.0	\$32.3	\$13.5
EPS	\$0.12	(\$0.12)	(\$0.05)	(\$0.02)	(\$0.41)
Non GAAP					
Product Revenue	\$140.9	\$203.5	\$221.3	\$460.4	\$764.5
Services Revenue	\$38.0	\$58.5	\$57.0	\$146.8	\$218.7
Total Revenue	\$178.9	\$262.0	\$278.3	\$607.2	\$983.1
Total GM %	57.5%	57.9%	57.6%	57.2%	57.9%
Operating Income \$	\$22.9	\$24.4	\$27.4	\$65.4	\$94.6
Operating Margin %	12.8%	9.3%	9.8%	10.8%	9.6%
Net Income	\$20.4	\$19.0	\$24.0	\$57.6	\$78.0
EBITDA	\$25.3	\$31.4	\$35.8	\$76.3	\$117.0
EPS	\$0.18	\$0.16	\$0.20	\$0.52	\$0.65

* FY'17 balances as adjusted per ASC 606



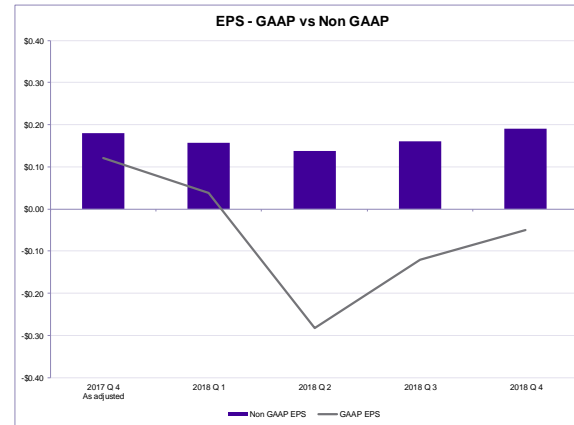
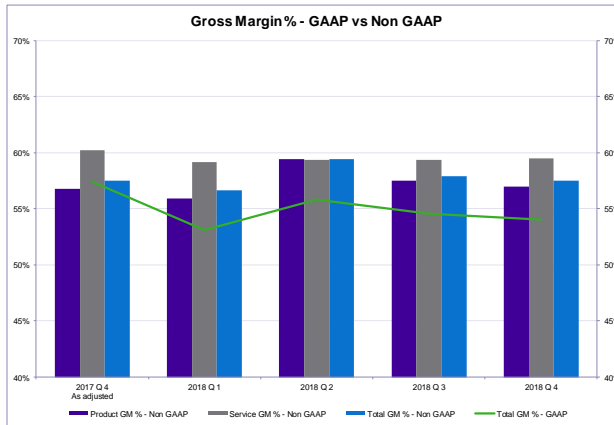
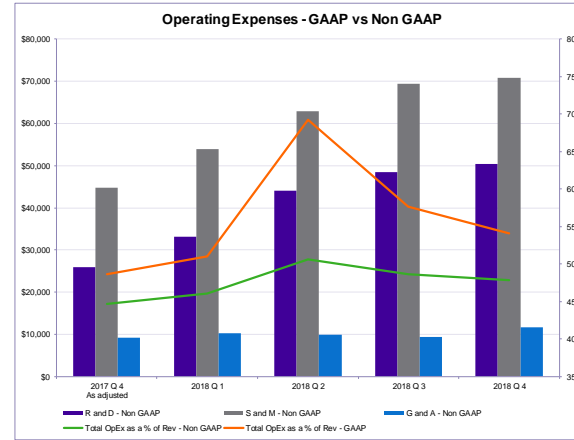
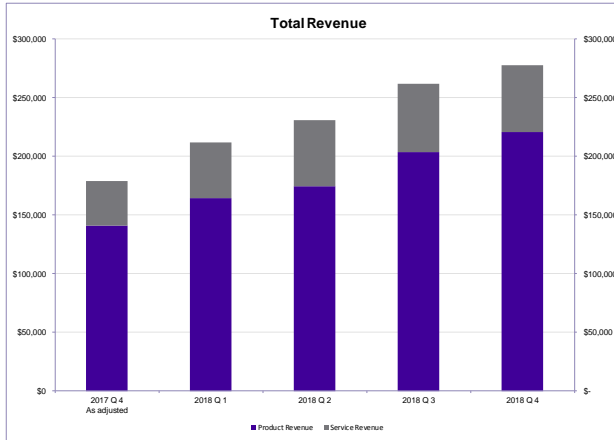
Impact of New Accounting Standard – Financial Operations (GAAP)

	FQ4'17			FY 2017		
	As Reported	Adjustment	As Adjusted *	As Reported	Adjustment	As Adjusted *
Total revenue	\$ 178.7	\$ 0.2	\$ 178.9	\$ 598.1	\$ 9.0	\$ 607.1
Total cost of revenue	77.0	(0.7)	76.3	273.6	2.5	276.1
Gross profit	101.7	0.9	102.6	324.5	6.5	331.0
Operating income	14.7	1.0	15.7	(0.8)	6.8	6.0
Income before taxes	13.3	1.0	14.3	(4.2)	6.8	2.6
Net income (loss)	12.2	1.0	13.2	(8.5)	6.8	(1.7)
EPS	\$ 0.11	\$ 0.01	\$ 0.12	\$ (0.08)	\$ 0.06	\$ (0.02)
Shares	114.5	114.5	114.5	108.3	108.3	108.3

* FY'17 balances as adjusted per ASC 606



Quarterly Results of Operations



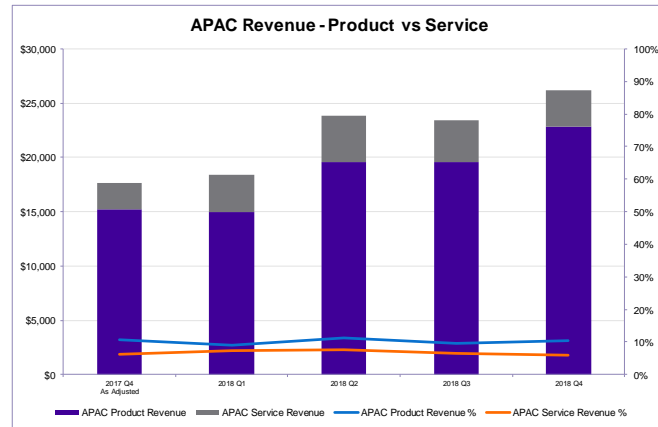
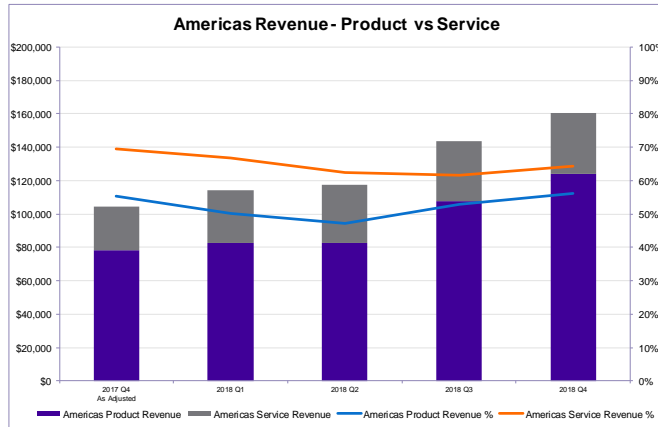
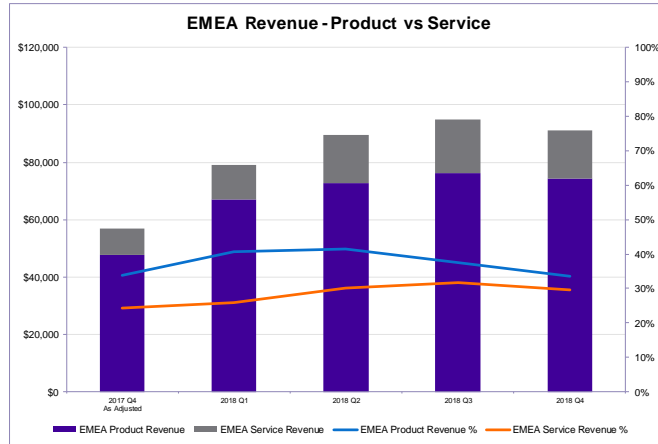
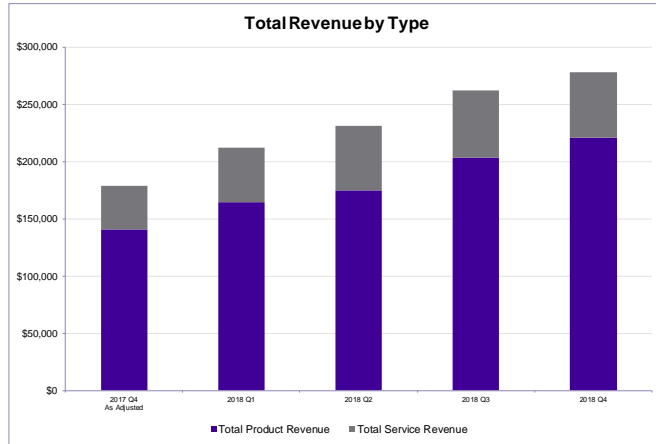
Historical Revenue by Geography (GAAP):

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
Product					
Americas	\$ 78.1	\$ 107.7	\$ 124.0	\$ 234.9	\$ 396.8
EMEA	47.6	76.2	74.4	180.4	290.3
APAC	15.2	19.6	22.9	45.1	77.3
Total Product	\$ 140.9	\$ 203.5	\$ 221.3	\$ 460.4	\$ 764.4
Service					
Americas	\$ 26.4	\$ 36.1	\$ 36.7	\$ 98.1	\$ 139.3
EMEA	9.2	18.6	16.9	39.6	64.6
APAC	2.4	3.8	3.4	9.0	14.8
Total Service	\$ 38.0	\$ 58.5	\$ 57.0	\$ 146.7	\$ 218.7
Total Revenue					
Americas	\$ 104.5	\$ 143.8	\$ 160.7	\$ 333.0	\$ 536.1
EMEA	56.8	94.8	91.3	220.0	354.9
APAC	17.6	23.4	26.3	54.1	92.1
Total Revenue	\$ 178.9	\$ 262.0	\$ 278.3	\$ 607.1	\$ 983.1

* FY'17 balances as adjusted per ASC 606



Revenue by Type and by Geography



Illustrative Revenue & Gross Margin Adjusted for Purchase Accounting

	FY'17 *				
	Q1	Q2	Q3	Q4	Total
Total GAAP Revenue	\$ 122.6	\$ 156.4	\$ 149.2	\$ 178.9	\$ 607.1
Amortization of Acquisition Related Balances	0.1	0.2	-	-	0.3
Adjusted Total GAAP Revenue	\$ 122.7	\$ 156.6	\$ 149.2	\$ 178.9	\$ 607.4

	FY'18					FY'19
	Q1	Q2	Q3	Q4	Total	Q1
Total GAAP Revenue	\$ 211.7	\$ 231.1	\$ 262.0	\$ 278.3	\$ 983.1	\$ 235.0
Amortization of Acquisition Related Balances	1.3	3.4	5.1	5.1	14.9	1.2
Adjusted Total GAAP Revenue	\$ 213.0	\$ 234.5	\$ 267.1	\$ 283.4	\$ 998.0	\$ 236.2
GAAP Gross Margin	53.1%	55.8%	54.6%	54.0%	54.4%	57.7%
Non-GAAP Gross Margin	56.7%	59.4%	57.9%	57.6%	57.9%	59.5%
Adjusted Non-GAAP Gross Margin	56.9%	60.0%	58.7%	58.4%	58.5%	59.8%

* FY'17 balances as adjusted per ASC 606



Financial Highlights – Financial Position (GAAP)

	FQ4'17 *	FQ3'18	FQ4'18
Cash and ST Investments	\$130.5	\$105.3	\$122.6
AR	\$93.1	\$188.4	\$212.4
DSO	47	65	69
Inventories	\$47.4	\$77.8	\$63.9
DOI	71	74	56
Debt Payable	\$92.7	\$178.7	\$197.8
Free Cash Flow			
Operating Cash Flow	\$15.3	\$(16.0)	\$20.8
Capital Expenditures	(2.6)	\$(8.7)	\$(18.4)
Free Cash Flow	\$12.7	\$(24.7)	\$2.4

* FY'17 balances as adjusted per ASC 606



Cash Flow Adjusted for Integration Related Costs

	FY'18				
	Q1	Q2	Q3	Q4	Total
Cash flow from operations	\$18.6	(\$4.4)	(\$16.0)	\$20.8	\$19.0
Total capital expenditures	(\$7.4)	(\$5.9)	(\$8.7)	(\$18.4)	(\$40.4)
Free cash flow	\$11.2	(\$10.2)	(\$24.7)	\$2.4	(\$21.4)
Integration related capex	-	-	\$7.1	\$16.2	\$23.3
Adjustment for cash paid for TSA	\$8.1	\$7.4	\$6.3	\$18.8	\$40.7
Adjustment for cash paid for integration & transaction costs	\$6.1	\$36.4	\$12.2	\$4.7	\$59.3
Integration related cash costs	\$14.2	\$43.8	\$25.7	\$39.7	\$123.4
Adjusted free cash flow	\$25.4	\$33.6	\$1.0	\$42.0	\$101.9
Cash taxes paid (refunded)	\$0.8	\$0.7	\$1.1	\$2.2	\$4.9
Cash interest paid	(\$1.3)	(\$2.2)	(\$2.0)	(\$2.8)	(\$8.3)



Impact of New Accounting Standard – Balance Sheets

	FQ4'17		
	As Reported	Adjustment	As Adjusted *
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	483.4	(23.7)	459.7
Accrued warranty	10.0	0.6	10.6
Other accrued liabilities	36.7	0.3	37.0
Deferred distributor income	43.5	(43.5)	-
Total current liabilities	255.8	(42.6)	213.2
Total liabilities	376.6	(42.6)	334.0
Accumulated deficit	(800.3)	19.0	(781.3)
Total stockholders' equity	106.7	19.0	125.7
Total liabilities and equity	483.3	(23.6)	459.7

* FY'17 balances as adjusted per ASC 606



GAAP to Non GAAP Reconciliations

Revenue & Gross Margin

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
Total Revenue - GAAP Basis	\$ 178.9	\$ 262.0	\$ 278.3	\$ 607.1	\$ 983.1
Gross Margin - GAAP Basis	102.6	143.0	150.2	331.0	534.5
Gross Margin %- GAAP Basis	57.4%	54.6%	54.0%	54.5%	54.4%
Deferred Revenue Adjustment	-	-	-	0.1	-
Adjustment to Acquired Inventories	-	0.6	0.5	4.3	5.3
Integration Costs in COGS	(0.6)	3.0	3.6	4.5	11.2
Amortization of Product Intangibles	0.6	4.6	5.5	6.7	16.6
Stock Comp in COGS	0.3	0.5	0.5	0.9	1.7
Gross Margin - Non GAAP Basis	<u>\$ 102.9</u>	<u>\$ 151.7</u>	<u>\$ 160.3</u>	<u>\$ 347.5</u>	<u>\$ 569.3</u>
Gross Margin %- Non GAAP Basis	57.5%	57.9%	57.6%	57.2%	57.9%

* FY'17 balances as adjusted per ASC 606



GAAP to Non GAAP Reconciliations

Operating Income (Loss)

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
Operating Income (Loss) - GAAP Basis	\$ 15.7	\$ (8.2)	\$ (3.4)	\$ 6.0	\$ (38.2)
Operating Margin- GAAP Basis	8.8%	(3.1%)	(1.2%)	1.0%	(3.9%)
Deferred Revenue Adjustment	-	-	-	0.1	-
Adjustment to Acquired Inventories	-	0.6	0.5	4.3	5.3
Integration Costs in COGS	(0.6)	3.0	3.6	4.5	11.2
Amortization of Product Intangibles	0.6	4.6	5.5	6.7	16.6
Total Stock Comp	3.3	7.8	8.0	12.6	27.6
Restructuring Charges, net	(0.7)	4.9	3.2	8.9	8.1
Amortization of Non Product Intangibles	1.2	2.1	2.3	8.7	8.7
Litigation	0.2	0.2	-	0.4	(0.2)
Contingent Consideration Liability	-	-	1.5	-	1.5
Integration Costs in OpEx	3.2	9.4	6.2	13.1	54.0
Operating Income - Non GAAP Basis	\$ 22.9	\$ 24.4	\$ 27.4	\$ 65.4	\$ 94.6
Operating Margin - Non GAAP Basis	12.8%	9.3%	9.8%	10.8%	9.6%

* FY'17 balances as adjusted per ASC 606



GAAP to Non GAAP Reconciliations

Net Income (Loss)

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
Net Income (Loss) - GAAP Basis	\$ 13.2	\$ (13.6)	\$ (5.6)	\$ (1.7)	\$ (46.8)
Shares - GAAP Basis	114.5	115.1	116.0	108.3	114.2
EPS - GAAP Basis	\$ 0.12	\$ (0.12)	\$ (0.05)	\$ (0.02)	\$ (0.41)
Deferred Revenue Adjustment	-	-	-	0.1	-
Adjustment to Acquired Inventories	-	0.6	0.5	4.3	5.3
Integration Costs in COGS	(0.6)	3.0	3.6	4.5	11.2
Amortization of Product Intangibles	0.6	4.6	5.5	6.7	16.6
Total Stock Comp	3.3	7.8	8.0	12.6	27.6
Restructuring Charges, net	(0.7)	4.9	3.2	8.9	8.1
Amortization of Non Product Intangibles	1.2	2.1	2.3	8.7	8.7
Litigation	0.2	0.2	-	0.4	(0.2)
Tax Adjustment	-	-	(3.5)	-	(6.7)
Gain on Sale of Investment	-	-	(0.2)	-	(3.9)
Loss on Extinguishment of Debt	-	-	1.2	-	1.2
Contingent Consideration Liability	-	-	1.5	-	1.5
Interest Expense on Contingent Liability	-	-	1.4	-	1.4
Integration and Acquisition Costs in OpEx	3.2	9.4	6.2	13.1	54.0
Net Non GAAP Adjustments	<u>7.2</u>	<u>32.6</u>	<u>29.6</u>	<u>59.3</u>	<u>124.8</u>
Net Income - Non GAAP Basis	<u>\$ 20.4</u>	<u>\$ 19.0</u>	<u>\$ 24.0</u>	<u>\$ 57.6</u>	<u>\$ 78.0</u>
Shares - Non GAAP Basis	114.5	120.7	120.4	111.5	119.8
EPS - Non GAAP Basis	\$ 0.18	\$ 0.16	\$ 0.20	\$ 0.52	\$ 0.65

* FY'17 balances as adjusted per ASC 606



GAAP to Non GAAP Reconciliations

EBITDA

	Quarter			Full Year	
	FQ4'17 *	FQ3'18	FQ4'18	FY17 *	FY18
Net Income (Loss) - GAAP Basis	\$ 13.2	\$ (13.6)	\$ (5.6)	\$ (1.7)	\$ (46.8)
Interest	0.8	3.3	4.4	3.4	11.1
Taxes	1.1	1.7	(1.6)	4.3	0.1
Depreciation/Amortization	4.8	14.1	15.8	26.3	49.1
EBITDA - GAAP	19.9	5.5	13.0	32.3	13.5
Net Non GAAP Adjustments	7.2	32.6	29.6	59.3	124.8
Interest included in Net Non GAAP Adjustments	-	-	(2.6)	-	(2.5)
Income taxes included in Net Non GAAP Adjustments	-	-	3.5	-	6.7
Amortization included in Net Non GAAP Adjustments	(1.8)	(6.7)	(7.7)	(15.3)	(25.5)
EBITDA - Non GAAP	\$ 25.3	\$ 31.4	\$ 35.8	\$ 76.3	\$ 117.0

* FY'17 balances as adjusted per ASC 606



FQ1'19 Financial Guidance



FQ1'19 Guidance – GAAP (in M's except EPS)

	FQ4'18	FQ1'19 Guidance
Revenue (\$M)	\$278.3	\$230.0 – \$240.0
Gross Margin %	54.0%	56.6% – 58.7%
Net Income (Loss)	(\$5.6)	(\$14.6) – (\$6.9)
EPS: GAAP	(\$0.05)	(\$0.12) – (\$0.06)



FQ1'19 Guidance – Non GAAP (in M's except EPS)

	FQ4'18	FQ1'19 Guidance
Revenue (\$M)	\$278.3	\$230.0 – \$240.0
Gross Margin %	57.6%	58.5% – 60.5%
Net Income	\$24.0	\$0.6 – \$8.3
EPS: non-GAAP	\$0.20	\$0.00 – \$0.07



FQ1'19 Guidance - GAAP to Non GAAP Reconciliation

	Gross Margin Rate	Operating Margin Rate	Earnings per Share
GAAP	56.6% - 58.7%	(4.6)% - (1.2)%	(\$0.12) - (\$0.06)
Estimated adjustments for:			
Amortization of product intangibles	1.7%	1.7%	\$0.03
Stock based compensation	0.2%	4.1%	\$0.08
Amortization of non product intangibles	-	0.7%	\$0.01
Non-GAAP	58.5% - 60.5%	2.0% - 5.1%	\$0.00 - \$0.07

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





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