Revenue Trends
Q4’18 revenue was $278.3 million compared to $262.0 million, or an increase of 6.2% quarter over quarter from Q3’18, and $178.9 million, or an increase of 55.6% year over year from Q4’17. On a dollar basis, revenue increased quarter over quarter and year over year by $16.3 million and $99.4 million respectively. As a result of purchase accounting adjustments resulting from our campus fabric and data center acquisitions, we recognized $5.1M less revenue on service maintenance contracts.

Organic revenue growth in Extreme core business was 5% year over year and 17% quarter over quarter.

The geographical split of revenues was as follows: The Americas contributed 58% to total revenue; EMEA contributed 33%; and APAC contributed 9%.

Product revenue for Q4’18 was $221.3 million, compared to $203.5 million in Q3 and $141.0 million in Q4 last year led by growth in Extreme’s core business and sequential growth in Campus Fabric revenue offset by a sequential decline in Data Center.

Service revenue for Q4’18 was $57.0 million, compared to $58.5 million in Q3 and $38.0 million in Q4 last year as we signed a greater proportion of multi-year deals.

Gross margin and operating expenses
In Q4, GAAP gross margin was 54.0% compared to 54.6% in Q3 and 57.4% in Q4 last year. Non-GAAP gross margin was 57.6%, compared to 57.9% in Q3 and 57.5% in Q4 last year.

Q4 GAAP operating expenses were $153.3 million, compared to $151.2 million in Q3 and $87.0 million in Q4 last year. Q4 GAAP operating loss includes, amortization of
intangibles of $7.7 million, stock based compensation charges of $8.0 million, acquired
inventory adjustments of $0.5 million, restructuring charges of $3.2 million,
remeasurement of contingent consideration liability an interest expense adjustment of
$1.52 million and acquisition related expenses of $79.9 million.

Q4 non-GAAP operating expenses were $132.9 million and compare to $127.4 million
in Q3 and $80.0 million in Q4’17. The sequential increase in non-GAAP operating
expenses was mainly attributable to higher revenue and accrued compensation
expenses.

Fourth quarter GAAP operating loss was $3.4 million, compared to an operating loss of
$8.2 million in Q3 and operating income of $15.7 million in Q4 last year.

Fourth quarter non-GAAP operating income was $27.4 million, or 9.8% of total revenue,
compared to $24.4 million, or 9.3% of total revenue, in Q3 and $22.9 million, or 12.8%
of total revenue, in Q4 last year.

Net Income and Earnings Per Share
GAAP net loss for Q4 was $5.6 million, or $0.05 per share, compared to a net loss of
$13.6 million or $0.12 per share in Q3 and a net income of $13.2 million or $0.12 per
diluted share, in Q4 last year.

Non-GAAP net income for the quarter was $24.0 million or $0.20 per diluted share, and
compares to net income of $19.0 million or $0.16 per diluted share in Q3 and $20.4
million or $0.18 per diluted share in Q4’17.

Balance Sheet and Cash Flow
Q4 total cash and cash equivalents ended the quarter at $121 million, up $18 million
from the end of Q3 and down $9 million from the end of Q4 FY17. Our cash balance
grew in Q4 on debt restructuring proceeds and reduced inventory purchases. Please
refer to slide 10 in our Earning Release presentation posted in the Investor Relations section of our website for additional details.

During the quarter, cash flow from operations was an inflow $21 million, compared to an outflow of $(16) million in Q3 and an inflow of $15 million in Q4 last year. Free cash flow was an inflow of $2 million compared to an outflow of $25 million in Q3 and an inflow of $13 million in Q4 last year.

Account receivables were $212 million at the end of Q4, up $24 million from the end of Q3 on higher sales and up $119 million from the end of Q4 FY’17 with the addition of the acquired Data Center and Campus Fabric businesses. DSO increased by 4 days to 69 days this quarter compared to 65 in Q3 and increased 22 days compared to 47 days in Q4’17. Our DSO for the last 4 quarters has been impacted by the transition services agreement from the Campus Fabric and Data Center acquisitions. The impact of the TSA on our DSO will end in our fiscal Q4.

Inventories ended at $66 million, down $14 million from last quarter and up $16.5 million from Q4 FY’17, with the addition of acquired inventories.

Total debt outstanding net of loan fees at the end of Q4 was $198 million, compared to $93 million at the end of Q4 last year. The increase is attributed to borrowings on the associated with the Campus Fabric acquisition and the new term loan and revolving line of credit we closed on May 1, 2018.

Total deferred revenue of $175 million grew $18 million quarter-over-quarter and $70 million year-over-year from Q4 FY’17 on short-term deferred of $131 million and long-term deferred of $44 million.

**FQ4’19 Guidance and Outlook**

We expect total Q1 revenue to be in a range of $230.0 million to $240.0 million.
Q1 GAAP gross margin is anticipated to be in a range of 56.6% to 58.7% and non-GAAP gross margin is estimated to be in a range of 58.5% to 60.5%. Our anticipated increase in gross margin for Q1 is driven by lower impact of purchase accounting adjustments from our acquired businesses.

Q1 Operating expenses are expected to be in a range of $140.8 million to $143.8 million on a GAAP basis and $130.0 million to $133.0 million on a non-GAAP basis.

Interest expense is expected to be $2.3 million - $2.4 million.

Tax expense is expected to be $2.3 million - $2.4 million up from previous quarters on higher revenue.

Q1 GAAP net loss is expected to be in a range of $14.6 million to $6.9 million, or a loss of $0.12 to $0.06 per share. Non-GAAP net income is expected to be in a range of $0.6 million to $8.3 million, or $0.00 to $0.07 per diluted share.

In Q1 we expect average shares outstanding to be approximately 117.8 million on a GAAP basis and 122.7 million on a non-GAAP basis.