



**FQ2'23**

*Financial Results*

January 25, 2023



## DISCLAIMER



### **Non-GAAP Financial Measures:**

*This presentation includes certain financial measures that are not presented in accordance with generally accepted accounting principles in the United States (“GAAP”), such as, among other things, non-GAAP Net Income; non-GAAP EPS, SaaS ARR, non-GAAP Operating Margin, Free Cash Flow, Non-GAAP Gross Margin, SaaS Deferred Revenue, Net Debt, Non-GAAP Operating Income. Extreme Networks Inc. (the “Company”) believes these Non-GAAP measures provide both management and investors with additional insight into its current operations, the trends affecting the Company, the Company’s marketplace performance, and 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. However, non-GAAP financial measures have limitations in their usefulness to investors because they have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. 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 most recent earnings press release dated January 25, 2023, which is posted on the “Investor Relations” section of our website and to pages 19-22 and 26 of this presentation for the required reconciliation to the most comparable GAAP financial measures.*

### **Forward-Looking Statements:**

*This presentation contains forward-looking statements including, but not limited to: the expected performance and growth of the Company, including its financial outlook for the third quarter of fiscal year 2023; expectations regarding growth trends across relevant verticals; and the Company’s business strategy and plans. 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 are based on current beliefs, assumptions and expectations, and speak only as of the date of this presentation. We undertake no obligation to update these statements. For a detailed description of these risks and uncertainties please refer to our most recent Annual Report on Form 10-K for the fiscal year ended June 30, 2022, our most recent Quarterly Reports on Form 10-! For the fiscal quarters ended September 30, 2022 and December 31, 2022, and any subsequent filings which are or will be on file with the Securities and Exchange Commission.*



**FQ2'23**

*FINANCIAL RESULTS*



# FQ2'23 RESULTS SUMMARY

CONTINUED DOUBLE-DIGIT Y/Y REVENUE GROWTH



## Continued Strong Growth

- Record Revenue on 13% Y/Y Revenue Growth
- Record \$36M Non-GAAP Net Income
- Record \$0.27 Non-GAAP EPS



## Cloud SaaS Subscriptions

- SaaS Subscription Bookings Growth of 30% Y/Y
- Ending SaaS Deferred Revenue of \$187M, up 38% Y/Y
- Ending SaaS ARR of \$115 million, up 29% Y/Y



## Robust Profitability and Free Cash Flow

- Record 15% Non-GAAP Operating Margin
- Record Free Cash Flow of \$67M, Up 255% Y/Y
- Net Debt\* of \$59 million, Down 60% Y/Y
- Repurchased 2.6M shares for a total of \$50M

\*Net debt is defined as Gross Debt minus Cash.

# FQ2'23 HIGHLIGHTS



## CLOUD ADOPTION

SaaS ARR<sup>2</sup> **\$115M**



**28%**

Recurring Revenue



**\$187M**

SaaS Deferred Revenue<sup>2</sup>



Product Book to Bill Ratio

**0.9x**

Service Book to Bill Ratio

**1.2x**



## DRIVING GROWTH

Backlog **\$542M**

Total Revenue Growth (Y/Y %) **13%**

Product Revenue Growth (Y/Y %) **17%**

Service & Subscription Revenue Growth (Y/Y %) **6%**

SaaS Subscription Bookings Growth (Y/Y %) **30%**

Large Customers (Over \$1M in bookings for the Quarter) **44**



## PROFITABILITY AND CASH FLOW

Non-GAAP Gross Margin %<sup>1</sup> **58.5%**

**14.9%** **\$0.27**  
Non-GAAP Operating Margin%<sup>1</sup> Non-GAAP EPS (\$) <sup>1</sup>



**\$67M**  
Free Cash Flow



Net Debt

**\$59M**

<sup>1</sup> See Appendices for GAAP to Non-GAAP reconciliation | <sup>2</sup> See Appendices for ARR & SaaS Deferred Revenue Definition

# MAJOR VERTICAL TRENDS AND BOOKINGS CONTRIBUTION

Bookings strength in Government, Education, and Hospitality / Venues



## GOVT + EDUCATION

**TAILWINDS:** Strong continued government and higher Education spending across subsectors and geographies

**HEADWINDS:** E-rate spending cycle stable

>40%



## HEALTHCARE

**TAILWINDS:** Solid demand for wireless and campus switching upgrades cycles

**HEADWINDS:** Timing of product cycles for campus switching

>10%



## HOSPITALITY + VENUES

**TAILWINDS:** Continued strength on new logo wins across venues and hospitality

**HEADWINDS:** Seasonality of sports venue deployments

>5%



## MANUFACTURING

**TAILWINDS:** Relatively stable demand

**HEADWINDS:** Macroeconomic outlook

~10%



## RETAIL + TRANSPORTATION

**TAILWINDS:** Growth led by transportation / logistics and new logo wins in retail

**HEADWINDS:** Difficult T&L comps and deal driven demand in retail

<10%



## SERVICE PROVIDER

**TAILWINDS:** 5G driven demand

**HEADWINDS:** Timing of 5G projects

<5%

# GAAP FINANCIAL HIGHLIGHTS – FINANCIAL OPERATIONS

(IN M'S EXCEPT PERCENTAGES AND EPS)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
<b>GAAP</b>			
Product Revenue	\$191.1	\$206.3	\$223.4
Service & Subscription Revenue	\$89.8	\$91.4	\$94.9
Total Revenue	\$280.9	\$297.7	\$318.3
Total GM %	56.5%	56.0%	57.1%
Operating Income \$	\$18.1	\$17.4	\$23.4
Operating Margin %	6.4%	5.8%	7.4%
Net Income	\$13.3	\$12.6	\$17.9
EBITDA	\$28.2	\$26.8	\$32.3
EPS	\$0.10	\$0.09	\$0.13

# NON-GAAP FINANCIAL HIGHLIGHTS – FINANCIAL OPERATIONS

(IN M'S EXCEPT PERCENTAGES AND EPS)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
<b>Non-GAAP<sup>1</sup></b>			
Product Revenue	\$191.1	\$206.3	\$223.4
Service & Subscription Revenue	\$89.8	\$91.4	\$94.9
Total Revenue	\$280.9	\$297.7	\$318.3
Total GM %	58.2%	57.6%	58.5%
Operating Income \$	\$36.7	\$36.2	\$47.3
Operating Margin %	13.1%	12.1%	14.9%
Net Income	\$28.4	\$27.1	\$36.5
EBITDA	\$41.9	\$41.5	\$52.5
EPS	\$0.21	\$0.20	\$0.27

<sup>1</sup> See Appendices for GAAP to Non-GAAP reconciliation.

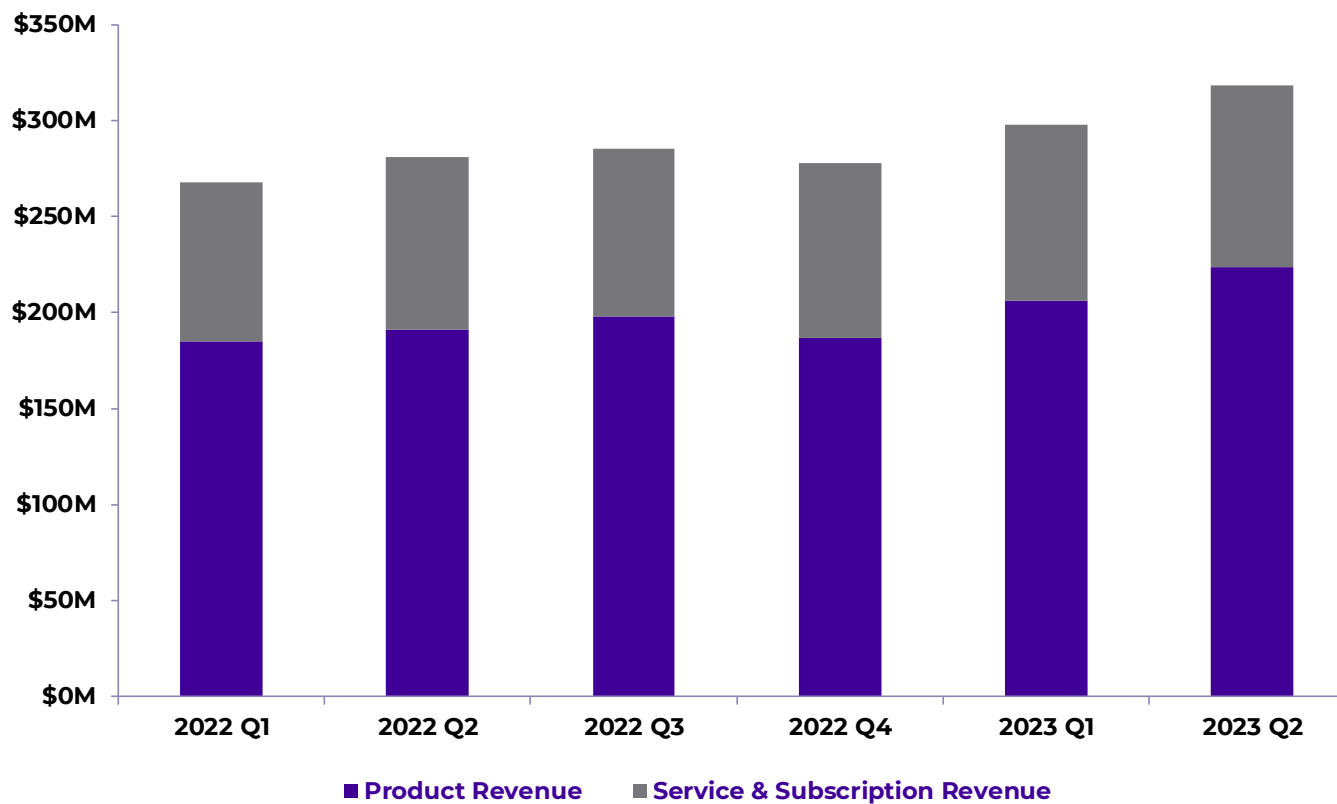


# QUARTERLY RESULTS OF OPERATIONS

(IN M'S)



## Total Revenue

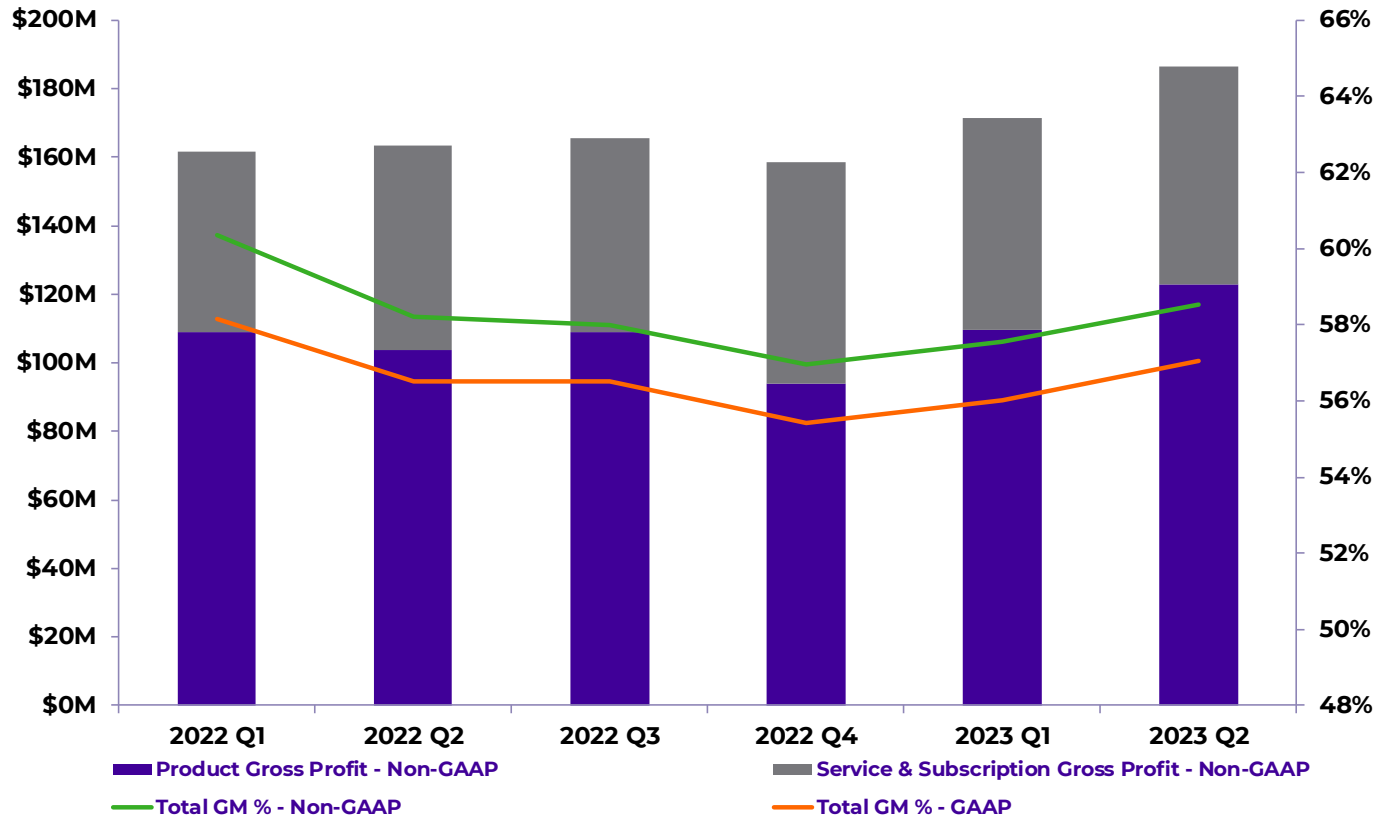


# QUARTERLY RESULTS OF OPERATIONS

(IN M'S EXCEPT PERCENTAGES)



## Gross Profit - GAAP vs Non-GAAP

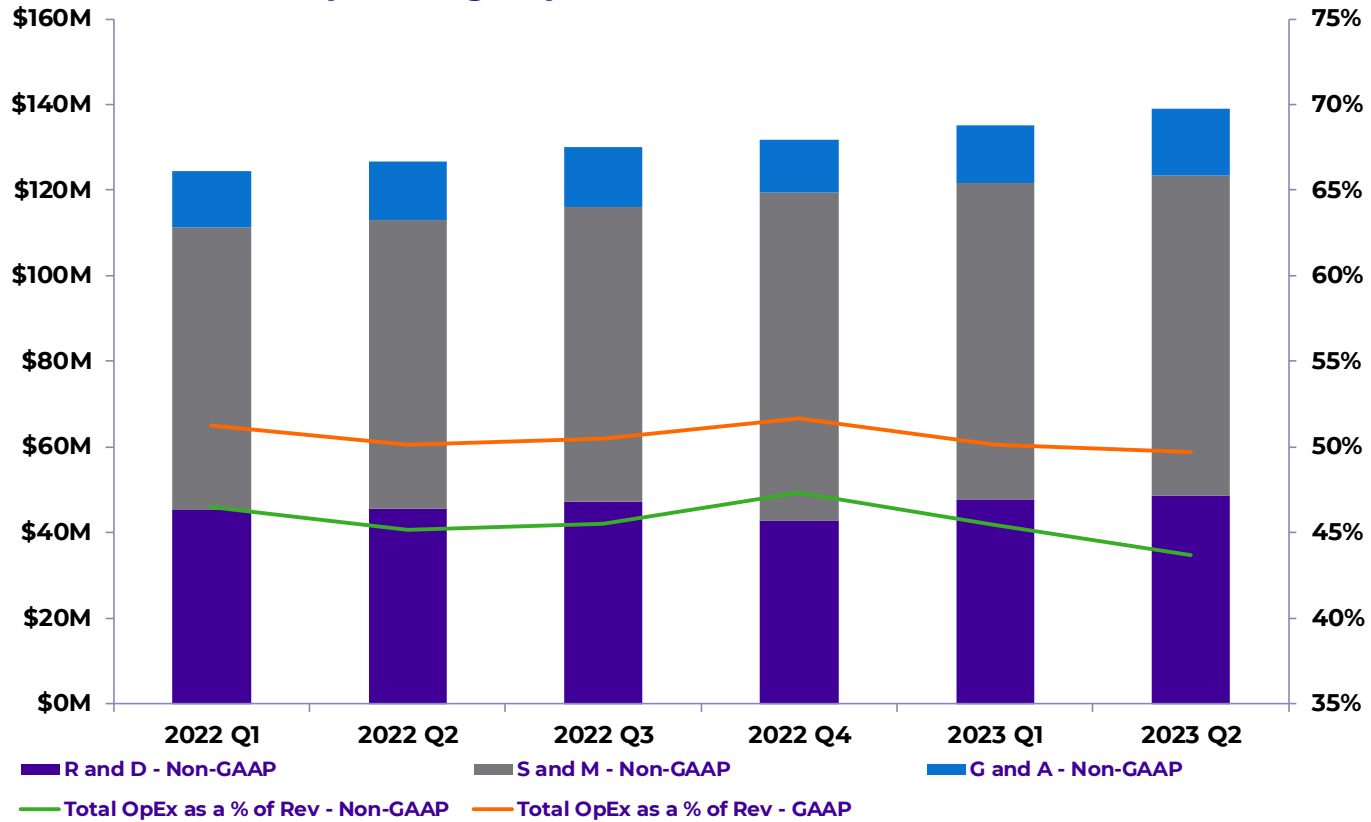


# QUARTERLY RESULTS OF OPERATIONS

(IN M'S EXCEPT PERCENTAGES)



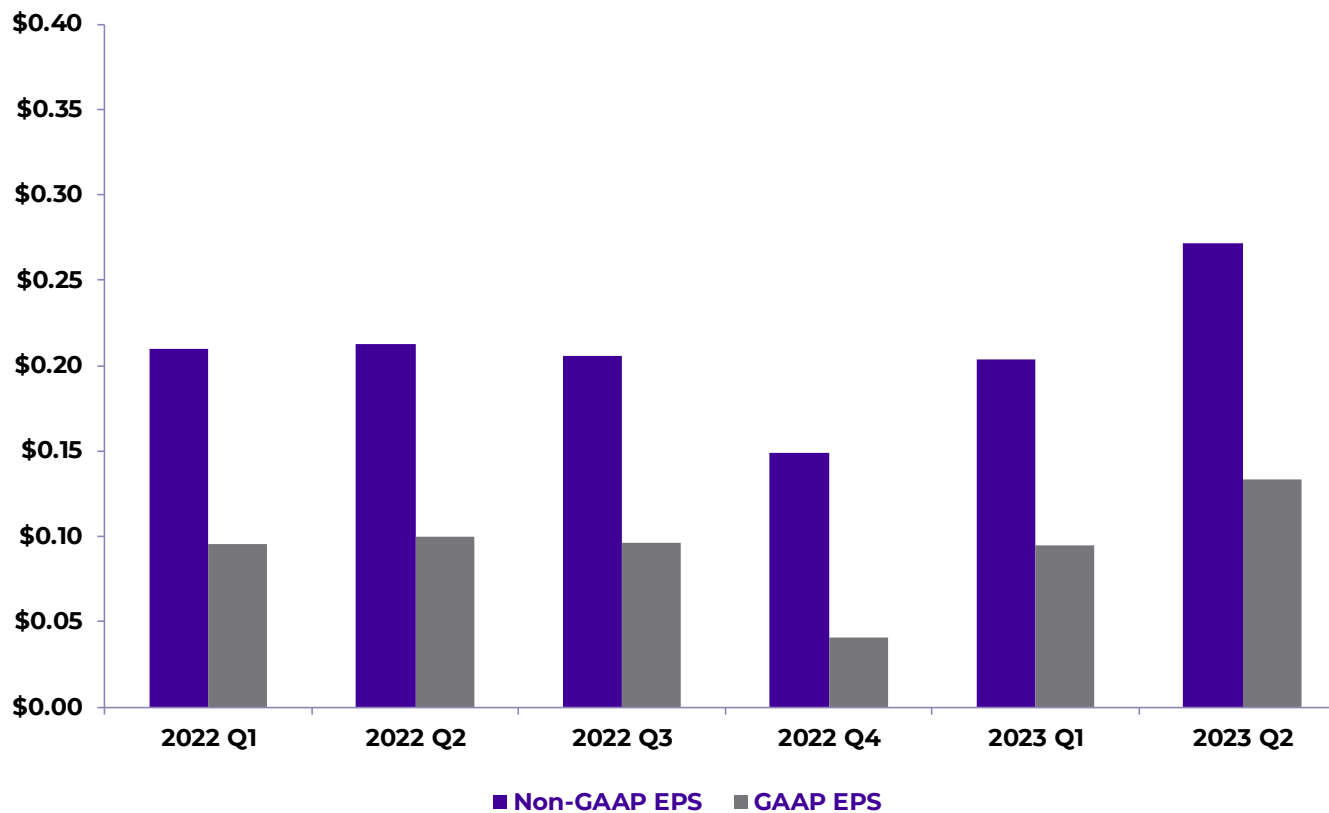
## Operating Expenses - GAAP vs Non-GAAP



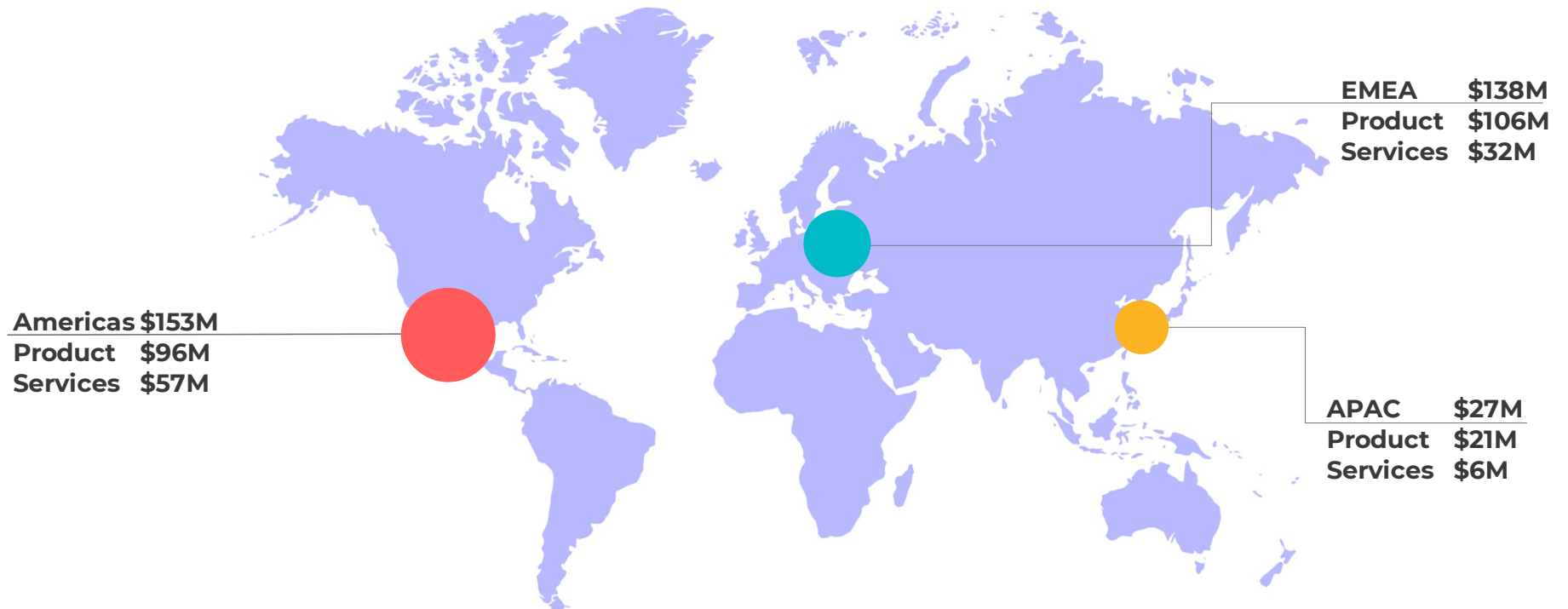
# QUARTERLY RESULTS OF OPERATIONS



### EPS - GAAP vs Non-GAAP



## FQ2'23 REVENUE BY GEOGRAPHY



Note: May not foot due to rounding

# FINANCIAL HIGHLIGHTS – BALANCE SHEET

(IN M'S EXCEPT DAYS)



<b>Balance Sheet Highlights</b>	<b>FQ2'22</b>	<b>FQ1'23</b>	<b>FQ2'23</b>
<b>Cash</b>	\$173.5	\$198.3	\$202.5
<b>Accounts Receivable</b>	\$133.3	\$158.7	\$152.1
<b>Inventories</b>	\$37.2	\$51.8	\$63.8
<b>Accounts Payable</b>	\$58.8	\$84.8	\$86.4
<b>Gross Debt*</b>	\$322.9	\$271.5	\$262.0
<b>Net Debt**</b>	\$149.4	\$73.2	\$59.5

<b>Cash Conversion Cycle Table</b>	<b>FQ2'22</b>	<b>FQ1'23</b>	<b>FQ2'23</b>
<b>Days Sales Outstanding</b>	44	49	44
<b>Days of Inventory</b>	38	48	57
<b>Days Payable Outstanding</b>	60	78	77
<b>Cash Conversion Cycle</b>	<b>22</b>	<b>19</b>	<b>24</b>

\*Gross Debt is defined as long-term and current portion of long-term debt as shown on the balance sheet plus unamortized debt issuance costs, if any.

\*\*Net debt is defined as Gross Debt minus Cash.

## NON-GAAP FREE CASH FLOW

(IN M'S)



Extreme uses the non-GAAP free cash flow metric as a measure of operating performance. Free cash flow represents GAAP net cash provided by operating activities, less purchases of property, plant and equipment. Extreme considers free cash flow as useful information for management and investors regarding the amount of cash generated by the business after the purchases of property, plant and equipment, which can then be used to, among other things, invest in Extreme's business, make strategic acquisitions, and strengthen the balance sheet. A limitation of the utility of the non-GAAP free cash flow metric as a measure of financial performance is that it does not represent the total increase or decrease in the Company's cash balance for the period. As shown in the table below:

	<b>FQ2'22</b>	<b>FQ1'23</b>	<b>FQ2'23</b>
<b>Operating Cash Flow</b>	\$22.2	\$49.7	\$70.6
<b>PP&amp;E Capital Expenditures</b>	(\$3.2)	(\$3.1)	(\$3.1)
<b>Free Cash Flow</b>	<b>\$19.0</b>	<b>\$46.6</b>	<b>\$67.471</b>



# APPENDICES

## *GAAP to Non-GAAP Reconciliations*

*Note: The totals for some periods may not foot due to rounding.  
Please see press release for full reconciliation.*



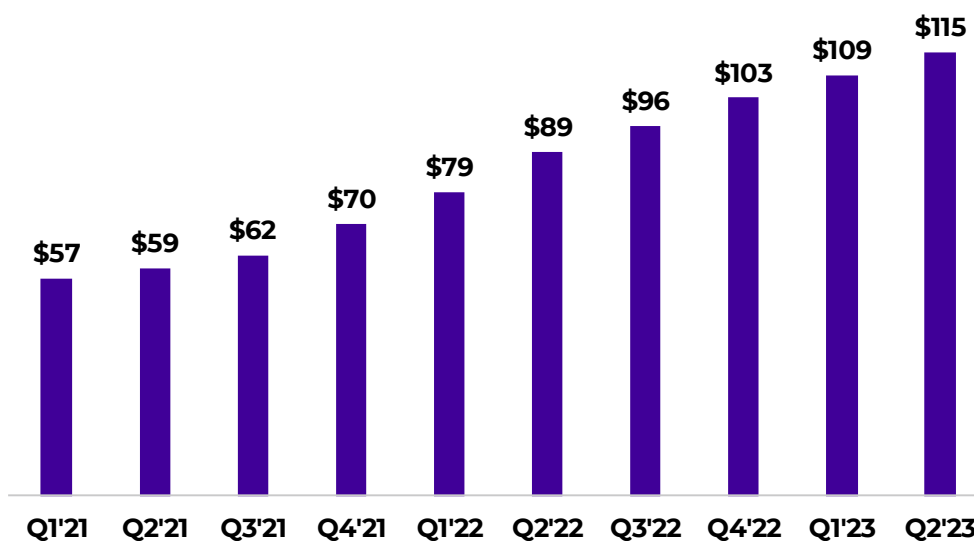


# HISTORICAL SAAS DISCLOSURES

SAAS ARR & SAAS DEFERRED ENDING REVENUE (IN \$M'S)



Ending SaaS ARR<sup>1</sup>



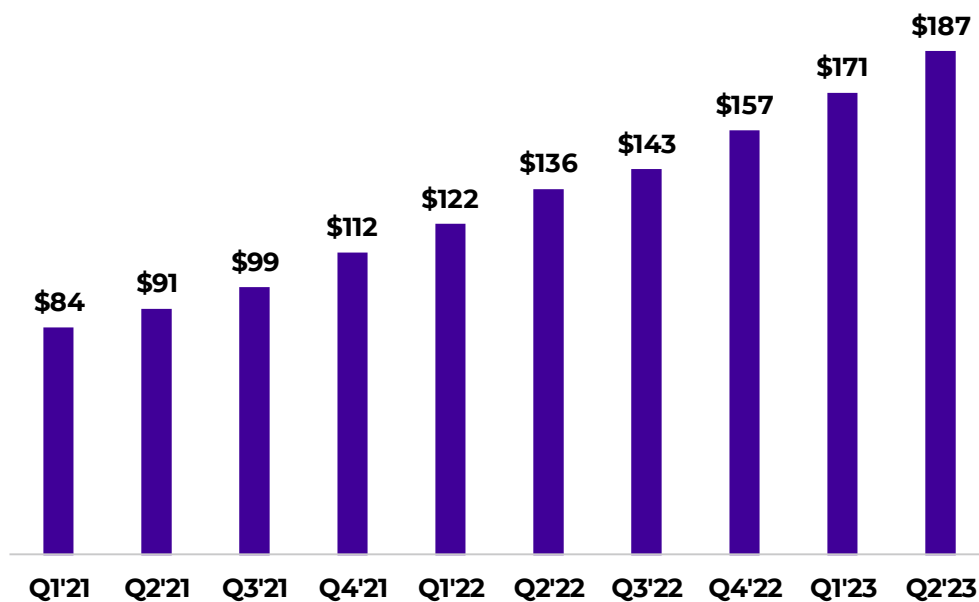
<sup>1</sup>Extreme uses SaaS annual recurring revenue ("SaaS ARR") to identify the annual recurring revenue of ExtremeCloud<sup>®</sup> IQ (XIQ) and other subscription revenue, based on the annualized value of quarterly subscription revenue and term-based licenses. We continue to refine the ARR methodology and have updated Q1'FY23 ARR to \$109M from \$111M which was reported last quarter. We believe that SaaS ARR is an important metric because it is driven by our ability to acquire new customers and to maintain and expand our relationship with existing customers. SaaS ARR should be viewed independently of revenue, deferred revenue and other U.S. GAAP accounting. SaaS ARR does not have a standardized meaning and therefore may not be comparable to similarly titled measures presented by other companies. SaaS ARR is not intended to be a replacement for forecasts of revenue.

# HISTORICAL SAAS DISCLOSURES

SAAS ARR & SAAS DEFERRED ENDING REVENUE (IN \$M'S)



SaaS Ending Deferred Revenue<sup>2</sup>



<sup>2</sup>SaaS Ending Deferred Revenue refers to the ending quarterly balance of advance payments received for SaaS goods or services that are to be delivered or performed in the future.

# GAAP TO NON-GAAP RECONCILIATIONS

REVENUE + GROSS MARGIN (IN M'S EXCEPT PERCENTAGES)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
Product Revenue	\$ 191.1	\$ 206.3	\$ 223.4
Service & Subscription Revenue	89.8	91.4	94.9
<b>Total Revenue - GAAP</b>	<b>\$ 280.9</b>	<b>\$ 297.7</b>	<b>\$ 318.3</b>
<b>Gross Margin - GAAP</b>	<b>158.8</b>	<b>166.7</b>	<b>181.7</b>
<b>Gross Margin % - GAAP</b>	<b>56.5%</b>	<b>56.0%</b>	<b>57.1%</b>
Amortization of Intangibles, Product	3.3	2.8	2.4
Amortization of Intangibles, Service	0.8	0.8	0.8
Share-Based Compensation, Product	0.3	0.3	0.5
Share-Based Compensation, Service	0.4	0.7	0.9
<b>Gross Margin - Non-GAAP</b>	<b>\$ 163.6</b>	<b>\$ 171.3</b>	<b>\$ 186.3</b>
<b>Gross Margin % - Non-GAAP</b>	<b>58.2%</b>	<b>57.6%</b>	<b>58.5%</b>

# GAAP TO NON-GAAP RECONCILIATIONS

OPERATING INCOME (IN M's EXCEPT PERCENTAGES)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
<b>Operating Income - GAAP</b>	\$ 18.1	\$ 17.4	\$ 23.4
<b>Operating Margin - GAAP</b>	6.4%	5.8%	7.4%
Amortization of Intangibles, Product & Service	4.1	3.6	3.2
Total Share-Based Compensation	11.3	13.8	17.4
Restructuring Charges, net	0.3	0.5	0.5
Amortization of Non Product Intangibles	0.8	0.5	0.5
Litigation Costs	-	-	2.3
Integration Costs in OpEx	2.1	0.4	-
<b>Operating Income - Non-GAAP</b>	<u>\$ 36.7</u>	<u>\$ 36.2</u>	<u>\$ 47.3</u>
<b>Operating Margin - Non-GAAP</b>	<u>13.1%</u>	<u>12.1%</u>	<u>14.9%</u>

# GAAP TO NON-GAAP RECONCILIATIONS

NET INCOME (IN M's EXCEPT EPS)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
<b>Net Income - GAAP</b>	\$ 13.3	\$ 12.6	\$ 17.9
Shares - GAAP	133.6	132.9	134.5
<b>EPS - GAAP (Diluted)</b>	\$ 0.10	\$ 0.09	\$ 0.13
Amortization of Product & Service Intangibles	4.1	3.6	3.2
Total Share-Based Compensation	11.3	13.8	17.4
Restructuring Charges, net	0.3	0.5	0.5
Amortization of Non Product Intangibles	0.8	0.5	0.5
Tax Effect of non-GAAP Adjustments	(3.5)	(4.3)	(5.3)
Litigation Costs	-	-	2.3
Integration and Acquisition Costs in OpEx	2.1	0.4	-
<b>Net Non-GAAP Adjustments</b>	15.1	14.5	18.6
<b>Net Income - Non-GAAP</b>	\$ 28.4	\$ 27.1	\$ 36.5
Shares - Non-GAAP	133.6	132.9	134.5
<b>EPS - Non-GAAP</b>	\$ 0.21	\$ 0.20	\$ 0.27

# GAAP TO NON-GAAP RECONCILIATIONS

EBITDA (IN M's)



	Quarter		
	FQ2'22	FQ1'23	FQ2'23
<b>Net Income - GAAP</b>	\$ 13.3	\$ 12.6	\$ 17.9
Interest	\$ 3.0	\$ 3.4	\$ 3.0
Provision for Income Taxes	\$ 1.8	\$ 1.7	\$ 2.6
Depreciation/Amortization	\$ 10.1	\$ 9.1	\$ 8.8
<b>EBITDA</b>	28.2	26.8	32.3
Net Non-GAAP Adjustments	15.1	14.5	18.6
Income taxes included in Net Non-GAAP Adjustments	3.5	4.3	5.3
Amortization included in Net Non-GAAP Adjustments	(4.9)	(4.1)	(3.7)
<b>EBITDA - Adjusted</b>	\$ 41.9	\$ 41.5	\$ 52.5

\*Net Non-GAAP Adjustments" refer to slide 21



**FQ3'23**

*FINANCIAL GUIDANCE*



## FQ3'23 GUIDANCE – GAAP

(IN M's EXCEPT PERCENTAGES AND EPS)



	FQ2'23	FQ3'23 Guidance
Revenue (\$M)	\$318.3	\$315.0 – \$325.0
Gross Margin %	57.1%	56.6% – 58.6%
Operating Margin %	7.4%	6.9% – 8.9%
Net Income	\$17.9	\$15.7 – \$23.0
EPS	\$0.13	\$0.12 – \$0.17



## FQ3'23 GUIDANCE – NON-GAAP

(IN M's EXCEPT PERCENTAGES AND EPS)



	FQ2'23	FQ3'23 Guidance
Revenue (\$M)	\$318.3	\$315.0 – \$325.0
Gross Margin %	58.5%	58.0% – 60.0%
Operating Margin %	14.9%	13.5% – 15.3%
Net Income	\$36.5	\$31.1 – \$38.4
EPS	\$0.27	\$0.23 – \$0.29

## FQ3'23 GUIDANCE – GAAP TO NON-GAAP RECONCILIATION



	Gross Margin Rate	Operating Margin Rate	Earnings per Share
GAAP	56.6% - 58.6%	6.9% - 8.9%	\$0.12 - \$0.17
Estimated Adjustments for:			
Amortization of Product Intangibles	0.7%	0.7%	\$0.02
Share-Based Compensation	0.4%	5.3%	\$0.13
Restructuring Charges, net	-	0.1%	\$0.00
Amortization of Non-product Intangibles	0.3%	0.4%	\$0.01
Non-GAAP Tax Adjustment	-	-	(\$0.04)
Non-GAAP	58.0% - 60.0%	13.5% - 15.3%	\$0.23 - \$0.29



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