



Extreme Networks FQ3'18 Financial Results

May 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.



FQ3'18 Financial Results



Financial Highlights – Financial Operations

	FY'17		FY'18		FQ3'18 v	FQ3'18 v
	Q3	Q3	Q2	Q3	FQ2'18	FQ3'17
	As Adjusted				As Adjusted	
GAAP						
Product Revenue	\$110.8	\$111.3	\$174.8	\$203.5	\$28.7	\$92.2
Services Revenue	\$37.9	\$37.9	\$56.3	\$58.5	\$2.2	\$20.6
Total Revenue	\$148.7	\$149.2	\$231.1	\$262.0	\$30.9	\$112.8
Total GM %	55.3%	55.5%	55.8%	54.6%	-1.2%	-0.9%
Operating Income \$	(\$3.2)	(\$2.6)	(\$31.1)	(\$8.2)	\$22.9	(\$5.6)
Operating Margin %	(2.2%)	(1.8%)	(13.5%)	(3.1%)	10.4%	(1.3%)
Net Income (Loss)	(\$5.6)	(\$5.0)	(\$31.9)	(\$13.6)	\$18.3	(\$8.6)
EBITDA	\$1.6	\$2.2	(\$20.1)	\$5.5	\$25.6	\$3.3
EPS	(\$0.05)	(\$0.05)	(\$0.28)	(\$0.12)	\$0.16	(\$0.07)
Non GAAP						
Product Revenue	\$110.8	\$111.3	\$174.8	\$203.5	\$28.7	\$92.2
Services Revenue	\$37.9	\$37.9	\$56.3	\$58.5	\$2.2	\$20.6
Total Revenue	\$148.7	\$149.2	\$231.1	\$262.0	\$30.9	\$112.8
Total GM %	57.0%	57.2%	59.4%	57.9%	-1.5%	0.7%
Operating Income \$	\$14.0	\$14.6	\$20.3	\$24.4	\$4.1	\$9.8
Operating Margin %	9.4%	9.8%	8.8%	9.3%	0.5%	(0.5%)
Net Income (Loss)	\$11.6	\$12.2	\$16.4	\$19.0	\$2.6	\$6.8
EBITDA	\$16.7	\$17.3	\$24.6	\$31.4	\$6.8	\$14.1
EPS	\$0.10	\$0.11	\$0.14	\$0.16	\$0.02	\$0.05

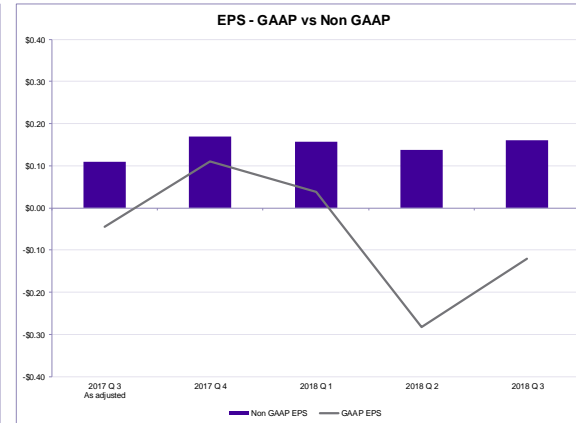
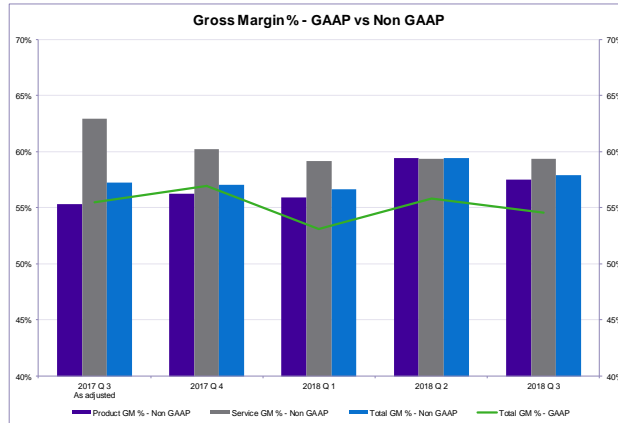
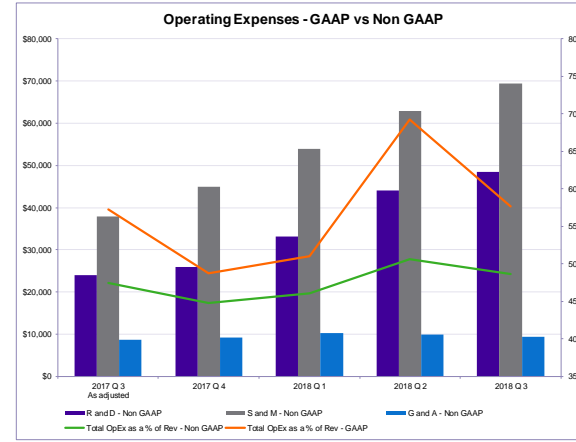
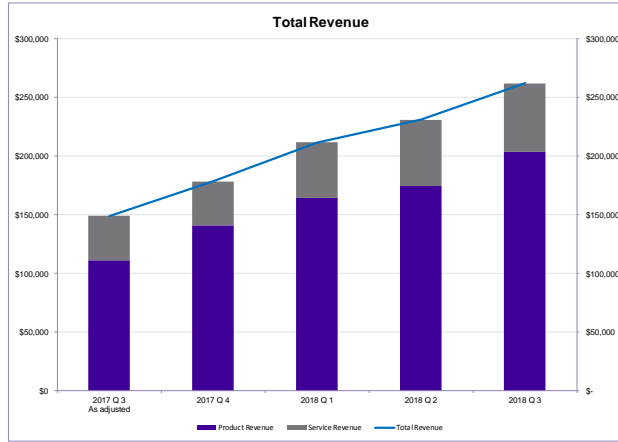


Impact of New Accounting Standard – Financial Operations

	FQ3'17		
	As Reported	Adjustment	As Adjusted
Total revenue	\$ 148.7	\$ 0.5	\$ 149.2
Total cost of revenue	<u>66.5</u>	<u>(0.1)</u>	<u>66.4</u>
Gross profit	82.2	0.6	82.8
Operating loss	(3.2)	0.6	(2.6)
Loss before taxes	(4.4)	0.6	(3.8)
Net loss	(5.6)	0.6	(5.0)
EPS	\$ (0.05)	\$ 0.00	\$ (0.05)
Shares	109,213	109,213	109,213



Quarterly Results of Operations



* 2017 Q3 data adjusted for ASC 606

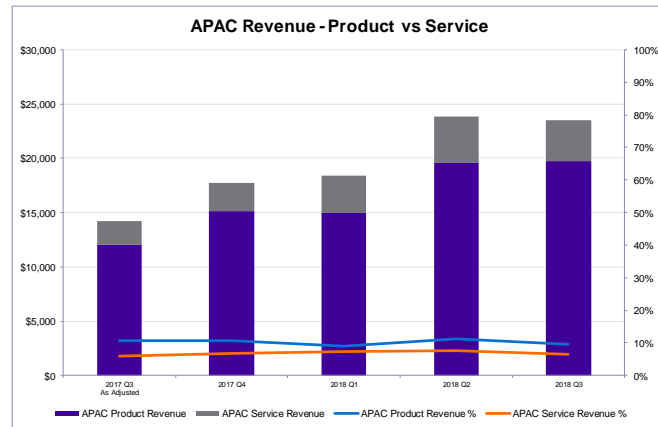
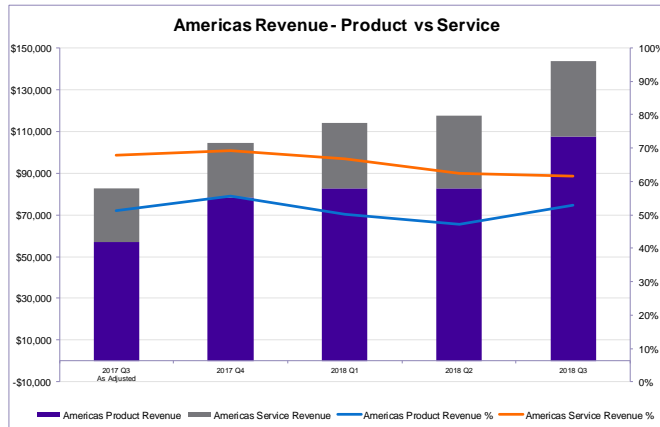
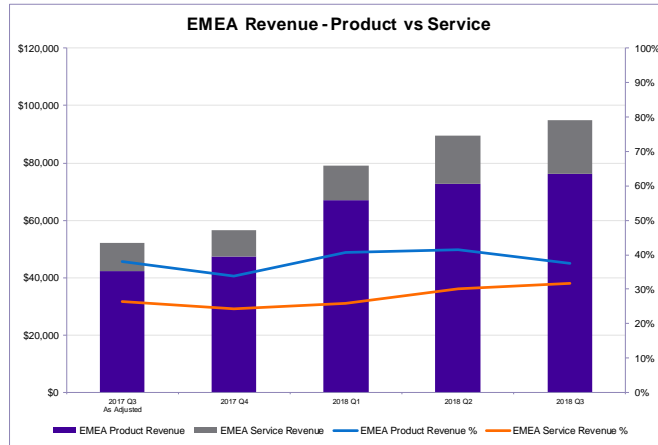
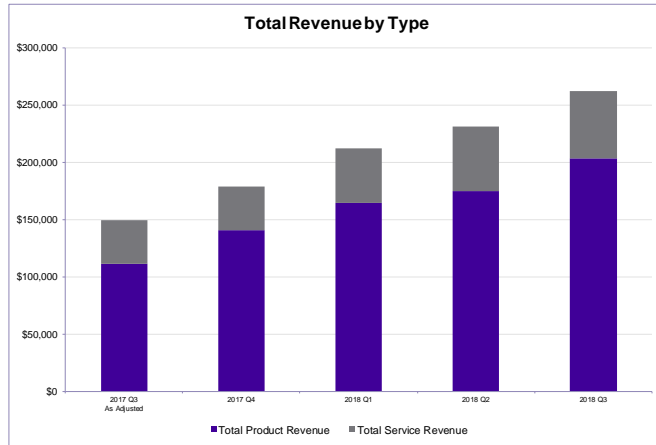


Historical Revenue by Geography (GAAP):

	FY'17		FY'18		FQ3'18 v	FQ3'18 v
	Q3	Q3	Q2	Q3	FQ2'18	FQ3'17
	As Adjusted				As Adjusted	
Product						
Americas	\$ 56.8	\$ 57.1	\$ 82.5	\$ 107.7	\$ 25.2	\$ 50.6
EMEA	42.0	42.2	72.7	76.2	3.5	34.0
APAC	12.0	12.0	19.6	19.6	-	7.6
Total Product	\$ 110.8	\$ 111.3	\$ 174.8	\$ 203.5	\$ 28.7	\$ 92.2
Service						
Americas	\$ 25.7	\$ 25.7	\$ 35.2	\$ 36.1	\$ 0.9	\$ 10.4
EMEA	10.0	10.0	16.9	18.6	1.7	8.6
APAC	2.2	2.2	4.2	3.8	(0.4)	1.6
Total Service	\$ 37.9	\$ 37.9	\$ 56.3	\$ 58.5	\$ 2.2	\$ 20.6
Total Revenue						
Americas	\$ 82.5	\$ 82.8	\$ 117.7	\$ 143.8	\$ 26.1	\$ 61.0
EMEA	52.0	52.2	89.6	94.8	5.2	42.6
APAC	14.2	14.2	23.8	23.4	(0.4)	9.2
Total Revenue	\$ 148.7	\$ 149.2	\$ 231.1	\$ 262.0	\$ 30.9	\$ 112.8



Revenue by Type and by Geography



Illustrative Revenue & Gross Margin Adjusted for Purchase Accounting

	FY'17			
	Q1	Q2	Q3	Q4
	As Adjusted			As Reported
GAAP Revenue	\$ 122.6	\$ 156.4	\$ 149.2	\$ 178.7
Amortization of Acquisition Related Balances	0.1	0.2	-	0.1
Adjusted Total Revenue	\$ 122.7	\$ 156.6	\$ 149.2	\$ 178.8

	FY'18				FY'19	FQ3'18 v
	Q1	Q2	Q3	Q4	Q1	FQ3'17
	Guidance				Guidance	
GAAP Revenue	\$ 211.7	\$ 231.1	\$ 262.0	\$270 - \$280	-	\$ 112.8
Amortization of Acquisition Related Balances	1.3	3.4	5.1	5.2	1.2	5.1
Adjusted Total Revenue	\$ 213.0	\$ 234.5	\$ 267.1	\$275 - \$285	-	\$ 117.9
GAAP Gross Margin	53.1%	55.8%	54.6%			
Adjusted Non-GAAP Gross Margin	56.9%	60.0%	58.7%			



Financial Highlights – Financial Position (GAAP)

	FY'17		FY'18	
	Q4	Q4	Q2	Q3
		As Adjusted		
Cash and ST Investments	\$130.5	\$130.5	\$128.2	\$105.3
AR	\$120.8	\$93.1	\$154.9	\$188.4
DSO	61	47	62	65
Inventories	\$45.9	\$47.4	\$83.4	\$77.8
DOI	67	71	98	74
Debt Payable	\$92.7	\$92.7	\$183.1	\$178.7
Free Cash Flow				
Operating Cash Flow	\$15.3	*	\$(4.4)	\$(16.0)
Capital Expenditures	\$(2.6)	*	\$(5.9)	\$(8.7)
Free Cash Flow	\$12.7	*	\$(10.2)	\$(24.7)

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



Cash Flow Adjusted for Integration Related Costs

	FY'18			
	Q1	Q2	Q3	Q4
Cash flow from operations	\$18.6	(\$4.4)	(\$16.0)	-
Total Capital expenditures	(\$7.4)	(\$5.9)	(\$8.7)	(\$7.0)
Free cash flow	\$11.2	(\$10.2)	(\$24.7)	-
Integration related capex	-	-	\$7.1	-
Adjustment for Cash paid for Avaya TSA Agreement	\$8.1	\$7.4	\$6.3	-
Adjustment for Cash paid for integration & transaction costs	\$6.1	\$36.4	\$12.2	\$3.5
Integration related cash costs	\$14.2	\$43.8	\$25.7	\$3.5
Adjusted free cash flow	\$25.4	\$33.6	\$1.0	-
Cash Taxes paid (refunded)	\$0.8	\$0.7	\$1.1	\$1.2
Cash Interest Paid	(\$1.3)	(\$2.2)	(\$2.0)	(\$2.7)

Guidance



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
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



GAAP to Non GAAP Reconciliations Revenue & Gross Margin

	FY'17		FY'18	
	Q3	Q3	Q 2	Q3
	As Adjusted			
Total Revenue	148.7	149.2	231.1	262.0
Gross Margin - GAAP Basis	\$ 82.1	\$ 82.8	\$ 129.0	\$ 143.0
Gross Margin %- GAAP Basis	55.3%	55.5%	55.8%	54.6%
Adjustment to Acquired Inventories	2.0	2.0	1.2	0.6
Integration Costs in Product COGS	(0.4)	(0.4)	2.1	2.6
Integration Costs in Service COGS	-	-	0.5	0.4
Amortization of Product Intangibles	0.9	0.9	4.0	4.6
Stock Comp in COGS	0.1	0.1	0.5	0.5
Gross Margin - Non GAAP Basis	<u>\$ 84.7</u>	<u>\$ 85.4</u>	<u>\$ 137.3</u>	<u>\$ 151.7</u>
Gross Margin %- Non GAAP Basis	57.0%	57.2%	59.4%	57.9%



GAAP to Non GAAP Reconciliations

Operating Income (Loss)

	FY'17		FY'18	
	Q3	Q3	Q 2	Q3
	As Adjusted			
Operating Income (Loss) - GAAP Basis	\$ (3.2)	\$ (2.6)	\$ (31.1)	\$ (8.2)
Operating Margin- GAAP Basis	-2.2%	-1.8%	-13.5%	-3.1%
Adjustment to Acquired Inventories	2.0	2.0	1.2	0.6
Integration Costs in Product COGS	(0.4)	(0.4)	2.1	2.6
Integration Costs in Service COGS	-	-	0.5	0.4
Amortization of Product Intangibles	0.9	0.9	4.0	4.6
Total Stock Comp	2.5	2.5	7.0	7.8
Restructuring Charges, net	7.7	7.7	-	4.9
Amortization of Non Product Intangibles	1.2	1.2	2.7	2.1
Litigation	-	-	(0.4)	0.2
Integration Costs in OpEx	3.3	3.3	34.3	9.4
Operating Income - Non GAAP Basis	<u>\$ 14.0</u>	<u>\$ 14.6</u>	<u>\$ 20.3</u>	<u>\$ 24.4</u>
Operating Margin - Non GAAP Basis	9.4%	9.8%	8.8%	9.3%



GAAP to Non GAAP Reconciliations

Net Income (Loss)

	FY'17		FY'18	
	Q3	Q3	Q 2	Q3
	As Adjusted			
Net Income (Loss) - GAAP Basis	\$ (5.6)	\$ (5.0)	\$ (31.9)	\$ (13.6)
Shares - GAAP Basis	109.2	109.2	113.6	115.1
EPS - GAAP Basis	\$ (0.05)	\$ (0.05)	\$ (0.28)	\$ (0.12)
Adjustment to Acquired Inventories	2.0	2.0	1.2	0.6
Integration Costs in Product COGS	(0.4)	(0.4)	2.1	2.6
Integration Costs in Service COGS	-	-	0.5	0.4
Amortization of Product Intangibles	0.9	0.9	4.0	4.6
Total Stock Comp	2.5	2.5	7.0	7.8
Restructuring Charges, net	7.7	7.7	-	4.9
Amortization of Non Product Intangibles	1.2	1.2	2.7	2.1
Litigation	-	-	(0.4)	0.2
Tax Adjustment	-	-	(3.1)	-
Integration and Acquisition Costs in OpEx	3.3	3.3	34.3	9.4
Net Non GAAP Adjustments	17.2	17.2	48.3	32.6
Net Income - Non GAAP Basis	\$ 11.6	\$ 12.2	\$ 16.4	\$ 19.0
Shares - Non GAAP Basis	112.6	112.6	119.6	120.7
EPS - Non GAAP Basis	\$ 0.10	\$ 0.11	\$ 0.14	\$ 0.16



GAAP to Non GAAP Reconciliations

EBITDA

	FY'17		FY'18	
	Q3	Q3	Q 2	Q3
	As Adjusted			
Net Income (Loss) - GAAP Basis	\$ (5.6)	\$ (5.0)	\$ (31.9)	\$ (13.6)
Interest	0.9	0.9	1.8	3.3
Taxes	1.2	1.2	(1.6)	1.7
Depreciation/Amortization	5.1	5.1	11.6	14.1
EBITDA - GAAP	1.6	2.2	(20.1)	5.5
Net Non GAAP Adjustments	17.2	17.2	48.3	32.6
Income taxes included in Net Non GAAP Adjustments	-	-	3.1	-
Amortization included in Net Non GAAP Adjustments	(2.1)	(2.1)	(6.7)	(6.7)
EBITDA - Non GAAP	<u>\$ 16.7</u>	<u>\$ 17.3</u>	<u>\$ 24.6</u>	<u>\$ 31.4</u>



FQ4'18 Financial Guidance



FQ4'18 Guidance – GAAP (in M's except EPS)

	FQ3'18	FQ4'18 Guidance
Revenue (\$M)	\$262.0	\$277.0 – \$287.0
Gross Margin %	54.6%	56.0% – 58.1%
Net Income (Loss)	(\$13.6)	\$1.5 – \$9.6
EPS: GAAP	(\$0.12)	\$0.01 – \$0.08



FQ4'18 Guidance – Non GAAP (in M's except EPS)

	FQ3'18	FQ4'18 Guidance
Revenue (\$M)	\$262.0	\$277.0 – \$287.0
Gross Margin %	57.9%	58.0% – 60.0%
Net Income	\$19.0	\$19.2 – \$27.9
EPS: non-GAAP	\$0.16	\$0.16 – \$0.23



FQ4'18 Guidance - GAAP to Non GAAP Reconciliation

	Gross Margin Rate	Operating Margin Rate	Earnings per Share
GAAP	56.0% - 58.1%	2.3% - 5.1%	\$0.01 - \$0.08
Estimated adjustments for:			
Amortization of product intangibles	1.7%	1.7%	\$0.04
Stock based compensation	0.2%	2.9%	\$0.07
Amortization of non product intangibles	-	0.6%	\$0.01
Acquisition and integration costs	0.1%	1.2%	\$0.03
Non-GAAP	58.0% - 60.0%	8.7% - 11.4%	\$0.16 - \$0.23

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





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