



# Extreme Networks FQ3'20 Financial Results

May 11, 2020

# Cautionary Statement on Financial Measures



## **Non-GAAP Measures:**

*In preparing the accompanying information Extreme Networks Inc. (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, the Company's marketplace performance, and the Company's ability to generate cash from operations. 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 15-18 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 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 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 reports on Form 10-K, Form 10-Q, and Form 8-K filed with the SEC.*



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# FQ3'20 Financial Results

# Financial Highlights – Financial Operations



(In \$M's except percentages and EPS)

	Quarter		
	FQ3'19	FQ2'20	FQ3'20
<b>GAAP</b>			
Product Revenue	\$190.8	\$190.5	\$136.5
Services Revenue	\$60.1	\$77.0	\$73.0
Total Revenue	\$250.9	\$267.5	\$209.5
Total GM %	55.4%	55.6%	53.1%
Operating Loss \$	(\$2.3)	(\$15.2)	(\$38.4)
Operating Margin %	(0.9%)	(5.7%)	(18.3%)
Net Loss	(\$6.9)	(\$23.5)	(\$44.4)
EBITDA	\$10.1	\$0.5	(\$20.9)
EPS	(\$0.06)	(\$0.20)	(\$0.37)

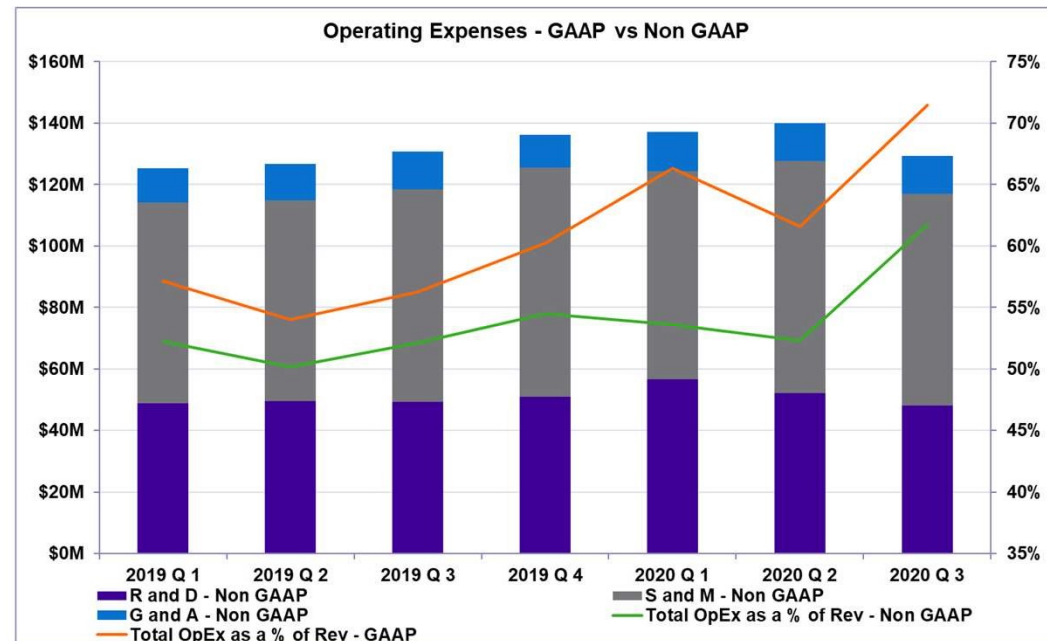
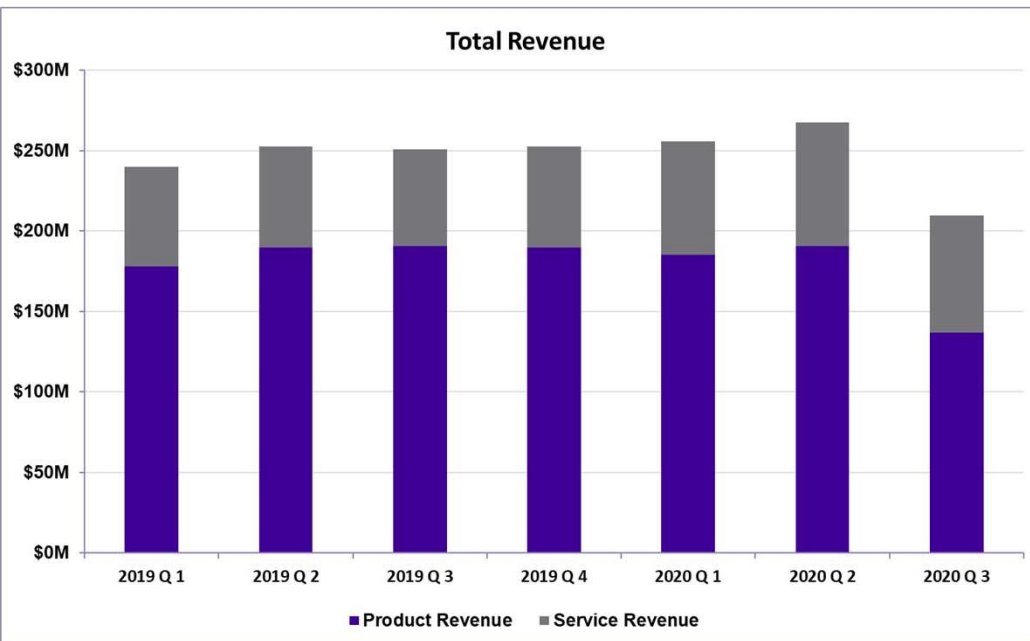
	Quarter		
	FQ3'19	FQ2'20	FQ3'20
<b>Non GAAP<sup>1</sup></b>			
Product Revenue	\$190.8	\$190.5	\$136.5
Services Revenue	\$60.1	\$77.0	\$73.0
Total Revenue	\$250.9	\$267.5	\$209.5
Total GM %	57.6%	60.0%	56.7%
Operating Income (Loss) \$	\$13.9	\$24.1	(\$10.6)
Operating Margin %	5.6%	9.0%	(5.1%)
Net Income (Loss)	\$9.3	\$15.8	(\$16.6)
EBITDA	\$20.2	\$30.6	(\$1.7)
EPS	\$0.08	\$0.13	(\$0.14)

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

# Quarterly Results of Operations



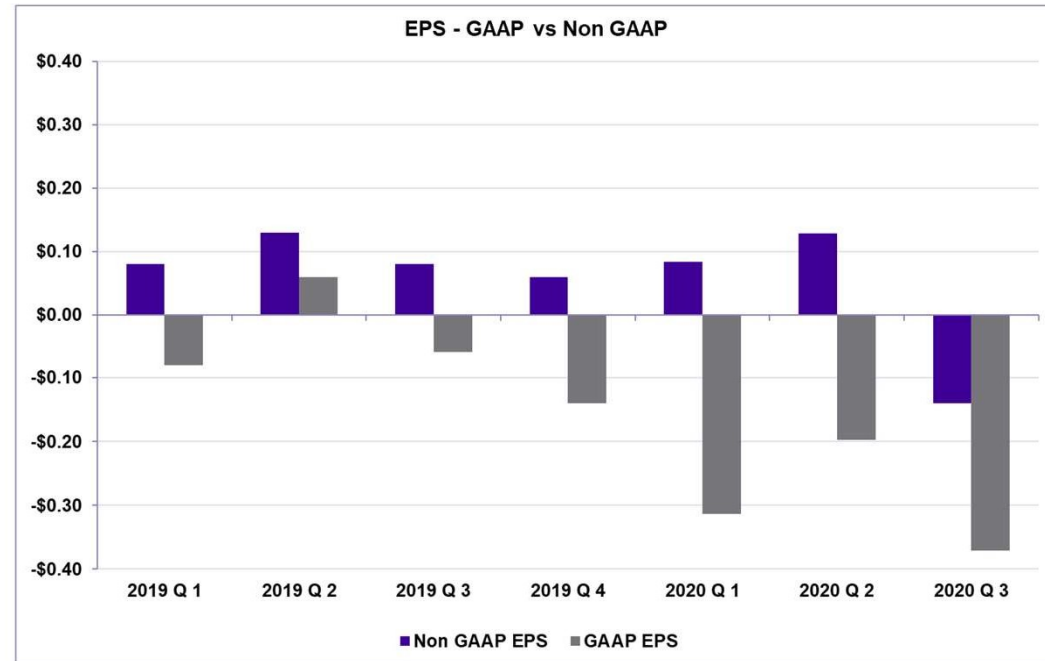
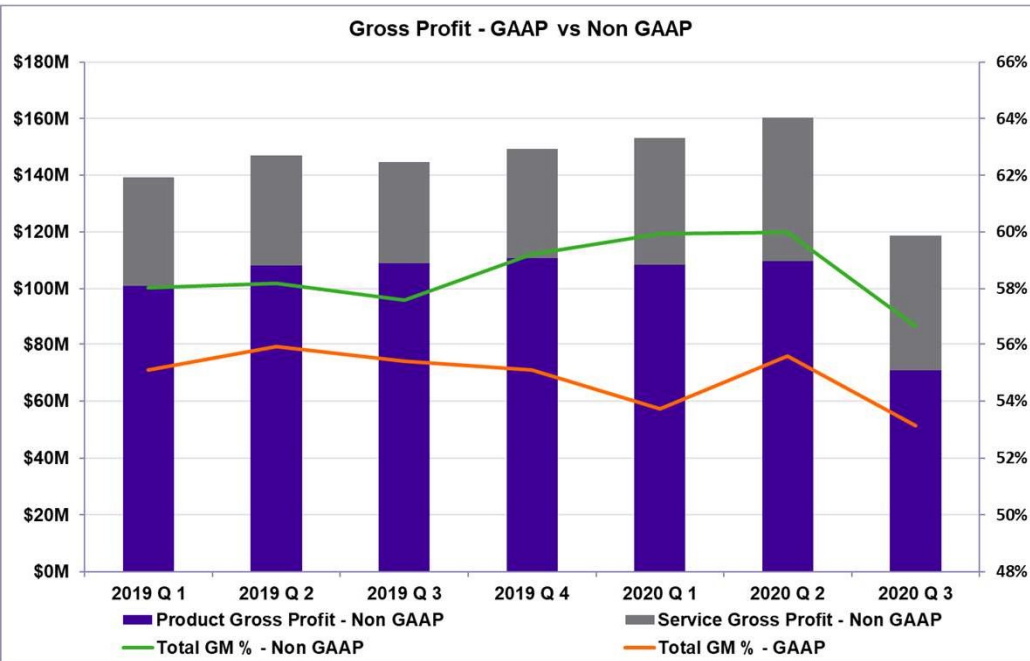
(In \$M's except percentages and EPS)



# Quarterly Results of Operations



(In \$M except percentages and EPS)



# Historical Revenue by Geography



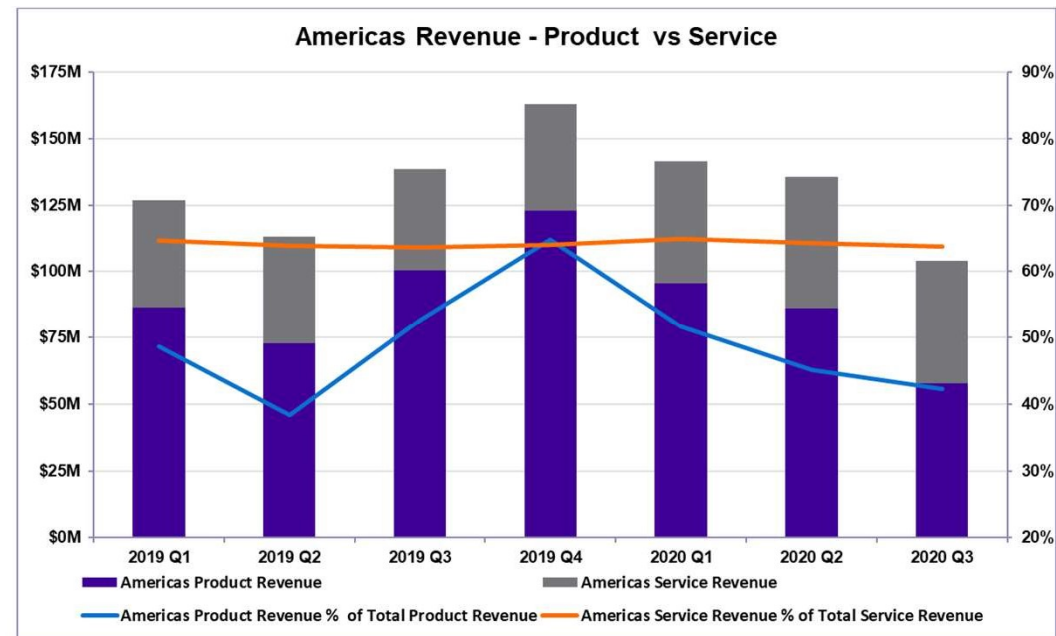
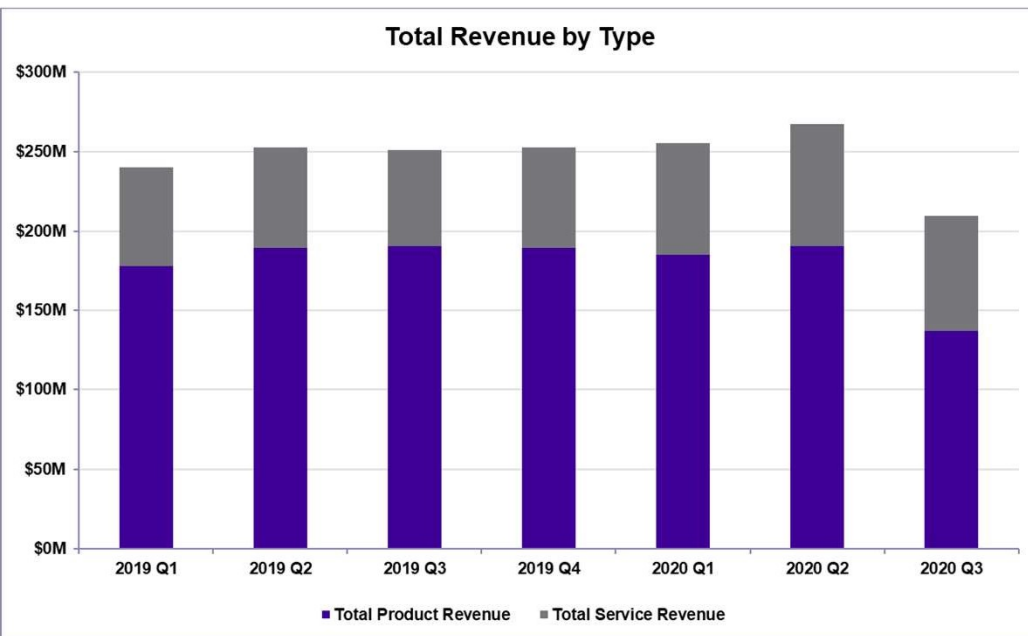
(In \$M's except percentages)

	FQ3'19	FQ2'20	FQ3'20	YoY % Change	QoQ % Change
<b>Product Revenue</b>					
Americas	\$ 100.4	\$ 86.0	\$ 57.6	(42.6%)	(33.0%)
EMEA	67.0	86.9	62.5	(6.7%)	(28.1%)
APAC	23.4	17.6	16.4	(30.0%)	(6.8%)
<b>Total Product</b>	<b>\$ 190.8</b>	<b>\$ 190.5</b>	<b>\$ 136.5</b>	<b>(28.5%)</b>	<b>(28.3%)</b>
<b>Service Revenue</b>					
Americas	\$ 38.3	\$ 49.5	\$ 46.5	21.5%	(6.1%)
EMEA	16.9	22.1	21.1	24.7%	(4.5%)
APAC	4.9	5.4	5.4	9.7%	0.0%
<b>Total Service</b>	<b>\$ 60.1</b>	<b>\$ 77.0</b>	<b>\$ 73.0</b>	<b>21.4%</b>	<b>(5.2%)</b>
<b>Total Revenue</b>					
Americas	\$ 138.7	\$ 135.5	\$ 104.1	(24.9%)	(23.2%)
EMEA	83.9	109.0	83.6	(0.4%)	(23.3%)
APAC	28.3	23.0	21.8	(23.0%)	(5.2%)
<b>Total Revenue</b>	<b>\$ 250.9</b>	<b>\$ 267.5</b>	<b>\$ 209.5</b>	<b>(16.5%)</b>	<b>(21.7%)</b>

# Revenue by Type and by Geography



(In \$M's except percentages)



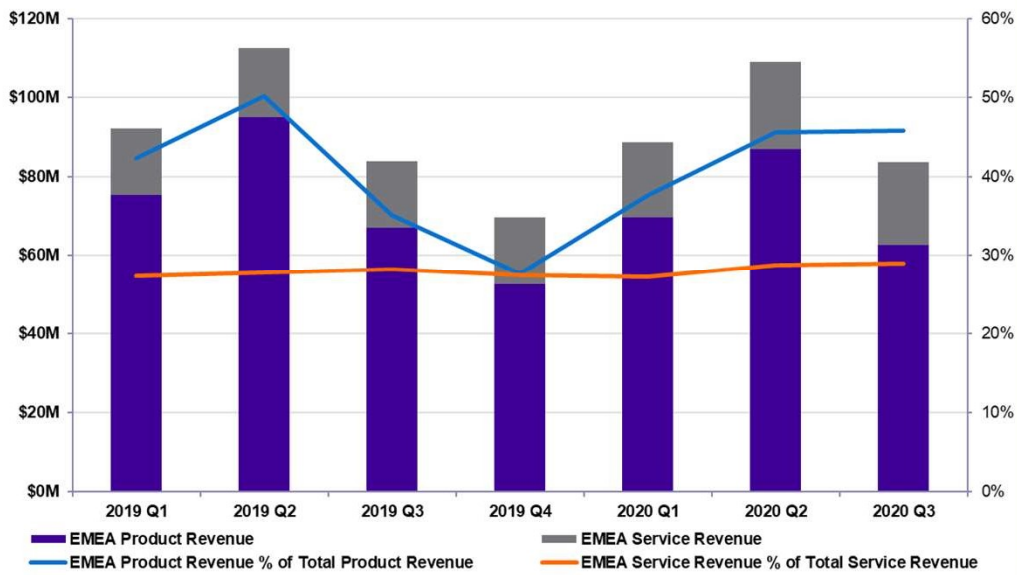


# Revenue by Type and by Geography

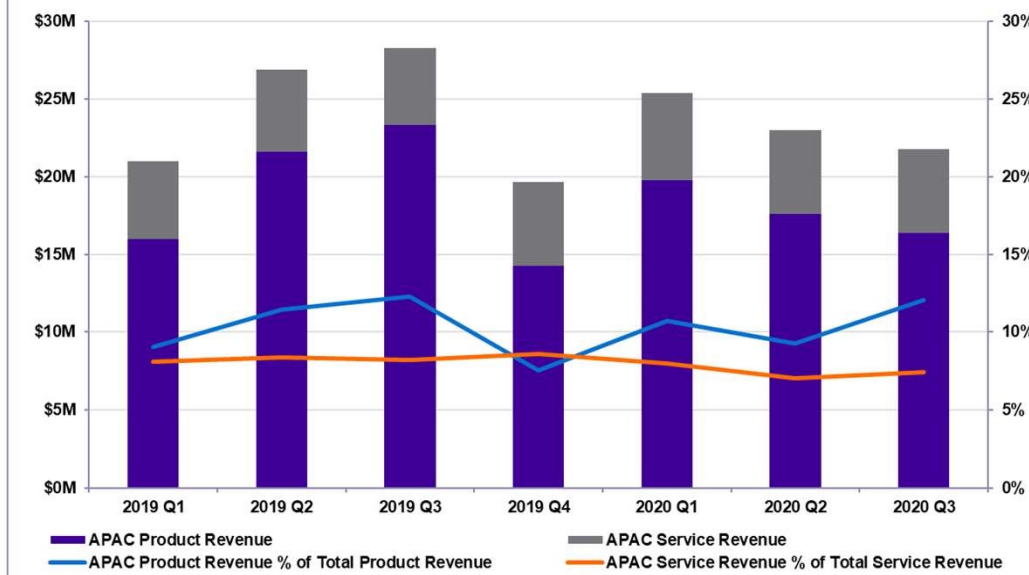


(In \$M's except percentages)

### EMEA Revenue - Product vs Service



### APAC Revenue - Product vs Service



# Financial Highlights – Balance Sheet



(GAAP, BS in \$M's except days)

<b>Balance Sheet Highlights</b>	<b>FQ3'19</b>	<b>FQ2'20</b>	<b>FQ3'20</b>
<b>Cash and Short Term Investments</b>	\$156.8	\$140.4	\$196.4
<b>AR</b>	\$141.5	\$159.8	\$96.2
<b>Inventories</b>	\$57.6	\$79.7	\$66.2
<b>Accounts Payables</b>	\$49.1	\$66.0	\$53.0
<b>Gross Debt Payable</b>	\$182.9	\$375.3	\$425.5

<b>Cash Conversion Cycle Table</b>	<b>FQ3'19</b>	<b>FQ2'20</b>	<b>FQ3'20</b>
<b>DSO</b>	51	55	42
<b>DOI</b>	60	80	84
<b>DPO</b>	51	66	67
<b>Cash Conversion Cycle</b>	<b>60</b>	<b>69</b>	<b>59</b>

## Non-GAAP Free Cash Flow



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 (in millions):

	<b>FQ3'19</b>	<b>FQ2'20</b>	<b>FQ3'20</b>
<b>Operating Cash Flow</b>	\$17.7	\$22.1	\$5.2
<b>PP&amp;E Capital Expenditures</b>	(\$5.0)	(\$4.2)	(\$3.2)
<b>Free Cash Flow</b>	<b>\$12.7</b>	<b>\$17.9</b>	<b>\$2.0</b>

# Key Performance Metrics











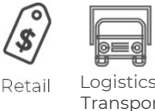



Financial Metrics	FQ2'20	FQ3'20
Large Customers (Over \$1M in bookings for the Quarter)	22	22
Recurring Revenue* \$ Total Dollar Amount for the Quarter	\$75.5M	\$72.1M
Recurring Revenue % As a % of Total Revenue for the Quarter	28%	34%
Product Book to Bill Ratio	1.1x	1.2x
Service Book to Bill Ratio	1.0x	0.9x
R&D as a % of Revenue Non-GAAP	19.5%	22.9%
S&M as a % of Revenue Non-GAAP	26.9%	32.8%
G&A as a % of Revenue Non-GAAP	4.6%	6.0%

Cloud Metrics	FQ2'20	FQ3'20
Average Daily Traffic Per Day	~4PB	~6PB
Managed Devices	1.01M	1.05M
Active Customer Accounts	~86K	92K
Average Management Events Per Day	4.1B	4.4B

\*Recurring Revenue is defined as the sum, without duplication, of subscription revenue, maintenance revenue and services revenue, including subscription and services revenue from the Aerohive business acquired by the Company in August 2019.

# Vertical Trends



	Extreme Exposure	Demand Outlook	Tailwinds	Headwinds
 Government & Education	30-35%		Large contracts flowing in EDU, expansion of international & stable Gov't for business continuity	Timing of deals somewhat dependent on expected occupancy and Gov't Budgets
 Healthcare	>10%		Growth due to differentiation, new customers and new products for remote / outdoor kits and new application	Focus on near-term / tactical use cases during current environment
 Sports / Entertainment & Hospitality	~5%		Strong pipeline of activity pre-COVID should translate into future business once activity resumes	NFL / Casinos impacted by COVID 19, depends on social distancing easing
 Manufacturing	>10%		Manufacturing starting to resume so expecting to see business pick up in FQ4 and potentially accelerate	Still limited outlook and overall business activity remains low
 Retail    Logistics / Transport	~10%		Expanding growth in logistics / warehouse segments of retail and Cloud adoption	Social distancing and limited economic activity impacting certain retail customers
 Telco / Service Provider	~10%		Expect strong pickup in coming quarters driven by bandwidth requirements in WAN and remote hosting	Service Provider budgets somewhat under pressure given increase usage



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## Appendices- GAAP to Non-GAAP Reconciliations

# GAAP to Non-GAAP Reconciliations



## Revenue & Gross Margin (M's except percentages)

	Quarter		
	FQ3'19	FQ2'20	FQ3'20
Product Revenue	\$ 190.8	\$ 190.5	\$ 136.5
Service Revenue	60.1	77.0	73.0
<b>Total Revenue - GAAP Basis</b>	<b>\$ 250.9</b>	<b>\$ 267.5</b>	<b>\$ 209.5</b>
<b>Gross Margin - GAAP Basis</b>	138.9	148.7	111.3
<b>Gross Margin % - GAAP Basis</b>	55.4%	55.6%	53.1%
Inventory Valuation Adjustments	-	(1.2)	-
Integration Costs in COGS	-	1.7	0.2
Amortization of Product Intangibles	4.8	6.9	6.5
Adjustment to Acquired Inventories	-	3.4	-
Stock Comp in COGS	0.9	0.9	0.7
<b>Gross Margin - Non GAAP Basis</b>	<b>\$ 144.6</b>	<b>\$ 160.4</b>	<b>\$ 118.7</b>
<b>Gross Margin % - Non GAAP Basis</b>	57.6%	60.0%	56.7%

# GAAP to Non-GAAP Reconciliations



Operating Income (Loss) (In M's except percentages)

	Quarter		
	FQ3'19	FQ2'20	FQ3'20
<b>Operating Loss - GAAP Basis</b>	\$ (2.3)	\$ (15.2)	\$ (38.4)
<b>Operating Margin- GAAP Basis</b>	(0.9%)	(5.7%)	(18.3%)
Adjustment to Acquired Inventories	-	3.4	-
Integration Costs in COGS	-	1.7	0.2
Amortization of Product Intangibles	4.8	6.9	6.5
Inventory Valuation Adjustments	-	(1.2)	-
Total Stock Comp	8.8	10.5	7.2
Restructuring Charges, net	-	6.6	6.6
Amortization of Non Product Intangibles	1.3	2.4	2.1
Integration Costs in OpEx	-	9.0	5.2
Loss on Lease Contracts	1.3	-	-
<b>Operating Income (Loss) - Non GAAP Basis</b>	<b>\$ 13.9</b>	<b>\$ 24.1</b>	<b>(10.6)</b>
<b>Operating Margin - Non GAAP Basis</b>	<b>5.6%</b>	<b>9.0%</b>	<b>(5.1%)</b>



# GAAP to Non-GAAP Reconciliations



Net Income (Loss) (In \$M's except EPS)

	Quarter		
	FQ3'19	FQ2'20	FQ3'20
<b>Net Loss - GAAP Basis</b>	\$ (6.9)	\$ (23.5)	\$ (44.4)
Shares - GAAP Basis	117.9	119.6	119.2
<b>EPS - GAAP Basis</b>	\$ (0.06)	\$ (0.20)	\$ (0.37)
Adjustment to Acquired Inventories	-	3.4	
Integration Costs in COGS	-	1.7	0.2
Amortization of Product Intangibles	4.8	6.9	6.5
Inventory Valuation Adjustments	-	(1.2)	-
Total Stock Comp	8.8	10.5	7.2
Restructuring Charges, net	-	6.6	6.6
Amortization of Non Product Intangibles	1.3	2.4	2.1
Integration and Acquisition Costs in OpEx	-	9.0	5.2
<b>Net Non GAAP Adjustments</b>	16.2	39.3	27.8
<b>Net Income (Loss) - Non GAAP Basis</b>	\$ 9.3	\$ 15.8	(16.6)
Shares - Non GAAP Basis	120.8	123.2	119.2
<b>EPS - Non GAAP Basis</b>	\$ 0.08	\$ 0.13	\$ (0.14)

# GAAP to Non-GAAP Reconciliations



EBITDA (\$M's)

	Quarter		
	FQ3'19	FQ2'20	FQ3'20
<b>Net Loss - GAAP Basis</b>	\$ (6.9)	\$ (23.5)	\$ (44.4)
Interest	2.4	5.8	5.8
Taxes	1.9	1.8	1.6
Depreciation/Amortization	12.7	16.5	16.2
<b>EBITDA - GAAP</b>	10.1	0.5	(20.9)
Net Non GAAP Adjustments	16.2	39.3	27.8
Amortization included in Net Non GAAP Adjustments	(6.1)	(9.2)	(8.6)
<b>EBITDA - Non GAAP</b>	\$ 20.2	\$ 30.6	(1.7)



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## FQ4'20 Financial Guidance

## FQ4'20 Guidance

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*Given the current fluid market environment we are temporarily suspending our Q4 2020 outlook. We will reassess providing quarterly guidance based on the clarity of macroeconomic recovery at the end of the fourth fiscal quarter.*



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