

NETSCOUT SYSTEMS INC

Form 425

November 10, 2014

November 11, 2014

NetScout Systems, Inc.

2014 Technology, Internet, Media &

Telecommunications Conference

Filed by NetScout Systems, Inc.

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Pursuant to Rule 425 under the Securities Act of 1933, as amended  
and deemed filed pursuant to Rule 14a-12  
under the Securities Exchange Act of 1934, as amended

Subject Company: NetScout Systems, Inc.

(Commission File No. 000-26251)

The following is a copy of a slide deck to be presented by NetScout Systems, Inc. at an investor conference on November 11, 2014.

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Additional Information and Where You Can Find It

NetScout

will

file

a

Preliminary

Proxy

Statement

on

Schedule

14A

and

a

Registration

Statement on Form S-4 containing a prospectus of NetScout and other documents concerning the proposed acquisition with the Securities and Exchange Commission ( SEC ).

Investors are urged to read the proxy statement and prospectus when they become available and other relevant documents filed with the SEC because they will contain important

information. Security holders may obtain free copies of the proxy statement and prospectus (when they are available) and other documents filed by NetScout with the SEC at the SEC s

website at [www.sec.gov](http://www.sec.gov). The proxy statement and the prospectus and other documents may also be obtained for free by contacting Andrew Kramer, Vice President of Investor Relations,

by

telephone

at

978-614-4000,

by

email

at

[ir@netscout.com](mailto:ir@netscout.com),

or

by

mail

at

Investor

Relations,

NetScout Systems, Inc., 310 Littleton Road, Westford, MA 01886.

This communication is not a solicitation of a proxy from any security holder of NetScout.

However, NetScout, Danaher and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from NetScout s stockholders

in connection with the proposed transaction. Information about NetScout s directors and

executive officers and their beneficial ownership of NetScout s common stock may be found in its definitive proxy statement relating to its 2014 Annual Meeting of Shareholders filed with

the SEC on July

24, 2014. This document can be obtained free of charge from the SEC

website at

[www.sec.gov](http://www.sec.gov).

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Safe Harbor & Non-GAAP Financial Metrics

Forward

Looking

Statements:

Forward-looking

statements

in

this  
communication  
are  
made  
pursuant  
to  
the  
safe  
harbor  
provisions  
of  
Section

21E of the Securities Exchange Act of 1934 and other federal securities laws. Investors are cautioned that statements in this communication which are not strictly historical statements. Actual results could differ materially from the forward-looking statements due to known and unknown risks, uncertainties, assumptions and other factors.

Such factors include the failure to obtain, delays in obtaining or adverse conditions related to

obtaining shareholder or regulatory approvals; the anticipated tax treatment of the transaction and related transactions; risks related to unforeseen changes to or the effects on liabilities, future capital expenditures, revenue, expenses, synergies, indebtedness, financial losses and future prospects; failure to consummate or delay in consummating the transaction for other reasons; our ability to recruit and retain executives and employees; slowdowns or downturns in economic conditions generally and in the market for advanced network assurance solutions specifically, the Company's relationships with strategic partners, dependence upon broad-based acceptance of the Company's network performance management solutions, the presence of competitors with greater financial resources than our own; our strategic response to our products; and the ability of NetScout to successfully integrate the merged assets and the associated technology to achieve operational efficiencies.

For a more detailed description of the risk factors associated with the Company, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended March 31,

2014

on

file

with

the

Securities

and

Exchange

Commission.

NetScout

assumes

no

obligation

to

update

any

forward-looking information contained in this communication or with respect to the announcements described herein.

Regulation

G

Disclosure:

This

presentation

makes

reference

to

certain

non-GAAP

measures

such

as

non-GAAP

revenue

and

non-GAAP

earnings per share. These non-GAAP measures are not in accordance with GAAP, should not be considered an alternative for

prepared in accordance with GAAP (revenue, net income and diluted net income per share), and may have limitations in that th

all of NetScout's results of operations as determined in accordance with GAAP. These non-GAAP measures should only be u

NetScout's results of operations in conjunction with the corresponding GAAP measures. The presentation of non-GAAP info

meant to be considered superior to, in isolation from or as a substitute for results prepared in accordance with GAAP. NetScou

non-GAAP financial measures will enhance the reader's overall understanding of NetScout's current financial performance a

prospects for the future by providing a higher degree of transparency for certain financial measures and providing a level of dis

investors understand how the Company plans and measures its own business. NetScout believes that providing these non-GAA

affords investors a view of NetScout's operating results that may be more easily compared to peer companies and also enables

consider NetScout's operating results on both a GAAP and non-GAAP basis during and following the integration period of Ne

acquisitions. Presenting the GAAP measures on their own would not be indicative of NetScout's core operating results. Furth

believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures pro

information to management and investors regarding present and future business trends relating to its financial condition and re

operations. NetScout management regularly uses supplemental non-GAAP financial measures internally to understand, manage

its

business

and  
to  
make  
operating  
decisions.  
These  
non-GAAP  
measures  
are  
among  
the  
primary  
factors  
that  
management  
uses  
in  
planning  
and  
forecasting.  
The  
reconciliation  
of  
these  
non-GAAP  
metrics  
to  
the  
comparable  
GAAP  
metrics  
are  
set  
forth  
in  
the  
accompanying  
tables  
in  
the  
index  
of  
this  
presentation  
and  
are  
available  
on  
our  
website



at  
<http://ir.netscout.com>.

NetScout Investment Highlights

Market leader  
in network and application  
performance management

Award-winning solutions based on proprietary  
software:

ASI  
enabling  
real-time  
intelligence  
and analytics

Helping  
our  
customers  
achieve  
ROI  
and  
manage  
risk  
through  
the  
operational  
intelligence  
gained  
from  
our  
analytics

Financial  
strength  
built  
on  
profitability  
and  
cash  
flow  
arising  
from  
increasing  
revenue  
within  
a  
scalable infrastructure

Capitalizing on attractive growth opportunities  
being  
shaped  
by  
today's  
IT  
trends

Announced  
transformational  
acquisition

of  
Danaher's Communications Business  
Total  
Revenue  
(non-GAAP)  
Earnings  
Per Share  
(non-GAAP)

Free

Cash

Flow

\$309

\$352

\$397

\$57

\$83

\$97

\$1.10

\$1.32

\$1.53

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Our Value Proposition for IT Operations

NetScout Enables Proactive Network, Service and UC Triage

ROI:

Reduce costs

Improve productivity

Generate incremental  
revenue

Risks:

Outages/downtime

Cyber attacks

Non-compliance/fines

Reputational damage

Real-time

operational intelligence and analytics

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Mobility Trends Driving our Growth:

4G/LTE:

Global deployments

Consumer adoption

Services deployed (e.g.

VoLTE)

Network analytics

Geo-analytics

Virtualization

Voice/video/data  
convergence

Big Data

Source: Ericsson Mobility Report, May 2014

Service Providers:

Monetize their investment and retain customers



Trends Impacting Enterprise IT

Enterprise: **Uptime**  
and user experience with cost-effective delivery

Incident

Incident

Session

Analysis

Packet  
Analysis  
IP Traffic Deep Dive  
Problem Solved  
Problem Solved  
UMC/OSS  
Service Dashboard  
Service Monitors  
Dependency Mapping  
Component Performance  
Management

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Mobility: BYOD

Virtualization

Unified  
communications

Converged  
infrastructure

Cloud-based services

Big Data

Internet of things  
Network  
Application  
Server

Why NetScout will continue to win .

Today s fundamentals:

Secular IT Trends

Product Strategy

Financial Strength

Tomorrow s information:

ASI solving Big Data s

data problem

NetScout: Proven technology for proving change

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Revenue and EPS Performance  
CAGRS at FY 15 Guidance Mid-points:  
Revenue: 9.5% EPS: 11%  
Guidance as of October 16, 2014  
Non-GAAP, in millions except EPS  
EPS range:  
\$1.74 -  
\$1.81

Revenue range:

\$450 -

\$465

\$174

\$211

\$0.55

\$0.76

\$290

\$309

\$352

\$397

\$465

\$1.04

\$1.10

\$1.32

\$1.53

\$1.81

FY '11

FY '12

FY '13

FY '14

FY '15

Guidance

1H'14

Q1'15

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Cumulative Free Cash Flow Generation (*in millions*)

Capital deployment priority: product development

\$-

\$100

\$200

\$300

\$400

FY '10  
FY '11  
FY '12  
FY '13  
FY '14  
FY '15 YTD  
FY '15 YTD FCF  
FY '14 FCF  
FY '13 FCF  
FY '12 FCF  
FY '11 FCF  
FY '10 FCF  
\$40  
\$100  
\$157  
\$240  
\$337  
\$362



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NetScout Investment Position:  
Balance Sheet Highlights (*in millions*)  
Total liquidity exceeds \$465M  
Q2 FY 15  
FY 14  
FY 13  
FY 12

FY 11

Cash and Securities

\$217

\$219

\$154

\$214

\$229

Accounts Receivable

\$50

\$61

\$74

\$70

\$63

Total Debt

\$0

\$0

\$0

\$62

\$68

Total Deferred Revenue

\$118

\$134

\$121

\$112

\$100

Total Stockholders

Equity

\$413

\$409

\$372

\$342

\$320

Free Cash Flow

\$25

\$97

\$83

\$57

\$60

NetScout Operating Targets  
Operating targets  
attained at mid-  
teens revenue  
growth.  
Operating  
Targets  
FY 15

Guidance

(as of 10/16/14)

Gross Margin

78

81%

79

80%

R&D of Revenue

13

15%

15

16%

S&M of Revenue

33

35%

32

33%

G&A of Revenue

6

8%

6

7%

Operating Margin

24

27%

26

27%

Scalable organization increases operating leverage

Non-GAAP

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### Strategic Direction and Opportunity

NetScout is **well positioned** within its core markets with a differentiated product portfolio, innovative technology and a compelling value proposition

Service providers and enterprises have

invested significantly in their infrastructures during the past decade but they lack **holistic**

IT management

Acquiring Danaher's Communications

Expanded solutions for addressing

customer needs

Go-to-market advantages

Scale and leverage

Virtualization

Cloud

SDN

Mobility

BYOD

Internet

iPhone

Voice

Cable

IP Convergence

10gig

40gig

100gig

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Business provides:

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Go-to-Market

More global and diverse

Broader sales and

channel presence

worldwide

More customers and

more touch points within

the customer

Increased customer

mindshare

Best-In-Class

Solutions

Broader portfolio for

service providers

Extends reach into the

mid-tier enterprise

market

Jump-starts our entry

into Cyber Intelligence

Next-Gen platform and

software

Financially Compelling

\$1.2B+ revenue base\*

positioned for growth

Accretive to non-GAAP

earnings

Year 2 run-rate cost

synergies of ~5% of total

combined cost base\*

Continued prudent cost

control

NetScout to Acquire Danaher's Communications Business:

Strategic Rationale

\*

Non-GAAP

1

First full year of combined operations

Doubles our total

addressable market to

\$8B+

Furthering our strategic

capabilities to our

customers

Increasing operating

margins and cash flow

1



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NetScout to Acquire Danaher's Communications Business:  
Transaction Overview  
Structure and  
Consideration  
Ownership  
(2)  
Board of

Directors  
Management  
Headquarters  
Closing  
Conditions

NetScout to acquire Danaher's Communications Group

NetScout  
to  
issue  
62.5  
million  
shares,  
valued  
at  
approximately  
\$2.3  
billion  
(1)

Structured as Reverse Morris Trust

Danaher shareholders: 59.5%

NetScout shareholders: 40.5%

Current NetScout Board to remain in place

Anil Singhal to continue as Chairman of the Board

James A. Lico, EVP of Danaher, to join the Board, expanding it to 8 directors

NetScout CEO and other executives to continue in their respective roles

Westford, MA

Transaction anticipated to close in first 6 months of NetScout's FY 2016,  
subject to NetScout shareholder and regulatory approvals, and receipt by  
Danaher of a ruling by the U.S. Internal Revenue Service and opinions of  
counsel regarding certain tax matters

(1)

Based on NetScout's closing share price of \$37.34 on November 4, 2014.

(2)

Includes estimated RSUs to be issued to SpinCo employees.

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Strategy:

Continued leadership in the major computing trends over the next decade

Helping our customers achieve ROI and manage risk through the operational intelligence gained from our analytics

Transformational acquisition positions NetScout with a broader, longer runway to drive revenue, profit and free cash flow growth over the long-

term.

Fundamentals:

Visionary leadership

Cutting edge technology: ASI and nGeniusONE

Brand recognition through market leadership

Scalable infrastructure requiring limited future investment

Solid cash flow and investment position

Proven track record of leadership and financial strength

Thank You

Appendix: Non-GAAP Measure Reconciliation

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Non-GAAP Measure Reconciliation:  
Revenue, EPS and Free Cash Flow  
(\$ in millions)  
1H FY'15  
Operating Cash Flow  
29.0  
\$

Purchase of Fixed Assets & Intangible Assets

(4.1)

\$

Free Cash Flow

24.9

\$

Free Cash Flow

(in thousands, except per share data)

For the Fiscal Years Ended

March 31,

2011

2012

2013

2014

GAAP Revenue

290,540

\$

308,679

\$

350,550

\$

396,647

\$

Deferred revenue fair value adjustment

132

312

1,215

558

Non-GAAP Revenue

290,672

\$

308,991

\$

351,765

\$

397,205

\$

GAAP Gross profit

229,179

\$

243,007

\$

276,542

\$

\$ 312,134

Deferred revenue fair value adjustment

132

312

1,215

558



Inventory fair value adjustment  
 -  
 -  
 453  
 -  
 Share-based compensation expense (1)  
 352  
 419  
 577  
 969  
 Amortization of acquired intangible assets (2)  
 3,980  
 4,651  
 4,547  
 3,333  
 Compensation for post combination services (4)  
 -  
 10  
 14  
 34  
 Non-GAAP Gross profit  
 233,643  
 \$  
 248,399  
 \$  
 283,348  
 \$  
 317,028  
 \$  
 GAAP Income from operations  
 58,065  
 \$  
 53,683  
 \$  
 64,529  
 \$  
 78,014  
 \$  
 Deferred revenue fair value adjustment  
 132  
 312  
 1,215  
 558  
 Inventory fair value adjustment  
 -  
 -  
 453  
 -  
 Share-based compensation expense (1)  
 6,439

8,702  
 9,580  
 12,930  
 Amortization of acquired intangible assets (2)  
 5,887  
 6,782  
 7,424  
 6,765  
 Business development and integration expense (3)  
 755  
 4,347  
 1,618  
 523  
 Compensation for post combination services (4)  
 -  
 438  
 2,721  
 2,215  
 Restructuring charges  
 -  
 603  
 1,065  
 -  
 Non-GAAP Income from operations  
 71,278  
 \$  
 74,867  
 \$  
 88,605  
 \$  
 101,005  
 \$  
 GAAP Net income  
 37,265  
 \$  
 32,428  
 \$  
 40,609  
 \$  
 49,106  
 \$  
 Deferred revenue fair value adjustment  
 132  
 312  
 1,215  
 558  
 Inventory fair value adjustment  
 -  
 -  
 453

|  |  |
|--|--|
| -  |  |
| Share-based compensation expense (1)             |  |
| 6,439  |  |
| 8,702  |  |
| 9,580  |  |
| 12,930   |  |
| Amortization of acquired intangible assets (2)   |  |
| 5,887  |  |
| 6,782  |  |
| 7,424  |  |
| 6,765  |  |
| Business development and integration expense (3) |  |
| 755  |  |
| 4,715  |  |
| 1,618  |  |
| 523  |  |
| Compensation for post combination services (4)   |  |
| -  |  |
| 438  |  |
| 2,721  |  |
| 2,215  |  |
| Loss on extinguishment of debt (5)               |  |
| -  |  |
| 603  |  |
| -  |  |
| -  |  |
| Income tax adjustments (6)                       |  |
| (5,021)  |  |
| (7,700)  |  |
| (8,671)  |  |
| (7,879)  |  |
| Restructuring charges                            |  |
| -  |  |
| 690  |  |
| 1,065  |  |
| -  |  |
| Non-GAAP Net income                              |  |
| 45,457   |  |
| \$   |  |
| 46,970   |  |
| \$   |  |
| 56,014   |  |
| \$   |  |
| 64,218   |  |
| \$   |  |
| GAAP Diluted Net income per share                |  |
| 0.87   |  |
| \$   |  |
| 0.76   |  |
| \$   |  |

0.96  
 \$  
 1.17  
 \$  
 Share impact of non-GAAP adjustments identified above  
 0.19  
 0.34  
 0.36  
 0.36  
 Non-GAAP Diluted net income per share  
 1.06  
 \$  
 1.10  
 \$  
 1.32  
 \$  
 1.53  
 \$  
 Shares used in computing non-GAAP diluted net income per share  
 42,973  
 42,750  
 42,322  
 41,955  
 (1) Share-based compensation expense included in these amounts is as follows:  
 Cost of product revenue  
 134  
 \$  
 192  
 \$  
 235  
 \$  
 228  
 \$  
 Cost of service revenue  
 218  
 227  
 342  
 741  
 Research and development  
 1,651  
 2,486  
 2,944  
 4,361  
 Sales and marketing  
 2,527  
 3,052  
 3,035  
 3,791  
 General and administrative  
 1,909

2,745

3,024

3,809

Total share-based compensation expense

6,439

\$

8,702

\$

9,580

\$

12,930

\$

(2) Amortization expense related to acquired software and product technology included in these amounts is as follows:

Cost of product revenue

3,980

\$

4,651

\$

4,547

\$

3,333

\$

Operating expenses

1,907

2,131

2,877

3,432

Total amortization expense

5,887

\$

6,782

\$

7,424

\$

6,765

\$

(3) Business development and integration expense included in these amounts is as follows:

Cost of service revenue

-

10

-

-

Research and development

-

1,545

15

-

Sales and marketing

-

346

10

-

General and administrative

755

2,446

1,593

523

Other income (expense), net

-

368

-

-