



## Commvault Announces Fiscal 2021 Second Quarter Financial Results

October 27, 2020

--- Annualized recurring revenue (ARR) up 9% year over year ---

--- Second quarter software and products revenue up 5% year over year ---

--- Recurring revenue up 6% year over year ---

TINTON FALLS, N.J., Oct. 27, 2020 /PRNewswire/ --



Second quarter highlights include:

	<u>Second quarter</u>
<b>GAAP Results:</b>	
Revenues	\$171.1 million
Loss from Operations (EBIT)	\$(42.0) million
Operating Margin	(24.5)%
Diluted Loss Per Share	\$(0.89)
<b>Non-GAAP Results:</b>	
Income from Operations (EBIT)	\$28.9 million
EBIT Margin	16.9%
Diluted Earnings Per Share	\$0.45

Commvault [NASDAQ: CVLT] today announced its financial results for the second quarter ended September 30, 2020.

"We are pleased by this quarter's solid financial performance and are on track to deliver continued growth and operating margin expansion," said Sanjay Mirchandani, President and CEO, Commvault. "The Commvault portfolio has never been stronger. New product announcements including Commvault HyperScale X, Commvault Disaster Recovery, and Metallic Cloud Storage Service represent a series of first-mover advantages, addressing critical needs like cloud transformation and ransomware."

Total revenues for the second quarter of fiscal 2021 were \$171.1 million, an increase of 2% year over year and a decrease of 1% sequentially. Total recurring revenue was \$129.1 million, an increase of 6% year over year.

Annualized recurring revenue (ARR), which is the annualized value of all active Commvault recurring revenue streams at the end of the reporting period, was \$483.5 million as of September 30, 2020, up 9% from September 30, 2019.

Software and products revenue was \$72.3 million, an increase of 5% year over year and a decrease of 6% sequentially. The year over year increase in software and products revenue was driven by an 8% increase in larger deals (deals greater than \$0.1 million in software and products revenue).

Services revenue in the quarter was \$98.8 million, flat year over year and an increase of 2% sequentially.

On a GAAP basis, loss from operations was \$42.0 million for the second quarter compared to a loss of \$8.2 million in the prior year. The current quarter loss was driven by \$40.7 million of non-cash impairment charges of intangible assets recognized in the acquisition of Hedvig, Inc. The impairments are primarily due to a moderated view of the acquisition assumptions. The Hedvig technology has now been fully integrated into Hyperscale X software and appliances. The integration of this technology will lessen reliance on third party vendors, begin driving meaningful gross margin expansion on our Hyperscale technology, and improve the customer experience. Non-GAAP EBIT, which excludes the non-cash impairment charges, was \$28.9 million in the quarter compared to \$24.8 million in the prior year.

Operating cash flow totaled \$27.0 million for the second quarter of fiscal 2021 compared to \$24.0 million in the prior year quarter. Total cash and short-term investments were \$394.0 million as of September 30, 2020 compared to \$339.7 million as of March 31, 2020.

A reconciliation of GAAP to non-GAAP results has been provided in Financial Statement Table IV included in this press release. An explanation of these measures is also included below under the heading "Use of Non-GAAP Financial Measures."

### Use of Non-GAAP Financial Measures

Commvault has provided in this press release the following non-GAAP financial measures: non-GAAP income from operations, non-GAAP income from operations margin, non-GAAP net income, non-GAAP diluted earnings per share and annualized recurring revenue (ARR). This selected financial information has not been prepared in accordance with GAAP. Commvault uses these non-GAAP financial measures internally to understand, manage and evaluate its business and make operating decisions. In addition, Commvault believes these non-GAAP operating measures are useful to investors, when used as a supplement to GAAP financial measures, in evaluating Commvault's ongoing operational performance. Commvault believes that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends, and in comparing its financial results with other companies in Commvault's industry, many of which present similar non-GAAP financial measures to the investment community.

Commvault has also provided software and products, services and total revenues on a constant currency basis. Commvault analyzes revenue growth on a constant currency basis in order to provide a comparable framework for assessing how the business performed excluding the effect of foreign currency fluctuations.

All of these non-GAAP financial measures should be considered as a supplement to, and not as a substitute for or superior to, financial information prepared in accordance with GAAP. Investors are encouraged to review the reconciliation of these non-GAAP measures to their most directly comparable GAAP financial measures, which are provided in Table IV included in this press release.

**Non-GAAP income from operations and non-GAAP income from operations margin.** These non-GAAP financial measures exclude noncash stock-based compensation charges and additional FICA and related payroll tax expense incurred by Commvault when employees exercise in the money stock options or vest in restricted stock awards as well as restructuring costs. In fiscal 2020, Commvault also excluded costs related to a non-routine shareholder matter. Commvault has also excluded the noncash amortization and impairment of intangible assets and certain costs related to key employees of Hedvig from its non-GAAP results. These expenses are further discussed in Table IV. Commvault believes that these non-GAAP financial measures are useful metrics for management and investors because they compare Commvault's core operating results over multiple periods. When evaluating the performance of Commvault's operating results and developing short- and long-term plans, Commvault does not consider such expenses.

Although noncash stock-based compensation and the additional FICA and related payroll tax expenses are necessary to attract and retain employees, Commvault places its primary emphasis on stockholder dilution as compared to the accounting charges related to such equity compensation plans. Commvault believes that providing non-GAAP financial measures that exclude noncash stock-based compensation expense and the additional FICA and related payroll tax expenses incurred on stock option exercises and vesting of restricted stock awards allow investors to make meaningful comparisons between Commvault's operating results and those of other companies.

Amortization and impairment charges of intangible assets are noncash items. Commvault believes the exclusion of these expenses provide for a useful comparison of operating results to prior periods and to other companies.

There are a number of limitations related to the use of non-GAAP income from operations and non-GAAP income from operations margin. The most significant limitation is that these non-GAAP financial measures exclude certain operating costs, primarily related to noncash stock-based compensation, which is of a recurring nature. Noncash stock-based compensation has been, and will continue to be for the foreseeable future, a significant recurring expense in Commvault's operating results. In addition, noncash stock-based compensation is an important part of Commvault's employees' compensation and can have a significant impact on their performance. Lastly, the components that Commvault excludes in its non-GAAP financial measures may differ from the components that its peer companies exclude when they report their non-GAAP financial measures.

Commvault's management generally compensates for the limitations described above related to the use of non-GAAP financial measures by providing investors with a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure. Further, Commvault management uses non-GAAP financial measures only in addition to, and in conjunction with, results presented in accordance with GAAP.

**Non-GAAP net income and non-GAAP diluted earnings per share (EPS).** In addition to the adjustments discussed in non-GAAP income from operations, non-GAAP net income and non-GAAP diluted EPS incorporate a non-GAAP effective tax rate of 27%.

Commvault anticipates that in any given period its non-GAAP tax rate may be either higher or lower than the GAAP tax rate as evidenced by historical fluctuations. The GAAP tax rates in recent fiscal years were not meaningful percentages due to the dollar amount of GAAP pre-tax income. For the same reason as the GAAP tax rates, the estimated cash tax rates in recent fiscal years are not meaningful percentages. Commvault defines its cash tax rate as the total amount of cash income taxes payable for the fiscal year divided by consolidated GAAP pre-tax income. Over time, Commvault believes its GAAP and cash tax rates will align.

Commvault considers non-GAAP net income and non-GAAP diluted EPS useful metrics for Commvault management and its investors for the same basic reasons that Commvault uses non-GAAP income from operations and non-GAAP income from operations margin. In addition, the same limitations as well as management actions to compensate for such limitations described above also apply to Commvault's use of non-GAAP net income and non-GAAP EPS.

#### **Conference Call Information**

Commvault will host a conference call today, October 27, 2020, at 8:30 a.m. Eastern Time (5:30 a.m. Pacific Time) to discuss its financial results. To access this call, dial 844-742-4247 (domestic) or 661-378-9470 (international). The live webcast can be accessed under the "Events" section of Commvault's website. An archived webcast of this conference call will also be available following the call.

#### **About Commvault**

Commvault is the recognized leader in data backup and recovery. Commvault's converged data management solution redefines what backup means for the progressive enterprise through solutions that protect, manage and use their most critical asset — their data. Commvault software, solutions and services are available from the company and through a global ecosystem of trusted partners. Commvault employs more than 2,500 highly-skilled individuals across markets worldwide, is publicly traded on NASDAQ (CVLT), and is headquartered in Tinton Falls, New Jersey in the United States. To learn more about Commvault visit [www.commvault.com](http://www.commvault.com)

#### **Safe Harbor Statement**

This press release may contain forward-looking statements, including statements regarding financial projections, which are subject to risks and uncertainties, such as competitive factors, difficulties and delays inherent in the development, manufacturing, marketing and sale of software products and related services, general economic conditions, outcome of litigation and others. For a discussion of these and other risks and uncertainties affecting Commvault's business, see "Item 1A. Risk Factors" in our annual report in Form 10-K and "Item 1A. Risk Factors" in our most recent quarter report in Form 10-Q. Statements regarding Commvault's beliefs, plans, expectations or intentions regarding the future are forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. All such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from anticipated results. Commvault does not undertake to update its forward-looking statements. The development and timing of any product release as well as any of its features or functionality remain at our sole discretion.

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Table I

**Commvault Systems, Inc.**  
**Consolidated Statements of Operations**  
(In thousands, except per share data)  
(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenues:				
Software and products	\$ 72,309	\$ 68,595	\$ 148,863	\$ 132,269
Services	98,830	98,987	195,276	197,516
Total revenues	171,139	167,582	344,139	329,785
Cost of revenues:				
Software and products	7,903	8,831	13,750	14,861
Services	18,896	22,410	37,600	45,100
Total cost of revenues	26,799	31,241	51,350	59,961
Gross margin	144,340	136,341	292,789	269,824
Operating expenses:				
Sales and marketing	79,069	80,960	160,745	168,345
Research and development	30,955	23,227	62,097	46,807
General and administrative	24,748	24,753	46,307	47,260
Restructuring	5,767	12,851	8,091	16,930
Impairment of intangible assets	40,700	—	40,700	—
Depreciation and amortization	5,053	2,719	10,118	5,325
Total operating expenses	186,292	144,510	328,058	284,667
Loss from operations	(41,952)	(8,169)	(35,269)	(14,843)
Interest income	249	1,561	592	3,484
Loss before income taxes	(41,703)	(6,608)	(34,677)	(11,359)
Income tax expense (benefit)	(532)	476	4,211	2,571
Net loss	<u>\$ (41,171)</u>	<u>\$ (7,084)</u>	<u>\$ (38,888)</u>	<u>\$ (13,930)</u>
Net loss per common share:				
Basic	<u>\$ (0.89)</u>	<u>\$ (0.16)</u>	<u>\$ (0.84)</u>	<u>\$ (0.31)</u>
Diluted	<u>\$ (0.89)</u>	<u>\$ (0.16)</u>	<u>\$ (0.84)</u>	<u>\$ (0.31)</u>
Weighted average common shares outstanding:				
Basic	<u>46,516</u>	<u>45,277</u>	<u>46,354</u>	<u>45,363</u>
Diluted	<u>46,516</u>	<u>45,277</u>	<u>46,354</u>	<u>45,363</u>

Table II

**Commvault Systems, Inc.**  
**Condensed Consolidated Balance Sheets**  
(In thousands)  
(Unaudited)

	<b>September 30,</b>	<b>March 31,</b>
	<b>2020</b>	<b>2020</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 383,153	\$ 288,082
Restricted cash	—	8,000
Short-term investments	10,845	43,645
Trade accounts receivable, net	138,957	146,990
Other current assets	26,038	26,969
Total current assets	558,993	513,686
Property and equipment, net	113,014	114,519
Operating lease assets	18,691	15,009
Deferred commissions cost	32,726	31,394
Intangible assets, net	—	46,350
Goodwill	112,435	112,435
Other assets	16,119	11,683
Total assets	<u>\$ 851,978</u>	<u>\$ 845,076</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities:		
Accounts payable	\$ 253	\$ 307
Accrued liabilities	79,112	87,051
Current portion of operating lease liabilities	7,563	7,699
Deferred revenue	<u>227,777</u>	<u>233,497</u>
Total current liabilities	314,705	328,554
Deferred revenue, less current portion	97,506	92,723
Deferred tax liabilities, net	739	849
Long-term operating lease liabilities	12,574	8,808
Other liabilities	6,978	2,238
Total stockholders' equity	<u>419,476</u>	<u>411,904</u>
Total liabilities and stockholders' equity	<u>\$ 851,978</u>	<u>\$ 845,076</u>

Table III

**Commvault Systems, Inc.  
Consolidated Statements of Cash Flows  
(In thousands)  
(Unaudited)**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
<b>Cash flows from operating activities</b>				
Net loss	\$ (41,171)	\$ (7,084)	\$ (38,888)	\$ (13,930)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	5,365	3,136	10,743	6,054
Noncash stock-based compensation	20,584	14,857	39,535	29,607
Impairment of intangible assets	40,700	—	40,700	—
Amortization of deferred commissions cost	4,959	4,227	9,526	8,730
Impairment of operating lease assets	225	1,332	692	2,050
Changes in operating assets and liabilities:				
Trade accounts receivable	15,021	2,460	3,637	45,625
Operating lease assets and liabilities, net	(288)	(806)	(808)	42
Other current assets and Other assets	2,693	4,085	9,982	(1,796)
Deferred commissions cost	(4,319)	(3,593)	(9,965)	(6,962)
Accounts payable	92	792	(67)	(425)
Accrued liabilities	(9,452)	9,023	(17,151)	(1,015)
Deferred revenue	(9,679)	(4,157)	(10,222)	(12,079)
Other liabilities	2,227	(293)	4,528	(782)
Net cash provided by operating activities	<u>26,957</u>	<u>23,979</u>	<u>42,242</u>	<u>55,119</u>
<b>Cash flows from investing activities</b>				
Purchase of short-term investments	—	—	—	(32,800)
Proceeds from maturity of short-term investments	—	32,706	32,800	65,519
Purchase of property and equipment	(2,019)	(616)	(3,662)	(1,457)
Net cash provided by (used in) investing activities	<u>(2,019)</u>	<u>32,090</u>	<u>29,138</u>	<u>31,262</u>
<b>Cash flows from financing activities</b>				
Repurchase of common stock	—	—	—	(40,026)
Proceeds from stock-based compensation plans	5,040	5,662	5,271	6,325
Net cash provided by (used in) financing activities	<u>5,040</u>	<u>5,662</u>	<u>5,271</u>	<u>(33,701)</u>
Effects of exchange rate — changes in cash	<u>7,743</u>	<u>(4,927)</u>	<u>10,420</u>	<u>(3,047)</u>
Net increase in cash, cash equivalents and restricted cash	37,721	56,804	87,071	49,633
Cash, cash equivalents and restricted cash at beginning of period	<u>345,432</u>	<u>320,821</u>	<u>296,082</u>	<u>327,992</u>
Cash, cash equivalents and restricted cash at end of period	<u>\$ 383,153</u>	<u>\$ 377,625</u>	<u>\$ 383,153</u>	<u>\$ 377,625</u>

Table IV

**Commvault Systems, Inc.  
Reconciliation of GAAP to Non-GAAP Financial Measures and Other Financial Information  
(In thousands, except per share data)  
(Unaudited)**

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019

**Non-GAAP financial measures and reconciliation:**

GAAP loss from operations	\$ (41,952)	\$ (8,169)	\$ (35,269)	\$ (14,843)
Noncash stock-based compensation (1)	19,937	14,252	38,831	28,634
FICA and payroll tax expense related to stock-based compensation (2)	188	225	520	640
Restructuring (3)	5,767	12,851	8,091	16,930
Non-routine shareholder matters (4)	—	4,325	—	7,628
Amortization of intangible assets (5)	2,825	—	5,650	—
Hedvig deferred payments (6)	1,406	—	2,812	—
Acquisition costs (7)	—	1,283	—	1,283
Impairment of intangible assets (8)	40,700	—	40,700	—
<b>Non-GAAP income from operations</b>	<b>\$ 28,871</b>	<b>\$ 24,767</b>	<b>\$ 61,335</b>	<b>\$ 40,272</b>
GAAP net loss	\$ (41,171)	\$ (7,084)	\$ (38,888)	\$ (13,930)
Noncash stock-based compensation (1)	19,937	14,252	38,831	28,634
FICA and payroll tax expense related to stock-based compensation (2)	188	225	520	640
Restructuring (3)	5,767	12,851	8,091	16,930
Non-routine shareholder matters (4)	—	4,325	—	7,628
Amortization of intangible assets (5)	2,825	—	5,650	—
Hedvig deferred payments (6)	1,406	—	2,812	—
Acquisition costs (7)	—	1,283	—	1,283
Impairment of intangible assets (8)	40,700	—	40,700	—
Non-GAAP provision for income taxes adjustment (9)	(8,394)	(6,633)	(12,509)	(9,244)
<b>Non-GAAP net income</b>	<b>\$ 21,258</b>	<b>\$ 19,219</b>	<b>\$ 45,207</b>	<b>\$ 31,941</b>
Diluted weighted average shares outstanding	47,106	45,718	46,821	45,946
<b>Non-GAAP diluted net income per share</b>	<b>\$ 0.45</b>	<b>\$ 0.42</b>	<b>\$ 0.97</b>	<b>\$ 0.70</b>

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Subscription and Utility Software and Related Support Services	\$ 53,045	\$ 40,405	\$ 116,664	\$ 72,694
Recurring Support and Services	76,044	81,372	153,516	163,217
Total Recurring Revenue	\$ 129,089	\$ 121,777	\$ 270,180	\$ 235,911
<b>Percentage of Total Revenues</b>	<b>75%</b>	<b>73%</b>	<b>79%</b>	<b>72%</b>
Perpetual Software and Product Revenue	\$ 33,914	\$ 37,852	\$ 59,274	\$ 77,969
Other Professional Services	8,136	7,953	14,685	15,905
Total Non-recurring Revenue	\$ 42,050	\$ 45,805	\$ 73,959	\$ 93,874
<b>Percentage of Total Revenues</b>	<b>25%</b>	<b>27%</b>	<b>21%</b>	<b>28%</b>
<b>Total Revenue (10)</b>	<b>\$ 171,139</b>	<b>\$ 167,582</b>	<b>\$ 344,139</b>	<b>\$ 329,785</b>

**Measures at period ending (\$000s)**

	September 30, 2019	March 31, 2020	September 30, 2020
Annualized Recurring Revenue (11)	\$ 443,064	\$ 451,667	\$ 483,455

	Three Months Ended September 30, 2020			
	Americas	EMEA	APJ	Total
Software and Products Revenue	\$ 39,241	\$ 22,063	\$ 11,005	\$ 72,309
Customer Support Revenue	54,177	24,911	10,359	89,447
Other Services Revenue	4,794	3,084	1,505	9,383
Total Revenue	\$ 98,212	\$ 50,058	\$ 22,869	\$ 171,139

	Three Months Ended September 30, 2019			
	Americas	EMEA	APJ	Total
Software and Products Revenue	\$ 35,863	\$ 21,440	\$ 11,292	\$ 68,595
Customer Support Revenue	57,864	21,906	10,233	90,003
Other Services Revenue	4,430	2,680	1,874	8,984
Total Revenue	\$ 98,157	\$ 46,026	\$ 23,399	\$ 167,582

	Six Months Ended September 30, 2020			
	Americas	EMEA	APJ	Total
Software and Products Revenue	\$ 89,886	\$ 40,858	\$ 18,119	\$ 148,863
Customer Support Revenue	109,415	48,221	20,454	178,090

Other Services Revenue	8,907	5,639	2,640	17,186
Total Revenue	<u>\$ 208,208</u>	<u>\$ 94,718</u>	<u>\$ 41,213</u>	<u>\$ 344,139</u>

	Six Months Ended September 30, 2019			
	Americas	EMEA	APJ	Total
Software and Products Revenue	\$ 67,084	\$ 42,815	\$ 22,370	\$ 132,269
Customer Support Revenue	115,594	43,573	20,318	179,485
Other Services Revenue	9,296	5,362	3,373	18,031
Total Revenue	<u>\$ 191,974</u>	<u>\$ 91,750</u>	<u>\$ 46,061</u>	<u>\$ 329,785</u>

	Three Months Ended September 30, 2020		Six Months Ended September 30, 2020
	Sequential	Year Over Year	Year Over Year
<b>Non-GAAP software and products revenue reconciliation</b>			
GAAP software and products revenue	\$ 72,309	\$ 72,309	\$ 148,863
Adjustment for currency impact	(1,441)	(1,118)	(709)
<b>Non-GAAP software and products revenue on a constant currency basis (12)</b>	<u>\$ 70,868</u>	<u>\$ 71,191</u>	<u>\$ 148,154</u>

	Three Months Ended September 30, 2020		Six Months Ended September 30, 2020
	Sequential	Year Over Year	Year Over Year
<b>Non-GAAP services revenue reconciliation</b>			
GAAP services revenue	\$ 98,830	\$ 98,830	\$ 195,276
Adjustment for currency impact	(2,281)	(1,618)	(425)
<b>Non-GAAP services revenue on a constant currency basis (12)</b>	<u>\$ 96,549</u>	<u>\$ 97,212</u>	<u>\$ 194,851</u>

	Three Months Ended September 30, 2020		Six Months Ended September 30, 2020
	Sequential	Year Over Year	Year Over Year
<b>Non-GAAP total revenue reconciliation</b>			
GAAP total revenues	\$ 171,139	\$ 171,139	\$ 344,139
Adjustment for currency impact	(3,722)	(2,736)	(1,134)
<b>Non-GAAP total revenues on a constant currency basis (12)</b>	<u>\$ 167,417</u>	<u>\$ 168,403</u>	<u>\$ 343,005</u>

#### Footnotes - Adjustments

(1) Represents noncash stock-based compensation charges associated with stock options, restricted stock units granted and our Employee Stock Purchase Plan. Those amounts are represented as follows:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	2019	2020	2019
Cost of services revenue	\$ 740	\$ 698	\$ 1,406	\$ 1,388
Sales and marketing	8,988	7,359	16,192	15,005
Research and development	5,578	2,011	11,519	4,004
General and administrative	4,631	4,184	9,714	8,237
Stock-based compensation expense	<u>\$ 19,937</u>	<u>\$ 14,252</u>	<u>\$ 38,831</u>	<u>\$ 28,634</u>

The table above excludes stock-based compensation expense related to the Company's restructuring activities described below in footnote three.

(2) Represents additional FICA and related payroll tax expenses incurred by Commvault when employees exercise in the money stock options or vest in restricted stock awards.

- (3) In fiscal 2019, Commvault initiated a restructuring plan to increase efficiency in its sales, marketing and distribution functions as well as reduce costs across all functional areas. These restructuring charges relate primarily to severance and related costs associated with headcount reductions, as well as the closure of offices. Restructuring includes stock-based compensation related to modifications of awards granted to former employees. Management believes, when used as a supplement to GAAP results, that the exclusion of these charges will help investors and financial analysts understand Commvault's operating results and underlying operational trends as compared to prior periods.
- (4) During fiscal 2020, Commvault incurred costs related to a non-routine shareholder matter. The costs are for professional fees related to the settlement agreement with the shareholder and consulting fees incurred with the operational review which was agreed to as part of the settlement. Management believes, when used as a supplement to GAAP results, that the exclusion of these costs will better help investors and financial analysts understand Commvault's operating results and underlying operational trends as compared to prior periods.
- (5) Represents noncash amortization of intangible assets.
- (6) In connection with the acquisition of Hedvig Inc., certain Hedvig shareholders will receive cash payments for the 30 months following the date of acquisition, subject to their continued employment with Commvault. While these payments are proportionate to these shareholders' ownership of Hedvig, under GAAP they are accounted for as compensation expense within Research and development expenses over the course of the 30 month service period. Management believes, when used as a supplement to GAAP results, that the exclusion of these non-routine expenses will help investors and financial analysts understand Commvault's operating results and underlying operational trends as compared to prior periods.
- (7) During the second quarter of fiscal 2020, Commvault incurred costs related to the acquisition of Hedvig, Inc. Management believes, when used as a supplement to GAAP results, that the exclusion of these costs will help investors and financial analysts understand Commvault's operating results and underlying operational trends as compared to other periods.
- (8) In the second quarter of fiscal 2021, Commvault recorded impairment of its acquired intangible assets. These non-cash charges are not representative of ongoing costs to the business and are not expected to recur. As a result, these charges are being excluded to provide investors with a more comparable measure of costs associated with ongoing operations.
- (9) The provision for income taxes is adjusted to reflect Commvault's estimated non-GAAP effective tax rate of 27%.
- (10) This table includes the following financial metrics that are derived from Commvault's GAAP recognized revenue:

*Subscription and Utility Software and Related Support Services* - The amounts included on this line include a) non-cancellable term-based, or subscription, licenses (inclusive of both recognized software and recognized maintenance and support revenues) that expire at the end of the contractual term; and b) "pay-as-you-go" utility arrangements based on product usage (inclusive of both recognized software and maintenance and support revenues) that are structured with no guaranteed minimums. The amount includes both Software and Products Revenue and Services Revenue.

*Recurring Support and Services* - The amounts included on this line consist primarily of maintenance and support revenues associated with the sale of perpetual software arrangements. This revenue is included in Services Revenue on Commvault's Consolidated Statement of Operations.

*Perpetual Software and Product Revenues* - The amounts included on this line are primarily associated with revenue from the sale of perpetual software licenses. These revenues are included in Software and Products Revenue on Commvault's Consolidated Statement of Operations.

*Other Professional Services* - The amounts included on this line are primarily revenues associated with Commvault's installation and consultation services. These revenues are included in Services Revenue on Commvault's Consolidated Statement of Operations.

Management believes that reviewing these metrics, in addition to GAAP results, helps investors and financial analysts understand the recurring nature of certain revenue amounts and trends as compared to prior periods.

Note that nearly all of Commvault's software and product revenue is related to solutions that are run in the customer's environment. Commvault currently does not have material revenue related to hosted, or software as a solution products. As a result, as required under ASC 606, substantially all of Commvault's software and product revenue is recognized at a point in time, when it is delivered to the customer, and not ratably over the course of a contractual period. This is the case for both perpetual software licenses and subscription software licenses.

- (11) Annualized Recurring Revenue (ARR) is defined as the annualized recurring value of all active contracts at the end of a reporting period. It includes the following contract types: subscription agreements (including utility), maintenance contracts related to perpetual licenses, other extended maintenance contracts (enterprise support), managed services, and Metallic. It excludes any element of the deal arrangement that is not expected

to recur, primarily perpetual licenses and most professional services. Contracts will be annualized by dividing the total contract value by the number of days in the contract term, then multiplying by 365.

Management believes that reviewing this metric, in addition to GAAP results, helps investors and financial analysts understand the value of Commvault's recurring revenue streams versus prior periods.

- (12) Revenues on a constant currency basis are calculated using the average foreign exchange rates from a previous period and applying these rates to foreign-denominated revenues in the corresponding period of fiscal 2021. The difference between revenue calculated based on these foreign exchange rates and revenues calculated in accordance with GAAP is listed as Adjustment for currency impact in the table above.

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