

Extreme Networks (EXTR)



VOSS  
— CAPITAL —

JANUARY 2021

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The specific investments identified are not representative of all of the investments purchased, sold, or recommended and it should not be assumed that the investments identified were or will be profitable. Actual holdings will vary and there is no guarantee that a particular fund will hold any or all of the investments. A list of all investments is available upon request.

All ownership and financial data for Extreme Networks (EXTR) and the comparison companies are sourced from company filings or Voss estimates.

## VOSS OVERVIEW

- Consistent low beta outperformance and alpha generation with low concentration
- 17.9% compound annual return since inception, net of all fees + expenses
- 9.9% annualized alpha, 1.08 Sharpe Ratio, average beta-adjusted net exposure ITD 50.9%
- Return coefficient of determination ( $r^2$ ) to the S&P 500 is 0.31 since inception

NET RETURN COMPARISON <sup>(1)</sup> AS OF DECEMBER 31 <sup>ST</sup> , 2020					Compound Annual Growth Rate		
	1 MONTH	3 MONTH	YTD	1 YEAR	3 YEAR	5 YEAR	ITD
Voss	7.9%	20.8%	23.7%	23.7%	19.7%	18.8%	17.9%
S&P 500	3.8%	12.1%	18.4%	18.4%	14.2%	15.2%	16.2%
Russell 2000	8.7%	31.4%	19.9%	19.9%	10.2%	13.3%	14.4%
Russell 2000 Value	7.9%	33.4%	4.6%	4.6%	3.7%	9.7%	11.8%
Russell 2000 Growth	9.4%	29.6%	34.6%	34.6%	16.2%	16.4%	16.8%
HFRI Equity Hedge Index	4.6%	8.8%	5.6%	5.6%	1.9%	3.1%	3.2%

PERFORMANCE METRICS V. BENCHMARKS (OCTOBER 2011 – DECEMBER 2020)						
	VOSS	S&P 500	RUSSELL 2000	RUSSELL 2000 VALUE	RUSSELL 2000 GROWTH	HFRI EQUITY HEDGE INDEX
Alpha	-	9.9%	11.9%	12.6%	11.7%	-
Beta	-	0.42	0.32	0.33	0.28	-
Correlation	-	0.56	0.59	0.60	0.55	0.55
R-Squared	-	0.31	0.34	0.36	0.31	0.30
Sharpe Ratio	1.08	1.05	0.66	0.52	0.78	0.16

## VOSS'S TRACK RECORD OF VALUE CREATION FOR ACTIVIST POSITIONS

Voss seeks identifiable and actionable catalysts for value realization, which we believe can be accelerated through an influential ownership position and collaboration with Boards and management teams.

### CURRENT ACTIVIST POSITIONS

### HISTORIC ACTIVIST POSITIONS

#### CUMULATIVE RETURN, GROSS

**250%** *over 5 ½ years*

Quorum Information Technologies Inc.

**62%** *over 9 months*

Rosetta Stone Inc.

**583%** *over 3 years*

Par Technology Corp.

**66%** *over 9 months*

Benefytt Technologies Inc.

## EXTREME NETWORKS EXECUTIVE SUMMARY

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- Extreme Networks (EXTR) has approximately an \$800 million market cap and \$1 billion enterprise value
- Leader in wireless and wired networking equipment (switches, access points), particularly in large scale, complex deployments
- Beneficiary of macro trends including 5G infrastructure build out, Wi-Fi 6, and Internet of Things (IoT)
- Taking share from large competitors like Cisco because of superior software/analytics offerings
- Have a “hidden” software asset in hypergrowth mode and an emerging leader in cloud networking
- Significant discount to trading and transaction comps
- Acquisition target due to its technology leadership, large customer base, robust channel presence, and obvious cost synergies to a strategic buyer
- We see two likely outcomes over the next 12 - 24 months (execute or sale) resulting in 20% - 400% upside

## EXTR HARDWARE BUSINESS OVERVIEW

- EXTR sells networking equipment and software/analytics for the Local Area Network (LAN) and Wire Local Area Network (WLAN) markets
- New iteration of next-generation “universal hardware” released Q4 2020 will drive strong refresh cycle and higher gross margins



**Switches:** Allow devices in network to communicate  
ASP for switches: \$1,000 - \$7,000



**Routers:** Master gatekeeper hardware device for a network  
ASP for Extreme SLX 9640 next gen router shown: ~\$44,000

Cloud-Managed		
AP510C (aka AP650/x)		AP410C
AP510CX (aka AP650/x)		AP460C/ AP460S6C/ AP460S12C (Outdoors)
		AP305C
		AP305CX

**Access Points:** Hardware that allows a device (e.g. smartphone or tablet) to connect to a network  
ASP for APs: \$500-\$2,000

## EXTR'S CUSTOMER BASE

- EXTR has broad end market exposure with its largest concentration in the government, municipalities and education verticals

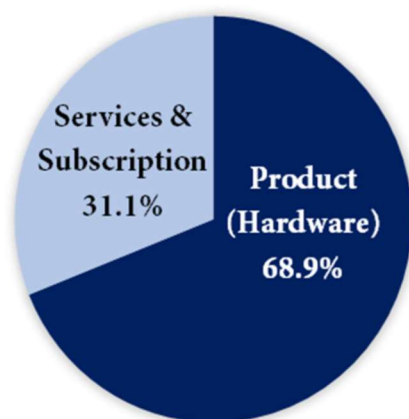
Enterprise Vertical	Revenue Contribution	Recent Trends	Key Customers
Government / Education	>40%		
Enterprise & Other	<20%		
Manufacturing	>10%		
Healthcare	~10%		
Retail / T&L	~10%		
Hospitality & Entertainment	1-2%		



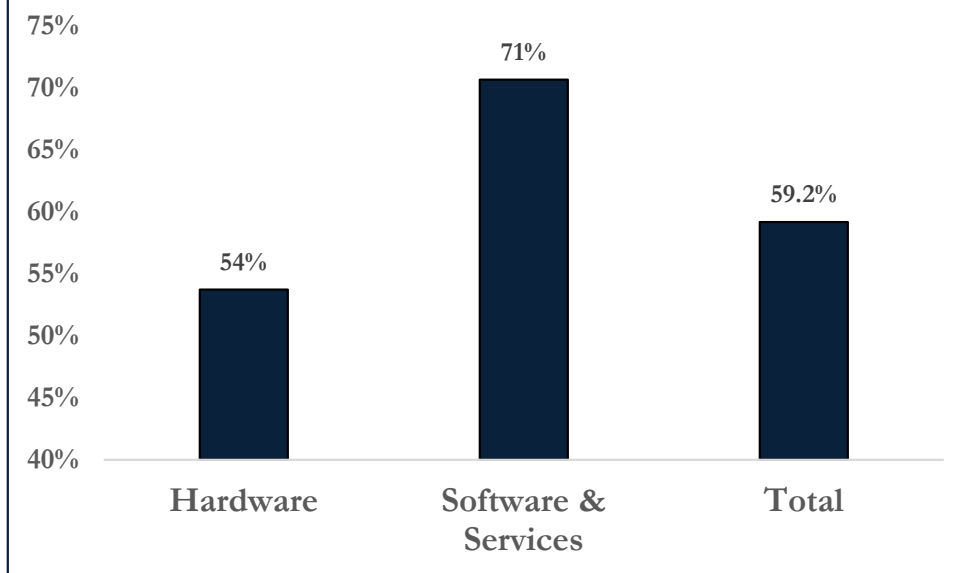
## EXTR REVENUE BREAKDOWN

<u>Revenue Source</u>	<u>Type</u>	<u>Gross Margin</u>
Hardware	Non-Recurring	54%
Hardware Maintenance	Recurring	65%
Software/Subscription	Recurring	85%

EXTR FY 2020 REVENUE BY SEGMENT

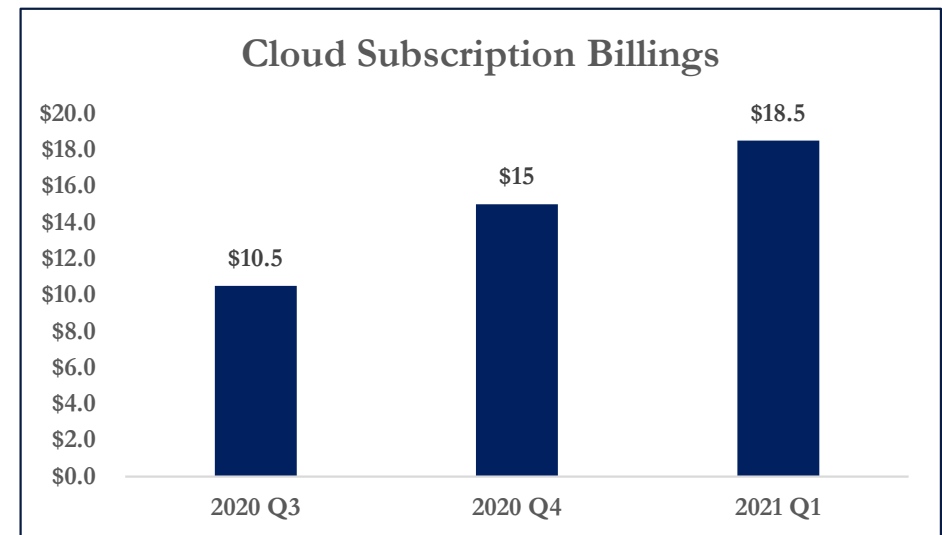
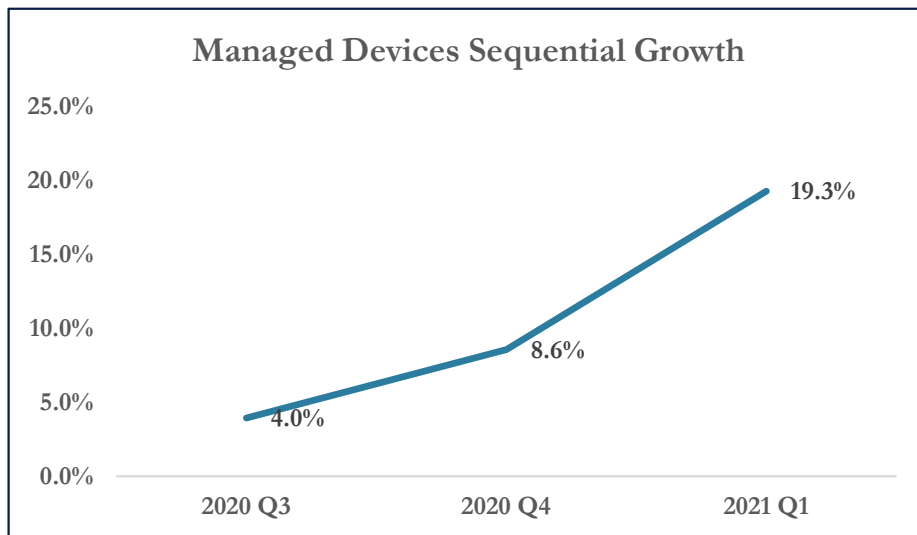


EXTR Gross Margin by Segment LTM

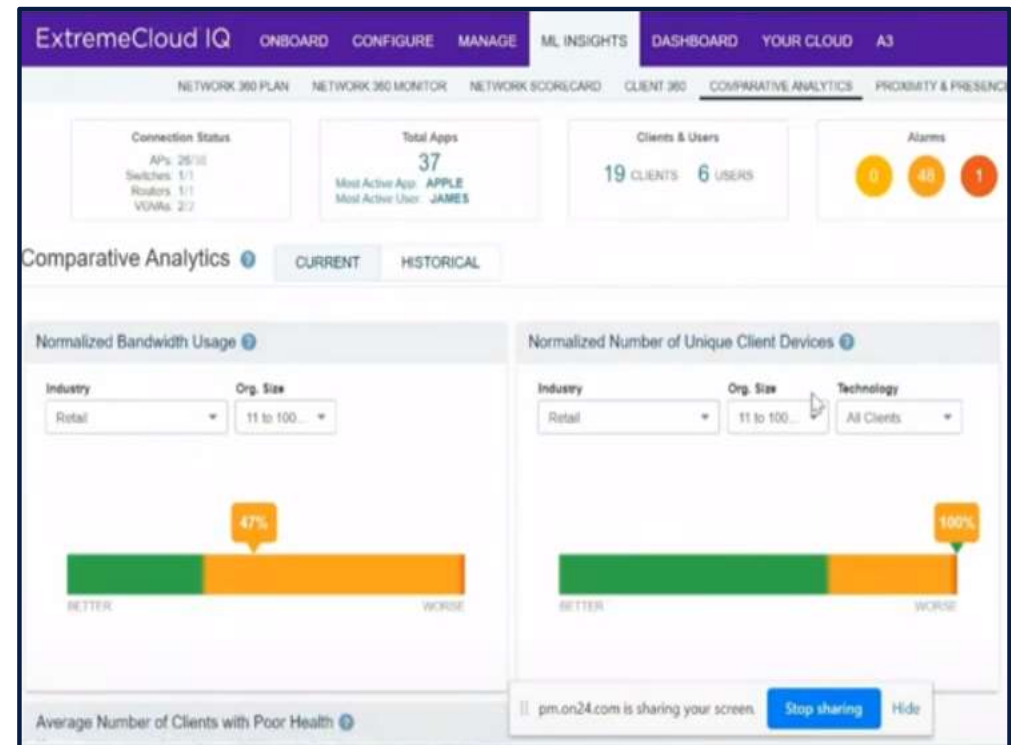


## CLOUD NETWORKING(SAAS) OVERVIEW

- Extreme's Subscription offering is based on their cloud networking platform called **ExtremeCloud IQ**
  - ExtremeCloud IQ allows network administrators to manage their network down to the device level, remotely
- Currently only 6-7% of all devices are “cloud managed”, but it is expected *they will all be eventually*, per Omdia industry report
- Key metrics to track will be:
  - Number of cloud managed devices (currently disclosed)
  - Average Revenue Per Device (ARPD) (not currently disclosed)
- We believe their subscription business is running at \$40-\$60 million Annual Recurring Revenue (ARR) currently but that significant disclosures will be forthcoming at their analyst day around current ARR and roadmap.



# EXTREME CLOUD IQ



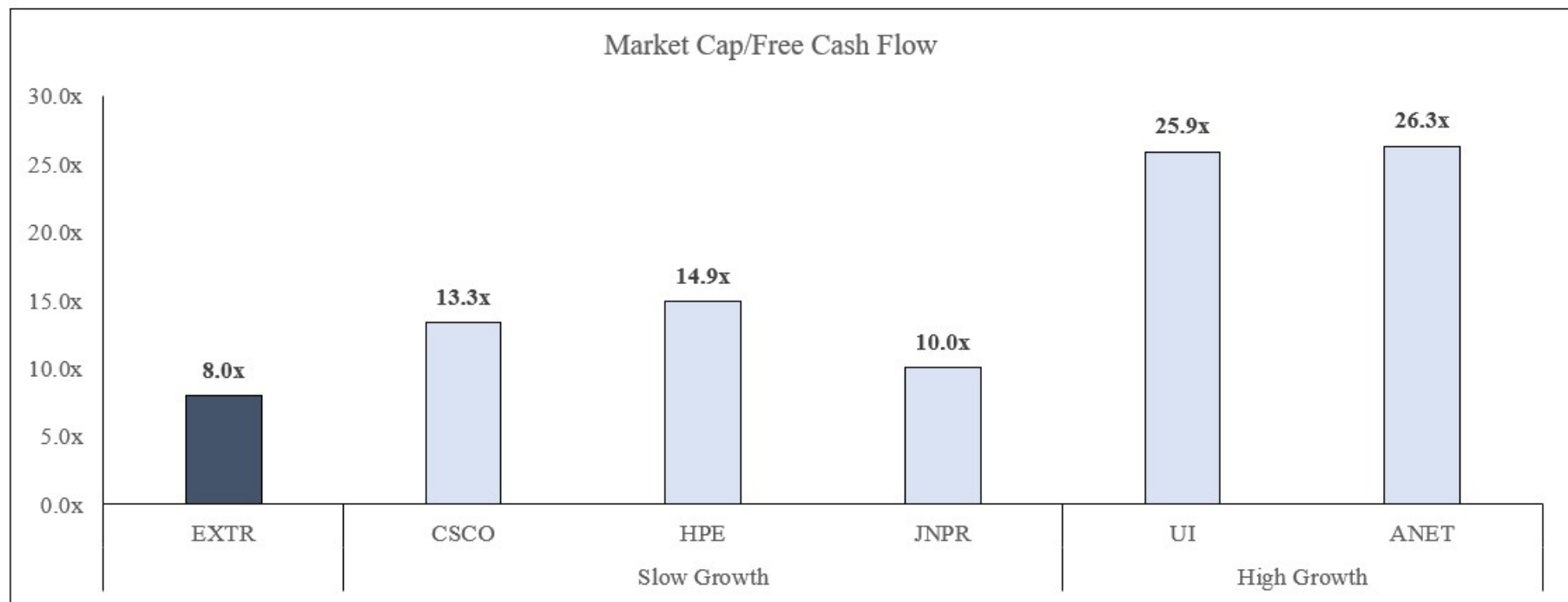
- EXTR is currently the second largest cloud management networking provider\*
- Cloud managed networking market will be >\$7 billion by 2023, up from \$2.6 billion\* in 2020
  - Total Addressable Market in cloud managed networking is growing at a 40% CAGR
- Net-net, we believe this can get to \$100 million of low churn ARR at an 85% gross margin in the next 12-18 months, and to \$250-\$300 million in 3-4 years, which we believe would add at least \$150 million in annual FCF

## WHY THE OPPORTUNITY EXISTS

### CURRENT NARRATIVE DRIVING DEPRESSED VALUATION:

- **Perceived poor balance sheet**
  - Depressed 2020 EBITDA results in 2.7x net leverage ratio on LTM basis
  
- **Volatile revenue and low visibility of earnings**
  - Historically lumpy hardware business driven by enterprise IT spend
  
- **Myopic focus on hardware from analysts**
  - Under appreciated business transition to software centric model
  
- **Questions about management**
  - Viewed as competent yet uninspiring

## VALUATION REFLECTS NEGATIVE NARRATIVE



In a Base Case we believe EXTR should trade between its slow growth and high growth peers, i.e., 15x-20x P/FCF, which would result in an upside of **90-150% upside** for the equity.

Each of these comps are much larger than EXTR with some like CSCO starting to lose market share to EXTR and all of them could be potential acquirers.

## WHAT WE BELIEVE THE FUTURE NARRATIVE WILL BE

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- **Very manageable and decreasing leverage**
  - Net Debt/EBITDA will be only ~1.0x by year end 2021
- **Viewed as a technology leader in cloud networking with a diverse base of high-end customers**
  - Higher visibility in forecasting from long term contracts
- **Multi-year beneficiary of transition to Wi-Fi 6 and 5G infrastructure build out**
- **Accelerating revenue growth with rising margins (Voss Sauce)**
  - A recipe for multiple expansion
  - Very high incremental margins (~60% incremental EBIT margins), so revenue growth from \$1 to \$1.2 billion can make a material difference in valuation

## EXTR STRATEGIC VALUE AS A TECHNOLOGY LEADER

- Perennial Gartner Magic Quadrant leader
- Industry awards including CRN's Overall Networking Product of the Year in 2020
- Strong in reseller channel and enterprise market, a position coveted by competitors
- Acquirer could likely cut 30-40% of operating costs, making a buyout very accretive

*“Extreme is leapfrogging over Cisco’s Meraki with a cloud-first networking focus”*

– CRN Network

*“Extreme is **way ahead of the competition** in terms of where they are dumping their R&D dollars, and I see tremendous value in us delivering our managed services powered by Extreme offerings.”*

– Extreme MSP partner

*“Extreme’s acquisition of Aerohive.. Frankly **a game changer** for them in terms of their strategy.. They had a wireless product, had good adoption, market-leading in Gartner Magic Quadrant.. high ability to execute.. but they didn’t have that fourth-generation cloud architecture.. **now they have that best-in-class capability.**”*

– Chief Customer Officer at  
Integration Partners

## HYPOTHETICAL MULTIPLE WAYS TO A DOUBLE

### Hardware Market Share Gains

Every 1% market share gain = ~\$200 million in revenues and ~\$100 million in FCF (very material on an \$800 million market cap)

There is evidence this is occurring with recent wins by EXTR such as Major League Baseball and Amazon warehouses along with showing stronger sequential growth and guidance vs. Cisco, and conversations with industry experts and resellers

New universal hardware platform currently rolling out

### Recurring Revenue Growth

Current ARR= \$250 million  
(subscription + maintenance)

Management believes they can capture 13% of Cloud managed networking market by 2024, implying at least \$350 million in annual **subscription** revenue

We forecast total ARR going from \$250 to \$550M with rising gross margins

We believe **much of this growth can come from the existing customer base**, independent of any market share gains

**Each 1% Market Share Gain = 100% Upside\***

**ARR Target of \$500M leads to >100% Upside**

**200%+ Upside**



## SCENARIO ANALYSIS

- Remaining a standalone public company with market share gains and multiple expansion offers the most upside over the intermediate to long term.
- While our Bear Case here as 29% downside, we believe at this level a strategic acquirer could likely come in.
- These targets are based on 2021 numbers, more upside is attainable on 2022 numbers.

	Bear Case	Base Case	Bull Case
Revenues	\$950,000	\$1,000,000	\$1,100,000
Gross Margin	60.0%	61.0%	62.0%
<b>Gross Profit</b>	<b>\$570,000</b>	<b>\$610,000</b>	<b>\$682,000</b>
Operating Expenses	\$490,000	\$490,000	\$500,000
<b>Non-GAAP Op. Income</b>	<b>\$80,000</b>	<b>\$120,000</b>	<b>\$182,000</b>
Operating Margin	8.4%	12.0%	16.5%
Depreciation	28,000	28,000	28,000
<b>EBITDA</b>	<b>\$108,000</b>	<b>\$148,000</b>	<b>\$210,000</b>
Capex	20,000	25,000	30,000
<b>EBITDA-Capex</b>	<b>\$88,000</b>	<b>\$123,000</b>	<b>\$180,000</b>
Cash Interest	25,000	25,000	25,000
Taxes	5,000	5,000	5,000
<b>FCF</b>	<b>\$58,000</b>	<b>\$93,000</b>	<b>\$150,000</b>
<b>uFCF</b>	<b>\$83,000</b>	<b>\$118,000</b>	<b>\$175,000</b>
Market Cap/FCF	10.0x	15.0x	20.0x
Market Cap	\$580,000	\$1,395,000	\$3,000,000
Upside/Downside	-29%	72%	269%

## TRADING COMPS

	EXTR	Old Tech			New Tech	
		JNPR	CSCO	HPE	ANET	UI
Enterprise Value	\$1,007	\$7,711	\$157,900	\$24,179	\$13,390	\$12,089
Market Cap	\$813	\$8,030	\$175,000	\$12,558	\$16,694	\$12,559
<b>FY2 Estimates</b>						
Sales	\$1,100	\$4,542	\$50,489	\$26,993	\$2,559	\$1,343
Gross Income	\$682	\$2,735	\$32,575	\$8,565	\$1,654	\$672
EBITDA	\$150	\$996	\$18,047	\$4,755	\$1,005	\$511
FCF	\$100	\$653	\$14,343	\$996	\$872	\$423
<b>Valuation Multiples</b>						
EV/Sales	0.9x	1.7x	3.1x	0.9x	5.2x	9.0x
EV/Gross Profit	1.5x	2.8x	4.8x	2.8x	8.1x	18.0x
EV/EBITDA	6.7x	7.7x	8.7x	5.1x	13.3x	23.7x
P/FCF	8.1x	12.3x	12.2x	12.6x	19.1x	29.7x
<b>Expected Growth</b>						
Sales	10%	3%	5%	1%	13%	0%
Gross Income	12%	5%	5%	2%	14%	-2%
EBITDA	25%	13%	5%	5%	13%	7%
FCF	67%	4%	7%	32%	20%	-8%
<b>Margins</b>						
Gross Margin	61%	60%	64%	32%	65%	51%
EBITDA Margin	14%	22%	36%	18%	39%	38%
FCF Margin	9%	14%	28%	4%	34%	32%

- We believe EXTR's EV/Gross Profit multiple can re-rate to somewhere between Old Tech and New Tech.
- In a base case, some de-levering can move it closer to JNPR/HPE (3x - 5x)
- In a Bull Case where EXTR takes material share, valuations could move towards ANET/UI levels (8x - 18x)
- Note: these are our estimates for Extreme

## TRANSACTION COMPS

Date	Target	Buyer	EV	EV/			Sales Growth	Margins		Notes
				Revenue	EBITDA	Gross Profit		Gross	EBITDA	
Aug-2011	EMS Tech (ELMG)	Honeywell	\$485	1.4x	12.5x	3.7x	-1.3%	36.5%	10.7%	Almost all hardware. LXE Segment = Wireless connectivity solutions over satellite
May-2014	ISSC Technologies	Microchip Tech	\$304	4.4x	20.4x	9.3x	-5.4%	46.2%	21.5%	Bluetooth hardware. Taiwanese.
Dec-2014	Riverbed Technologies	Thoma Bravo	\$3,373	3.1x	18.3x	4.2x	3.1%	74.1%	16.9%	Sells Wide Area Network (WAN) optimization products.
Mar-2015	Aruba Networks	HP Inc.	\$2,518	3.1x	35.7x	5.0x	18.2%	69.2%	4.0%	Network access equipment. Wi-fi access points and analytics.
Mar-2018	Alpha Networks Inc	Qisda Corp.	\$233	1.0x	29.0x	2.8x	-18.1%	16.5%	3.9%	Private placement for 18.4% stake. Taiwan based. 100% hardware: switches, wireless LAN adapters, etc.
Jul-2020	Silver Peak Systems	HPE	\$925	7.0x	-	-	-	-	-	Combining with Aruba. SDN/Software Defined-WAN focus.
Sep-2020	Cradlepoint Inc.	Ericsson	\$1,100	8.1x	-	-	-	-	-	More of a pure software play in the networking space. Tech laggard per Gartner rankings. High revenue growth, low gross margin/cash flow negative.
Oct-2020	128 Technology	Juniper	\$450	-	-	-	-	-	-	SD-WAN player to compliment Mist.
Mar-2019	Mist Systems	Juniper	\$405	-	-	-	-	-	-	Cloud based networking, pure EXTR comp. \$100M annualized booking rate as of Q4 2019. 2/3s of revenue is hardware.

Transaction Comp Average	\$1,088	3.5x	23.2x	5.0x	-0.7%	48.5%	11.4%	
<b>EXTR</b>	<b>\$1,061</b>	<b>1.1x</b>	<b>13.8x</b>	<b>2.0x</b>	<b>10.0%</b>	<b>61.0%</b>	<b>15.0%</b>	<b>Margins and growth are Voss 2021 estimates</b>

- Aruba Networks (85% of revenue hardware) and Mist Systems (66% of revenue from hardware) are the best transaction comps
- Enterprise Value/Gross Profit is a relevant valuation metric in the context of a buyout by a strategic acquirer as they can cut a lot of operating expenses (~30-40%) below the COGS line, with some potential cost synergies in the COGS as well
  - At the comp average of 5.0x EV/2021 Gross Profit EXTR has ~240% upside
- EXTR has higher gross margins than the comp group here and in 2021 we estimate they will grow the top line by ~10%

## OWNERSHIP

- Voss is currently the 12th largest owner of the stock with 1.8% of shares outstanding already
- Insiders collectively own 2.3%

Holder	% Ownership	Shares (000s)	Value (\$ million)
BlackRock Fund Advisors	12.49%	15,365	\$99.9
The Vanguard Group, Inc.	6.46%	7,943	\$51.6
Paradigm Capital Management, Inc.	5.91%	7,276	\$47.3
D. E. Shaw & Co. LP	3.81%	4,682	\$30.4
Renaissance Technologies LLC	3.65%	4,492	\$29.2
SSgA Funds Management, Inc.	3.22%	3,963	\$25.8
Assenagon Asset Management SA	2.19%	2,692	\$17.5
Goldman Sachs & Co. LLC	2.14%	2,629	\$17.1
Columbia Management Investment Advisers	2.00%	2,464	\$16.0
Kennedy Capital Management, Inc.	1.86%	2,293	\$14.9
Jacobs Levy Equity Management, Inc.	1.86%	2,286	\$14.9
Voss Capital	1.80%	2,220	\$14.4

Insiders	% Ownership	Shares (000s)	Value (\$ million)
Kennedy, Edward	0.47%	574	\$3.6
Meyercord, Edward	0.45%	549	\$3.5
Shoemaker, John	0.39%	481	\$3.0
Carinalli, Charles	0.36%	440	\$2.8
Gault, Robert	0.21%	264	\$1.7
Khanna, Raj	0.17%	208	\$1.3
Thomas, Remi	0.13%	159	\$1.0
Holmgren, Kathleen	0.11%	137	\$0.9
Burton, Ingrid	0.03%	33	\$0.2
<b>Insider Total</b>	<b>2.3%</b>	<b>2844</b>	<b>\$17.9</b>

## ANTICIPATED CATALYSTS

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### **January 2021 – Q4 2020 Earnings Release**

### **February 2021 - Analyst Day**

- Provide new software focused metrics to assist with investor modeling
- Set long term financial targets for the cloud management opportunity
- Provide additional details and guideposts to previously underdiscussed 5G opportunity

### **Mid-to-late 2021– Continued execution**

- Results in re-rating of the stock in the market and/or company could explore a sale

## SUMMARY - NEXT 12 MONTHS

CURRENT NARRATIVE	12 MONTHS FROM NOW
Poor Balance Sheet	~ 1.0x Net Debt/EBITDA
Volatile Revenue	~40% Recurring Revenue
Myopic Focus on Hardware	SaaS Leader
Skepticism Around Management	Management is Executing on the Opportunity

## **Disclosures and Notices:**

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