



Press Release

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Verint Announces Another Quarter of Strong Cloud Growth

Strong Momentum in First Half; Raising Guidance for the Year

MELVILLE, N.Y., September 9, 2021 - Verint® (Nasdaq: VRNT), The Customer Engagement Company™, today announced results for the three and six months ended July 31, 2021 (FYE 2022). Revenue for the three months ended July 31, 2021 was \$215 million on a GAAP basis representing 5% year-over-year growth and \$216 million on a non-GAAP basis representing 4% year-over-year growth. Revenue for the six months ended July 31, 2021 was \$416 million on a GAAP basis representing 7% year-over-year growth and \$418 million on a non-GAAP basis representing 5% year-over-year growth. For the three months ended July 31, 2021, diluted EPS was \$0.00 on a GAAP basis and, \$0.58 on a non-GAAP basis. For the six months ended July 31, 2021, net loss per common share was (\$0.04) on a GAAP basis, and diluted EPS was \$1.01 on a non-GAAP basis.

“Since the completion of the Cognyte spin at the beginning of the year, we have experienced strong cloud momentum and believe we have crossed the mid-point of our cloud transition. We expect our cloud momentum to continue in the second half of the year and we are raising our annual outlook for non-GAAP revenue, cloud revenue and diluted EPS. We are also raising our annual outlook for new perpetual license equivalent bookings growth, which we believe is an important metric during our cloud transition and a leading indicator of future revenue growth,” said Dan Bodner, Verint CEO.

Bodner added: “Behind our strong momentum is our strategy to drive automation in customer engagement across the enterprise with our open cloud platform. We believe that more and more brands are embracing digital first engagement and that we are uniquely positioned to help them with our open, partner friendly, infrastructure-agnostic cloud platform. We continue to rapidly innovate our cloud platform to power the workforce of people and bots, to embrace an enterprise-wide customer experience culture, and to harness data to drive more AI and analytics into their business.”

Second Quarter Key Cloud Metrics

- **Strong Cloud Growth:** Cloud revenue up more than 43% year-over-year
- **Strong Software Bookings Growth:** New perpetual license equivalent (PLE) bookings up 17% year-over-year
- **SaaS Bookings Mix:** 53% of PLE bookings from SaaS compared to 43% in the same quarter in the prior year
- **Improving Visibility from Multi-year Cloud Deals:** Remaining performance obligations (RPO) increased 29% year-over-year to \$627 million

FYE 2022 Outlook

We are increasing our non-GAAP annual outlook for the year ending January 31, 2022 as follows:

- Cloud Revenue Growth: 35% (up from a range of 30% to 35%)
- New PLE Bookings Growth: 15% (up from 10%+)
- Revenue: \$872 million with a range of +/- 2% (up from \$860 million)

- We expect Q3 revenue to be between \$215 to \$220 million and to finish the year with our typical seasonally strong fourth quarter revenue.
- Diluted EPS: \$2.25 at the midpoint of our revenue guidance (up from \$2.23)
 - We expect Q3 diluted EPS of \$0.53 at the midpoint of our revenue guidance and to finish the year with our typical seasonally strong fourth quarter profitability.

Our non-GAAP outlook for the three months ending October 31, 2021 and year ending January 31, 2022 excludes the following GAAP measures which we are able to quantify with reasonable certainty:

- Amortization of intangible assets of approximately \$11 million and \$45 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.
- Expenses and losses on debt modification or retirement of \$0 million and \$2 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.
- Favorable change in fair value of future tranche right of \$0 million and \$16 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.
- Unrealized losses on derivatives, net of \$0 million and \$14 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.

Our non-GAAP outlook for the three months ending October 31, 2021 and year ending January 31, 2022 excludes the following GAAP measures for which we are able to provide a range of probable significance:

- Revenue adjustments are expected to be between approximately \$1 million and \$2 million, and \$3 million and \$4 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.
- Stock-based compensation expenses are expected to be between approximately \$15 million and \$17 million, and \$64 million and \$70 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively, assuming market prices for our common stock approximately consistent with current levels.
- Further costs associated with Verint's February 1, 2021 separation into two independent public companies are expected to be between approximately \$2 million and \$3 million, and \$12 million and \$15 million, for the three months ending October 31, 2021 and year ending January 31, 2022, respectively.

Our non-GAAP outlook does not include the potential impact of any in-process business acquisitions that may close after the date hereof, and, unless otherwise specified, reflects foreign currency exchange rates approximately consistent with current rates.

We are unable, without unreasonable efforts, to provide a reconciliation for other GAAP measures which are excluded from our non-GAAP outlook, including the impact of future business acquisitions or acquisition expenses, future restructuring expenses, and non-GAAP income tax adjustments due to the level of unpredictability and uncertainty associated with these items. For these same reasons, we are unable to assess the probable significance of these excluded items. While historical results may not be indicative of future results, actual amounts for the three and six months ended July 31, 2021 and 2020 for the GAAP measures excluded from our non-GAAP outlook appear in Tables 2, 3 and 4 of this press release.

Conference Call Information

We will conduct a conference call today at 4:30 p.m. ET to discuss our results for the three and six months ended July 31, 2021, outlook, and long-term targets. An online, real-time webcast of the conference call and webcast slides will be available on our website at www.verint.com. The webcast slides will be available on our website until at least October 31, 2021. The conference call can also be accessed live via telephone at 1-844-309-0615 (United States and Canada) and 1-661-378-9462 (international) and the passcode is 5623319. Please dial in 5-10 minutes prior to the scheduled start time.

About Non-GAAP Financial Measures

This press release and the accompanying tables include non-GAAP financial measures. For a description of these non-GAAP financial measures, including the reasons management uses each measure, and reconciliations of non-GAAP financial measures presented for completed periods to the most directly comparable financial measures prepared in accordance with GAAP, please see the tables below as well as "Supplemental Information About Non-GAAP Financial Measures and Operating Metrics" at the end of this press release.

About Verint Systems Inc.

Verint® (Nasdaq: VRNT) helps the world's most iconic brands – including over 85 of the Fortune 100 companies – build enduring customer relationships by connecting work, data, and experiences across the enterprise. The Verint Customer Engagement portfolio draws on the latest advancements in AI and analytics, an open cloud architecture, and The Science of Customer Engagement™ to help customers close The Engagement Capacity Gap™.

Verint. The Customer Engagement Company™. Learn more at [Verint.com](https://www.verint.com).

Cautions About Forward-Looking Statements

This press release contains forward-looking statements, including statements regarding expectations, predictions, views, opportunities, plans, strategies, beliefs, and statements of similar effect relating to Verint Systems Inc. These forward-looking statements are not guarantees of future performance and they are based on management's expectations that involve a number of known and unknown risks, uncertainties, assumptions, and other important factors, any of which could cause our actual results or conditions to differ materially from those expressed in or implied by the forward-looking statements. Some of the factors that could cause our actual results or conditions to differ materially from current expectations include, among others: uncertainties regarding the impact of changes in macroeconomic and/or global conditions, including as a result of slowdowns, recessions, economic instability, political unrest, armed conflicts, natural disasters, or outbreaks of disease, such as the COVID-19 pandemic, as well as the resulting impact on information technology spending by enterprises and government customers, on our business; risks that our customers delay, cancel, or refrain from placing orders, refrain from renewing subscriptions or service contracts, or are unable to honor contractual commitments or payment obligations due to liquidity issues or other challenges in their budgets and business, due to the COVID-19 pandemic or otherwise; risks that restrictions resulting from the COVID-19 pandemic or actions taken in response to the pandemic adversely impact our operations or our ability to fulfill orders, complete implementations, or recognize revenue; challenges associated with our cloud transition, including increased importance of subscription renewal rates, and risk of increased variability in our period to period results based on the mix, terms, and timing of our transactions; risks associated with our ability to keep pace with technological advances and challenges and evolving industry standards; to adapt to changing market potential from area to area within our markets; and to successfully develop, launch, and drive demand for new, innovative, high-quality products that meet or exceed customer challenges and needs in both existing and new areas, while simultaneously preserving our legacy businesses and migrating away from areas of commoditization; risks due to aggressive competition in all of our markets, including with respect to maintaining revenue, margins, and sufficient levels of investment in our business and operations, and competitors with greater resources than we have; risks relating to our ability to properly manage investments in our business and operations, execute on growth or strategic initiatives, and enhance our existing operations and infrastructure, including the proper prioritization and allocation of limited financial and other resources; risks associated with our ability to identify suitable targets for acquisition or investment or successfully compete for, consummate, and implement mergers and acquisitions, including risks associated with valuations, reputational considerations, capital constraints, costs and expenses, maintaining profitability levels, expansion into new areas, management distraction, post-acquisition integration activities, and potential asset impairments; challenges associated with selling sophisticated solutions, including with respect to longer sales cycles, more complex sales processes, and assisting customers in understanding and realizing the benefits of our solutions, as well as with developing, offering, implementing, and maintaining a broad solution portfolio; risks that we may be unable to maintain, expand, and enable our relationships with partners as part of our growth strategy; risks associated with our reliance on third-party suppliers, partners, or original equipment manufacturers ("OEMs") for certain components, products, or services, including companies that may compete with us or work with our competitors, as well as cloud hosting providers; risks associated with our ability to retain, recruit, and train qualified personnel in regions in which we operate, including in new markets and growth areas we may enter; risks associated with our significant international operations, exposure to regions subject to political or economic instability, fluctuations in foreign exchange rates, and challenges associated with a significant portion of our cash being held overseas; risks associated with a significant part of our business coming from government contracts and associated procurement processes; risks associated with complex and changing domestic and foreign regulatory environments, relating to our own operations, the products and services we offer, and/or the use of our solutions by our customers, including, among others, with respect to data privacy and protection, government contracts, anti-corruption, trade compliance, tax, and labor matters; risks associated with the mishandling or perceived mishandling of sensitive or confidential information and data, including personally identifiable information or other information that may belong to our customers or other third parties, including in connection with our SaaS or other hosted or managed service offerings or when we are

asked to perform service or support; risks that our solutions or services, or those of third-party suppliers, partners, or OEMs which we use in or with our offerings or otherwise rely on, including third-party hosting platforms, may contain defects, develop operational problems, or be vulnerable to cyber-attacks; risk of security vulnerabilities or lapses, including cyber-attacks, information technology system breaches, failures, or disruptions; risks that our intellectual property rights may not be adequate to protect our business or assets or that others may make claims on our intellectual property, claim infringement on their intellectual property rights, or claim a violation of their license rights, including relative to free or open source components we may use; risks associated with leverage resulting from our current debt position or our ability to incur additional debt, including with respect to liquidity considerations, covenant limitations and compliance, fluctuations in interest rates, dilution considerations (with respect to our convertible notes), and our ability to maintain our credit ratings; risks that we may experience liquidity or working capital issues and related risks that financing sources may be unavailable to us on reasonable terms or at all; risks arising as a result of contingent or other obligations or liabilities assumed in our acquisition of our former parent company, Comverse Technology, Inc. ("CTI"), or associated with formerly being consolidated with, and part of a consolidated tax group with, CTI, or as a result of the successor to CTI's business operations, Mavenir, Inc., being unwilling or unable to provide us with certain indemnities to which we are entitled; risks associated with changing accounting principles or standards, tax laws and regulations, tax rates, and the continuing availability of expected tax benefits; risks relating to the adequacy of our existing infrastructure, systems, processes, policies, procedures, internal controls, and personnel, and our ability to successfully implement and maintain enhancements to the foregoing, for our current and future operations and reporting needs, including related risks of financial statement omissions, misstatements, restatements, or filing delays; risks associated with market volatility in the prices of our common stock and convertible notes based on our performance, third-party publications or speculation, or other factors and risks associated with actions of activist stockholders; risks associated with Apax Partners' significant ownership position and potential that its interests will not be aligned with those of our common stockholders; and risks associated with the spin-off of our Cyber Intelligence Solutions business, including the possibility that the spin-off does not achieve the benefits anticipated, does not qualify as a tax-free transaction, or exposes us to unexpected claims or liabilities. We assume no obligation to revise or update any forward-looking statement, except as otherwise required by law. For a detailed discussion of these risk factors, see our Annual Report on Form 10-K for the fiscal year ended January 31, 2021, our Quarterly Report on Form 10-Q for the quarter ended April 30, 2021, our Quarterly Report on Form 10-Q for the quarter ended July 31, 2021, when filed, and other filings we make with the SEC.

VERINT, THE CUSTOMER ENGAGEMENT COMPANY, BOUNDLESS CUSTOMER ENGAGEMENT, THE ENGAGEMENT CAPACITY GAP and THE SCIENCE OF CUSTOMER ENGAGEMENT are trademarks of Verint Systems Inc. or its subsidiaries. Verint and other parties may also have trademark rights in other terms used herein.

Table 1
VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Revenue:				
Recurring	\$ 156,178	\$ 139,267	\$ 300,631	\$ 268,337
Nonrecurring	58,439	64,813	114,890	121,608
Total revenue	214,617	204,080	415,521	389,945
Cost of revenue:				
Recurring	37,636	32,936	75,712	67,864
Nonrecurring	30,505	29,776	60,385	61,395
Amortization of acquired technology	4,426	4,189	8,810	8,545
Total cost of revenue	72,567	66,901	144,907	137,804
Gross profit	142,050	137,179	270,614	252,141
Operating expenses:				
Research and development, net	31,792	30,148	60,940	62,560
Selling, general and administrative	91,376	77,739	179,022	154,566
Amortization of other acquired intangible assets	7,345	7,719	14,673	15,483
Total operating expenses	130,513	115,606	254,635	232,609
Operating income	11,537	21,573	15,979	19,532
Other income (expense), net:				
Interest income	23	422	46	903
Interest expense	(2,199)	(10,123)	(7,218)	(20,812)
Losses on early retirements of debt	—	(143)	(2,474)	(143)
Other income (expense), net	156	(12,754)	4,206	(14,576)
Total other expense, net	(2,020)	(22,598)	(5,440)	(34,628)
Income (loss) from continuing operations before provision for income taxes	9,517	(1,025)	10,539	(15,096)
Provision for income taxes	4,201	8,345	4,129	8,692
Net income (loss) from continuing operations	5,316	(9,370)	6,410	(23,788)
Net income from discontinued operations	—	19,957	—	30,400
Net income	5,316	10,587	6,410	6,612
Net income from continuing operations attributable to noncontrolling interests	316	327	611	567
Net income from discontinued operations attributable to noncontrolling interests	—	1,766	—	3,565
Net income attributable to Verint Systems Inc.	5,000	8,494	5,799	2,480
Dividends on preferred stock	(5,200)	(2,484)	(8,522)	(2,484)
Net (loss) income attributable to Verint Systems Inc. common shares	\$ (200)	\$ 6,010	\$ (2,723)	\$ (4)
Net (loss) income attributable to Verint Systems Inc. common shares				
Net loss from continuing operations attributable to Verint Systems Inc. common shares	\$ (200)	\$ (12,181)	\$ (2,723)	\$ (26,839)
Net income from discontinued operations attributable to Verint Systems Inc. common shares	\$ —	\$ 18,191	\$ —	\$ 26,835
Basic net (loss) income per common share attributable to Verint Systems Inc.:				
Continuing operations	\$ —	\$ (0.19)	\$ (0.04)	\$ (0.42)
Discontinued operations	—	0.28	—	0.42
Total basic net (loss) income per common share attributable to Verint Systems Inc.	\$ —	\$ 0.09	\$ (0.04)	\$ —
Diluted net (loss) income per common share attributable to Verint Systems Inc.:				
Continuing operations	\$ —	\$ (0.18)	\$ (0.04)	\$ (0.42)
Discontinued operations	—	0.27	—	0.42
Total diluted net (loss) income per common share attributable to Verint Systems Inc.	\$ —	\$ 0.09	\$ (0.04)	\$ —
Weighted-average common shares outstanding:				
Basic	65,194	64,954	65,417	64,670
Diluted	65,194	65,849	65,417	64,670

Table 2
VERINT SYSTEMS INC. AND SUBSIDIARIES
GAAP to Non-GAAP Cloud Metrics
(Unaudited)

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
<u>Table of Reconciliation from GAAP Cloud Revenue to Non-GAAP Cloud Revenue</u>				
SaaS revenue - GAAP	\$ 76,384	\$ 48,229	\$ 139,976	\$ 89,117
Bundled SaaS revenue - GAAP	42,940	35,818	82,249	69,211
Unbundled SaaS revenue - GAAP	33,444	12,411	57,727	19,906
Optional managed services revenue - GAAP	16,872	14,328	33,330	28,460
Cloud revenue - GAAP	\$ 93,256	\$ 62,557	\$ 173,306	\$ 117,577
Estimated SaaS revenue adjustments	\$ 872	\$ 2,750	\$ 1,716	\$ 5,676
Estimated bundled SaaS revenue adjustments	872	2,706	1,654	5,588
Estimated unbundled SaaS revenue adjustments	—	44	62	88
Estimated optional managed services revenue adjustments	132	268	319	549
Estimated cloud revenue adjustments	\$ 1,004	\$ 3,018	\$ 2,035	\$ 6,225
SaaS revenue - non-GAAP	\$ 77,256	\$ 50,979	\$ 141,692	\$ 94,793
Bundled SaaS revenue - non-GAAP	43,812	38,524	83,903	74,799
Unbundled SaaS revenue - non-GAAP	33,444	12,455	57,789	19,994
Optional managed services revenue - non-GAAP	17,004	14,596	33,649	29,009
Cloud revenue - non-GAAP	\$ 94,260	\$ 65,575	\$ 175,341	\$ 123,802
<u>Table of New SaaS ACV</u>				
New SaaS ACV	\$ 26,568	\$ 16,697	\$ 45,372	\$ 28,589
New SaaS ACV Growth YoY	59.1 %	64.7 %	58.7 %	56.1 %
<u>Table of New Perpetual License Equivalent Bookings</u>				
New perpetual license equivalent bookings	\$ 73,059	\$ 62,218	\$ 134,041	\$ 109,910
New perpetual license equivalent bookings change YoY	17.4 %	1.1 %	22.0 %	(11.4)%
% of new perpetual license equivalent bookings from SaaS	52.6 %	43.1 %	51.9 %	41.9 %

Table 3
VERINT SYSTEMS INC. AND SUBSIDIARIES
Reconciliation of GAAP to Non-GAAP Measures
(Unaudited)

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
REVENUE				
Recurring revenue - GAAP	\$ 156,178	\$ 139,267	\$ 300,631	\$ 268,337
Nonrecurring revenue - GAAP	58,439	64,813	114,890	121,608
Total GAAP revenue	214,617	204,080	415,521	389,945
Recurring revenue adjustments	1,013	3,066	2,052	6,328
Nonrecurring revenue adjustments	—	—	—	—
Total revenue adjustments	1,013	3,066	2,052	6,328
Recurring revenue - non-GAAP	157,191	142,333	302,683	274,665
Nonrecurring revenue - non-GAAP	58,439	64,813	114,890	121,608
Total non-GAAP revenue	\$ 215,630	\$ 207,146	\$ 417,573	\$ 396,273
GROSS PROFIT AND GROSS MARGIN				
Recurring costs	\$ 37,636	\$ 32,936	\$ 75,712	\$ 67,864
Nonrecurring costs	30,505	29,776	60,385	61,395
Amortization of acquired technology	4,426	4,189	8,810	8,545
Total GAAP cost of revenue	72,567	66,901	144,907	137,804
GAAP gross profit	142,050	137,179	270,614	252,141
GAAP gross margin	66.2 %	67.2 %	65.1 %	64.7 %
Revenue adjustments	1,013	3,066	2,052	6,328
Amortization of acquired technology	4,426	4,189	8,810	8,545
Stock-based compensation expenses	1,426	1,157	2,688	1,694
Acquisition expenses, net	25	53	50	242
Restructuring expenses	85	(59)	547	1,560
Separation expenses ⁽³⁾	—	—	78	—
Discontinued operations corporate overhead adjustment	—	452	—	1,877
Allocation methodology difference	—	250	—	(293)
Non-GAAP gross profit	\$ 149,025	\$ 146,287	\$ 284,839	\$ 272,094
Non-GAAP gross margin	69.1 %	70.6 %	68.2 %	68.7 %
RESEARCH AND DEVELOPMENT, NET				
GAAP research and development, net	\$ 31,792	\$ 30,148	\$ 60,940	\$ 62,560
As a percentage of GAAP revenue	14.8 %	14.8 %	14.7 %	16.0 %
Stock-based compensation expenses	(2,027)	(1,496)	(3,800)	(2,669)
Acquisition expenses, net	(56)	(20)	(80)	(221)
Restructuring expenses	(129)	(213)	(313)	(1,140)
Separation expenses ⁽³⁾	(10)	—	(467)	—
Discontinued operations corporate overhead adjustment	—	(3,973)	—	(8,494)
Allocation methodology difference	—	1,829	—	4,031

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Non-GAAP research and development, net	\$ 29,570	\$ 26,275	\$ 56,280	\$ 54,067
As a percentage of non-GAAP revenue	13.7 %	12.7 %	13.5 %	13.6 %

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

GAAP selling, general and administrative expenses	\$ 91,376	\$ 77,739	\$ 179,022	\$ 154,566
As a percentage of GAAP revenue	42.6 %	38.1 %	43.1 %	39.6 %
Stock-based compensation expenses	(14,640)	(10,676)	(28,006)	(19,644)
Acquisition (expenses) benefit, net	(3,343)	(3,141)	(4,987)	602
Restructuring expenses	(1,914)	(490)	(2,523)	(2,508)
Separation expenses ⁽³⁾	(3,209)	—	(8,736)	—
Other adjustments	(605)	889	(649)	788
Discontinued operations corporate overhead adjustment	—	(6,221)	—	(13,787)
Allocation methodology difference	—	(1,693)	—	(3,047)
Non-GAAP selling, general and administrative expenses	\$ 67,665	\$ 56,407	\$ 134,121	\$ 116,970
As a percentage of non-GAAP revenue	31.4 %	27.2 %	32.1 %	29.5 %

OPERATING INCOME AND OPERATING MARGIN

GAAP operating income	\$ 11,537	\$ 21,573	\$ 15,979	\$ 19,532
GAAP operating margin	5.4 %	10.6 %	3.8 %	5.0 %
Revenue adjustments	1,013	3,066	2,052	6,328
Amortization of acquired technology	4,426	4,189	8,810	8,545
Amortization of other acquired intangible assets	7,345	7,719	14,673	15,483
Stock-based compensation expenses	18,093	13,329	34,494	24,007
Acquisition expenses (benefit), net	3,424	3,214	5,117	(139)
Restructuring expenses	2,128	644	3,383	5,208
Separation expenses ⁽³⁾	3,219	—	9,281	—
Other adjustments	605	(889)	649	(788)
Discontinued operations corporate overhead adjustment	—	10,646	—	24,158
Allocation methodology difference	—	114	—	(1,277)
Non-GAAP operating income	\$ 51,790	\$ 63,605	\$ 94,438	\$ 101,057
Non-GAAP operating margin	24.0 %	30.7 %	22.6 %	25.5 %

Table of Reconciliation from GAAP Other Expense, Net to Non-GAAP Other Expense, Net

GAAP other expense, net	\$ (2,020)	\$ (22,598)	\$ (5,440)	\$ (34,628)
Unrealized (gains) losses on derivatives, net	—	(173)	14,305	(173)
Amortization of convertible note discount	—	3,174	—	6,400
Expenses and losses on debt modification or retirement	—	1,462	2,474	1,462
Change in fair value of future tranche right	—	13,610	(15,810)	13,610
Acquisition (benefit) expenses, net	(148)	54	(3,348)	66
Non-GAAP other expense, net⁽¹⁾	\$ (2,168)	\$ (4,471)	\$ (7,819)	\$ (13,263)

Table of Reconciliation from GAAP Provision for Income Taxes to Non-GAAP Provision for Income Taxes

GAAP provision for income taxes	\$ 4,201	\$ 8,345	\$ 4,129	\$ 8,692
GAAP effective income tax rate	44.1 %	(814.1)%	39.2 %	(57.6)%
Non-GAAP tax adjustments	887	(3,422)	4,627	(1,385)
Non-GAAP provision for income taxes	\$ 5,088	\$ 4,923	\$ 8,756	\$ 7,307

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Non-GAAP effective income tax rate	10.3 %	8.3 %	10.1 %	8.3 %

Table of Reconciliation from GAAP Net Loss from Continuing Operations Attributable to Verint Systems Inc. Common Shares to Non-GAAP Net Income from Continuing Operations Attributable to Verint Systems Inc. Common Shares

GAAP net loss from continuing operations attributable to Verint Systems Inc. common shares	\$ (200)	\$ (12,181)	\$ (2,723)	\$ (26,839)
Revenue adjustments	1,013	3,066	2,052	6,328
Amortization of acquired technology	4,426	4,189	8,810	8,545
Amortization of other acquired intangible assets	7,345	7,719	14,673	15,483
Stock-based compensation expenses	18,093	13,329	34,494	24,007
Unrealized (gains) losses on derivatives, net	—	(173)	14,305	(173)
Amortization of convertible note discount	—	3,174	—	6,400
Expenses and losses on debt modification or retirement	—	1,462	2,474	1,462
Change in fair value of future tranche right	—	13,610	(15,810)	13,610
Acquisition expenses (benefit), net	3,276	3,268	1,769	(73)
Restructuring expenses	2,128	644	3,383	5,208
Separation expenses ⁽³⁾	3,219	—	9,281	—
Other adjustments	605	(889)	649	(788)
Discontinued operations corporate overhead adjustment	—	10,646	—	24,158
Allocation methodology difference	—	114	—	(1,277)
Non-GAAP tax adjustments	(887)	3,422	(4,627)	1,385
Dividends, reversed due to assumed conversion of preferred stock ⁽⁴⁾	5,200	2,484	—	2,484
Total adjustments	44,418	66,065	71,453	106,759
Non-GAAP net income from continuing operations attributable to Verint Systems Inc. common shares	\$ 44,218	\$ 53,884	\$ 68,730	\$ 79,920

Table Comparing GAAP Diluted Net Loss from Continuing Operations Per Common Share Attributable to Verint Systems Inc. to Non-GAAP Diluted Net Income from Continuing Operations Per Common Share Attributable to Verint Systems Inc.

GAAP diluted net loss from continuing operations per common share attributable to Verint Systems Inc.	\$ —	\$ (0.18)	\$ (0.04)	\$ (0.42)
Non-GAAP diluted net income from continuing operations per common share attributable to Verint Systems Inc. ⁽⁴⁾	\$ 0.58	\$ 0.78	\$ 1.01	\$ 1.18

GAAP weighted-average shares used in computing diluted net loss from continuing operations per common share attributable to Verint Systems Inc.

GAAP weighted-average shares used in computing diluted net loss from continuing operations per common share attributable to Verint Systems Inc.	65,194	65,849	65,417	64,670
Additional weighted-average shares applicable to non-GAAP diluted net income from continuing operations per common share attributable to Verint Systems Inc.	10,684	3,495	2,311	2,815
Non-GAAP diluted weighted-average shares used in computing net income from continuing operations per common share attributable to Verint Systems Inc.⁽⁴⁾	75,878	69,344	67,728	67,485

(in thousands, except per share data)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020

Table of Reconciliation from GAAP Net Income (Loss) from Continuing Operations to Adjusted EBITDA

GAAP net income (loss) from continuing operations	\$ 5,316	\$ (9,370)	\$ 6,410	\$ (23,788)
As a percentage of GAAP revenue	2.5 %	(4.6)%	1.5 %	(6.1)%
Provision for income taxes	4,201	8,345	4,129	8,692
Other expense, net	2,020	22,598	5,440	34,628
Depreciation and amortization ⁽²⁾	17,830	18,861	36,111	37,886
Revenue adjustments	1,013	3,066	2,052	6,328
Stock-based compensation expenses	18,093	13,329	34,494	24,007
Acquisition expenses (benefit), net	3,424	3,214	5,117	(139)
Restructuring expenses	2,129	644	3,383	5,208
Separation expenses ⁽³⁾	3,218	—	8,914	—
Other adjustments	605	(889)	649	(788)
Discontinued operations corporate overhead adjustment	—	10,646	—	24,158
Allocation methodology difference	—	114	—	(1,277)
Adjusted EBITDA	\$ 57,849	\$ 70,558	\$ 106,699	\$ 114,915
As a percentage of non-GAAP revenue	26.8 %	34.1 %	25.6 %	29.0 %

Table of Reconciliation from Gross Debt to Net Debt

	July 31, 2021	January 31, 2021
Current maturities of long-term debt	\$ —	\$ 386,713
Long-term debt	405,873	402,781
Unamortized debt discounts and issuance costs	9,127	7,518
Gross debt	415,000	797,012
Less:		
Cash and cash equivalents	320,439	585,273
Restricted cash and cash equivalents, and restricted bank time deposits	14	15
Short-term investments	666	46,300
Net debt, excluding long-term restricted cash, cash equivalents, time deposits, and investments	93,881	165,424
Long-term restricted cash, cash equivalents, time deposits and investments	446	651
Net debt, including long-term restricted cash, cash equivalents, time deposits, and investments	\$ 93,435	\$ 164,773

(1) For the three months ended July 31, 2021, non-GAAP other expense, net of \$2.2 million was comprised of \$1.7 million of interest and other expense, net of \$0.5 million of foreign exchange gains primarily related to balance sheet translations.

(2) Adjusted for financing fee amortization.

(3) For the three and six months ended July 31, 2020, separation expenses are considered part of discontinued operations and are, therefore, not included in the reported results from continuing operations.

(4) EPS calculation includes the more dilutive of either preferred stock dividends or conversion of preferred stock shares. Average shares for the calculation of adjusted diluted EPS for the six months ended July 31, 2021, excludes shares associated with our convertible preferred stock and therefore earnings include the preferred stock dividends. Conversion of the outstanding preferred shares was more dilutive in all other periods presented.

Table 4
VERINT SYSTEMS INC. AND SUBSIDIARIES
GAAP to Non-GAAP Recurring and Nonrecurring Revenue and Gross Profit
(Unaudited)

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Table of Reconciliation from GAAP Recurring and Nonrecurring Revenue to Non-GAAP Recurring and Nonrecurring Revenue				
Recurring revenue - GAAP	\$ 156,178	\$ 139,267	\$ 300,631	\$ 268,337
Cloud revenue - GAAP	93,256	62,557	173,306	117,577
Support revenue - GAAP	62,922	76,710	127,325	150,760
Nonrecurring revenue - GAAP	\$ 58,439	\$ 64,813	\$ 114,890	\$ 121,608
Perpetual revenue - GAAP	32,349	35,829	61,672	64,354
Professional services revenue - GAAP	26,090	28,984	53,218	57,254
Total revenue - GAAP	\$ 214,617	\$ 204,080	\$ 415,521	\$ 389,945
Estimated recurring revenue adjustments	\$ 1,013	\$ 3,066	\$ 2,052	\$ 6,328
Estimated cloud revenue adjustments	1,004	3,018	2,035	6,225
Estimated support revenue adjustments	9	48	17	103
Estimated nonrecurring revenue adjustments	\$ —	\$ —	\$ —	\$ —
Estimated perpetual revenue adjustments	—	—	—	—
Estimated professional services revenue adjustments	—	—	—	—
Total estimated revenue adjustments	\$ 1,013	\$ 3,066	\$ 2,052	\$ 6,328
Recurring revenue - non-GAAP	\$ 157,191	\$ 142,333	\$ 302,683	\$ 274,665
Cloud revenue - non-GAAP	94,260	65,575	175,341	123,802
Support revenue - non-GAAP	62,931	76,758	127,342	150,863
Nonrecurring revenue - non-GAAP	\$ 58,439	\$ 64,813	\$ 114,890	\$ 121,608
Perpetual revenue - non-GAAP	32,349	35,829	61,672	64,354
Professional services revenue - non-GAAP	26,090	28,984	53,218	57,254
Total revenue - non-GAAP	\$ 215,630	\$ 207,146	\$ 417,573	\$ 396,273
Table of Reconciliation from GAAP Recurring Gross Profit to Non-GAAP Recurring Gross Profit				
GAAP recurring revenue	\$ 156,178	\$ 139,267	\$ 300,631	\$ 268,337
GAAP recurring costs	37,636	32,936	75,712	67,864
GAAP recurring gross profit	118,542	106,331	224,919	200,473
GAAP recurring gross margin	75.9 %	76.4 %	74.8 %	74.7 %
Recurring revenue adjustments	1,013	3,066	2,052	6,328
Recurring stock-based compensation expenses	562	472	991	737
Recurring acquisition expenses, net	25	26	50	54
Recurring restructuring expenses	91	2	444	783
Recurring separation expenses ⁽¹⁾	—	—	32	—
Recurring discontinued operations corporate overhead adjustment	—	241	—	465
Recurring allocation methodology difference	—	93	—	300
Non-GAAP recurring gross profit	\$ 120,233	\$ 110,231	\$ 228,488	\$ 209,140
Non-GAAP recurring gross margin	76.5 %	77.4 %	75.5 %	76.1 %

(in thousands)	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Table of Reconciliation from GAAP Nonrecurring Gross Profit to Non-GAAP Nonrecurring Gross Profit				
GAAP nonrecurring revenue	\$ 58,439	\$ 64,813	\$ 114,890	\$ 121,608
GAAP nonrecurring costs	30,505	29,776	60,385	61,395
GAAP nonrecurring gross profit	27,934	35,037	54,505	60,213
GAAP nonrecurring gross margin	47.8 %	54.1 %	47.4 %	49.5 %
Nonrecurring revenue adjustments	—	—	—	—
Nonrecurring stock-based compensation expenses	864	685	1,697	957
Nonrecurring acquisition expenses, net	—	27	—	188
Nonrecurring restructuring expenses	(6)	(61)	103	777
Nonrecurring separation expenses ⁽¹⁾	—	—	46	—
Nonrecurring discontinued operations corporate overhead adjustment	—	211	—	1,412
Nonrecurring allocation methodology difference	—	157	—	(593)
Non-GAAP nonrecurring gross profit	\$ 28,792	\$ 36,056	\$ 56,351	\$ 62,954
Non-GAAP nonrecurring gross margin	49.3 %	55.6 %	49.0 %	51.8 %

(1) For the three and six months ended July 31, 2020, separation expenses are considered part of discontinued operations and are, therefore, not included in the reported results from continuing operations.

Table 5
VERINT SYSTEMS INC. AND SUBSIDIARIES
Calculation of Change in Revenue on a Constant Currency Basis
(Unaudited)

(in thousands, except percentages)	GAAP Revenue		Non-GAAP Revenue	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
Revenue for the three and six months ended July 31, 2020	\$ 204,080	\$ 389,945	\$ 207,146	\$ 396,273
Revenue for the three and six months ended July 31, 2021	\$ 214,617	\$ 415,521	\$ 215,630	\$ 417,573
Revenue for the three and six months ended July 31, 2021 at constant currency ⁽¹⁾	\$ 210,000	\$ 406,000	\$ 211,000	\$ 408,000
Reported period-over-period revenue growth	5.2 %	6.6 %	4.1 %	5.4 %
% impact from change in foreign currency exchange rates	(2.3)%	(2.5)%	(2.2)%	(2.4)%
Constant currency period-over-period revenue growth	2.9 %	4.1 %	1.9 %	3.0 %

(1) Revenue for the three and six months ended July 31, 2021 at constant currency is calculated by translating current-period GAAP or non-GAAP foreign currency revenue (as applicable) into U.S. dollars using average foreign currency exchange rates for the three and six months ended July 31, 2020 rather than actual current-period foreign currency exchange rates.

For further information see "Supplemental Information About Constant Currency" at the end of this press release.

Table 6
VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)

(in thousands, except share and per share data)	July 31, 2021	January 31, 2021
Assets		
Current Assets:		
Cash and cash equivalents	\$ 320,439	\$ 585,273
Restricted cash and cash equivalents, and restricted bank time deposits	14	15
Short-term investments	666	46,300
Accounts receivable, net of allowance for doubtful accounts of \$1.2 million and \$1.6 million, respectively	150,242	206,157
Contract assets, net	38,081	36,716
Inventories	5,425	5,541
Prepaid expenses and other current assets	57,628	42,814
Current assets of discontinued operations	—	354,926
Total current assets	572,495	1,277,742
Property and equipment, net	67,722	69,090
Operating lease right-of-use assets	48,303	57,849
Goodwill	1,335,816	1,327,407
Intangible assets, net	123,534	143,744
Other assets	130,149	104,511
Long-term assets of discontinued operations	—	280,952
Total assets	\$ 2,278,019	\$ 3,261,295
Liabilities, Temporary Equity, and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 31,518	\$ 35,463
Accrued expenses and other current liabilities	132,059	211,517
Current maturities of long-term debt	—	386,713
Contract liabilities	228,040	261,033
Current liabilities of discontinued operations	—	268,713
Total current liabilities	391,617	1,163,439
Long-term debt	405,873	402,781
Long-term contract liabilities	16,571	16,502
Operating lease liabilities	46,738	56,712
Other liabilities	36,231	75,710
Long-term liabilities of discontinued operations	—	58,118
Total liabilities	897,030	1,773,262
Commitments and Contingencies		
Temporary Equity:		
Preferred Stock - \$0.0001 par value; authorized 2,207,000 shares		
Series A Preferred Stock; 200,000 shares issued and outstanding at July 31, 2021 and January 31, 2021, respectively; aggregate liquidation preference and redemption value of \$200,867 and \$206,067 at July 31, 2021 and January 31, 2021, respectively.	200,628	200,628
Series B Preferred Stock; 200,000 shares issued and outstanding at July 31, 2021; no shares issued and outstanding at January 31, 2021; aggregate liquidation preference and redemption value of \$200,867 at July 31, 2021.	235,693	—
Equity component of currently redeemable convertible notes	—	4,841
Total temporary equity	436,321	205,469
Stockholders' Equity:		
Common stock - \$0.001 par value; authorized 120,000,000 shares. Issued 70,402,000 and 70,177,000 shares; outstanding 65,412,000 and 65,773,000 shares at July 31, 2021 and January 31, 2021, respectively.	70	70
Additional paid-in capital	1,342,130	1,726,166
respective.	(234,524)	(208,124)
Accumulated deficit	(63,123)	(113,797)
Accumulated other comprehensive loss	(102,508)	(136,878)
Total Verint Systems Inc. stockholders' equity	942,045	1,267,437

(in thousands, except share and per share data)	July 31, 2021	January 31, 2021
Noncontrolling interests	2,623	15,127
Total stockholders' equity	944,668	1,282,564
Total liabilities, temporary equity, and stockholders' equity	\$ 2,278,019	\$ 3,261,295

Table 7
VERINT SYSTEMS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in thousands)	Six Months Ended July 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 6,410	\$ 6,612
(Income) from discontinued operations, net of income taxes	—	(30,400)
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	37,669	41,750
Stock-based compensation, excluding cash-settled awards	34,489	23,998
Change in fair value of future tranche right	(15,810)	13,610
Amortization of discount on convertible notes	—	6,400
Non-cash losses (gains) on derivative financial instruments, net	14,374	(137)
Losses on early retirements of debt	2,474	143
Other, net	(878)	(266)
Changes in operating assets and liabilities:		
Accounts receivable	55,664	57,746
Contract assets	(1,334)	5,957
Inventories	(206)	(1,195)
Prepaid expenses and other assets	(27,926)	(10,428)
Accounts payable and accrued expenses	(27,271)	12,483
Contract liabilities	(33,466)	(34,777)
Deferred income taxes	(16,521)	628
Other, net	(815)	5,999
Net cash provided by operating activities - continuing operations	26,853	98,123
Net cash (used in) provided by operating activities - discontinued operations	(12,294)	38,608
Net cash provided by operating activities	14,559	136,731
Cash flows from investing activities:		
Cash paid for business combinations, including adjustments, net of cash acquired	(7,000)	—
Purchases of property and equipment	(7,575)	(7,388)
Purchases of investments	—	(59,800)
Maturities and sales of investments	45,640	9,000
Cash paid for capitalized software development costs	(3,697)	(4,574)
Change in restricted bank time deposits, and other investing activities, net	22	(27)
Net cash provided by (used in) investing activities - continuing operations	27,390	(62,789)
Net cash used in investing activities - discontinued operations	—	(5,699)
Net cash provided by (used in) investing activities	27,390	(68,488)
Cash flows from financing activities:		
Proceeds from issuance of preferred stock	198,731	197,254
Proceeds from borrowings	315,000	155,000
Repayments of borrowings and other financing obligations	(311,335)	(3,794)
Settlement of 2014 Notes	(386,887)	—
Purchases of capped calls	(41,060)	—
Payments of debt-related costs	(10,531)	(2,207)
Purchases of treasury stock and common stock for retirement	(75,460)	(36,836)
Payments to repurchase convertible notes	—	(13,032)
Preferred stock dividend payments	(12,856)	—
Distributions paid to noncontrolling interest	(245)	(649)
Payment for termination of interest rate swap	(16,502)	—
Net cash transferred to Cognyte Software Ltd.	(114,657)	—
Dividend and other settlements received from Cognyte Software Ltd.	38,280	—
Payments of contingent consideration for business combinations (financing portion) and other financing activities	(4,390)	(8,452)

(in thousands)	Six Months Ended July 31,	
	2021	2020
Net cash (used in) provided by financing activities - continuing operations	(421,912)	287,284
Net cash used in financing activities - discontinued operations	—	(3,382)
Net cash (used in) provided by financing activities	(421,912)	283,902
Foreign currency effects on cash, cash equivalents, restricted cash, and restricted cash equivalents	340	(796)
Net (decrease) increase in cash, cash equivalents, restricted cash, and restricted cash equivalents	(379,623)	351,349
Cash, cash equivalents, restricted cash, and restricted cash equivalents, beginning of period	700,133	411,657
Cash, cash equivalents, restricted cash, and restricted cash equivalents, end of period	\$ 320,510	\$ 763,006
Reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period to the condensed consolidated balance sheets:		
Cash and cash equivalents	\$ 320,439	\$ 731,101
Restricted cash and cash equivalents included in restricted cash and cash equivalents, and restricted bank time deposits	14	22,890
Restricted cash and cash equivalents included in other assets	57	9,015
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	\$ 320,510	\$ 763,006

Verint Systems Inc. and Subsidiaries

Supplemental Information About Non-GAAP Financial Measures and Operating Metrics

This press release contains non-GAAP financial measures, consisting of non-GAAP revenue, non-GAAP recurring revenue, non-GAAP nonrecurring revenue, non-GAAP perpetual revenue, non-GAAP support revenue, non-GAAP professional services revenue, non-GAAP cloud revenue, non-GAAP SaaS revenue, non-GAAP bundled SaaS revenue, non-GAAP unbundled SaaS revenue, non-GAAP optional managed services revenue, non-GAAP recurring gross profit and gross margins, non-GAAP nonrecurring gross profit and gross margins, non-GAAP gross profit and gross margins, non-GAAP research and development, net, non-GAAP selling, general and administrative expenses, non-GAAP operating income and operating margins, non-GAAP other income (expense), net, non-GAAP provision for (benefit from) income taxes and non-GAAP effective income tax rate, non-GAAP net income from continuing operations attributable to Verint Systems Inc. common shares, non-GAAP diluted net income from continuing operations per common share attributable to Verint Systems Inc., adjusted EBITDA and adjusted EBITDA margins, net debt and constant currency measures. The tables above include a reconciliation of each non-GAAP financial measure for completed periods presented in this press release to the most directly comparable GAAP financial measure.

We believe these non-GAAP financial measures, used in conjunction with the corresponding GAAP measures, provide investors with useful supplemental information about the financial performance of our business by:

- facilitating the comparison of our financial results and business trends between periods, by excluding certain items that either can vary significantly in amount and frequency, are based upon subjective assumptions, or in certain cases are unplanned for or difficult to forecast,
- facilitating the comparison of our financial results and business trends with other technology companies who publish similar non-GAAP measures, and
- allowing investors to see and understand key supplementary metrics used by our management to run our business, including for budgeting and forecasting, resource allocation, and compensation matters.

We also make these non-GAAP financial measures available because a number of our investors have informed us that they find this supplemental information useful.

Non-GAAP financial measures should not be considered in isolation as substitutes for, or superior to, comparable GAAP financial measures. The non-GAAP financial measures we present have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP, and these non-GAAP financial measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP financial measures. These non-GAAP financial measures do not represent discretionary cash available to us to invest in the growth of our business, and we may in the future incur expenses similar to or in addition to the adjustments made in these non-GAAP financial measures. Other companies may calculate similar non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

Our non-GAAP financial measures are calculated by making the following adjustments to our GAAP financial measures:

Revenue adjustments. We exclude from our non-GAAP revenue the impact of fair value adjustments required under GAAP relating to cloud services and customer support contracts acquired in a business acquisition, which would have otherwise been recognized on a stand-alone basis. We believe that it is useful for investors to understand the total amount of revenue that we and the acquired company would have recognized on a stand-alone basis under GAAP, absent the accounting adjustment associated with the business acquisition. Our non-GAAP revenue also reflects certain adjustments from aligning an acquired company's revenue recognition policies to our policies. We believe that our non-GAAP revenue measure helps management and investors understand our revenue trends and serves as a useful measure of ongoing business performance.

Amortization of acquired technology and other acquired intangible assets. When we acquire an entity, we are required under GAAP to record the fair values of the intangible assets of the acquired entity and amortize those assets over their useful lives. We exclude the amortization of acquired intangible assets, including acquired technology, from our non-GAAP financial measures because they are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions. We also exclude these amounts to provide easier comparability of pre- and post-acquisition operating results.

Stock-based compensation expenses. We exclude stock-based compensation expenses related to restricted stock awards, stock bonus programs, bonus share programs, and other stock-based awards from our non-GAAP financial measures. We evaluate our performance both with and without these measures because stock-based compensation is typically a non-cash expense and can vary significantly over time based on the timing, size and nature of awards granted, and is influenced in part by certain factors which are generally beyond our control, such as the volatility of the price of our common stock. In addition, measurement of stock-based compensation is subject to varying valuation methodologies and subjective assumptions, and therefore we believe that excluding stock-based compensation from our non-GAAP financial measures allows for meaningful comparisons of our current operating results to our historical operating results and to other companies in our industry.

Unrealized gains and losses on certain derivatives, net. We exclude from our non-GAAP financial measures unrealized gains and losses on certain derivatives which are not designated as hedges under accounting guidance. We exclude unrealized gains and losses on foreign currency derivatives that serve as economic hedges against variability in the cash flows of recognized assets or liabilities, or of forecasted transactions. These contracts, if designated as hedges under accounting guidance, would be considered "cash flow" hedges. These unrealized gains and losses are excluded from our non-GAAP financial measures because they are non-cash transactions which are highly variable from period to period. Upon settlement of these foreign currency derivatives, any realized gain or loss is included in our non-GAAP financial measures.

Amortization of convertible note discount. Our non-GAAP financial measures for periods prior to February 1, 2021 exclude the amortization of the imputed discount on our convertible notes. Under GAAP, certain convertible debt instruments that may be settled in cash upon conversion were required to be bifurcated into separate liability (debt) and equity (conversion option) components in a manner that reflected the issuer's assumed non-convertible debt borrowing rate. For GAAP purposes, we were required to recognize imputed interest expense on the difference between our assumed non-convertible debt borrowing rate and the coupon rate on our 1.50% convertible notes. This difference is excluded from our non-GAAP financial measures because we believe that this expense is based upon subjective assumptions and does not reflect the cash cost of our convertible debt. Effective with the February 1, 2021 adoption of Accounting Standards Update ("ASU") 2020-06, Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, we no longer record the conversion feature of our convertible senior notes in equity. Instead, we combined the previously separated equity component with the liability component, which together is classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense.

Expenses and losses on debt modification or retirement. We exclude from our non-GAAP financial measures losses on early retirements of debt attributable to refinancing or repaying our debt, and expenses incurred to modify debt terms, because we believe they are not reflective of our ongoing operations.

Change in fair value of future tranche right. On December 4, 2019, we entered into an Investment Agreement with an affiliate of Apax Partners (the "Apax Investor"), whereby the Apax Investor agreed to make an investment in us of up to \$400.0 million of convertible preferred stock. In connection with the Apax Investor's first \$200.0 million investment on May 7, 2020 (for 200,000 shares of Series A Preferred Stock), we determined that our obligation to issue, and the Apax Investor's obligation to purchase the Series B Preferred Stock in connection with the completion of the spin-off of Cognyte Software Ltd. (our former Cyber Intelligence Solutions business) and other customary closing conditions (the "Future Tranche Right") met the definition of a freestanding financial instrument. This Future Tranche Right was reported at fair value as an asset or liability on our consolidated balance sheet and was remeasured at fair value each reporting period until the settlement of the right at the time of issuance of the Series B Preferred Stock, which occurred on April 6, 2021. Changes in its fair value were recognized as a non-cash charge or benefit within other income (expense), net on the condensed consolidated statement of operations. We excluded this change in fair value of the Future Tranche Right from our non-GAAP financial measures because it is unusual in nature, can vary significantly in amount, and is unrelated to our ongoing operations.

Acquisition expenses (benefit), net. In connection with acquisition activity (including with respect to acquisitions that are not consummated), we incur expenses (benefits), including legal, accounting, and other professional fees, integration costs, changes in the fair value of contingent consideration obligations, and other costs. Integration costs may consist of information technology expenses as systems are integrated across the combined entity, consulting expenses, marketing expenses, and professional fees, as well as non-cash charges to write-off or impair the value of redundant assets. We exclude these expenses from our non-GAAP financial measures because they are unpredictable, can vary based on the size and complexity of each transaction, and are unrelated to our continuing operations or to the continuing operations of the acquired businesses.

Restructuring expenses. We exclude restructuring expenses from our non-GAAP financial measures, which include employee termination costs, facility exit costs, certain professional fees, asset impairment charges, and other costs directly associated with resource realignments incurred in reaction to changing strategies or business conditions. All of these costs can vary significantly in amount and frequency based on the nature of the actions as well as the changing needs of our business and we believe that excluding them provides easier comparability of pre- and post-restructuring operating results.

Separation expenses. On February 1, 2021, we completed the previously announced spin-off of Cognyte Software Ltd., whose business and operations consist of our former Cyber Intelligence Solutions business. We have incurred and expect to incur, significant expenses in connection with the spin-off, including third-party advisory, accounting, legal, consulting, and other similar services related to the separation as well as costs associated with the operational separation of the two businesses, including those related to human resources, brand management, real estate, and information technology (which are included in Separation expenses to the extent not capitalized). Separation expenses also include incremental cash income taxes related to the reorganization of legal entities and operations in order to effect the separation. These costs are incremental to our normal operating expenses and are being incurred solely as a result of the separation transaction. Accordingly, we are excluding these separation expenses from our non-GAAP financial measures in order to evaluate our performance on a comparable basis.

Impairment charges and other adjustments. We exclude from our non-GAAP financial measures asset impairment charges (other than those already included within restructuring or acquisition activity), rent expense for redundant facilities, gains or losses on sales of property, gains or losses on settlements of certain legal matters, and certain professional fees unrelated to our ongoing operations, all of which are unusual in nature and can vary significantly in amount and frequency.

Discontinued operations corporate overhead adjustment. These amounts represent general corporate overhead costs related to executive management, finance, legal, information technology, and other shared services functions that were historically allocated to Cognyte, but are not permitted to be included in discontinued operations under GAAP guidelines as they represent indirect expenses of Cognyte.

Allocation methodology difference. These amounts are the result of presenting our former Cyber Intelligence Solutions business on a discontinued operations basis for quarters previously reported due to the completion of the spin-off on February 1, 2021. This adjustment represents the difference between the allocation of shared corporate support expenses under GAAP guidelines for reporting discontinued operations compared to management's previously estimated allocations of those shared corporate support expenses.

Non-GAAP income tax adjustments. We exclude our GAAP provision for (benefit from) income taxes from our non-GAAP measures of net income attributable to Verint Systems Inc., and instead include a non-GAAP provision for income taxes, determined by applying a non-GAAP effective income tax rate to our income before provision for income taxes, as adjusted for the non-GAAP items described above. The non-GAAP effective income tax rate is generally based upon the income taxes we expect to pay in the reporting year. Our GAAP effective income tax rate can vary significantly from year to year as a result of tax law changes, settlements with tax authorities, changes in the geographic mix of earnings including acquisition activity, changes in the projected realizability of deferred tax assets, and other unusual or period-specific events, all of which can vary in size and frequency. We believe that our non-GAAP effective income tax rate removes much of this variability and facilitates meaningful comparisons of operating results across periods. Our non-GAAP effective income tax rate for the year ending January 31, 2022 is currently approximately 10% and was 8% for the year ended January 31, 2021. We evaluate our non-GAAP effective income tax rate on an ongoing basis, and it can change from time to time. Our non-GAAP income tax rate can differ materially from our GAAP effective income tax rate.

Revenue Metrics and Operating Metrics

Recurring revenue, on both a GAAP and non-GAAP basis, is the portion of our revenue that we believe is likely to be renewed in the future, and primarily consists of cloud revenue and initial and renewal post contract support.

Nonrecurring revenue, on both a GAAP and non-GAAP basis, primarily consists of our perpetual licenses, consulting, implementation and installation services, hardware, and training.

Cloud revenue primarily consists of SaaS and optional managed services.

SaaS revenue includes bundled SaaS, software with standard managed services and unbundled SaaS (including associated support) that we account for as term licenses where managed services are purchased separately.

Optional Managed Services is recurring services that are intended to improve our customers operations and reduce expenses.

New SaaS Annual Contract Value (ACV) includes the annualized contract value of all new SaaS contracts received within the period; in cases where SaaS is offered to partners through usage-based contracts, we include the incremental value of usage contracts over a rolling four quarters.

New Perpetual License Equivalent Bookings are used to normalize between perpetual and SaaS bookings and measure overall software bookings growth. We calculate new perpetual license equivalent bookings by adding to perpetual licenses an amount equal to New SaaS ACV bookings multiplied by a conversion factor that normalizes the mix of bundled and unbundled SaaS and perpetual bookings in a given period. The conversion factor used is based on our order mix and may change from period to period. Management uses perpetual license equivalent bookings to understand our performance, including our software bookings growth and SaaS/perpetual license mix. This metric should not be viewed in isolation from other operating metrics that we make available to investors.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure defined as net income (loss) before interest expense, interest income, income taxes, depreciation expense, amortization expense, stock-based compensation expenses, revenue adjustments, restructuring expenses, acquisition expenses, and other expenses excluded from our non-GAAP financial measures as described above. We believe that adjusted EBITDA is also commonly used by investors to evaluate operating performance between companies because it helps reduce variability caused by differences in capital structures, income taxes, stock-based compensation expenses, accounting policies, and depreciation and amortization policies. Adjusted EBITDA is also used by credit rating agencies, lenders, and other parties to evaluate our creditworthiness.

Net Debt

Net Debt is a non-GAAP measure defined as the sum of long-term and short-term debt on our consolidated balance sheet, excluding unamortized discounts and issuance costs, less the sum of cash and cash equivalents, restricted cash, restricted cash equivalents, restricted bank time deposits, and restricted investments (including long-term portions), and short-term investments. We use this non-GAAP financial measure to help evaluate our capital structure, financial leverage, and our ability to reduce debt and to fund investing and financing activities and believe that it provides useful information to investors.

Supplemental Information About Constant Currency

Because we operate on a global basis and transact business in many currencies, fluctuations in foreign currency exchange rates can affect our consolidated U.S. dollar operating results. To facilitate the assessment of our performance excluding the effect of foreign currency exchange rate fluctuations, we calculate our GAAP and non-GAAP revenue, cost of revenue, and operating expenses on both an as-reported basis and a constant currency basis, allowing for comparison of results between periods as if foreign currency exchange rates had remained constant. We perform our constant currency calculations by translating current-period foreign currency results into U.S. dollars using prior-period average foreign currency exchange rates or hedge rates, as applicable, rather than current period exchange rates. We believe that constant currency measures, which exclude the impact of changes in foreign currency exchange rates, facilitate the assessment of underlying business trends.

Unless otherwise indicated, our financial outlook, which is provided on a non-GAAP basis, reflects foreign currency exchange rates approximately consistent with rates in effect when the outlook is provided.

We also incur foreign exchange gains and losses resulting from the revaluation and settlement of monetary assets and liabilities that are denominated in currencies other than the entity's functional currency. We periodically report our historical non-GAAP diluted net income per share both inclusive and exclusive of these net foreign exchange gains or losses. Our financial outlook for diluted earnings per share includes net foreign exchange gains or losses incurred to date, if any, but does not include potential future gains or losses.