Q1 FY23 Results

PERIOD ENDING December 31, 2022

Published January 24, 2023

Forward-looking statements

This presentation contains forward-looking statements including, among other things, statements regarding F5's future financial performance including revenue, revenue growth, earnings growth, future customer demand, markets, the performance and benefits of products, and the resiliency of the Company's revenue base and business. These, and other statements that are not historical facts, are forward-looking statements. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors. Such forward-looking statements involve risks and uncertainties, as well as assumptions and other factors that, if they do not fully materialize or prove correct, could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: customer acceptance of offerings; continued disruptions to the global supply chain resulting in inability to source required parts for F5's products or the ability to only do so at greatly increased prices thereby impacting our revenues and/or margins; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; F5's ability to successfully integrate acquired businesses' products with F5 technologies; the ability of F5's sales professionals and distribution partners to sell new solutions and service offerings; the timely development, introduction and acceptance of additional new products and features by F5 or its competitors; competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into F5's markets, and new product and marketing initiatives by our competitors; increased sales discounts; the business impact of the acquisitions and potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement of completion of acquisitions; uncertain global economic conditions which may result in reduced customer demand for our products and services and changes in customer payment patterns; litigation involving patents, intellectual property, shareholder and other matters, and governmental investigations; potential security flaws in the Company's networks, products or services; cybersecurity attacks on its networks, products or services; natural catastrophic events; a pandemic or epidemic; F5's ability to sustain, develop and effectively utilize distribution relationships; F5's ability to attract, train and retain qualified product development, marketing, sales, professional services and customer support personnel; F5's ability to expand in international markets; the unpredictability of F5's sales cycle; the ability of F5 to execute on its share repurchase program including the timing of any repurchases; future prices of F5's common stock; and other risks and uncertainties described more fully in our documents filed with or furnished to the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K and other documents that we may file or furnish from time to time, which could cause actual results to vary from expectations. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in F5's most recent reports on Forms 10-Q and 10-K as each may be amended from time to time. All forward-looking statements in this presentation are based on information available as of the date hereof and qualified in their entirety by this cautionary statement. F5 assumes no obligation to revise or update these forward-looking statements.

GAAP to non-GAAP presentation

In addition to financial information prepared in accordance with U.S. GAAP, this presentation also contains adjusted financial measures that we believe provide investors and management with supplemental information relating to operating performance and trends that facilitate comparisons between periods and with respect to projected information. These adjusted financial measures are non-GAAP and should be considered in addition to, but not as a substitute for, the information prepared in accordance with U.S. GAAP. We typically exclude certain GAAP items that management does not believe affect our basic operations and that do not meet the GAAP definition of unusual or non-recurring items. Other companies may define these measures in different ways. Further information relevant to the interpretation of adjusted financial measures, and reconciliations of these adjusted financial measures for historical data to the most comparable GAAP measures, may be found on F5's website at www.f5.com in the "Investor Relations" section. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis due to the high variability and low visibility with respect to the charges which are excluded from these non-GAAP measures. For additional information, please see the appendix of this presentation.

Introduction & Business Overview

François Locoh-Donou, CEO & President

GAAP results

	Q1FY22	Q1FY23
Revenue	**$687.1M**	**$700.4M**
Gross margin	80.3%	77.9%
Operating margin	16.6%	13.0%
Net income	$93.6M	$72.4M
EPS	**$1.51**	**$1.20**

We delivered against our Q123 guidance

	Q1FY23 Guidance	Q1FY23 Actuals
Total revenue	**$690 to $710M**	**$700M**
Non-GAAP gross margin	~80%	80.4%
Non-GAAP operating expenses	$370 to $382M	$378M
Non-GAAP EPS	**$2.25 to $2.37**	**$2.47**

Q123 results reflect higher global services and systems contribution, lower software contribution

Q1FY23 Results

-1%
Product
Growth

+5%
Global Services
Growth

+3%
Software
Growth

-4%
Systems
Growth

Q123 use case examples

Multi-cloud networking win at N. American Service Provider

- F5 Distributed Cloud Services selected as the core for the customers' next-generation managed service offering based on the platform's flexibility and its ability to deliver a scalable, agile, dynamic infrastructure.
- Service provider able to monetize its substantial network investment, including 5G.
- Managed service offering solves critical challenges for enterprise customers by simplifying the deployment and operations of apps across multi-cloud and edge environments.

F5 Distributed Cloud Services security win at Healthcare Provider

- Healthcare provider needed web application firewall and API protection.
- In proof-of-concept evaluation, F5 WAAP proved more effective and easier to manage vs. both incumbent CDN provider and cloud-native solution.
- F5 also satisfied stringent regulatory requirements.

F5’s broad multi-cloud portfolio

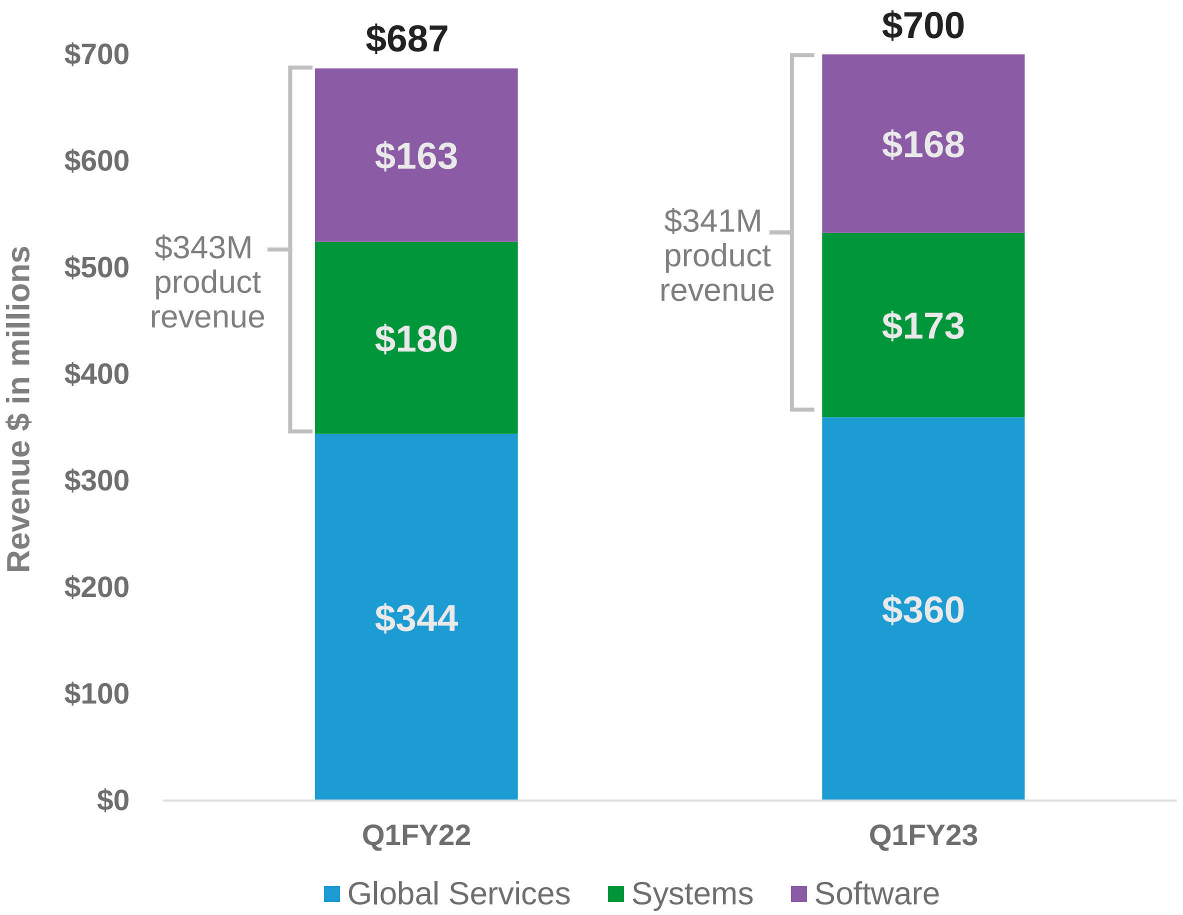
Product family	**F5 BIG-IP**	**F5 NGINX**	**F5 Distributed Cloud Services**
Deployment models	Hardware / Software	Software	SaaS / Managed Services
Consumption models	Perpetual / Perpetual, Subscription	Subscription	Subscription / Consumption
Functionality	WAF, Identity-Aware Proxy, SSLO, GiLAN, GiFW, ADC, ~30+ protocols, iRules programmability	WAF, API Gateway & Management, Kubernetes Ingress Controller, ADC	WAAP (WAF + API Protection + DDoS + Anti-bot), Multi-Cloud Networking, Risk Management / Anti-fraud, CWPP
App Types	Legacy Apps (monolithic, client-server, 3-tier)	Modern Apps (container-native, microservices)	Legacy + Modern Apps
Deployment locations	On-Prem, Co-lo / On-Prem, Cloud	On-Prem / Cloud	On-Prem / Cloud / Edge

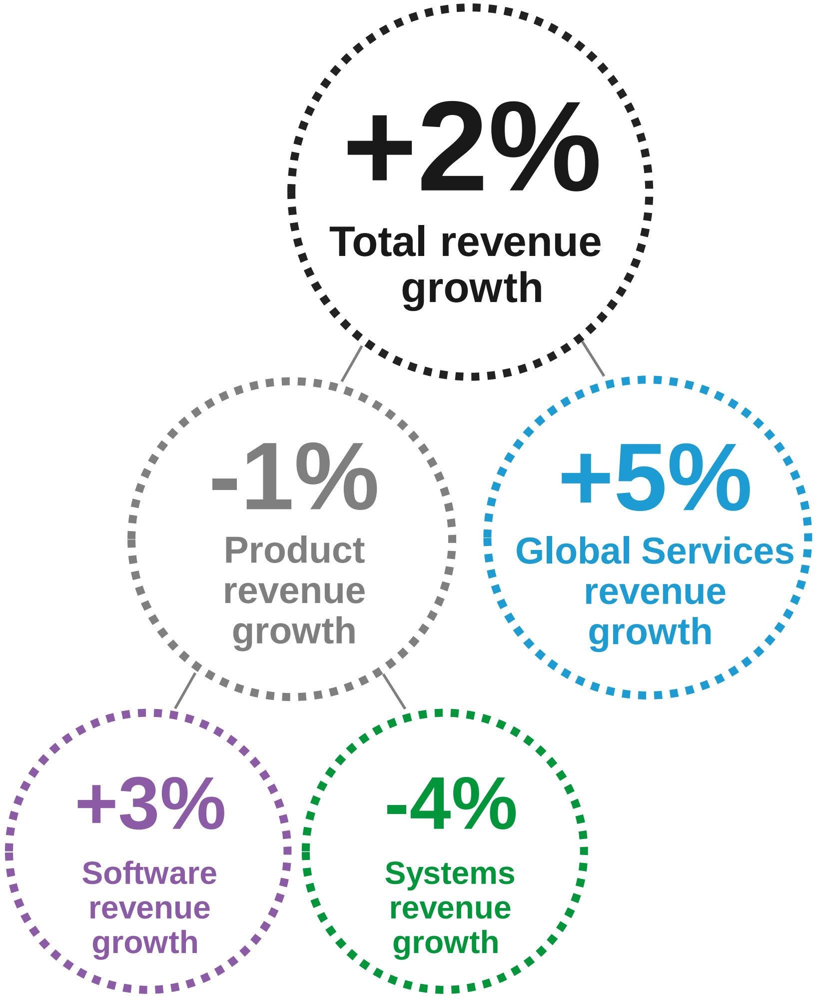
Note: Some exceptions to the above apply (e.g., BIG-IP and NGINX are available in public cloud marketplaces via a utility consumption model, NGINX for Azure is a SaaS-based offering of NGINX)

Q1FY23 Results

Frank Pelzer, CFO & EVP

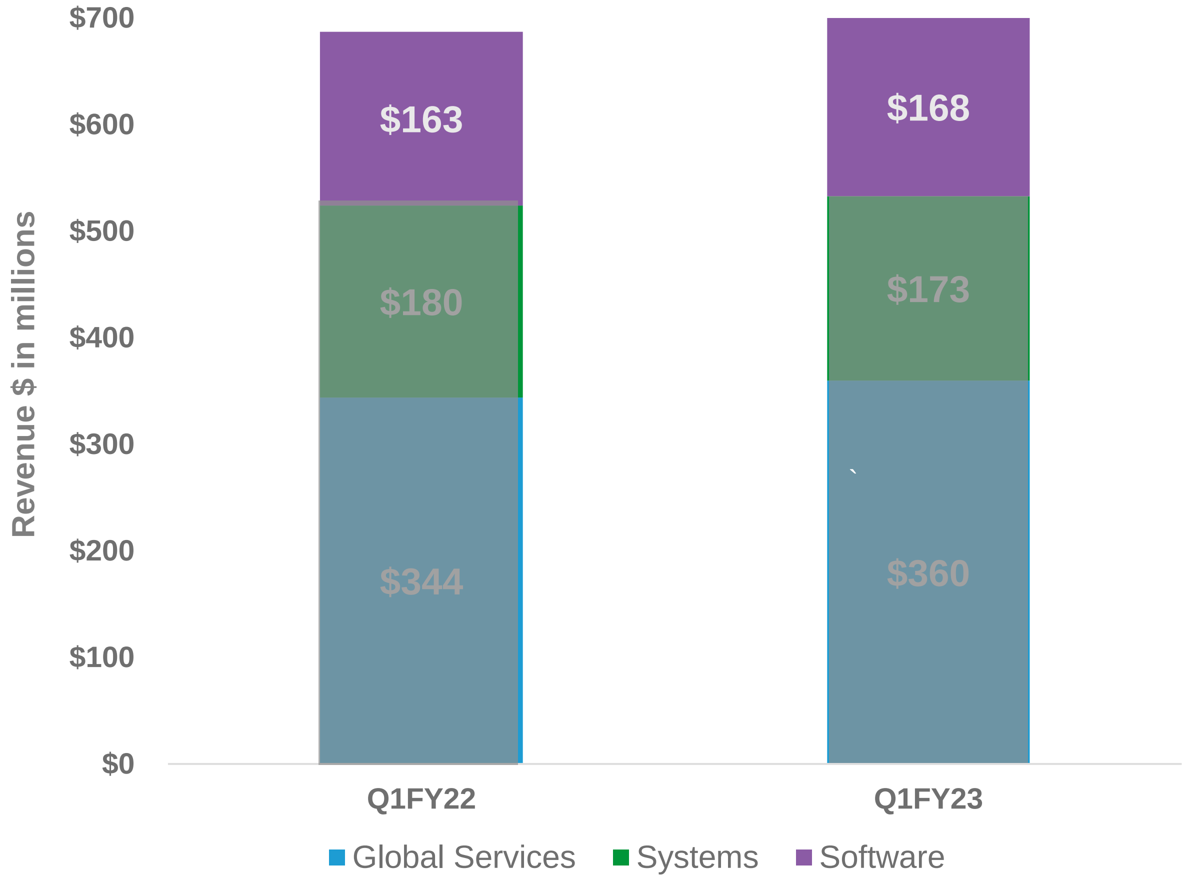
Q1FY23 revenue mix





Totals may not add due to rounding.

Q1FY23 revenue mix



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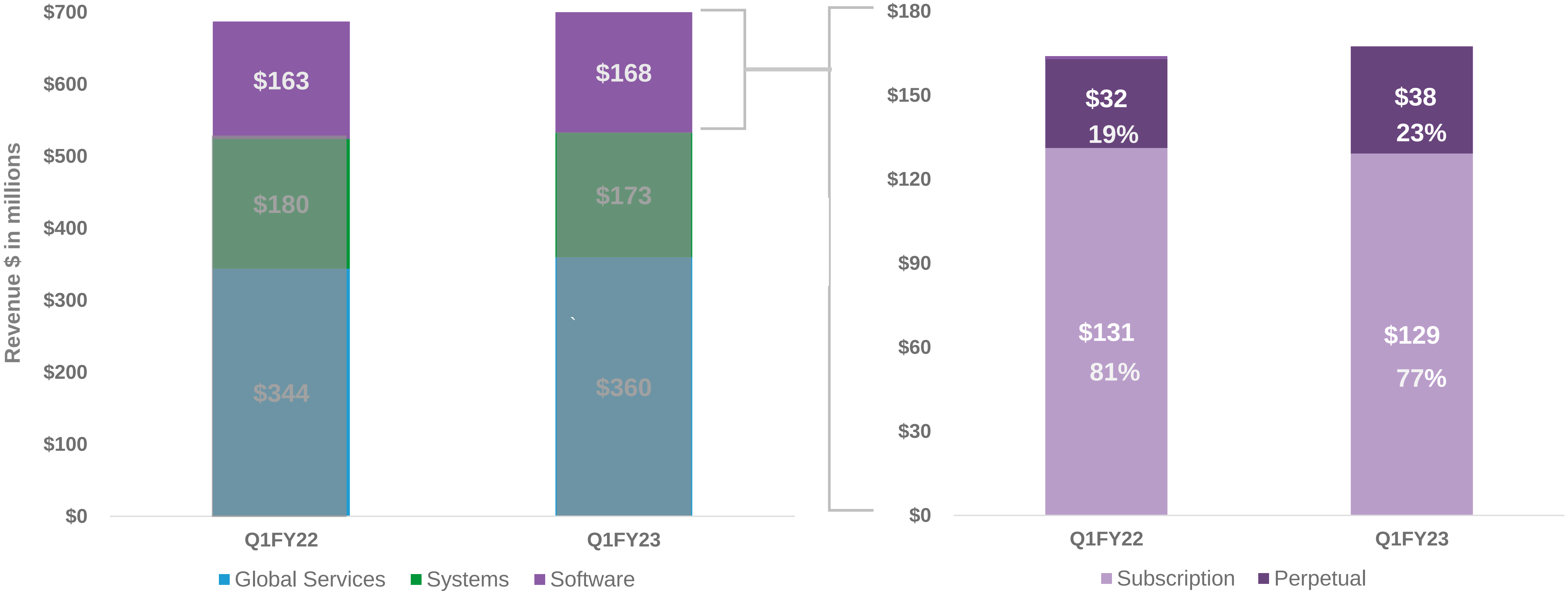
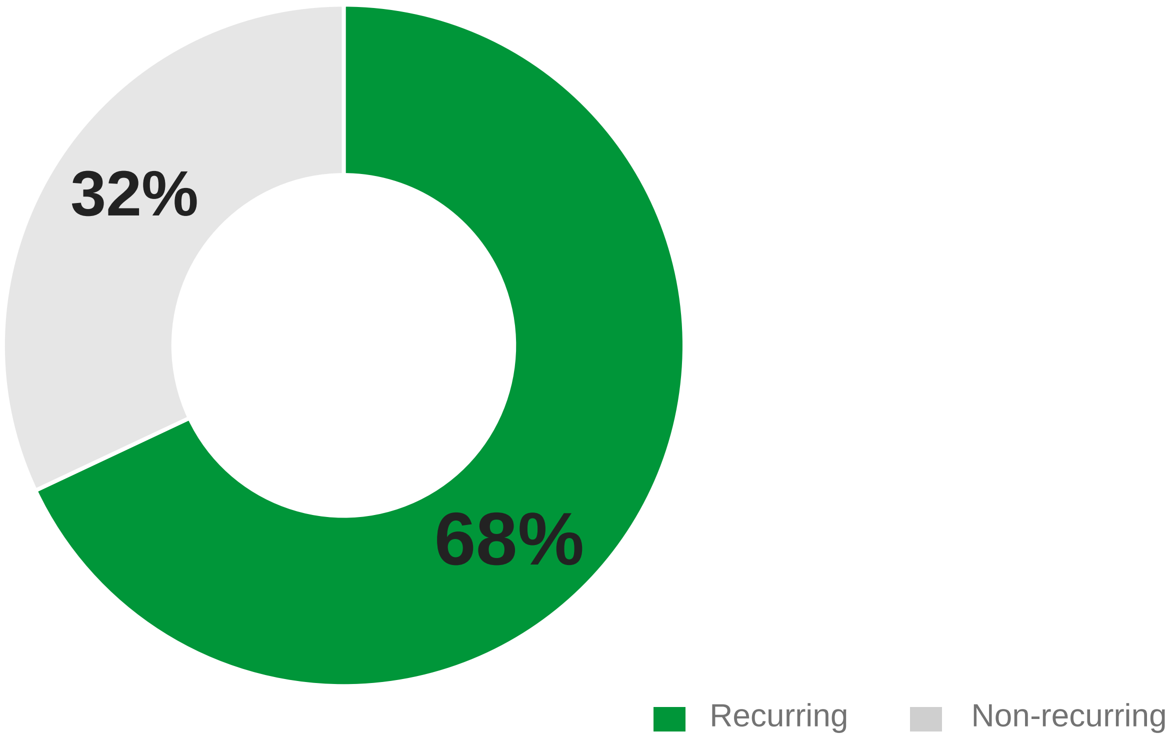
Q1FY23 revenue mix – software

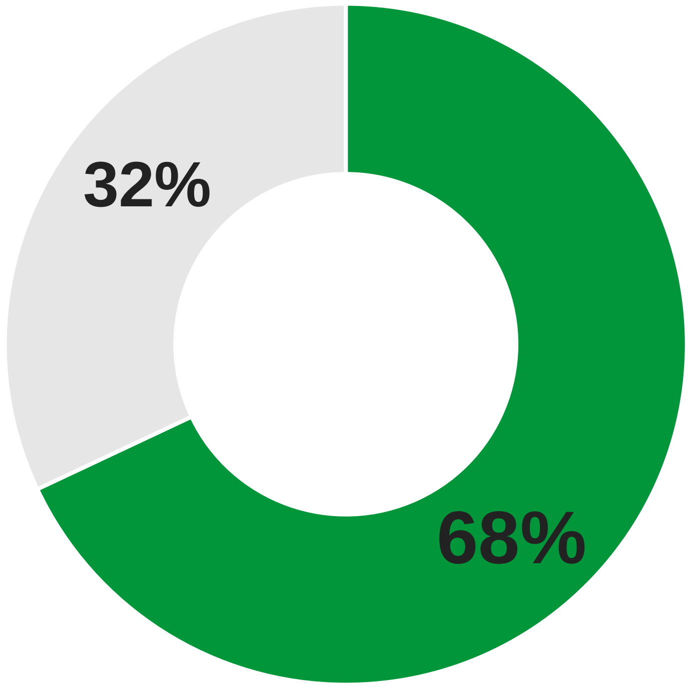


Totals may not add due to rounding. Subscription includes term subscriptions, SaaS and utility-based revenue.

Revenue from recurring sources was consistent year over year



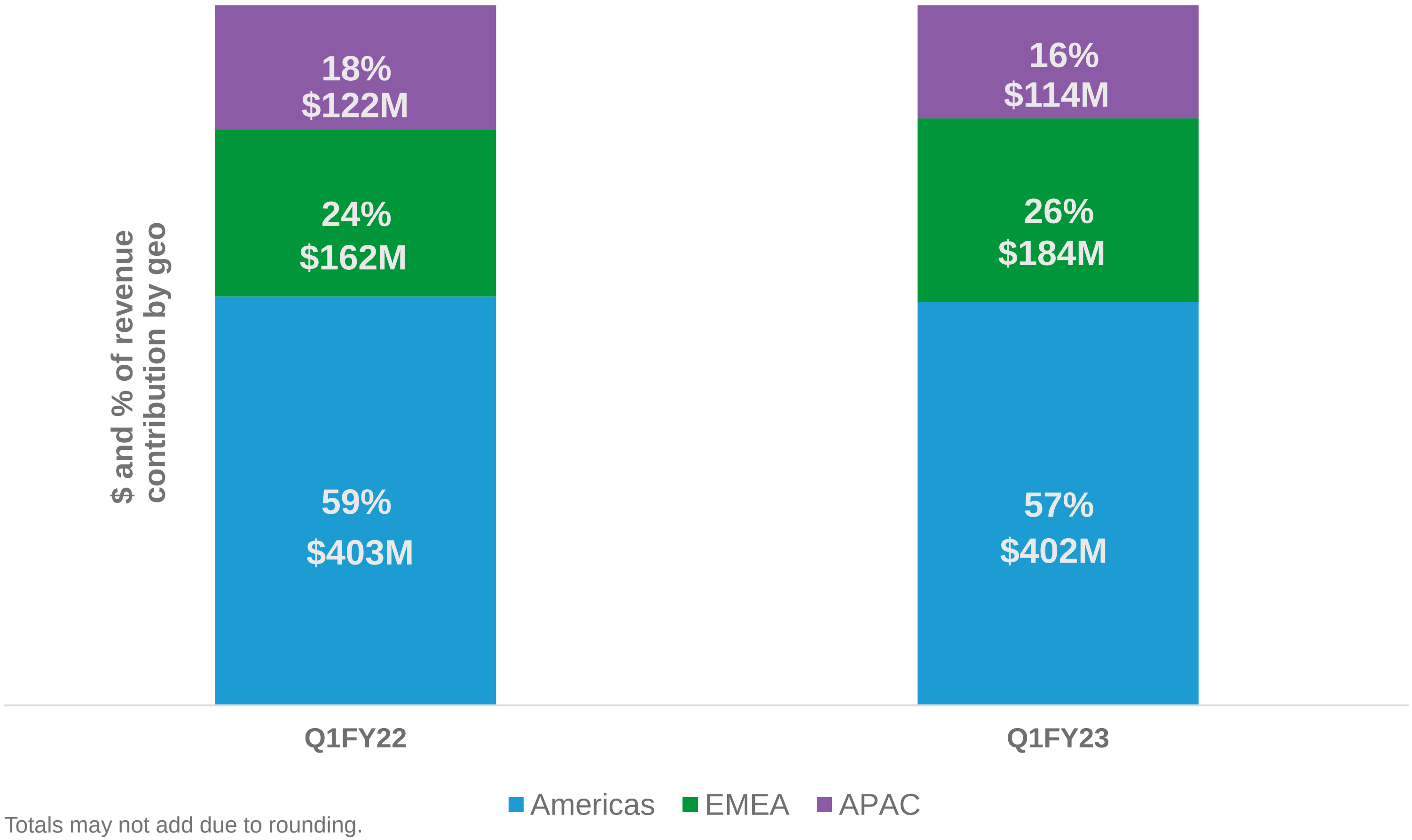
Q1FY22



Q1FY23

Recurring revenue includes subscriptions, SaaS-based and utility-based revenue and the maintenance portion of our global services revenue..

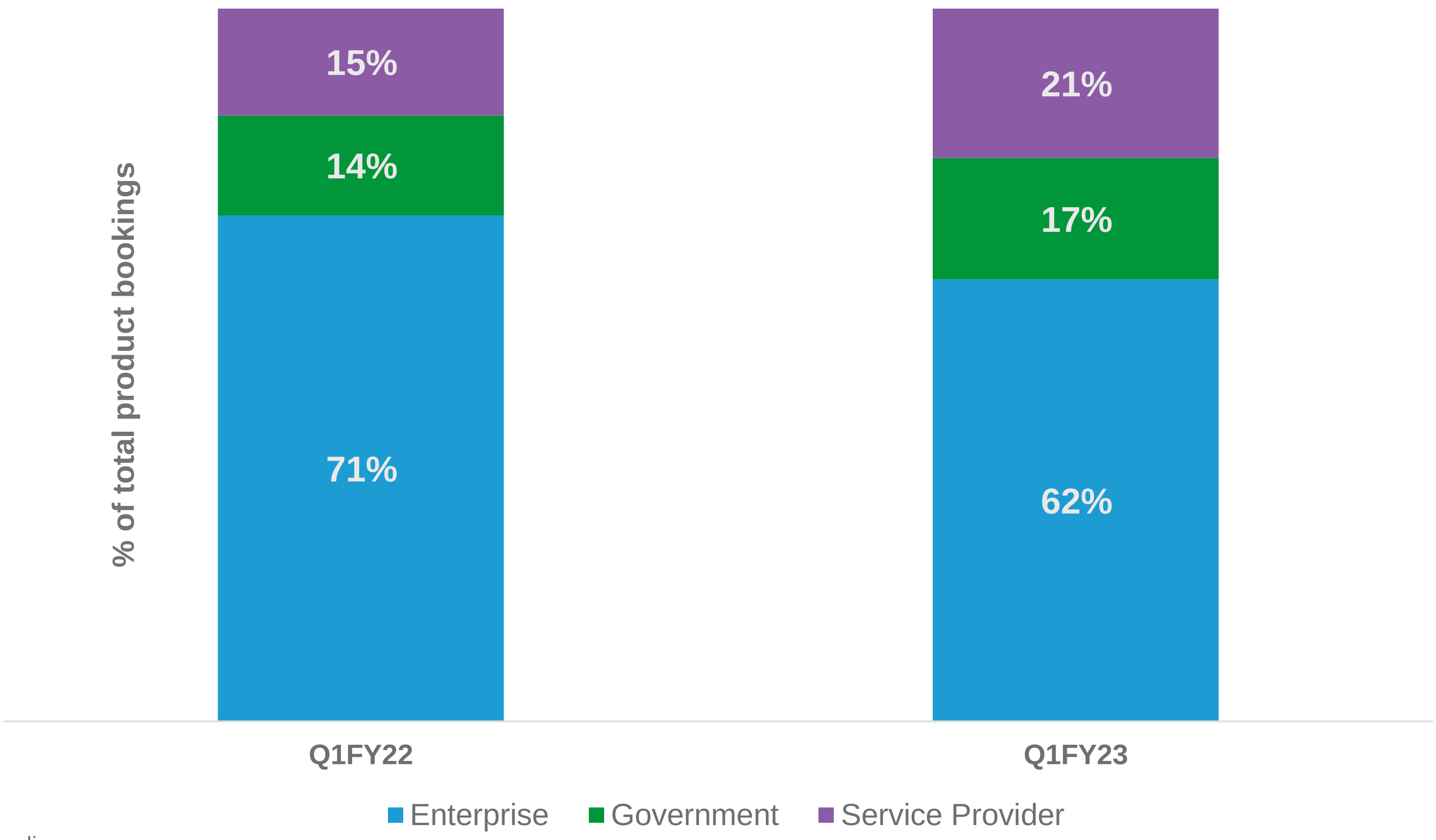
Q1FY23 revenue contribution by geography



Regional revenue growth

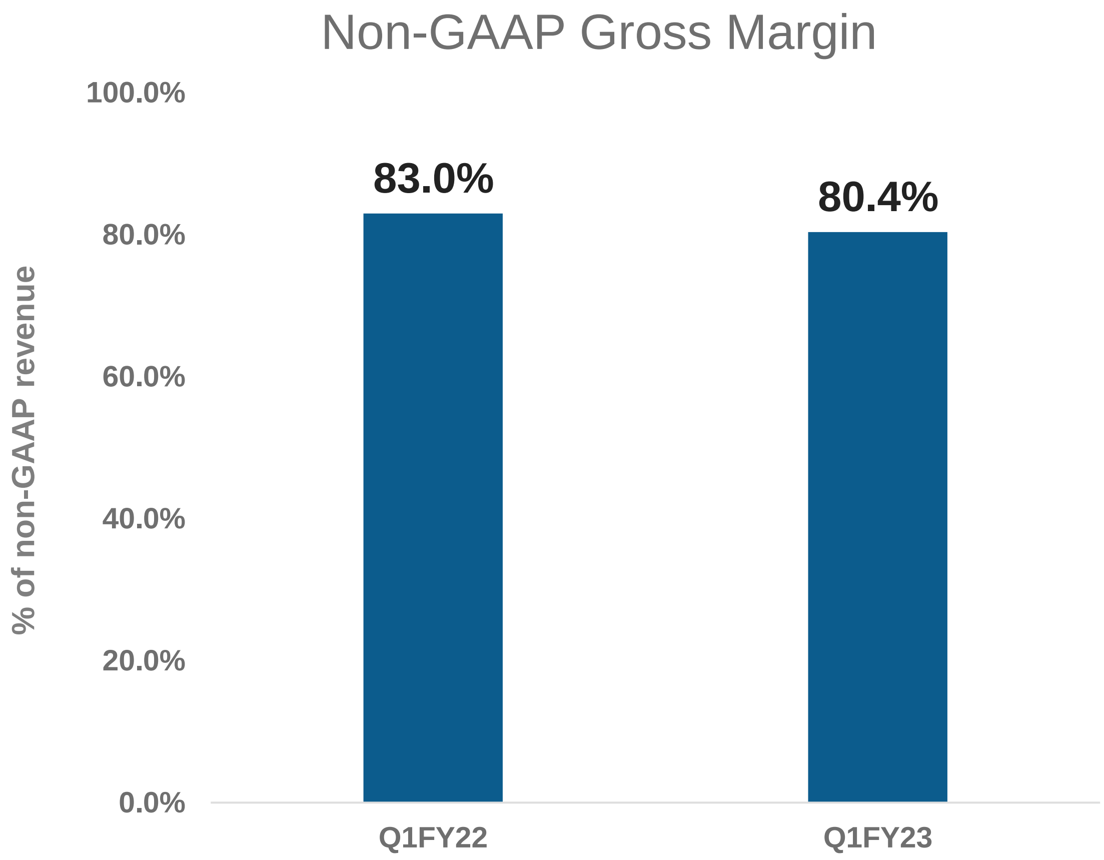
Totals may not add due to rounding.

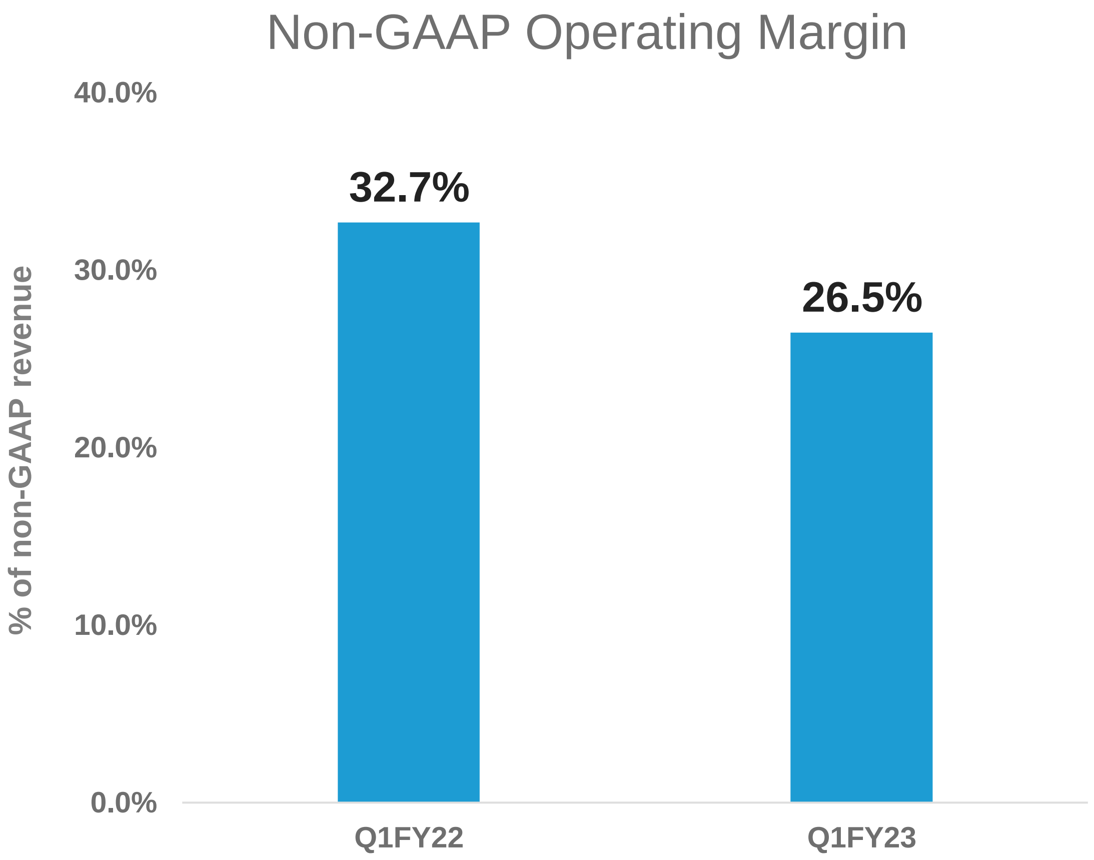
Q1FY23 customer verticals as a % of product bookings



Totals may not add to 100% due to rounding.

Q1FY23 non-GAAP gross and operating margins

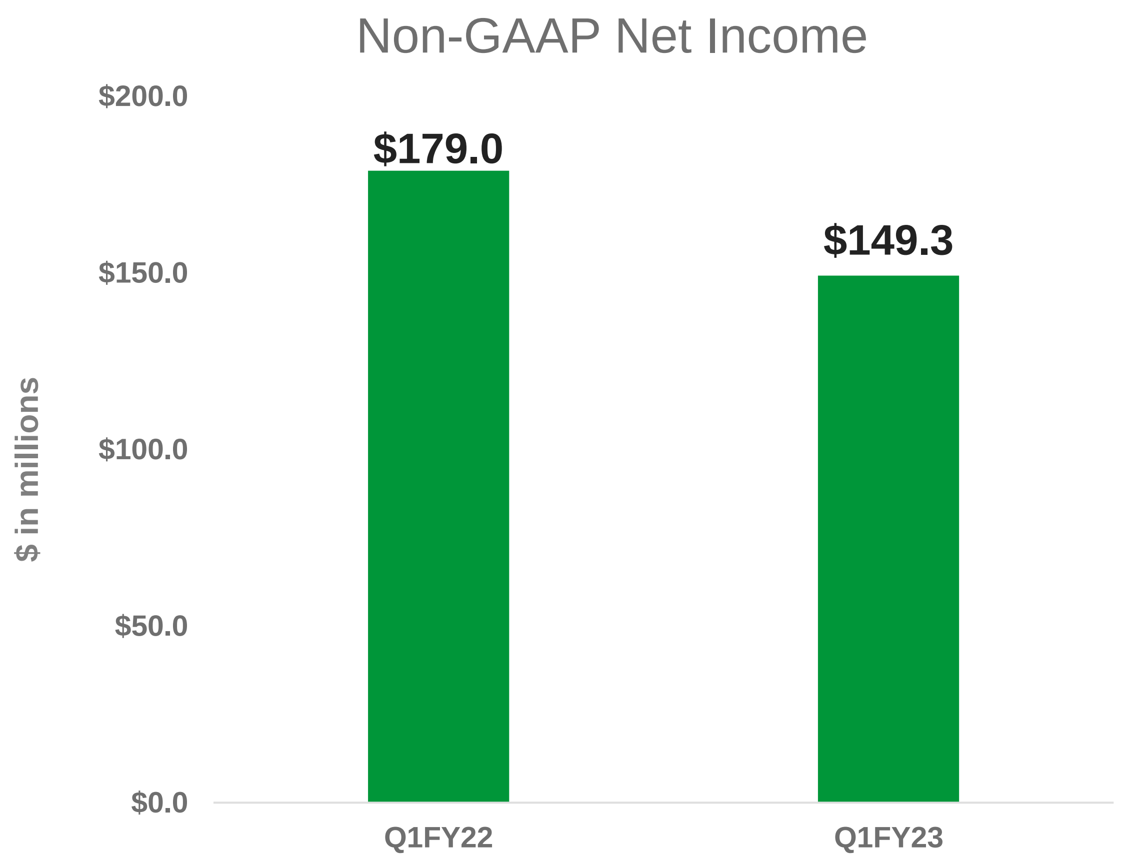


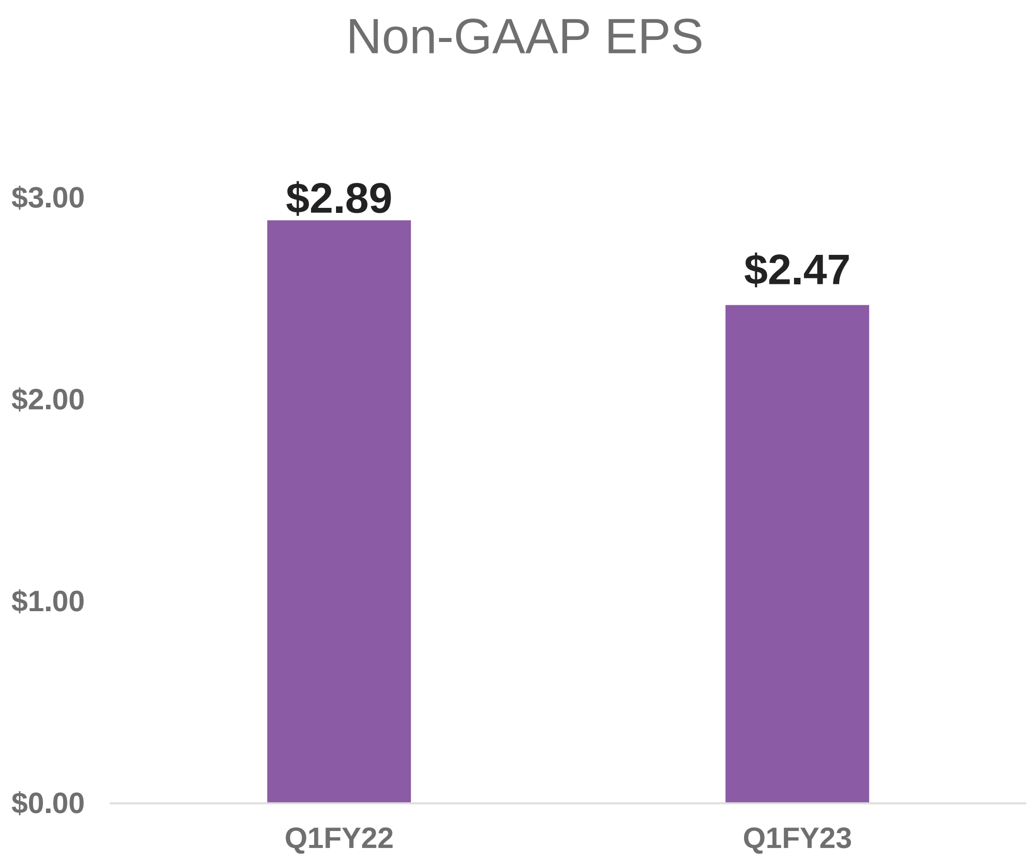


See appendix for GAAP to non-GAAP reconciliation

Q1FY23 non-GAAP net income and EPS

Reflects 21.4% Q1FY23 and 19.5% Q1FY22 non-GAAP effective tax rate





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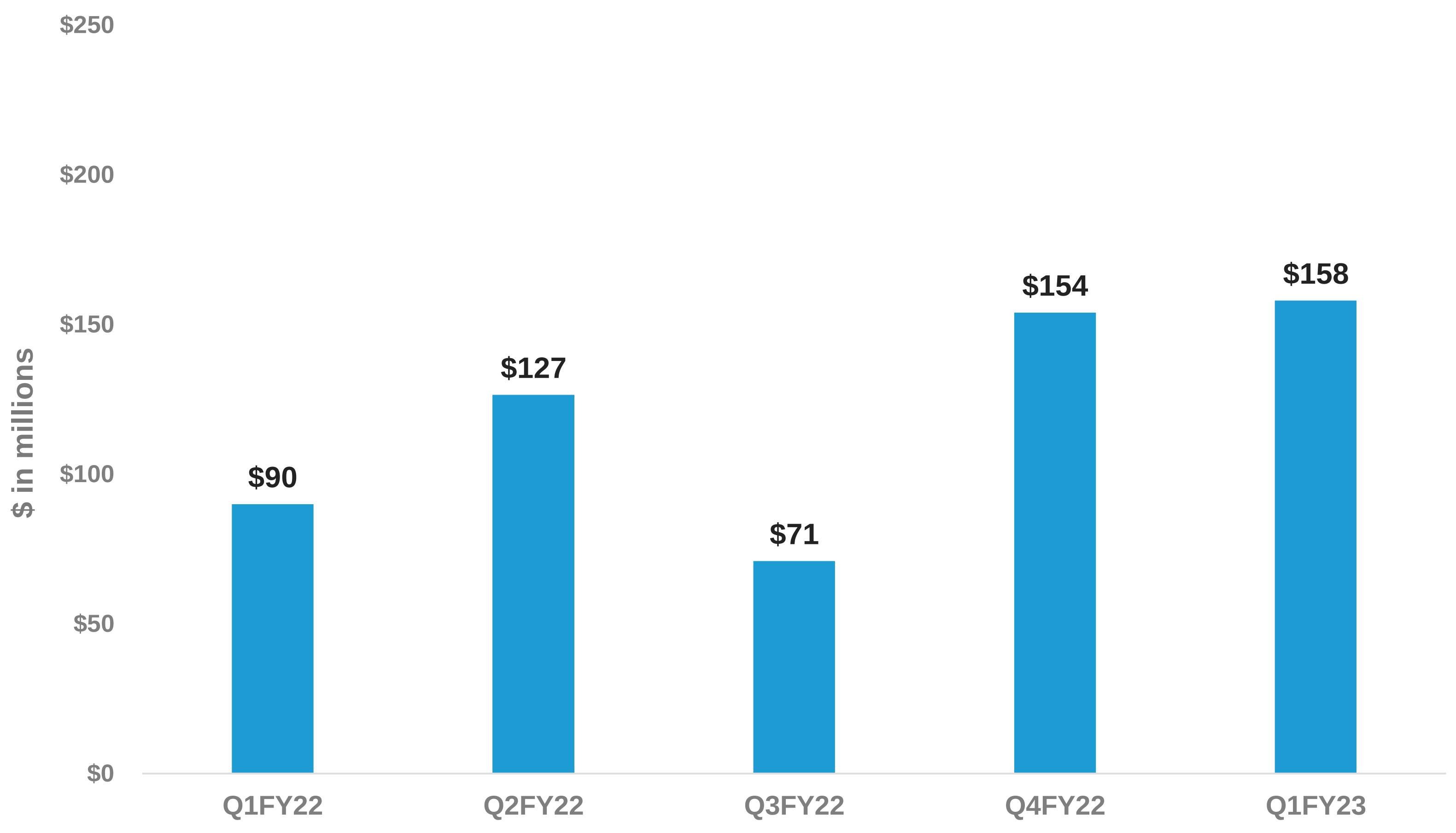
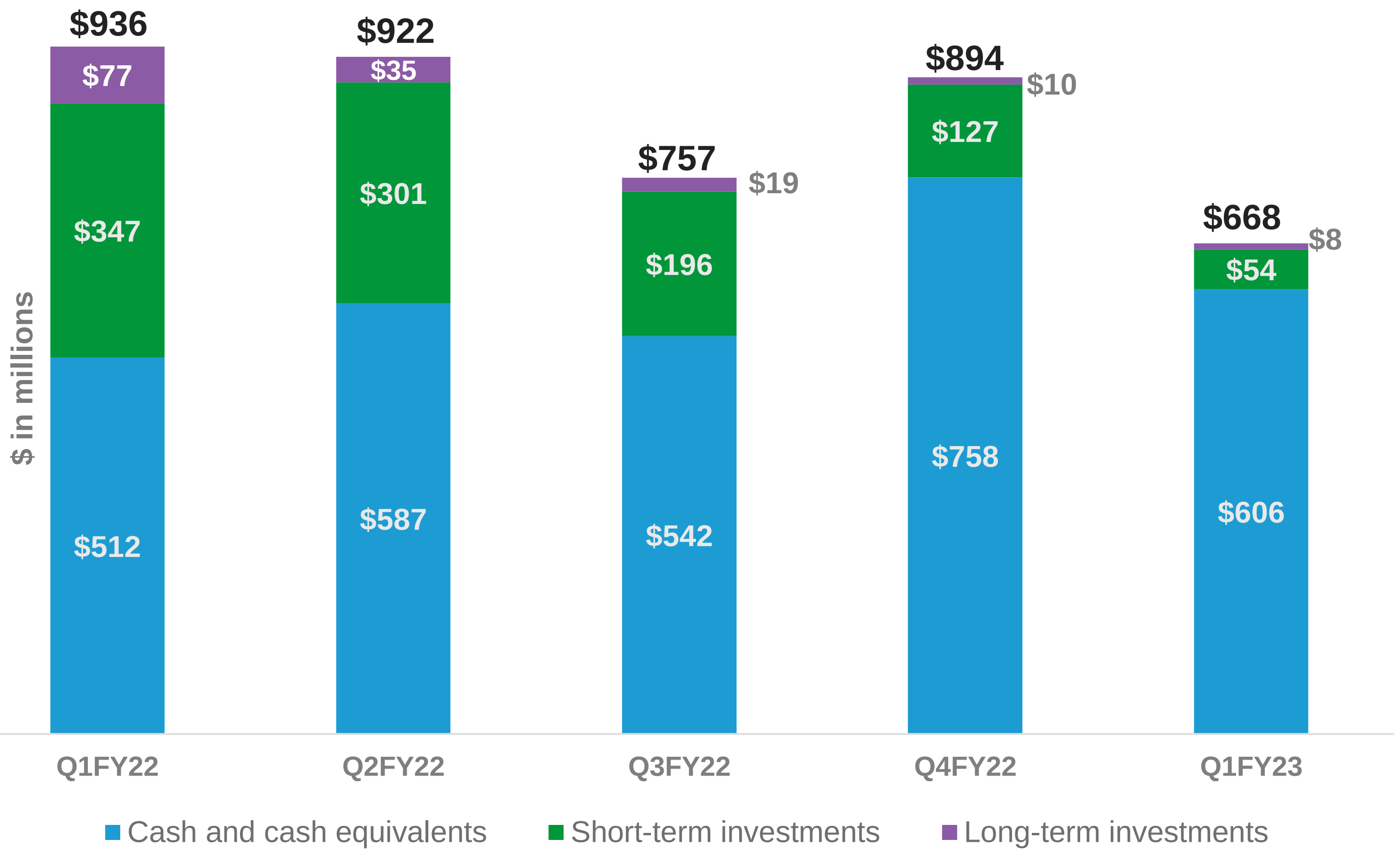
Cash flow from operations

- Cash flow over time has been impacted by multi-year subscription sales which are invoiced annually and therefore spread cash collections over time.



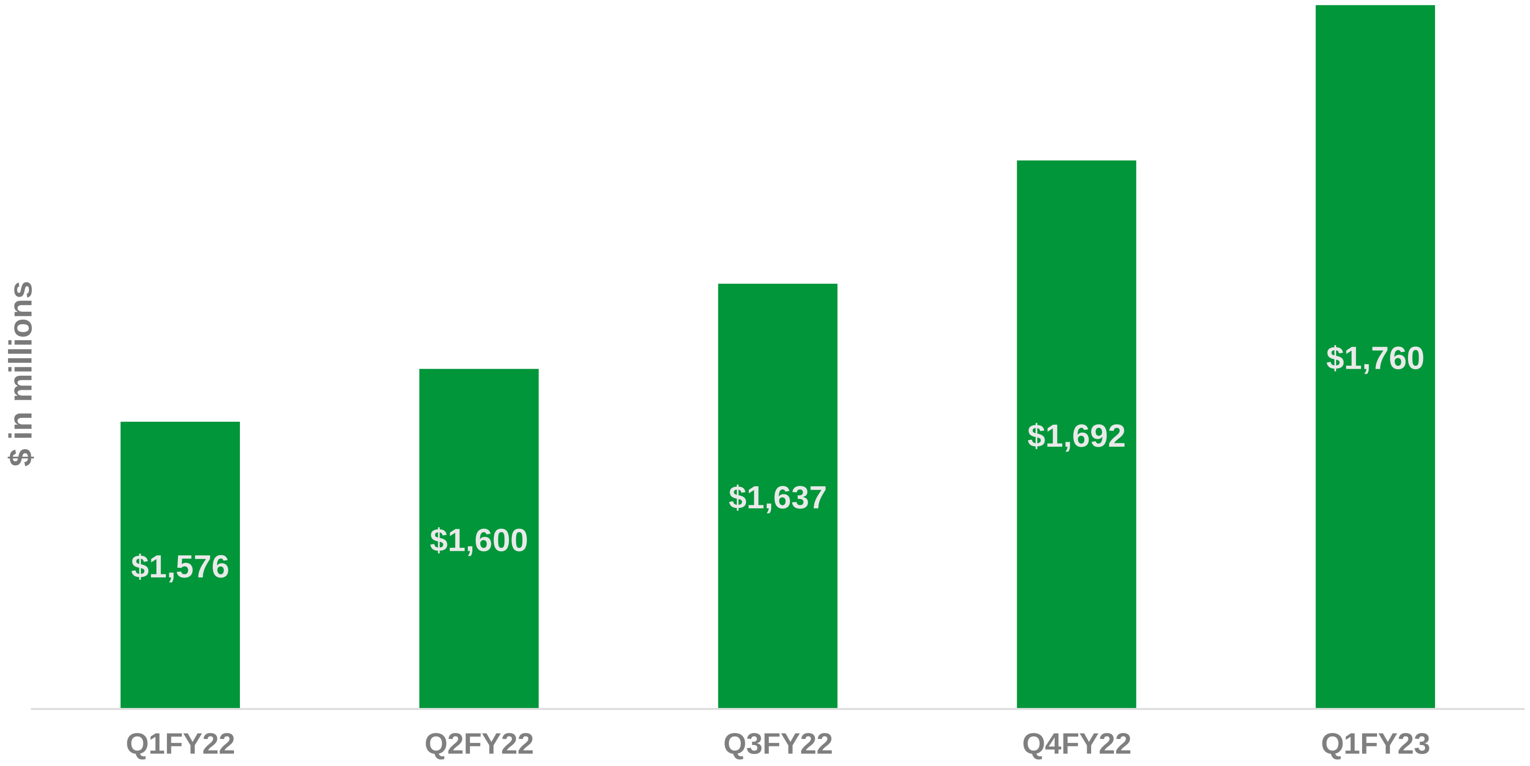
Cash and investments

- During Q1FY23 we paid down $350M in term debt remaining from our Shape acquisition.



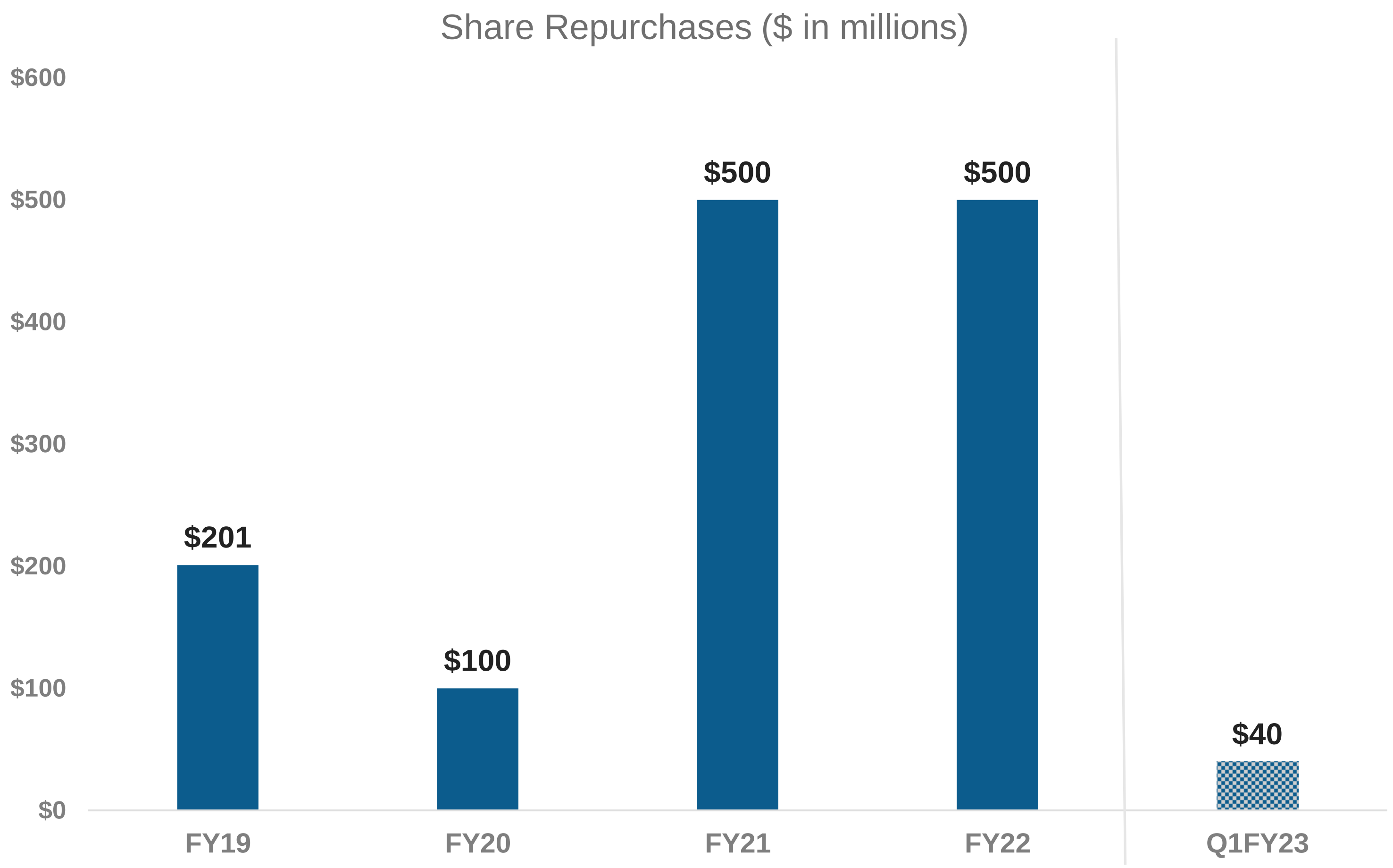
Deferred revenue

- The growth in deferred revenue in Q1FY23 was largely driven by strong service maintenance renewals.



We continue to take a balanced approach to capital deployment

- Starting in FY23, we intend to return 50% of free cash flow to shareholders via share repurchases.
- During Q1FY23, we repurchased $40 million worth of shares at an average price of $152/share.



Business Outlook

Our Q223 outlook

	Q2FY23 Guidance
Total revenue	**$690 to $710M**
Non-GAAP gross margin	~80%
Non-GAAP operating expenses	$368 to $380M
Share-based compensation	$64 to $66M
Non-GAAP EPS	**$2.36 to $2.48**

Our Q223 and FY23 outlook

	Q2FY23 Guidance
Total revenue	**$690 to $710M**
Non-GAAP gross margin	~80%
Non-GAAP operating expenses	$368 to $380M
Share-based compensation	$64 to $66M
Non-GAAP EPS	**$2.36 to $2.48**

	FY23 Guidance
Global services growth	Mid single-digit growth
Total revenue growth	**9% to 11%**
Non-GAAP operating margin	30% to 31%
Non-GAAP effective tax rate	21% to 23%
Non-GAAP EPS	**Low-to-mid teens growth**

Key takeaways

1 We remain committed to delivering double-digit EPS growth this year, and on an annual basis going forward.

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2 We will exercise **operating discipline** and **adjust our cost basis** in order to achieve our EPS goals.

Key takeaways

1. We remain committed to delivering **double-digit EPS growth this year,** and on an **annual basis going forward**.

2. We will exercise **operating discipline** and **adjust our cost basis** in order to achieve our EPS goals.

3. We have a **diversified and resilient revenue base**, which when combined with operating discipline, enables us to **drive revenue and earnings growth** in this environment.

Q&A

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Appendix

GAAP to non-GAAP reconciliation

GAAP-to-Non-GAAP Reconciliation		
Gross Profit Reconciliation		
($ in thousands)		
	Q1FY23	**Q1FY22**
GAAP gross profit	$545,371	$552,027
Stock-based compensation	$7,636	$7,545
Amortization and impairment of purchased intangible assets	$9,959	$9,959
Facility-exit costs	$201	$482
Acquisition-related charges	$93	$87
Total adjustments to gross profit	$17,889	$18,073
Non-GAAP gross profit	**$563,260**	**$570,100**
Non-GAAP gross margin	**80.4%**	**83.0%**
Operating Expense Reconciliation		
($ in thousands)		
	Q1FY23	**Q1FY22**
GAAP operating expense	$454,159	$437,876
Stock-based compensation-sales and marketing	$25,721	$26,753
Stock-based compensation-research and development	$18,542	$18,583
Stock-based compensation-general and administrative	$10,975	$10,876
Amortization and impairment of purchased intangible assets-sales and marketing	$2,389	$8,915
Amortization and impairment of purchased intangible assets-general and administrative	$337	$563
Facility-exit costs-sales and marketing	$663	$749
Facility-exit costs-research and development	$641	$912
Facility-exit costs-general and administrative	$501	$599
Acquisition-related charges-sales and marketing	$1,315	$6,164
Acquisition-related charges-research and development	$3,768	$5,994
Acquisition-related charges-general and administrative	$2,561	$4,646
Restructuring charges	$8,740	$7,909
Total adjustments to operating expenses	$76,153	$92,663
Non-GAAP operating expense	**$378,006**	**$345,213**

GAAP to non-GAAP reconciliation (continued)

Income from Operations Reconciliation		
($ in thousands)		
	Q1FY23	**Q1FY22**
GAAP operating income	$91,212	$114,151
Total adjustments related to gross profit	$17,889	$18,073
Total adjustments related to operating expense	$76,153	$92,663
Total adjustments related to income from operations	$94,042	$110,736
Non-GAAP income from operations	**$185,254**	**$224,887**
Non-GAAP operating margin	**26.5%**	**32.7%**
Net Income Reconciliation		
($ in thousands except per share data)		
	Q1FY23	**Q1FY22**
GAAP net income	$72,402	$93,559
Total adjustments to gross profit	$17,889	$18,073
Total adjustments to operating expenses	$76,153	$92,663
Gain on sale of patent	$0	$0
Exclude tax effect on above items	($17,170)	($25,264)
Total adjustments to net income	$76,872	$85,472
Non-GAAP net income	**$149,274**	**$179,031**
Weighted average basic common shares outstanding	60,096	60,810
Weighted average dilutive potential common shares outstanding	60,387	61,882
	Q1FY23	**Q2FY21**
GAAP income from operations	$91,212	$114,151
GAAP other income	$4,702	($2,431)
GAAP pre-tax income	$95,914	$111,720
GAAP provision for income taxes	$23,512	$18,161
GAAP effective tax rate	24.5%	16.3%
Non-GAAP income from operations	$185,254	$224,887
Non-GAAP other income	$4,702	($2,431)
Non-GAAP pre-tax income	$189,956	$222,456
Non-GAAP provision for income taxes	$40,682	$43,425
Non-GAAP effective tax rate	21.4%	19.5%
Net Income per Common Share		
GAAP diluted net income per common share	$ 1.20	$ 1.51
Non-GAAP diluted net income per common share	**$ 2.47**	**$ 2.89**

GAAP to non-GAAP reconciliation (continued)

The non-GAAP adjustments, and F5's basis for excluding them from non-GAAP financial measures, are outlined below:

Stock-based compensation. Stock-based compensation consists of expense for stock options, restricted stock, and employee stock purchases through the Company's Employee Stock Purchase Plan. Although stock-based compensation is an important aspect of the compensation of F5's employees and executives, management believes it is useful to exclude stock-based compensation expenses to better understand the long-term performance of the Company's core business and to facilitate comparison of the Company's results to those of peer companies.

Amortization and impairment of purchased intangible assets. Purchased intangible assets are amortized over their estimated useful lives, and generally cannot be changed or influenced by management after the acquisition. On a non-recurring basis, when certain events or circumstances are present, management may also be required to write down the carrying value of its purchased intangible assets and recognize impairment charges. Management does not believe these charges accurately reflect the performance of the Company's ongoing operations, therefore, they are not considered by management in making operating decisions. However, investors should note that the use of intangible assets contributed to F5's revenues earned during the periods presented and will contribute to F5's future period revenues as well.

Facility-exit costs. F5 has incurred charges in connection with the exit of facilities as well as other non-recurring lease activity. These 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.

Acquisition-related charges, net. F5 does not acquire businesses on a predictable cycle and the terms and scope of each transaction can vary significantly and are unique to each transaction. F5 excludes acquisition-related charges from its non-GAAP financial measures to provide a useful comparison of the Company's operating results to prior periods and to its peer companies. Acquisition-related charges consist of planning, execution and integration costs incurred directly as a result of an acquisition.

Restructuring charges. F5 has incurred restructuring charges that are included in its GAAP financial statements, primarily related to workforce reductions and costs associated with exiting facility-lease commitments. F5 excludes these items from its non-GAAP financial measures when evaluating its continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of its business.

Management believes that non-GAAP net income per share provides useful supplemental information to management and investors regarding the performance of the Company's core business operations and facilitates comparisons to the Company's historical operating results. Although F5's management finds this non-GAAP measure to be useful in evaluating the performance of the core business, management's reliance on this measure is limited because items excluded from such measures could have a material effect on F5's earnings and earnings per share calculated in accordance with GAAP. Therefore, F5's management will use its non-GAAP earnings and earnings per share measures, in conjunction with GAAP earnings and earnings per share measures, to address these limitations when evaluating the performance of the Company's core business. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, financial performance measures in accordance with GAAP.

F5 believes that presenting its non-GAAP measures of earnings and earnings per share provides investors with an additional tool for evaluating the performance of the Company's core business and is used by management in its own evaluation of the Company's performance. Investors are encouraged to look at GAAP results as the best measure of financial performance. However, while the GAAP results are more complete, the Company provides investors these supplemental measures since, with reconciliation to GAAP, it may provide additional insight into the Company's operational performance and financial results.

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