Q2 FY23 Results

PERIOD ENDING MARCH 31, 2023

Published April 19, 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, operating margins, earnings growth, planned stock repurchases, future customer demand and spending, markets, and the performance and benefits of the Company's products. 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 press release 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.

Business Overview

François Locoh-Donou, President & CEO

GAAP results

	Q2FY22	Q2FY23
Revenue	**$634.2M**	**$703.2M**
Gross margin	80.1%	77.9%
Operating margin	11.8%	15.1%
Net income	$56.2M	$81.4M
EPS	**$0.92**	**$1.34**

Business overview agenda

1. We delivered a strong Q2 with revenue at the midpoint of guidance and non-GAAP EPS above the high end of our range.

2. Persistent macro uncertainty is leading to broader and more severe customer budget scrutiny impacting both software and hardware demand and causing us to reset our FY23 outlook.

3. We believe current constrained spending is temporary and F5 is well positioned when investment resumes.

We delivered against our Q2FY23 guidance

	Q2FY23 Guidance	Q2FY23 Actuals
Total revenue	**\$690 to \$710M**	**\$703M**
Non-GAAP gross margin	~80%	80.4%
Non-GAAP operating expenses	\$368 to \$380M	\$374M
Non-GAAP EPS	**\$2.36 to \$2.48**	**\$2.53**

Q2FY23 results reflect stronger than expected systems shipments and strong global services revenue

Q2FY23 Results

+14%
Product
Growth

+8%
Global Services
Growth

-13%
Software
Growth

+43%
Systems
Growth

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Signs that the current demand environment is temporary

Direct Customer Commentary

Customers tell us delays are a matter of budgets and approvals, not competitive pressures or architectural shifts.

Customers expect F5 will be a key part of future hybrid and multi-cloud architecture.

Partners are leaning in to the new F5 and our rapidly expanding set of Distributed Cloud Services.

Steady Win Rates

Our win rates across theaters and product lines are broadly steady first half of FY23 v. first half of FY22 confirming we are winning our fair share of deals we are involved in.

Factored Pipeline is Up

Increase in factored pipeline suggests customer activity is increasing and deals are reaching a higher level of maturity.

This is encouraging, but we believe it is prudent to remain conservative on expected conversion of factored pipeline.

Strong Maintenance Renewals

Strong maintenance renewals signal customers are delaying purchasing decisions by sweating assets.

We are seeing substantial attach rate increase on older deployments.

We are seeing a substantial increase in deferred maintenance revenue compared to prior year trends.

We are operating with discipline and ensuring we are prepared when customer spending resumes

Reducing Costs

- Reducing global headcount by approximately 620 employees, or 9% of our total workforce
- Rationalizing our technology consumption
- Applying additional scrutiny to discretionary projects
- Reducing our facilities footprint
- Reducing the size of our corporate bonus pool substantially in FY23
- Further reducing travel

Delivering Operating Leverage & Margin Expansion

- In FY23, we expect to deliver ~30% non-GAAP operating margins and 7% to 11% non-GAAP earnings growth.
- In FY24, cost reductions and anticipated gross margin improvement positions us to deliver meaningful non-GAAP operating margin expansion and double-digit earnings growth.

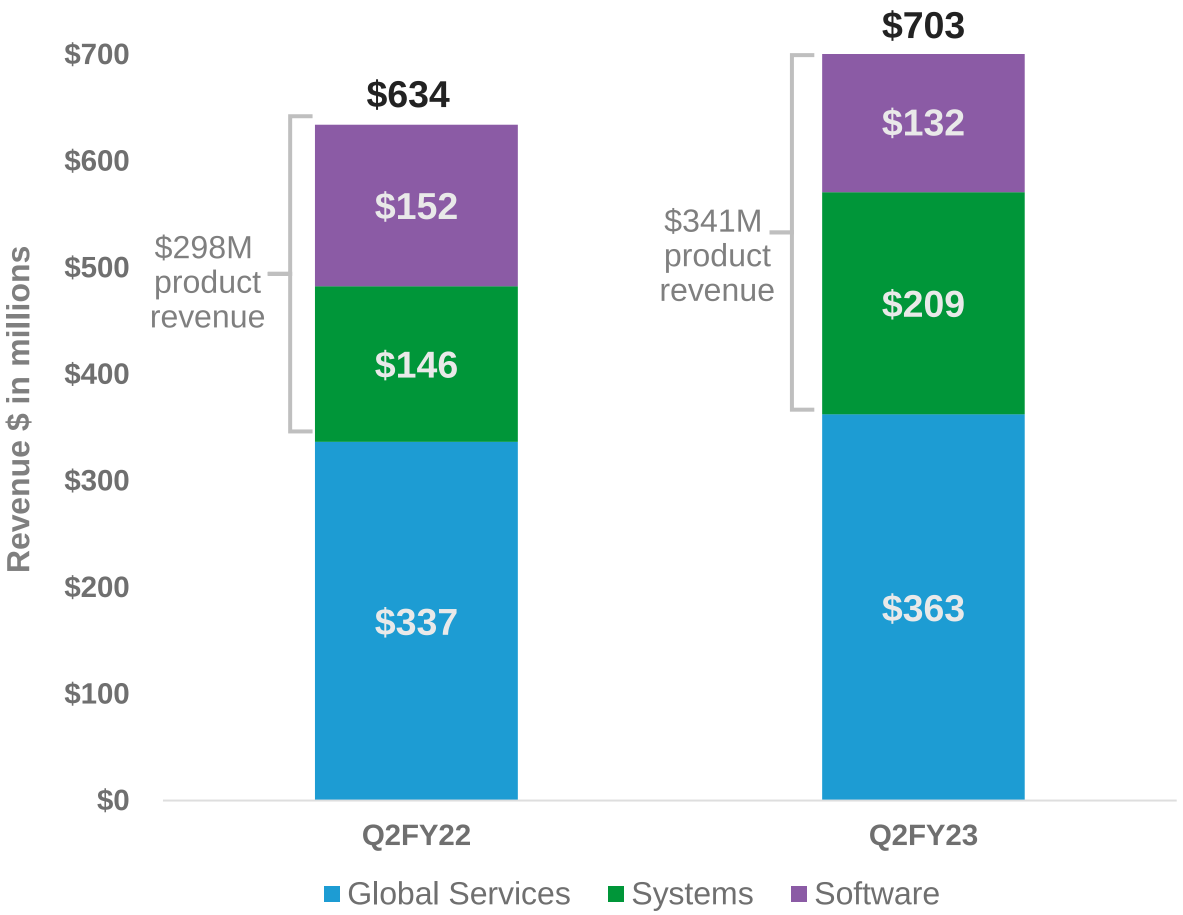
Positioned to Drive Sustainable Long-Term Growth

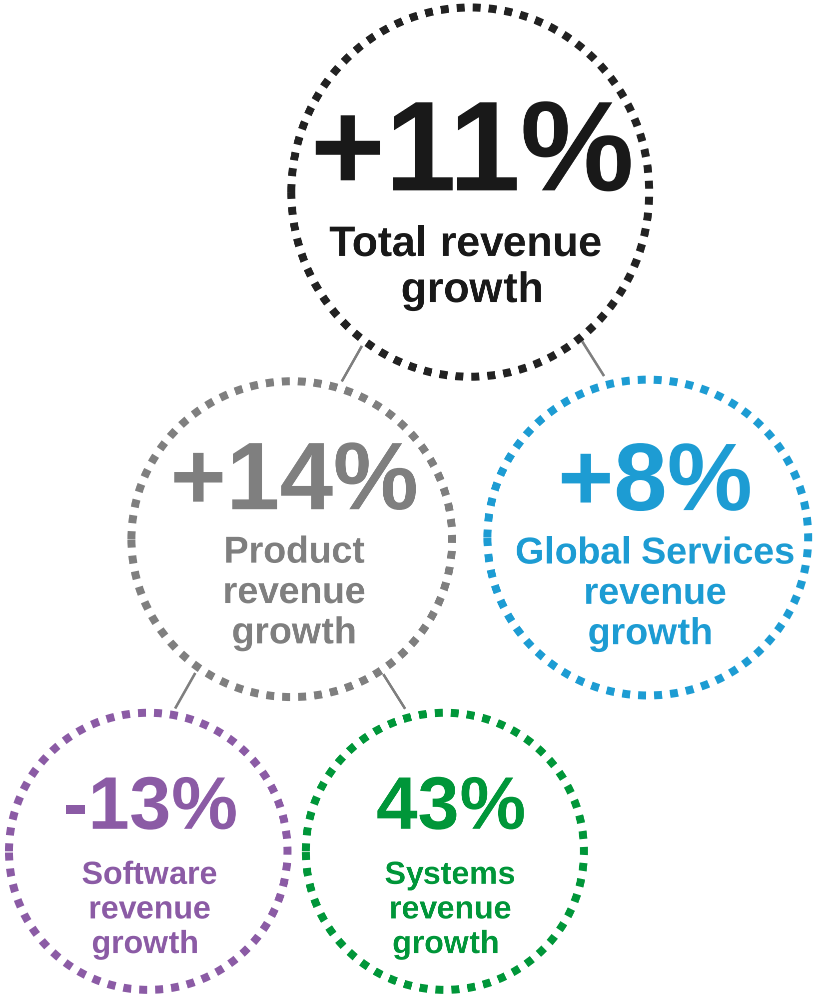
- Customers' business velocity and long-term growth will rely on connecting and protecting applications and APIs across distributed environments.
- With our unique ability to secure and deliver applications and APIs across all environments, we are differentiated in our ability to help customers with these challenges.
- We have intensified our investment in areas we believe will drive the highest mid- and long-term impact for our customers, including software and hybrid and multi cloud.

Q2FY23 Results

Frank Pelzer, CFO & EVP

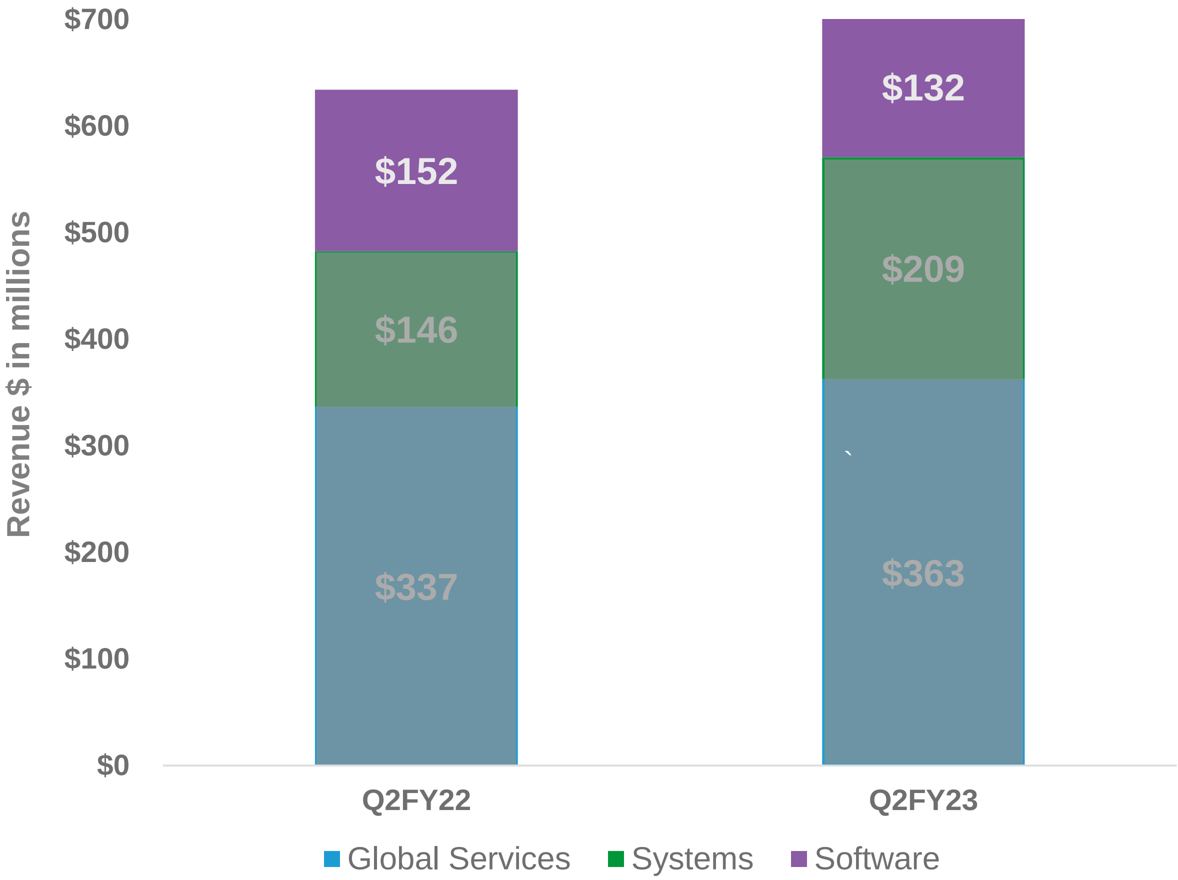
Q2FY23 revenue mix





Totals may not add due to rounding.

Q2FY23 revenue mix



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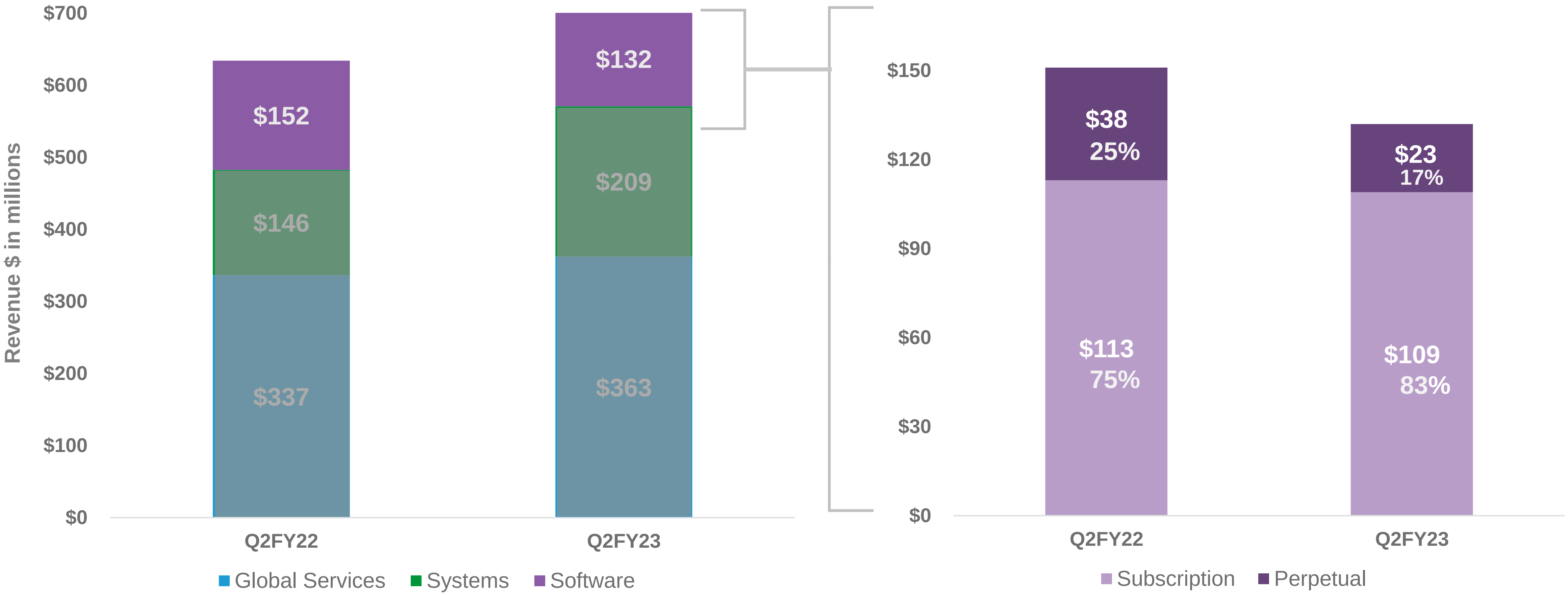
Q2FY23 revenue mix



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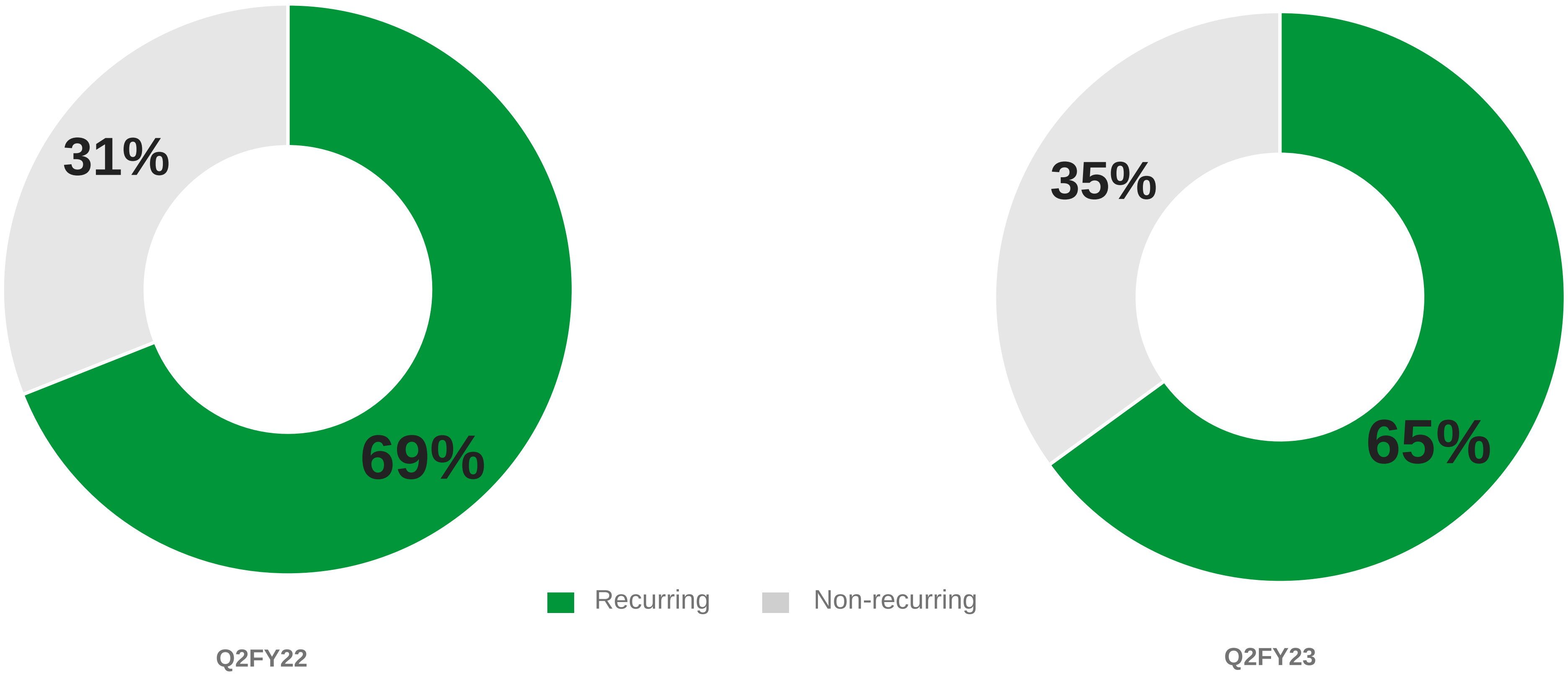
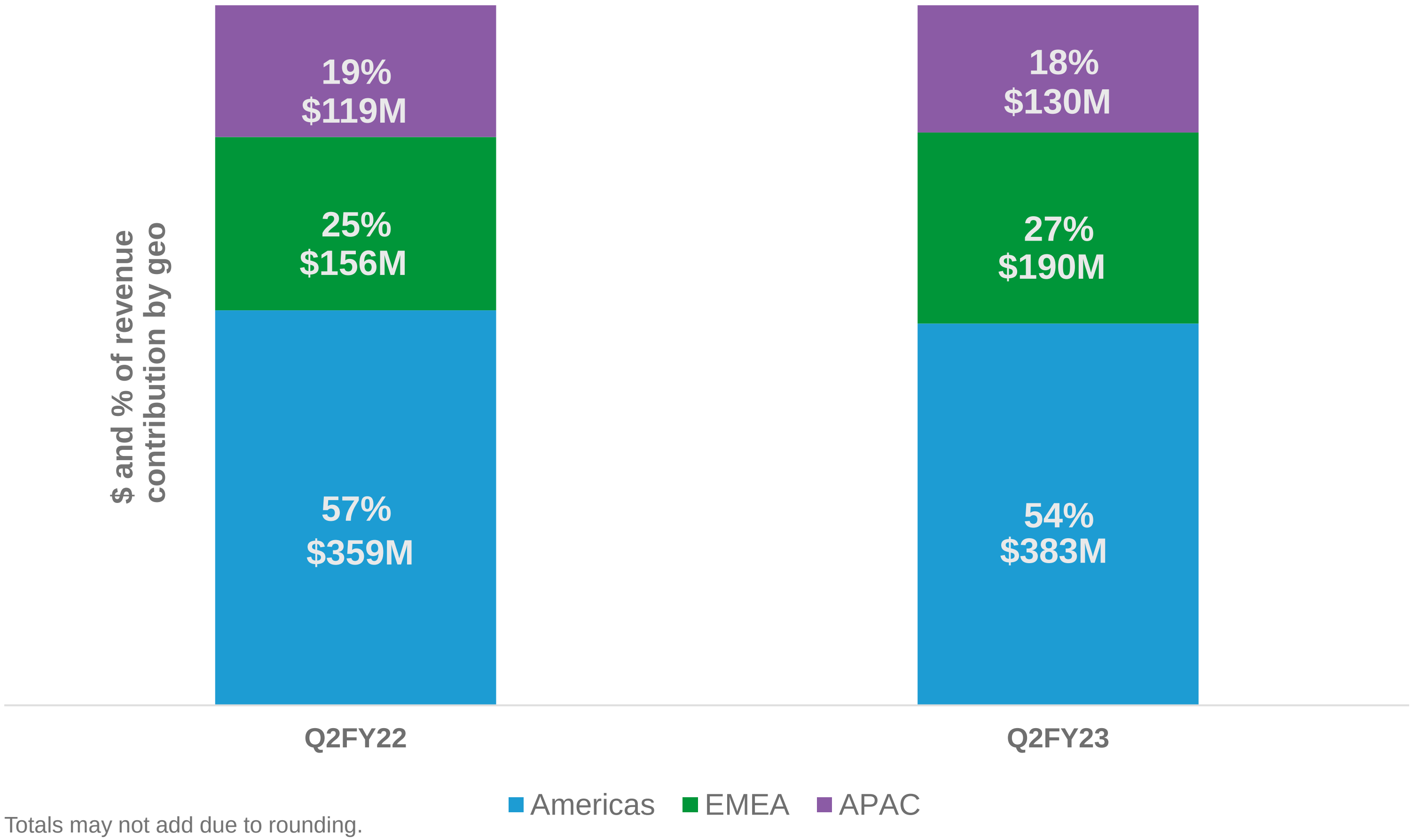
Revenue from recurring sources



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

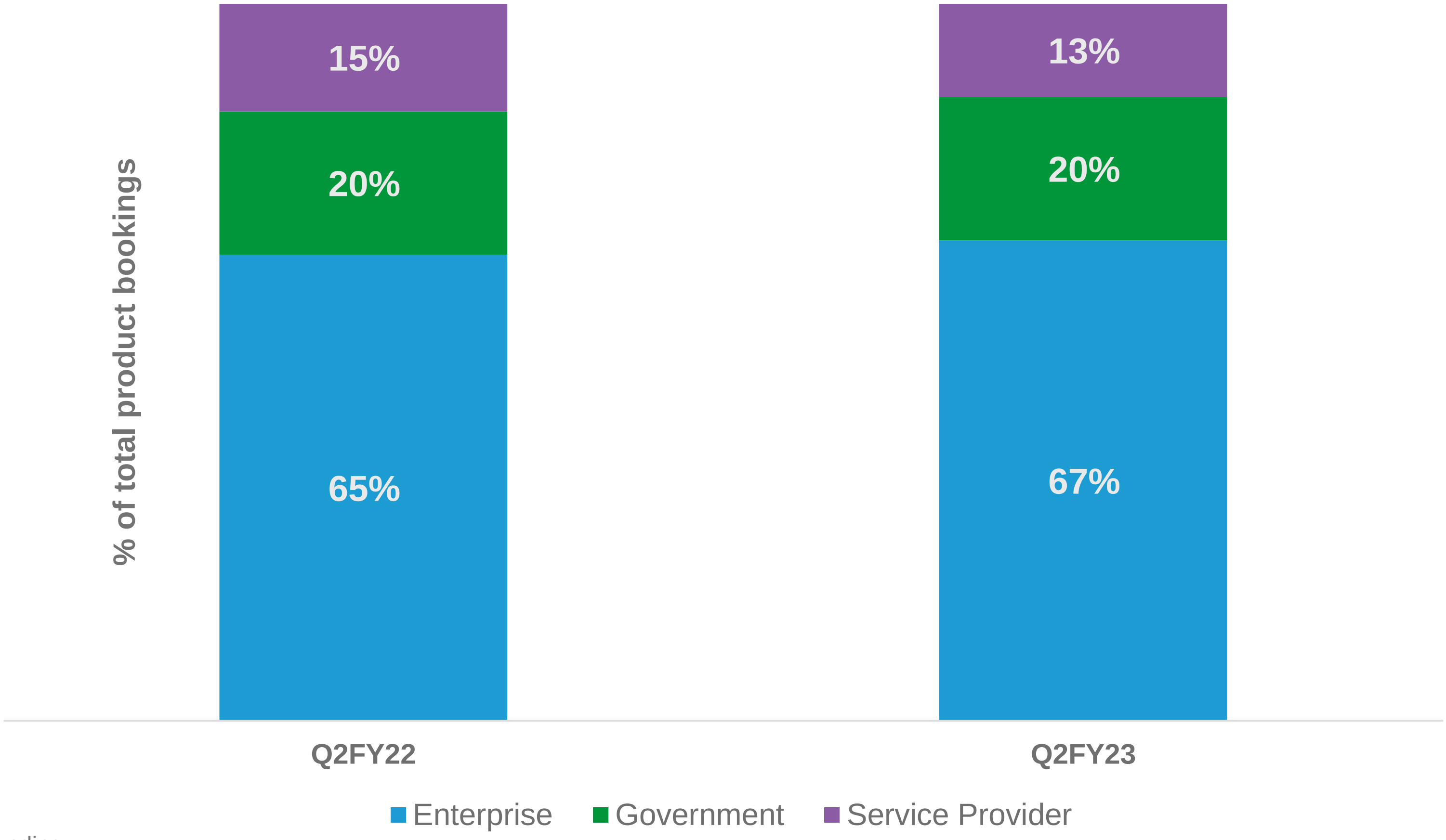
Q2FY23 revenue contribution by geography



Regional revenue growth

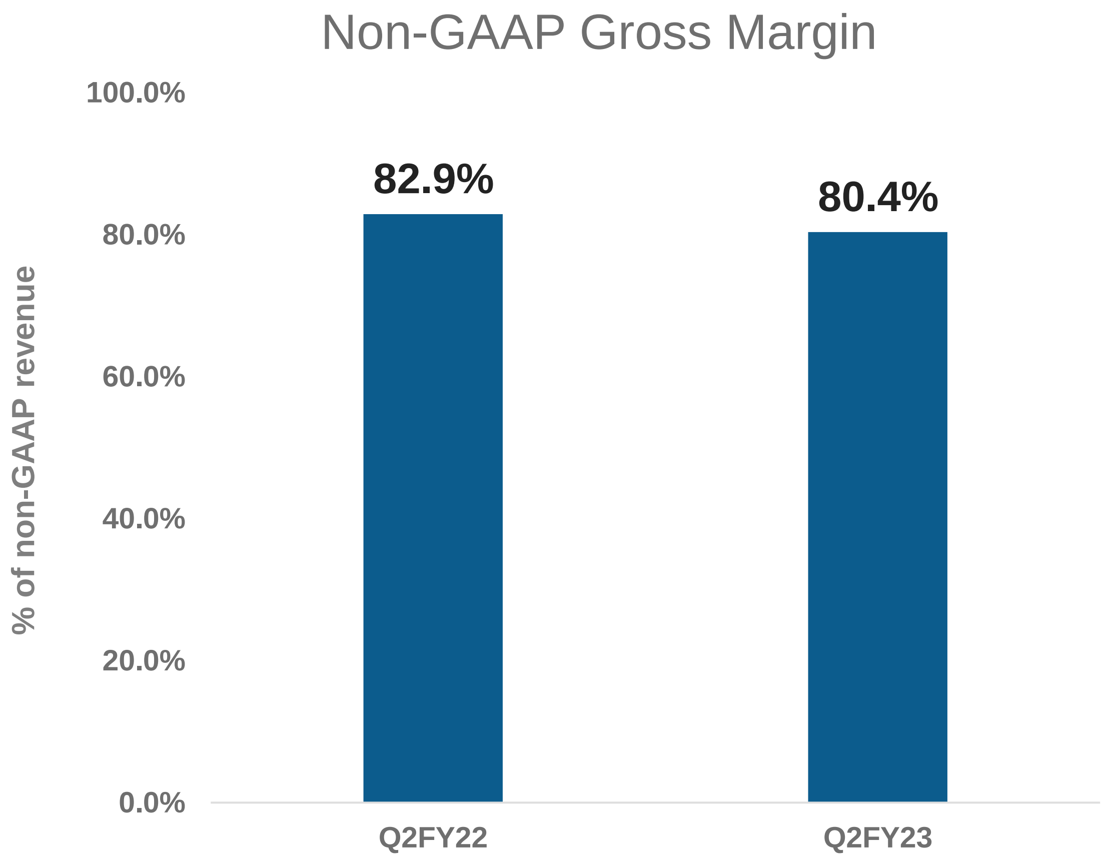
Totals may not add due to rounding.

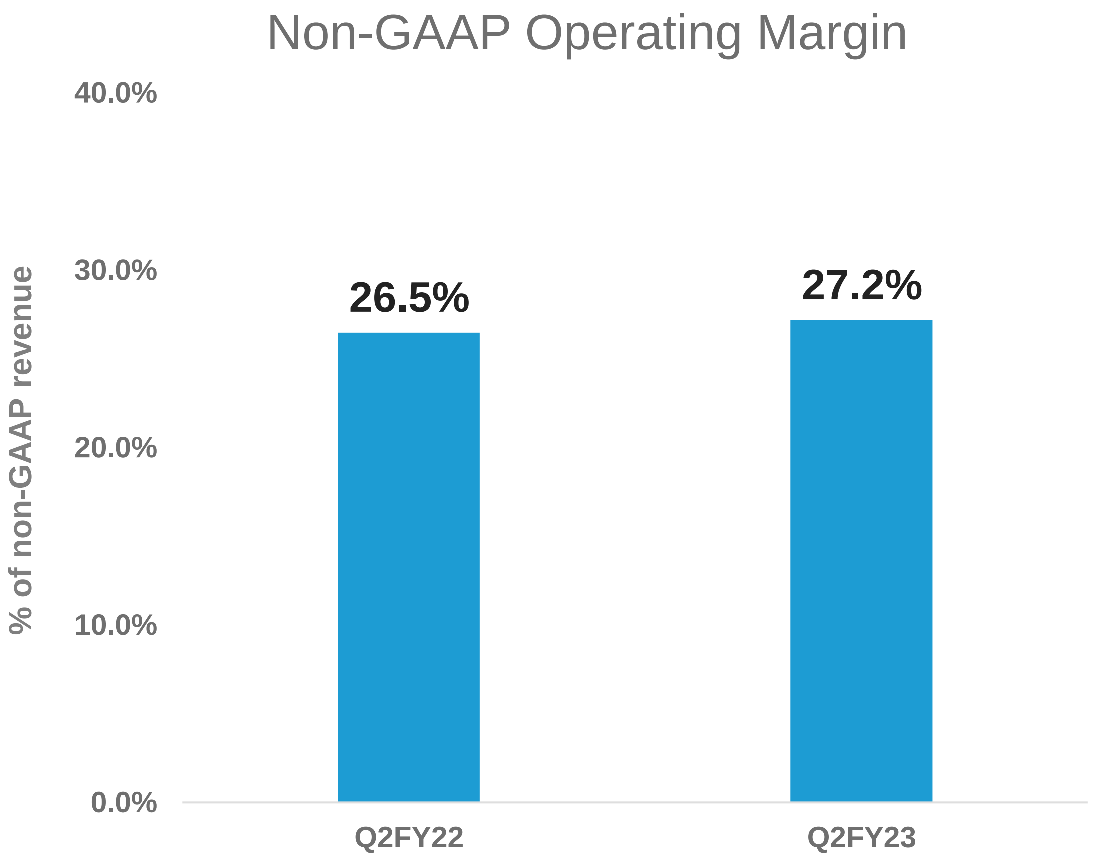
Q2FY23 customer verticals as a % of product bookings



Totals may not add to 100% due to rounding.

Q2FY23 non-GAAP gross and operating margins

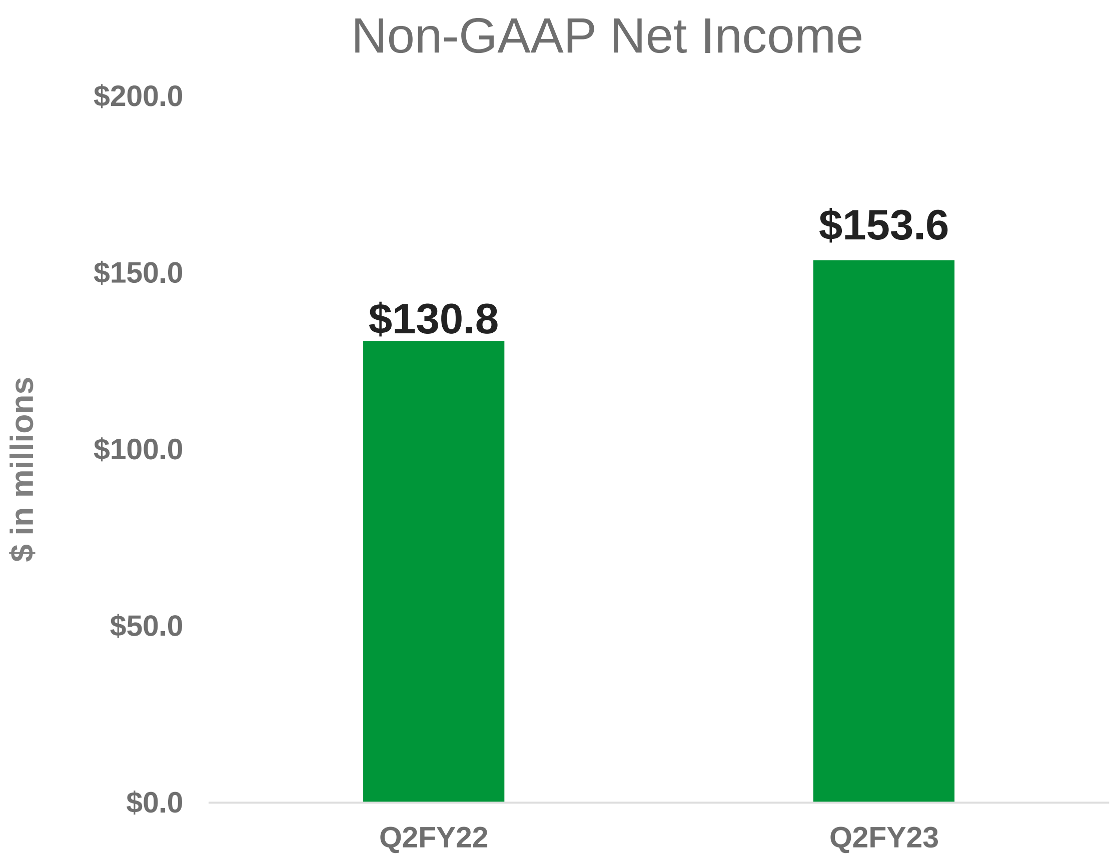


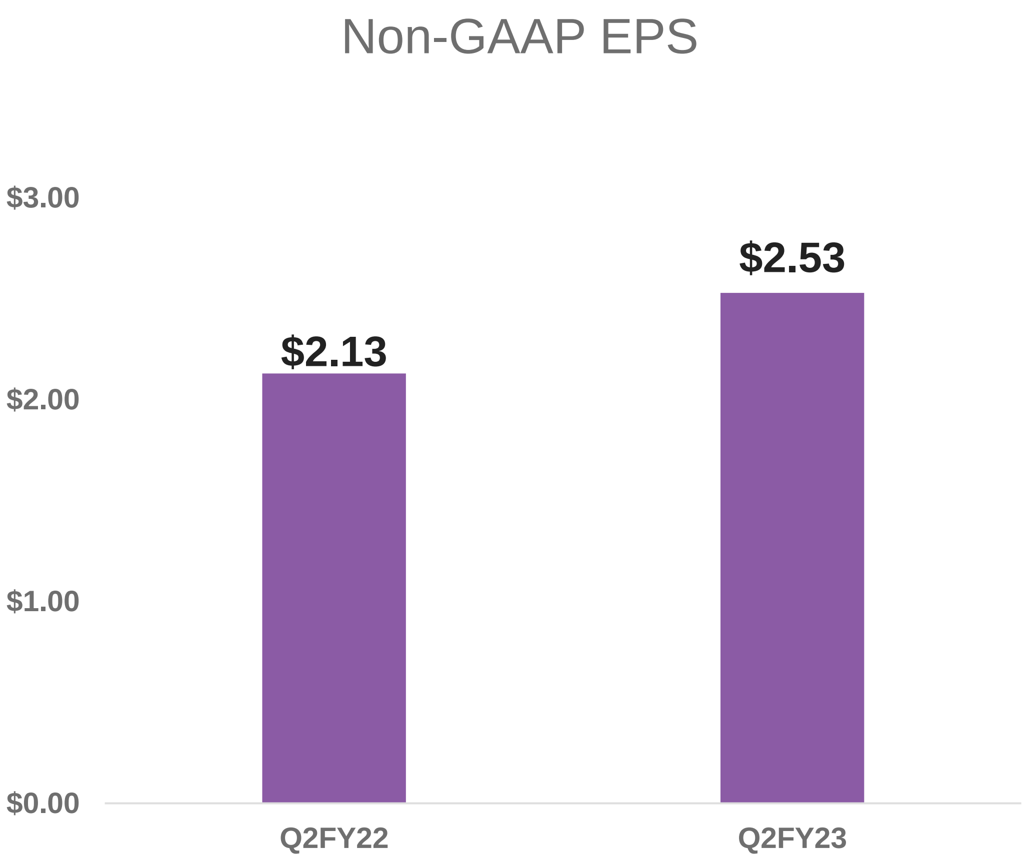


See appendix for GAAP to non-GAAP reconciliation

Q2FY23 non-GAAP net income and EPS

Reflects 20.8% Q2FY23 and 21.3% Q2FY22 non-GAAP effective tax rate





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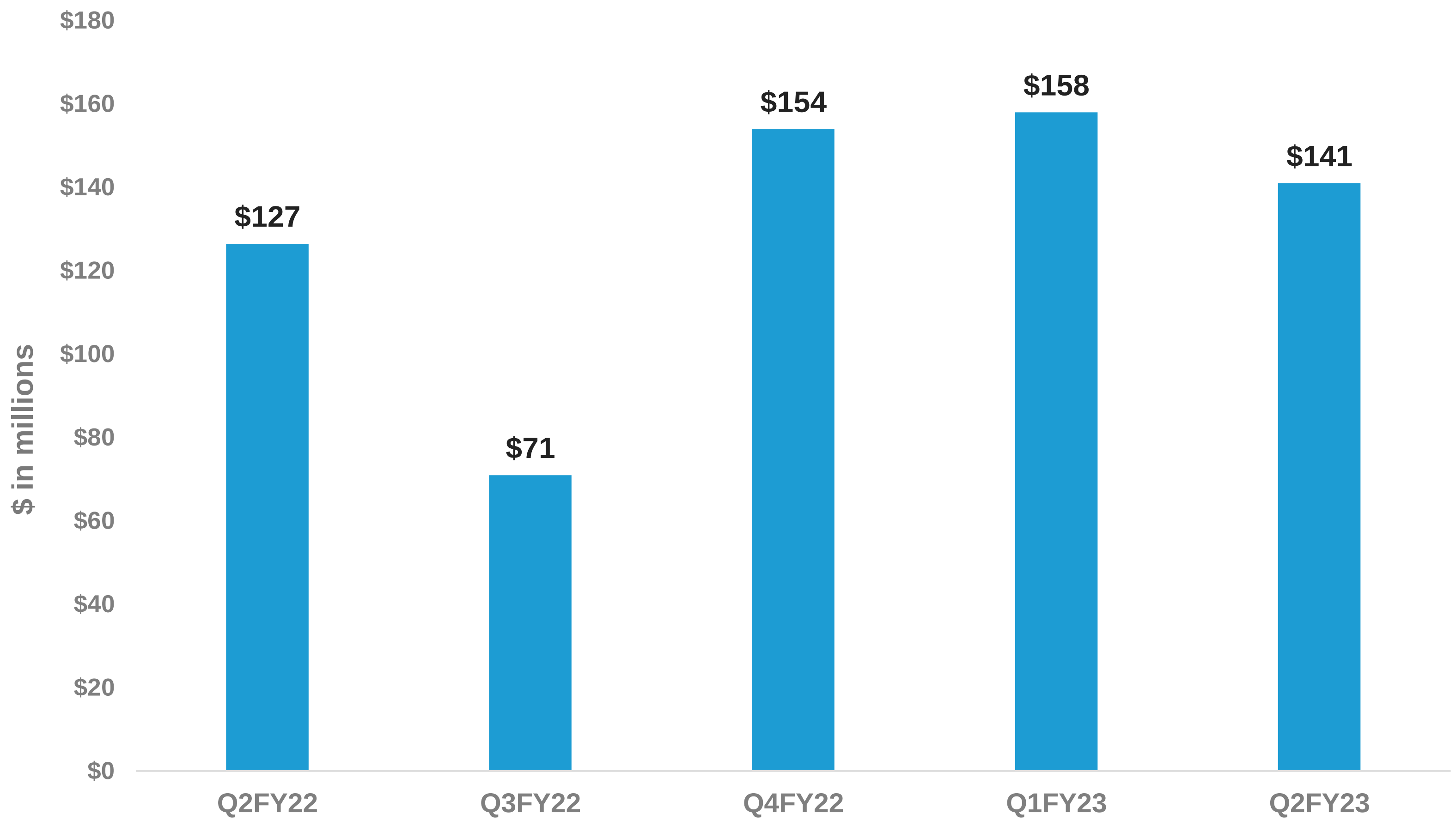
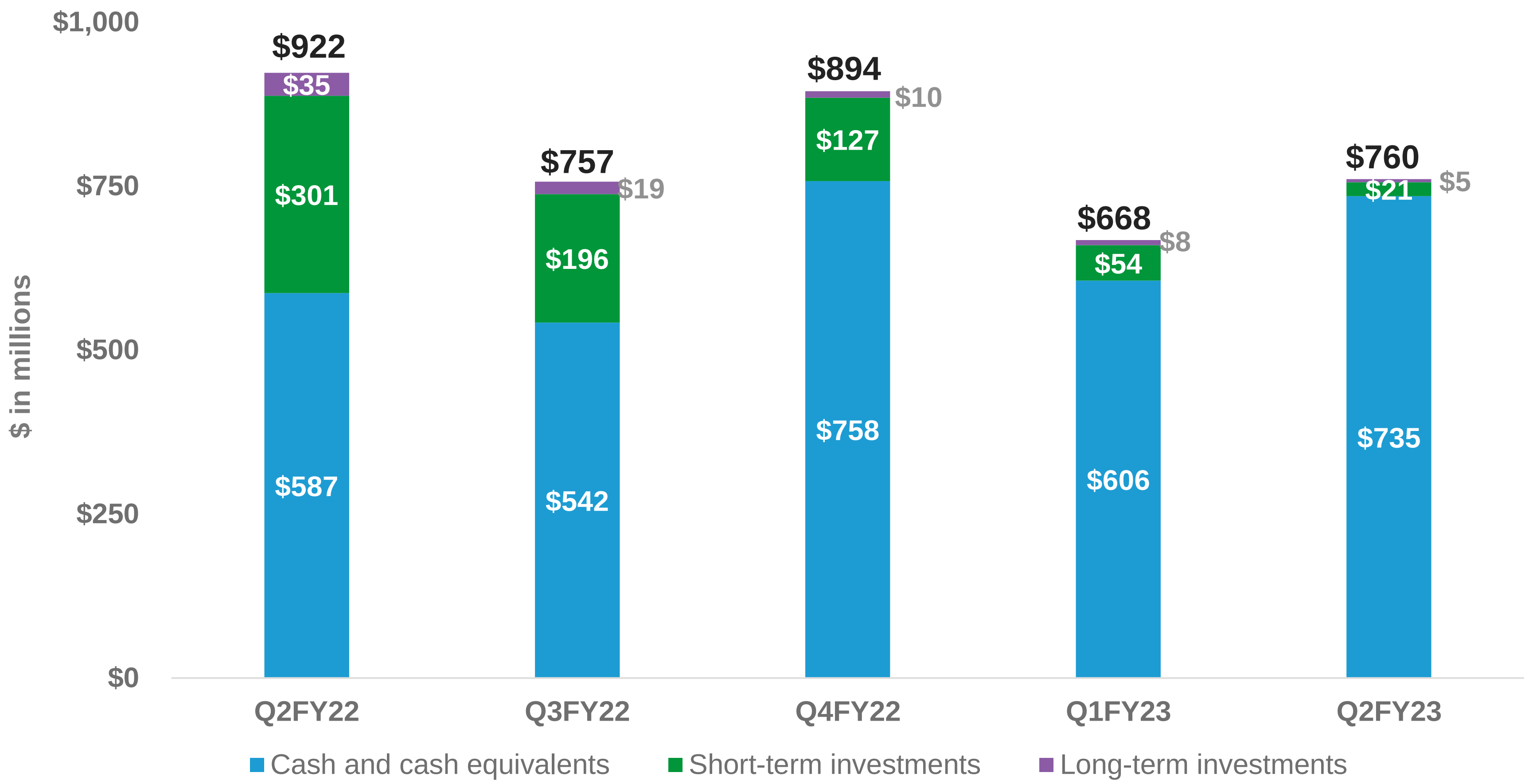
Cash flow from operations

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

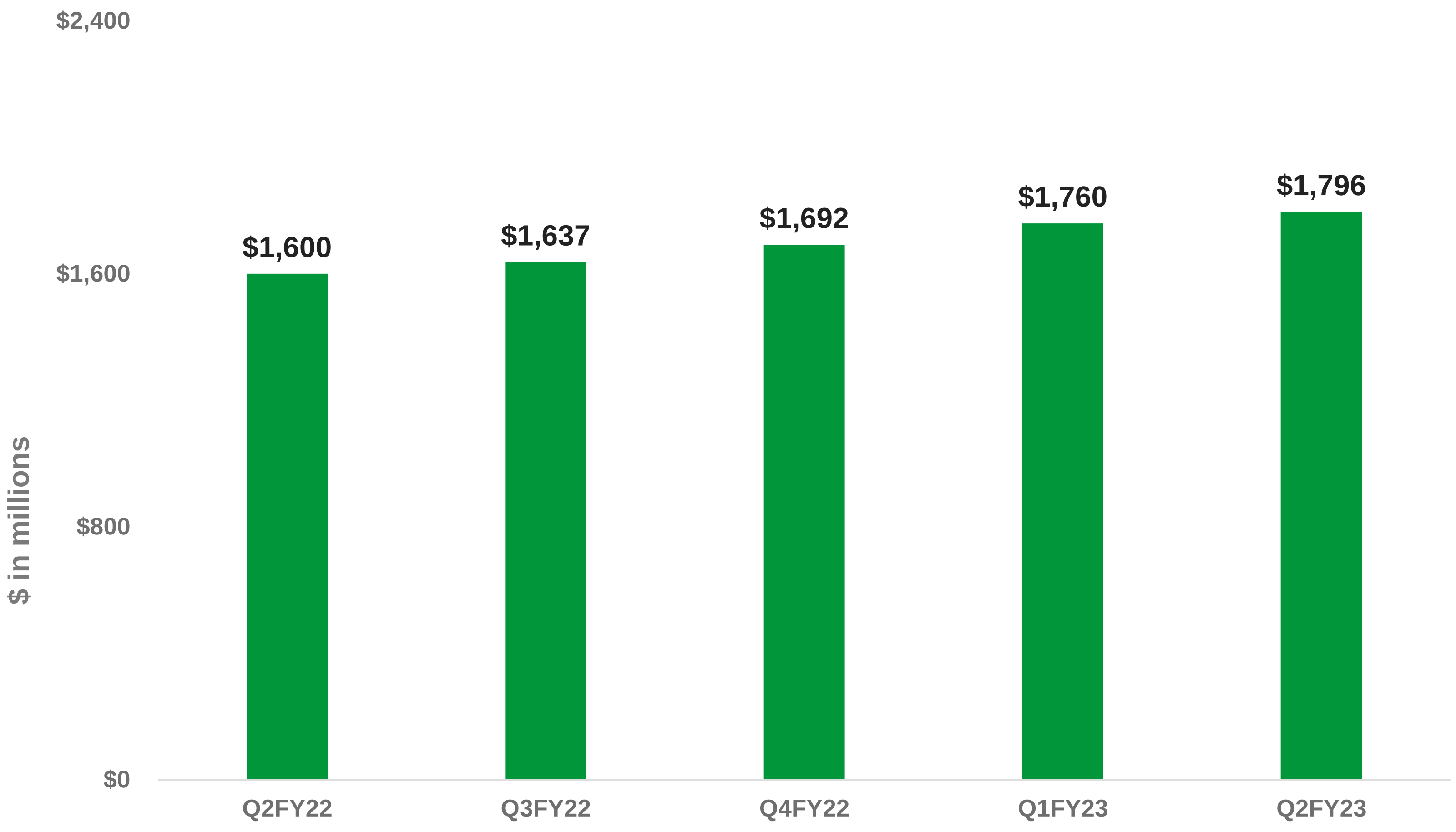


Cash and investments



Deferred revenue

- Q2FY23's deferred revenue growth was largely driven by strong service maintenance renewals for both systems and perpetual software.



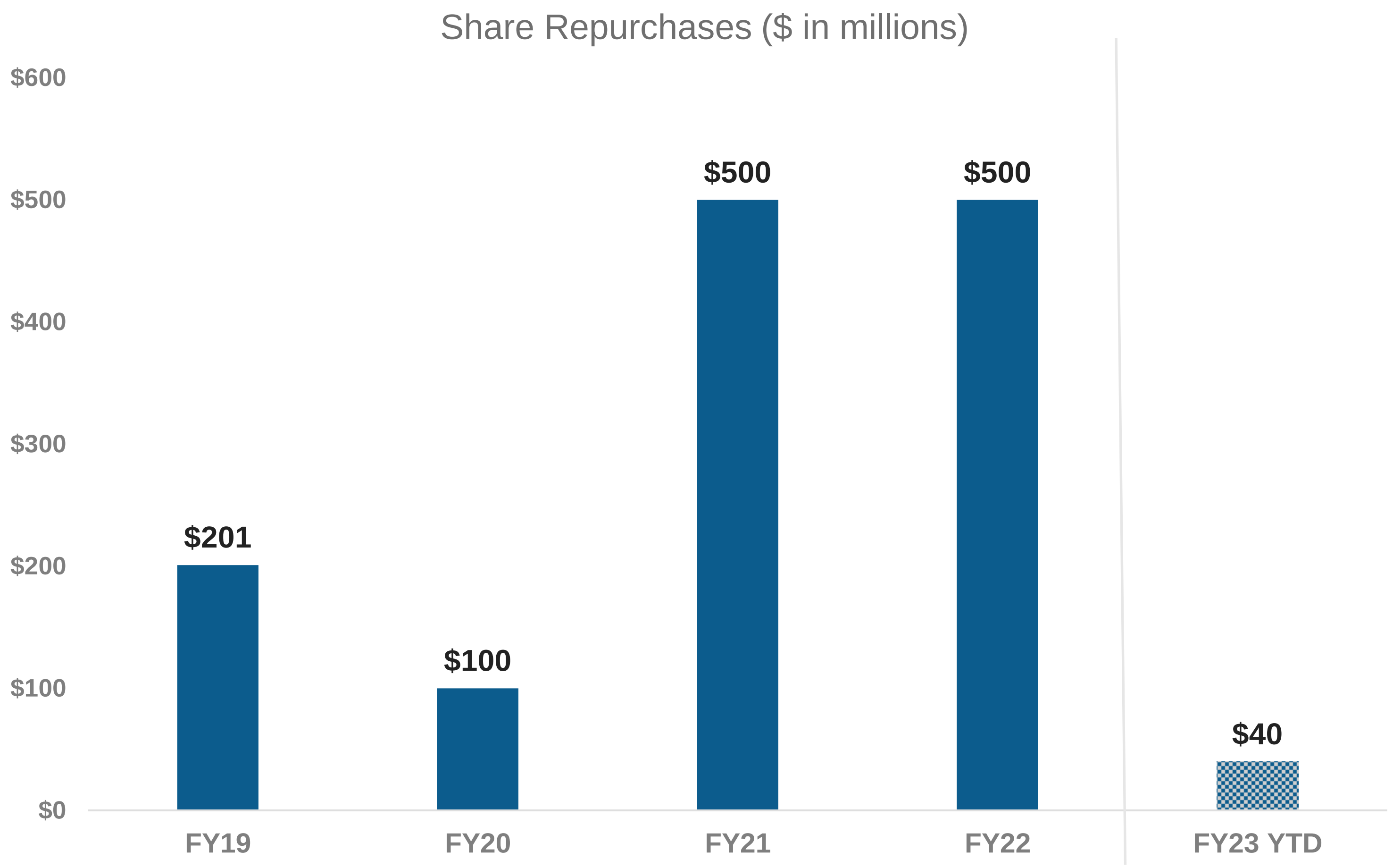
Business Outlook

Our Q323 outlook

	Q3FY23 Guidance
Total revenue	**$690 to $710M**
Non-GAAP gross margin	~82%
Non-GAAP operating expenses	$348 to $360M
Share-based compensation	$60 to $62M
Non-GAAP EPS	**$2.78 to $2.90**

We are committed to returning cash to shareholders

- We have committed to using at least 50% of annual free cash flow for share repurchases beginning in FY23.
- During Q2FY23, we remained out of the market as we analyzed the potential impacts of our cost-saving measures as well as the changes we were seeing in the demand environment and its effects on our outlook.
- As of April 19, 2023, there was $1.23 billion remaining under our currently authorized stock repurchase program.
- We expect to repurchase at least $250 million worth of shares during Q3FY23.



Our Q323 and FY23 outlook

	Q3FY23 Guidance
Total revenue	**$690 to $710M**
Non-GAAP gross margin	~82%
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Share-based compensation	$60 to $62M
Non-GAAP EPS	**$2.78 to $2.90**

	FY23 Guidance
Total revenue growth	**Low-to-mid single-digit growth**
Non-GAAP operating margin	~30%
Non-GAAP effective tax rate	21% to 22%
Non-GAAP EPS	**7% to 11% growth**

Key takeaways

1

The current demand environment is temporary

Key takeaways

1

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2

As customers resume more normal levels of investment F5 will be a differentiated partner for them.

Key takeaways

1

The current demand environment is temporary

2

As customers resume more normal levels of investment F5 will be a differentiated partner for them.

3

We have implemented cost reductions and continue to strive to achieve double-digit earnings growth.

We also have intensified our investment in areas we believe will be most impactful for our customers over the medium and long-term, including software, and hybrid and multi cloud.

Q&A

f5

Appendix

GAAP to non-GAAP reconciliation

GAAP-to-Non-GAAP Reconciliation		
Gross Profit Reconciliation		
($ in thousands)		
	Q2FY23	**Q2FY22**
GAAP gross profit	$547,521	$507,865
Stock-based compensation	$7,583	$7,341
Amortization and impairment of purchased intangible assets	$9,959	$9,959
Facility-exit costs	$150	$611
Acquisition-related charges	$74	$108
Total adjustments to gross profit	$17,766	$18,019
Non-GAAP gross profit	**$565,287**	**$525,884**
Non-GAAP gross margin	**80.4%**	**82.9%**
Operating Expense Reconciliation		
($ in thousands)		
	Q2FY23	**Q2FY22**
GAAP operating expense	$441,475	$433,218
Stock-based compensation-sales and marketing	$26,889	$27,613
Stock-based compensation-research and development	$18,689	$18,233
Stock-based compensation-general and administrative	$10,878	$10,942
Amortization and impairment of purchased intangible assets-sales and marketing	$2,390	$2,476
Amortization and impairment of purchased intangible assets-general and administrative	$220	$415
Facility-exit costs-sales and marketing	$486	$888
Facility-exit costs-research and development	$537	$1,216
Facility-exit costs-general and administrative	$360	$803
Acquisition-related charges-sales and marketing	$849	$3,609
Acquisition-related charges-research and development	$1,233	$5,697
Acquisition-related charges-general and administrative	$4,889	$3,552
Total adjustments to operating expenses	$67,420	$75,444
Non-GAAP operating expense	**$374,055**	**$357,774**

GAAP to non-GAAP reconciliation (continued)

Income from Operations Reconciliation ($ in thousands)		
	Q2FY23	Q2FY22
GAAP operating income	$106,046	$74,647
Total adjustments related to gross profit	$17,766	$18,019
Total adjustments related to income from operations	$85,186	$93,463
Non-GAAP income from operations	**$191,232**	**$168,110**
Non-GAAP operating margin	**27.2%**	**26.5%**
GAAP net income	$81,436	$56,236
Total adjustments to gross profit	$17,766	$18,019
Total adjustments to operating expenses	$67,420	$75,444
Exclude tax effect on above items	($12,994)	($18,896)
Total adjustments to net income	$72,192	$74,567
Non-GAAP net income	**$153,628**	**$130,803**
Weighted average basic common shares outstanding	60,330	60,573
Weighted average dilutive potential common shares outstanding	60,691	61,405
GAAP income from operations	$106,046	$74,647
GAAP other income	$2,737	($1,934)
GAAP pre-tax income	$108,783	$72,713
GAAP provision for income taxes	$27,347	$16,477
GAAP effective tax rate	25.1%	22.7%
Non-GAAP income from operations	$191,232	$168,110
Non-GAAP other income	$2,737	($1,934)
Non-GAAP pre-tax income	$193,969	$166,176
Non-GAAP provision for income taxes	$40,341	$35,373
Non-GAAP effective tax rate	20.8%	21.3%
Net Income per Common Share		
GAAP diluted net income per common share	$ 1.34	$ 0.92
Non-GAAP diluted net income per common share	**$ 2.53**	**$ 2.13**

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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