



Q4FY20 & FY20 Results

PERIOD ENDING SEPTEMBER 30, 2020

Published October 26, 2020

Forward-looking statements

This presentation and associated commentary contains forward-looking statements including, among other things, statements regarding the continuing strength and momentum of F5's business, future financial performance, projected and target revenue and earnings ranges, income, earnings per share, share amounts and share price assumptions, share repurchases, demand for application delivery networking, application delivery services, security, and software products, expectations regarding future services and products, expectations regarding future customers, markets and the benefits of products, and other statements that are not historical facts and which 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: the impact of the COVID-19 global pandemic including but not limited to the advantages of incumbency in an uncertain environment, caution in spending patterns in the most severely impacted verticals, delays in orders in some impacted regions due to COVID-19 impacts; prolonged face-to-face sales engagement delaying some new strategic projects; customer acceptance of our new security, application delivery, optimization, and software and SaaS offerings; the timely development, introduction and acceptance of additional new products and features by F5 or its competitors; F5 may not realize the financial and strategic goals that are contemplated through its acquisitions, including Shape and NGINX, and F5 may not successfully operate and integrate newly-acquired businesses appropriately or as expected; 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; uncertain global economic conditions, including those related to COVID-19, which may result in reduced customer demand for our products and services and changes in customer payment patterns; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; litigation involving patents, intellectual property, shareholder and other matters, and governmental investigations; natural catastrophic events; 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; F5's share repurchase program; 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, performance or achievements to vary from expectations. The financial information contained in this presentation 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

François Locoh-Donou, CEO & President

GAAP results

	Q4FY19	Q4FY20	FY19	FY20
Revenue	\$590.4M	\$614.8M	\$2,242M	\$2,351M
Gross margin	84.6%	81.8%	84.1%	82.7%
Operating margin	19.4%	16.0%	23.1%	16.7%
Net income	\$94.8M	\$77.7M	\$427.7	\$307.4
Diluted EPS	\$1.57	\$1.26	\$7.08	\$5.01

We are building momentum in our pivot to software

FY20 Non-GAAP Revenue Growth

+52%

Software

+5%

Services

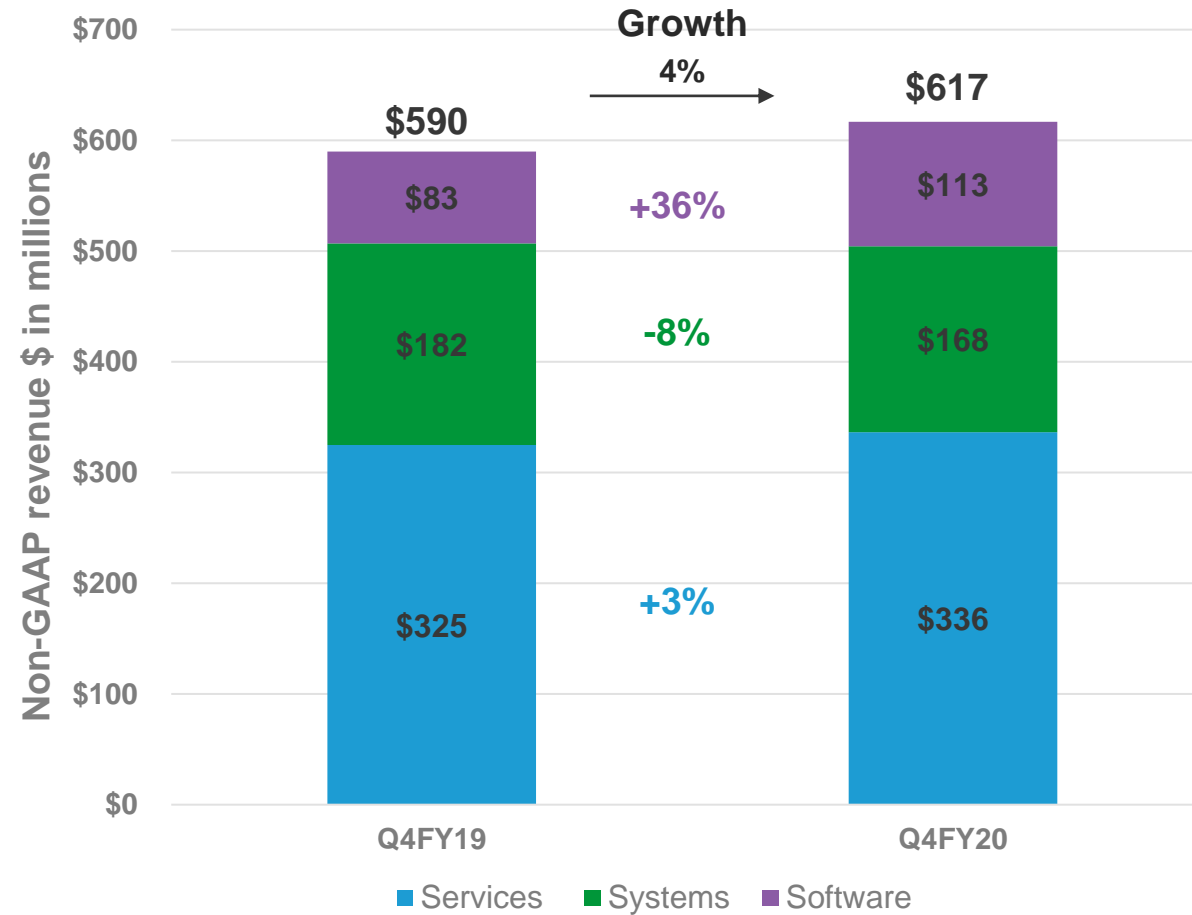
-10%

Systems

Q4FY2020 Results

Frank Pelzer, CFO & EVP

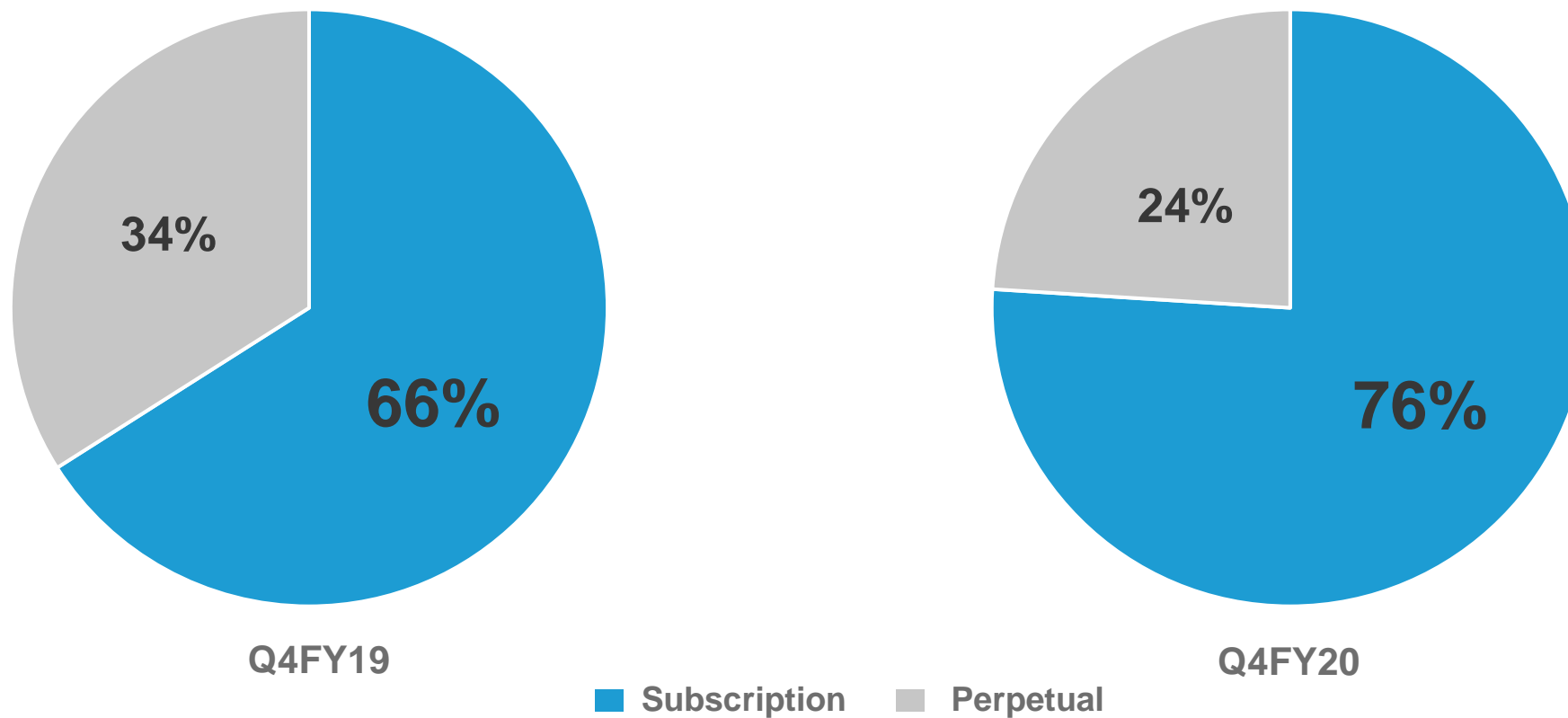
Q4FY20 non-GAAP revenue mix



Q4FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

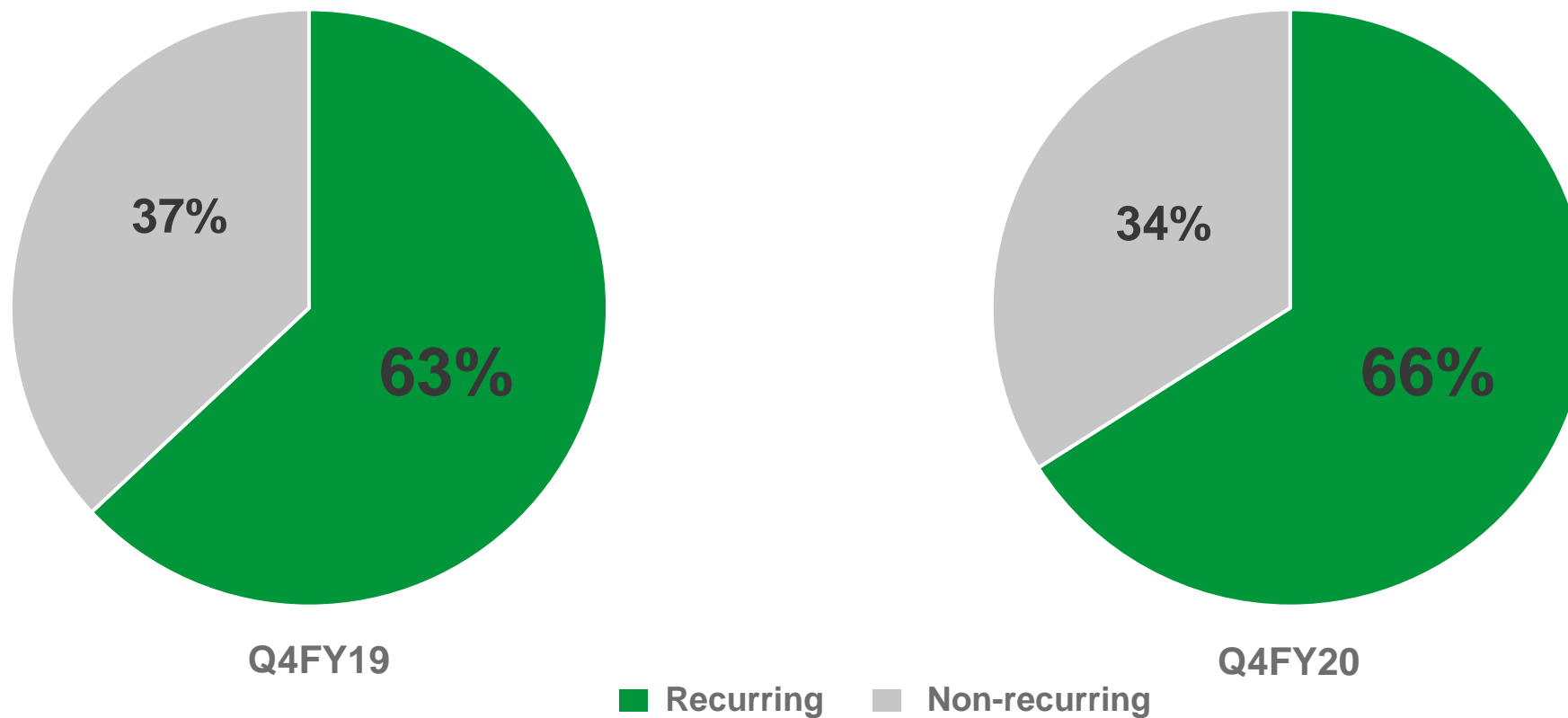


Growing non-GAAP software revenue from subscriptions



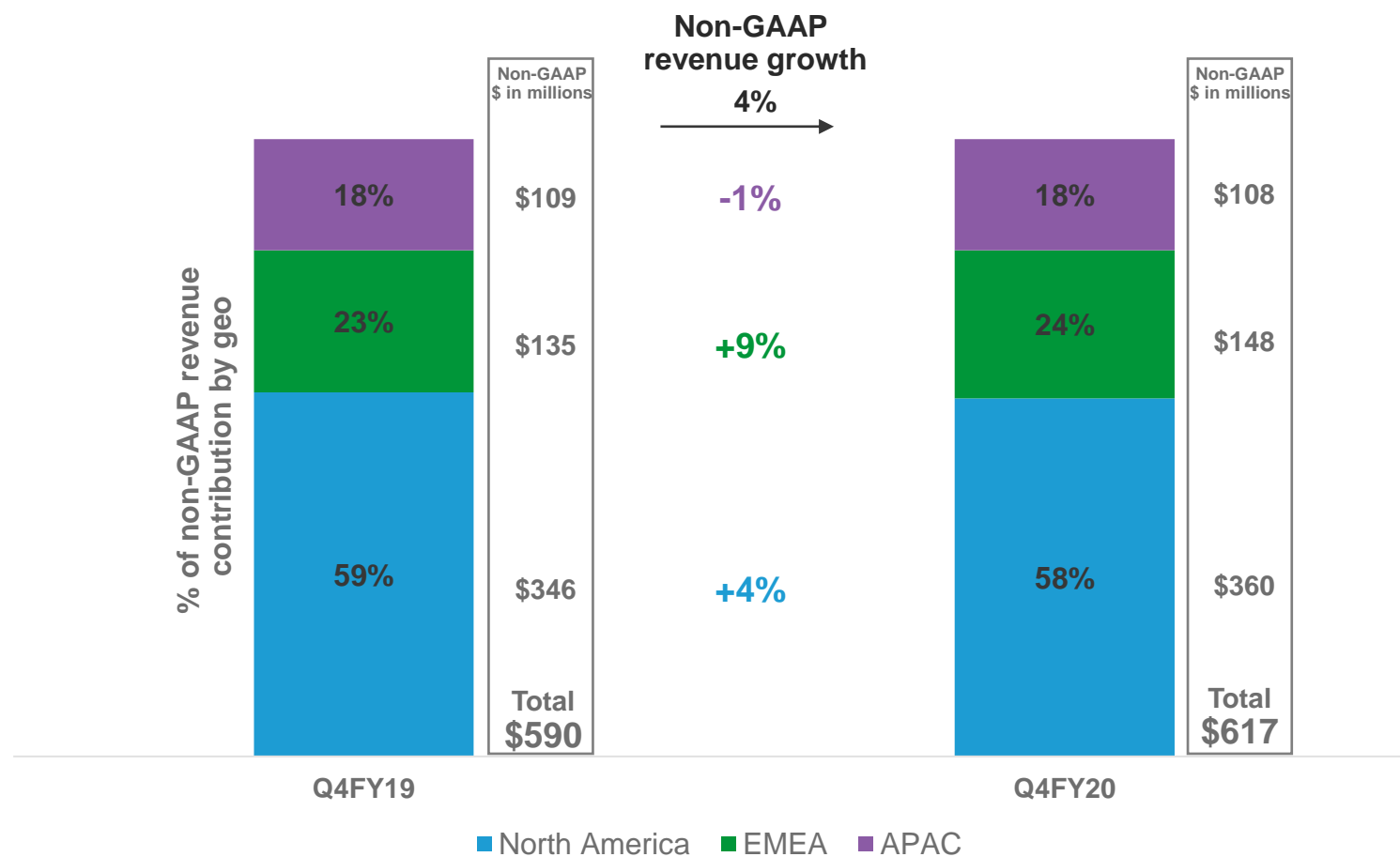
SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

Growing non-GAAP revenue from recurring sources



SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

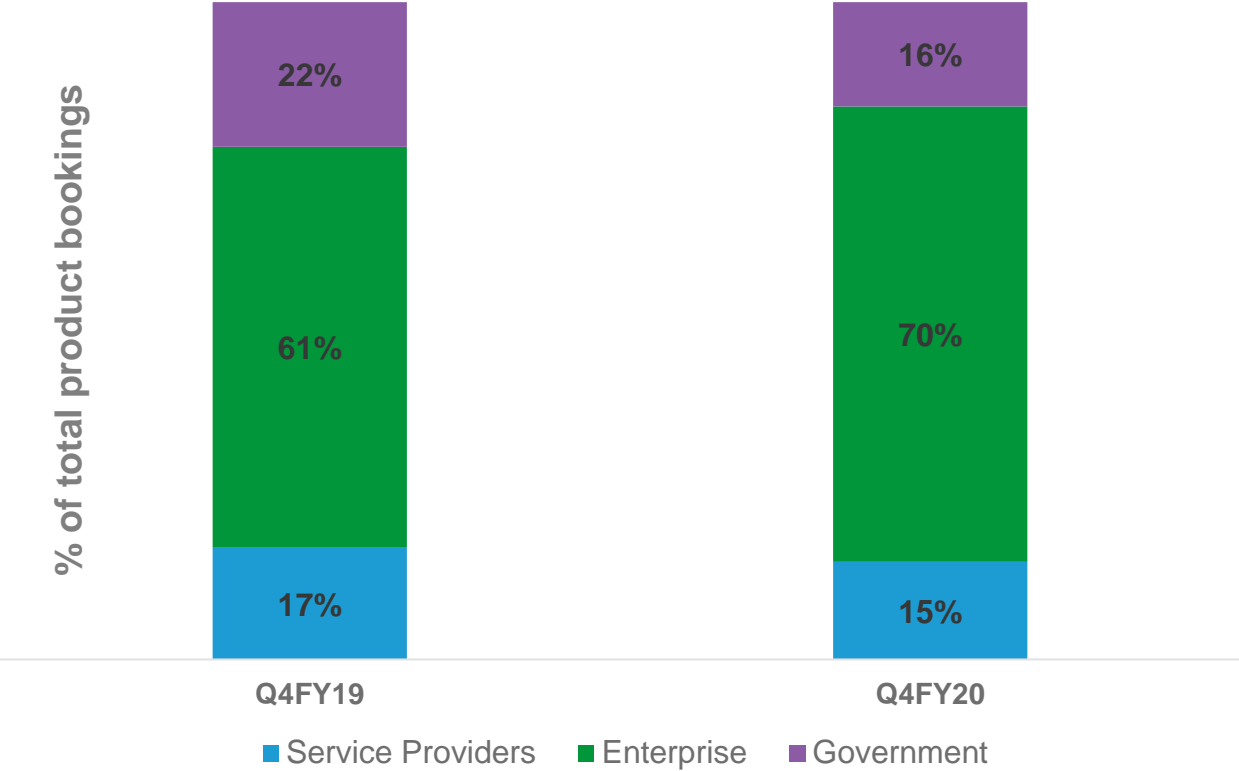
Q4FY20 non-GAAP revenue contribution by geography



SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.



Q4FY20 customer verticals as a % of product bookings

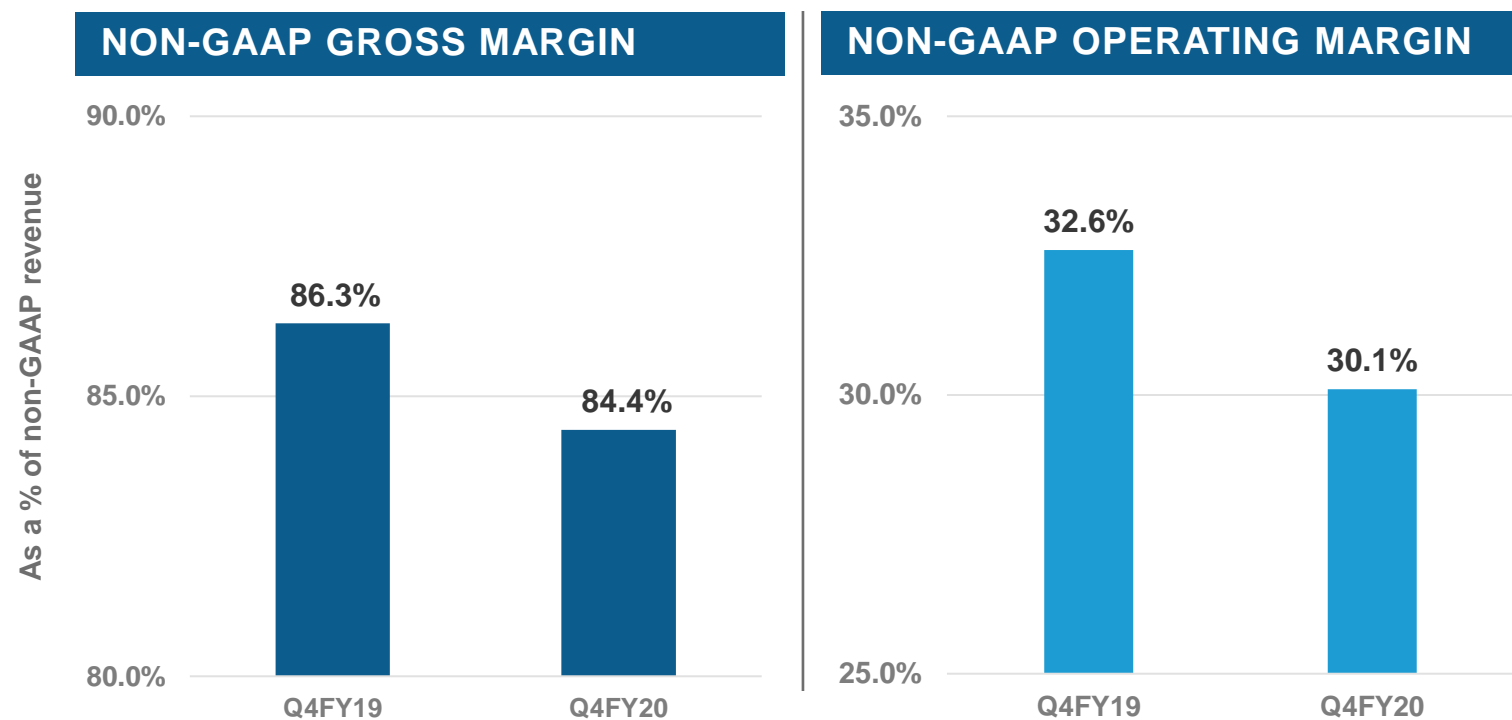


TOTALS MAY NOT ADD TO 100% DUE TO ROUNDING.



Q4FY20 non-GAAP gross and operating margins

Q4FY20 includes dilution from Shape Security, acquired in January 2020

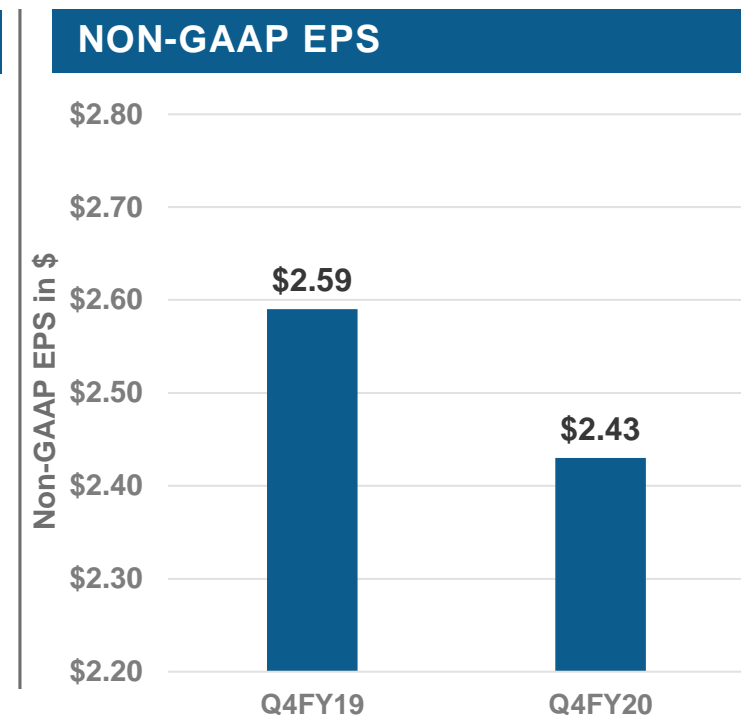
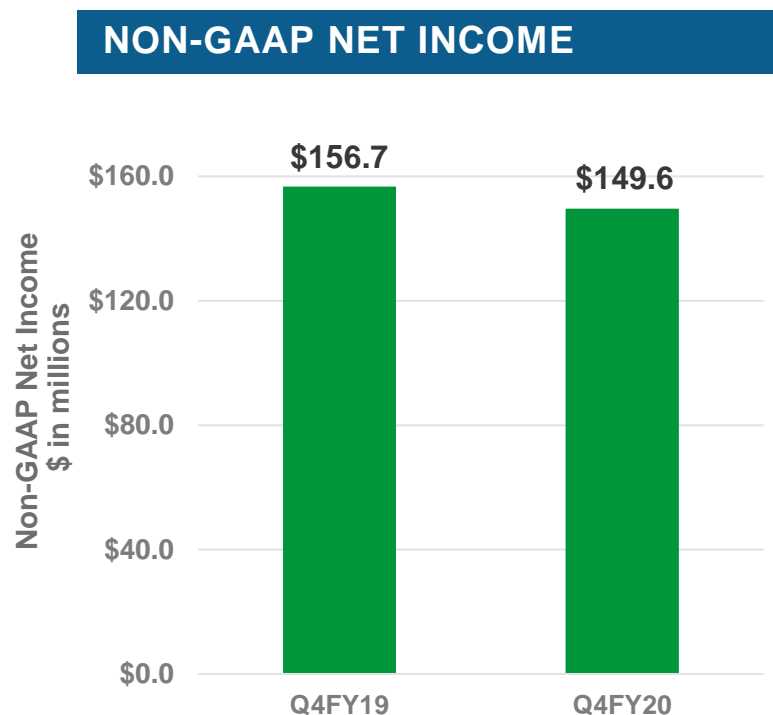


Q4FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

Q4FY20 non-GAAP net income and EPS

Q4FY20 includes dilution from Shape Security, acquired in January 2020

Q4FY20 non-GAAP effective tax rate of 19.0%

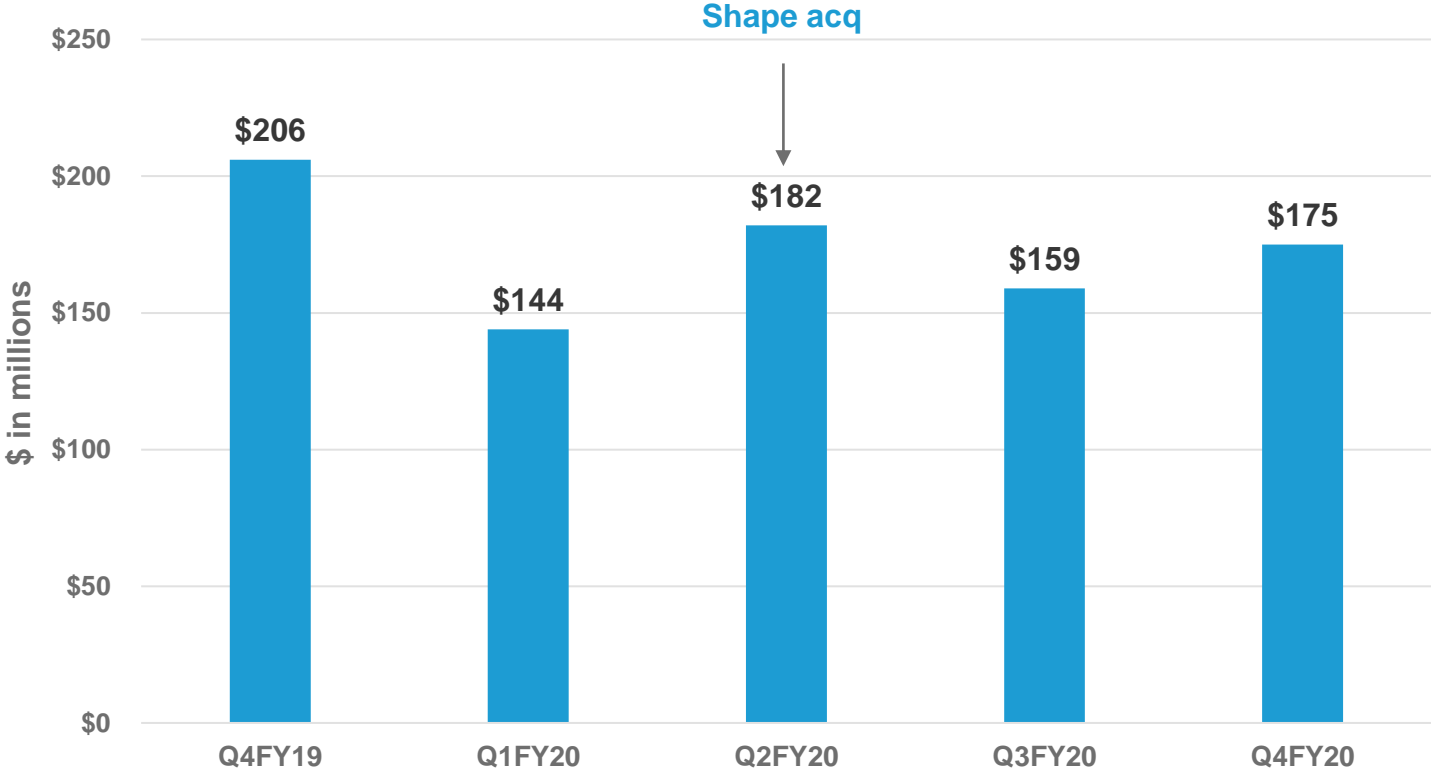


Q4FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

Q4FY20 cash flow from operations

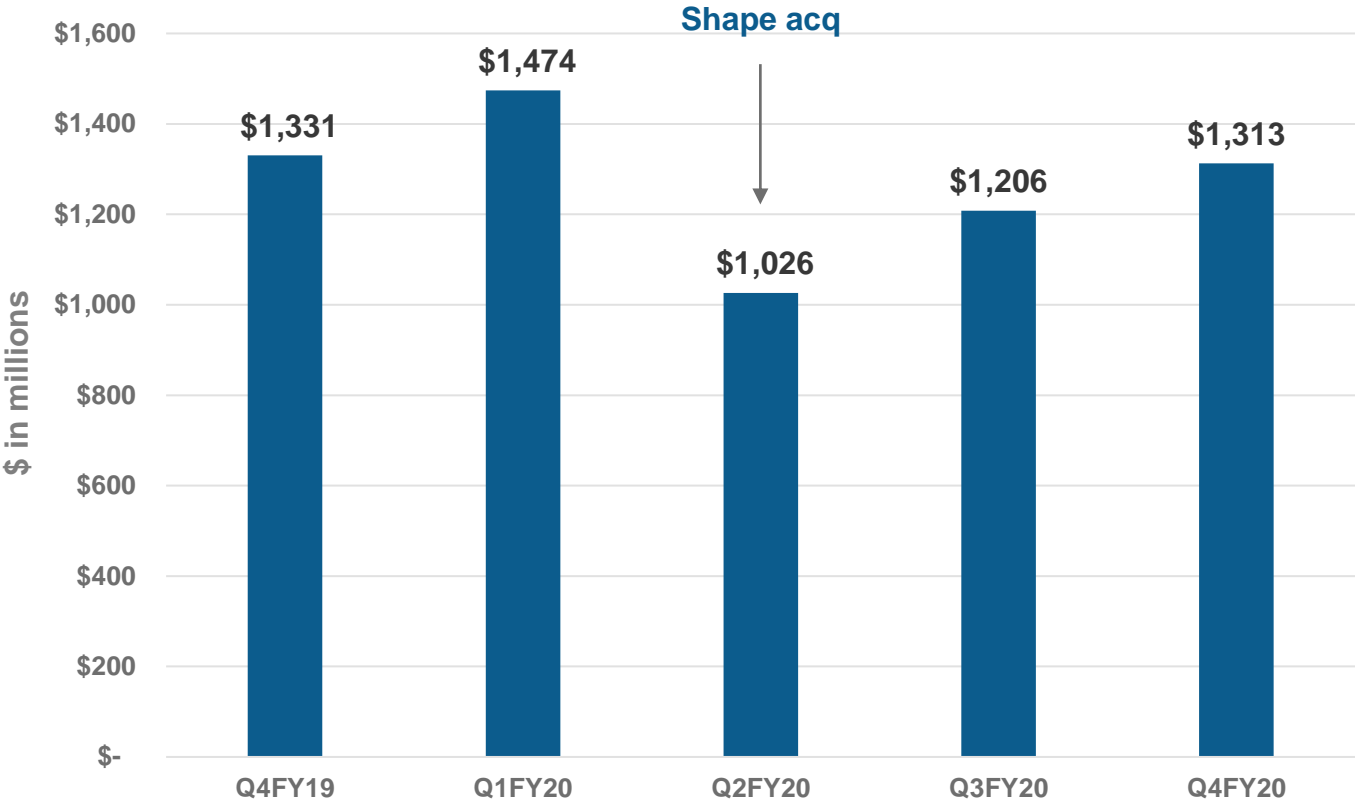
\$50M in FFIV common stock repurchased during Q4FY20

We retain the option to repurchase shares during any open trading window



Q4FY20 cash and investments

3-year \$400M Term Loan associated with Shape acquisition to be paid down over time

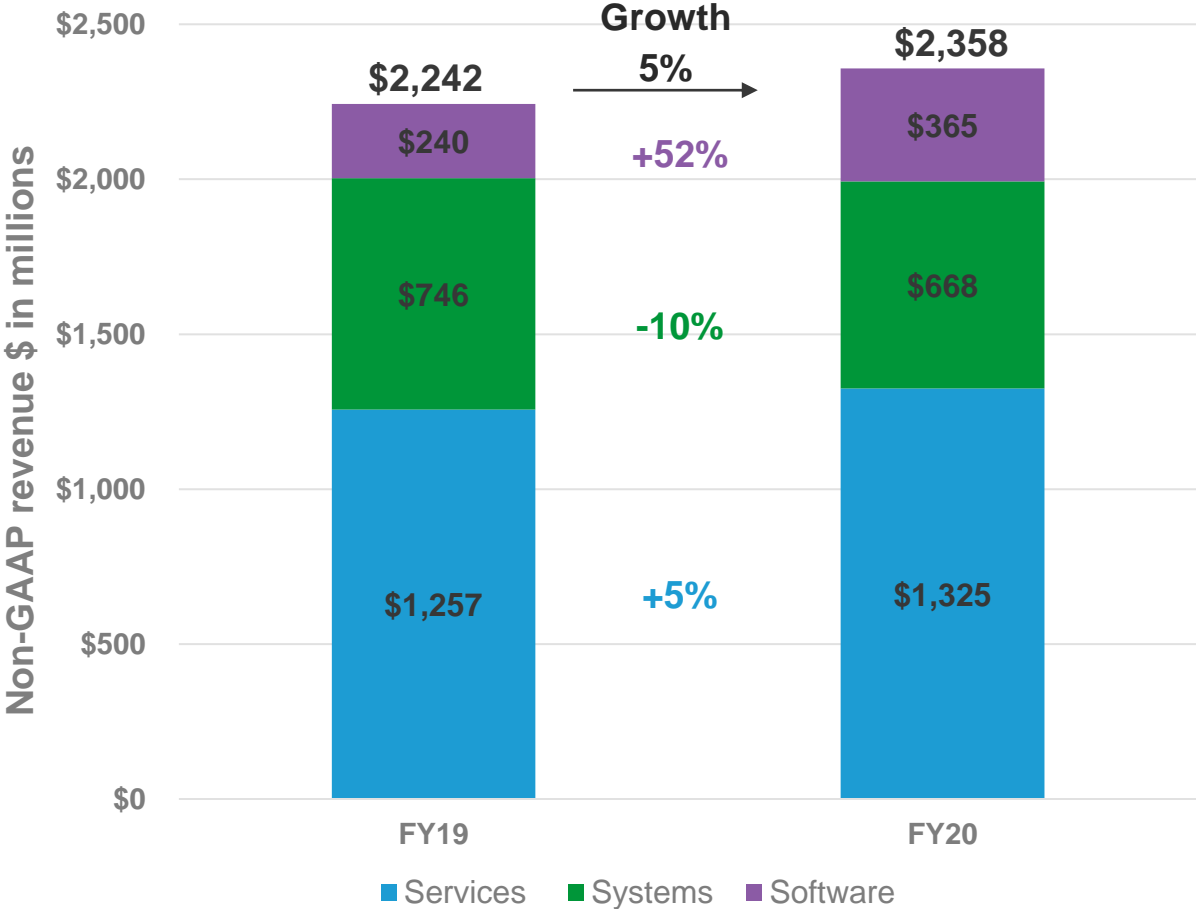


SHAPE ACQUIRED Q2FY20 FOR \$600M CASH PLUS \$400M TERM LOAN A.



FY2020 Results

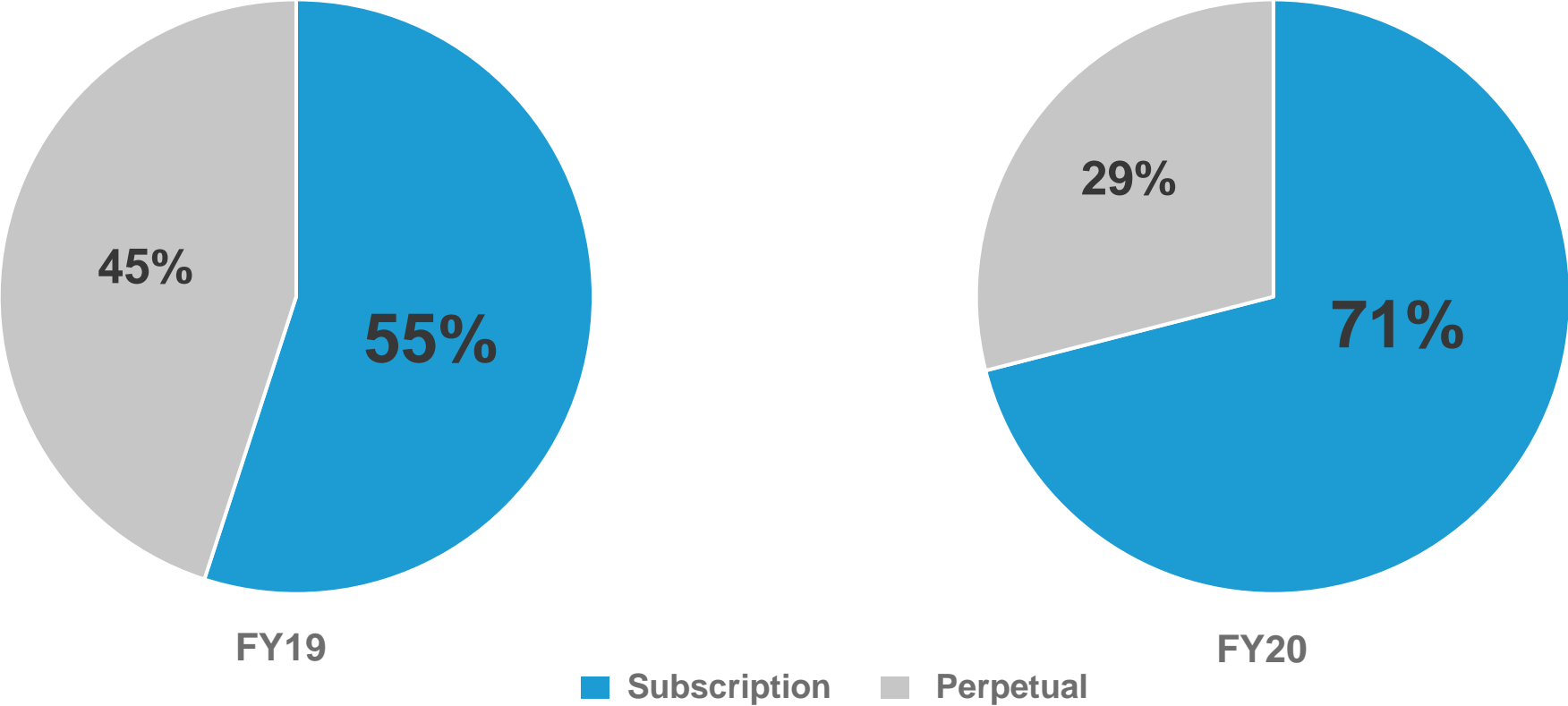
FY20 Non-GAAP revenue mix



FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.



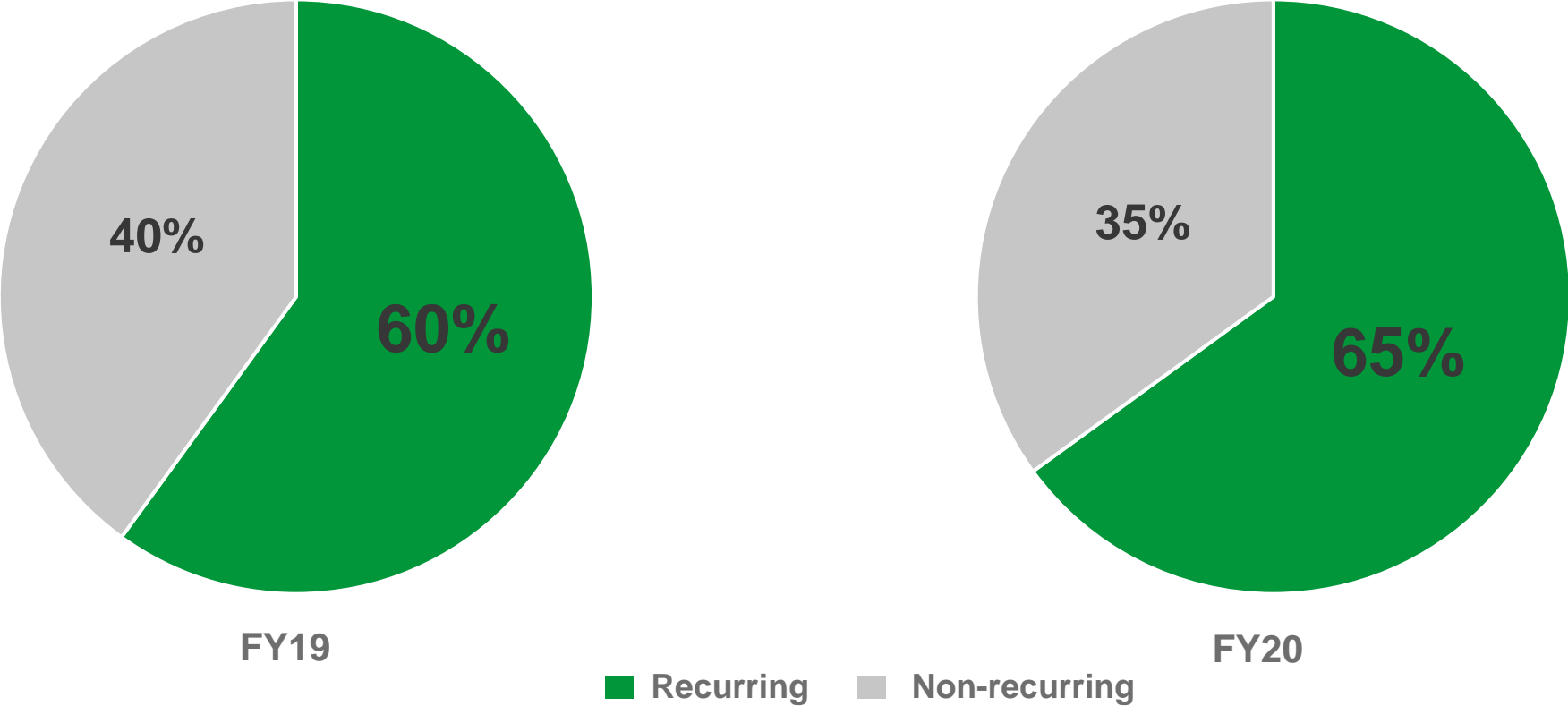
Growing non-GAAP software revenue from subscriptions



SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.



Growing non-GAAP revenue from recurring sources



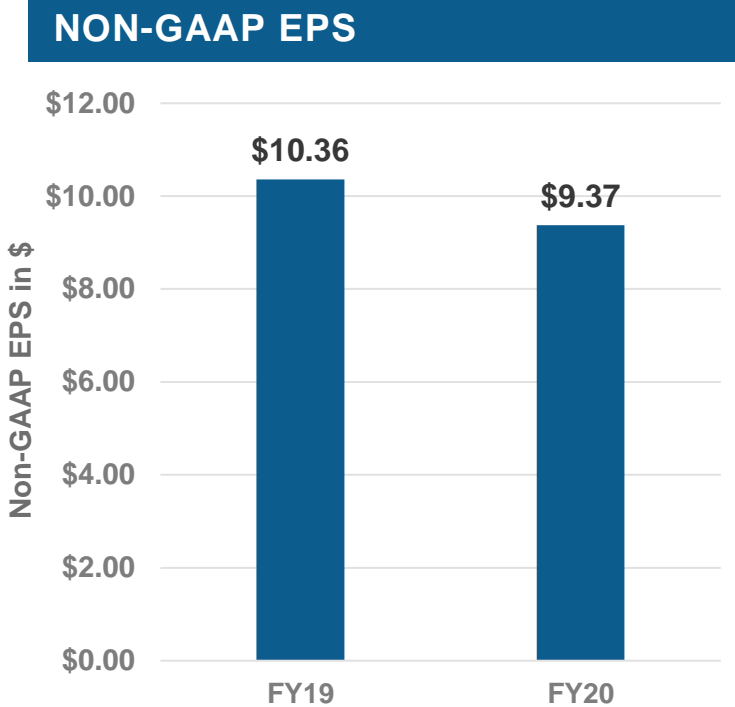
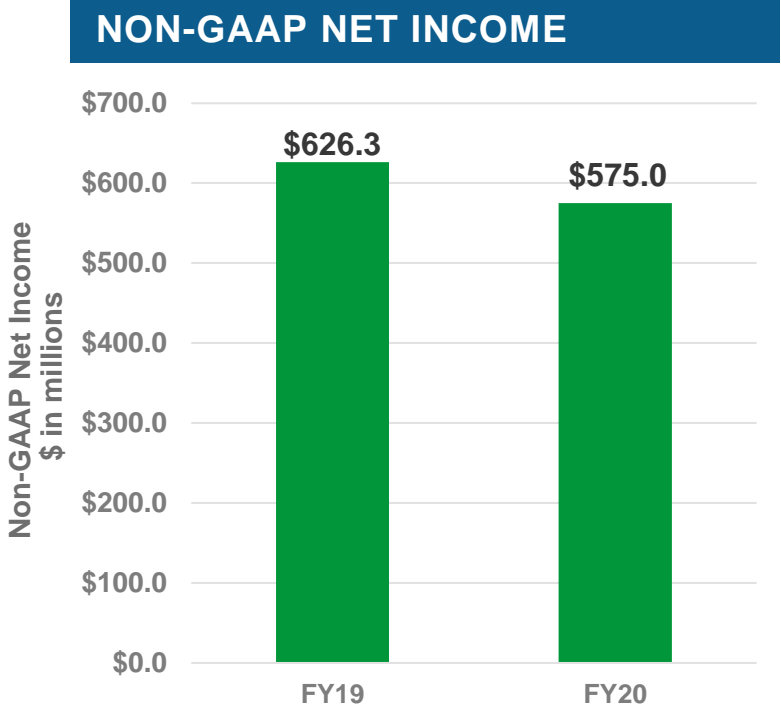
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FY20 non-GAAP net income and EPS

FY20 includes dilution from Shape Security, acquired in January 2020

FY20 non-GAAP effective tax rate of 20.2%



FY20 INCLUDES SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.



Business Outlook

Q1 FY21 outlook

PROVIDED OCTOBER 26, 2020

	Q1 FY2021
Non-GAAP revenue ¹	\$595 - \$615M
Non-GAAP gross margin	84.5% - 85%
Non-GAAP operating expense	\$324 - \$336M
Non-GAAP diluted EPS	\$2.26 - \$2.38
Non-GAAP effective tax rate	21% - 22%
Share-based compensation	\$56 - \$58M

¹ SHAPE HAS A SUBSCRIPTION SOFTWARE MODEL WITH A SIGNIFICANT DEFERRED REVENUE BALANCE. PURCHASE ACCOUNTING WILL IMPACT SHAPE-RELATED RECOGNIZED REVENUE ON A GAAP-BASIS. THEREFORE, WE PROVIDE NON-GAAP REVENUE GUIDANCE WHICH EXCLUDES THE IMPACT OF THE PURCHASE ACCOUNTING WRITE-DOWN. WE BELIEVE NON-GAAP REVENUE WILL PROVIDE A BETTER REFLECTION OF OUR ONGOING BUSINESS RESULTS. WE WILL REPORT REVENUE ON BOTH A GAAP AND A NON-GAAP BASIS DURING THIS TIMEFRAME.

FY21 operating model and planning assumptions

PROVIDED OCTOBER 26, 2020

	FY2021
Non-GAAP software revenue growth	>35%
Non-GAAP systems revenue growth	Down high-single digits
Non-GAAP gross margins	~85%
Non-GAAP operating margins	At least 31% for FY21, likely moving down from Q1 to Q2, and increasing in the 2H of FY21
Non-GAAP effective tax rate	21% - 22%
Share-based compensation	\$230 - \$240M
Capital expenditures	\$40 - \$60M

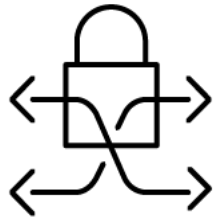
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Business Overview

François Locoh-Donou, CEO & President

We expect continued software and subscription momentum in FY21

FY21 Software Growth Drivers



BIG-IP



NGINX



App Security



Public Cloud



Appendix

GAAP to non-GAAP reconciliation

Gross Profit Reconciliation				
(\$ in thousands)				
	Q4FY19	Q4FY20	FY19	FY20
GAAP revenue	\$590,388	\$614,816	\$2,242,447	\$2,350,822
Acquisition-related write-downs of assumed deferred revenue	\$0	\$1,963	\$0	\$6,824
Non-GAAP revenue	\$590,388	\$616,779	\$2,242,447	\$2,357,646
GAAP gross profit	\$499,470	\$502,849	\$1,885,870	\$1,942,935
Stock-based compensation	\$5,233	\$6,776	\$20,385	\$25,470
Amortization of purchased intangible assets	\$3,096	\$7,382	\$7,653	\$23,814
Facility-exit costs	\$1,806	\$1,457	\$3,520	\$2,300
Acquisition-related charges	\$0	\$114	\$0	\$127
Total adjustments to gross profit	\$10,135	\$15,729	\$31,558	\$51,711
Non-GAAP gross profit	\$509,605	\$520,541	\$1,917,428	\$2,001,470
Non-GAAP gross margin	86.3%	84.4%	85.5%	84.9%
Operating Expense Reconciliation				
(\$ in thousands)				
	Q4FY19	Q4FY20	FY19	FY20
GAAP operating expense	\$384,756	\$404,236	\$1,367,407	\$1,550,668
Stock-based compensation-sales and marketing	\$19,832	\$22,258	\$69,477	\$88,446
Stock-based compensation-research and development	\$10,288	\$13,367	\$40,886	\$50,271
Stock-based compensation-general and administrative	\$8,379	\$9,797	\$32,166	\$37,762
Amortization of purchased intangible assets-sales and marketing	\$961	\$2,749	\$2,083	\$8,612
Amortization of purchased intangible assets-general and administrative	\$529	\$589	\$2,110	\$2,178
Facility-exit costs-sales and marketing	\$3,838	\$3,272	\$7,470	\$5,100
Facility-exit costs-research and development	\$4,403	\$3,328	\$9,994	\$5,257
Facility-exit costs-general and administrative	\$5,001	\$2,988	\$7,816	\$3,944
Acquisition-related charges-sales and marketing	\$445	\$4,255	\$6,551	\$13,703
Acquisition-related charges-research and development	\$205	\$1,511	\$16,321	\$2,838
Acquisition-related charges-general and administrative	\$7,429	\$5,441	\$18,870	\$39,815
Impairment charges-general and administrative	\$6,273	\$0	\$6,273	\$0
Restructuring charges	\$0	\$0	\$0	\$7,800
Litigation expense	\$0	\$0	\$0	\$0
Total adjustments to operating expenses	\$67,583	\$69,555	\$220,017	\$265,726
Non-GAAP operating expense	\$317,173	\$334,681	\$1,147,390	\$1,284,942

GAAP to non-GAAP reconciliation

Income from Operations Reconciliation				
(\$ in thousands)				
	Q4FY19	Q4FY20	FY19	FY20
GAAP operating income	\$114,714	\$98,613	\$518,463	\$392,267
Total adjustments related to revenue	\$0	\$1,963		\$6,824
Total adjustments related to gross profit	\$10,135	\$15,729	\$31,558	\$51,711
Total adjustments related to operating expense	\$67,583	\$69,555	\$220,017	\$265,726
Total adjustments related to income from operations	\$77,718	\$87,247	\$251,575	\$324,261
Non-GAAP income from operations	\$192,432	\$185,860	\$770,038	\$716,528
Non-GAAP operating margin	32.6%	30.1%	34.3%	30.4%
Net Income Reconciliation				
(\$ in thousands except per share data)				
	Q4FY19	Q4FY20	FY19	FY20
GAAP net income	\$94,837	\$77,663	\$427,734	\$307,441
Total adjustments related to revenue	\$0	\$1,963	\$0	\$6,824
Total adjustments to gross profit	\$10,135	\$15,729	\$31,558	\$51,711
Total adjustments to operating expenses	\$67,583	\$69,555	\$220,017	\$265,726
Gain on sale of patent	\$0	\$0	\$0	\$0
Exclude tax effect on above items	(\$15,807)	(\$15,276)	(\$53,048)	(\$56,726)
Tax on deemed repatriation of undistributed foreign earnings	\$0	\$0	\$0	\$0
Remeasurement of net deferred tax assets due to change in U.S. tax rate	\$0	\$0	\$0	\$0
Non-recurring foreign tax credit benefit	\$0	\$0	\$0	\$0
Total adjustments to net income	\$61,911	\$71,971	\$198,527	\$267,535
Non-GAAP net income	\$156,748	\$149,634	\$626,261	\$574,976
Weighted average basic common shares outstanding	60,283	61,149	60,044	60,911
Weighted average dilutive potential common shares outstanding	60,448	61,636	60,456	61,378
Net Income per Common Share				
GAAP diluted net income per common share	\$ 1.57	\$ 1.26	\$ 7.08	\$ 5.01
Non-GAAP diluted net income per common share	\$ 2.59	\$ 2.43	\$ 10.36	\$ 9.37

GAAP to non-GAAP reconciliation

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

Acquisition-related write-downs of assumed deferred revenue. Included in its GAAP financial statements, F5 records acquisition-related write-downs of assumed deferred revenue to fair value, which results in lower recognized revenue over the term of the contract. F5 includes revenue associated with acquisition-related write-downs of assumed deferred revenue in its non-GAAP financial measures as management believes it provides a more accurate depiction of revenue arising from our strategic acquisitions.

Stock-based compensation. Stock-based compensation consists of expense for stock options, restricted stock, and employee stock purchases through the company's ESPP. 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.

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.

Amortization 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. 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. In fiscal year 2019, F5 relocated its headquarters in Seattle, Washington, and recorded charges in connection with this facility exit 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.

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.

