Q3FY20 Results

PERIOD ENDING JUNE 30, 2020

Published July 27, 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

Q3FY2020 Results

Frank Pelzer, CFO & EVP

GAAP results

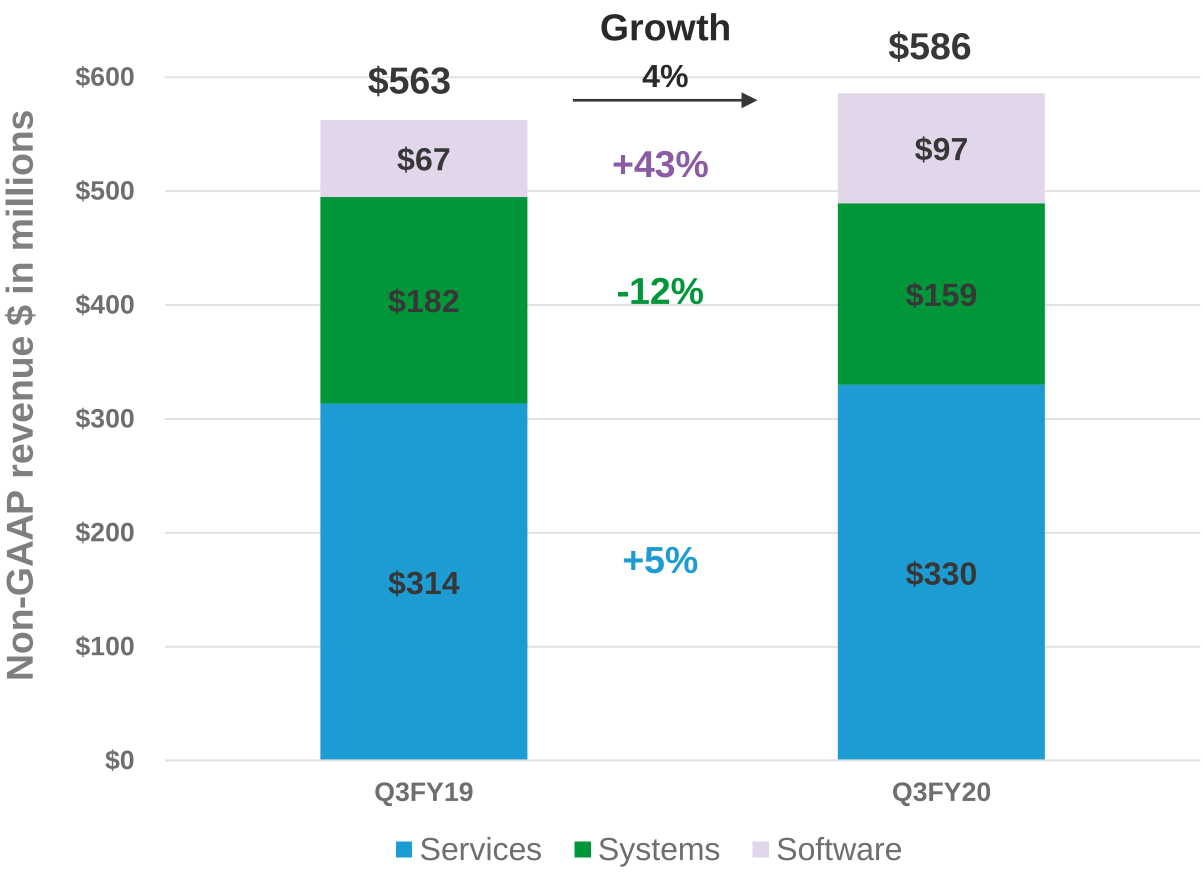
	Q3FY19	Q3FY20
Revenue	$563.4M	$583.3M
Gross margin	83.9%	81.8%
Operating margin	18.2%	15.0%
Net income	$85.9M	$69.9M
Diluted EPS	$1.43	$1.14

Non-GAAP revenue

$ IN MILLIONS

Q3FY20 non-GAAP revenue:

- 73% of software revenue from subscriptions
- ~66% of revenue from recurring sources
- Continued services growth

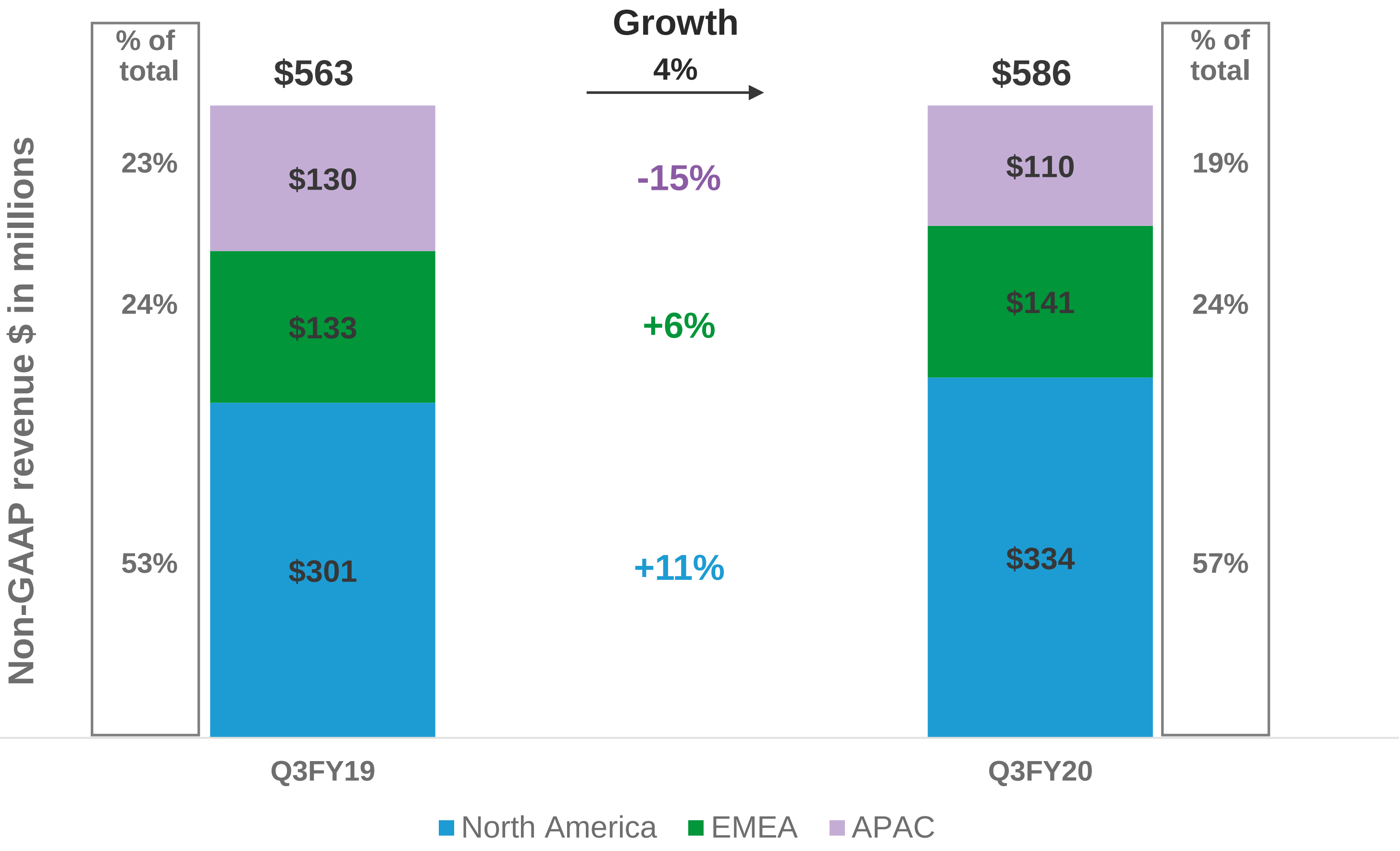


Q3FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

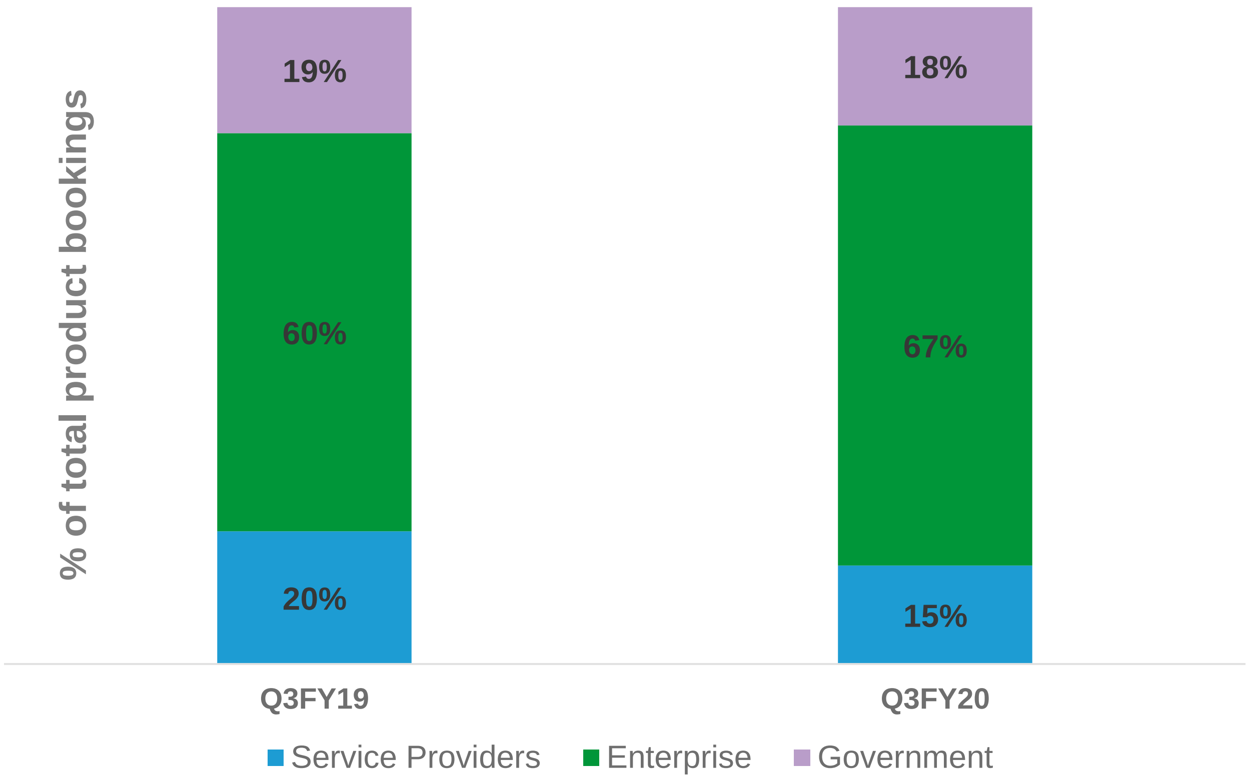
Non-GAAP revenue contribution by geography

Q3FY20 strength from U.S. and EMEA

Robust Q3FY19 for APAC leads to tough Q3FY20 comparison



Customer verticals as a % of product bookings

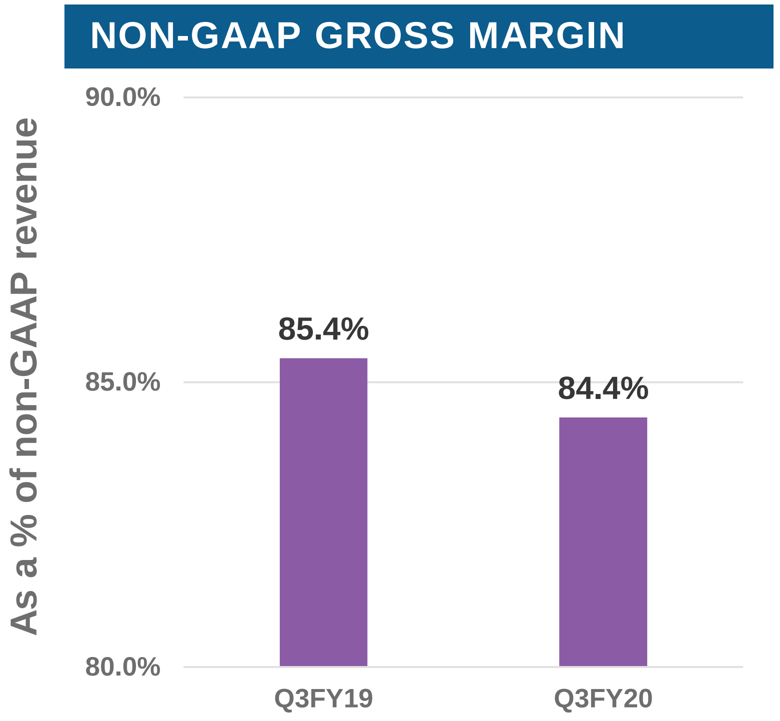


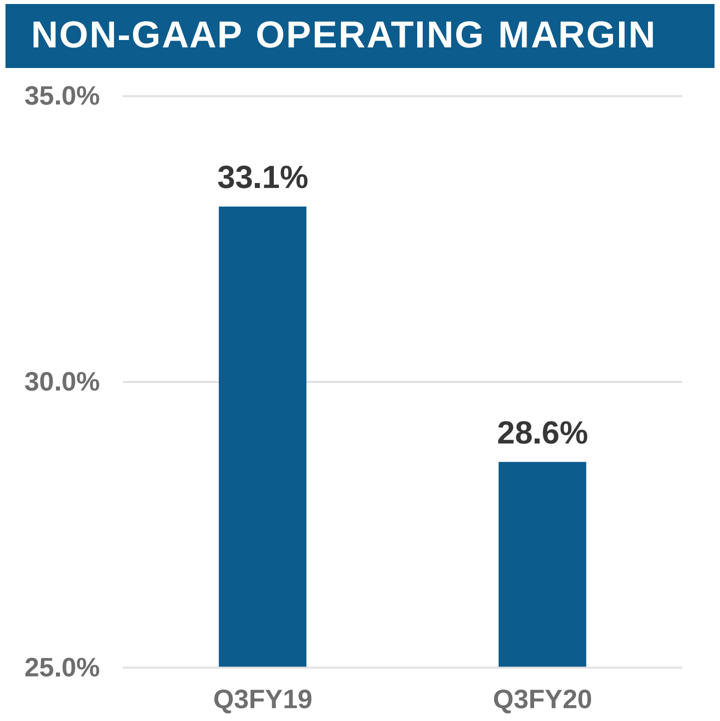
TOTALS MAY NOT ADD TO 100% DUE TO ROUNDING.

Non-GAAP gross and operating margins

AS A % OF NON-GAAP REVENUE

Q3FY20 includes dilution from Shape Security, acquired in January 2020





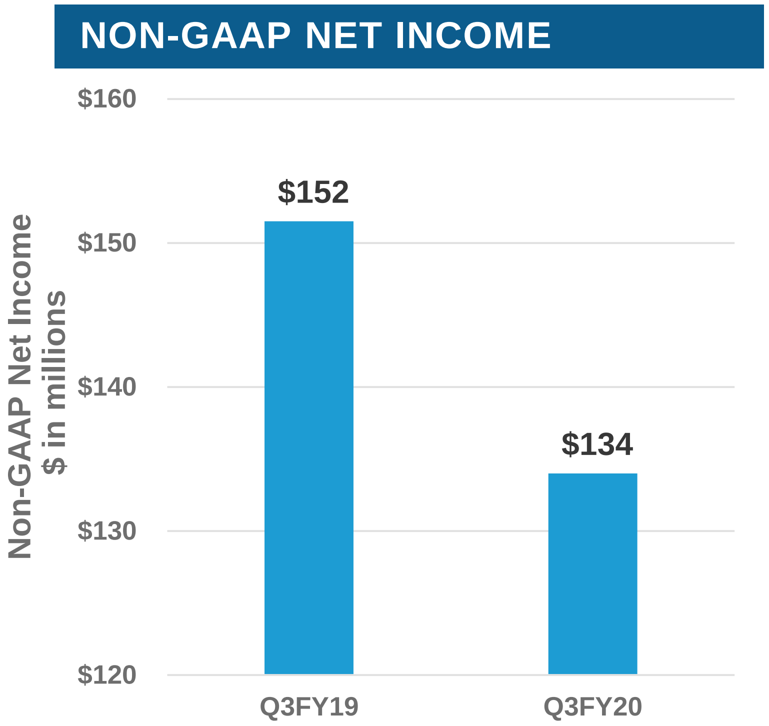
Q3FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

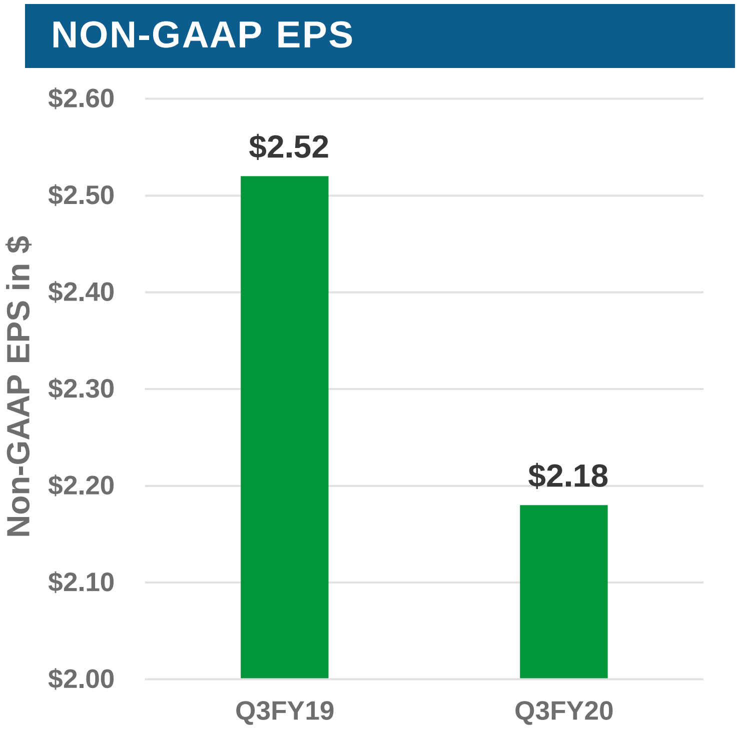
Non-GAAP net income and EPS

NON-GAAP NET INCOME $ IN MILLIONS

Q3FY20 includes dilution from Shape Security, acquired in January 2020

Q3FY20 non-GAAP effective tax rate of 20.2%

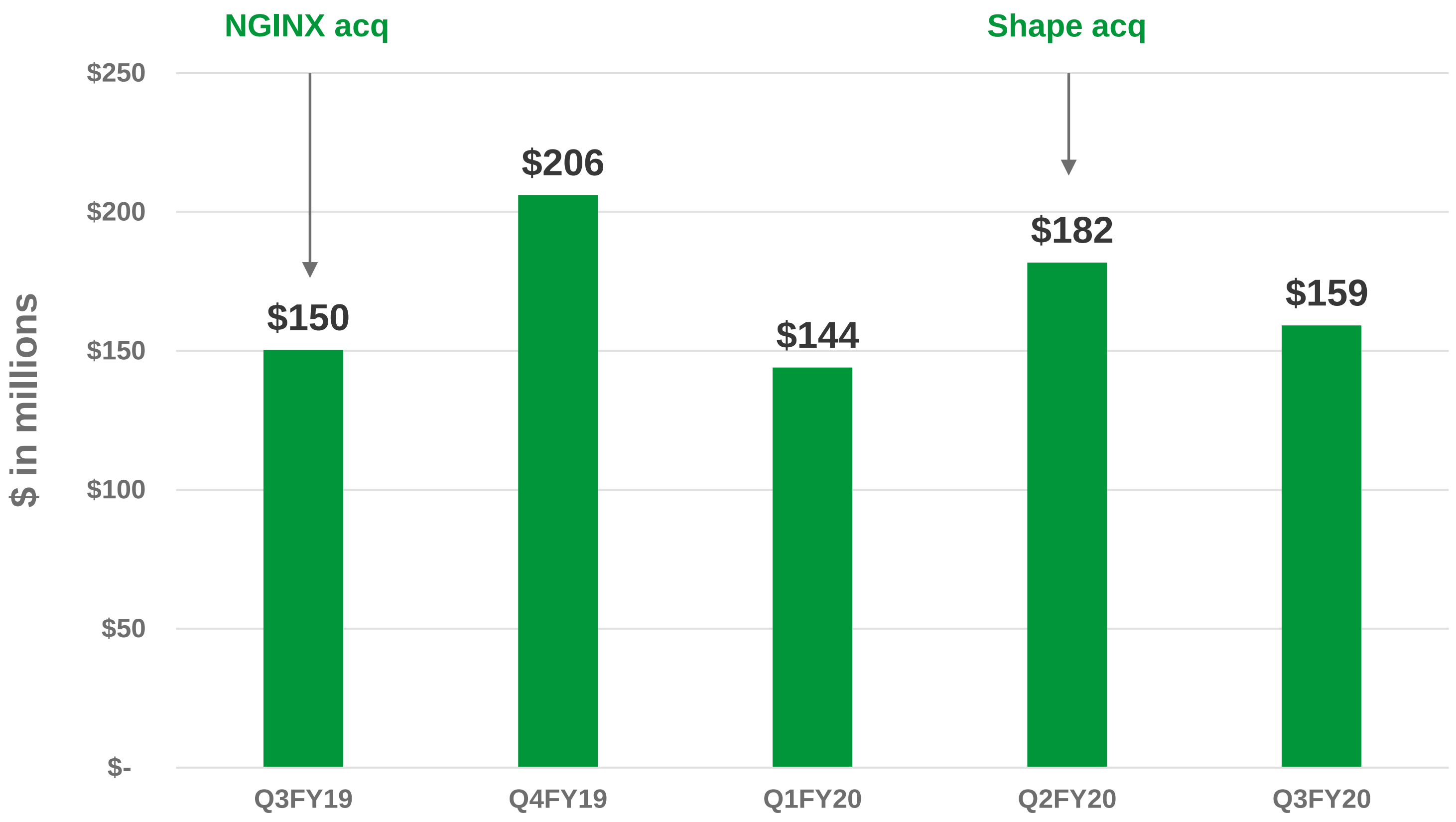




Q3FY20 INCLUDES FULL QUARTER OF SHAPE. SEE APPENDIX FOR GAAP-TO-NON-GAAP RECONCILIATIONS.

Cash flow from operations

$ IN MILLIONS

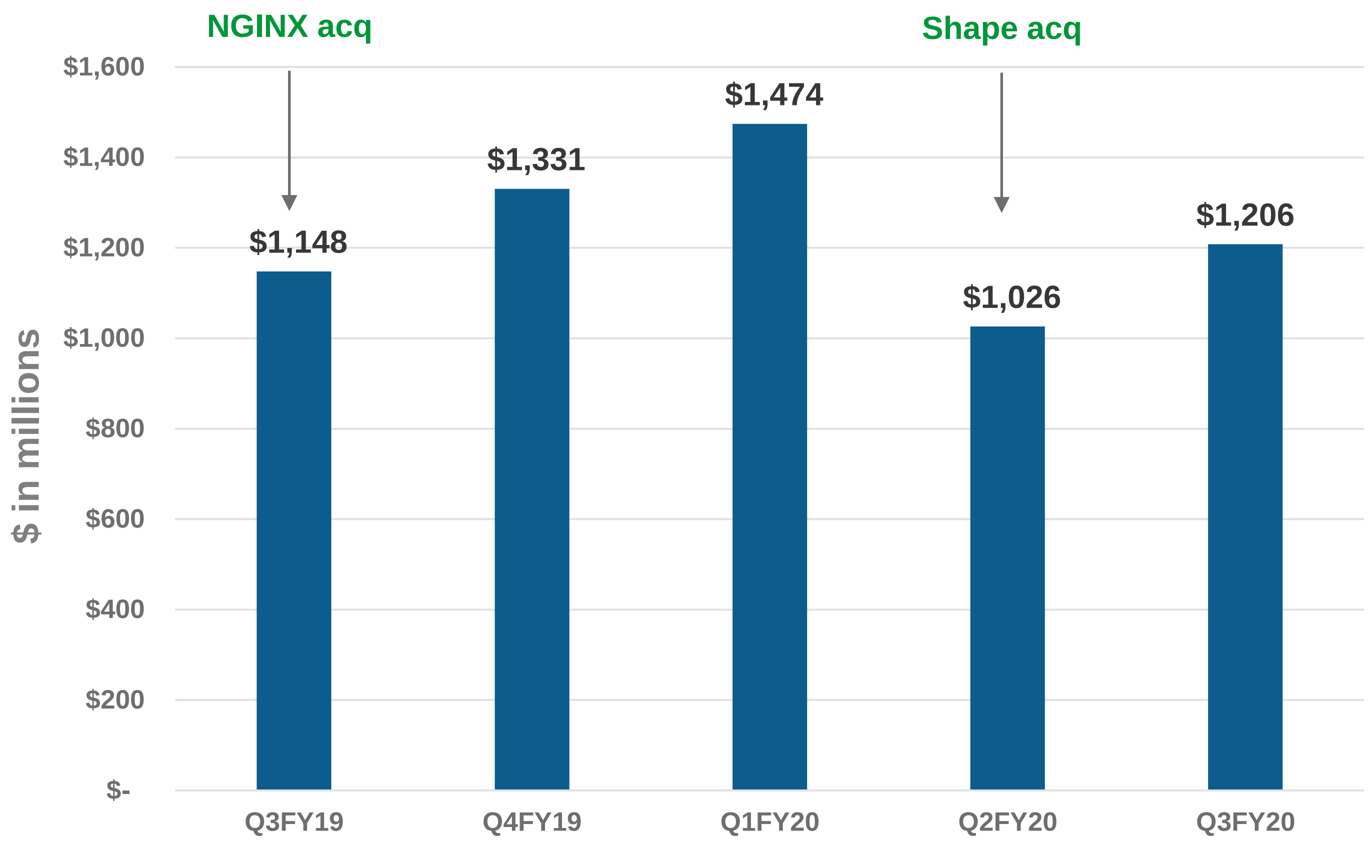


Cash and investments

$ IN MILLIONS

Near term, given macro uncertainties, we are prioritizing building cash

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



NGINX ACQUIRED Q3FY19 FOR $670M CASH. SHAPE ACQUIRED Q2FY20 FOR $600M CASH PLUS $400M TERM LOAN A.

Q4FY20 outlook

PROVIDED JULY 27, 2020

	Q4 FY2020
Non-GAAP Revenue[1]	$595 - $615M
Non-GAAP Gross Margin	84% - 85%
Non-GAAP Operating Expense	$326 - $338M
Non-GAAP Diluted EPS	$2.30 - $2.42
FY20 Non-GAAP Effective Tax Rate	19.5% - 20.5%
Share-based Compensation	$52 - $53M

[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.

Q3FY20 Business Overview

François Locoh-Donou, CEO & President

Our COVID-19 response and business impact

EMPLOYEES

- We are nearly 100% work-from-home and expect the majority of F5ers will work remotely for the remainder of CY20.
- We are phasing voluntary returns to offices in certain geographies.
- We are lifting travel restrictions in certain geographies while asking F5ers to consider carefully whether travel is essential and to quarantine upon return.
- We will adjust regionally as needed.

CUSTOMERS

- Large enterprises and service providers are:
  - Accelerating digital transformation
  - Increasing digital engagement
  - Boosting capacity & security on customer-facing apps, employee collaboration platforms
  - Prioritizing speed and choosing operationalized solutions

BUSINESS IMPACT

- Incumbency is a large advantage.
- Demand is proving more resilient than our initial post-COVID expectations.
- We see evidence of 3 COVID-related headwinds, the combined impact of which has not been significant:
  1. Caution from the most severely impacted verticals which combined, represent less than 10% of bookings.
  2. Our ASEAN and India sales regions were acutely impacted by COVID-related order delays in the last several weeks of Q3.
  3. Prolonged lack of face-to-face sales engagement is causing some delays with strategic new projects.

Trends are emerging in our customer wins

1 THE APPEAL OF OUR SUBSCRIPTION OFFERINGS IS GROWING GLOBALLY

- Subscriptions accounted for 73% of Q3FY20 software revenue
- In Q3FY20, the team closed the largest number of subscription deals ever in a quarter

2 CUSTOMERS ARE INCREASINGLY CHOOSING F5 FOR A COMBINATION OF F5/NGINX/SHAPE SOLUTIONS

- Cross-selling and opportunity for multi-solution sales part of NGINX and Shape acquisition rationale
- F5 is unique in our ability to serve traditional and modern applications consistently in any environment

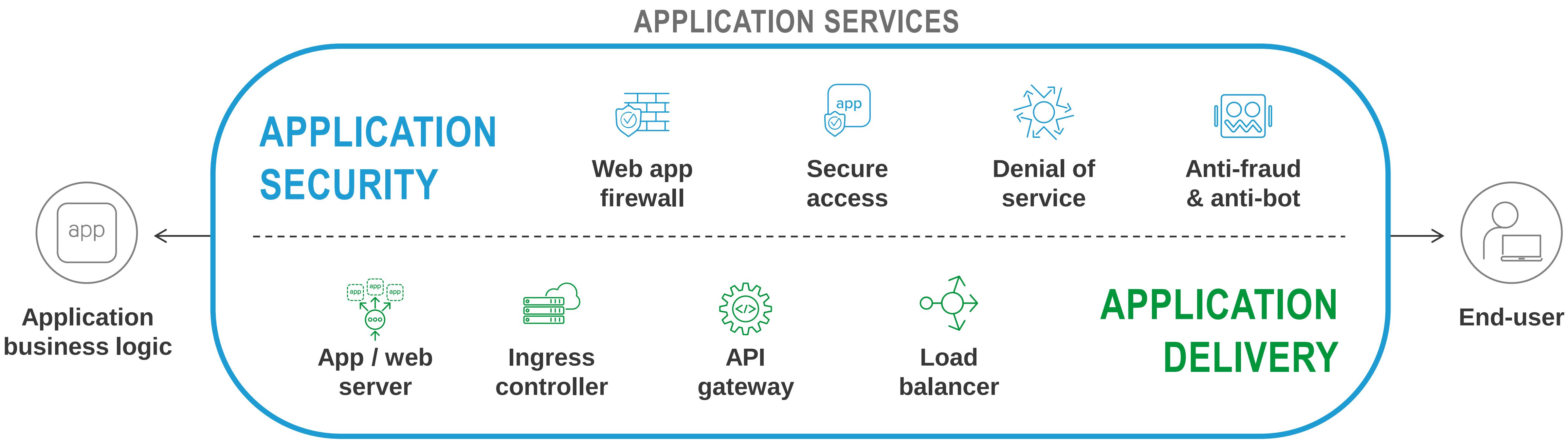
3 APPLICATION SECURITY CONTINUES TO EMERGE AS GROWING NEED

- Driving core F5 systems and software security deployments
- Creating demand for the combination of F5 security on top of NGINX
- Strong customer interest for AI/ML-enabled Shape portfolio to combat growing bot and human threats
- Growing demand for application security as a managed service powered by Shape/Silverline combo

Our Vision for Applications

François Locoh-Donou, CEO & President

Application services **enable fast and secure** digital customer experiences

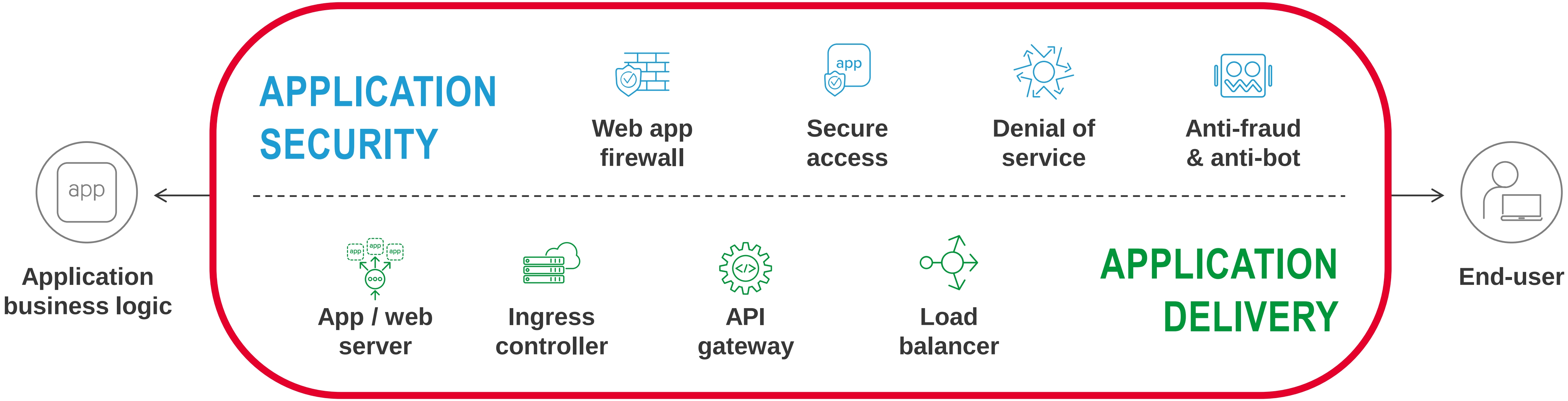


Turn applications into digital experiences

Connect multi-generation application architectures

Deliver across multi-cloud environments

Challenges exist in the landscape of app services in place today

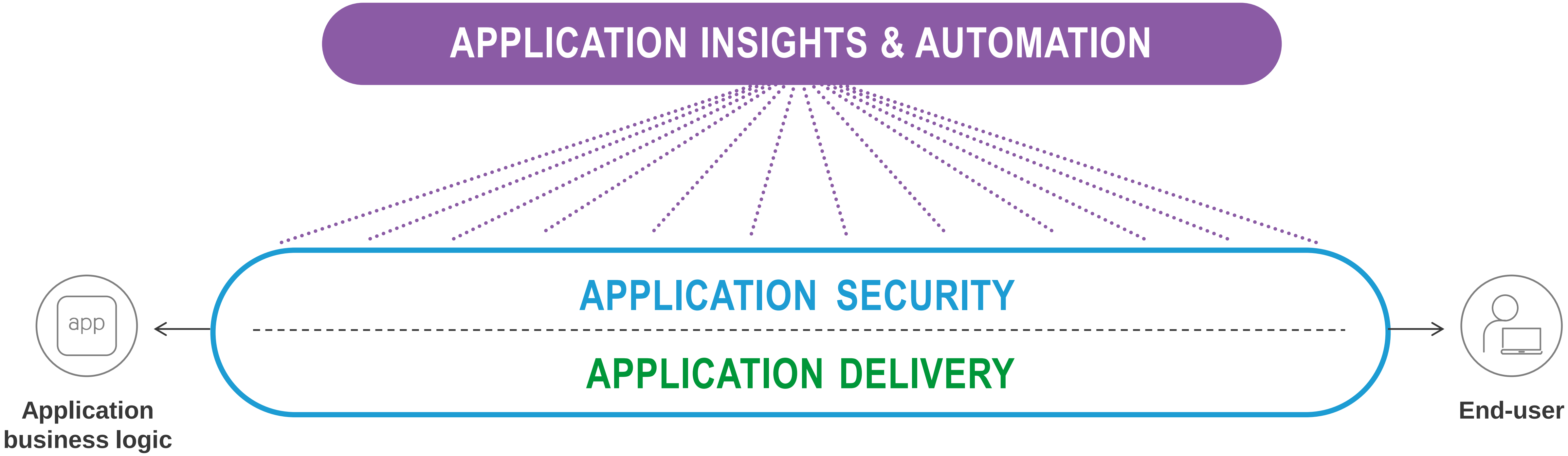


High operational complexity

No holistic view of business impacts

Inconsistent security

Customers deserve application insights and automation

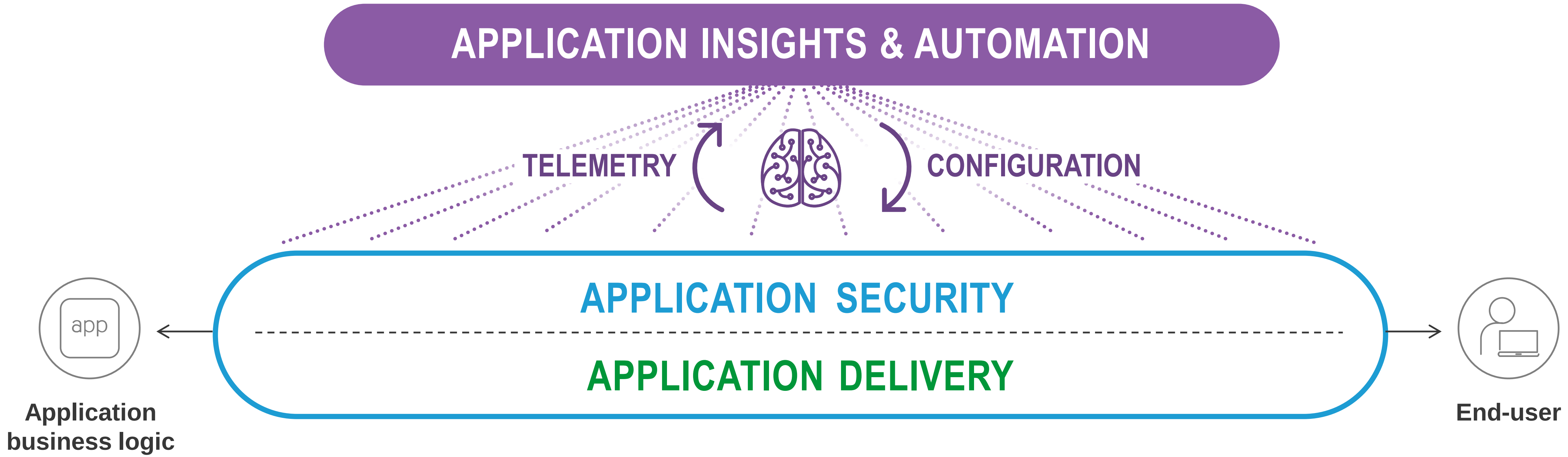


Simplify operational complexity

Create business insights and value

Protect user experience

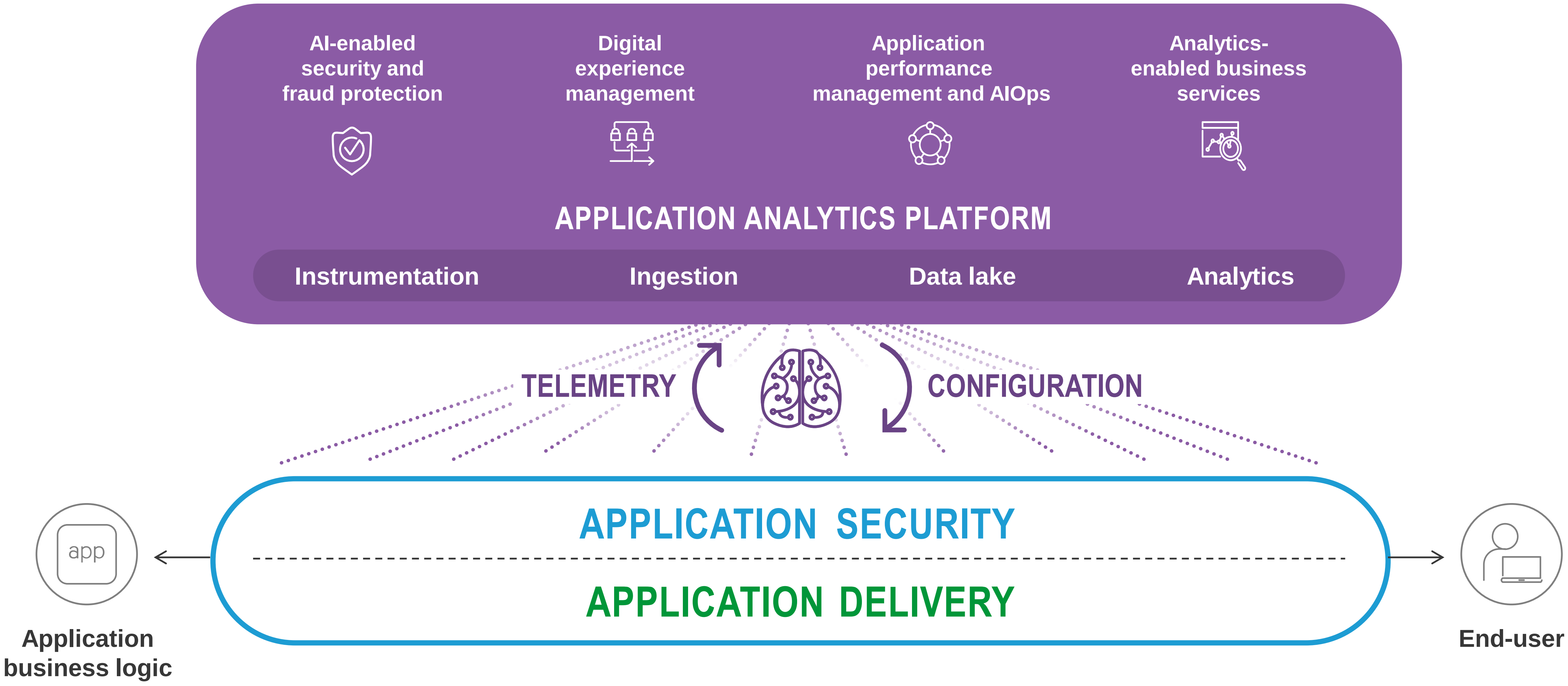
F5 is uniquely positioned to deliver **application insights and automation**



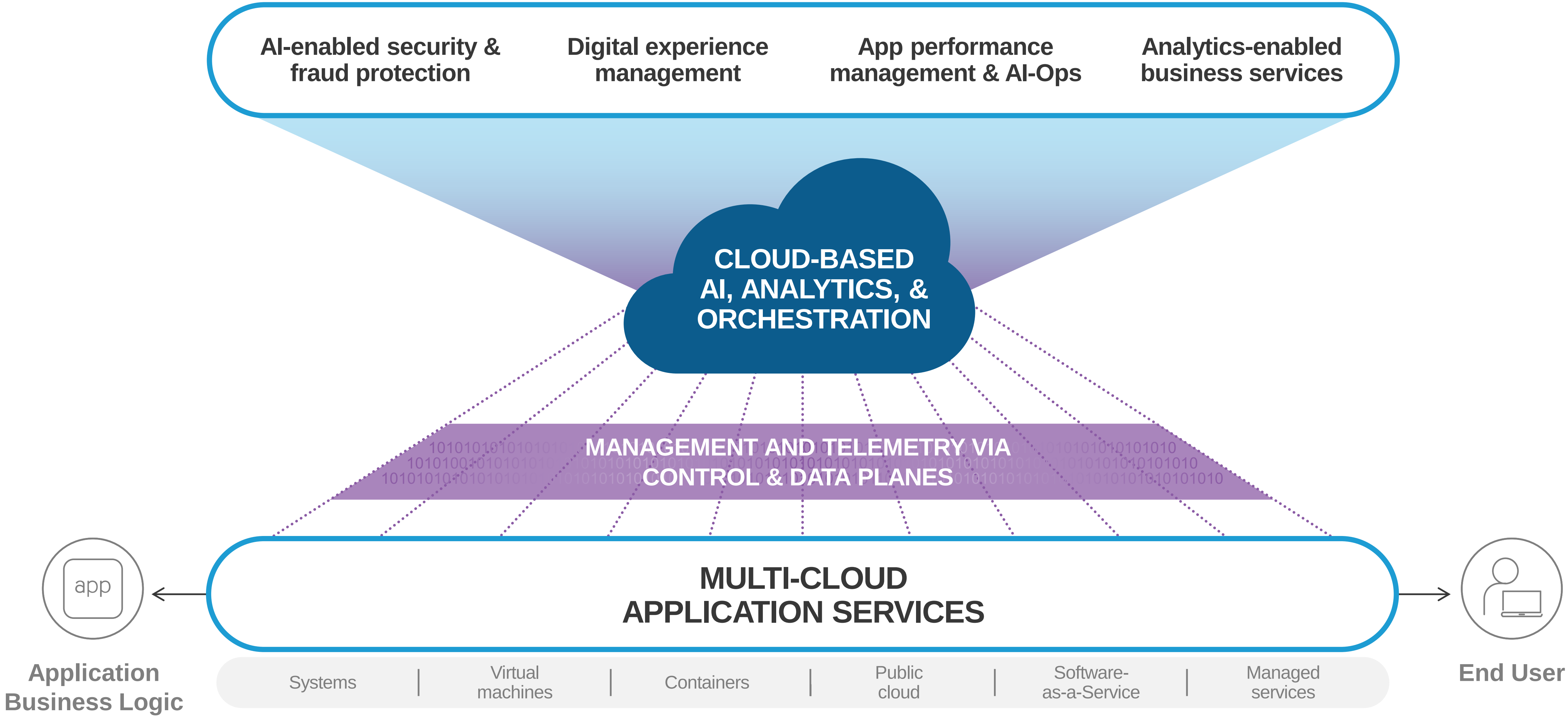
F5'S UNIQUE ARCHITECTURE POSITION AND PRODUCT PORTFOLIO

- Delivers applications in any infrastructure, multi-cloud environment
- Supports 400+ million application footprint
- Collects telemetry through rich set of application services
- Deploys AI-powered analytics engine

With Shape, F5 is now developing a comprehensive **application analytics platform**



Adaptive applications increase revenue, reduce costs, and better protect users



2020

We launched Shape AI Fraud Engine (SAFE) to enable **AI-based fraud protection**

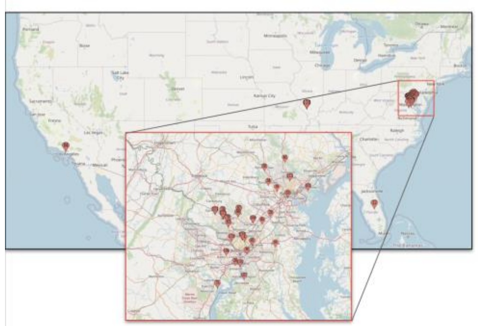
Real-time AI-powered fraud elimination

Found $600K of fraud in one month for F500 restaurant chain

Delivers 2x to 5x more fraud identified in real-time than existing solutions

SAFE detects devices that demonstrate “high zip velocity”

One “customer”, M, ordered $3,142 of food, for 42 zip codes, over 128 orders



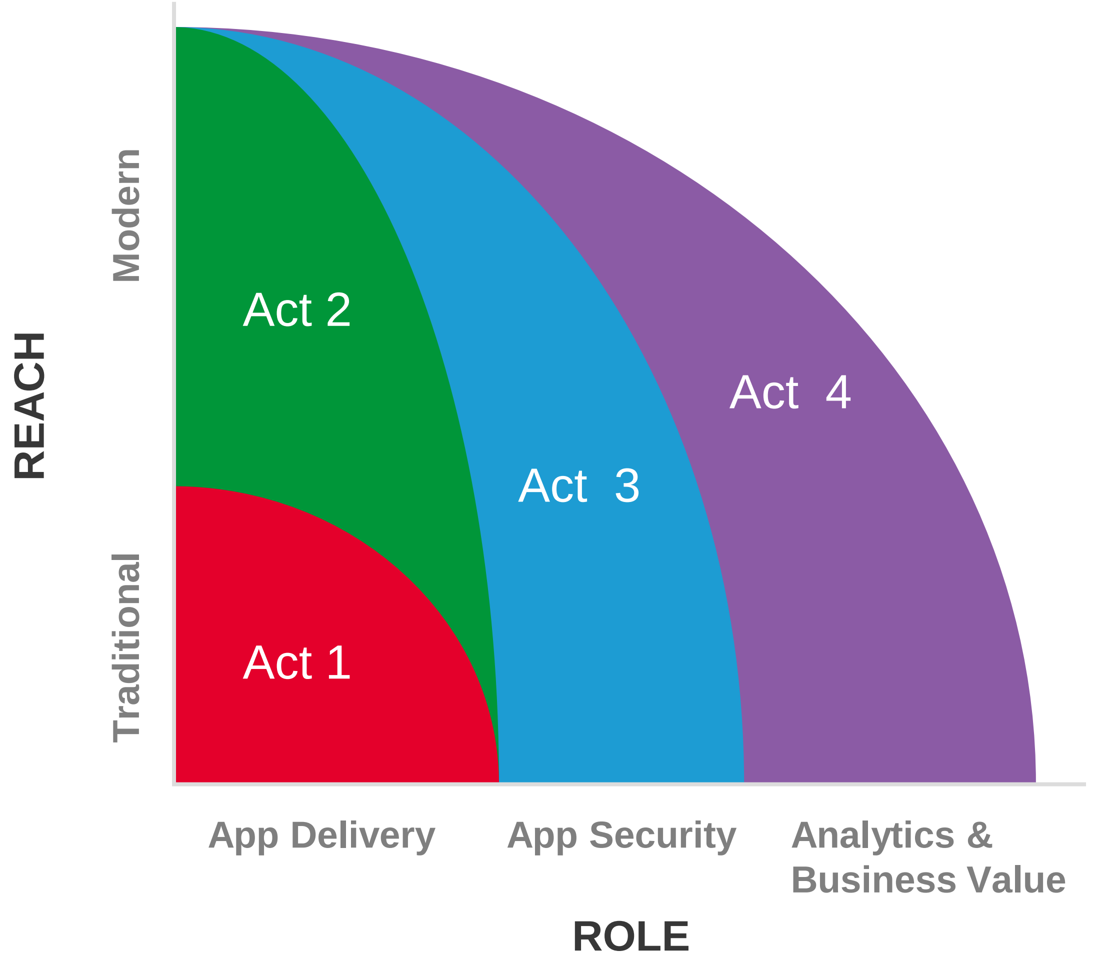
Most clients were in Maryland, though some were in VA, CA

Baltimore	21202	MD
Silver Spring	20903	MD
Gaithersburg	20878	MD
Silver Spring	20904	MD
Woodbridge	22193	VA
Gwynn Oak	21207	MD
Silver Spring	20905	MD
Gaithersburg	20877	MD
Canyon Country	91351	CA
Germantown	20874	MD
Rockville	20851	MD
Montgomery Village	20886	MD
Gaithersburg	20877	MD
...and many more		

We are bringing our **adaptive applications** vision to life

Our vision is that an application, like a living organism, will naturally adapt based on the environment, becoming an adaptive application. It will grow, shrink, defend and heal itself as needed.

We are well on our way to delivering this vision for customers



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Appendix

GAAP to non-GAAP reconciliation

Gross Profit Reconciliation		
($ in thousands)		
	Q3FY19	**Q3FY20**
GAAP revenue	$563,394	$583,252
Acquisition-related write-downs of assumed deferred revenue	$0	$2,670
Non-GAAP revenue	**$563,394**	**$585,922**
GAAP gross profit	$472,627	$477,212
Stock-based compensation	$5,118	$6,771
Amortization of purchased intangible assets	$2,471	$7,382
Facility-exit costs	$1,026	$342
Acquisition-related charges	$0	$0
Total adjustments to gross profit	$8,615	$14,495
Non-GAAP gross profit	**$481,242**	**$494,377**
Non-GAAP gross margin	**85.4%**	**84.4%**
Operating Expense Reconciliation		
($ in thousands)		
	Q3FY19	**Q3FY20**
GAAP operating expense	$369,887	$389,591
Stock-based compensation-sales and marketing	$17,767	$21,784
Stock-based compensation-research and development	$10,037	$13,145
Stock-based compensation-general and administrative	$8,077	$9,168
Amortization of purchased intangible assets-sales and marketing	$710	$2,749
Amortization of purchased intangible assets-general and administrative	$531	$545
Facility-exit costs-sales and marketing	$2,021	$751
Facility-exit costs-research and development	$3,605	$776
Facility-exit costs-general and administrative	$2,052	$676
Acquisition-related charges-sales and marketing	$6,106	$5,675
Acquisition-related charges-research and development	$16,116	$547
Acquisition-related charges-general and administrative	$7,911	$7,221
Impairment charges-general and administrative	$0	$0
Restructuring charges	$0	$0
Litigation expense	$0	$0
Total adjustments to operating expenses	$74,933	$63,037
Non-GAAP operating expense	**$294,954**	**$326,554**

GAAP to non-GAAP reconciliation

Income from Operations Reconciliation		
($ in thousands)		
	Q3FY19	**Q3FY20**
GAAP operating income	$102,740	$87,621
Total adjustments related to revenue	$0	$2,670
Total adjustments related to gross profit	$8,615	$14,495
Total adjustments related to operating expense	$74,933	$63,037
Total adjustments related to income from operations	$83,548	$80,202
Non-GAAP income from operations	**$186,288**	**$167,823**
Non-GAAP operating margin	**33.1%**	**28.6%**
Net Income Reconciliation		
($ in thousands except per share data)		
	Q3FY19	**Q3FY20**
GAAP net income	$85,905	$69,872
Total adjustments related to revenue	$0	$2,670
Total adjustments to gross profit	$8,615	$14,495
Total adjustments to operating expenses	$74,933	$63,037
Gain on sale of patent	$0	$0
Exclude tax effect on above items	($17,919)	($16,044)
Tax on deemed repatriation of undistributed foreign earnings	$0	$0
Remeasurement of net deferred tax assets due to change in U.S. tax rate	$0	$0
Non-recurring foreign tax credit benefit	$0	$0
Total adjustments to net income	$65,629	$64,158
Non-GAAP net income	**$151,534**	**$134,030**
Weighted average basic common shares outstanding	59,981	60,978
Weighted average dilutive potential common shares outstanding	60,196	61,415
Net Income per Common Share		
GAAP diluted net income per common share	$ 1.43	$ 1.14
Non-GAAP diluted net income per common share	**$ 2.52**	**$ 2.18**

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.

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