Q3 FY23 Results

PERIOD ENDING June 30, 2023

Published July 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, gross margins, operating leverage, earnings growth, 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 & Non-GAAP results

GAAP results

	Q3FY23	Q3FY22
Revenue	**$703M**	**$674M**
Gross profit	$561M	$544M
Gross margin	79.8%	80.6%
Operating profit	$104M	$107M
Operating margin	14.7%	15.9%
Net income	$89M	$83M
EPS	**$1.48**	**$1.37**

Non-GAAP results

	Q3FY23	Q3FY22
Revenue	**$703M**	**$674M**
Gross profit	$579M	$561M
Gross margin	82.5%	83.2%
Operating profit	$233M	$194M
Operating margin	33.2%	28.8%
Net income	$194M	$155M
EPS	**$3.21**	**$2.57**

Business overview

1 We delivered Q3 revenue at the midpoint and non-GAAP EPS well above the high end of our guidance range.

We delivered against our Q3FY23 guidance

	Q3FY23 Guidance	Q3FY23 Actuals
Total revenue	**$690 to $710M**	**$703M**
Non-GAAP gross margin	~82%	82.5%
Non-GAAP operating expenses	$348 to $360M	$346M
Non-GAAP EPS	**$2.78 to $2.90**	**$3.21**

Business overview agenda

1. We delivered Q3 revenue at the midpoint and non-GAAP EPS well above the high end of our guidance range.

2. We are seeing some early signs of demand stabilization.

We are seeing some early signs of demand stabilization

+8%
Global Services
revenue growth Y/Y

+1%
Product
revenue growth Y/Y

+5%
Systems
revenue growth Y/Y

-3%
Total software
revenue growth Y/Y

+32%
Total software
revenue growth Q/Q

+4%
Subscription software
revenue growth Y/Y

*Total software revenue contains subscription and perpetual software. Subscription software revenue includes term subscriptions, both multi-year and annual, as well as SaaS-based and utility-based revenue.

Business overview agenda

1. We delivered Q3 revenue at the midpoint and non-GAAP EPS well above the high end of our guidance range.
2. We are seeing some early signs of demand stabilization.
3. We are demonstrating operating discipline and driving operating leverage.

We are demonstrating operating discipline and driving operating leverage

82.5%
Non-GAAP
gross margins

↑ >200 bps Q/Q

33.2%
Non-GAAP
operating margins

↑ >600 bps Q/Q

↑ >400 bps Y/Y

Q323 use case examples

F5 BIG-IP

Serves traditional apps on-premises, co-located or in cloud environments

- Taking share from competitors who have failed to invest.
- Data plane performance, automation capabilities and lower total cost of ownership continues to differentiate and drive wins:

Major American airline

Multinational auto manufacturer

Major retail / commercial bank

F5 NGINX

Serves modern, container-native and microservices-based apps and APIs

- Large enterprises adopting NGINX for cloud and Kubernetes workloads.
- When applications built on NGINX from the ground up grow, we grow with them.

Large collaboration platform provider

- Multimillion-dollar term-based subscription renewal grew by 10x from inception.
- Customer streamlining deployments in both public and private clouds using NGINX as their single platform for load balancing, caching, and telemetry.

Q323 use case examples

F5 Distributed Cloud Services

Portfolio of SaaS and managed services serving traditional and modern apps

- Created via organic and inorganic investment and technology integration. Launched February 2022.
- Expanding offerings and building momentum for multiple security use cases.

Global financial services app provider

- Existing disjointed app security, complex policy tuning and managing apps and APIs across distributed environments were challenges.
- F5 Distributed Cloud protecting apps and APIs with WAAP and multi-cloud networking, reducing time to deliver from months to minutes.

F5 Distributed Cloud – API Security

Exploding API endpoints require discovery and protection

- Number of API endpoints exploding with growth of modern apps using containers and composed of distributed microservices.
- Distributed Cloud brings robust API discovery and protection capabilities.

Service provider

- Cybersecurity incident disabled virtualization infrastructure at multiple data centers.
- Emergency on-boarded F5 Distributed Cloud and deployed advance WAAP, bot defense and API security and immediately migrated sites to restore service.

Q323 use case examples

F5 Distributed Cloud – Multi-cloud Networking

Securely connect apps between on-premises, multi-cloud and edge environments at scale

- F5’s ability to package networking, security, and distribution of apps and APIs is unique and changes the game.
- Customers have been forced to manage and secure these layers in isolation, leading to operational complexity, network latency and weak security.
- F5 secure multi-cloud networking empowers customers to move workloads to the cloud, between clouds and even to the edge while maintaining end-to-end visibility, control and security.

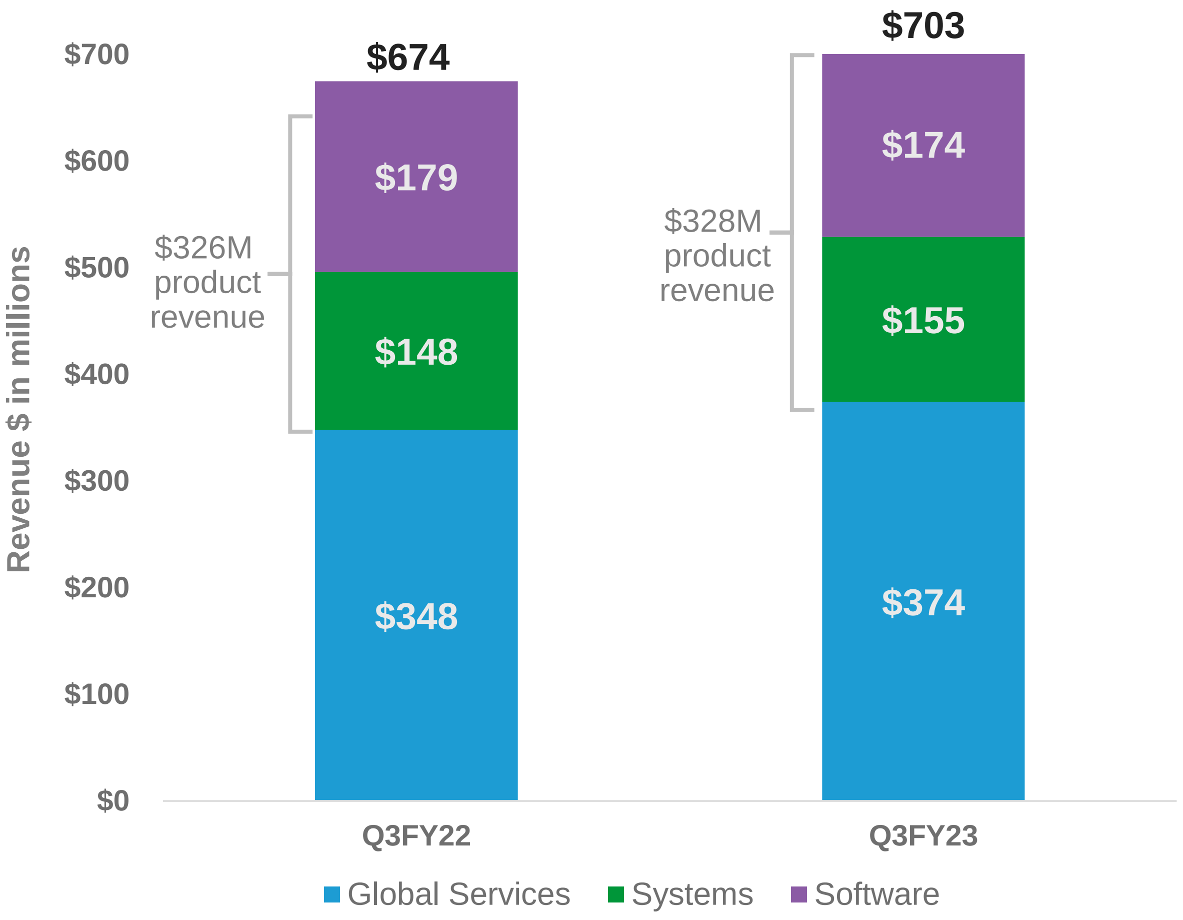
Claims management systems provider

- First deployed Distributed Cloud in February 2022.
- In early 2023, selected Distributed Cloud for emergency lift and shift which led to moving global data centers to public clouds with Distributed Cloud.
- Customer has now standardized on Distributed Cloud for secure multi-cloud networking needs spanning multiple public clouds and protecting external and internal apps and APIs.

Q3FY23 Results

Frank Pelzer, CFO & EVP

Q3FY23 revenue mix



+4%
Total revenue growth

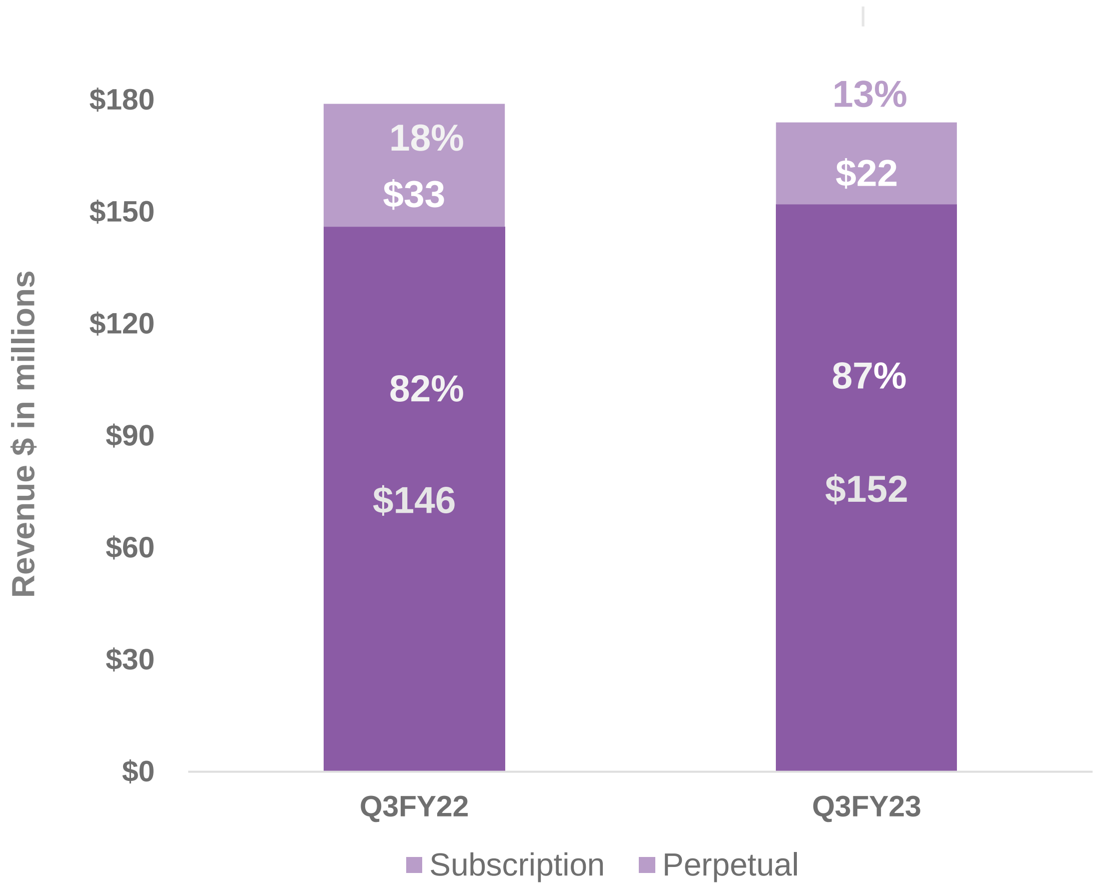
+1%
Product revenue growth

+8%
Global Services revenue growth

-3%
Software revenue growth

5%
Systems revenue growth

Q3FY23 software revenue mix

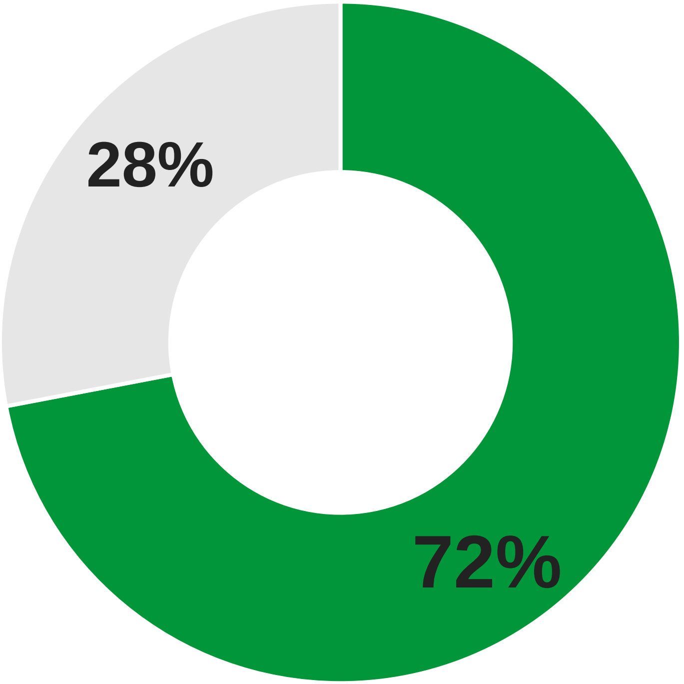


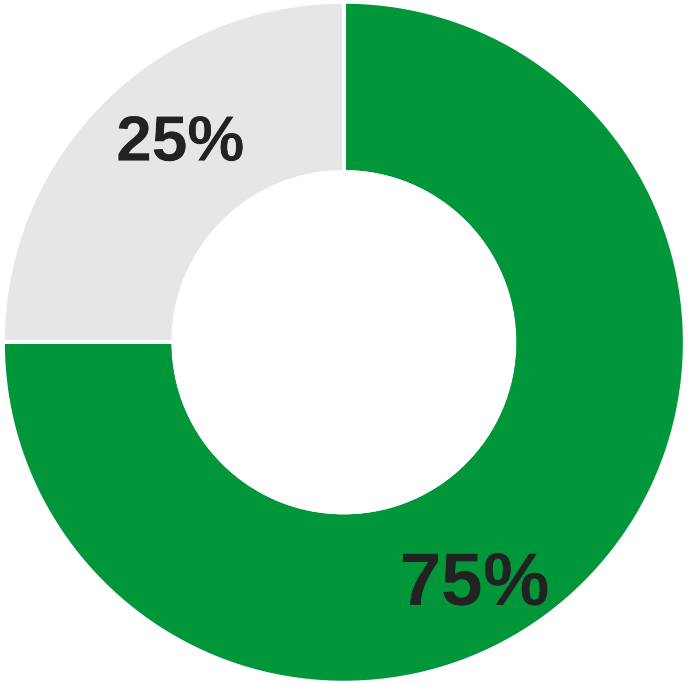
87%
of total software revenue from subscriptions

+4%
Subscription software revenue growth Y/Y

Total software revenue contains subscription and perpetual software. Subscription software revenue includes term subscriptions, both multi-year and annual, as well as SaaS-based and utility-based revenue. Percentage totals may not add to 100 due to rounding.

Revenue from recurring sources





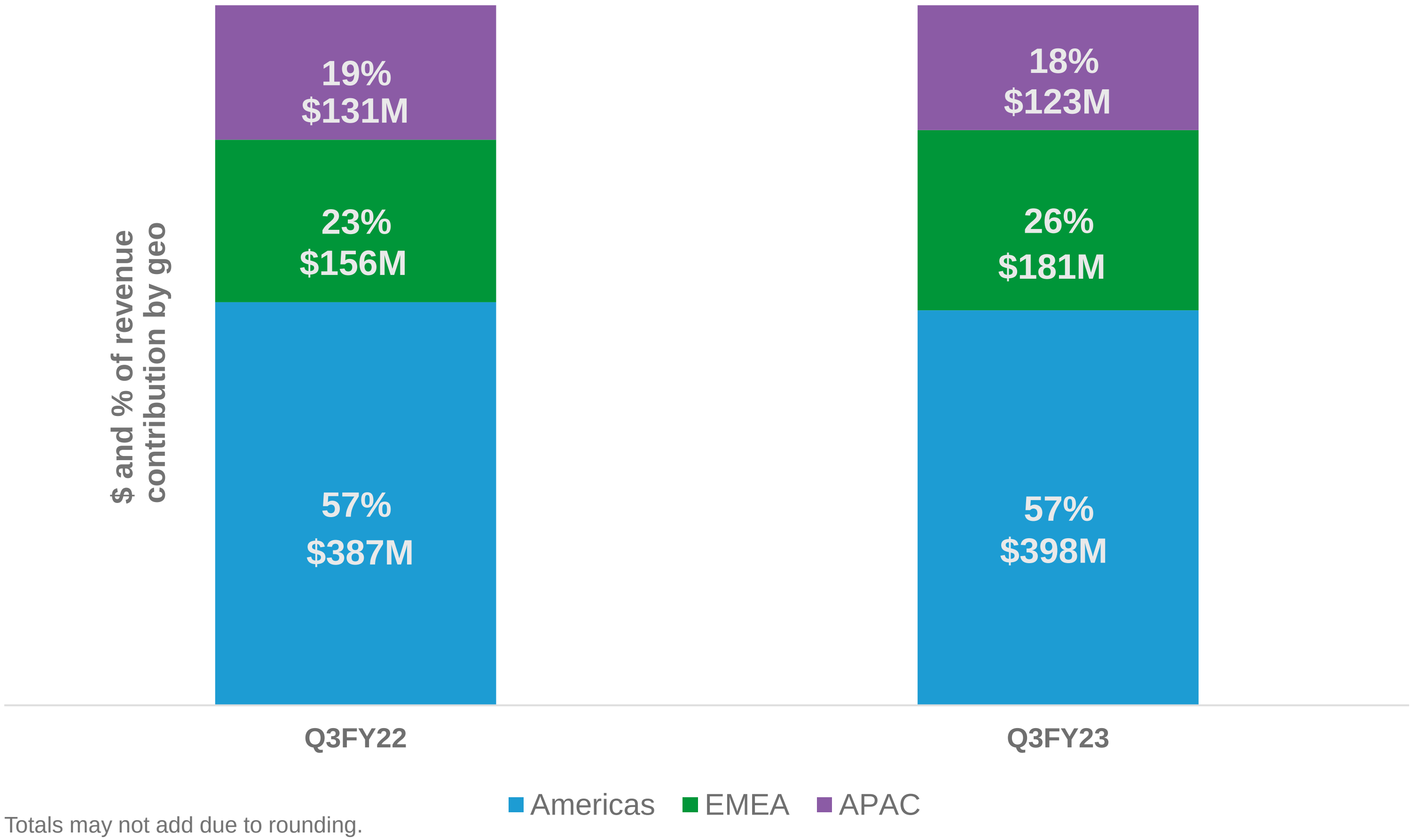
Recurring Non-recurring

Q3FY22

Q3FY23

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

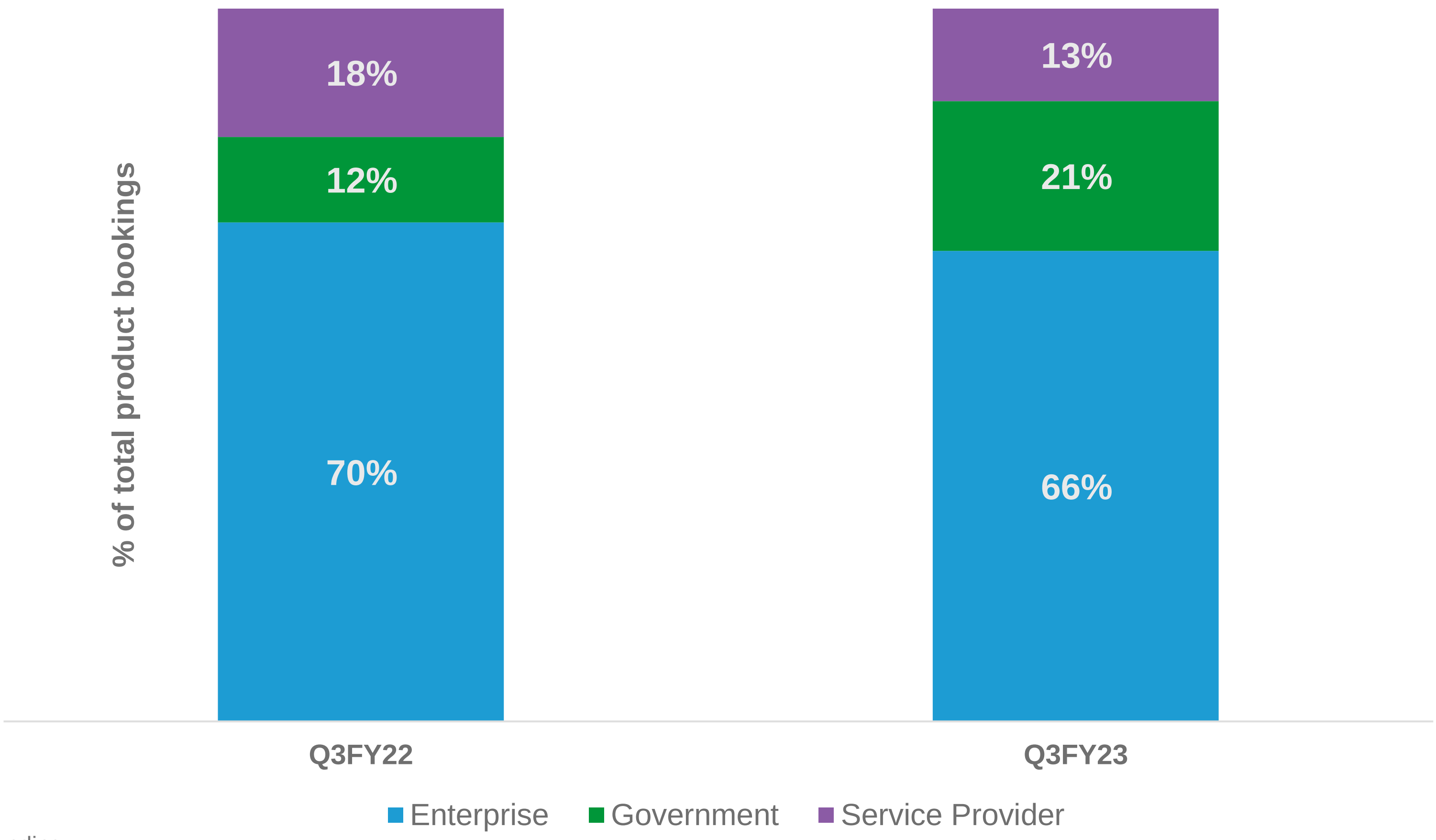
Q3FY23 revenue contribution by geography



Totals may not add due to rounding.

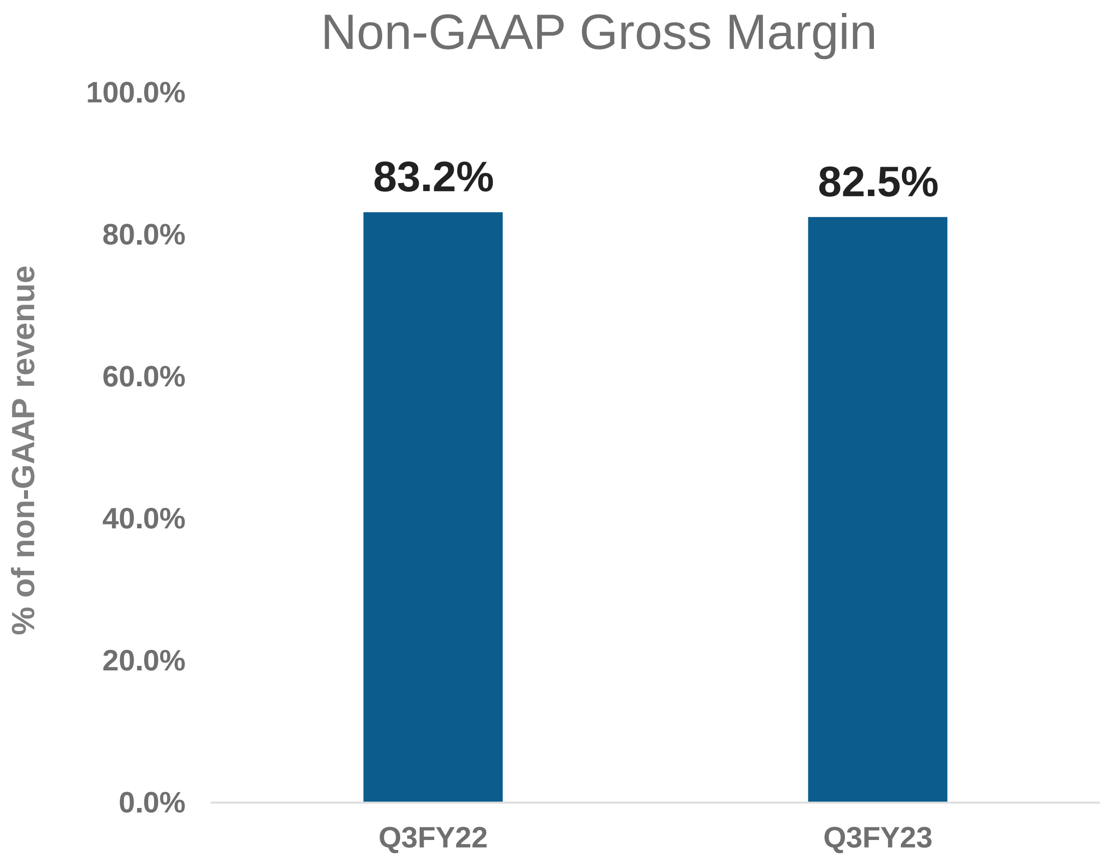
Regional revenue growth

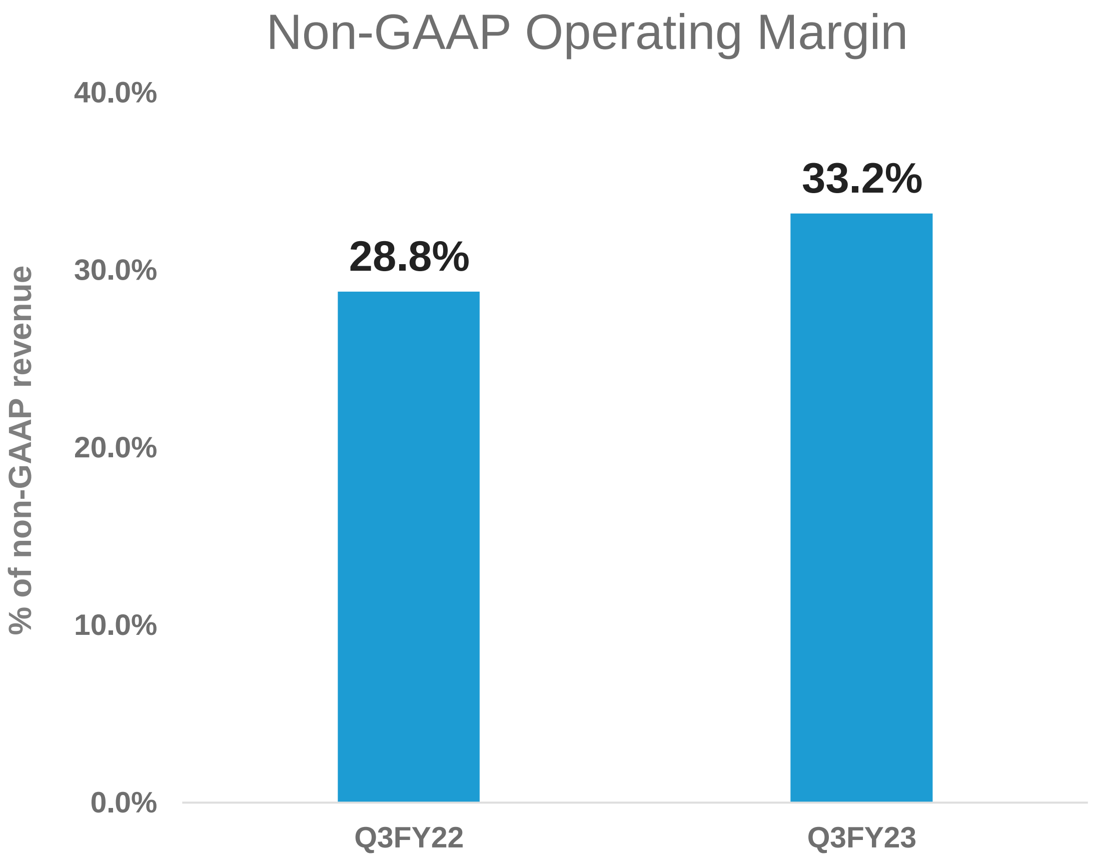
Q3FY23 customer verticals as a % of product bookings



Totals may not add to 100% due to rounding.

Q3FY23 non-GAAP gross and operating margins

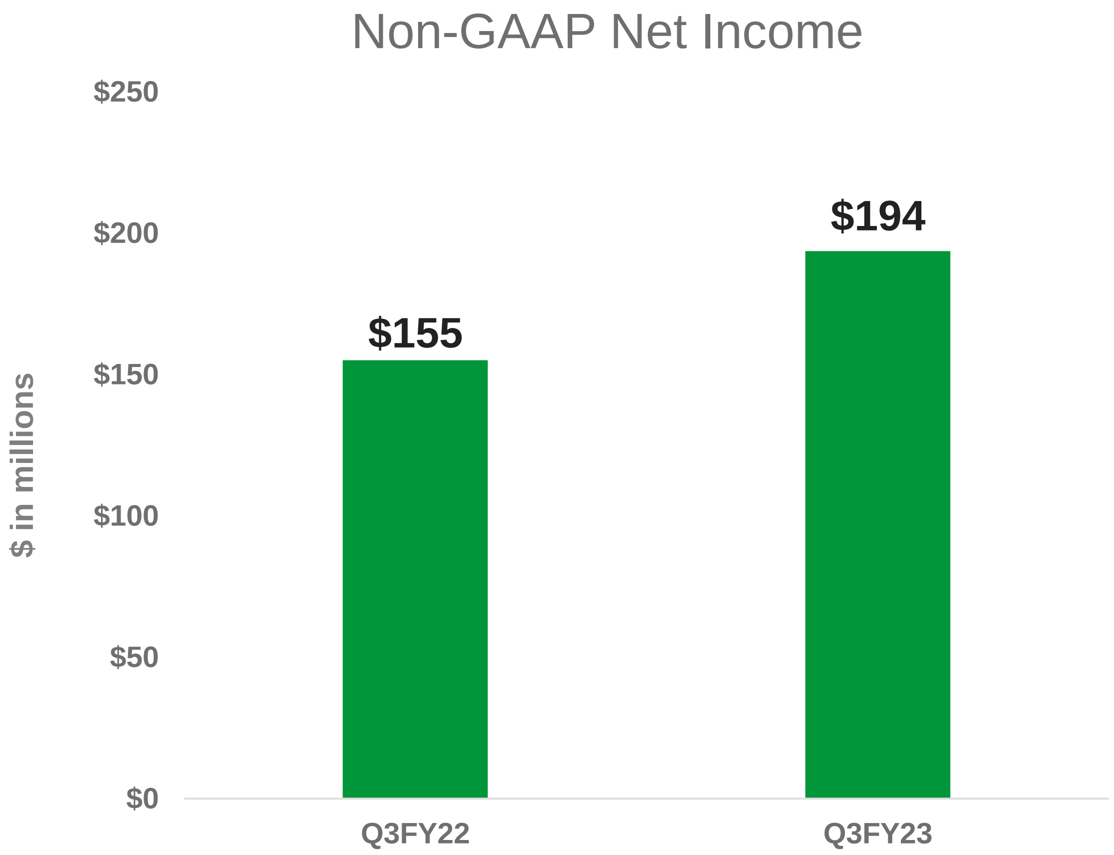


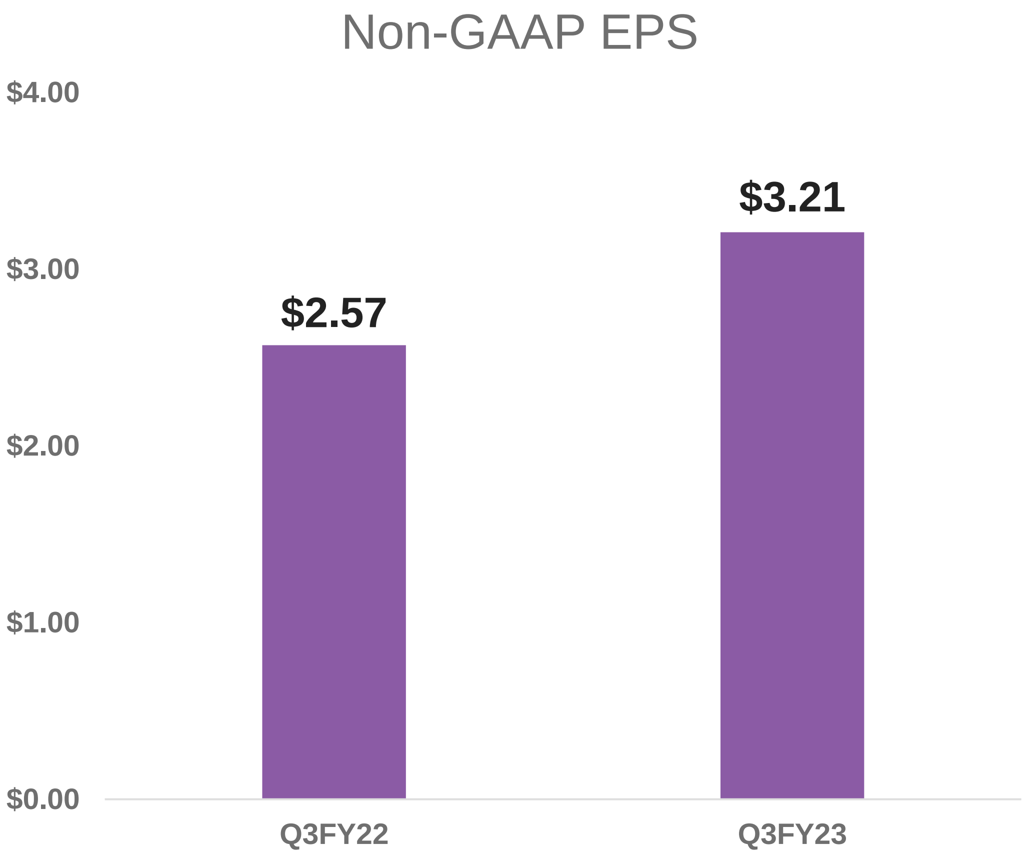


See appendix for GAAP to non-GAAP reconciliation

Q3FY23 non-GAAP net income and EPS

Reflects 18.1% Q3FY23 and 17.4% Q3FY22 non-GAAP effective tax rate





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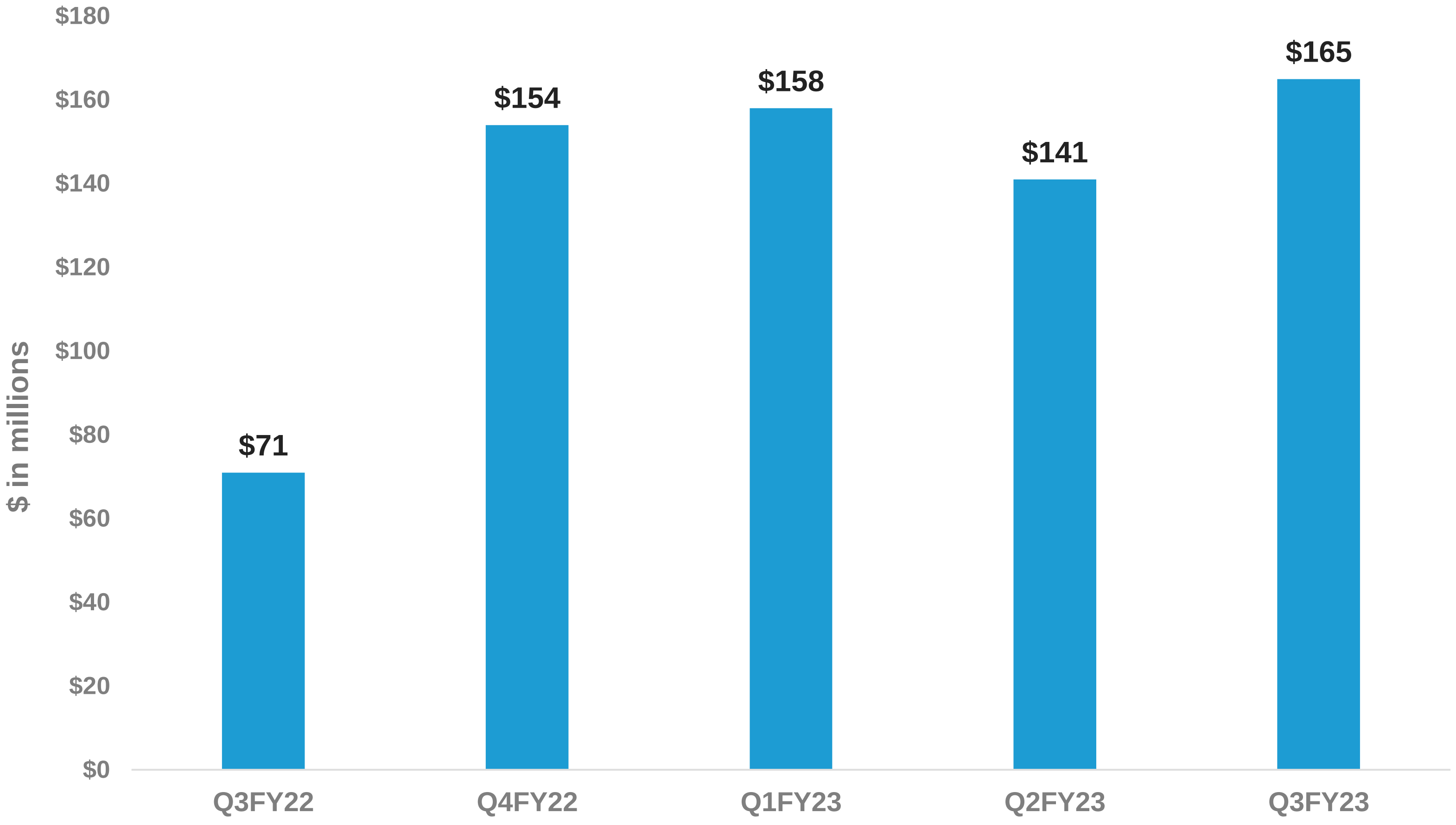
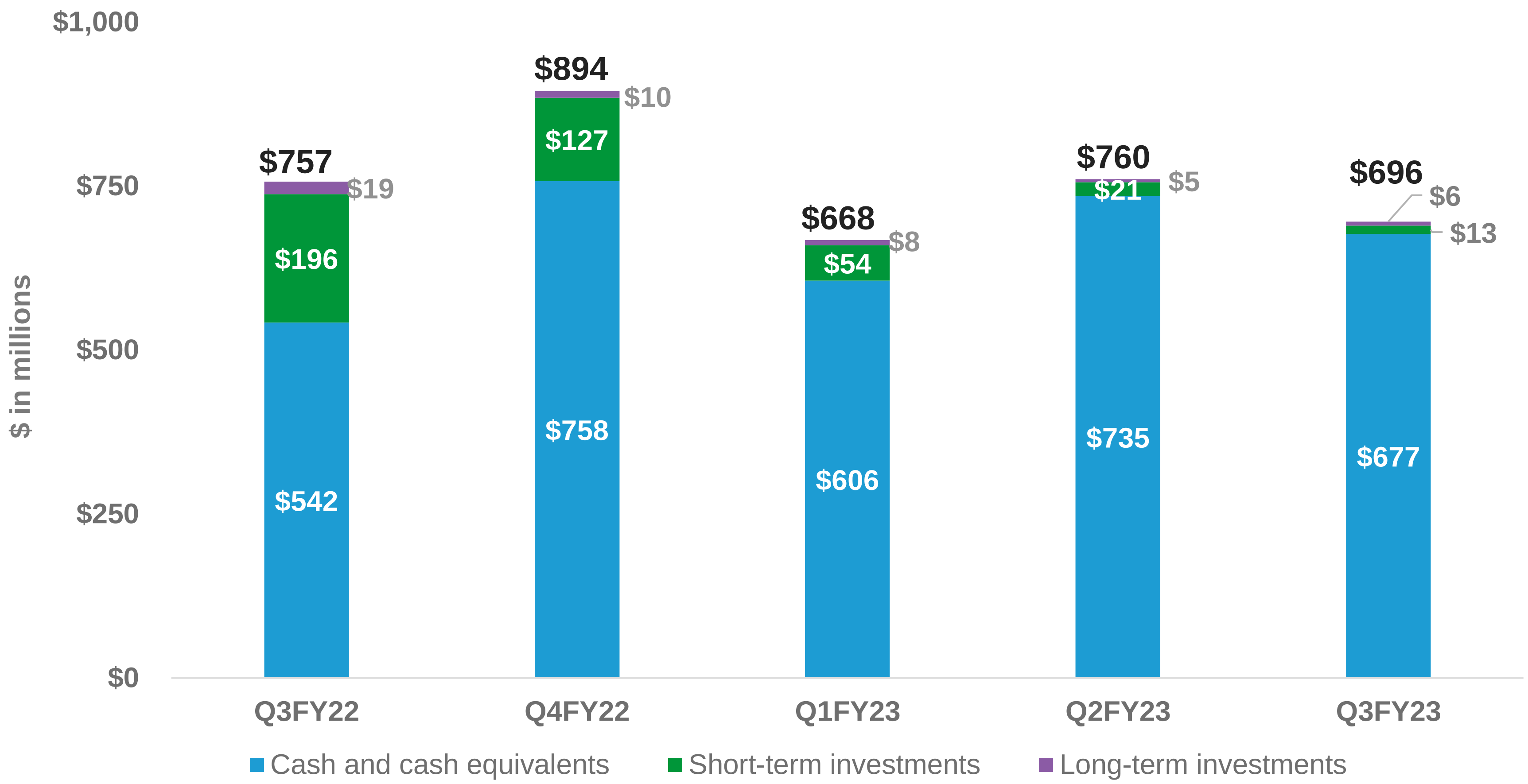
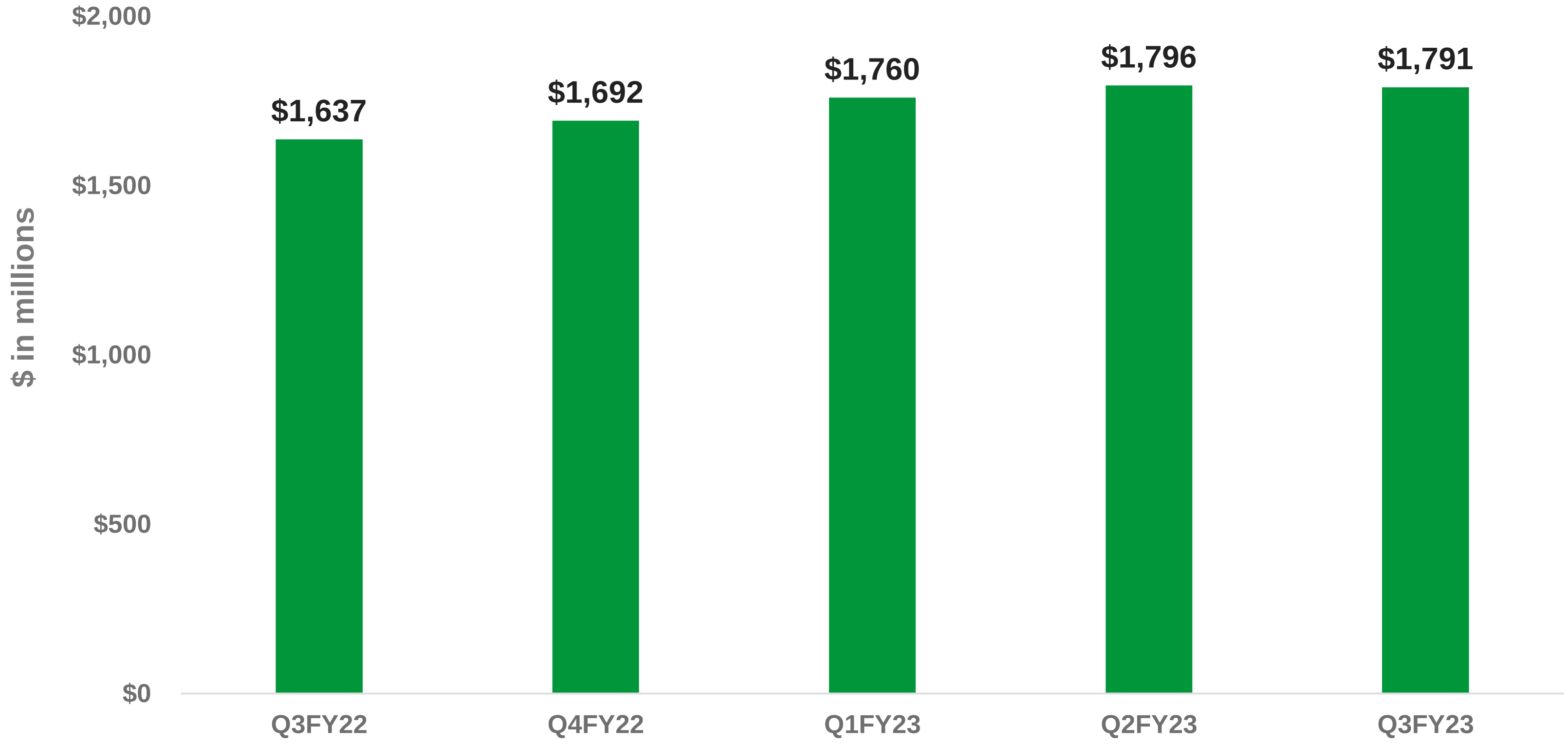
Cash flow from operations



Cash and investments



Deferred revenue

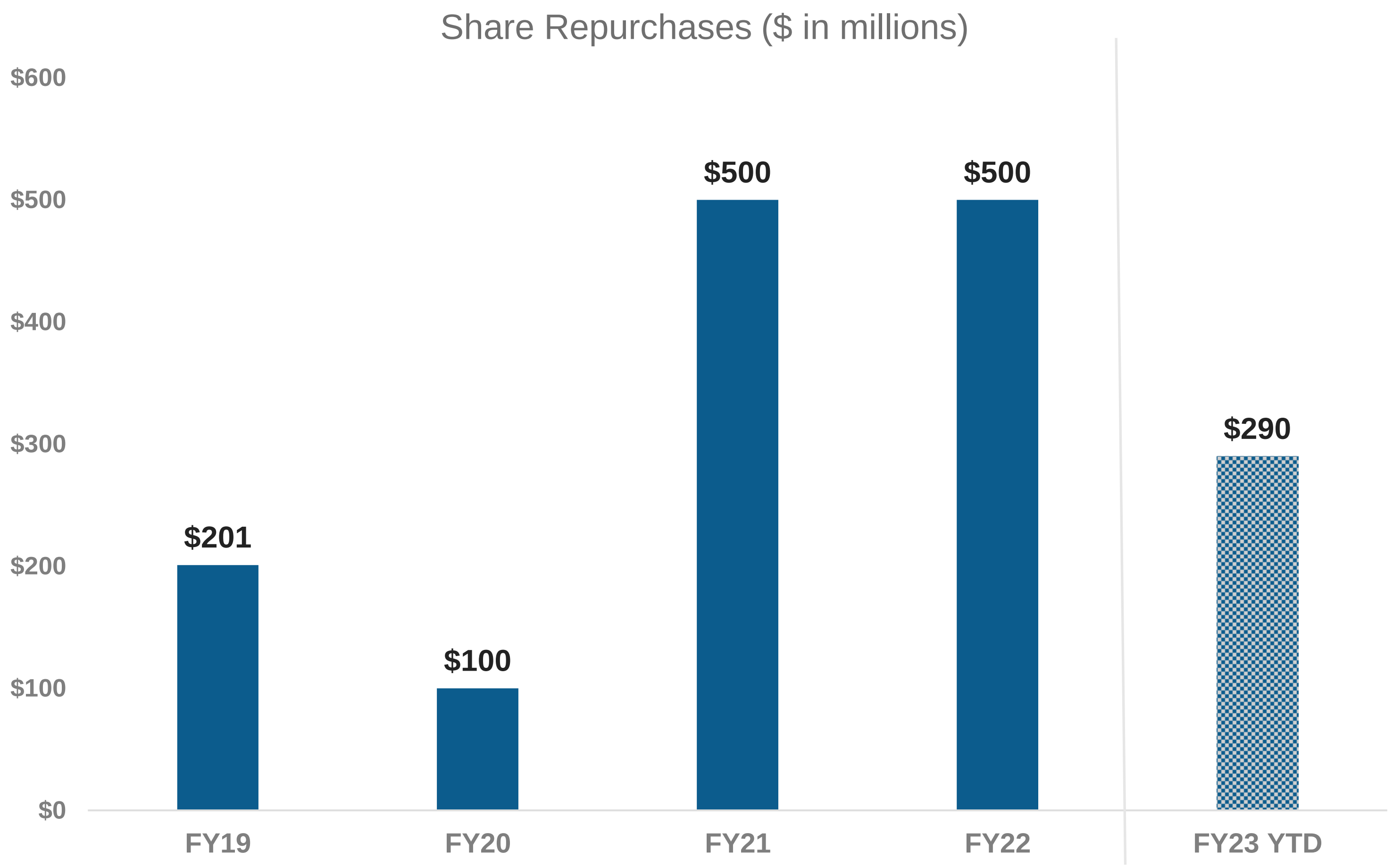


9%

Q3FY23
Y/Y Growth

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.
- FY23 YTD we have used 68% of our free cash flow toward share repurchases.
- As of July 24, 2023, there was $982 million remaining under our currently authorized stock repurchase program.



Business Outlook

Our Q423 outlook

	Q4FY23 Guidance
Total revenue	**$690 to $710M**
Non-GAAP gross margin	~83%
Non-GAAP operating expenses	$338 to $350M
Share-based compensation	$55 to $57M
FY23 effective tax rate	~20%
Non-GAAP EPS	**$3.15 to $3.27**

Key takeaways

1

We are seeing some early and encouraging signs of demand stabilizing.

2

We are seeing demonstrable proof points that the differentiated solutions portfolio we are creating through a combination of organic and inorganic innovation and technology integration is well aligned with how application architectures are evolving.

3

We are delivering on the operating discipline we committed to and expect to produce additional leverage in FY2024.

Q&A

Appendix

GAAP to non-GAAP reconciliation

Gross Profit Reconciliation		
($ in thousands)		
	Q3FY23	**Q3FY22**
GAAP gross profit	$560,959	$543,755
Stock-based compensation	$7,297	$7,203
Amortization and impairment of purchased intangible assets	$10,984	$9,960
Facility-exit costs	$150	$62
Acquisition-related charges	$45	$96
Impairment charges	$0	$0
Total adjustments to gross profit	$18,476	$17,321
Non-GAAP gross profit	**$579,435**	**$561,076**
Non-GAAP gross margin	**82.5%**	**83.2%**
Operating Expense Reconciliation		
($ in thousands)		
	Q3FY23	**Q3FY22**
GAAP operating expense	$457,390	$436,291
Stock-based compensation-sales and marketing	$22,561	$25,572
Stock-based compensation-research and development	$16,297	$17,502
Stock-based compensation-general and administrative	$10,317	$11,598
Amortization and impairment of purchased intangible assets-sal	$2,672	$2,389
Amortization and impairment of purchased intangible assets-ge	$220	$352
Facility-exit costs-sales and marketing	$481	$546
Facility-exit costs-research and development	$542	$627
Facility-exit costs-general and administrative	$354	$515
Acquisition-related charges-sales and marketing	$349	$2,493
Acquisition-related charges-research and development	$330	$5,479
Acquisition-related charges-general and administrative	$603	$2,156
Impairment charges-sales and marketing	$0	$0
Impairment charges-research and development	$0	$0
Impairment charges-general and administrative	$0	$0
Restructuring charges	$56,648	$0
Litigation expense	$0	$0
Total adjustments to operating expenses	$111,374	$69,229
Non-GAAP operating expense	**$346,016**	**$367,062**

GAAP to non-GAAP reconciliation (continued)

Income from Operations Reconciliation		
($ in thousands)		
	Q3FY23	Q3FY22
GAAP operating income	$103,569	$107,464
Total adjustments related to revenue	$0	$0
Total adjustments related to gross profit	$18,476	$17,321
Total adjustments related to operating expense	$111,374	$69,229
Total adjustments related to income from operations	$129,850	$86,550
Non-GAAP income from operations	**$233,419**	**$194,014**
Non-GAAP operating margin	**33.2%**	**28.8%**
Net Income Reconciliation		
($ in thousands except per share data)		
	Q3FY23	Q3FY22
GAAP net income	$88,976	$83,019
Total adjustments related to revenue	$0	$0
Total adjustments to gross profit	$18,476	$17,321
Total adjustments to operating expenses	$111,374	$69,229
Gain on sale of patent	$0	$0
Exclude tax effect on above items	($25,173)	($14,427)
Tax on deemed repatriation of undistributed foreign earnings	$0	$0
Remeasurement of net deferred tax assets due to change in U.S	$0	$0
Non-recurring foreign tax credit benefit	$0	$0
Total adjustments to net income	$104,677	$72,123
Non-GAAP net income	**$193,653**	**$155,142**
Weighted average basic common shares outstanding	59,977	59,965
Weighted average dilutive potential common shares outstandin	60,314	60,460
	Q3FY23	Q3FY22
GAAP income from operations	$103,569	$107,464
GAAP other income	$2,896	($6,221)
GAAP pre-tax income	$106,465	$101,243
GAAP provision for income taxes	$17,489	$18,224
GAAP effective tax rate	16.4%	18.0%
Non-GAAP income from operations	$233,419	$194,014
Non-GAAP other income	$2,896	($6,221)
Non-GAAP pre-tax income	$236,315	$187,793
Non-GAAP provision for income taxes	$42,662	$32,651
Non-GAAP effective tax rate	18.1%	17.4%
Net Income per Common Share		
GAAP diluted net income per common share	$ 1.48	$ 1.37
Non-GAAP diluted net income per common share	**$ 3.21**	**$ 2.57**

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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