F5 Reports 11% Fourth Quarter Revenue Growth and 11% Fiscal Year Revenue Growth Fueled by Strong Software and Systems Demand

Oct 26, 2021 4:05 PM

SEATTLE--(BUSINESS WIRE)-- F5 Networks, Inc. (NASDAQ: FFIV) today announced financial results for its fiscal fourth quarter and year ended September 30, 2021.

“Our very strong fourth quarter results cap a year of robust financial performance for F5,” said François Locoh-Donou, F5’s President and CEO. “With software revenue representing 45% of product revenue in the fourth quarter, and 80% of this software revenue coming from subscriptions, we continue to mark milestone after milestone in our rapid transformation to a software led business model.”

Locoh-Donou continued, “Skyrocketing application usage and heightened security awareness are driving strong demand for F5 solutions on premises, in the cloud, and across multiple clouds. Our expanded solutions portfolio and vision for enabling Adaptive Applications puts us at the intersection of these strong and sustainable secular trends and positions F5 for continued strong revenue and earnings growth.”

Fiscal Year 2021 Performance Summary

Fiscal year 2021 GAAP revenue was $2.60 billion, up 11% from GAAP revenue of $2.35 billion and 10% from non-GAAP revenue of $2.36 billion in fiscal year 2020. Fiscal year 2021 non-GAAP revenue growth was driven by 21% product revenue growth and 2% global services revenue growth over the prior year. Non-GAAP product revenue growth was driven by 37% software revenue growth and 12% systems revenue growth compared to the year ago period.

GAAP net income for fiscal year 2021 was $331 million, or $5.34 per diluted share compared to fiscal year 2020 GAAP net income of $307 million, or $5.01 per diluted share.

Non-GAAP net income for fiscal year 2021 was $671 million, or $10.81 per diluted share, compared to $575 million, or $9.37 per diluted share, in fiscal year 2020.

Fourth Quarter Performance Summary

Fourth quarter fiscal year 2021 GAAP revenue was $682 million, up 11% from GAAP revenue of $615 million and non-GAAP revenue of $617 million in the fourth quarter of fiscal year 2020. Fourth quarter fiscal year 2021 non-GAAP revenue growth was driven by 21% product revenue growth and 2% global services revenue growth over the prior year. Non-GAAP product revenue was driven by 35% software revenue growth and 12% systems revenue growth compared to the year ago period.

GAAP net income for the fourth quarter of fiscal year 2021 was $111 million, or $1.80 per diluted share compared to fourth quarter fiscal year 2020 GAAP net income of $78 million, or $1.26 per diluted share.
Non-GAAP net income for the fourth quarter of fiscal year 2021 was $185 million, or $3.01 per diluted share, compared to $150 million, or $2.43 per diluted share, in the fourth quarter of fiscal year 2020.

A reconciliation of revenue, net income, earnings per share, and other measures on a GAAP to non-GAAP basis is included in the attached Consolidated Income Statements. Additional information about non-GAAP financial information is included in this release.

**Business Outlook**

For the first quarter of fiscal year 2022 ending December 31, 2021, F5 expects to deliver revenue in the range of $665 million to $685 million, with non-GAAP earnings in the range of $2.71 to $2.83 per diluted share.

For fiscal year 2022, F5 expects to deliver revenue growth of 8% to 9%, including software revenue growth of 35% to 40%.

All forward-looking non-GAAP measures included in the outlook exclude estimates for amortization of intangible assets, share-based compensation expenses, significant effects of tax legislation and judicial or administrative interpretation of tax regulations (including the impact of income tax reform), non-recurring income tax adjustments, valuation allowance on deferred tax assets, and the income tax effect of non-GAAP exclusions, and do not include the impact of any future acquisitions or divestitures, acquisition-related charges and write-downs, restructuring charges, facility exit costs, or other non-recurring charges that may occur in the period. F5 is unable to provide a reconciliation of non-GAAP earnings guidance measures to corresponding U.S. generally accepted accounting principles or GAAP measures on a forward-looking basis without unreasonable effort due to the overall high variability and low visibility of most of the foregoing items that have been excluded. Material changes to any one of these items could have a significant effect on our guidance and future GAAP results. Certain exclusions, such as amortization of intangible assets and share-based compensation expenses, are generally incurred each quarter, but the amounts have historically varied and may continue to vary significantly from quarter to quarter.

**Live Webcast and Conference Call**

F5 will host a live webcast and conference call to review its financial results and outlook today, October 26, 2021, at 4:30 pm ET. The live webcast can be accessed from the investor relations portion of F5.com. To participate in the live call via telephone in the U.S. and Canada, dial (833) 714-0927. Outside the U.S. and Canada, dial +1 (778) 560-2886. Reference Meeting ID 687-9935. Please call at least 5 minutes prior to the call start time. The webcast replay will be archived on the investor relations portion of F5’s website.

**Forward Looking Statements**

This press release contains forward-looking statements including, among other things, statements regarding the continuing strength and momentum of F5’s business, future financial performance including revenue, revenue growth and earnings growth; demand for application security and delivery services, and software products; expectations regarding future customers, markets and the benefits of products; 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; potential disruptions to F5’s business and distraction of management as F5 integrates acquired businesses, teams, and technologies; F5’s ability to successfully integrate acquired businesses’ products with F5 technologies; the ability of F5’s sales professionals and distribution partners to sell acquired businesses’ product 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; potential 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; 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 Reconciliation

F5’s management evaluates and makes operating decisions using various operating measures. These measures are generally based on the revenues of its products, services operations, and certain costs of those operations, such as cost of revenues, research and development, sales and marketing and general and administrative expenses. One such measure is GAAP net income excluding, as applicable, stock-based compensation, amortization of purchased intangible assets, acquisition-related charges, net of taxes, restructuring charges, facility-exit costs, significant litigation and other contingencies and certain non-recurring tax expenses and benefits, which is a non-GAAP financial measure under Section 101 of Regulation G under the Securities Exchange Act of 1934, as amended. This measure of non-GAAP net income is adjusted by the amount of additional taxes or tax benefit that the company would accrue if it used non-GAAP results instead of GAAP results to calculate the company’s tax liability.

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 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 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.

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.

Impairment charges. In fiscal year 2021, F5 recorded impairment charges related to the permanent exit of certain floors at its Seattle headquarters. 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.

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.

For reconciliation of these non-GAAP financial measures to the most directly comparable GAAP financial measures, please see the section in our attached Condensed Consolidated Income Statements entitled “Non-GAAP Financial Measures.”

About F5

F5 (NASDAQ: FFIV) is a multi-cloud application security and delivery company that enables our customers—which include the world’s largest enterprises, financial institutions, service providers, and governments—to bring extraordinary digital experiences to life. For more information, go to f5.com. You can also follow @F5 on Twitter or visit us on LinkedIn and Facebook for more information about F5, its partners, and technologies.

F5 is a trademark, service mark, or tradename of F5 Networks, Inc., in the U.S. and other countries. All other product and company names herein may be trademarks of their respective owners.

Source: F5 Networks

F5 Networks, Inc.
Consolidated Balance Sheets
(unaudited, in thousands)

<table>
<thead>
<tr>
<th></th>
<th>September 30, 2021</th>
<th>September 30, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$580,977</td>
<td>$849,556</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>329,630</td>
<td>360,333</td>
</tr>
</tbody>
</table>


Accounts receivable, net of allowances of $3,696 and $3,105  340,536  296,183

Inventories  22,055  27,898

Other current assets  337,902  259,506

Total current assets  1,611,100  1,793,476

Property and equipment, net  191,164  229,239

Operating lease right-of-use assets  244,934  300,680

Long-term investments  132,778  102,939

Deferred tax assets  128,193  45,173

Goodwill  2,216,553  1,858,966

Other assets, net  472,558  347,447

Total assets  $4,997,280  $4,677,920

Liabilities and Shareholders’ Equity

Current liabilities

Accounts payable  $62,096  $64,472

Accrued liabilities  341,487  321,398

Deferred revenue  968,669  883,134

Current portion of long-term debt  19,275  19,275

Total current liabilities  1,391,527  1,288,279
Deferred tax liabilities 2,414 602
Deferred revenue, long-term 521,173 389,498
Operating lease liabilities, long-term 296,945 338,715
Long-term debt 349,772 369,047
Other long-term liabilities 75,236 59,511
Total long-term liabilities 1,245,540 1,157,373

Commitments and contingencies

Shareholders’ equity
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding - -
Common stock, no par value; 200,000 shares authorized, 60,652 and 61,099 shares issued and outstanding 192,458 305,453
Accumulated other comprehensive loss (20,073 ) (18,716 )
Retained earnings 2,187,828 1,945,531
Total shareholders’ equity 2,360,213 2,232,268

Total liabilities and shareholders’ equity $4,997,280 $4,677,920

F5 Networks, Inc.
Consolidated Income Statements
(unaudited, in thousands, except per share amounts)

\[
\begin{array}{c|cc|cc}
 & \text{Three Months} & & \text{Years Ended} & \\
 & \text{Ended} & & \text{Ended} & \\
 & \text{September 30,} & & \text{September 30,} & \\
 & 2021 & 2020 & 2021 & 2020 \\
\end{array}
\]

Net revenues
<table>
<thead>
<tr>
<th></th>
<th>1Q 2023</th>
<th>2Q 2023</th>
<th>3Q 2023</th>
<th>4Q 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products (1)</strong></td>
<td>$339,921</td>
<td>$278,451</td>
<td>$1,247,084</td>
<td>$1,025,856</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>342,076</td>
<td>336,365</td>
<td>1,356,332</td>
<td>1,324,966</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>681,997</td>
<td>614,816</td>
<td>2,603,416</td>
<td>2,350,822</td>
</tr>
<tr>
<td><strong>Cost of net revenues</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Products</strong></td>
<td>76,992</td>
<td>62,634</td>
<td>286,293</td>
<td>215,275</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>51,686</td>
<td>49,333</td>
<td>206,853</td>
<td>192,612</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>128,678</td>
<td>111,967</td>
<td>493,146</td>
<td>407,887</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>553,319</td>
<td>502,849</td>
<td>2,110,270</td>
<td>1,942,935</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sales and marketing</strong></td>
<td>233,154</td>
<td>220,379</td>
<td>929,983</td>
<td>843,178</td>
</tr>
<tr>
<td><strong>Research and development</strong></td>
<td>124,700</td>
<td>120,300</td>
<td>512,627</td>
<td>441,324</td>
</tr>
<tr>
<td><strong>General and administrative</strong></td>
<td>69,101</td>
<td>63,557</td>
<td>273,635</td>
<td>258,366</td>
</tr>
<tr>
<td><strong>Restructuring charges</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>426,955</td>
<td>404,236</td>
<td>1,716,245</td>
<td>1,550,668</td>
</tr>
<tr>
<td><strong>Income from operations</strong></td>
<td>126,364</td>
<td>98,613</td>
<td>394,025</td>
<td>392,267</td>
</tr>
<tr>
<td><strong>Other income, net</strong></td>
<td>(2,865 )</td>
<td>(1,090 )</td>
<td>(7,088 )</td>
<td>4,130</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>123,499</td>
<td>97,523</td>
<td>386,937</td>
<td>396,397</td>
</tr>
<tr>
<td><strong>Provision for income taxes</strong></td>
<td>12,781</td>
<td>19,860</td>
<td>55,696</td>
<td>88,956</td>
</tr>
<tr>
<td></td>
<td>2022</td>
<td>2021</td>
<td>2020</td>
<td>2019</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------</td>
<td>------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>$110,718</td>
<td>$77,663</td>
<td>$331,241</td>
<td>$307,441</td>
</tr>
<tr>
<td><strong>Net income per share - basic</strong></td>
<td>$1.83</td>
<td>$1.27</td>
<td>$5.46</td>
<td>$5.05</td>
</tr>
<tr>
<td><strong>Weighted average shares - basic</strong></td>
<td>60,526</td>
<td>61,149</td>
<td>60,707</td>
<td>60,911</td>
</tr>
<tr>
<td><strong>Net income per share - diluted</strong></td>
<td>$1.80</td>
<td>$1.26</td>
<td>$5.34</td>
<td>$5.01</td>
</tr>
<tr>
<td><strong>Weighted average shares - diluted</strong></td>
<td>61,606</td>
<td>61,636</td>
<td>62,057</td>
<td>61,378</td>
</tr>
</tbody>
</table>

**Non-GAAP Financial Measures**

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net income as reported</strong></td>
<td>$110,718</td>
<td>$77,663</td>
<td>$331,241</td>
<td>$307,441</td>
</tr>
<tr>
<td><strong>Acquisition-related write-downs of assumed deferred revenue</strong></td>
<td>-</td>
<td>1,963</td>
<td>1,283</td>
<td>6,824</td>
</tr>
<tr>
<td><strong>Stock-based compensation expense</strong></td>
<td>60,522</td>
<td>52,198</td>
<td>243,279</td>
<td>201,949</td>
</tr>
<tr>
<td><strong>Amortization of purchased intangible assets</strong></td>
<td>12,879</td>
<td>10,720</td>
<td>48,722</td>
<td>34,604</td>
</tr>
<tr>
<td><strong>Facility-exit costs</strong></td>
<td>4,057</td>
<td>11,045</td>
<td>14,930</td>
<td>16,601</td>
</tr>
<tr>
<td><strong>Acquisition-related charges</strong></td>
<td>16,867</td>
<td>11,321</td>
<td>86,094</td>
<td>56,483</td>
</tr>
<tr>
<td><strong>Impairment charges</strong></td>
<td>-</td>
<td>-</td>
<td>33,825</td>
<td>-</td>
</tr>
<tr>
<td><strong>Restructuring charges</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>7,800</td>
</tr>
<tr>
<td><strong>Tax effects related to above items</strong></td>
<td>(19,804)</td>
<td>(15,276)</td>
<td>(88,408)</td>
<td>(56,726)</td>
</tr>
</tbody>
</table>

Net income excluding acquisition-related write-downs of assumed deferred revenue, stock-based compensation
expense, amortization of purchased intangible assets, facility-exit costs, acquisition-related charges, impairment charges, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted | $185,239 | $149,634 | $670,966 | $574,976

Net income per share excluding acquisition-related write-downs of assumed deferred revenue, stock-based compensation expense, amortization of purchased intangible assets, facility-exit costs, acquisition-related charges, impairment charges, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted | $3.01 | $2.43 | $10.81 | $9.37

Weighted average shares - diluted | 61,606 | 61,636 | 62,057 | 61,378

(1) GAAP net product revenues | $339,921 | $278,451 | $1,247,084 | $1,025,856

Acquisition-related write-downs of assumed deferred revenue | - | 1,963 | 1,283 | 6,824

Non-GAAP net product revenues | 339,921 | 280,414 | 1,248,367 | 1,032,680

GAAP net service revenues | 342,076 | 336,365 | 1,356,332 | 1,324,966

Acquisition-related write-downs of assumed deferred revenue | - | - | - | -

Non-GAAP net service revenues | 342,076 | 336,365 | 1,356,332 | 1,324,966

Total non-GAAP net revenues | $681,997 | $616,779 | $2,604,699 | $2,357,646

(2) Includes stock-based compensation expense as follows:

Cost of net revenues | $7,204 | $6,776 | $29,107 | $25,470

Sales and marketing | 25,896 | 22,258 | 104,578 | 88,446
<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>17,109</td>
<td>13,367</td>
<td>67,155</td>
<td>50,271</td>
</tr>
<tr>
<td>General and administrative</td>
<td>10,313</td>
<td>9,797</td>
<td>42,439</td>
<td>37,762</td>
</tr>
<tr>
<td></td>
<td><strong>$60,522</strong></td>
<td><strong>$52,198</strong></td>
<td><strong>$243,279</strong></td>
<td><strong>$201,949</strong></td>
</tr>
</tbody>
</table>

(3) Includes amortization of purchased intangible assets as follows:

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of net revenues</td>
<td>$9,468</td>
<td>$7,382</td>
<td>$35,156</td>
<td>$23,814</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>2,836</td>
<td>2,749</td>
<td>11,266</td>
<td>8,612</td>
</tr>
<tr>
<td>General and administrative</td>
<td>575</td>
<td>589</td>
<td>2,300</td>
<td>2,178</td>
</tr>
<tr>
<td></td>
<td><strong>$12,879</strong></td>
<td><strong>$10,720</strong></td>
<td><strong>$48,722</strong></td>
<td><strong>$34,604</strong></td>
</tr>
</tbody>
</table>

(4) Includes facility-exit costs as follows:

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of net revenues</td>
<td>$679</td>
<td>$1,457</td>
<td>$2,605</td>
<td>$2,300</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>1,115</td>
<td>3,272</td>
<td>4,166</td>
<td>5,100</td>
</tr>
<tr>
<td>Research and development</td>
<td>1,309</td>
<td>3,328</td>
<td>4,661</td>
<td>5,257</td>
</tr>
<tr>
<td>General and administrative</td>
<td>954</td>
<td>2,988</td>
<td>3,498</td>
<td>3,944</td>
</tr>
<tr>
<td></td>
<td><strong>$4,057</strong></td>
<td><strong>$11,045</strong></td>
<td><strong>$14,930</strong></td>
<td><strong>$16,601</strong></td>
</tr>
</tbody>
</table>

(5) Includes acquisition-related charges as follows:

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of net revenues</td>
<td>$10</td>
<td>$114</td>
<td>$2,532</td>
<td>$127</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>6,513</td>
<td>4,255</td>
<td>29,726</td>
<td>13,703</td>
</tr>
<tr>
<td>Research and development</td>
<td>5,935</td>
<td>1,511</td>
<td>31,055</td>
<td>2,838</td>
</tr>
</tbody>
</table>
General and administrative

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$4,409</td>
<td>5,441</td>
<td>22,781</td>
<td>39,815</td>
</tr>
</tbody>
</table>

$16,867  $11,321  $86,094  $56,483

(6) Includes impairment charges as follows:

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of net revenues</td>
<td>$-</td>
<td>$-</td>
<td>$4,388</td>
<td>$-</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>-</td>
<td>-</td>
<td>10,256</td>
<td>-</td>
</tr>
<tr>
<td>Research and development</td>
<td>-</td>
<td>-</td>
<td>9,845</td>
<td>-</td>
</tr>
<tr>
<td>General and administrative</td>
<td>-</td>
<td>-</td>
<td>9,336</td>
<td>-</td>
</tr>
</tbody>
</table>

$- $- $33,825 $-

F5 Networks, Inc.
Consolidated Statements of Cash Flows
(unaudited, in thousands)

Years Ended

September 30,
2021  2020

Operating activities

Net income $331,241  $307,441

Adjustments to reconcile net income to net cash provided by operating activities:

Stock-based compensation  243,279  201,948

Depreciation and amortization  115,424  95,857

Non-cash operating lease costs  38,375  39,139
Deferred income taxes  
\[
\begin{array}{ll}
(76,930) & 7,293 \\
\end{array}
\]

Impairment of assets  
\[
\begin{array}{ll}
40,698 & 9,673 \\
\end{array}
\]

Other  
\[
\begin{array}{ll}
737 & 2,122 \\
\end{array}
\]

Changes in operating assets and liabilities:

Accounts receivable  
\[
\begin{array}{ll}
(46,289) & 46,502 \\
\end{array}
\]

Inventories  
\[
\begin{array}{ll}
5,843 & 6,503 \\
\end{array}
\]

Other current assets  
\[
\begin{array}{ll}
(84,328) & (49,895) \\
\end{array}
\]

Other assets  
\[
\begin{array}{ll}
(110,653) & (25,690) \\
\end{array}
\]

Accounts payable and accrued liabilities  
\[
\begin{array}{ll}
22,933 & 34,742 \\
\end{array}
\]

Deferred revenue  
\[
\begin{array}{ll}
216,431 & 35,514 \\
\end{array}
\]

Lease liabilities  
\[
\begin{array}{ll}
(51,565) & (50,251) \\
\end{array}
\]

Net cash provided by operating activities  
\[
\begin{array}{ll}
645,196 & 660,898 \\
\end{array}
\]

**Investing activities**

Purchases of investments  
\[
\begin{array}{ll}
(472,165) & (584,240) \\
\end{array}
\]

Maturities of investments  
\[
\begin{array}{ll}
197,279 & 543,065 \\
\end{array}
\]

Sales of investments  
\[
\begin{array}{ll}
271,521 & 309,687 \\
\end{array}
\]

Acquisition of businesses, net of cash acquired  
\[
\begin{array}{ll}
(411,319) & (955,574) \\
\end{array}
\]

Purchases of property and equipment  
\[
\begin{array}{ll}
(30,651) & (59,940) \\
\end{array}
\]

Net cash used in investing activities  
\[
\begin{array}{ll}
(445,335) & (747,002) \\
\end{array}
\]
**Financing activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from the exercise of stock options and purchases of stock under</td>
<td>65,752</td>
<td>52,835</td>
</tr>
<tr>
<td>employee stock purchase plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repurchase of common stock</td>
<td>(500,000)</td>
<td>(100,016)</td>
</tr>
<tr>
<td>Proceeds from term debt agreement</td>
<td>-</td>
<td>400,000</td>
</tr>
<tr>
<td>Payments on term debt agreement</td>
<td>(20,000)</td>
<td>(10,000)</td>
</tr>
<tr>
<td>Payments for debt issuance costs</td>
<td>-</td>
<td>(3,040)</td>
</tr>
<tr>
<td>Taxes paid related to net share settlement of equity awards</td>
<td>(14,032)</td>
<td>(2,536)</td>
</tr>
<tr>
<td>Net cash provided by (used in) financing activities</td>
<td>(468,280)</td>
<td>337,243</td>
</tr>
<tr>
<td>Net increase in cash, cash equivalents and restricted cash</td>
<td>(268,419)</td>
<td>251,139</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash, cash equivalents and restricted</td>
<td>(74)</td>
<td>(567)</td>
</tr>
<tr>
<td>cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash, beginning of period</td>
<td>852,826</td>
<td>602,254</td>
</tr>
<tr>
<td>Cash, cash equivalents and restricted cash, end of period</td>
<td>584,333</td>
<td>852,826</td>
</tr>
</tbody>
</table>

**Supplemental disclosures of cash flow information**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash paid for taxes, net of refunds ...</td>
<td>99,378</td>
<td>80,236</td>
</tr>
<tr>
<td>Cash paid for amounts included in the measurement of lease liabilities</td>
<td>61,504</td>
<td>60,564</td>
</tr>
<tr>
<td>Cash paid for interest on long-term debt</td>
<td>5,280</td>
<td>6,568</td>
</tr>
</tbody>
</table>

**Supplemental disclosures of non-cash activities**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use assets obtained in exchange for lease obligations</td>
<td>13,051</td>
<td>402,007</td>
</tr>
</tbody>
</table>
Investors
Suzanne DuLong
+1 (206) 272-7049
s.dulong@f5.com

Media
Teri Daley
+1 (469) 939-3712
t.daley@f5.com

Source: F5 Networks, Inc.