UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2023

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number 000-26041

F5, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1714307**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

801 5th Avenue
Seattle, Washington 98104
(Address of principal executive offices and zip code)

(206) 272-5555
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	FFIV	NASDAQ Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer	☑	Accelerated Filer	☐
Non-accelerated Filer	☐ (Do not check if a smaller reporting company)	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The number of shares outstanding of the registrant’s common stock as of January 30, 2024 was 58,806,232.

F5, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended December 31, 2023

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	4
Consolidated Balance Sheets	4
Consolidated Income Statements	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	27
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	27
Item 1A. Risk Factors	27
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 4. Mine Safety Disclosures	29
Item 5. Other Information	29
Item 6. Exhibits	29
SIGNATURES	30

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

F5, INC.

CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands)

	December 31, 2023	September 30, 2023
ASSETS		
Current assets		
Cash and cash equivalents	$ 822,572	$ 797,163
Short-term investments	3,287	6,160
Accounts receivable, net of allowances of $3,879 and $3,561	513,176	454,832
Inventories	35,840	35,874
Other current assets	586,876	554,744
Total current assets	1,961,751	1,848,773
Property and equipment, net	167,113	170,422
Operating lease right-of-use assets	192,174	195,471
Long-term investments	6,170	5,068
Deferred tax assets	307,119	295,308
Goodwill	2,288,678	2,288,678
Other assets, net	425,850	444,613
Total assets	$ 5,348,855	$ 5,248,333
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 60,084	$ 63,315
Accrued liabilities	278,920	282,890
Deferred revenue	1,185,456	1,126,576
Total current liabilities	1,524,460	1,472,781
Deferred tax liabilities	5,210	4,637
Deferred revenue, long-term	644,654	648,545
Operating lease liabilities, long-term	235,001	239,565
Other long-term liabilities	78,553	82,573
Total long-term liabilities	963,418	975,320
Commitments and contingencies (Note 8)		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	—	—
Common stock, no par value; 200,000 shares authorized, 58,797 and 59,207 shares issued and outstanding	18,348	24,399
Accumulated other comprehensive loss	(20,668)	(23,221)
Retained earnings	2,863,297	2,799,054
Total shareholders' equity	2,860,977	2,800,232
Total liabilities and shareholders' equity	$ 5,348,855	$ 5,248,333

The accompanying notes are an integral part of these consolidated financial statements.

F5, INC.

CONSOLIDATED INCOME STATEMENTS
(unaudited, in thousands, except per share amounts)

	Three months ended December 31,	
	2023	2022
Net revenues		
Products	$ 305,859	$ 340,558
Services	386,738	359,820
Total	692,597	700,378
Cost of net revenues		
Products	82,708	98,855
Services	53,681	56,152
Total	136,389	155,007
Gross profit	556,208	545,371
Operating expenses		
Sales and marketing	198,927	233,105
Research and development	119,575	142,323
General and administrative	64,718	69,991
Restructuring charges	8,472	8,740
Total	391,692	454,159
Income from operations	164,516	91,212
Other income, net	9,882	4,702
Income before income taxes	174,398	95,914
Provision for income taxes	36,016	23,512
Net income	$ 138,382	$ 72,402
Net income per share — basic	$ 2.34	$ 1.20
Weighted average shares — basic	59,122	60,096
Net income per share — diluted	$ 2.32	$ 1.20
Weighted average shares — diluted	59,653	60,387

The accompanying notes are an integral part of these consolidated financial statements.

F5, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited, in thousands)

	Three months ended December 31,	
	2023	2022
Net income	$ 138,382	$ 72,402
Other comprehensive income:		
Foreign currency translation adjustment	2,504	2,250
Available-for-sale securities:		
Unrealized gains on securities, net of taxes of $12 and $114 for the three months ended December 31, 2023 and 2022, respectively	49	767
Reclassification adjustment for realized losses included in net income, net of taxes of $0 and $20 for the three months ended December 31, 2023 and 2022, respectively	—	(60)
Net change in unrealized gains and losses on available-for-sale securities, net of tax	49	707
Total other comprehensive income	2,553	2,957
Comprehensive income	$ 140,935	$ 75,359

The accompanying notes are an integral part of these consolidated financial statements.

F5, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited, in thousands)

	Common Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Shareholders' Equity
	Shares	Amount			
	Three months ended December 31, 2022				
Balances, September 30, 2022	59,860	$ 91,048	$ (26,176)	$ 2,404,106	$ 2,468,978
Exercise of employee stock options	14	435	—	—	435
Issuance of stock under employee stock purchase plan	179	21,745	—	—	21,745
Issuance of restricted stock	376	—	—	—	—
Repurchase of common stock	(263)	(40,005)	—	—	(40,005)
Taxes paid related to net share settlement of equity awards	(49)	(7,037)	—	—	(7,037)
Stock-based compensation	—	62,874	—	—	62,874
Net income	—	—	—	72,402	72,402
Other comprehensive income	—	—	2,957	—	2,957
Balances, December 31, 2022	60,117	$ 129,060	$ (23,219)	$ 2,476,508	$ 2,582,349
	Three months ended December 31, 2023				
Balances, September 30, 2023	59,207	$ 24,399	$ (23,221)	$ 2,799,054	$ 2,800,232
Exercise of employee stock options	14	408	—	—	408
Issuance of stock under employee stock purchase plan	188	21,468	—	—	21,468
Issuance of restricted stock	355	—	—	—	—
Repurchase of common stock, including excise taxes	(922)	(77,099)	—	(74,139)	(151,238)
Taxes paid related to net share settlement of equity awards	(45)	(6,830)	—	—	(6,830)
Stock-based compensation	—	56,002	—	—	56,002
Net income	—	—	—	138,382	138,382
Other comprehensive income	—	—	2,553	—	2,553
Balances, December 31, 2023	58,797	$ 18,348	$ (20,668)	$ 2,863,297	$ 2,860,977

The accompanying notes are an integral part of these consolidated financial statements.

F5, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three months ended December 31, 2023	Three months ended December 31, 2022
Operating activities		
Net income	$ 138,382	$ 72,402
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	56,002	62,874
Depreciation and amortization	29,266	27,472
Non-cash operating lease costs	8,392	10,167
Deferred income taxes	(11,203)	(25,070)
Other	722	358
Changes in operating assets and liabilities:		
Accounts receivable	(58,713)	(15,837)
Inventories	34	9,168
Other current assets	(32,164)	(20,602)
Other assets	2,949	(1,252)
Accounts payable and accrued liabilities	(13,447)	(19,981)
Deferred revenue	54,990	68,540
Lease liabilities	(9,892)	(10,608)
Net cash provided by operating activities	165,318	157,631
Investing activities		
Purchases of investments	(1,000)	(680)
Maturities of investments	2,913	63,519
Sales of investments	—	12,167
Purchases of property and equipment	(9,048)	(13,104)
Net cash (used in) provided by investing activities	(7,135)	61,902
Financing activities		
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	21,876	22,180
Payments for repurchase of common stock	(150,018)	(40,005)
Payments on term debt agreement	—	(350,000)
Taxes paid related to net share settlement of equity awards	(6,830)	(7,037)
Net cash used in financing activities	(134,972)	(374,862)
Net increase (decrease) in cash, cash equivalents and restricted cash	23,211	(155,329)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	2,264	3,079
Cash, cash equivalents and restricted cash, beginning of period	800,835	762,207
Cash, cash equivalents and restricted cash, end of period	$ 826,310	$ 609,957
Supplemental disclosures of cash flow information		
Cash paid for amounts included in the measurement of operating lease liabilities	$ 12,982	$ 13,665
Cash paid for interest on long-term debt	—	2,970
Supplemental disclosures of non-cash activities		
Right-of-use assets obtained in exchange for lease obligations	$ 4,846	$ 6,193

The accompanying notes are an integral part of these consolidated financial statements.

F5, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Summary of Significant Accounting Policies

Description of Business

F5, Inc. (the "Company") is a leading provider of multi-cloud application security and delivery solutions which enable its customers to develop, deploy, operate, secure, and govern applications in any architecture, from on-premises to the public cloud. The Company's cloud, software, and hardware solutions enable its customers to deliver digital experiences to their customers faster, reliably, and at scale. The Company's enterprise-grade application services are available as cloud-based, software-as-a-service, and software-only solutions optimized for multi-cloud environments, with modules that can run independently, or as part of an integrated solution on its high-performance appliances. In connection with its solutions, the Company offers a broad range of professional services, including consulting, training, maintenance, and other technical support services.

Basis of Presentation

The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for their fair statement in conformity with accounting principles generally accepted in the United States of America. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

There have been no changes to the Company's significant accounting policies as of and for the three months ended December 31, 2023.

New Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-09 , Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-19"). This ASU requires disclosure of disaggregated income taxes paid, prescribes standard categories for the components of the effective tax rate reconciliation, and modifies other income tax-related disclosures. ASU 2023-09 will be effective for annual periods beginning after December 15, 2024. Early adoption is permitted. This ASU will impact our income tax disclosures, but not our consolidated financial statements.

2. Revenue from Contracts with Customers

Capitalized Contract Acquisition Costs

The table below shows significant movements in capitalized contract acquisition costs (current and noncurrent) for the three months ended December 31, 2023 and 2022 (in thousands):

	Three months ended December 31,	
	2023	2022
Balance, beginning of period	$ 66,468	$ 77,220
Additional capitalized contract acquisition costs	7,287	6,267
Amortization of capitalized contract acquisition costs	(9,114)	(9,687)
Balance, end of period	$ 64,641	$ 73,800

Amortization of capitalized contract acquisition costs was $9.1 million and $9.7 million for the three months ended December 31, 2023 and 2022, respectively, and is recorded in Sales and Marketing expense in the accompanying consolidated income statements. There was no impairment of any capitalized contract acquisition costs during any period presented.

Contract Balances

Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to the Company's contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations, or for contracts with customers that contain the Company's unconditional rights to consideration, for which the customer has not been billed. These liabilities are classified as current and non-current deferred revenue.

The table below shows significant movements in the deferred revenue balances (current and noncurrent) for the three months ended December 31, 2023 and 2022 (in thousands):

	Three months ended December 31,	
	2023	**2022**
Balance, beginning of period	$ 1,775,121	$ 1,691,580
Amounts added but not recognized as revenues	452,697	460,408
Revenues recognized related to the opening balance of deferred revenue	(397,708)	(391,869)
Balance, end of period	$ 1,830,110	$ 1,760,119

Remaining Performance Obligations

Remaining performance obligations represent the amount of the transaction price under contracts with customers that are attributable to performance obligations that are unsatisfied or partially satisfied at the reporting date. The composition of unsatisfied performance obligations consists mainly of deferred service revenue, and to a lesser extent, deferred product revenue, for which the Company has an obligation to perform, and has not yet recognized as revenue in the consolidated financial statements. As of December 31, 2023, the total non-cancelable remaining performance obligations under the Company's contracts with customers was $1.8 billion and the Company expects to recognize revenues on approximately 64.8% of these remaining performance obligations over the next 12 months, 22.4% in year two, and the remaining balance thereafter.

See Note 12, Segment Information, for disaggregated revenue by significant customer and geographic region, as well as disaggregated product revenue by systems and software.

3. Fair Value Measurements

In accordance with the authoritative guidance on fair value measurements and disclosure under GAAP, the Company determines fair value using a fair value hierarchy that distinguishes between market participant assumptions developed based on market data obtained from sources independent of the reporting entity, and the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances and expands disclosure about fair value measurements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date, essentially the exit price.

The levels of fair value hierarchy are:

Level 1: Quoted prices in active markets for identical assets and liabilities at the measurement date that the Company has the ability to access.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs for which there is little or no market data available. These inputs reflect management's assumptions of what market participants would use in pricing the asset or liability.

Level 1 investments are valued based on quoted market prices in active markets and include the Company's cash equivalent investments. Level 2 investments, which include investments that are valued based on quoted prices in markets that are not active, broker or dealer quotations, actual trade data, benchmark yields or alternative pricing sources with reasonable levels of price transparency, include the Company's certificates of deposit, corporate bonds and notes, municipal bonds and notes, U.S. government securities, U.S. government agency securities and international government securities. Fair values for the Company's level 2 investments are based on similar assets without applying significant judgments. In addition, all of the Company's level 2 investments have a sufficient level of trading volume to demonstrate that the fair values used are appropriate for these investments.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Company. The Company considers observable data to be market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The Company's financial assets measured at fair value on a recurring basis subject to the disclosure requirements at December 31, 2023 and September 30, 2023, were as follows (in thousands):

			Gross Unrealized			Classification on Balance Sheet		
December 31, 2023	**Fair Value Level**	**Cost or Amortized Cost**	**Gains**	**Losses**	**Aggregate Fair Value**	**Cash and Cash Equivalents**	**Short-Term Investments**	**Long-Term Investments**
Changes in fair value recorded in other comprehensive income								
Money Market Funds	Level 1	$383,794	$ —	$ —	$383,794	$ 383,794	$ —	$ —
Corporate bonds and notes	Level 2	3,227	—	(40)	3,187	—	3,187	—
Municipal bonds and notes	Level 2	100	—	—	100	—	100	—
Total debt investments		$387,121	$ —	$ (40)	$387,081	$ 383,794	$ 3,287	$ —
Changes in fair value recorded in other net income (expense)								
Equity investments	*				$ 6,170	$ —	$ —	$ 6,170
Total equity investments					6,170	—	—	6,170
Total investments					$393,251	$ 383,794	$ 3,287	$ 6,170

* The fair value of this equity investment is measured at net asset value ("NAV") which approximates fair value and is not classified within the fair value hierarchy.

September 30, 2023	Fair Value Level	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Fair Value	Classification on Balance Sheet: Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
Changes in fair value recorded in other comprehensive income								
Money Market Funds	Level 1	$392,592	$ —	$ —	$392,592	$ 392,592	$ —	$ —
Corporate bonds and notes	Level 2	4,412	—	(88)	4,324	—	4,324	—
Municipal bonds and notes	Level 2	1,108	—	(9)	1,099	—	1,099	—
U.S. government agency securities	Level 2	740	—	(3)	737	—	737	—
Total debt investments		$398,852	$ —	$ (100)	$398,752	$ 392,592	$ 6,160	$ —
Changes in fair value recorded in other net income (expense)								
Equity investments	*				$ 5,068	$ —	$ —	$ 5,068
Total equity investments					5,068	—	—	5,068
Total investments					$403,820	$ 392,592	$ 6,160	$ 5,068

* The fair value of this equity investment is measured at NAV which approximates fair value and is not classified within the fair value hierarchy.

The Company uses the fair value hierarchy for financial assets and liabilities. The carrying amounts of other current financial assets and other current financial liabilities approximate fair value due to their short-term nature.

Interest income from cash and cash equivalents and investments was $7.9 million and $3.2 million for the three months ended December 31, 2023 and 2022, respectively. Interest income is included in other income (expense), net on the Company's consolidated income statements. Unrealized losses on investments held for a period greater than 12 months at December 31, 2023 and September 30, 2023 were not material.

The Company invests in debt securities that are rated investment grade. The Company reviews the individual debt securities in its portfolio to determine whether a credit loss exists by comparing the extent to which the fair value is less than the amortized cost and considering any changes to ratings of a debt security by a ratings agency. The Company determined that as of December 31, 2023, there were no credit losses on any investments within its portfolio.

Assets Measured and Recorded at Fair Value on a Non-Recurring Basis

The Company's non-financial long-lived assets, which include goodwill and other intangible assets, are not required to be carried at fair value on a recurring basis. These non-financial assets are measured at fair value on a non-recurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. The Company reviews goodwill for impairment annually, during the second quarter of each fiscal year, or as circumstances indicate the possibility of impairment. The Company monitors the carrying value of tangible and intangible long-lived assets for impairment whenever events or changes in circumstances indicate its carrying amount may not be recoverable.

The Company did not recognize any impairment charges related to non-financial long-lived assets for the three months ended December 31, 2023 and 2022.

4. Business Combinations

Fiscal Year 2023 Acquisition

In February 2023, the Company acquired Lilac Cloud, Inc. ("Lilac"), a provider of innovative application delivery services. The acquired assets and assumed liabilities of Lilac were not material. The Company recorded $29.4 million of goodwill as a result of the acquisition. The acquisition did not have a material impact to the Company's operating results.

5. Balance Sheet Details

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of the Company's cash and cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total cash, cash equivalents and restricted cash shown in the Company's consolidated statements of cash flows for the periods presented (in thousands):

	December 31, 2023	September 30, 2023
Cash and cash equivalents	$ 822,572	$ 797,163
Restricted cash included in other assets, net	3,738	3,672
Total cash, cash equivalents and restricted cash	$ 826,310	$ 800,835

Inventories

Inventories consist of the following (in thousands):

	December 31, 2023	September 30, 2023
Finished goods	$ 13,453	$ 11,699
Raw materials	22,387	24,175
	$ 35,840	$ 35,874

Other Current Assets

Other current assets consist of the following (in thousands):

	December 31, 2023	September 30, 2023
Unbilled receivables	$ 374,109	$ 374,113
Prepaid expenses	118,167	84,506
Capitalized contract acquisition costs	30,911	31,206
Other[1]	63,689	64,919
	$ 586,876	$ 554,744

(1) As of December 31, 2023 and September 30, 2023, includes a deposit of $34.1 million and $36.2 million, respectively, used to support the working capital needs of the Company’s primary contract manufacturer's procurement of components used in the manufacturing of system hardware.

Other Assets

Other assets, net consist of the following (in thousands):

	December 31, 2023	September 30, 2023
Intangible assets	$ 136,425	$ 150,969
Unbilled receivables	200,135	202,838
Capitalized contract acquisition costs	33,730	35,263
Other	55,560	55,543
	$ 425,850	$ 444,613

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	December 31, 2023	September 30, 2023
Payroll and benefits	$ 129,658	$ 152,898
Operating lease liabilities, current	41,308	41,421
Income and other tax accruals	55,448	34,504
Other	52,506	54,067
	$ 278,920	$ 282,890

Other Long-term Liabilities

Other long-term liabilities consist of the following (in thousands):

	December 31, 2023	September 30, 2023
Income taxes payable	$ 69,274	$ 73,751
Other	9,279	8,822
	$ 78,553	$ 82,573

6. Debt Facilities

Term Credit Agreement

In connection with the acquisition of Shape, on January 24, 2020, the Company entered into a Term Credit Agreement ("Term Credit Agreement") with certain institutional lenders that provides for a senior unsecured term loan facility in an aggregate principal amount of $400.0 million (the "Term Loan Facility"). The Term Loan Facility had an original maturity date of January 24, 2023 with quarterly installments equal to 1.25% of the original principal amount. Borrowings under the Term Loan Facility bore interest at a rate equal to LIBOR, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio. The proceeds from the Term Loan Facility were primarily used to finance the acquisition of Shape and related expenses. In connection with the Term Loan Facility, the Company incurred $2.2 million in debt issuance costs, which were recorded as a reduction to the carrying value of the principal amount of the debt.

On December 15, 2022, the Company voluntarily prepaid, in full, all borrowings under the Term Loan Facility, including the outstanding principal balance of $350.0 million, and all accrued, but unpaid interest outstanding of $3.0 million. All remaining debt issuance costs were amortized to interest expense associated with the prepayment. As a result of the payoff of its Term Loan Facility, the Company was released of any and all obligations, maintenance of covenants, and indebtedness under the Term Credit Agreement. The weighted average interest rate on the principal amount under the Term Loan Facility outstanding balance was 4.072% for the period of October 1, 2022 to December 15, 2022.

Revolving Credit Agreement

On January 31, 2020, the Company entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). The Company has the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. Historically, borrowings under the Revolving Credit Facility bore interest at a rate equal to, at the Company's option, (a) LIBOR, adjusted for customary statutory reserves, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio, or (b) an alternate base rate determined in accordance with the Revolving Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on the Company's leverage ratio. On May 26, 2023, the Company amended the Revolving Credit Agreement as a result of the cessation of the LIBOR borrowing reference rate. The amendment modified and directly replaced the LIBOR borrowing reference rate within the Revolving Credit Agreement to the Secured Overnight Financing Rate ("SOFR"). After the amendment, borrowings under the Revolving Credit Facility bear interest at a rate equal to, at the Company's option, (a) SOFR plus 0.10%, plus an applicable margin of 1.125% to 1.75% depending on the Company's leverage ratio, or (b) an alternate base rate determined in accordance with the Revolving Credit Agreement, plus an applicable margin of 0.125% to 0.750% depending on the Company's leverage ratio. The Revolving Credit Agreement also requires payment of a commitment fee calculated at a rate per annum of 0.125% to 0.300% depending on the Company's leverage ratio on the undrawn portion of the Revolving Credit Facility. Commitment fees incurred during the three months ended December 31, 2023 were not material.

The Revolving Credit Facility matures on January 31, 2025, at which time any remaining outstanding principal of borrowings under the Revolving Credit Facility is due. The Company has the option to request up to two extensions of the maturity date in each case for an additional period of one year. Among certain affirmative and negative covenants provided in the Revolving Credit Agreement, there is a financial covenant that requires the Company to maintain a leverage ratio, calculated as of the last day of each fiscal quarter, of consolidated total indebtedness to consolidated EBITDA. As of December 31, 2023, the Company was in compliance with all covenants. As of December 31, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and the Company had available borrowing capacity of $350.0 million.

7. Leases

The majority of the Company's operating lease payments relate to its corporate headquarters in Seattle, Washington, which includes approximately 515,000 square feet of office space. The lease commenced in April 2019 and expires in 2033 with an option for renewal. The Company also leases additional office and lab space for product development and sales and support personnel in the United States and internationally. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of the Company's operating lease expenses for the three months ended December 31, 2023 and 2022 were as follows (in thousands):

	Three months ended December 31,	
	2023	2022
Operating lease expense	$ 10,326	$ 12,516
Short-term lease expense	695	655
Variable lease expense	6,034	5,336
Total lease expense	$ 17,055	$ 18,507

Variable lease expense primarily consists of common area maintenance, real estate taxes and parking expenses.

Supplemental balance sheet information related to the Company's operating leases was as follows (in thousands, except lease term and discount rate):

	December 31, 2023	September 30, 2023
Operating lease right-of-use assets, net	$ 192,174	$ 195,471
Operating lease liabilities, current[1]	41,308	41,421
Operating lease liabilities, long-term	235,001	239,565
Total operating lease liabilities	$ 276,309	$ 280,986
Weighted average remaining lease term (in years)	8.4	8.6
Weighted average discount rate	2.83 %	2.77 %

(1) Current portion of operating lease liabilities is included in accrued liabilities on the Company's consolidated balance sheets.

As of December 31, 2023, the future operating lease payments for each of the next five years and thereafter is as follows (in thousands):

Fiscal Years Ending September 30:	Operating Lease Payments
2024 (remainder)	$ 37,126
2025	42,542
2026	33,010
2027	31,740
2028	29,553
2029	26,721
Thereafter	112,351
Total lease payments	313,043
Less: imputed interest	(36,734)
Total lease liabilities	$ 276,309

Operating lease liabilities above do not include sublease income. As of December 31, 2023, the Company expects to receive sublease income of approximately $12.8 million, which consists of $5.4 million to be received for the remainder of fiscal 2024 and $7.4 million to be received over the two fiscal years thereafter.

As of December 31, 2023, the Company had no significant operating leases that were executed but not yet commenced.

8. Commitments and Contingencies

Guarantees and Product Warranties

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, resellers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. The Company has entered into indemnification agreements with its officers and directors and certain other employees, and the Company's bylaws contain similar indemnification obligations to the Company's agents. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

The Company offers warranties of one year for its systems product offerings. Additional warranty coverage can be purchased by customers through service maintenance agreements in yearly increments. The Company accrues for warranty costs as part of its cost of sales based on associated material product costs and technical support labor costs. Accrued warranty costs as of December 31, 2023 and September 30, 2023 were not material.

Commitments

In October 2022, the Company entered into an unconditional purchase commitment with one of its suppliers for the delivery of systems components. Under the terms of the agreement, the Company is obligated to purchase $10.0 million of component inventory annually, with a total committed amount of $40.0 million over a four-year term. As of December 31, 2023, the Company had $0.2 million of remaining purchase commitments under the second year of the agreement. The Company's total non-cancelable long-term purchase commitments outstanding as of December 31, 2023 was $20.2 million.

The Company leases its facilities under operating leases that expire at various dates through 2033. There have been no material changes in the Company's lease obligations compared to those discussed in Note 7 to its annual consolidated financial statements.

Legal Proceedings

Lynwood Investment CY Limited v. F5 Networks et al.

On June 8, 2020, Lynwood Investment CY Limited (“Lynwood”) filed a lawsuit in the United States District Court for the Northern District of California against the Company and certain affiliates, along with other defendants. In its complaint, Lynwood claims to be the assignee of all rights and interests of Rambler Internet Holding LLC (“Rambler”), and alleges that the intellectual property in the NGINX software originally released by the co-founder of NGINX in 2004 belongs to Rambler (and therefore Lynwood, by assignment) because the software was created and developed while the co-founder was employed by Rambler. Lynwood asserted 26 causes of action against the various defendants, including copyright infringement, violation of trademark law, tortious interference, conspiracy, and fraud. The complaint sought damages, disgorgement of profits, declarations of copyright and trademark ownership, trademark cancellations, and injunctive relief. Lynwood also initiated several trademark opposition and cancellation proceedings before the Trademark Trial and Appeal Board of the United States Patent and Trademark Office, which have all since been suspended.

In August and October 2020, the Company and the other defendants filed motions to dismiss Lynwood’s case. On March 25 and 30, 2021, the Court granted the Company’s and the other defendants’ motions to dismiss with leave to amend. Lynwood filed its amended complaint on April 29, 2021, seeking the same relief against the Company and other defendants. On May 27, 2021, the Company and other defendants filed a consolidated motion to dismiss.

The Court granted the consolidated motion to dismiss without leave to amend on August 16, 2022 and entered final judgment against Lynwood on September 9, 2022. On September 14, 2022, Lynwood filed a notice of appeal to the Ninth Circuit Court of Appeals to appeal the dismissal. Lynwood filed its opening brief on December 16, 2022. The Company filed its opening appellate brief on April 10, 2023, and Lynwood filed its reply on May 31, 2023. Following the Court’s order granting the consolidated motion to dismiss and final judgment in the Company’s favor, the Court subsequently granted the Company attorneys' fees of over $0.8 million, which Lynwood appealed to the Ninth Circuit Court of Appeals. The dismissal appeal and the fees appeal were heard by the Ninth Circuit Court of Appeals on December 7, 2023. The Court of Appeals has not yet ruled on the appeals.

In addition to the above matters, the Company is subject to a variety of legal proceedings, claims, investigations, and litigation arising in the ordinary course of business, including intellectual property litigation. Management believes that the Company has meritorious defenses to the allegations made in its pending cases and intends to vigorously defend these lawsuits; however, the Company is unable to currently determine if an unfavorable outcome is probable or estimate any potential amount or range of possible loss of these or similar matters. There are many uncertainties associated with any litigation and these actions or other third-party claims against the Company may cause it to incur costly litigation and/or substantial settlement charges that could have a material adverse effect on the Company's business, financial condition, results of operations, and cash flows.

The Company records an accrual for loss contingencies for legal proceedings when it believes that an unfavorable outcome is both (a) probable and (b) the amount or range of any possible loss is reasonably estimable. The Company has not recorded any accrual for loss contingencies associated with such legal proceedings or the investigations discussed above.

9. Income Taxes

The Company's tax provision for interim periods is determined using an estimated annual effective tax rate, adjusted for discrete items in the related period.

The effective tax rate was 20.7% and 24.5% for the three months ended December 31, 2023 and 2022, respectively. The decrease in the effective tax rate for the three months ended December 31, 2023 as compared to the three months ended December 31, 2022 is primarily due to the tax impact of stock-based compensation and foreign operations.

At December 31, 2023, the Company had $73.8 million of unrecognized tax benefits that, if recognized, would affect the effective tax rate. It is anticipated that the Company’s existing liabilities for unrecognized tax benefits will change within the next twelve months due to audit settlements or the expiration of statutes of limitations. The Company does not expect these changes to be material to the consolidated financial statements. The Company recognizes interest and, if applicable, penalties for any uncertain tax positions as a component of income tax expense.

The Company and its subsidiaries are subject to U.S. federal income tax as well as the income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal income tax matters for fiscal years through September 30, 2018. Major jurisdictions where there are wholly owned subsidiaries of F5, Inc. which require income tax filings include the United Kingdom, Singapore, Israel, and India. The earliest periods open for review by local taxing authorities are fiscal years 2022 for the United Kingdom, 2019 for Singapore, 2013 for Israel, and 2018 for India. The Company is under audit by the

Internal Revenue Service for fiscal year 2019, by various states for fiscal years 2015 through 2022, and by various foreign jurisdictions including India for fiscal years 2018 to 2022, Israel for fiscal years 2013 to 2017, Saudi Arabia for fiscal years 2015 to 2020, and Singapore for fiscal years 2019 to 2020.

10. Shareholders' Equity

Common Stock Repurchase

On July 25, 2022, the Company announced that its Board of Directors authorized an additional $1.0 billion for its common stock share repurchase program. This authorization is incremental to the existing $5.4 billion program, initially approved in October 2010 and expanded in subsequent fiscal years. Acquisitions for the share repurchase programs will be made from time to time in private transactions, accelerated share repurchase programs, or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time.

The following table summarizes the Company's repurchases and retirements of its common stock under its Stock Repurchase Program (in thousands, except per share data):

	Three months ended December 31,	
	2023	2022
Shares repurchased	922	263
Average price per share	$ 162.67	$ 151.87
Amount repurchased	$ 150,018	$ 40,005

As of December 31, 2023, the Company had $772.4 million remaining authorized to purchase shares under its share repurchase program.

11. Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing net income by the weighted average number of common and dilutive common stock equivalent shares outstanding during the period. The Company's nonvested restricted stock units do not have nonforfeitable rights to dividends or dividend equivalents and are not considered participating securities that should be included in the computation of earnings per share under the two-class method.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Three months ended December 31,	
	2023	2022
Numerator		
Net income	$ 138,382	$ 72,402
Denominator		
Weighted average shares outstanding — basic	59,122	60,096
Dilutive effect of common shares from stock options and restricted stock units	531	291
Weighted average shares outstanding — diluted	59,653	60,387
Basic net income per share	$ 2.34	$ 1.20
Diluted net income per share	$ 2.32	$ 1.20

Anti-dilutive stock-based awards excluded from the calculations of diluted earnings per share were not material for the three months ended December 31, 2023 and 2022.

12. Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Management has determined that the Company is organized as, and operates in, one reportable operating segment.

Revenues by Geographic Location and Other Information

The Company does business in three main geographic regions: the Americas (primarily the United States); Europe, the Middle East, and Africa ("EMEA"); and the Asia Pacific region ("APAC"). The Company's chief operating decision-maker reviews financial information presented on a consolidated basis accompanied by information about net product revenues and revenues by geographic region. The Company's foreign offices conduct sales, marketing and support activities. Revenues are attributed by geographic location based on the location of the customer.

The following presents revenues by geographic region (in thousands):

	Three months ended December 31,	
	2023	2022
Americas:		
United States	$ 350,075	$ 375,748
Other	26,315	26,410
Total Americas	376,390	402,158
EMEA	193,363	184,115
APAC	122,844	114,105
	$ 692,597	$ 700,378

The Company continues to offer its products through a range of consumption models, from physical systems to software solutions and managed services. The following presents net product revenues by systems and software (in thousands):

	Three months ended December 31,	
	2023	2022
Net product revenues		
Systems revenue	$ 135,373	$ 173,032
Software revenue	170,486	167,526
Total net product revenue	$ 305,859	$ 340,558

The following distributors of the Company's products accounted for more than 10% of total net revenue:

	Three months ended December 31,	
	2023	2022
Ingram Micro, Inc.	15.3 %	17.6 %
Synnex Corporation	15.6 %	13.6 %

The Company tracks assets by physical location. Long-lived assets consist of property and equipment, net, and are shown below (in thousands):

	December 31, 2023	September 30, 2023
Americas:		
United States	$ 122,184	$ 125,736
Other	2,349	2,592
Total Americas	124,533	128,328
EMEA	25,109	24,336
APAC	17,471	17,758
	$ 167,113	$ 170,422

13. Restructuring Charges

In the first quarter of fiscal 2024, the Company initiated a restructuring plan to match strategic and financial objectives and optimize resources for long term growth, including a reduction in force program. The Company recorded a restructuring charge of $9.8 million and does not expect to record any significant future charges related to the first quarter of fiscal 2024 restructuring plan.

In the third quarter of fiscal 2023, the Company initiated a restructuring plan to better align strategic and financial objectives, optimize operations, and drive efficiencies for long-term growth and profitability, including a reduction in force affecting approximately 620 employees, or approximately 9% of the Company's global workforce as of April 19, 2023. This included $53.2 million in severance benefits costs and related employer payroll taxes, and $3.5 million in charges related to the reduction of its leased facility space. The Company incurred $56.7 million in restructuring costs and did not record any significant subsequent charges related to the third quarter of fiscal 2023 restructuring plan.

In the first quarter of fiscal 2023, the Company initiated a restructuring plan to match strategic and financial objectives and optimize resources for long term growth, including a reduction in force program. The Company recorded a restructuring charge of $8.7 million and did not record any significant subsequent charges related to the first quarter of fiscal 2023 restructuring plan.

During the three months ended December 31, 2023 and 2022, the following activity was recorded (in thousands):

	Three months ended December 31,	
	2023	2022
Employee Severance, Benefits and Related Costs		
Accrued expenses, beginning of period	$ 3,496	$ —
Restructuring charges[1]	8,472	8,740
Cash payments	(9,510)	(6,354)
Accrued expenses, end of period	$ 2,458	$ 2,386

(1) Includes relief of unused benefits and foreign currency fluctuations.

Charges related to employee severance, benefits, and related costs are reflected in the restructuring charges line item on the Company's consolidated income statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. These statements include, but are not limited to, statements about our plans, objectives, expectations, strategies, intentions or other characterizations of future events or circumstances and are generally identified by the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions. These forward-looking statements are based on current information and expectations and are subject to a number of risks and uncertainties. Our actual results could differ materially from those expressed or implied by these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A. "Risk Factors" herein and in other documents we file from time to time with the Securities and Exchange Commission. We assume no obligation to revise or update any such forward-looking statements.

Overview

F5 is a leading provider of multi-cloud application security and delivery solutions which enable our customers to develop, deploy, operate, secure, and govern applications in any architecture, from on-premises to the public cloud. Our enterprise-grade application services are available as cloud-based, software-as-a-service, and software-only solutions optimized for multi-cloud environments, with modules that can run independently, or as part of an integrated solution on our high-performance appliances. We market and sell our products primarily through multiple indirect sales channels in the Americas; Europe, the Middle East, and Africa ("EMEA"); and the Asia Pacific region ("APAC"). Enterprise customers (Fortune 1000 or Business Week Global 1000 companies) in the technology, telecommunications, financial services, transportation, education, manufacturing, and health care industries, along with government customers, continue to make up the largest percentage of our customer base.

Our management team monitors and analyzes a number of key performance indicators in order to manage our business and evaluate our financial and operating performance on a consolidated basis. Those indicators include:

- *Revenues.* Our revenue is derived from the sales of both global services and products. Our global services revenue includes annual maintenance contracts, training and consulting services. The majority of our product revenues are derived from sales of our application security and delivery solutions including our BIG-IP software and systems, F5 NGINX software, and our F5 Distributed Cloud Services offerings. Our BIG-IP software solutions are sold both on a perpetual license and a subscription basis. We sell F5 NGINX on a subscription basis. F5 Distributed Cloud Services provides security, multi-cloud networking, and edge-based computing solutions, encompassing software solutions from what were previously branded as our Shape, Volterra, and Silverline product offerings. F5 Distributed Cloud Services are offered on a subscription basis, under a unified software-as-a-service ("SaaS") platform.

  We monitor the sales mix of our revenues within each reporting period. We believe customer acceptance rates of our new products, feature enhancements and consumption models are indicators of future trends. We also consider overall revenue concentration by geographic region as an additional indicator of current and future trends. In fiscal 2023 and into the first quarter of fiscal 2024, continued customer budget constraints brought on by uncertainties in the macroeconomic environment have led to delays in customer purchase decisions. The impact of these buying patterns led to softer demand for both our software and systems products and services. We believe the current demand environment is temporary based on several factors, notably the fact that demand for our products and services stems from the growth of applications and APIs. In addition, our stronger than normal maintenance renewals signal delays in purchases as customers extend their maintenance contracts over the products they currently own. We believe this softer demand for new products is brought on by the current macroeconomic uncertainties and related customer budget constraints, rather than architectural shifts or losses to competitors. We will continue to closely monitor the macroeconomic environment and its impacts on our business.

- *Cost of revenues and gross margins.* We strive to control our cost of revenues and thereby maintain our gross margins. Significant items impacting cost of revenues are hardware costs paid to our contract manufacturers, third-party software license fees, software-as-a-service infrastructure costs, amortization of developed technology and personnel and overhead expenses. In addition, factors such as sales price, product and services mix, inventory obsolescence, returns, component price increases, warranty costs, and global supply chain constraints could significantly impact our gross margins.

- *Operating expenses.* Operating expenses are substantially driven by personnel and related overhead expenses. Existing headcount and future hiring plans are the predominant factors in analyzing and forecasting future operating expense trends. Other significant operating expenses that we monitor include marketing and promotions, travel, professional fees, computer costs related to the development of new products and provision of services, facilities and depreciation expenses.

- *Liquidity and cash flows.* Our financial condition remains strong with significant cash and investments. The increase in cash and investments for the first three months of fiscal year 2024 was primarily due to cash provided by operating activities of $165.3 million, largely offset by $150.0 million of cash used to repurchase outstanding common stock under our stock repurchase program. Going forward, we believe the primary driver of cash flows will be net income from operations. We will continue to evaluate possible acquisitions of, or investments in businesses, products, or technologies that we believe are strategic, which may require the use of cash. Additionally, on January 31, 2020, we entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). We have the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. As of December 31, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and we had available borrowing capacity of $350.0 million.

- *Balance sheet.* We view cash, short-term and long-term investments, deferred revenue, accounts receivable balances and days sales outstanding as important indicators of our financial health. Deferred revenues continued to increase in the first quarter of fiscal year 2024 primarily due to an increase in maintenance renewal contracts related to our existing product installation base. Our days sales outstanding for the first quarter of fiscal year 2024 was 67. Days sales outstanding is calculated by dividing ending accounts receivable by revenue per day for a given quarter.

Summary of Critical Accounting Policies and Estimates

The preparation of our financial condition and results of operations requires us to make judgments and estimates that may have a significant impact upon our financial results. We believe that, of our significant accounting policies, revenue recognition requires estimates and assumptions that require complex, subjective judgments by management, which can materially impact reported results. Actual results may differ from these estimates under different assumptions or conditions.

There were no material changes to our critical accounting policies and estimates compared to the critical accounting policies and estimates described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10-K for the fiscal year ended September 30, 2023. Refer to the "New Accounting Pronouncements" section of Note 1 in this Quarterly Report on Form 10-Q for a summary of the new accounting policies.

Impact of Current Macroeconomic Conditions

Our overall performance depends in part on worldwide economic and geopolitical conditions and their impacts on customer behavior. Uncertain economic conditions, including inflation, higher interest rates, slower growth, fluctuations in foreign exchange rates, and other changes in economic conditions, may adversely affect our results of operations and financial performance. For further discussion of the potential impacts of recent macroeconomic events on our business, financial condition, and operating results, see Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

Results of Operations

The following discussion and analysis should be read in conjunction with our consolidated financial statements, related notes and risk factors included elsewhere in this Quarterly Report on Form 10-Q.

	Three months ended December 31,	
	2023	2022
	(in thousands, except percentages)	
Net revenues		
Products	$ 305,859	$ 340,558
Services	386,738	359,820
Total	$ 692,597	$ 700,378
Percentage of net revenues		
Products	44.2 %	48.6 %
Services	55.8	51.4
Total	100.0 %	100.0 %

Net Revenues. Total net revenues decreased 1.1% for the three months ended December 31, 2023, from the comparable period in the prior year. The decrease in total net revenues was primarily due to a decrease in product revenues associated with systems, partially offset by an increase in service revenues, primarily due to an increase in the renewal of maintenance contracts on existing perpetual assets held by customers. Revenues outside of the United States represented 49.5% of total net revenues for the three months ended December 31, 2023, compared to 46.4% for the same period in the prior year.

Net Product Revenues. Net product revenues decreased 10.2% for the three months ended December 31, 2023, from the comparable period in the prior year. The decrease in net product revenues was primarily due to a decrease in systems sales, partially offset by an increase in software revenue primarily from packaged software sales.

The following presents net product revenues by systems and software (in thousands):

	Three months ended December 31,	
	2023	2022
Net product revenues		
Systems revenue	$ 135,373	$ 173,032
Software revenue	170,486	167,526
Total net product revenue	$ 305,859	$ 340,558
Percentage of net product revenues		
Systems revenue	44.3 %	50.8 %
Software revenue	55.7	49.2
Total net product revenue	100.0 %	100.0 %

Software Revenues. As a component of net product revenues, software revenues increased 1.8% for the three months ended December 31, 2023, from the comparable period in the prior year.

Net Service Revenues. Net service revenues increased 7.5% for the three months ended December 31, 2023, from the comparable period in the prior year. The increase in service revenues was the result of the renewal of maintenance agreements associated with perpetual offerings as customers continue to utilize their assets for longer periods of time.

The following distributors of our products accounted for more than 10% of total net revenue:

	Three months ended December 31,	
	2023	2022
Ingram Micro, Inc.	15.3 %	17.6 %
Synnex Corporation	15.6 %	13.6 %

The following distributors of our products accounted for more than 10% of total receivables:

	December 31, 2023	September 30, 2023
Synnex Corporation	12.9 %	16.0 %
Carahsoft Technology Corporation	—	10.1 %
Arrow Electronics, Inc.	10.6 %	—

No other distributors accounted for more than 10% of total net revenue or receivables.

	Three months ended December 31,	
	2023	2022
	(in thousands, except percentages)	
Cost of net revenues and gross profit		
Products	$ 82,708	$ 98,855
Services	53,681	56,152
Total	136,389	155,007
Gross profit	$ 556,208	$ 545,371
Percentage of net revenues and gross margin (as a percentage of related net revenue)		
Products	27.0 %	29.0 %
Services	13.9	15.6
Total	19.7	22.1
Gross margin	80.3 %	77.9 %

Cost of Net Product Revenues. Cost of net product revenues consists of finished products purchased from our contract manufacturers, manufacturing overhead, freight, warranty, provisions for excess and obsolete inventory, software-as-a-service infrastructure costs and amortization expenses in connection with developed technology from acquisitions. Cost of net product revenues decreased $16.1 million, or 16.3% for the three months ended December 31, 2023, from the comparable period in the prior year primarily due to a decrease in systems revenue.

Cost of Net Service Revenues. Cost of net service revenues consists of the salaries and related benefits of our professional services staff, travel, facilities and depreciation expenses. For the three months ended December 31, 2023, cost of net service revenues as a percentage of net service revenues was 13.9%, compared to 15.6% for the comparable period in the prior year. Professional services headcount at the end of December 2023 decreased to 1,049 from 1,082 at the end of December 2022.

	Three months ended December 31,	
	2023	2022
	(in thousands, except percentages)	
Operating expenses		
Sales and marketing	$ 198,927	$ 233,105
Research and development	119,575	142,323
General and administrative	64,718	69,991
Restructuring charges	8,472	8,740
Total	$ 391,692	$ 454,159
Operating expenses (as a percentage of net revenue)		
Sales and marketing	28.7 %	33.3 %
Research and development	17.3	20.3
General and administrative	9.4	10.0
Restructuring charges	1.2	1.2
Total	56.6 %	64.8 %

Sales and Marketing. Sales and marketing expenses consist of salaries, commissions and related benefits of our sales and marketing staff, the costs of our marketing programs, including public relations, advertising and trade shows, travel, facilities, and depreciation expenses. Sales and marketing expenses decreased $34.2 million, or 14.7% for the three months ended December 31, 2023, from the comparable period in the prior year. The decrease in sales and marketing expenses for the three months ended December 31, 2023 was primarily due to a decrease of $20.6 million in personnel costs from the comparable period in the prior year. In addition, commissions for the three months ended December 31, 2023 decreased $5.9 million from the comparable period in the prior year. Sales and marketing headcount at the end of December 2023 decreased to 2,154 from 2,490 at the end of December 2022. Sales and marketing expenses included stock-based compensation expense of $21.6 million for the three months ended December 31, 2023, compared to $25.7 million for the same period in the prior year.

Research and Development. Research and development expenses consist of the salaries and related benefits of our product development personnel, prototype materials and other expenses related to the development of new and improved products, facilities and depreciation expenses. Research and development expenses decreased $22.7 million, or 16.0% for the three months ended December 31, 2023, from the comparable period in the prior year. The decrease in research and development expenses for the three months ended December 31, 2023 was primarily due to a decrease of $18.1 million in personnel costs from the comparable period in the prior year. Research and development headcount at the end of December 2023 decreased to 1,986 from 2,165 at the end of December 2022. Research and development expenses included stock-based compensation expense of $16.0 million for the three months ended December 31, 2023, compared to $18.5 million for the same period in the prior year.

General and Administrative. General and administrative expenses consist of the salaries, benefits and related costs of our executive, finance, information technology, human resource and legal personnel, third-party professional service fees, facilities and depreciation expenses. General and administrative expenses decreased $5.3 million, or 7.5% for the three months ended December 31, 2023, from the comparable period in the prior year. The decrease in general and administrative expenses for the three months ended December 31, 2023 was primarily due to a decrease of $2.3 million in personnel costs from the comparable period in the prior year. In addition, expenses for professional services decreased $2.1 million for the three months ended December 31, 2023 from the comparable period in the prior year. General and administrative headcount at the end of December 2023 decreased to 882 from 959 at the end of December 2022. General and administrative expenses included stock-based compensation expense of $10.7 million for the three months ended December 31, 2023, compared to $11.0 million for the same period in the prior year.

Restructuring Charges. In the first fiscal quarters of 2024 and 2023, we completed restructuring plans to align strategic and financial objectives and optimize resources for long term growth. As a result of our restructuring initiatives, we recorded charges of $8.5 million and $8.7 million, net of adjustments, related to reductions in workforce that are reflected in our results for the three months ended December 31, 2023 and December 31, 2022, respectively.

	Three months ended December 31,	
	2023	2022
	(in thousands, except percentages)	
Other income and income taxes		
Income from operations	$ 164,516	$ 91,212
Other income, net	9,882	4,702
Income before income taxes	174,398	95,914
Provision for income taxes	36,016	23,512
Net income	$ 138,382	$ 72,402
Other income and income taxes (as percentage of net revenue)		
Income from operations	23.8 %	13.0 %
Other income, net	1.4	0.7
Income before income taxes	25.2	13.7
Provision for income taxes	5.2	3.4
Net income	20.0 %	10.3 %

Other Income, Net. Other income, net consists primarily of interest income and expense and foreign currency transaction gains and losses. The increase in other income, net for the three months ended December 31, 2023 was primarily due to an increase in interest income from our investments of $4.6 million, and a decrease in interest expense of $3.3 million from the comparable period in the prior year. The increase in other income, net for the three months ended December 31, 2023 was partially offset by a decrease in foreign currency gains of $2.4 million from the comparable period in the prior year.

Provision for Income Taxes. The effective tax rate was 20.7% and 24.5% for the three months ended December 31, 2023 and 2022, respectively. The decrease in the effective tax rate for the three months ended December 31, 2023 as compared to the three months ended December 31, 2022 is primarily due to the tax impact of stock-based compensation and foreign operations.

We record a valuation allowance to reduce our deferred tax assets to the amount we believe is more likely than not to be realized. In making these determinations we consider historical and projected taxable income, and ongoing prudent and feasible tax planning strategies in assessing the appropriateness of a valuation allowance. Our net deferred tax assets at December 31, 2023 and September 30, 2023 were $301.9 million and $290.7 million, respectively. The net deferred tax assets include valuation allowances of $44.0 million as of December 31, 2023 and $43.9 million as of September 30, 2023, which are primarily related to certain state and foreign net operating losses and tax credit carryforwards.

Our worldwide effective tax rate may fluctuate based on a number of factors, including variations in projected taxable income in the various geographic locations in which we operate, the impact of stock-based compensation, changes in the valuation of our net deferred tax assets, resolution of potential exposures, tax positions taken on tax returns filed in the various geographic locations in which we operate, and the introduction of new accounting standards or changes in tax laws or interpretations thereof in the various geographic locations in which we operate. We have recorded liabilities to address potential tax exposures related to business and income tax positions we have taken that could be challenged by taxing authorities. The ultimate resolution of these potential exposures may be greater or less than the liabilities recorded which could result in an adjustment to our future tax expense.

Liquidity and Capital Resources

Cash and cash equivalents, short-term investments and long-term investments totaled $832.0 million as of December 31, 2023, compared to $808.4 million as of September 30, 2023, representing an increase of $23.6 million. The increase was primarily due to cash provided by operating activities of $165.3 million for the three months ended December 31, 2023. The increase in cash and investments for the first quarter of fiscal 2024 was partially offset by cash used for the repurchase of common stock during the three months ended December 31, 2023 of $150.0 million.

Cash provided by operating activities for the first three months of fiscal year 2024 resulted from net income of $138.4 million combined with changes in operating assets and liabilities, as adjusted for various non-cash items including stock-based compensation, deferred revenue, depreciation, impairment and amortization charges. Cash provided by operating activities for the first quarter of fiscal 2024 increased from the comparable period in the prior year primarily due to an increase in cash received from customers, which partially offset strong billings for the quarter and an increase in the balance of accounts receivable.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the risks detailed in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023. However, we anticipate our current cash, cash equivalents and investment balances, anticipated cash flows generated from operations, and available borrowing capacity on the Revolver Credit Facility will be sufficient to meet our liquidity needs.

Cash used in investing activities was $7.1 million for the three months ended December 31, 2023, compared to cash provided by investing activities of $61.9 million for the same period in the prior year. Investing activities include purchases, sales and maturities of available-for-sale securities, business acquisitions and capital expenditures. The amount of cash used in investing activities for the three months ended December 31, 2023 was primarily the result of $9.0 million in capital expenditures related to maintaining our operations worldwide, partially offset by $2.9 million in maturities of investments.

Cash used in financing activities was $135.0 million for the three months ended December 31, 2023, compared to cash used in financing activities of $374.9 million for the same period in the prior year. Our financing activities for the three months ended December 31, 2023 primarily consisted of $150.0 million of cash used to repurchase shares of common stock. In addition, $6.8 million in cash was used for taxes related to net share settlement of equity awards. Cash used in financing activities was partially offset by cash received from the exercise of employee stock options and stock purchases under our employee stock purchase plan of $21.9 million.

On January 31, 2020, we entered into a Revolving Credit Agreement (the "Revolving Credit Agreement") that provides for a senior unsecured revolving credit facility in an aggregate principal amount of $350.0 million (the "Revolving Credit Facility"). We have the option to increase commitments under the Revolving Credit Facility from time to time, subject to certain conditions, by up to $150.0 million. As of December 31, 2023, there were no outstanding borrowings under the Revolving Credit Facility, and we had available borrowing capacity of $350.0 million.

Obligations and Commitments

As of December 31, 2023, our principal commitments consisted of obligations outstanding under operating leases and purchase obligations with one of our component suppliers.

We lease our facilities under operating leases that expire at various dates through 2033. There have been no material changes in our principal lease commitments compared to those discussed in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023.

In October 2022, we entered into an unconditional purchase commitment with one of our suppliers for the delivery of systems components. Under the terms of the agreement, we are obligated to purchase $10 million of component inventory annually, with a total committed amount of $40 million over a four-year term. As of December 31, 2023, we had $0.2 million remaining purchase commitments under the second year of the agreement. Our total non-cancelable long-term purchase commitments outstanding as of December 31, 2023 was $20.2 million.

We have a contractual obligation to purchase inventory components procured by our primary contract manufacturer in accordance with our annual build forecast. The contractual terms of the obligation contain cancellation provisions, which reduce our liability to purchase inventory components for periods greater than one year. In order to support our build forecast, we will, from time-to-time prepay our primary contract manufacturer for inventory purchases.

Recent Accounting Pronouncements

The anticipated impact of recent accounting pronouncements is discussed in Note 1 to the accompanying Notes to Consolidated Financial Statements of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. We maintain an investment portfolio of various holdings, types, and maturities. Our primary objective for holding fixed income securities is to achieve an appropriate investment return consistent with preserving principal and managing risk. At any time, a sharp rise in market interest rates could have a material adverse impact on the fair value of our fixed income investment portfolio. Conversely, declines in interest rates, including the impact from lower credit spreads, could have a material adverse impact on interest income for our investment portfolio. Our fixed income investments are held for purposes other than trading. Our fixed income investments were not leveraged as of December 31, 2023. We monitor our interest rate and credit risks, including our credit exposures to specific rating categories and to individual issuers. We believe the overall credit quality of our portfolio is strong.

Inflation Risk. We are actively monitoring the current inflationary environment, but we do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations. If the current inflationary environment constrains our customers' ability to procure goods and services from us, we may see customers reprioritize these investment decisions. These macroeconomic conditions could harm our business, financial condition and results of operations.

Foreign Currency Risk. The majority of our sales, cost of net revenues, and operating expenses are denominated in U.S. dollars and as a result, we have not experienced significant foreign currency transaction gains and losses to date. While we conduct transactions in foreign currencies and expect to continue to do so, we do not anticipate that foreign currency transaction gains or losses will be significant at our current level of operations. However, as we continue to expand our operations internationally, transaction gains or losses may become significant in the future.

Management believes there have been no material changes to our quantitative and qualitative disclosures about market risk during the three month period ended December 31, 2023, compared to those discussed in our Annual Report on Form 10-K for the year ended September 30, 2023.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) which are designed to ensure that required information is recorded, processed, summarized and reported within the required timeframe, as specified in the rules set forth by the Securities Exchange Commission. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2023 and, based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2023.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

See Note 8 - Commitments and Contingencies of the Notes to Financial Statements (Part I, Item 1 of this Form 10-Q) for information regarding legal proceedings in which we are involved.

Item 1A. Risk Factors

There have been no material changes to our risk factors from those described in Part 1, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, which was filed with the Securities and Exchange Commission on November 14, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On July 25, 2022, the Company announced that its Board of Directors authorized an additional $1.0 billion for its common stock share repurchase program. This authorization is incremental to the existing $5.4 billion program, initially approved in October 2010 and expanded in subsequent fiscal years. Acquisitions for the share repurchase programs will be made from time to time in private transactions, accelerated share repurchase programs, or open market purchases as permitted by securities laws and other legal requirements. The programs can be terminated at any time. As of December 31, 2023, the Company had $772 million remaining authorized to purchase shares under its share repurchase program.

Shares repurchased and retired for the three months ended December 31, 2023 are as follows (in thousands, except shares and per share data):

	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased per the Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plan[2]
October 1, 2023 — October 31, 2023	—	—	—	$ 922,439
November 1, 2023 — November 30, 2023	967,045	$ 162.17	922,128	$ 772,440
December 1, 2023 — December 31, 2023	115	$ 171.60	115	$ 772,421

(1) Includes 44,917 shares withheld from restricted stock units that vested in the first quarter of fiscal 2024 to satisfy minimum tax withholding obligations that arose on the vesting of restricted stock units.

(2) Shares withheld from restricted stock units that vested to satisfy minimum tax withholding obligations that arose on the vesting of such awards do not deplete the dollar amount available for purchases under the repurchase program.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 and Non-Rule 10b5-1 Trading Arrangements

During the three months ended December 31, 2023, certain of our officers and directors adopted or terminated Rule 10b5-1 trading arrangements as follows:

On November 29, 2023, François Locoh-Donou, Chief Executive Officer and President, adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) that is designed to be in effect until December 17, 2024 with respect to the sale of 19,450 Company shares.

On November 3, 2023, Thomas Fountain, EVP, Global Services and Chief Strategy Officer, adopted a written plan intended to satisfy the affirmative defense of Rule 10b5-1(c) that is designed to be in effect until November 18, 2024 with respect to the sale of 6,485 Company shares.

Item 6. Exhibits

Exhibit Number		Exhibit Description
31.1*	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	—	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	—	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	—	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	—	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	—	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	—	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	—	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	—	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	—	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on this 5th day of February, 2024.

F5, INC.

By: /s/ FRANCIS J. PELZER

Francis J. Pelzer
Executive Vice President,
Chief Financial Officer
(principal financial officer and principal accounting officer)