

# F5 Delivers 4% Revenue Growth on Continued Strong Software Demand in Third Quarter Fiscal Year 2020

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***Generates Third Quarter GAAP EPS of \$1.14 and non-GAAP EPS of \$2.18 per diluted share***

SEATTLE--(BUSINESS WIRE)-- F5 Networks, Inc. (NASDAQ: FFIV) today announced financial results for its fiscal third quarter ended June 30, 2020.

“Large enterprise customers are accelerating their digital transformations, increasing their digital engagement, and boosting capacity and security on customer facing applications and on platforms that enable employee collaboration,” said François Locoh-Donou, CEO and President of F5.

“Demand for solutions to meet these immediate and long-term business requirements drove 4% GAAP and non-GAAP revenue growth, and 43% non-GAAP software revenue growth in our third quarter.”

“Customers continue to look to F5 to enable their mission-critical application needs and increasingly, are deploying a combination of F5 solutions spanning our F5, NGINX and Shape multi-cloud application services portfolio,” continued Locoh-Donou. “In a challenging COVID-19 environment, our deep incumbency and close alignment with customers’ investment priorities are proving distinct competitive advantages and driving resiliency in our business.”

## **Third Quarter Performance Summary**

Following its acquisition of Shape Security, to provide transparency to what F5 management believes reflects its ongoing business results, F5 is reporting both GAAP and non-GAAP revenue. Non-GAAP revenue excludes the impact of the purchase accounting write-down on Shape’s assumed deferred revenue. F5 expects purchase accounting will impact Shape-related recognized revenue on a GAAP-basis principally over the four quarters following the transaction close in January 2020.

GAAP revenue of \$583 million for the third quarter of fiscal year 2020 reflects 4% growth from \$563 million in the third quarter of fiscal year 2019.

Non-GAAP revenue for the third quarter of fiscal year 2020 was \$586 million, reflecting 4% growth in total revenue and 43% growth in software revenue in the year ago period.

GAAP net income for the third quarter of fiscal year 2020 was \$70 million, or \$1.14 per diluted share compared to third quarter fiscal year 2019 GAAP net income of \$86 million, or \$1.43 per diluted share.

Non-GAAP net income for the third quarter of fiscal year 2020 was \$134 million, or \$2.18 per diluted share, compared to \$152 million, or \$2.52 per diluted share, in the third quarter of fiscal year 2019. Non-GAAP net income for the third quarter of fiscal year 2020 excludes \$51 million in stock-based compensation, \$13 million in acquisition-related charges, \$11 million in amortization of purchased intangible assets, and \$3 million in facility-exit costs.

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

## **Business Outlook**

For the fourth quarter of fiscal year 2020 ending September 30, 2020, F5 expects to deliver both GAAP and non-GAAP revenue in the range of \$595 million to \$615 million with non-GAAP earnings in the range of \$2.30 to \$2.42 per diluted share.

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, July 27, 2020, at 4:30 pm ET. The live webcast can be accessed from the investor relations portion of [F5.com](https://www.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 8166352. 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, projected and target revenue and earnings ranges, income, earnings per share, share amounts and share price assumptions, share repurchases, demand for application delivery networking, application delivery services, security, and software products, expectations regarding future services and products, expectations regarding future customers, markets and the benefits of products, and other statements that are not historical facts and which are forward-looking statements. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors. Such forward-looking statements involve risks and uncertainties, as well as assumptions and other factors that, if they do not fully materialize or prove correct, could cause the actual results, performance or achievements of the company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: the impact of the COVID-19 global pandemic including but not limited to the advantages of incumbency in an uncertain environment, caution in spending patterns in the most severely impacted verticals, delays in orders in some impacted regions due to COVID-19 impacts;

prolonged face-to-face sales engagement delaying some new strategic projects; customer acceptance of our new security, application delivery, optimization, and software and SaaS offerings; the timely development, introduction and acceptance of additional new products and features by F5 or its competitors; F5 may not realize the financial and strategic goals that are contemplated through its acquisitions, including Shape and NGINX, and F5 may not successfully operate and integrate newly-acquired businesses appropriately or as expected; competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into F5's markets, and new product and marketing initiatives by our competitors; increased sales discounts; uncertain global economic conditions, including those related to COVID-19, which may result in reduced customer demand for our products and services and changes in customer payment patterns; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; litigation involving patents, intellectual property, shareholder and other matters, and governmental investigations; natural catastrophic events; F5's ability to sustain, develop and effectively utilize distribution relationships; F5's ability to attract, train and retain qualified product development, marketing, sales, professional services and customer support personnel; F5's ability to expand in international markets; the unpredictability of F5's sales cycle; F5's share repurchase program; future prices of F5's common stock; and other risks and uncertainties described more fully in our documents filed with or furnished to the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K and other documents that we may file or furnish from time to time, which could cause actual results, performance or achievements to vary from expectations. The financial information contained in this presentation should be read in conjunction with the consolidated financial statements and notes thereto included in F5's most recent reports on Forms 10-Q and 10-K as each may be amended from time to time. All forward-looking statements in this presentation are based on information available as of the date hereof and qualified in their entirety by this cautionary statement. F5 assumes no obligation to revise or update these forward-looking statements.

### **GAAP to non-GAAP 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 ESPP. Although stock-based compensation is an important aspect of the compensation of F5's employees and executives, management believes it is useful to exclude stock-based compensation expenses to better understand the long-term performance of the company's core business and to facilitate comparison of the company's results to those of peer companies.

*Acquisition-related charges, net.* F5 does not acquire businesses on a predictable cycle and the terms and scope of each transaction can vary significantly and are unique to each transaction. F5 excludes acquisition-related charges from its non-GAAP financial measures to provide a useful comparison of the company's operating results to prior periods and to its peer companies. Acquisition-related charges consist of planning, execution and integration costs incurred directly as a result of an acquisition.

*Restructuring charges.* F5 has incurred restructuring charges that are included in its GAAP financial statements, primarily related to workforce reductions and costs associated with exiting facility lease commitments. F5 excludes these items from its non-GAAP financial measures when evaluating its continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of its business.

*Amortization of purchased intangible assets.* Purchased intangible assets are amortized over their estimated useful lives and generally cannot be changed or influenced by management after the acquisition. Management does not believe these charges accurately reflect the performance of the company's ongoing operations, therefore, they are not considered by management in making operating decisions. However, investors should note that the use of intangible assets contributed to F5's revenues earned during the periods presented and will contribute to F5's future period revenues as well.

*Facility-exit costs.* In fiscal year 2019, F5 relocated its headquarters in Seattle, Washington, and recorded charges in connection with this facility exit as well as other non-recurring lease activity. These charges are not representative of ongoing costs to the business and are not expected to recur. As a result, these charges are being excluded to provide investors with a more comparable measure of costs associated with ongoing operations.

Management believes that non-GAAP net income per share provides useful supplemental information to management and investors regarding the performance of the company's core business operations and facilitates comparisons to the company's historical operating results. Although F5's management finds this non-GAAP measure to be useful in evaluating the performance of the core business, management's reliance on this measure is limited because items excluded from such measures could have a material effect on F5's earnings and earnings per share calculated in accordance with GAAP. Therefore, F5's management will use its non-GAAP earnings and earnings per share measures, in conjunction with GAAP earnings and earnings per share measures, to address these limitations when evaluating the performance of the company's core business. Investors should consider these non-GAAP measures in addition to, and not as a substitute for, financial performance measures in accordance with GAAP.

F5 believes that presenting its non-GAAP measures of earnings and earnings per share provides investors with an additional tool for evaluating the performance of the company's core business and is used by management in its own evaluation of the company's performance. Investors are encouraged to look at GAAP results as the best measure of financial performance. However, while the GAAP results are more complete, the company provides investors these supplemental measures

since, with reconciliation to GAAP, it may provide additional insight into the company's operational performance and financial results.

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) powers applications from development through their entire lifecycle, across any multi-cloud environment, so our customers-enterprise businesses, service providers, governments, and consumer brands-can deliver differentiated, high-performing, and secure digital experiences. For more information, go to [f5.com](https://www.f5.com). You can also follow @f5networks on Twitter or visit us on LinkedIn and Facebook for more information about F5, its partners, and technologies.

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Source: F5 Networks

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

	<b>June 30,</b>	<b>September</b>
	<b>2020</b>	<b>30,</b>
		<b>2019</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 714,268	\$ 599,219
Short-term investments	379,303	373,063
Accounts receivable, net of allowances of \$3,343 and \$3,259	304,874	322,029
Inventories	28,826	34,401
Other current assets	238,163	182,874
Total current assets	1,665,434	1,511,586

Property and equipment, net	228,293	223,426
Operating lease right-of-use assets	316,761	-
Long-term investments	112,928	358,402
Deferred tax assets	47,919	27,701
Goodwill	1,858,966	1,065,379
Other assets, net	343,056	203,781
Total assets	\$4,573,357	\$3,390,275
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Accounts payable	\$54,389	\$62,627
Accrued liabilities	301,038	235,869
Deferred revenue	888,614	807,030
Current portion of long-term debt	19,275	-
Total current liabilities	1,263,316	1,105,526
Deferred tax liabilities	444	313
Deferred revenue, long-term	386,438	391,086
Operating lease liabilities, long-term	345,577	-
Long-term debt	373,866	-

Other long-term liabilities	49,817	131,853
Total long-term liabilities	1,156,142	523,252
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, 61,164 and 60,367 shares issued and outstanding	304,526	142,597
Accumulated other comprehensive loss	(18,495 )	(19,190 )
Retained earnings	1,867,868	1,638,090
Total shareholders' equity	2,153,899	1,761,497
Total liabilities and shareholders' equity	\$4,573,357	\$3,390,275

**F5 Networks, Inc.**

**Consolidated Income Statements**

**(unaudited, in thousands, except per share amounts)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net revenues				
Products (1)	\$ 253,331	\$ 248,929	\$ 747,405	\$ 720,665
Services	329,921	314,465	988,601	931,394
Total	583,252	563,394	1,736,006	1,652,059

Cost of net revenues (2)(3)(4)(5)				
Products	57,437	44,336	152,641	130,293
Services	48,603	46,431	143,279	135,366
Total	106,040	90,767	295,920	265,659
Gross profit	477,212	472,627	1,440,086	1,386,400
Operating expenses (2)(3)(4)(5)				
Sales and marketing	211,808	195,852	622,799	531,065
Research and development	115,991	116,894	321,024	305,246
General and administrative	61,792	57,141	194,809	146,340
Restructuring charges	-	-	7,800	-
Total	389,591	369,887	1,146,432	982,651
Income from operations	87,621	102,740	293,654	403,749
Other income, net	141	4,722	5,220	19,251
Income before income taxes	87,762	107,462	298,874	423,000
Provision for income taxes	17,890	21,557	69,096	90,103
Net income	\$ 69,872	\$ 85,905	\$ 229,778	\$ 332,897
Net income per share - basic	\$ 1.15	\$ 1.43	\$ 3.78	\$ 5.55



Weighted average shares - basic	60,978	59,981	60,831	59,963
Net income per share - diluted	\$ 1.14	\$ 1.43	\$ 3.76	\$ 5.51
Weighted average shares - diluted	61,415	60,196	61,182	60,372

### Non-GAAP Financial Measures

Net income as reported	\$ 69,872	\$ 85,905	\$ 229,778	\$ 332,897
Acquisition-related write-downs of assumed deferred revenue	2,670	-	4,861	-
Stock-based compensation expense	50,868	40,999	149,751	119,182
Amortization of purchased intangible assets	10,676	3,712	23,884	7,260
Facility-exit costs	2,545	8,704	5,556	13,752
Acquisition-related charges	13,443	30,133	45,162	33,663
Restructuring charges	-	-	7,800	-
Tax effects related to above items	(16,044 )	(17,919 )	(41,450 )	(37,241 )
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, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted	\$ 134,030	\$ 151,534	\$ 425,342	\$ 469,513
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, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted	\$ 2.18	\$ 2.52	\$ 6.95	\$ 7.78

Weighted average shares - diluted	61,415	60,196	61,182	60,372
(1) GAAP net product revenues	\$ 253,331	\$ 248,929	\$ 747,405	\$ 720,665
Acquisition-related write-downs of assumed deferred revenue	2,670	-	4,861	-
Non-GAAP net product revenues	256,001	248,929	752,266	720,665
GAAP net service revenues	329,921	314,465	988,601	931,394
Acquisition-related write-downs of assumed deferred revenue	-	-	-	-
Non-GAAP net service revenues	329,921	314,465	988,601	931,394
Total non-GAAP net revenues	\$ 585,922	\$ 563,394	\$ 1,740,867	\$ 1,652,059
(2) Includes stock-based compensation expense as follows:				
Cost of net revenues	\$ 6,771	\$ 5,118	\$ 18,694	\$ 15,152
Sales and marketing	21,784	17,767	66,188	49,645
Research and development	13,145	10,037	36,904	30,598
General and administrative	9,168	8,077	27,965	23,787
	\$ 50,868	\$ 40,999	\$ 149,751	\$ 119,182
(3) Includes amortization of purchased intangible assets as follows:				
Cost of net revenues	\$ 7,382	\$ 2,471	\$ 16,432	\$ 4,557
Sales and marketing	2,749	710	5,863	1,122

General and administrative	545	531	1,589	1,581
	\$ 10,676	\$ 3,712	\$ 23,884	\$ 7,260
(4) Includes facility-exit costs as follows:				
Cost of net revenues	\$ 342	\$ 1,026	\$ 843	\$ 1,714
Sales and marketing	751	2,021	1,828	3,632
Research and development	776	3,605	1,929	5,591
General and administrative	676	2,052	956	2,815
	\$ 2,545	\$ 8,704	\$ 5,556	\$ 13,752
(5) Includes acquisition-related charges as follows:				
Cost of net revenues	\$ -	\$ -	\$ 13	\$ -
Sales and marketing	5,675	6,106	9,448	6,106
Research and development	547	16,116	1,327	16,116
General and administrative	7,221	7,911	34,374	11,441
	\$ 13,443	\$ 30,133	\$ 45,162	\$ 33,663

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

**Nine Months Ended**

**June 30,**

	2020	2019
<b>Operating activities</b>		
Net income	\$ 229,778	\$ 332,897
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	149,315	119,182
Depreciation and amortization	69,337	46,645
Non-cash operating lease costs	29,731	-
Other	168	671
Deferred income taxes	4,357	10,171
Changes in operating assets and liabilities:		
Accounts receivable	38,024	(16,249 )
Inventories	5,575	(5,441 )
Other current assets	(33,572 )	(54,381 )
Other assets	(5,659 )	(8,785 )
Accounts payable and accrued liabilities	(1,538 )	37,932
Deferred revenue	37,934	79,113
Lease liabilities	(38,456 )	-
Net cash provided by operating activities	484,994	541,755
<b>Investing activities</b>		

Purchases of investments	(390,696)	(210,109)
Maturities of investments	322,271	507,804
Sales of investments	309,040	276,278
Acquisition of businesses, net of cash acquired	(955,574)	(611,550)
Purchases of property and equipment	(47,857 )	(83,008 )
Net cash used in investing activities	(762,816)	(120,585)
<b>Financing activities</b>		
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	51,999	45,455
Repurchase of common stock	(50,009 )	(201,045)
Proceeds from term debt agreement	400,000	-
Payments on term debt agreement	(5,000 )	-
Payments for debt issuance costs	(3,040 )	-
Net cash provided by (used in) financing activities	393,950	(155,590)
Net increase in cash, cash equivalents and restricted cash	116,128	265,580
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(856 )	(111 )
Cash, cash equivalents and restricted cash, beginning of period	602,254	425,894
Cash, cash equivalents and restricted cash, end of period	\$ 717,526	\$ 691,363

**Supplemental disclosures of cash flow information**

Cash paid for amounts included in the measurement of lease liabilities	\$ 45,399	\$ -
Cash paid for interest on long-term debt	\$ 4,330	\$ -
<b>Supplemental disclosures of non-cash activities</b>		
Right-of-use assets obtained in exchange for lease obligations	\$ 399,203	\$ -
Capitalized leasehold improvements paid directly by landlord	\$ -	\$ 34,487

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