

F5 Reports 2% Revenue Growth in its First Quarter of Fiscal Year 2023

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SEATTLE--(BUSINESS WIRE)-- F5, Inc. (NASDAQ: FFIV) today announced financial results for its first quarter of fiscal year 2023.

“Customers are focused on minimizing their spend and optimizing their existing investments while also continuing to drive revenue,” said François Locoh-Donou, F5’s President and CEO. “We are enabling our customers to deliver the dynamic digital experiences that drive their businesses. At the same time, we are helping them consolidate solutions and use fewer resources to manage and secure their hybrid and multi-cloud applications.”

First Quarter Performance Summary

First quarter fiscal year 2023 revenue grew 2% from the year ago period, to \$700 million, up from \$687 million in fiscal year 2022. Global services revenue grew 5% from the year-ago period while product revenue declined 1%, reflecting 3% software revenue growth and a 4% decline in systems revenue from the year-ago period.

GAAP net income for the first quarter of fiscal year 2023 was \$72 million, or \$1.20 per diluted share compared to \$94 million, or \$1.51 per diluted share, in the first quarter of fiscal year 2022.

Non-GAAP net income for the first quarter of fiscal year 2023 was \$149 million, or \$2.47 per diluted share, compared to \$179 million, or \$2.89 per diluted share, in fiscal year 2022.

A reconciliation of GAAP to non-GAAP measures is included in the attached Consolidated Income Statements. Additional information about non-GAAP financial information is included in this release.

Business Outlook

“We continue to expect 9% to 11% revenue growth for the year, though the mix may look different than what we expected three months ago,” continued Locoh-Donou. “We remain committed to maintaining double-digit non-GAAP earnings growth this year and on an annual basis going forward and we will continue to evaluate our cost base and take further action as needed to achieve this goal.”

For the second quarter of fiscal year 2023, F5 expects to deliver revenue in the range of \$690 million to \$710 million, with non-GAAP earnings in the range of \$2.36 to \$2.48 per diluted share.

F5 to Acquire Lilac Cloud, Inc.

On January 22, 2023, F5 signed a definitive agreement to acquire Lilac Cloud, Inc. (Lilac) a provider of innovative application delivery services. F5 currently uses Lilac's Content Delivery Network (CDN) technology in its F5 Distributed Cloud Services. The terms of the transaction were not disclosed, and the acquisition is not expected to have a material impact on F5’s operating results. F5 expects the transaction to close in the second quarter of fiscal year 2023.

All forward-looking non-GAAP measures included in the Company's business 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, January 24, 2023, at 4:30 pm ET. The live webcast is accessible 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 +1 (877) 407-0312. Outside the U.S. and Canada, dial +1 (201) 389-0899. 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 F5's future financial performance including revenue, revenue growth, earnings growth, future customer demand, markets, the performance and benefits of products, and the resiliency of the Company's revenue base and business model. These, and other statements that are not historical facts, are forward-looking statements. These forward-looking statements are subject to the safe harbor provisions created by the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward-looking statements as a result of certain risk factors. Such forward-looking statements involve risks and uncertainties, as well as assumptions and other factors that, if they do not fully materialize or prove correct, could cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: customer acceptance of offerings; continued disruptions to the global supply chain resulting in inability to source required parts for F5's products or the ability to only do so at greatly increased prices thereby impacting our revenues and/or margins; global economic conditions and uncertainties in the geopolitical environment; overall information technology spending; F5's ability to successfully integrate acquired businesses' products with F5 technologies; the ability of F5's sales professionals and distribution partners to sell new solutions and service offerings; the timely development, introduction and acceptance of additional new products and features by F5 or its competitors; competitive factors, including but not limited to pricing pressures, industry consolidation, entry of new competitors into F5's markets, and new product and marketing initiatives by our competitors; increased sales discounts; the business impact of the acquisitions and potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement of completion of acquisitions; uncertain global economic conditions which may result in reduced customer demand for our products and services and changes in customer payment patterns; litigation involving patents, intellectual property, shareholder and other matters, and governmental investigations; potential security flaws in the Company's networks, products or services;

cybersecurity attacks on its networks, products or services; natural catastrophic events; a pandemic or epidemic; F5's ability to sustain, develop and effectively utilize distribution relationships; F5's ability to attract, train and retain qualified product development, marketing, sales, professional services and customer support personnel; F5's ability to expand in international markets; the unpredictability of F5's sales cycle; the ability of F5 to execute on its share repurchase program including the timing of any repurchases; future prices of F5's common stock; and other risks and uncertainties described more fully in our documents filed with or furnished to the Securities and Exchange Commission, including our most recent reports on Form 10-K and Form 10-Q and current reports on Form 8-K and other documents that we may file or furnish from time to time, which could cause actual results to vary from expectations. The financial information contained in this release should be read in conjunction with the consolidated financial statements and notes thereto included in F5's most recent reports on Forms 10-Q and 10-K as each may be amended from time to time. All forward-looking statements in this press release are based on information available as of the date hereof and qualified in their entirety by this cautionary statement. F5 assumes no obligation to revise or update these forward-looking statements.

GAAP to non-GAAP 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 and impairment of purchased intangible assets, facility-exit costs, acquisition-related charges, net of taxes, restructuring charges, 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:

Stock-based compensation. Stock-based compensation consists of expense for stock options, restricted stock, and employee stock purchases through the Company's Employee Stock Purchase Plan. Although stock-based compensation is an important aspect of the compensation of F5's employees and executives, management believes it is useful to exclude stock-based compensation expenses to better understand the long-term performance of the Company's core business and to facilitate comparison of the Company's results to those of peer companies.

Amortization and impairment of purchased intangible assets. Purchased intangible assets are amortized over their estimated useful lives, and generally cannot be changed or influenced by management after the acquisition. On a non-recurring basis, when certain events or circumstances are present, management may also be required to write down the carrying value of its purchased intangible assets and recognize impairment charges. Management does not believe these charges accurately reflect the performance of the Company's ongoing operations; therefore, they are not considered by management in making operating decisions. However, investors should note that the use of intangible assets contributed to F5's revenues earned during the periods presented and will contribute to F5's future period revenues as well.

Facility-exit costs. F5 has incurred charges in connection with the exit of facilities as well as other non-recurring lease activity. These charges are not representative of ongoing costs to the business

and are not expected to recur. As a result, these charges are being excluded to provide investors with a more comparable measure of costs associated with ongoing operations.

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

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

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

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

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 is a multi-cloud application services and security company committed to bringing a better digital world to life. F5 partners with the world's largest, most advanced organizations to secure and optimize every app and API anywhere—on premises, in the cloud, or at the edge. F5 enables organizations to provide exceptional, secure digital experiences for their customers and continuously stay ahead of threats. For more information, go to f5.com. (NASDAQ: FFIV)

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F5, Inc.

Consolidated Balance Sheets
(unaudited, in thousands)

	December 31, 2022	September 30, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 605,739	\$ 758,012
Short-term investments	54,015	126,554
Accounts receivable, net of allowances of \$6,417 and \$6,020	485,277	469,979
Inventories	59,197	68,365
Other current assets	510,279	489,314
Total current assets	1,714,507	1,912,224
Property and equipment, net	167,709	168,182
Operating lease right-of-use assets	223,953	227,475
Long-term investments	7,812	9,544
Deferred tax assets	208,562	183,365
Goodwill	2,259,277	2,259,282

Other assets, net	503,748	516,122
Total assets	\$5,085,568	\$5,276,194
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	\$71,760	\$113,178
Accrued liabilities	330,524	309,819
Deferred revenue	1,131,195	1,067,182
Current portion of long-term debt	-	349,772
Total current liabilities	1,533,479	1,839,951
Deferred tax liabilities	2,973	2,781
Deferred revenue, long-term	628,924	624,398
Operating lease liabilities, long-term	267,700	272,376
Other long-term liabilities	70,143	67,710
Total long-term liabilities	969,740	967,265
Commitments and contingencies		
Shareholders' equity		
Preferred stock, no par value; 10,000 shares authorized, no shares outstanding	-	-
Common stock, no par value; 200,000 shares authorized, 60,117 and 59,860 shares issued and outstanding	129,060	91,048
Accumulated other comprehensive loss	(23,219)	(26,176)

Retained earnings	2,476,508	2,404,106
Total shareholders' equity	2,582,349	2,468,978
Total liabilities and shareholders' equity	\$5,085,568	\$5,276,194

F5, Inc.

Consolidated Income Statements

(unaudited, in thousands, except per share amounts)

	Three Months Ended December 31,	
	2022	2021
Net revenues		
Products	\$ 340,558	\$ 343,149
Services	359,820	343,951
Total	700,378	687,100
Cost of net revenues (1)(2)(3)(4)		
Products	98,855	81,662
Services	56,152	53,411
Total	155,007	135,073
Gross profit	545,371	552,027
Operating expenses (1)(2)(3)(4)		
Sales and marketing	233,105	234,035
Research and development	142,323	130,271

General and administrative	69,991	65,661
Restructuring charges	8,740	7,909
Total	454,159	437,876
Income from operations	91,212	114,151
Other income (expense), net	4,702	(2,431)
Income before income taxes	95,914	111,720
Provision for income taxes	23,512	18,161
Net income	\$ 72,402	\$ 93,559
Net income per share - basic	\$ 1.20	\$ 1.54
Weighted average shares - basic	60,096	60,810
Net income per share - diluted	\$ 1.20	\$ 1.51
Weighted average shares - diluted	60,387	61,882
Non-GAAP Financial Measures		
Net income as reported	\$ 72,402	\$ 93,559
Stock-based compensation expense	62,874	63,757
Amortization and impairment of purchased intangible assets	12,685	19,437

Facility-exit costs	2,006	2,742
Acquisition-related charges	7,737	16,891
Restructuring charges	8,740	7,909
Tax effects related to above items	(17,170)	(25,264)
Net income excluding stock-based compensation expense, amortization and impairment of purchased intangible assets, facility-exit costs, acquisition-related charges, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted	\$ 149,274	\$ 179,031
Net income per share excluding stock-based compensation expense, amortization and impairment of purchased intangible assets, facility-exit costs, acquisition-related charges, restructuring charges and non-recurring tax expenses and benefits (non-GAAP) - diluted	\$ 2.47	\$ 2.89
Weighted average shares - diluted	60,387	61,882
(1) Includes stock-based compensation expense as follows:		
Cost of net revenues	\$ 7,636	\$ 7,545
Sales and marketing	25,721	26,753
Research and development	18,542	18,583
General and administrative	10,975	10,876
	\$ 62,874	\$ 63,757
(2) Includes amortization and impairment of purchased intangible assets as follows:		
Cost of net revenues	\$ 9,959	\$ 9,959
Sales and marketing	2,389	8,915

General and administrative	337	563
	\$ 12,685	\$ 19,437

(3) Includes facility-exit costs as follows:

Cost of net revenues	\$ 201	\$ 482
Sales and marketing	663	749
Research and development	641	912
General and administrative	501	599
	\$ 2,006	\$ 2,742

(4) Includes acquisition-related charges as follows:

Cost of net revenues	\$ 93	\$ 87
Sales and marketing	1,315	6,164
Research and development	3,768	5,994
General and administrative	2,561	4,646
	\$ 7,737	\$ 16,891

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

**Three Months Ended
December 31,**

2022 2021

Operating activities

Net income	\$ 72,402	\$ 93,559
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	62,874	63,757
Depreciation and amortization	27,472	30,260
Non-cash operating lease costs	10,167	9,663
Deferred income taxes	(25,070)	(6,407)
Impairment of assets	-	6,175
Other	358	(1,123)
Changes in operating assets and liabilities (excluding effects of the acquisition of businesses):		
Accounts receivable	(15,837)	(77,223)
Inventories	9,168	1,260
Other current assets	(20,602)	(44,286)
Other assets	(1,252)	(21,774)
Accounts payable and accrued liabilities	(19,981)	(25,387)
Deferred revenue	68,540	76,065
Lease liabilities	(10,608)	(14,173)
Net cash provided by operating activities	157,631	90,366
Investing activities		
Purchases of investments	(680)	(36,205)

Maturities of investments	63,519	38,138
Sales of investments	12,167	34,549
Acquisition of businesses, net of cash acquired	-	(67,911)
Purchases of property and equipment	(13,104)	(10,564)
Net cash provided by (used in) investing activities	61,902	(41,993)
Financing activities		
Proceeds from the exercise of stock options and purchases of stock under employee stock purchase plan	22,180	27,581
Repurchase of common stock	(40,005)	(125,011)
Payments on term debt agreement	(350,000)	(5,000)
Taxes paid related to net share settlement of equity awards	(7,037)	(13,595)
Net cash used in financing activities	(374,862)	(116,025)
Net decrease in cash, cash equivalents and restricted cash	(155,329)	(67,652)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	3,079	(861)
Cash, cash equivalents and restricted cash, beginning of period	762,207	584,333
Cash, cash equivalents and restricted cash, end of period	\$ 609,957	\$ 515,820
Supplemental disclosures of cash flow information		
Cash paid for amounts included in the measurement of lease liabilities	\$ 13,665	\$ 16,500
Cash paid for interest on long-term debt	2,970	1,252
Supplemental disclosures of non-cash activities		

Right-of-use assets obtained in exchange for lease obligations	\$6,193	\$818
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SOURCE: F5, Inc.

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