

# ANNUAL REPORT 2016



TO OUR SHAREHOLDERS, CUSTOMERS, AND PARTNERS:

I'm very pleased with the progress F5 made on all fronts in fiscal 2016.

At the outset, the year presented the company with many challenges and new opportunities. Executive-level management changes. Macroeconomic issues affecting key markets. Delivery of a broad array of new products. And the ongoing migration of applications from traditional data centers to public and private clouds.

During the first half of the year, these challenges contributed in varying measure to successive quarters of decelerating product revenue growth. But as we enter fiscal 2017, the company's response to those challenges, reflected in our strong fourth quarter results, has positioned F5 to reaccelerate product revenue growth by delivering innovative solutions that leverage emerging market opportunities, our leading-edge technology, and our partnerships with industry leaders, including major cloud providers.

After a relatively slow start in the first quarter, we exited fiscal 2016 with just shy of \$2 billion in annual revenue and with record annual earnings of \$5.38 per share (\$7.30 Non-GAAP). In addition, we continued to generate strong cash flow, ending the year with nearly \$1.2 billion in cash and investments after repurchasing over 6.6 million shares of our common stock.

Several drivers contributed to the strength of product sales in the fourth quarter, and we anticipate that those drivers will continue to generate momentum in our business throughout the current fiscal year.

Beginning in the third quarter, we introduced a wide spectrum of new products and product upgrades. In May, we released three major software upgrades: Version 12.1 of TMOS with enhanced public cloud integration and more sophisticated security policies for on-premises and hybrid cloud environments; Version 5.0 of our BIG-IQ management platform with significant scalability and performance enhancements; and Version 2.0 of iWorkflow, which enables the orchestration of our application services with SDN solutions from Cisco, VMware, and others. In addition to other advanced features, the latest version of TMOS incorporates our new iRules LX technology, which lets customers manipulate and selectively deploy services via Node.js and includes easy access to over 250,000 community Node.js packages.

Near the end of the third quarter, we began shipping our new 100 GB VIPRION blades, designed to support the massive throughput and security requirements of next-generation wireless networks and the exponential growth of the Internet of Things. In June, we also began shipping our standalone carrier-class firewall, which leverages the performance and scalability of the new VIPRION blades to handle more than 1 billion concurrent connections and over 20 million connections per second.

Along with our carrier-class firewall, we added a number of other products to our security portfolio

during the third quarter. In conjunction with the launch of TMOS version 12.1, we introduced major upgrades of BIG-IP Application Security Manager (ASM) and BIG-IP Advanced Firewall Manager (AFM). In June, we introduced two new standalone security appliances designed to address the growing threat of distributed denial-of-service (DDoS) attacks and the increasing use of Secure Sockets Layer (SSL) technology to encrypt both legitimate traffic and attacks targeted at applications and data. DDoS Hybrid Defender works in concert with our cloud-based Silverline scrubbing service, immediately blocking DDoS attacks then seamlessly re-directing traffic to Silverline to prevent even the largest volumetric attacks from saturating inbound pipes. SSL Orchestrator leverages F5's high-performance decryption and encryption capabilities to unencrypt SSL traffic so that it can be inspected by third-party security devices, then re-encrypt safe traffic and send it on to the destination server. Both of these new products directly address areas of growing concern for our customers and have generated strong interest among security buyers.

In September, we began shipping the much anticipated release of our BIG-IP iSeries appliance family. Designed to optimize the performance of our fully programmable TMOS software, the FPGA architecture of the hardware makes the devices themselves the world's most programmable Application Delivery Controllers. As a result of performance enhancements, all five of the new appliances are able to run our entire suite of application delivery services simultaneously and support Virtual Clustered Multiprocessing (vCMP), which allows an individual device to be configured as multiple virtual BIG-IPs.

The features, performance, and programmability of the new appliances make them ideal building blocks for both traditional data centers and private clouds, which enable organizations to leverage the attributes of cloud infrastructure in environments owned and controlled by them. A growing number of our customers are also using our appliances in colocation facilities, hosted by cloud providers such as Equinix, where they serve as high-performance, low-latency gateways that let customers provide, manage, and orchestrate consistent application delivery services over high-speed interconnects for applications running in multiple public clouds.

For the past several years, the same application delivery services that run as modules on our purpose-built hardware have also been available as software-only Virtual Editions (VEs). This allows customers who deploy both to manage all of their F5 services and set consistent policies across hybrid infrastructures using our BIG-IQ management platform.

In addition to growing demand from service providers seeking software-only solutions for their wireless networks, we have seen increasing adoption of VEs by large enterprises migrating applications to public clouds. Because our VE services are portable across all major cloud environments, they enable customers to provide consistent services for applications running in multiple clouds or to move applications from one cloud to another, avoiding vendor lock-in. We anticipate that this trend will

continue to gain momentum in fiscal 2017 as we launch our 40 GB VEs with four times the performance of the current version.

In the aggregate, all the new products we introduced in fiscal 2016 and many others on our technology roadmap are designed not just to facilitate our customers' adoption of new technologies and architectures, but to enable them to build out hybrid infrastructures that ensure fast, secure, reliable delivery of applications to any user, anywhere, anytime, regardless of where those applications are located. I'm confident that under Ryan Kearny, who has led F5's software development for 18 years and recently became our Chief Technology Officer and EVP of Product Development, our technology roadmap will be even more closely aligned with those goals.

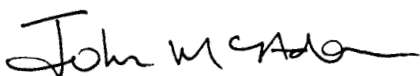
From a sales and marketing perspective, I am also confident the changes that have taken place during John DiLullo's first year as EVP of Worldwide Sales have not only strengthened our sales organization and channel partnerships but opened up new sales opportunities in our traditional markets and in public and private clouds. This year, John's efforts will be supported by an array of new cloud and security marketing initiatives launched by Ben Gibson, who joined F5 as EVP and Chief Marketing Officer in July.

During the past year, our success in helping many of our largest customers move applications to public clouds has strengthened our relationships with Amazon Web Services, Microsoft Azure, and other major cloud providers who are eager to attract enterprise customers. Contrary to the perception that cloud migration poses a threat to our business, we view it as an emerging market opportunity and a key component of our strategy.

Reviewing fiscal 2016 in terms of the contrast between the challenges the company faced a year ago and the manifold opportunities open to F5 today as a consequence of the new products we've brought to market, the organizational changes that have strengthened our product development, sales and marketing efforts, and the expansion of our partner ecosystem, I feel very confident in our ability to return to a solid growth trajectory in fiscal 2017.

On behalf of the Board, I want to thank the entire F5 team for their commitment and contributions to the company's ongoing evolution as the leading provider of application delivery services.

Thanks also to our customers, partners, and shareholders for your continuing interest and support.



**John McAdam**  
President and Chief Executive Officer, F5 Networks  
December 2016

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## CORPORATE OFFICERS

### **John McAdam**

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### **John DiLullo**

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### **Ben Gibson**

Executive Vice President and Chief Marketing Officer

### **Ryan Kearny**

Executive Vice President of Product Development and  
Chief Technology Officer

### **Andy Reinland**

Executive Vice President and Chief Financial Officer

### **Scot Rogers**

Executive Vice President and General Counsel

## SHAREHOLDERS' INFORMATION

### **Annual Shareholders Meeting**

March 9, 2017

11:00 a.m.

Location: 351 Elliott Ave West

Seattle, WA 98119

Parking: Corporate Headquarters

### **Corporate Headquarters**

401 Elliott Ave West

Seattle, WA 98119

206.272.5555

### **NASDAQ Listing**

NASDAQ Symbol – FFIV

### **Investor Relations**

206.272.6677

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### **Independent Auditor**

PricewaterhouseCoopers LLP

Seattle, WA

### **Transfer Agent**

American Stock Transfer

800.937.5449

## ABOUT F5 NETWORKS

F5 (NASDAQ: FFIV) provides solutions for an application world. F5 helps organizations seamlessly scale cloud, data center, telecommunications, and software-defined networking (SDN) deployments to successfully deliver applications and services to anyone, anywhere, at any time. F5 solutions broaden the reach of IT through an open, extensible framework and a rich partner ecosystem of leading technology and orchestration vendors. This approach lets customers pursue the infrastructure model that best fits their needs over time. The world's largest businesses, service providers, government entities, and consumer brands rely on F5 to stay ahead of cloud, security, and mobility trends. For more information, go to [f5.com](http://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.

WE MAKE APPS **G**  FASTER.  
SMARTER.  
SAFER.