



F5 to Acquire NGINX

March 11, 2019

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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, sequential growth, projected revenues including target revenue and earnings ranges, income, earnings per share, share amount 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: customer acceptance of our new traffic management, security, application delivery, optimization, and software and F5aaS 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 acquisition of NGINX and potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the acquisition; uncertainties as to the timing of the transaction; uncertain global economic conditions 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; 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; F5's common stock repurchase program and activities thereunder and differences may result from, among other things, actions taken by the Company or its management or Board regarding operations or strategy, and activities and conditions relating to pricing, trading, capital requirement and repurchasing of shares of F5 common stock including continued suspension or modification or discontinuation of the common stock 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 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 Presentation

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 net income excluding stock-based compensation, amortization of purchased intangible assets, acquisition-related charges, net of taxes, 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 consists of GAAP net income excluding, as applicable, stock-based compensation, amortization of purchased intangible assets, litigation expense, restructuring charges, facility exit costs, gain on sale of patents, non-recurring tax expenses and benefits, and acquisition-related charges. 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. Stock-based compensation is a non-cash expense that F5 has accounted for since July 1, 2005 in accordance with the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 Compensation—Stock Compensation ("FASB ASC Topic 718"). Amortization of intangible assets is a non-cash expense. Investors should note that the use of intangible assets contribute to revenues earned during the periods presented and will contribute to revenues in future periods. Acquisition-related expenses consist of professional services fees incurred in connection with acquisitions. In addition, non-recurring costs associated with the relocation of the company's corporate headquarters have been excluded from GAAP net income for the purpose of measuring non-GAAP earnings and earnings per share in the first quarter of fiscal year 2019.

GAAP to Non-GAAP Presentation (cont'd)

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.

F5 to Acquire NGINX Transaction Summary

Transaction consideration

- \$670 million purchase price
- Includes deferred consideration for select employees and unvested employee incentive compensation
- Financed entirely with balance sheet cash

Management and governance

- F5 to maintain the NGINX brand, committed to continued innovation & investment in the NGINX open source project
- Gus Robertson, NGINX CEO, will join F5 as SVP and GM leading NGINX
- NGINX founders Igor Sysoev and Maxim Konovalov will join F5 in key roles
- NGINX to continue operations in San Francisco, California and other locations

Financial impact

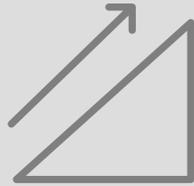
- Accelerates software revenue growth and increases software mix
- Secures Horizon 2 (FY21 – FY22) objectives of mid-to-high single-digit revenue and double-digit EPS growth
- Acquisition and organic investment result in modest FY19 and FY20 EPS dilution

Closing

- Expected to close in calendar Q2 2019
- Subject to regulatory approval and customary closing conditions

Key Pillars of F5's Growth

vADC & ADCaaS



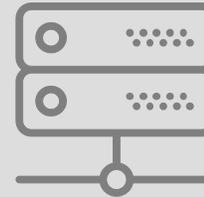
Capturing growing demand for virtual ADCs and ADC-as-a-Service with new software offerings

SECURITY



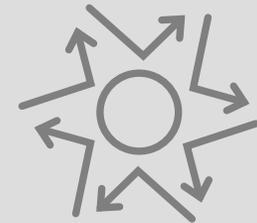
Expanding security services with new multi-cloud solutions

SYSTEMS



Driving share gain in durable systems market

SERVICES



Creating long-term value through product services

WHILE DRIVING MARGIN EXPANSION AND EARNINGS POWER



Capturing Demand for Software

vADC & ADCaaS



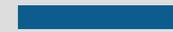
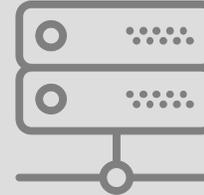
Capturing growing demand for virtual ADCs and ADC-as-a-Service with new software offerings

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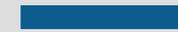
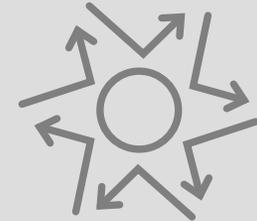
Expanding security services with new multi-cloud solutions

SYSTEMS



Driving share gain in durable systems market

SERVICES

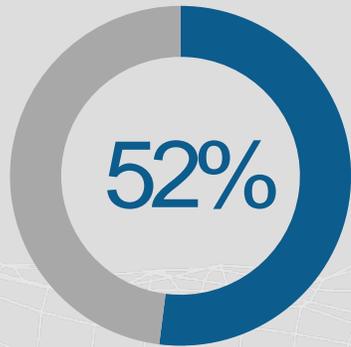


Creating long-term value through product services

WHILE DRIVING MARGIN EXPANSION AND EARNINGS POWER



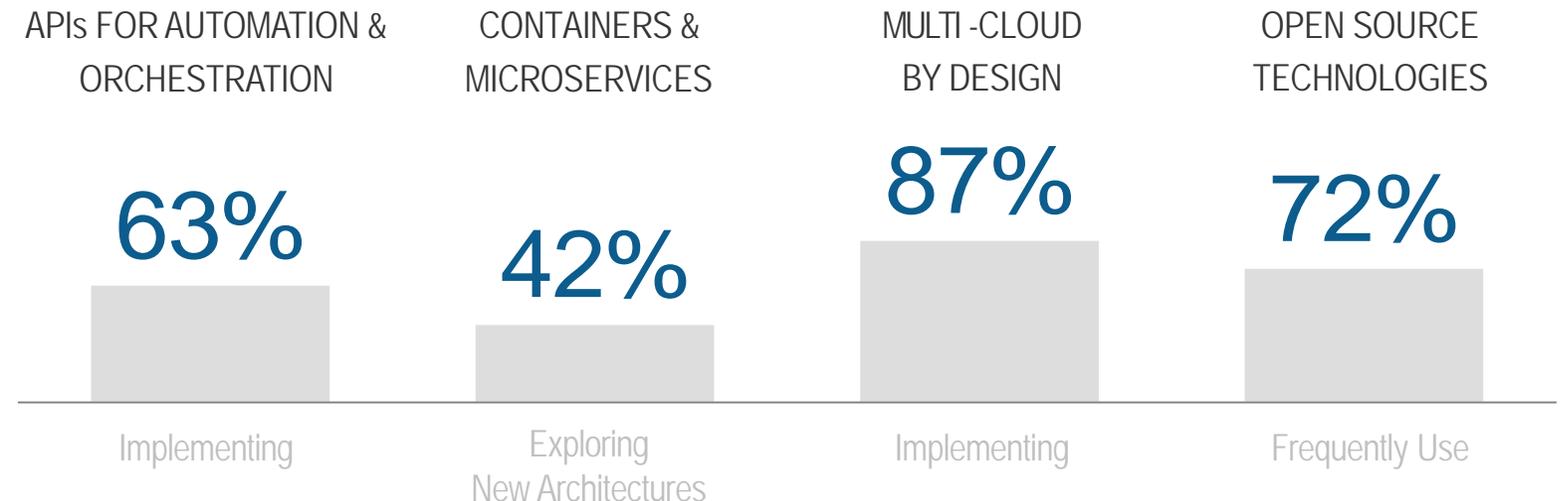
Organizations Seek Agility With Modern Apps



Organizations are embracing new methods of app development

MODERN APPLICATIONS LEVERAGE MODERN TECHNOLOGIES

Modern applications run containers for flexibility, are API-first and designed for automation and orchestration, are built in and for the cloud, and harness the power of the open source.



Untenable Operational Separation

TRADITIONAL APPLICATIONS

- Hardware / virtual machines
- APIs as an afterthought
- Typically in traditional data centers
- Often commercial software
- Waterfall development
- Managed by NetOps

+6% CAGR

44 million workloads CY22

MODERN APPLICATIONS

- Containers / microservices
- API-first approach
- Often built in and for the cloud
- Extensive use of open source
- Continuous integration / delivery
- Championed by DevOps

+40% CAGR

198 million workloads CY22



Operational requirements:



Secured



Managed



Reliable

Accelerating the Transformation to Multi-Cloud Application Services



Global Leader in
Multi-Cloud Application
Services



Open Source Leader in
App Delivery for Modern
Applications



Open Source Leader in App Delivery

375 million sites globally run on NGINX

60% of the busiest
100k sites run on NGINX

CY18 ~\$26m revenue,
65%+ growth

Founded in 2011

240+ employees

1,300+
subscription customers

3 of 5 largest banks
3 of 5 largest US retailers
5 of 10 largest tech co's

A Powerful Combination for Every Customer



Consistent multi-cloud application services

Massive open source community

Global leader in ADC

Native containers & API gateway

Industry-leading app security

Leading web / application server

Advanced application services

Embraced by DevOps

Trusted by NetOps

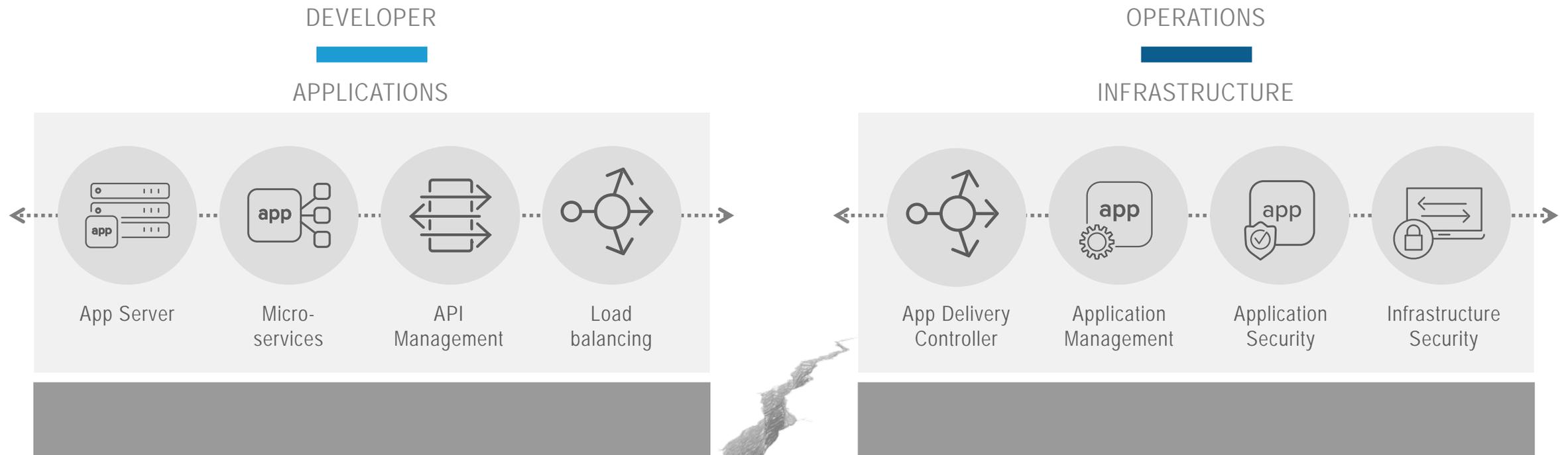
Faster innovation from customer breadth

World-class security for every application

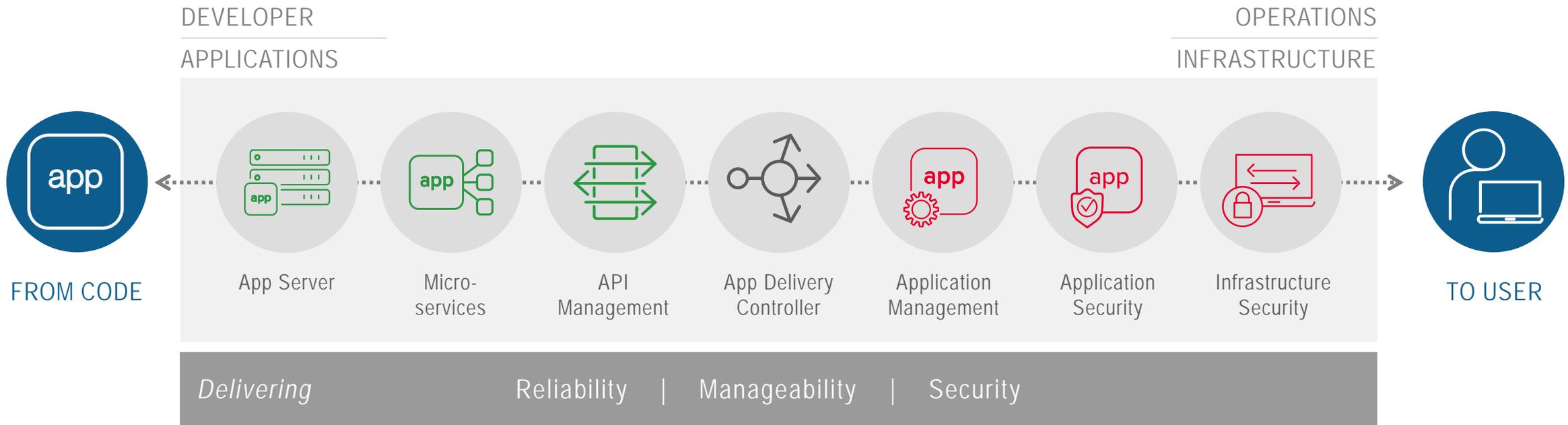
Richer application services for multi-cloud

Trusted across the enterprise

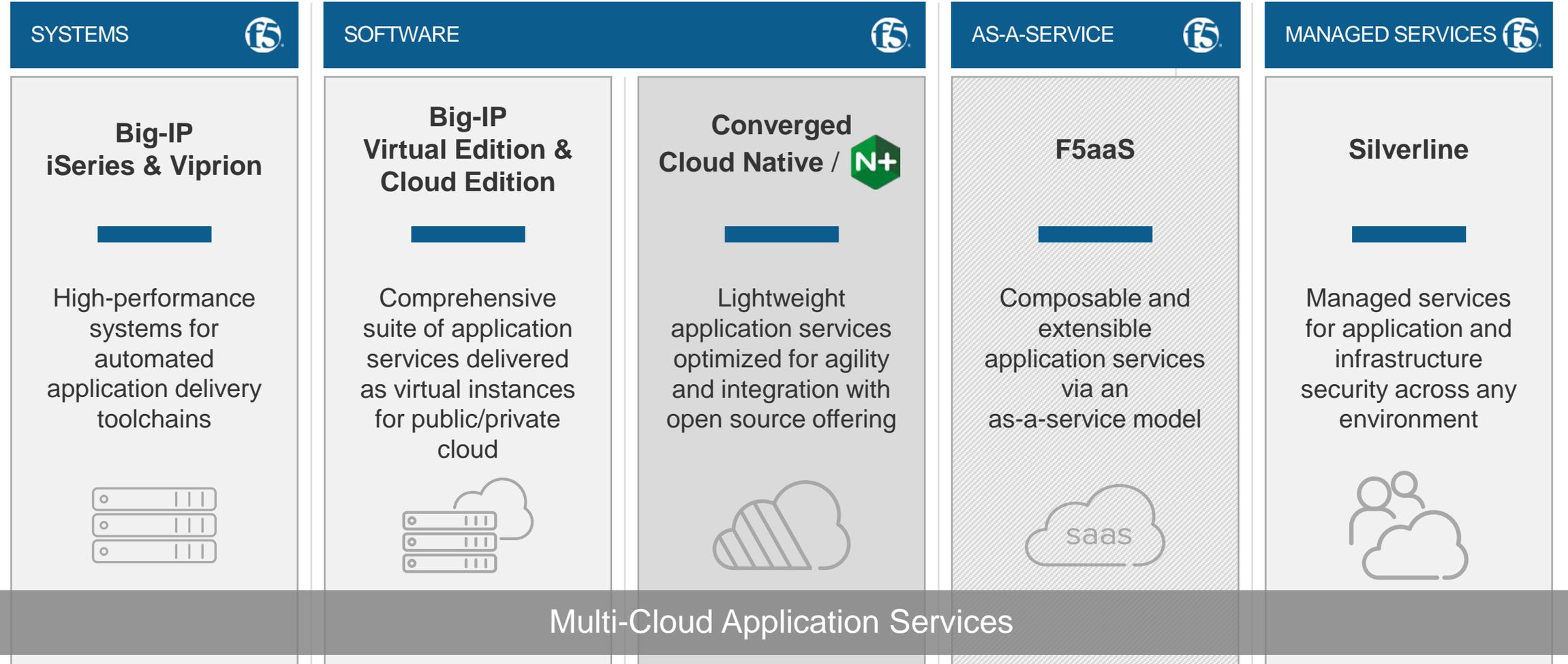
Modern and Traditional App Development



Together We 'Bridge the Divide'



With Deployment Models For Any Environment



Multi-Cloud Application Services

NGINX Accelerates Software Revenue Growth

- Accelerates software revenue growth and increases software mix
- Secures Horizon 2 revenue and non-GAAP EPS growth objectives of mid-to-high single-digit revenue and double-digit non-GAAP EPS growth
- Acquisition and associated investment resulting in modest FY19 and FY20 non-GAAP EPS dilution
- Terminating automatic share repurchase program; we'll be opportunistic with our buy-backs in future quarters

	Analyst & Investor Meeting (AIM) <u>Horizon 1 (FY19 – FY20) Guidance, March 2018</u>	Post-NGINX Acquisition <u>Horizon 1 (FY19 – FY20) Guidance</u>
Total Revenue Growth	Low-to-mid single-digit growth	Mid single-digit growth
Software ¹ Revenue Growth	30% – 35%+ growth	35% – 40%+ growth
Software ¹ as % of Product Revenue	Mid-20s%	25% - 30%
Non-GAAP ² Gross Margin	~85%	~85%
Non-GAAP ² Operating Margin	35% – 37%	33% – 35%
Non-GAAP ² EPS	Mid-to-high single-digit growth	Low single-digit growth

Strengthens F5's Growth Trajectory

1  Capture growing vADC software demand

Accelerates F5's leadership in the fastest growing segment of next-generation software ADC

2  'Bridge the divide' for modern applications

Advances strategic priorities with DevOps and open source, creates new security opportunities

3  Unlocks sales of new disruptive products

New opportunities with API gateway, native container support and application server solutions

 Strengthens F5's growth trajectory

Accelerates software revenue growth, secures Horizon 2 revenue and non-GAAP EPS growth

