Needham

March 17, 2015

Arista Networks Inc. (ANET)

Arista Shines on Midwest NDR - Strongly Reiterating Buy

INVESTMENT HIGHLIGHTS: We are robustly bullish on ANET. We spent 3 days with ANET on a Midwest NDR. We can only describe our experience of the trip as a strong reminder of the exceptional power that we see in the ANET story and the exceptional quality that we see in its management team. We strongly believe ANET is going to be a major company reaching multiple billions in Revenues with Operating Margins rivaling Cisco in the mid-20's and a business model that is building exceptionally strong scale and defensibility. We do not see any impediments to stop ANET from reaching 20-40% market share in its target market from just under 10% currently. We believe ANET is one of the rare "buy and hold" names in the Networking space. We strongly reiterate our Buy and $95 PT. We believe that over time these shares will have substantial upside.
Key Points:

- **Demand strength** in CY4Q carrying into CY1Q15 should help ANET produce better than normal seasonal results in CY1Q15
- **Record customer trials**: ANET is seeing record numbers of Fortune 500 companies testing and adopting its products
- **Shortening lead times/sell cycles**: ANET's success is translating into shortening sell cycles/shortening lead times
- **Data center refresh just getting going**: ANET believes it is in the early phases of a major Data Center refresh cycle. As part of this refresh is driven by the CSCO product launch test timing, it also represents a decision point for many existing Cisco customers who may want to move from a vendor lock-in to a multi-vendor supply structure, opening new growth opportunities for ANET in formerly locked-down CSCO customers.
- **ANET and VMW** are strengthening their partnership and working relationships even as CSCO and VMW become increasingly competitive. ANET noted VMW is **dropping support for the CSCO 1000v virtual switch**, as a pointed example of this changing relationship. **Dropping the C in VCE**: ANET sees considerable opportunity in the converged market as VCE drops the C over time. **Converged opportunities:** ANET noted VMW has been showing its EVO-RAIL converged platform with an ANET ToR in the stack.
- **CY2H new products**: New product refreshes are likely to drive accelerated advantages versus CSCO in CY2H15-CY16. **ANET's time to market advantage should manifest as new merchant silicon hits:** ANET's virtualized interface between its EOS software OS and iterations of merchant silicon should enable it to deliver product 6 months ahead of its competition. As the Tomahawk chips are launched by BRCM, this should allow ANET to leap ahead of competitors and accelerate market share gains.

	FY 12/31/2014	FY 12/31/2015		FY 12/31/2016	
	Actual	Old	New	Old	New
Rev. (MM)	584.1A		778.5E		934.2E
Growth	61.7%		33.3%		20.0%
EPS: 1Q	0.27A	0.35E	0.35E	0.39E	0.39E
EPS: 2Q	0.35A	0.38E	0.38E	0.43E	0.43E
EPS: 3Q	0.40A	0.40E	0.40E	0.49E	0.49E
EPS: 4Q	0.53A	0.49E	0.49E	0.59E	0.59E
EPS: Year	1.51A	1.62E	1.62E	1.90E	1.90E
Growth	55.7%		7.3%		17.3%
P/E Ratio	47.4x		44.2x		37.6x

COMPANY UPDATE

Stock Rating	**BUY** Unchanged
Price Target	**$95.00**

Networking Technology

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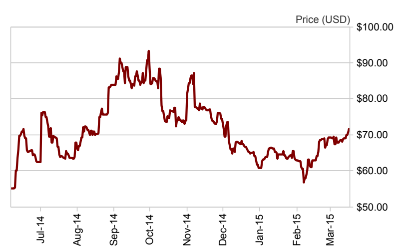
Stock Price Performance

Arista Networks Inc. 03/17/15



Market Data

Price (03/16/2015)	$71.53
52-Week Range	$94.84 - $55.00
Shares Outstanding	66.24
Market Cap (MM)	$4,738.5
Avg. Daily Volume	612,942.0
Total Debt/Cap.	7.11%

Relevant disclosures begin on page 13 of this report.

ANET: $69.05, Buy Rated, Target Price $95

Target	EPS			P/E		Qtr. EPS	1Q	2Q	3Q	4Q	Shrs. Outst.	Mrkt. Cap.	Cash	EV/E
	CY14	CY15E	CY16E	CY15	CY16	CY15E	0.35	0.38	0.40	0.49	(Mil)	($Mil)	(Per Sh.)	CY16E
95.00	1.51	1.62	1.90	42.6	36.3	CY16E	0.39	0.43	0.49	0.59	70.2	4,849	$6.40	32.9

Arista Shines on Midwest NDR - Strongly Reiterating Buy

We are robustly bullish on Arista. We spent three days with Arista's management across an NDR in the Midwest. We can only describe our view of the trip as a strong reminder of the exceptional power that we believe the Arista story has and the exceptional quality that we see in this management team. It is rare to come away from a road show with so many critical points that they are almost too long to list and can't fit on the opening page of a report. We strongly believe Arista Networks is going to be a major company reaching multiple billions in Revenues with Operating Margins rivaling Cisco in the mid-20's and a business model that is building exceptionally strong scale and defensibility. We do not see any obstacles that would impede Arista from reaching 20%-40% market share in its target market. They are currently just a hair under 10%. We believe this is one of the rare "buy and hold" names in the Networking space. We are strongly reiterating our Buy rating and $95 Target price. Over time we believe these shares have substantial upside.

Key Points:

- **Demand Strength** in CY4Q Carries into CY1Q15 should help Arista produce better than normal seasonal results in CY1Q15

- **Record Customer Trials:** Arista is seeing record numbers of Fortune 500 companies testing and adopting its products

- **Shortening Lead Times/Sell Cycles**: Arista's success is translating into shortening sell cycles/shortening lead times

- **Data Center Refresh Just Getting Going:** Arista believes they are in the early phases of a major Data Center refresh cycle. As part of this refresh is driven by the Cisco product launch test timing, it also represents a decision point for many existing Cisco customers who may want to move from a vendor lock in to a multi-vendor supply structure opening new growth opportunities for Arista in formerly locked down Cisco customers.

- **Arista and VMware** are strengthening their partnership and working relationships even as Cisco and VMware become increasing at each other's throats. Arista noted VMware is dropping support for the Cisco 1000v virtual switch, as a pointed example of this changing relationship.

- **Dropping the C in VCE:** Arista sees considerable opportunity in the converged market as VCE drops the C over time.

- **Converged Opportunities:** Arista noted VMware has been showing its EVO-RAIL converged platform with an Arista ToR in the stack.

- **CY2H New Products:** New Product refreshes are likely to drive accelerated advantages versus Cisco in CY2H and in CY16.

- **Arista's Time to Market Advantage Should Manifest in CY152H as new Merchant Silicon Hits:** Arista's virtualized interface between Arista's EOS software operating environment and iterations of merchant silicon should **enable Arista to deliver product 6 months ahead of competition. As the Tomahawk chips are launched by Broadcom** in 2H15, this should allow Arista to leap ahead of competitors and accelerate market share gains. The advantage that allows Arista to achieve this time to market agility is the abstraction virtualization layer built into the EOS operating system interface between EOS and the merchant silicon. This is unique to Arista's design. Arista uses this abstraction layer between its software kernel to allow the same core software to easily be integrated across any merchant silicon product. Moreover, since this was the exclusive design strategy from the get-go when Arista started the company, it is uniformly utilized on all Arista products. This results in the ability of Arista to easily port to any new chip in exceptionally rapid deployment time. All other vendors in the switch market marry the software directly to the chip and as such there is a considerable reengineering effort for every port. We think this is one of the least understood advantages of the Arista product design. We also think it will become clearly evident as new chips are introduced and vendors scramble to take advantage of them. A Six month time to market advantage can be crucial.

- **Taking A Page Out of F5's Success:** Launch of EOS Plus positions Arista to grow its software sales, expand into arenas and customers that have less programing capability, and build an open development community (EOS Central) which long term we believe are major strategic advantages. The open programmability of the EOS environment, with unaltered Linux, makes EOS a natural for developers, customer project collaboration, and ultimately, a building data base of APP scripts, which can be shared by its customer base and user community. Over time, we believe this will build into a significant value to users, a material driver of new uses for the Arista products driving expanding SAM opportunities, and finally a substantial competitive barrier to competitors. We watched this play out with F5 from 2002 through 2015 and think a similar long-term development could and in fact is likely to occur here.

"A lot of goodness happens when new merchant silicon is launched and you are purpose built to optimize it with open Linux programmability"

- **CSCO Lawsuit a Buying Opportunity:** We think the Cisco lawsuit has created a good buying opportunity and over the fullness of time we expect Arista to power through it and emerge a stronger and even more valuable company. In much the same way that the Juniper lawsuit with Palo Alto created an excellent buying opportunity for Palo Alto shares, we believe the Cisco lawsuit is creating an opportunity to get into ANET.

- **International Opportunity with No Currency Risk:** Arista's strong growth story internationally is in stark contrast to the enormous challenges of most companies coping with the exchange rate debacle. Arista has no risk to its business or outlook from currency despite the 25% strengthening of the dollar versus the Euro and similar gains versus many other major currencies globally. We have been stressing our belief all year that investors should focus on domestically centric enterprise oriented names in our sector due to the international currency risk. Arista is 80% domestic US with no exposure to Brazil, Russia or China and more to the point no hit from the strong dollar whatsoever.

Regarding Cisco and the law suit: Arista does not believe they have infringed on Cisco's patents or intellectual property and noted the Arista EOS operating software was developed from scratch from a blank sheet. It is worth noting that the heart of Arista's differentiation to Cisco is in its Linux based programming which is radically different to the Cisco programming.

Arista drew a comparison to the Juniper/Palo Alto lawsuit and noted the length and cost of that but also noted that the Cisco suit is more complex and has more issues. We think a lot of investors that bought Palo Alto during the lawsuit at $40-60 per share and have made an exceptionally strong return on their investment, and we think the recent weakness in ANET is very similar and that the outcome could be similar as well.

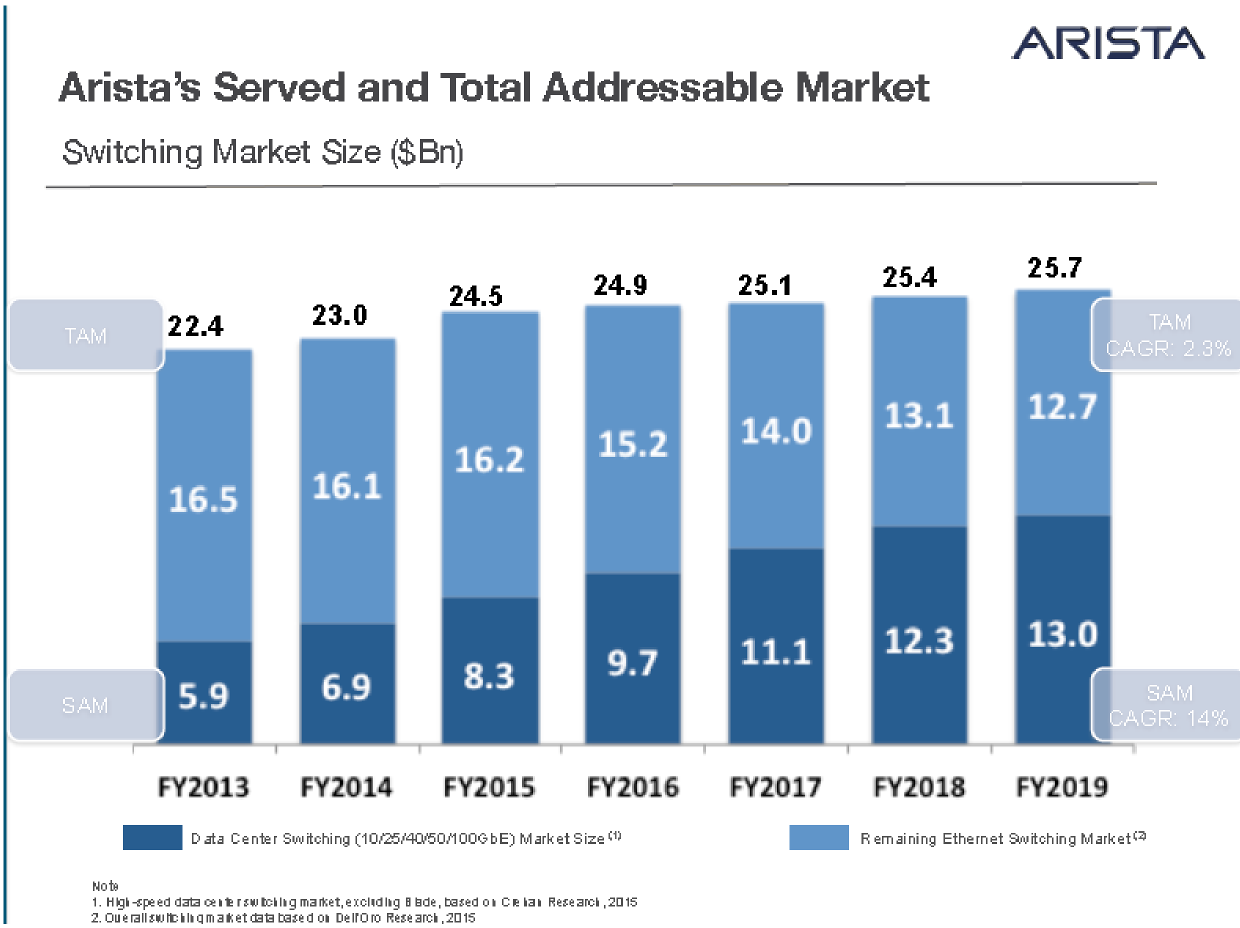
On partnering: Arista sees the Cisco ACI architecture as closed and with considerable vendor lock in. Arista believes that the majority of customers even many that have been sole sourced to Cisco in the past want a more open model going forward.

Arista also noted it has developed a broad array of partners including such former allies of Cisco as VMWare and EMC which now increasingly are working with Arista and in particular are tightly integrating the NSX/Nicera technology with the programmability of the Arista offerings.

Our Read: Expanding TAM: New Uses. Customers are driving Arista's products into uses well beyond the expected scope of the application set Arista had in mind when they were developed. For instance, one customer with limited routing table requirements has reprogrammed Arista's products to perform as a router at 1/10th the cost of a Cisco router. Moreover, Arista believes the new generations of merchant silicon are coming soon which will make full routing tables available which could collapse significant portions of the routing market into the much lower cost switching market.

Expanding TAM: NFV? Some bears appear to think Arista's TAM is overstated. We don't. We think they actually understate it. While Arista includes cloud builds from IaaS and Web 2.0 players, they have eschewed the service provider market. We strongly believe that this is a mistake. As we wrote in our February 2014 report "Teaching Elephants to Dance", we think NFV is allowing service providers to shift to on-demand services delivered from scaled out data centers in exactly the same way as the Web 2.0 companies deliver services. At the end of the day this implies there is an additional pool of $200 billion in Capex spending which we expect to increasingly be funneled to Data Center builds.

Exhibit: Arista's TAM is Expected to Grow ~20% Annually in CY14 to CY16 and 14% Plus Over the 5 year Period Through CY19—We Point Out This Ignores the Telecom Service Providers Moving to Data Center Service Delivery Models



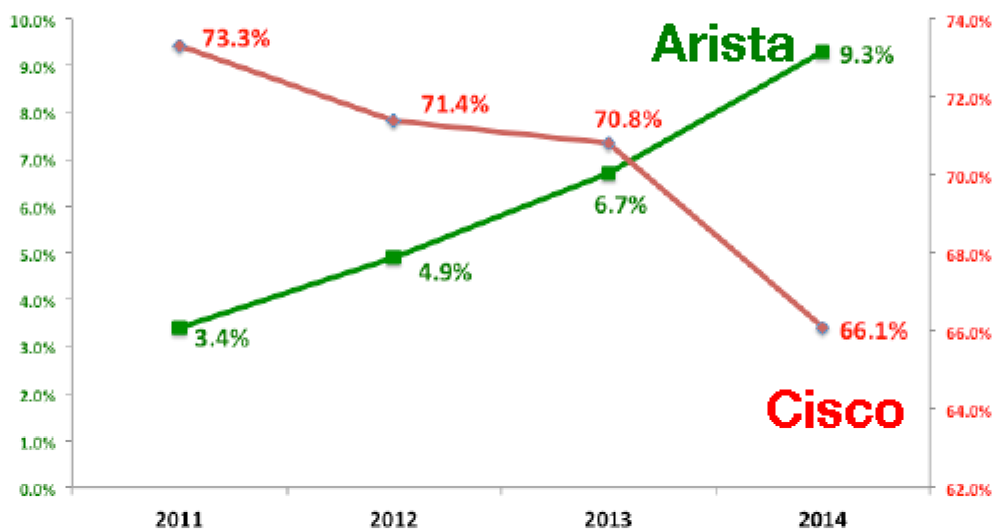
Source: Arista Networks, Dell' Oro 2015 estimates.

10/40/100 and Soon 25G/50G. The overall switching market which is Cisco's target market is growing slowly, but Arista's target market 10/40/100 gig switches are growing fast. Arista currently has a ~9% market share and is increasing its share quickly. Cisco is very aware of Arista and has been aggressive since day 1. Competitively nothing has changed. Cisco's focus on market and competitive approach to Arista hasn't changed since Arista's IPO or since the lawsuit. Ultimately, it is our view that the relative rigidity of Cisco's products and the closed architecture are negatives for Cisco and Arista's open Linus kernel with its exceptional programmability, flexibility and open architecture are ongoing positives for Arista. Arista notes the higher cost to operate and manage the Cisco products and the higher overall OPEX needed in a Cisco based network make the Arista products cost effective even if Cisco gives the hardware away.

Exhibit: Arista is Poised to Become the First Company Ever to Pierce the 10% Market Share Threshold Against Cisco's Incumbency—We Think They Can Ultimately Drive to the 20%-40% Vicinity

2014 Market Share

High Speed Data Center Switching Market Share in Ports (10/40/100GbE)

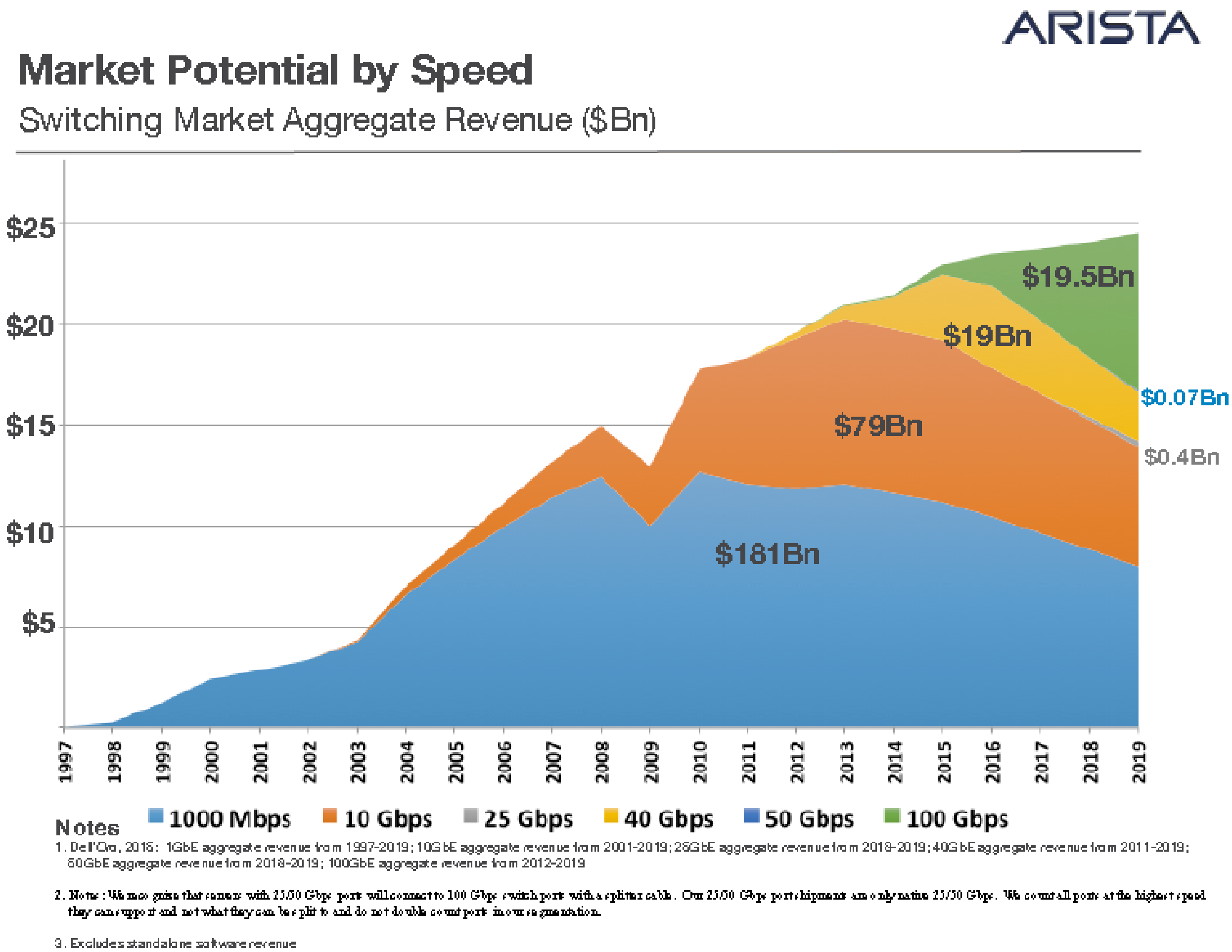


Calendar Year	2013	2014
Arista Port Share	6.7%	9.3%
Arista Revenue Share	5.4%	7.7%
Cisco Port Share	70.8%	66.1%
Cisco Revenue Share	74.2%	69.3%

Note: Market share excludes blade switches.

Source: Arista 2011 revenue based on management estimates. All other information based on Crehan Research 4Q14 Data Center Switch Report.

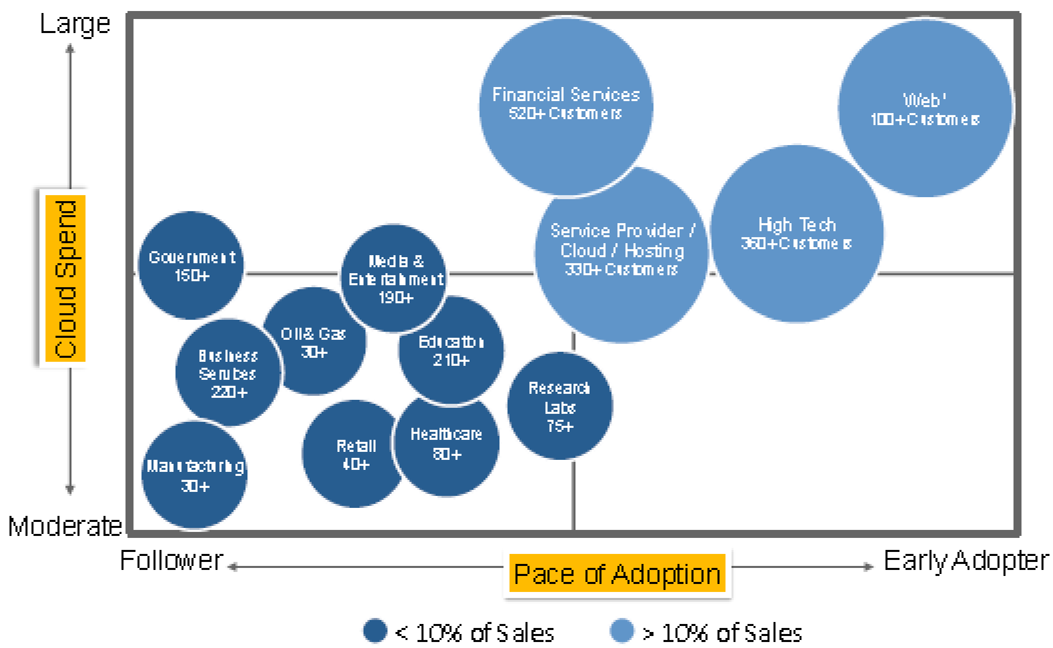
Exhibit: We Think the Shift to Higher Speeds Could Drive Even Higher SAM Market Growth and We Think Arista Could Drive Growth 2X the Target Market Through Share Gains.



Source: Arista Networks.

Arista currently has 3000 plus customers and adds 1-2 a day. Roughly 85% of Revenues are generated from existing customers. Arista is seeing more million dollar customers and larger deal sizes. As previously noted on the CY4Q conference call, Microsoft remains a low-teens customer as a percent of Revenues and Arista expects strong growth to gradually reduce this concentration but for Microsoft to remain above 10% over the short to intermediate term.

Exhibit: Arista Points Out that If the Customers in the Top Four Segments Alone Buy $1 Million Each, Arista Would Achieve More Than $1 Billion in Revenues—In Addition, the Next 9 Verticals Are Sharply Accelerating Adoption



Source: Arista Networks.

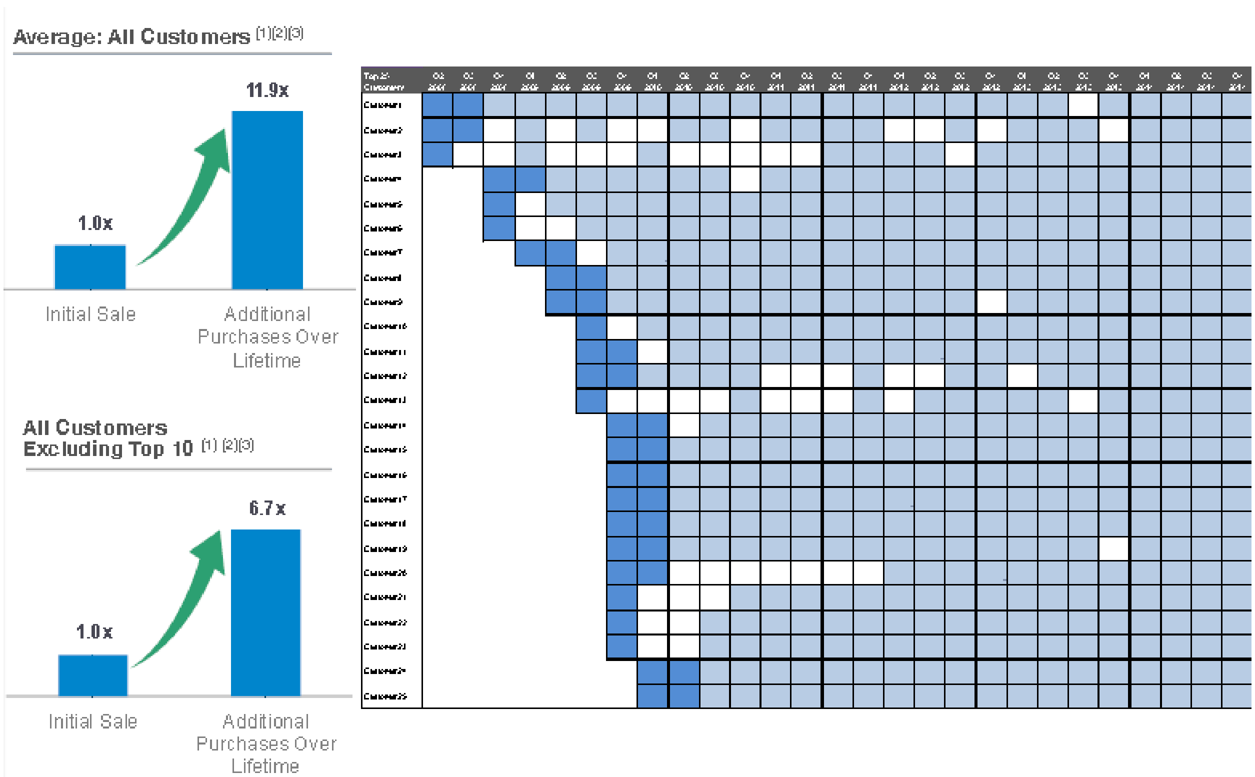
Interestingly, excluding Microsoft which is their only 10% customer, Arista grew 76% in the most recent period. How did they do this? By gaining substantial share within their customer base primarily. Arista has typically visibility to 60% of quarterly Revenues when it gives guidance. It also gets 15% of its Revenues from new customers in any given quarter. With 76% growth outside of Microsoft, this implies its existing customers are currently increasing demand for Arista products by a remarkable 50% pace. While some of this is understandable since Arista tends to start off small at a customer to prove in the value and technical capabilities, it also shows the degree of acceptance post purchase. If Arista gets a foothold, the technology is driving huge share gains inside the customer footprint.

We think it's interesting that one of Cisco's top ten customers is not in the top four verticals.

We think the development of EOS Plus and the advent of EOS Central and EOS consulting will ultimately allow the next tier of customers to attain the advantages of hybrid cloud, scaled out Data Center designs, and SDN through the implementation of the Arista switching line with its superb programmability.

As CTOs and CFOs see the cost structures of the IaaS players and start-ups such as Arista that have all their Data Center needs in the cloud we think the question of “how do I get to that level of agility and cost?” is going to inevitably be asked. We think it will become increasingly clear that Cisco is and its architectural lock in and inflexible designs are at the root of the problem and ultimately we think they will seek out Arista and seek out the programming community to learn how to make the transition to the SDN world.

Exhibit: The Post Purchase Share Gains Can Be Seen Clearly in the Customer Repurchase Chart Below—Arista Typically Sees 12X the Initial Purchases From Customers Over Time



Notes
1. Analysis based on Billings Initial sale represents first two quarters of purchasing history.
2. Includes all customers that have been Arista customers for 8 or more quarters, as of Dec. 31, 2014.
3. Represents a customer set of 1,602 customers, including the Top 10.

Source: Arista Networks.

Arista Guidance:

Revenues	Revenue between $164 and $172 million, a 40-47% growth rate. --When Reported: Compares with our $157 million and Street estimates of $161 million
Gross Margins	NG Gross Margin in the range of 63% to 66% --When Reported: Compares with our and Street estimates of ~64.5%
Operating Margin	NG Operating Margin in the range of 22% to 25% vs. Street at 24.5%
Tax Rate	31%-32%
Share Count	71-72 million
EPS	Implies EPS in the $0.34-$0.40 vicinity versus Street when Reported: at $0.30

Source: Arista's 4Q14 Conference Call--Needham & Company, LLC notes.

Table: Arista Networks—Balance Sheet

(Thousands Of Dollars, Except Per-Share Data)

Fiscal Year Ends December	Year 2010	Year 2011	Year 2012	Year 2013	Mar-14	Jun-14	Sep-14	Dec-14
Assets								
Cash & Equivalents	14,578	70,725	88,655	113,664	$129,524	$397,198	$408,596	$240,031
Short-Term Investments			0	0	0	0		209,426
Total Cash And Equivelents	$14,578	$70,725	$88,655	$113,664	$129,524	$397,198	$408,596	$449,457
Accounts Receivable, Net Of Allowances	17,760	28,186	49,902	77,999	63,007	67,946	84,063	96,982
Inventory	9,296	17,028	24,181	73,360	78,978	71,068	62,587	80,519
Deferred Tax Assets	0	3,044	6,309	12,356	8,964	8,696	8,696	12,252
Prepaid Expenses And Other Current Assets	2,635	2,048	7,125	4,144	7,494	9,768	16,409	40,269
Notes Recievable Current	0		1,000	4,000	4,000	8,000	8,000	
Total Current Assets	$44,269	$121,031	$177,172	$285,523	$291,967	$562,676	$588,351	$679,479
Property, Plant, And Equipment, Net	1,154	2,856	30,546	67,204	67,626	68,799	66,991	71,558
Long-Term Investments	0	0	4,000	0	0	0		
Restricted Cash	0	0	4,040	4,040	4,040	0		
Purchased Intangible Assets	230	0	0	0	0	0		
Goodwill		0	0	0	0	0		
Other Long Term Assets	2,563	3,755	4,410	7,753	11,830	11,303	36,541	59,986
Total Assets	**$48,216**	**$127,642**	**$220,168**	**$364,520**	**$375,463**	**$642,778**	**$691,883**	**$811,023**
Liabilities & Equity								
Accounts Payable	4,936	6,343	11,016	14,741	7,258	20,000	19,845	32,428
Accrued Liabilities	4,548	5,614	12,141	26,909	26,933	28,016	32,246	40,369
Deferred Revenues	3,106	7,488	17,602	41,306	36,291	37,888	40,277	60,327
Income Taxes Payable								
Convertible Debt								
Other Accrued Liabilities	1,149	3,304	5,605	10,144	10,437	11,790	9,428	11,249
Total Current Liabilities	$13,739	$22,749	$46,364	$93,100	$80,919	$97,694	$101,796	$144,373
Long Term Deferred Revenue				-				
Income Taxes Payable	1	7,086	12,477	14,716	14,890	15,072	15,022	17,323
Other Long Term Liabilities	2,147	3,933	8,040	19,576	21,844	0	39,312	42,547
Lease Finance Obligation			25,253	43,152	43,367	43,108	42,831	51,122
Long Term Debt	80,938	102,068	109,124	116,244	118,015	25,718		
Shareholders' Equity	**(48,609)**	**(8,194)**	**18,910**	**77,732**	**96,428**	**461,186**	**492,922**	**555,658**
Total Liabilities & Equity	**$48,216**	**$127,642**	**$220,168**	**$364,520**	**$375,463**	**$642,778**	**$691,883**	**$811,023**
Shares Outstanding	45,346	45,346	46,379	52,044	60,421	67,470	69,737	70,219
Book Value Per Share	**($1.07)**	**($0.18)**	**$0.41**	**$1.49**	**$1.60**	**$6.84**	**$7.07**	**$7.91**
Current Ratio	**3.2**	**5.3**	**3.8**	**3.1**	**3.6**	**5.8**	**5.8**	**4.7**
Cash Per Share	**$ 0.32**	**$ 1.56**	**$ 1.91**	**$ 2.18**	**$ 2.14**	**$ 5.89**	**$ 5.86**	**$ 6.40**
Net Long Term Investments Per Share(Less Debt)	**$ (1.78)**	**$ (2.25)**	**$ (2.18)**	**$ (2.16)**	**$ (1.89)**	**$ (0.38)**	**$ -**	**$ -**
Net Cash Plus Long Term Investments	**$ (1.46)**	**$ (0.69)**	**$ (0.27)**	**$ 0.03**	**$ 0.26**	**$ 5.51**	**$ 5.86**	**$ 6.40**
Total Debt To Equity	**0%**	**0%**	**577%**	**150%**	**122%**	**6%**	**0%**	**0%**
Days Sale Outstanding	**90**	**74**	**94**	**79**	**48**	**44**	**49**	**50**

Source: Arista Networks financial statements, Needham & Co., LLC estimates

Table: Arista Networks—Quarterly Non-GAAP Income Statement

(Thousands Of Dollars, Except Per-Share Data)

Fiscal Year Ends December	Year 2013	Mar-14A	Jun-14A	Sep-14A	Dec-14A	Year 2014	Mar-15E	Jun-15E	Sep-15E	Dec-15E	Year 2015	Year 2016
Revenues	361,224	117,207	137,947	155,463	173,489	584,106	167,417	183,470	202,102	225,536	778,524	934,229
Cost Of Goods Sold	122,277	35,682	44,266	54,026	56,506	190,480	59,433	65,132	74,778	85,388	284,730	345,684
Gross Profit	238,947	81,525	93,681	101,437	116,983	393,626	107,984	118,338	127,324	140,148	493,794	588,544
Gross Margin	66.1%	69.6%	67.9%	65.2%	67.4%	67.4%	64.5%	64.5%	63.0%	62.1%	63.4%	63.0%
Research And Development	93,123	30,979	31,361	31,927	39,656	133,923	38,863	39,244	39,785	40,151	158,043	167,970
Sales and Marketing	52,130	17,227	18,780	18,569	23,119	77,695	23,438	28,621	31,589	32,130	115,778	147,189
General and Administrative	17,386	6,555	6,180	8,985	7,156	28,876	8,371	9,173	12,126	13,307	42,977	54,068
Total Costs And Expenses	162,639	54,761	56,321	59,481	69,931	240,494	70,672	77,038	83,500	85,588	316,798	369,227
Operating Income	**76,308**	**26,764**	**37,360**	**41,956**	**47,052**	**153,132**	**37,312**	**41,299**	**43,824**	**54,560**	**176,996**	**219,318**
Operating Margin	21.1%	22.8%	27.1%	27.0%	27.1%	26.2%	22.3%	22.5%	21.7%	24.2%	22.7%	23.5%
Interest Income	(7,873)	(2,535)	(2,963)	(1,588)	(919)	(8,005)	(869)	(864)	(852)	(847)	(3,432)	(2,738)
Other Income, Net	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest Income And Other, Net	(7,873)	(2,535)	(2,963)	(1,588)	(919)	(8,005)	(869)	(864)	(852)	(847)	(3,432)	(2,738)
Pretax Income	**68,435**	**24,229**	**34,397**	**40,368**	**46,133**	**145,127**	**36,443**	**40,435**	**42,972**	**53,713**	**173,564**	**216,580**
Pretax Margin	18.9%	20.7%	24.9%	26.0%	26.6%	24.8%	21.8%	22.0%	21.3%	23.8%	22.3%	23.2%
Income Taxes	15,815	7,824	10,674	12,296	8,796	39,590	11,662	12,939	13,751	17,188	55,540	69,306
Tax Rate	23.1%	34.0%	31.0%	30.5%	19.1%	27.3%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Net Income	**$52,620**	**$16,405**	**$23,723**	**$28,072**	**$37,337**	**$105,537**	**$24,781**	**$27,496**	**$29,221**	**$36,525**	**$118,023**	**$147,274**
Earnings Per Share -- Non-GAAP	**$0.97**	**$0.27**	**$0.35**	**$0.40**	**$0.53**	**$1.51**	**$0.35**	**$0.38**	**$0.40**	**$0.49**	**$1.62**	**$1.90**
Avg. Diluted Shares Outstanding (Million:	54,051	60,421	67,470	69,737	70,219	70,086	71,272	72,341	73,426	74,528	72,892	77,365
						1 10%er						

Source: Arista Networks Financial Statements, Needham & Company LLC estimates Microsoft

Valuation (Price Target: $95.00)

- **Valuation challenging but in our view justifiable.** ANET is richly priced at 5.7x EV/Sales and 39x EV/E on CY16. On our CY16 estimates ANET is trading at 4.7x EV/Sales and 32x EV/E. We think Arista can deliver 20-50% growth over the next 3-5 years. We think the quality of management, the scale of the opportunity, and the orientation to scaled-out data centers makes this valuation reasonable. Ultimately, we think the reason to own Arista is that we believe it is one of the very few companies where there is a clear and unobstructed path to becoming a large company. It's one of the rare technology stocks that we see as a "buy and hold" name. We believe it has the potential to provide an exceptionally strong return.

- **Our Target Price puts ANET at 8x EV/Sales and 46.5x EV/E on CY16 estimates.** We believe Arista is still in the early stages of its growth trajectory and we think it deserves this premium valuation. We also think our estimates are conservative and leave plenty of room for upward revisions in future periods.

Potential Upside Drivers

- **Best in Breed Linux Programmable Operating environment.** We believe the switches are designed the way switches should be designed, not how they have been designed -- Linux-based, Programmable, Open, Scalable, Low-Latency, Low Jitter, maximized port density and lowest power.
- **Excellent Management Team.** We see this as an excellent and deep management team
- **Positioned for Growth from IaaS/Web 2.0 and Big Data Scaled-out Data Center Builds.** Capital spending in this arena is expected to grow 20-50% annually for the next 3-5 years
- **Strong Growth in Enterprise Private/Hybrid Cloud**—We expect Arista to deliver 20% plus growth in the Enterprise arena.
- **International Greenfield.** Arista's growth to date has been almost exclusively domestic. They only get 15% from OUS markets. We think Arista could double this percentage over the next 3-5 years even as they deliver strong domestic growth of 20% plus.
- **Strong Growth**: 85% in CY13; 65% in CY14, and 20-50% projected over next 3-5 years
- **Strong Ecosystem of Arista Partners.** Arista is a preferred partner for most technology leaders. We believe Cisco is seen by many companies as a risky partner since they often use proprietary technology to lock customers in and have competed with partners in past years. We believe Arista's open programmable architecture and laser focus on switching make it the go-to partner.
- **Lack of International Exchange Rate Risk but Plenty of International Growth Potential.** As we entered CY15 we stressed our belief that investors should focus on domestic oriented companies targeting the Enterprise end market. With the 25% move in the value of the dollar we are even more convinced this is a wise strategy. Arista is currently 80% domestic.

Risks to Target

- **Priced for Perfect Execution - In Cisco Cross Hairs.** We see two areas of risk that stand out to us. First, Arista appears priced for persistent quality execution. We see this as a rich valuation. It is predicated on Arista being able to deliver strong predictable growth with expanding margins and consistent performance. If Arista has even a minor stumble in its results or guidance the stock could shed the patina it's been awarded based on the reputation of the management team and the growth of its target market. We would add to this our concern that the Street keeps expectation within reason. There are two ways to screw up a good story: the company can mess up or the sell-side/buy-side can run up expectations above what may be reasonable to expect. The result is the same --- guidance disappoints and valuation is hurt. We note there are some estimates well above the Street forecast, but in our view these do not seem to be based on company guidance or expectations.
- **The Second Risk we see is Cisco.** Cisco has deep pockets and the ability to win business at seemingly irrational prices. For instance, there is a program to seed accounts with the Nexus 9000 products offering as much as 70% off list prices to seed accounts through the end of July. This type of aggressive pricing is a risk to Arista. Cisco could behave irrationally in the switching market to protect its larger franchise dominance. We think this is manageable and we think the superiority of the Arista products will win out even against steep discounts in the sophisticated end markets Arista targets. We heard this loud and clear in our due diligence work.

  --Cisco is the dominant company in the switching and routing arena

  --Cisco's ability to sell end-to-end solutions and "outcome based" architectures is unique

  --Cisco has the financial strength to heavily pressure Arista and to aggressively defend its turf

  --Cisco's new Application Centric Infrastructure (ACI) and the Insieme Switch Platform are attempting to co-opt Arista's open, programmable design advantages

- **White Label:**
  --Arista believes its Linux based architecture lends itself to programmability, SDN, and application centric architectures

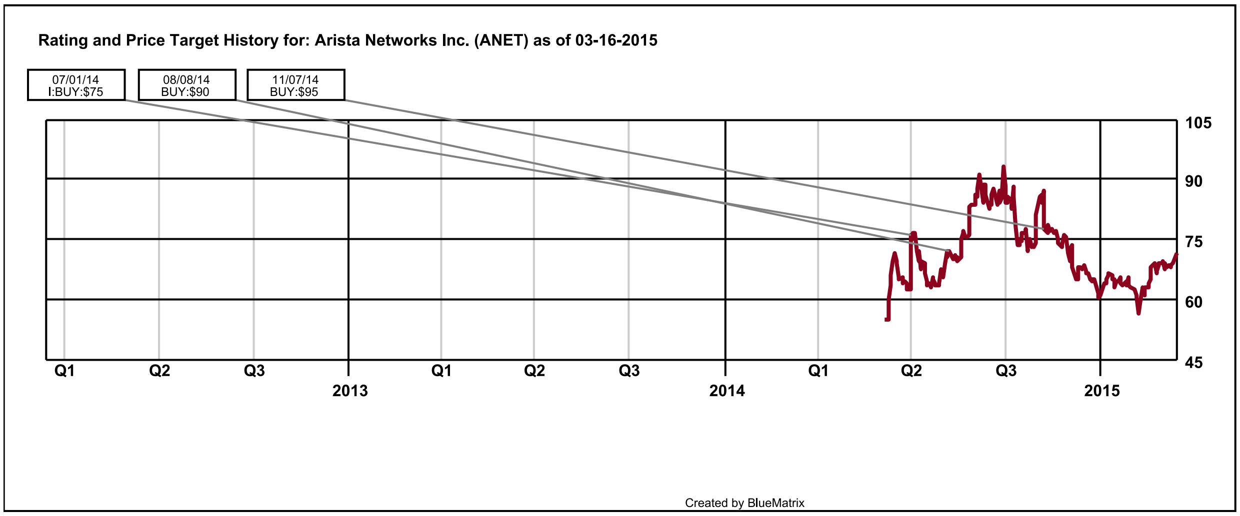
  --Arista believes white label requires too much programming by the customer and lacks too many features to be successful

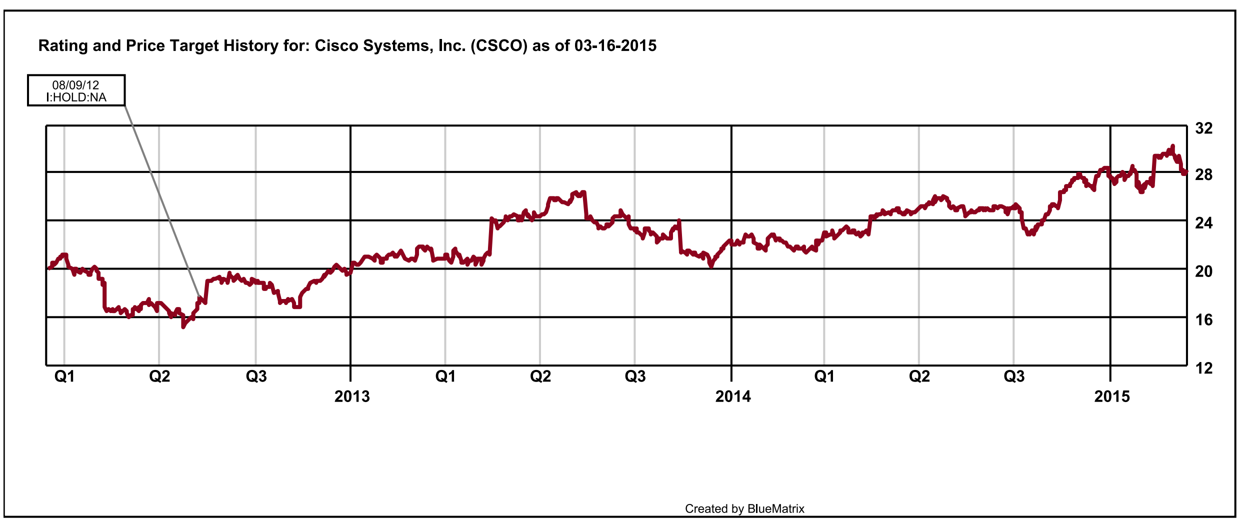
  --Some of the largest customers of Arista have the scale to invest in programming

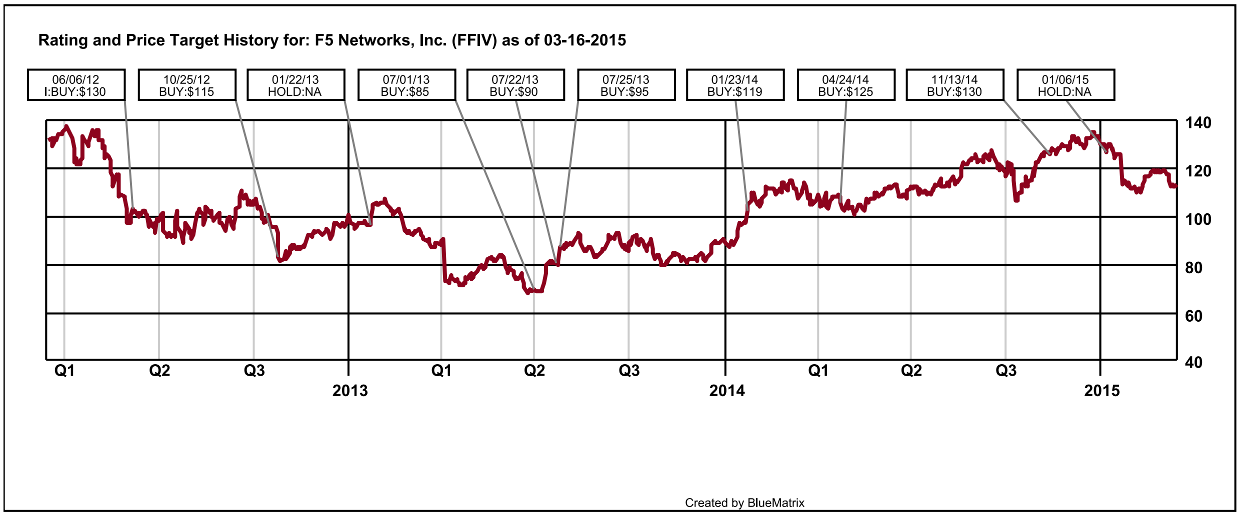
  --Companies such as Cumulus and Pica8 are designed to enable "white box" switching which promise lower procurement cost

  --Arista believes the TCO is much higher for these approaches

  --Arista is also able to sell as a software-only product. The bulk of the value is in the software and Arista offers it as a "soft-only" optio**n.**
- **Lawsuits:** Cisco Systems filed a Lawsuit against Arista for patent infringement. We do not believe Arista's core technology, the EOS operating system, has virtually any overlap with the Cisco IOS. Ultimately, we think this suit is settled and with limited to no impact on Arista. We think there is a small risk it could impact sales if investors are leery of the ultimate outcome.






Rating and Price Target History for: F5 Networks, Inc. (FFIV) as of 03-16-2015
06/06/12 I:BUY:$130
10/25/12 BUY:$115
01/22/13 HOLD:NA
07/01/13 BUY:$85
07/22/13 BUY:$90
07/25/13 BUY:$95
01/23/14 BUY:$119
04/24/14 BUY:$125
11/13/14 BUY:$130
01/06/15 HOLD:NA
140
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2014
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Restricted	< 1	0

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