

## SecureWorks

## Good quarter, but not out of the woods yet

Reiterate Rating: UNDERPERFORM | PO: 4.90 USD | Price: 5.95 USD

## Good quarter, but FY guidance suggests challenges linger

4Q revenues/EPS of \$89mn/8c was above our and Street's \$87mn/-2c on pull forward demand and stronger than expected professional services growth. However, the midpoint of FY25 revenue guidance of \$330mn (-10% YoY) was well below Street estimates of \$357mn (-2% YoY) due lingering effects from the transition to Taegis as well as conservatism around Taegis customer renewals coming due in 1H. Positively, the company ended the year with positive 4Q EBITDA of \$3.8mn driven by the transition from non-strategic businesses as well as improved cost structure management. However, we remain Underperform rated given limited visibility in 1H and believe it will still take multiple quarters before the company returns to growth. We reiterate our Underperform rating and our \$4.90 PO.

## The positives: improving cost structure, profitability focus

Gross margin expansion of +410bps YoY to 68.1% was supported by the revenue mix shift to the higher margin Taegis platform, which now accounts for 77% of revenues versus 52% year prior, as well cloud infrastructure efficiencies. Operating margin increased 750bps sequentially to 7.5% driven by slight topline outperformance and cost management specifically in back office and G&A. Management is implicitly guiding to 0% FCF margin for FY25, a marked improvement from -17% this year, supported by the transition away from legacy business which carry duplicative cost structures as well as cost savings from restructuring activities that occurred this year.

## The negatives: slow growth, renewal cohort poses risk

SecureWorks faces a challenging 1H25 from a topline perspective. The company expects continued sequential declines in growth over the next two quarters resulting from headwinds from the transition to Taegis. Additionally, the first large cohort of Taegis customers comes up for renewal in 1H, and while trends appear stable, management's visibility into renewal behavior remains limited, posing a risk to retention rates. Lastly, we flag that SecureWorks continues to index on profitability versus growth while the company navigates the transition away from non-strategic businesses, which could keep a lid on the stock as cybersecurity stocks trade on growth momentum.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.11	(0.56)	(0.22)	0	0.22
GAAP EPS	(0.48)	(1.24)	(0.58)	(0.40)	(0.20)
EPS Change (YoY)	-56.0%	NM	60.7%	NM	NA
Consensus EPS (Bloomberg)			(0.33)	0.03	0.08
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	54.1x	NM	NM	NA	27.0x
EV / EBITDA*	46.7x	NM	NM	64.7x	27.8x
Free Cash Flow Yield*	3.1%	-13.4%	-12.6%	-0.2%	3.1%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

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## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	363.9	365.9
2025E Rev (m)	367.5	330.9
2026E Rev (m)	385.3	342.1
2024E EPS	-0.34	-0.22
2025E EPS	-0.02	0
2026E EPS	0.07	0.22

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## Stock Data

Price	5.95 USD
Price Objective	4.90 USD
Date Established	7-Dec-2023
Investment Opinion	C-3-9
52-Week Range	5.40 USD - 10.06 USD
Mrkt Val (mn) / Shares Out (mn)	480 USD / 80.7
Free Float	43.9%
Average Daily Value (mn)	0.16 USD
BofA Ticker / Exchange	SCWX / NAS
Bloomberg / Reuters	SCWX US / SCWX.OQ
ROE (2024E)	-3.6%
Net Dbt to Eqty (Jan-2023A)	-25.7%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> SecureWorks

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	1.0%	-8.8%	-5.1%	1.6%	4.6%
Return on Equity	1.3%	-7.8%	-3.6%	0%	3.9%
Operating Margin	1.5%	-13.9%	-8.6%	2.8%	7.8%
Free Cash Flow	15	(65)	(60)	(1)	15

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	NM	NM	NM	1.7x
Asset Replacement Ratio	0x	0.1x	0x	0.4x	0.4x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-34.0%	-25.7%	-13.7%	-14.3%	-17.6%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	535	463	366	331	342
% Change	-4.6%	-13.4%	-21.1%	-9.5%	3.4%
Gross Profit	335	292	234	216	224
% Change	0.1%	-13.0%	-19.6%	-7.8%	3.8%
EBITDA	18	(60)	(28)	13	31
% Change	19.0%	NM	54.1%	NM	132.3%
Net Interest & Other Income	(4)	1	(15)	(13)	(12)
<b>Net Income (Adjusted)</b>	<b>9</b>	<b>(47)</b>	<b>(19)</b>	<b>0</b>	<b>19</b>
<b>% Change</b>	<b>-58.0%</b>	<b>NM</b>	<b>59.2%</b>	<b>98.9%</b>	<b>NM</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(40)	(114)	(86)	(35)	(17)
Depreciation & Amortization	41	37	54	42	42
Change in Working Capital	(30)	(21)	(37)	(48)	(6)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	46	36	10	56	14
Capital Expenditure	(2)	(2)	(1)	(17)	(17)
<b>Free Cash Flow</b>	<b>15</b>	<b>-65</b>	<b>-60</b>	<b>-1</b>	<b>15</b>
<b>% Change</b>	<b>-74.3%</b>	<b>NM</b>	<b>6.5%</b>	<b>98.8%</b>	<b>NM</b>
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(8)	(9)	(6)	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	221	144	69	70	87
Trade Receivables	86	73	54	46	48
Other Current Assets	27	18	15	16	17
Property, Plant & Equipment	8	5	2	8	15
Other Non-Current Assets	645	602	585	525	506
<b>Total Assets</b>	<b>987</b>	<b>841</b>	<b>725</b>	<b>665</b>	<b>674</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	266	246	202	148	145
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	73	37	21	28	35
<b>Total Liabilities</b>	<b>339</b>	<b>283</b>	<b>223</b>	<b>176</b>	<b>180</b>
<b>Total Equity</b>	<b>648</b>	<b>558</b>	<b>501</b>	<b>489</b>	<b>494</b>
<b>Total Equity &amp; Liabilities</b>	<b>987</b>	<b>841</b>	<b>725</b>	<b>665</b>	<b>674</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Data Networking

## Company Description

SecureWorks is a security services carve-out of Dell and offers its global customers security services, outsourcing, and consulting. The company is migrating out of the commoditized \$8.7bn Managed Security Services (MSS), shifting its focus from its old the Counter Threat Platform (CTP) to a new cloud-based XDR platform.

## Investment Rationale

SecureWorks is a leading pure-play security services company, migrating its customers from the commoditized managed service to a new XDR platform, yet we think that it may struggle to gain share in a relatively crowded market.

## Stock Data

Average Daily Volume 26,590

## Quarterly Earnings Estimates

	2023	2024
Q1	-0.09A	-0.20A
Q2	-0.13A	-0.10E
Q3	-0.16A	0E
Q4	-0.17A	0.08E

# Financial highlights

## Exhibit 1: Actual versus estimated results

SecureWorks reported solid 4Q results

SecureWorks Actual vs Estimated Results	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Jan-24	Delta	QoQ	YoY
<b>Total Net Revenue</b>	<b>\$115.3</b>	<b>\$94.4</b>	<b>\$93.0</b>	<b>\$89.4</b>	<b>\$89.2</b>	<b>\$87.1</b>	<b>\$2.0</b>	<b>-0.2%</b>	<b>-22.7%</b>
Total COGS	\$41.6	\$37.8	\$35.0	\$30.1	\$28.5	\$30.9	(\$2.5)	-5.5%	-31.5%
Gross profit (Non-GAAP)	\$73.7	\$56.6	\$58.0	\$59.2	\$60.7	\$56.2	\$4.5	2.4%	-17.7%
Total Gross Margin	63.9%	59.9%	62.4%	66.3%	68.1%	64.5%	355.9 bps	176.3 bps	412.1 bps
Research and Development (Non-GAAP)	\$19.6	\$28.6	\$25.6	\$12.4	\$12.1	\$11.8	\$0.3	-2.8%	-38.5%
Sales and Marketing (Non-GAAP)	\$40.4	\$33.7	\$30.1	\$26.2	\$24.1	\$24.9	(\$0.81)	-8.1%	-40.3%
General and Administrative (Non-GAAP)	\$34.4	\$15.4	\$13.5	\$22.6	\$21.7	\$19.2			
Total Operating Expenses (Non-GAAP)	\$94.4	\$77.6	\$69.2	\$61.2	\$57.9	\$55.9	\$2.0	-5.5%	-38.7%
Income (loss) from operations	(\$20.7)	(\$21.1)	(\$11.3)	(\$2.0)	\$2.8	\$0.3	\$2.5	-241.7%	-113.6%
Operating margin (Non-GAAP)	-17.9%	-22.3%	-12.1%	-2.2%	3.2%	0.3%	282.0 bps	537.1 bps	2109.2 bps
Other Income (Expense)	\$2.48	(\$1.75)	(\$12.98)	\$0.68	(\$0.86)	(\$2.89)	\$2.04	-225.1%	-134.6%
Income (loss) before tax	(\$18.2)	(\$22.8)	(\$24.2)	(\$1.3)	\$2.0	(\$2.6)	\$4.6	-250.4%	-110.7%
Tax provision (benefit)	(\$3.9)	(\$5.7)	(\$15.6)	(\$1.3)	(\$4.7)	\$0.8	(\$5.5)	263.0%	19.0%
Non-GAAP Net income (loss) to shareholders	(\$14.3)	(\$17.1)	(\$8.6)	(\$0.0)	\$6.6	(\$3.4)	\$10.0	-95014.3%	-146.5%
<b>Non-GAAP EPS, fully diluted</b>	<b>(\$0.17)</b>	<b>(\$0.20)</b>	<b>(\$0.10)</b>	<b>(\$0.00)</b>	<b>\$0.08</b>	<b>(\$0.04)</b>	<b>\$0.12</b>	<b>-94919.8%</b>	<b>-145.6%</b>
Shares Outstanding, fully diluted	84,701	85,431	86,121	86,278	86,364	86,149	215	0.1%	2.0%
<b>Non-GAAP EPS, basic</b>	<b>(\$0.17)</b>	<b>(\$0.20)</b>	<b>(\$0.10)</b>	<b>(\$0.00)</b>	<b>\$0.08</b>	<b>(\$0.04)</b>	<b>\$0.12</b>	<b>-94919.8%</b>	<b>-145.6%</b>
Shares Outstanding, basic	84,701	85,431	86,121	86,278	86,364	86,149	215	0.1%	2.0%
<b>Margin Analysis:</b>									
<b>Gross margin</b>	<b>63.9%</b>	<b>59.9%</b>	<b>62.4%</b>	<b>66.3%</b>	<b>68.1%</b>	<b>64.5%</b>	<b>355.9 bps</b>	<b>176.3 bps</b>	<b>412.1 bps</b>
Research and development % of revenue	17.0%	30.3%	27.5%	13.9%	13.5%	13.5%	-0.6 bps	-36.2 bps	-346.6 bps
Sales, general and administrative % of revenue	35.8%	38.6%	38.6%	39.1%	42.2%	42.2%	0.0 bps	310.3 bps	633.7 bps
Opex % of Revenue	81.9%	82.2%	74.5%	68.5%	64.9%	64.2%	73.9 bps	-360.7 bps	-1697.1 bps
<b>Operating margin</b>	<b>-17.9%</b>	<b>-22.3%</b>	<b>-12.1%</b>	<b>-2.2%</b>	<b>3.2%</b>	<b>0.3%</b>	<b>282.0 bps</b>	<b>537.1 bps</b>	<b>2109.2 bps</b>
Tax rate	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	0.0 bps	0.0 bps	0.0 bps
Net margin	-12.4%	-18.2%	-9.3%	0.0%	7.5%	-3.9%	1133.6 bps	746.0 bps	1983.0 bps

Source: BofA Global Research estimates, company report

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## Exhibit 2: Summary of model changes

We tweak our estimates to reflect updated guidance

		Revenues			EPS		
		Old	New	Change	Old	New	Change
<b>FY23</b>							
1Q23	Apr-22	\$121.0	\$121.0	\$0.0	(\$0.15)	(\$0.15)	\$0.00
2Q23	Jul-22	\$116.2	\$116.2	\$0.0	(\$0.13)	(\$0.13)	\$0.00
3Q23E	Oct-22	\$110.9	\$110.9	\$0.0	(\$0.16)	(\$0.16)	\$0.00
4Q23E	Jan-23	\$115.3	\$115.3	\$0.0	(\$0.17)	(\$0.17)	\$0.00
<b>Total</b>	<b>CY22E</b>	<b>\$463.5</b>	<b>\$463.5</b>	<b>\$0.0</b>	<b>(\$0.56)</b>	<b>(\$0.56)</b>	<b>\$0.00</b>
<b>FY24</b>							
1Q24E	Apr-23	\$94.4	\$94.4	\$0.0	(\$0.20)	-\$0.20	\$0.00
2Q24E	Jul-23	\$93.0	\$93.0	\$0.0	(\$0.10)	-\$0.10	\$0.00



**Exhibit 2: Summary of model changes**  
We tweak our estimates to reflect updated guidance

		Revenues			EPS		
3Q24E	Oct-23	\$89.4	\$89.4	\$0.0	(\$0.00)	\$0.00	\$0.00
4Q24E	Jan-24	\$87.1	\$89.2	\$2.0	(\$0.04)	\$0.08	\$0.12
<b>Total</b>	<b>CY23E</b>	<b>\$363.9</b>	<b>\$365.9</b>	<b>\$2.0</b>	<b>(\$0.34)</b>	<b>(\$0.22)</b>	<b>\$0.12</b>
<b>FY25</b>							
1Q25E	<b>Apr-24</b>	<b>\$90.2</b>	<b>\$84.7</b>	-\$5.5	<b>(\$0.02)</b>	<b>(\$0.02)</b>	-\$0.01
2Q25E	<b>Jul-24</b>	<b>\$90.6</b>	<b>\$80.5</b>	-\$10.2	<b>(\$0.02)</b>	<b>(\$0.05)</b>	-\$0.03
3Q25E	<b>Oct-24</b>	<b>\$92.4</b>	<b>\$82.1</b>	-\$10.4	<b>\$0.01</b>	<b>\$0.01</b>	\$0.00
4Q25E	<b>Jan-25</b>	<b>\$94.3</b>	<b>\$83.7</b>	-\$10.6	<b>\$0.02</b>	<b>\$0.06</b>	\$0.04
<b>Total</b>	<b>CY24E</b>	<b>\$367.5</b>	<b>\$330.9</b>	<b>-\$36.6</b>	<b>(\$0.02)</b>	<b>(\$0.00)</b>	<b>\$0.01</b>

Source: BofA Global Research estimates, company report

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### Exhibit 3: Income statement

Updated summary of key financials



	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	FY23E	FY24E	FY25E
	Apr-22	Jul-22	Oct-22	Jan-23	Apr-23	Jul-23	Oct-23	Jan-24	Apr-24	Jul-24	Oct-24	Jan-25	CY22E	CY23E	CY24E
<b>Revenues</b>	<b>\$121.0</b>	<b>\$116.2</b>	<b>\$110.9</b>	<b>\$115.3</b>	<b>\$94.4</b>	<b>\$93.0</b>	<b>\$89.4</b>	<b>\$89.2</b>	<b>\$84.7</b>	<b>\$80.5</b>	<b>\$82.1</b>	<b>\$83.7</b>	<b>\$463.5</b>	<b>\$365.9</b>	<b>\$330.9</b>
YoY Growth	-13.2%	-13.4%	-17.0%	-9.8%	-22.0%	-20.0%	-19.4%	-22.7%	-10.3%	-13.5%	-8.2%	-6.1%	-13.4%	-21.1%	-9.5%
Cost of revenues	44.7	45.0	40.7	41.6	37.8	35.0	30.1	28.5	27.8	28.7	28.9	29.3	171.9	131.4	114.7
<b>Gross profit</b>	<b>\$76.4</b>	<b>\$71.2</b>	<b>\$70.2</b>	<b>\$73.7</b>	<b>\$56.6</b>	<b>\$58.0</b>	<b>\$59.2</b>	<b>\$60.7</b>	<b>\$56.9</b>	<b>\$51.7</b>	<b>\$53.2</b>	<b>\$54.4</b>	<b>\$291.6</b>	<b>\$234.5</b>	<b>\$216.3</b>
Gross margin	63.1%	61.3%	63.3%	63.9%	59.9%	62.4%	66.3%	68.1%	67.2%	64.3%	64.8%	65.0%	62.9%	64.1%	65.3%
Research and development	30.6	31.0	32.2	19.6	28.6	25.6	12.4	12.1	11.5	10.7	10.4	10.9	113.4	78.6	43.4
Sales, general and administrative	37.6	39.3	39.7	40.4	33.7	30.1	26.2	24.1	23.5	23.7	22.7	22.5	157.1	114.2	92.4
<b>Income from operations</b>	<b>-\$9.4</b>	<b>-\$15.8</b>	<b>-\$18.5</b>	<b>-\$20.7</b>	<b>-\$21.1</b>	<b>-\$11.3</b>	<b>-\$2.0</b>	<b>\$2.8</b>	<b>\$0.7</b>	<b>-\$1.8</b>	<b>\$3.8</b>	<b>\$6.5</b>	<b>-\$64.5</b>	<b>-\$31.5</b>	<b>\$9.2</b>
Operating margin	-7.8%	-13.6%	-16.7%	-17.9%	-22.3%	-12.1%	-2.2%	3.2%	0.8%	-2.2%	4.6%	7.7%	-13.9%	-8.6%	2.8%
Interest income (expense) and other, net	(0.7)	0.1	(0.7)	2.5	(1.7)	(13.0)	0.7	(0.9)	(3.7)	(4.2)	(2.0)	(2.7)	1.2	(14.9)	(12.7)
Provision for income taxes (benefit)	(2.5)	(4.4)	(5.5)	(3.9)	(5.7)	(15.6)	(1.3)	(4.7)	(0.9)	(1.8)	0.5	(1.1)	(16.3)	(27.3)	(3.3)
<b>Net income</b>	<b>-\$7.6</b>	<b>-\$11.3</b>	<b>-\$13.7</b>	<b>-\$14.3</b>	<b>-\$17.1</b>	<b>-\$8.6</b>	<b>\$0.0</b>	<b>\$6.6</b>	<b>-\$2.1</b>	<b>-\$4.2</b>	<b>\$1.2</b>	<b>\$4.9</b>	<b>-\$46.9</b>	<b>-\$19.1</b>	<b>-\$0.2</b>
<b>Non-GAAP EPS</b>	<b>(\$0.09)</b>	<b>(\$0.13)</b>	<b>(\$0.16)</b>	<b>(\$0.17)</b>	<b>(\$0.20)</b>	<b>(\$0.10)</b>	<b>(\$0.00)</b>	<b>\$0.08</b>	<b>(\$0.02)</b>	<b>(\$0.05)</b>	<b>\$0.01</b>	<b>\$0.06</b>	<b>(\$0.56)</b>	<b>(\$0.22)</b>	<b>(\$0.00)</b>
<b>GAAP EPS</b>	<b>(\$0.26)</b>	<b>(\$0.29)</b>	<b>(\$0.33)</b>	<b>(\$0.35)</b>	<b>(\$0.31)</b>	<b>(\$0.08)</b>	<b>(\$0.14)</b>	<b>(\$0.05)</b>	<b>(\$0.12)</b>	<b>(\$0.14)</b>	<b>(\$0.10)</b>	<b>(\$0.05)</b>	<b>(\$1.24)</b>	<b>(\$0.58)</b>	<b>(\$0.40)</b>
Basic share count	83,763	84,483	84,584	84,701	85,431	86,121	86,278	86,364	86,235	86,106	85,978	85,848	84,383	86,049	85,848
Operating Cash Flow	-24.9	-16.5	-26.8	5.6	-42.2	-27.8	-4.5	15.3	-3.4	1.3	6.6	11.3	-62.6	-59.2	15.8
OCF Margin	-20.6%	-14.2%	-24.1%	4.8%	-44.7%	-29.9%	-5.1%	17.2%	-4.0%	1.6%	8.0%	13.5%	-13.5%	-16.2%	4.8%
<b>Free Cash Flow</b>	<b>-25.3</b>	<b>-16.9</b>	<b>-27.5</b>	<b>5.2</b>	<b>-42.7</b>	<b>-27.8</b>	<b>-4.9</b>	<b>15.0</b>	<b>-7.6</b>	<b>-2.7</b>	<b>2.5</b>	<b>7.1</b>	<b>-64.5</b>	<b>-60.3</b>	<b>-0.8</b>
FCF Margin	-20.9%	-14.6%	-24.8%	4.5%	-45.2%	-29.9%	-5.4%	16.8%	-9.0%	-3.4%	3.0%	8.5%	-13.9%	-16.5%	-0.2%
Cash and equivalents	186.2	167.5	139.0	143.5	94.5	64.9	58.1	68.7	61.6	59.3	62.4	70.0	143.5	68.7	70.0
Total debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash	186.2	167.5	139.0	143.5	94.5	64.9	58.1	68.7	61.6	59.3	62.4	70.0	143.5	68.7	70.0
<b>Margin Analysis</b>															
Gross margin	63.1%	61.3%	63.3%	63.9%	59.9%	62.4%	66.3%	68.1%	67.2%	64.3%	64.8%	65.0%	62.9%	64.1%	65.3%
Research and development % of revenue	25.3%	26.7%	29.0%	17.0%	30.3%	27.5%	13.9%	13.5%	13.5%	13.3%	12.7%	13.0%	24.5%	21.5%	13.1%
Sales, general and administrative % of revenue	31.1%	33.8%	35.8%	35.0%	35.7%	32.4%	29.4%	27.1%	27.8%	29.5%	27.6%	26.8%	33.9%	31.2%	27.9%
Opex % of Revenue	70.9%	74.9%	80.0%	81.9%	82.2%	74.5%	68.5%	64.9%	66.4%	66.5%	60.2%	57.3%	76.8%	72.7%	62.6%
<b>Operating margin</b>	<b>-7.8%</b>	<b>-14%</b>	<b>-17%</b>	<b>-17.9%</b>	<b>-22.3%</b>	<b>-12%</b>	<b>-2%</b>	<b>3.2%</b>	<b>0.8%</b>	<b>-2.2%</b>	<b>4.6%</b>	<b>7.7%</b>	<b>-13.9%</b>	<b>-8.6%</b>	<b>2.8%</b>
Tax rate	-25.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-25.8%	-58.8%	-94.0%
Net margin	-6.3%	-9.7%	-12.4%	-12.4%	-18.2%	-9.3%	0.0%	7.5%	-2.5%	-5.2%	1.5%	5.8%	-10.1%	-5.2%	-0.1%
<b>YoY Growth</b>															
Revenue	-13.2%	-13.4%	-17.0%	-9.8%	-22.0%	-20.0%	-19.4%	-22.7%	-10.3%	-13.5%	-8.2%	-6.1%	-13.4%	-21.1%	-9.5%
Total Opex	6.1%	7.9%	7.3%	14.1%	-9.5%	-20.5%	-31.0%	-38.7%	-27.6%	-22.7%	-19.3%	-17.1%	8.9%	-25.3%	-22.1%
Operating Profit	-271.0%	-1367.9%	-897.6%	2340.0%	123.3%	-28.8%	-89.3%	-113.6%	-103.3%	-84.0%	-291.5%	130.1%	-882.0%	-51.1%	-129.1%
EPS	-286.5%	-1304.2%	-1207.7%	-644.0%	121.0%	-25.1%	-99.9%	-145.6%	-87.7%	-51.1%	-17844.8%	-26.0%	-638.0%	-59.2%	-98.9%
<b>QoQ Growth</b>															
Revenue	-5.4%	-4.0%	-4.5%	4.0%	-18.2%	-1.5%	-3.9%	-0.2%	-5.0%	-5.0%	2.0%	2.0%			
Total Opex	3.6%	1.4%	2.0%	6.4%	-17.8%	-10.8%	-11.6%	-5.5%	-2.8%	-4.8%	-7.8%	-2.9%			
Operating Profit	1013.3%	67.3%	17.4%	11.6%	1.9%	-46.6%	-82.4%	-241.7%	-75.5%	-361.0%	-311.2%	70.3%			
EPS	-394.2%	48.5%	21.5%	4.1%	20.0%	-49.7%	-99.9%	-95014.3%	-132.0%	98.2%	-129.4%	294.8%			

Source: BoFA Global Research estimates, company report

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## Price objective basis & risk

### SecureWorks (SCWX)

Our PO of \$4.90 is based on 0.5x CY25E EV/Sales. The multiple is a discount to software and security peers. We believe a discount is warranted to account for SecureWorks' lower growth profile.

Upside risks to our PO are faster-than-expected growth of the new XDR platform, Taegis, which could also drive a stronger margin enhancement. Downside risks to our PO are execution risks, mainly on the speed of customer migration to the Taegis platform, and greater operating expense required to support the growth.

## Analyst Certification

I, Tal Liani, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Cellebrite	CLBT	CLBT US	Tomer Zilberman
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	Qualcomm	QCOM	QCOM US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
<b>NEUTRAL</b>				
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
<b>UNDERPERFORM</b>				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	SecureWorks	SCWX	SCWX US	Tal Liani

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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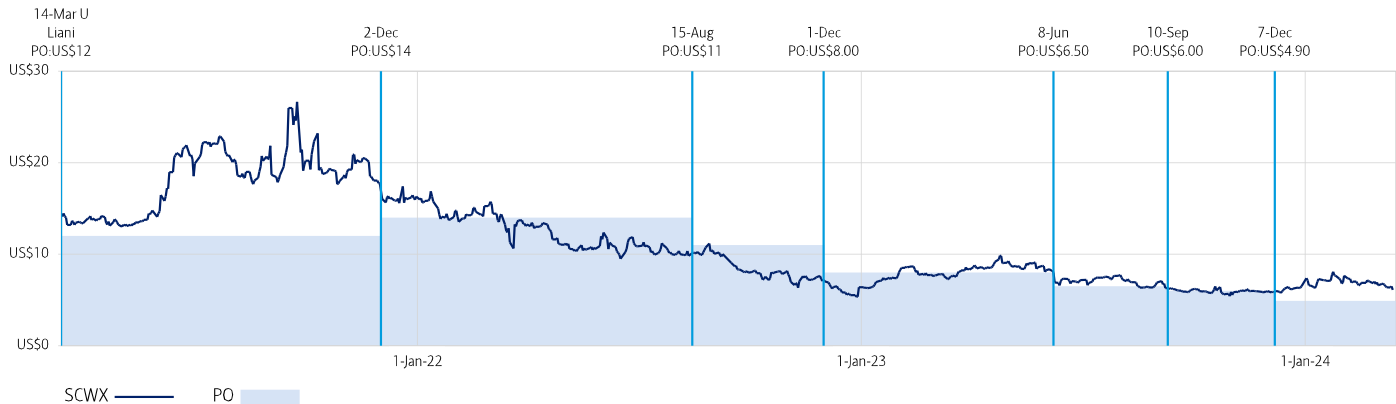
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## Important Disclosures

### SecureWorks (SCWX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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