

F5 Inc

Revenue growth still challenged, but better underlying trends and improving earnings

Reiterate Rating: UNDERPERFORM | PO: 160.00 USD | Price: 185.37 USD

EPS strength offsetting in-line software/systems growth

1Q24 total revenue growth of -1.1% YoY was slightly above Street's -2.2%, mainly due to the 7.5% YoY growth in services revenue. Revenue growth trends are still challenged with software only up 2% YoY while systems revenue declined 22% YoY. On the positive side, EPS of \$3.43 beat Street estimates by 40c, supported by Opex improvement and a 9c tax benefit. We reiterate our Underperform rating and \$160 PO, as we expect revenue to decline in FY24, mainly due to spending pressures and portfolio transitions.

Solid perpetual revenue growth

F5 reported strong perpetual revenue growth, up 21% YoY, mainly driven by a service provider win, related to its Service Proxy Kubernetes (SPK) solution which supports large stand-alone 5G network deployments. However, management guided 2Q revenue to decline 2.6% YoY, and maintained its FY24 revenue growth guidance of -1.5% YoY, suggesting an implicit -1% revenue decline in 2H24. Key drivers include a weak spending environment, headwind from the \$180mn of backlog depletion in FY23, and a longer-term \$65mn headwind related to the sunseting of underperforming products, as well as the migration of legacy Silverline to the new SaaS platform Distributed Cloud Services (DCS). Other long-term factors include the transition from appliances to software, and greater competition from Content delivery Network (CDN) vendors, such as Akamai and Cloudflare, on web application and API protection (WAAP).

Spending environment could remain weak, especially in 2H

Operating margin of 35.5% was up 900bps YoY and management guided FY24 EPS to grow 10% YoY on a tax-neutral basis, slightly higher than Street expectations. However, the earnings upside to Street expectations is largely related to the 1Q EPS beat, as management guided 2Q EPS 12c below Street expectations and implicitly guided 2H24 EPS at 18c below expectations. While earnings growth might prove higher than management's guidance, we continue to expect a decline in revenue in FY24. We believe growth could improve as the company exits FY24, but we expect ARR growth of SaaS/managed services to remain flat, with DCS remaining a small contributor while the company works on its go-to-market strategy, educates the channel, and makes competitive strides against CDN incumbents.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	10.21	11.70	12.52	13.70	14.37
GAAP EPS	5.28	6.55	8.37	9.44	9.99
EPS Change (YoY)	-5.9%	14.6%	7.0%	9.4%	4.9%
Consensus EPS (Bloomberg)			12.42	13.74	14.32
DPS	0	0	0	0	0
EPS Ex-Options Expense	10.21	11.70	12.52	13.70	14.37
Valuation (Sep)					
P/E	18.2x	15.8x	14.8x	13.5x	12.9x
GAAP P/E	35.1x	28.3x	22.1x	19.6x	18.6x
EV / EBITDA*	15.4x	14.3x	13.1x	12.1x	11.5x
Free Cash Flow Yield*	3.0%	4.5%	5.3%	6.0%	5.8%

* For full definitions of *IQmethod*SM measures, see page 6.

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12652437

Timestamp: 30 January 2024 01:00AM EST

30 January 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	2,763.2	2,772.1
2025E Rev (m)	2,875.2	2,886.5
2026E Rev (m)	2,973.9	2,993.7
2024E EPS	12.30	12.52
2025E EPS	13.56	13.70
2026E EPS	13.72	14.37

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Stock Data

Price	185.37 USD
Price Objective	160.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-3-9
52-Week Range	127.05 USD - 185.92 USD
Mrkt Val (mn) / Shares Out (mn)	13,422 USD / 72.4
Free Float	99.3%
Average Daily Value (mn)	80.09 USD
BofA Ticker / Exchange	FFIV / NAS
Bloomberg / Reuters	FFIV US / FFIV.QQ
ROE (2024E)	25.7%
Net Dbt to Eqty (Sep-2023A)	-28.5%
ESGMeter TM	High

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".

ARR: Annual recurring revenue

iQprofileSM F5 Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	17.6%	18.6%	18.2%	18.2%	17.9%
Return on Equity	25.8%	26.8%	25.7%	25.4%	24.4%
Operating Margin	28.9%	30.2%	33.5%	35.0%	35.6%
Free Cash Flow	409	599	713	803	777

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.7x	0.9x	1.0x	1.1x	1.0x
Asset Replacement Ratio	0.3x	0.5x	0.3x	0.3x	0.3x
Tax Rate	16.4%	18.7%	25.5%	27.0%	27.0%
Net Debt-to-Equity Ratio	-16.5%	-28.5%	-33.1%	-39.2%	-43.1%
Interest Cover	42.3x	NA	NA	NA	NA

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,696	2,813	2,772	2,886	2,994
% Change	3.5%	4.4%	-1.5%	4.1%	3.7%
Gross Profit	2,227	2,293	2,290	2,405	2,512
% Change	1.9%	2.9%	-0.1%	5.0%	4.4%
EBITDA	894	962	1,046	1,134	1,195
% Change	-4.7%	7.7%	8.7%	8.4%	5.4%
Net Interest & Other Income	(18)	13	19	12	12
Net Income (Adjusted)	622	705	745	797	840
% Change	-7.2%	13.3%	5.7%	6.9%	5.4%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	322	395	498	549	584
Depreciation & Amortization	116	113	119	125	131
Change in Working Capital	(57)	75	(46)	(47)	(129)
Deferred Taxation Charge	116	113	119	125	131
Other Adjustments, Net	(54)	(42)	58	87	96
Capital Expenditure	(34)	(54)	(36)	(36)	(36)
Free Cash Flow	409	599	713	803	777
% Change	-33.4%	46.5%	18.9%	12.6%	-3.2%
Share / Issue Repurchase	(435)	(290)	(513)	(513)	(513)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(20)	(350)	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	758	797	994	1,285	1,549
Trade Receivables	470	455	504	549	576
Other Current Assets	684	597	642	669	701
Property, Plant & Equipment	168	170	194	230	267
Other Non-Current Assets	3,196	3,229	3,150	3,065	2,983
Total Assets	5,276	5,248	5,485	5,798	6,076
Short-Term Debt	350	0	0	0	0
Other Current Liabilities	1,490	1,473	1,527	1,549	1,525
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	967	975	951	970	957
Total Liabilities	2,807	2,448	2,477	2,519	2,482
Total Equity	2,469	2,800	3,008	3,279	3,594
Total Equity & Liabilities	5,276	5,248	5,485	5,798	6,076

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Data Networking

Company Description

F5 Networks (FFIV) is a provider of application delivery networking products that manage, control, and optimize Internet traffic within a network. F5 products includes Server Load Balancer (SLB), Secure Socket Layer (SSL), Virtual Private Network (VPN), WAN optimization, Network Attached Storage (NAS), DDoS, and diameter signal routing.

Investment Rationale

We rate FFIV at Underperform. We highlight fundamental growth drivers, like SaaS, 5G wireless, add-on security demand and others. However, top-line growth is affected by supply constraints which are continuing to persist. Furthermore, software growth is underperforming and the risk to systems revenue may challenge the company from reaching its FY24 total revenue guidance, with the risks further extending into FY25.

Stock Data

Average Daily Volume 432,042

Quarterly Earnings Estimates

	2023	2024
Q1	2.47A	3.43A
Q2	2.53A	2.85E
Q3	3.21A	3.05E
Q4	3.50A	3.20E

Financial Highlights

Exhibit 1: Actual versus Estimated Results

Actual 1Q24 revenue and EPS of \$692.6mn and \$3.43, respectively, are above BofA estimates for \$675.3mn and \$2.96

Fiscal Year Ends in Sep	1Q23	2Q23	3Q23	4Q23	1Q24	1Q24E	QoQ	YoY	Delta
(in \$MM except EPS)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-23			
Product revenues	340.6	340.6	328.2	325.3	305.9	301.3	-6.0%	-10.2%	4.6
YoY	-0.8%	14.5%	0.5%	-7.0%	-10.2%	-11.5%			
Service revenues	359.8	362.6	374.5	381.7	386.7	374.0	1.3%	7.5%	12.7
YoY	4.6%	7.7%	7.6%	9.0%	7.5%	3.9%			
Total Revenues	700.4	703.2	702.6	707.0	692.6	675.3	-2.0%	-1.1%	17.3
YoY	1.9%	10.9%	4.2%	1.0%	-1.1%	-3.6%			
Product	98.9	99.8	87.9	88.6	82.7	80.4	-6.7%	-16.3%	2.3
Service	38.3	38.1	35.3	33.8	34.6	41.1	2.3%	-9.6%	-6.6
Total Cost of Sales	137.1	137.9	123.2	122.4	117.3	121.6	-4.2%	-14.5%	-4.3
Gross Profits	563.3	565.3	579.4	584.6	575.3	553.7	-1.6%	2.1%	21.6
Sales and Marketing	203.0	202.5	181.1	180.1	174.0	172.9	-3.4%	-14.3%	1.1
Research & Development	119.4	120.9	111.6	112.7	102.9	108.2	-8.7%	-13.8%	-5.3
General and Admin	55.6	50.7	53.3	52.1	52.9	50.0	1.6%	-4.9%	2.9
Total Operating Expenses	378.0	374.1	346.0	344.8	329.8	331.0	-4.4%	-12.8%	-1.3
YoY	9.5%	4.6%	-5.7%	-9.0%	-12.8%	-12.4%			
Operating Income	185.3	191.2	233.4	239.7	245.6	222.6	2.4%	32.5%	22.9
YoY	-17.6%	13.8%	20.3%	25.3%	32.5%	20.2%			
Net Interest Income	4.7	2.7	2.9	3.1	9.9	3.1	220.3%	110.2%	6.8
Pretax Income	190.0	194.0	236.3	242.8	255.4	225.7	5.2%	34.5%	29.7
Income Tax Expense	40.7	40.3	42.7	34.1	50.8	49.7	48.9%	24.9%	1.1
Net Income	149.3	153.6	193.7	208.7	204.6	176.1	-2.0%	37.1%	0.2
Proforma EPS	\$2.47	\$2.53	\$3.21	\$3.50	\$3.43	\$2.96	-1.9%	38.8%	0.47
YoY	-14.6%	18.8%	25.1%	33.3%	38.8%	19.9%			
Diluted Share count	60.4	60.7	60.3	59.7	59.7	59.4	-0.1%	-1.2%	0.2
Product Gross Margin	71.0%	70.7%	73.2%	72.8%	73.0%	73.3%	19 bps	199 bps	-34 bps
Service Gross Margin	89.4%	89.5%	90.6%	91.1%	91.1%	89.0%	-9 bps	169 bps	206 bps
Consolidated Gross Margin	80.4%	80.4%	82.5%	82.7%	83.1%	82.0%	38 bps	264 bps	107 bps
Operating Margin	26.5%	27.2%	33.2%	33.9%	35.5%	33.0%	154 bps	900 bps	248 bps
Net Margin	21.3%	21.8%	27.6%	29.5%	29.5%	26.1%	2 bps	823 bps	347 bps

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 2: Summary of Model Changes

We fine-tune our estimates to be more streamlined with guidance

	Revenue (\$mn)			Op Margin			EPS			Gross Margin		
	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta
F2024E												
1Q24	\$675.3	\$692.6	\$17.33	33.0%	35.5%	248 bps	\$2.96	\$3.43	\$0.47	82.0%	83.1%	107 bps
2Q24E	\$673.2	\$684.9	\$11.62	32.8%	31.0%	-187 bps	\$2.95	\$2.85	(\$0.10)	82.5%	82.5%	-5 bps
3Q24E	\$694.5	\$687.4	(\$7.19)	33.6%	33.4%	-20 bps	\$3.11	\$3.05	(\$0.07)	82.7%	82.5%	-24 bps
4Q24E	\$720.1	\$707.3	(\$12.83)	34.1%	34.0%	-6 bps	\$3.28	\$3.20	(\$0.08)	82.8%	82.5%	-30 bps
Total	\$2,763.2	\$2,772.1	\$8.94	33.4%	33.5%	9 bps	\$12.30	\$12.52	\$0.22	82.5%	82.6%	11 bps
F2025E												
1Q25E	\$696.8	\$717.6	\$20.83	34.3%	34.6%	26 bps	\$3.22	\$3.34	\$0.12	83.2%	83.2%	1 bps
2Q25E	\$697.7	\$711.8	\$14.08	34.3%	34.1%	-21 bps	\$3.23	\$3.29	\$0.07	83.6%	83.4%	-25 bps
3Q25E	\$728.4	\$720.0	(\$8.34)	35.3%	35.2%	-10 bps	\$3.47	\$3.45	(\$0.02)	83.4%	83.3%	-10 bps
4Q25E	\$752.4	\$737.0	(\$15.34)	35.9%	36.0%	9 bps	\$3.64	\$3.61	(\$0.03)	83.5%	83.5%	-2 bps
Total	\$2,875.2	\$2,886.5	\$11.23	35.0%	35.0%	0 bps	\$13.56	\$13.70	\$0.14	83.4%	83.3%	-9 bps
F2026E												
1Q26E	\$715.7	\$742.6	\$26.95	35.3%	35.8%	55 bps	\$3.30	\$3.59	\$0.29	83.6%	83.8%	27 bps
2Q26E	\$719.2	\$734.4	\$15.25	35.4%	34.9%	-48 bps	\$3.32	\$3.45	\$0.13	83.6%	83.8%	24 bps
3Q26E	\$757.5	\$743.2	(\$14.32)	35.7%	35.6%	-10 bps	\$3.51	\$3.58	\$0.07	83.8%	84.0%	20 bps
4Q26E	\$781.5	\$773.5	(\$8.00)	35.3%	35.9%	59 bps	\$3.59	\$3.75	\$0.16	83.8%	84.0%	22 bps
Total	\$2,973.9	\$2,993.7	\$19.88	35.4%	35.6%	15 bps	\$13.72	\$14.37	\$0.65	83.7%	83.9%	23 bps

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 3: Income Statement

Updated summary of financials; we increase our FY24 revenue and EPS estimates to \$2,772.1mn and \$12.52, respectively

(\$ in mn, except per share)	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26						
Fiscal Year Ends in September	1023	2023	3023	4023	1024	2024E	3024E	4024E	1025E	2025E	3025E	4025E	1026E	2026E	3026E	4026E		F2022	F2023	F2024E	F2025E	F2026E
Product Revenues	340.6	340.6	328.2	325.3	305.9	300.0	307.5	324.5	322.5	316.7	329.7	343.5	331.9	321.6	337.3	363.6		1,317.1	1,334.6	1,237.9	1,312.5	1,354.4
Service Revenues	359.8	362.6	374.5	381.7	386.7	384.8	379.8	382.8	395.1	395.1	390.4	393.5	410.8	412.8	405.8	409.9		1,378.7	1,478.5	1,534.2	1,574.0	1,639.3
Total Revenues	700.4	703.2	702.6	707.0	692.6	684.9	687.4	707.3	717.6	711.8	720.0	737.0	742.6	734.4	743.2	773.5		2,695.8	2,813.2	2,772.1	2,886.5	2,993.7
Cost of Product	98.9	99.8	87.9	88.6	82.7	81.6	82.4	85.7	81.0	79.5	80.8	82.5	79.0	77.5	78.6	82.9		319.7	375.2	332.4	323.7	318.0
Cost of Services	38.3	38.1	35.3	33.8	34.6	38.5	38.0	38.3	39.5	39.5	39.0	39.3	41.1	41.3	40.6	41.0		149.0	145.4	149.3	157.4	163.9
Total Costs of Sales	137.1	137.9	123.2	122.4	117.3	120.1	120.4	123.9	120.5	119.0	119.8	121.8	120.1	118.8	119.2	123.9		468.7	520.6	481.7	481.1	481.9
Gross Profit	563.3	565.3	579.4	584.6	575.3	564.8	566.9	583.4	597.1	592.8	600.2	615.2	622.6	615.6	624.0	649.6		2,227.1	2,292.6	2,290.4	2,405.4	2,511.8
Sales and Marketing	203.0	202.5	181.1	180.1	174.0	187.7	180.2	182.0	185.7	185.7	183.8	185.7	189.4	191.3	191.3	197.0		788.4	766.7	724.0	740.8	768.9
R&D	119.4	120.9	111.6	112.7	102.9	108.9	103.5	105.6	107.7	108.7	107.7	108.7	110.9	112.0	112.0	116.5		445.3	464.6	420.8	432.8	451.4
General and Administrative	55.6	50.7	53.3	52.1	52.9	56.0	53.8	55.1	55.7	55.7	55.1	55.7	56.2	56.2	56.2	58.5		215.1	211.6	217.8	222.1	227.1
Total Operating Expenses	378.0	374.1	346.0	344.8	329.8	352.7	337.5	342.7	349.0	350.1	346.6	350.1	356.5	359.5	359.5	372.0		1,448.8	1,442.9	1,362.6	1,395.7	1,447.5
Operating Income	185.3	191.2	233.4	239.7	245.6	212.1	229.5	240.7	248.1	242.7	253.7	265.2	266.1	256.1	264.5	277.7		778.3	849.6	927.7	1,009.7	1,064.4
Other Income (Expenses)	4.7	2.7	2.9	3.1	9.9	2.9	2.9	2.9	2.9	2.9	3.1	3.1	3.1	3.1	3.1	3.1		(18.4)	13.4	18.6	12.0	12.3
Pretax Income	190.0	194.0	236.3	242.8	255.4	215.0	232.4	243.6	251.0	245.6	256.7	268.3	269.2	259.2	267.6	280.7		759.9	863.1	946.3	1,021.6	1,076.7
Income Tax Expense	40.7	40.3	42.7	34.1	50.8	45.1	51.1	53.6	55.2	54.0	56.5	59.0	59.2	57.0	58.9	61.8		137.3	157.8	200.6	224.8	236.9
Net Income	149.3	153.6	193.7	208.7	204.6	169.8	181.2	190.0	195.8	191.6	200.3	209.2	210.0	202.2	208.7	219.0		622.6	705.3	745.7	796.9	839.8
EPS	\$2.47	\$2.53	\$3.21	\$3.50	\$3.43	\$2.85	\$3.05	\$3.20	\$3.34	\$3.29	\$3.45	\$3.61	\$3.59	\$3.45	\$3.58	\$3.75		\$10.21	\$11.70	\$12.52	\$13.70	\$14.37
GAAP EPS (incl. Options)	\$1.20	\$1.34	\$1.48	\$2.55	\$2.32	\$1.83	\$2.04	\$2.18	\$2.30	\$2.24	\$2.38	\$2.52	\$2.50	\$2.37	\$2.48	\$2.64		\$5.28	\$6.55	\$8.37	\$9.44	\$9.99
Fully Diluted Shares Outstanding	60.4	60.7	60.3	59.7	59.7	59.6	59.5	59.4	58.6	58.2	58.0	58.0	58.6	58.6	58.3	58.4		61.0	60.3	59.5	58.2	58.5
MARGIN / GROWTH ANALYSIS																						
Product Gross Margin	71.0%	70.7%	73.2%	72.8%	73.0%	72.8%	73.2%	73.6%	74.9%	74.9%	75.5%	76.0%	76.2%	75.9%	76.7%	77.2%		75.7%	71.9%	73.1%	75.3%	76.5%
Service Gross Margin	89.4%	89.5%	90.6%	91.1%	91.1%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%		89.2%	90.2%	90.3%	90.0%	90.0%
Consolidated Gross Margin	80.4%	80.4%	82.5%	82.7%	83.1%	82.5%	82.5%	82.5%	83.2%	83.3%	83.4%	83.5%	83.8%	83.8%	84.0%	84.0%		82.6%	81.5%	82.6%	83.3%	83.9%
Operating Income Margin	26.5%	27.2%	33.2%	33.9%	35.5%	31.0%	33.4%	34.0%	34.6%	34.1%	35.2%	36.0%	35.8%	34.9%	35.6%	35.9%		28.9%	30.2%	33.5%	35.0%	35.6%
Non-GAAP Effective Tax Rate	21.4%	20.8%	18.1%	14.0%	19.9%	21.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%		18.1%	18.3%	21.2%	22.0%	22.0%
Proforma Net Income	21.3%	21.8%	27.6%	29.5%	29.5%	24.8%	26.4%	26.9%	27.3%	26.9%	27.8%	28.4%	28.3%	27.5%	28.1%	28.3%		23.1%	25.1%	26.9%	27.6%	28.1%
Q/Q % Growth:																						
Product Revenues	-2.7%	0.0%	-3.6%	-0.9%	-6.0%	-1.9%	2.5%	5.5%	-0.6%	-1.8%	4.1%	4.2%	-3.4%	-3.1%	4.9%	7.8%						
Service Revenues	2.8%	0.8%	3.3%	1.9%	1.3%	-0.5%	-1.3%	0.8%	3.2%	0.0%	-1.2%	0.8%	4.4%	0.5%	-1.7%	1.0%						
Total Revenues	0.0%	0.4%	-0.1%	0.6%	-2.0%	-1.1%	0.4%	2.9%	1.5%	-0.8%	1.2%	2.4%	0.8%	-1.1%	1.2%	4.1%						
Operating Income	-3.2%	3.2%	22.1%	2.7%	2.4%	-13.6%	8.2%	4.9%	3.1%	-2.2%	4.5%	4.5%	0.3%	-3.7%	3.3%	5.0%						
Net Income	-5.3%	2.9%	26.1%	7.8%	-2.0%	-17.0%	6.7%	4.8%	3.1%	-2.2%	4.5%	4.5%	0.3%	-3.7%	3.2%	4.9%						
Pro Forma EPS	-5.7%	2.4%	26.8%	8.9%	-1.9%	-16.9%	6.9%	4.9%	4.6%	-1.5%	4.9%	4.5%	-0.7%	-3.8%	3.9%	4.7%						
Y/Y % Growth:																						
Product Revenues	-0.8%	14.5%	0.5%	-7.0%	-10.2%	-11.9%	-6.3%	-0.3%	5.4%	5.6%	7.2%	5.9%	2.9%	1.5%	2.3%	5.9%		5.5%	1.3%	-7.2%	6.0%	3.2%
Service Revenues	4.6%	7.7%	7.6%	9.0%	7.5%	6.1%	1.4%	0.3%	2.2%	2.7%	2.8%	2.8%	4.0%	4.5%	4.0%	4.2%		1.7%	7.2%	3.8%	2.6%	4.1%
Total Revenues	1.9%	10.9%	4.2%	1.0%	-1.1%	-2.6%	-2.2%	0.0%	3.6%	3.9%	4.8%	4.2%	3.5%	3.2%	3.2%	5.0%		3.5%	4.4%	-1.5%	4.1%	3.7%
Operating Income	-17.6%	13.8%	20.3%	25.3%	32.5%	10.9%	-1.7%	0.4%	1.1%	14.4%	10.5%	10.2%	7.2%	5.5%	4.3%	4.7%		-5.3%	9.2%	9.2%	8.8%	5.4%
Net Income	-16.6%	17.4%	24.8%	32.4%	37.1%	10.5%	-6.4%	-9.0%	-4.3%	12.8%	10.5%	10.1%	7.2%	5.5%	4.2%	4.7%		-7.2%	13.3%	5.7%	6.9%	5.4%
Pro Forma EPS	-14.6%	18.8%	25.1%	33.3%	38.8%	12.6%	-5.1%	-8.5%	-2.5%	15.5%	13.4%	12.9%	7.2%	4.8%	3.7%	3.9%		-5.9%	14.6%	7.0%	9.4%	4.9%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

F5 Inc (FFIV)

Our \$160 price objective is based on roughly 12x FY25E P/E, which is at the low-end of the company's historical range of 11-20x. We view 12x as appropriate given software is being impacted by the soft environment and secular trends point to hardware demand declining over time.

Downside risks to our PO are: 1) any execution issues related to the ramp of new products, 2) increased competition, 3) faster than expected hardware declines and lower than expected software growth.

Upside risks to our PO are: (1) higher than expected growth in key segments, particularly software, and (2) market share gains in areas, such as ADC and WAF.

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
BUY				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	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
	Qualcomm	QCOM	QCOM US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
NEUTRAL				
	Cellebrite	CLBT	CLBT US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
UNDERPERFORM				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani



iQmethodSM 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 & 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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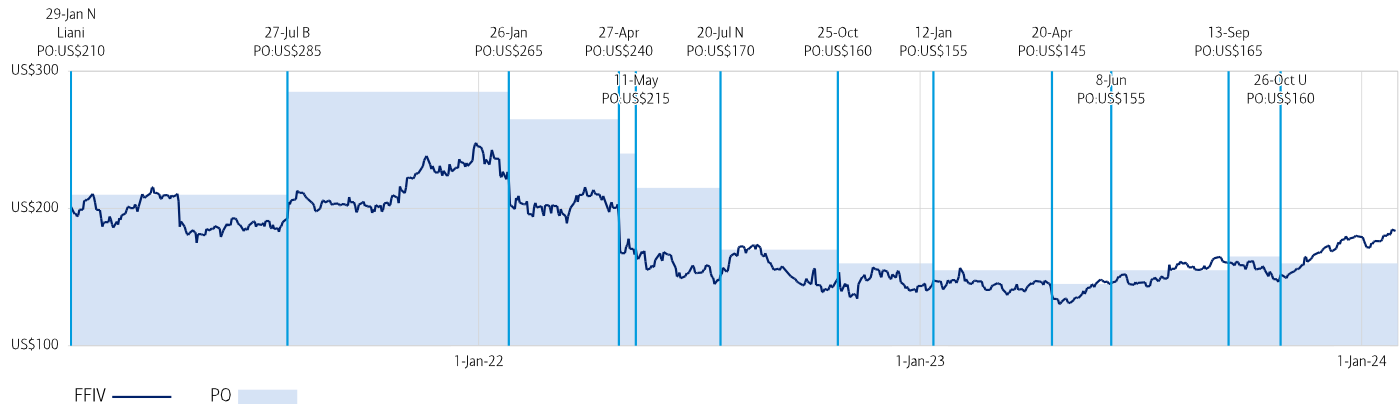
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Important Disclosures

F5 Inc (FFIV) Price Chart



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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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