

Cyber Security

Raising POs across our cybersecurity coverage universe

Price Objective Change

Sentiment should continue to support strong momentum

The cybersecurity sector continues to benefit from strong momentum. The stocks of CrowdStrike, Palo Alto Networks and Zscaler are up 11%, 10% and 6% YTD in 2024, vs. Nasdaq's 0%, after strong 2023 returns where many key cybersecurity stocks ended the year up +100%. Fundamentals across cyber remain healthy, supported by growing enterprise security budgets, platformization and cloud transformations. We increase our POs across our coverage universe. We also flag valuation as a long-term concern ([see our recent report](#)), but believe the underlying trends continue to be solid, driven by strong underlying secular drivers and high demand, which we think should continue to support the stock prices over the intermediate term.

Fortinet: Increasing our PO to \$75 from \$65

Fortinet continues to offer a unique investment opportunity in our view. The company significantly underperformed peers in 2023, up 15% compared to cybersecurity average of 75%+ and is in the midst of a firewall market downcycle. Despite two weak quarters ahead, we focus on our expectations for growth recovery in 2H24. Investor concerns have centered around a prolonged downcycle, yet our analysis suggests that once we exclude non-Firewall revenues and price hikes, the required absorption of excess historical demand represents less than one month of shipments, suggesting that demand should begin to show signs of recovery in 2H24.

We also highlight a few additional factors that should support a recovery. First, new products like SASE coupled with its SD-WAN offering and other services like Secure Operations should help the company diversify revenues and escape the cyclicity of the firewall market. Second, easier comps in 2H could also play a role in the perceived recovery and help the stock. As a result, we roll our valuation forward and increase our PO from \$65 to \$75 based on a valuation of 35x 2025E EV/FCF (23x 2024E EV/FCF prior).

CyberArk: Increasing our PO to \$255 from \$230

We are increasing our PO for CyberArk from \$230 to \$255 and our target multiple from 9x 2025E EV/Sales to 12x. Our target valuation increase is related to favorable market positioning and tailwinds for growth in the PAM market, which we believe is an underappreciated market. Our updated valuation also brings CyberArk more in-line with next gen cybersecurity peers such as CrowdStrike and Zscaler which trade at 12-15x CY23E EV/Sales, vs. vendors with the majority of revenues generated from legacy or appliance-based technology such as Fortinet and Checkpoint which trade at 7-8x (see comps table on page 4).

Analysis continues on page 2

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Exhibit 1: Summary of PO changes

We update our POs for the below stocks in our coverage universe

Ticker	Rating	New PO	Prior PO
FTNT	Buy	\$75	\$65
CYBR	Buy	\$255	\$230
CRWD	Buy	\$325	\$250
ZS	Buy	\$255	\$215
CHKP	Buy	\$180	\$160
PANW	Neutral	\$340	\$315

Source: BofA Global Research

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(Cont'd) CyberArk: Increasing our PO to \$255 from \$230

Despite strong underlying fundamentals, CyberArk has historically traded at a discount to cybersecurity SaaS peers, which we attribute to two main investor concerns: 1) the privileged access market is perceived to be isolated and more limited in size vs. other markets like SASE and CNAPP, and 2) investors prefer platform based over point solutions. Nevertheless, we believe CyberArk's product and positioning is unique. The TAM of the Privileged Access Management market continues to expand, as does the definition of who is considered a privileged user, supported by digitalization and the transition to Cloud. The current TAM for PAM is \$20bn, up from \$9bn in 2020, and we highlight that the overall market penetration is less than 5%, leaving plenty of room for growth. Additionally, the company is a market leader in a critical area of cybersecurity spend, and secular tailwinds should support continued acceleration of growth through CY26.

CrowdStrike: Increasing our PO to \$325 from \$250

We recently met CFO Burt Podbere and came away positive. Our conversation focused on the company's overall strength and success of add-on modules, especially Cloud security, next-gen SIEM, and identity protection. Identity was a key growth area over the last year, reaching \$200mn in total ARR in F2Q24, and management also sees increasing momentum for its cloud security and SIEM products. In particular, CrowdStrike's CNAPP solution was recently bolstered by the Bionic acquisition, which added visibility in cloud environments at the application layer, and the company sees a +\$30bn TAM for its cloud security offering. The company's next-gen SIEM solution is also showing strong adoption at existing customers, up 200% YoY to \$100mn in F2Q24, and management sees a ~\$16bn market opportunity, with expected share gains from incumbent vendors like Splunk and others. Lastly, management remains optimistic on the recent launch of Falcon for IT and the new Charlotte AI platform, which initially launched at \$20/year/seat, substantially cheaper than Microsoft's \$30/month list-price.

Overall, we continue to favor CrowdStrike's long-term growth outlook beyond endpoint security, competitive positioning, and strong management team. As a result, we raise our PO to \$325 from \$250, now based on 15x CY25E EV/Sales, vs. prior 14x CY24E EV/Sales, as we roll our model forward, and reiterate our Buy.

Zscaler: Increasing our PO to \$255 from \$215

We continue to be positive on the long-term fundamentals of Zscaler's unique technology and market leading position and believe that the company will likely be a key beneficiary of 2024 trends including digital transformation and the proliferation of cloud-based security. SASE continues to be a key area of spend for CISOs, and management noted that 50% of net new customers are purchasing the full Zscaler for users bundle upfront. Additionally, the number of customers with >\$1mn in ARR increased 34% YoY to 468, pointing to larger deal sizes overall. We believe emerging technologies across data protection and risk mitigation carry significant growth potential that should help sustain strong growth momentum in the next few years, and more importantly should help define Zscaler as a platform solution versus a point product company.

On the risks side, Zscaler reported weak billings in 2Q earnings, but we believe it is too early to determine if this is only an adjustment to the business environment or the beginning of a slowing cycle. We also caution that Zscaler's success over the last year creates an upcoming tough comps environment. For example, the company implicitly guided billings growth to decline from 34% in 1Q24 to 21% in 4Q24, yet this is driven by a large \$20mn contract recorded in 4Q23. Nonetheless, we believe these are short term speed bumps, and instead focus on the strong growth potential and market leading position. We increase our PO to \$255 from \$215 based on a valuation of 13x CY25E EV/Sales versus 11x prior.

Check Point: Increasing our PO to \$180 from \$160

Check Point's new initiatives may take time to carry meaningful weight, yet Street expectations are low, calling for only 3.6% and 4.9% YoY growth in 2023 and 2024, respectively. Management believes growth could accelerate to double-digits, on the combination of a growing product portfolio and focus on sales execution.

Approximately 42% of Check Point's revenue is Subscription-based, up 15% YoY last quarter, with solid contribution from CloudGuard, Harmony, and Infinity. Products and licenses revenue (~19% of revenue) was down 14% YoY in 3Q, pointing to core customers delaying refresh projects and the industry taking a breather after a few strong years. Support and maintenance revenue, which is largely a renewals business, remains stable, up 2% YoY in 3Q23.

As product revenues decline, the mix shift to subscriptions should support overall growth. Contribution from new initiatives could drive further Subscription growth acceleration, representing potential upside to our 4.4% total revenue growth expectations for 2024. With the stock underperforming most of its security peers over the last few years, we think that success with the company's growth initiatives could drive share price appreciation, and raise our PO to \$180 from \$160, now based on roughly 16x 2025E EV/FCF vs. 14x 2025E EV/FCF prior. We reiterate our Buy rating.

Palo Alto Networks: Increasing our PO to \$340 from \$315

Palo Alto management previously noted that customers are more conservative with their cash, such as phasing and resizing projects, and more frequently seeking deferred payment terms. Palo Alto's 1Q24 billings growth of 16% fell short of Street's 19%, reflecting the increase in deferred payment plans and shorter duration contracts, as well as the company's unwillingness to extend discount levels.

Management guided 2Q billings to grow 16.6% QoQ, which might set the bar too high, given the guidance is in-line with seasonality of the last two years. As such, our model calls for 15.4% QoQ billings growth in 2Q vs. Street's 16.5%. As macroeconomic conditions have worsened over the last few years and driven by the law of large numbers, Palo Alto's beat factor for billings (defined as the percent beat of recognized billings above Street expectations) has declined. On a quarterly basis in the last two years, the billings beat factor was 6% in 2Q22, 12% in 3Q22, 15% in 4Q22, 4% in 1Q23, 3% in 2Q23, 1% in 3Q23, -0.5% in 4Q23, and -3% in 1Q24. We also flag the weak billings growth reported by CrowdStrike, Zscaler, Fortinet, and SentinelOne last quarter.

On the positive side, NGS ARR continues to track well, up 53% YoY last quarter vs. Street's 48% expectations, and platformization trends continues to drive deal momentum. We reiterate our Neutral rating, but increase our PO to \$340 from \$315, now based on roughly 10.5x CY25E EV/Sales vs. 10x CY25E EV/Sales prior. In comparison, CrowdStrike trades at roughly 14x CY25E EV/Sales and Zscaler trades at ~11x CY25E EV/Sales.

Exhibit 2: Summary of PO changes

We update our POs for the below stocks in our coverage universe

Company Name	Ticker	Rating	New PO	Prior PO	QRQ
Fortinet	FTNT	Buy	\$75	\$65	B-1-9
CyberArk	CYBR	Buy	\$255	\$230	C-1-9
CrowdStrike	CRWD	Buy	\$325	\$250	C-1-9
Zscaler	ZS	Buy	\$255	\$215	C-1-9
Checkpoint	CHKP	Buy	\$180	\$160	B-1-9
Palo Alto Networks	PANW	Neutral	\$340	\$315	B-2-9

Source: BofA Global Research

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Latest Valuation Levels across Software and Cybersecurity

Exhibit 3: Comps (1/2)

Comparable analysis of key metrics across cybersecurity and software

Pricing as of 1/12/23	Ticker	Price	Mkt Cap	EV	Revenue Growth				Gross Margin				Operating Margin				FCF Margin			
					2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E
SaaS																				
ADOBE INC	ADBE	\$596.54	\$271,605	\$267,843	11.5%	10.3%	10.7%	11.7%	87.9%	89.7%	89.2%	89.3%	34.4%	35.4%	45.8%	46.2%	41.6%	36.1%	41.2%	43.5%
DOCUSIGN INC	DOCU	\$63.55	\$12,960	\$12,205	21.0%	9.8%	5.7%	6.3%	82.0%	82.3%	82.2%	82.1%	(3.9%)	4.7%	24.9%	26.4%	16.7%	27.4%	24.6%	25.0%
JFROG LTD	FROG	\$32.98	\$3,459	\$2,981	35.5%	23.5%	22.0%	21.1%	84.0%	83.3%	82.2%	81.7%	(32.1%)	9.6%	12.0%	13.8%	6.1%	15.9%	17.9%	18.8%
HUBSPOT INC	HUBS	\$561.35	\$28,253	\$27,443	33.1%	24.0%	18.0%	19.8%	82.7%	84.6%	84.1%	84.3%	(6.3%)	14.8%	15.5%	16.8%	11.1%	12.9%	14.7%	15.8%
SNOWFLAKE INC	SNOW	\$191.26	\$62,982	\$59,731	72.9%	36.9%	29.6%	30.3%	70.9%	73.5%	74.0%	74.6%	(40.7%)	(32.0%)	9.0%	12.2%	23.8%	26.0%	27.9%	29.2%
PALANTIR	PLTR	\$16.76	\$36,470	\$33,504	23.6%	16.5%	20.1%	20.4%	80.9%	81.6%	82.1%	82.6%	(8.5%)	27.5%	28.7%	27.5%	9.6%	25.2%	25.0%	29.9%
ATLASSIAN CORP	TEAM	\$237.00	\$61,160	\$60,196	30.8%	21.2%	16.9%	23.7%	85.3%	84.2%	83.2%	82.5%	(4.5%)	(0.4%)	19.8%	22.3%	22.7%	25.7%	25.1%	25.9%
TWILIO INC	TWLO	\$73.21	\$13,254	\$10,591	34.6%	7.6%	7.2%	12.5%	51.0%	52.4%	52.3%	52.7%	(31.5%)	11.8%	12.2%	13.3%	(9.0%)	5.5%	9.3%	11.6%
WORKDAY INC	WDAY	\$283.24	\$74,492	\$70,885	21.1%	16.9%	16.5%	16.9%	77.0%	79.4%	79.9%	80.3%	(3.7%)	5.2%	24.4%	25.1%	20.8%	23.5%	23.6%	25.0%
Average					31.6%	18.5%	16.3%	18.1%	78.0%	79.0%	78.8%	78.9%	(10.7%)	8.5%	21.4%	22.6%	15.9%	22.0%	23.3%	25.0%
Median					30.8%	16.9%	16.9%	19.8%	82.0%	82.3%	82.2%	82.1%	(6.3%)	9.6%	19.8%	22.3%	16.7%	25.2%	24.6%	25.0%
Cybersecurity software																				
CHECK POINT	CHKP	\$158.73	\$18,570	\$15,582	7.5%	3.6%	4.9%	4.7%	81.0%	89.2%	89.3%	89.5%	38.0%	44.2%	43.5%	43.8%	46.2%	42.1%	42.3%	43.0%
CROWDSTRIKE	CRWD	\$283.35	\$68,045	\$65,705	55.6%	37.3%	29.0%	25.0%	76.0%	77.6%	78.1%	78.7%	(8.2%)	2.5%	22.3%	23.5%	29.9%	30.3%	31.0%	32.4%
CYBERARK	CYBR	\$224.09	\$9,359	\$8,703	17.7%	24.8%	24.1%	23.1%	82.3%	81.9%	81.9%	82.1%	(25.8%)	2.7%	7.7%	14.4%	6.3%	4.8%	10.1%	17.0%
FORTINET INC	FTNT	\$62.44	\$47,948	\$45,771	32.2%	20.0%	12.3%	14.9%	75.4%	76.5%	76.4%	76.8%	21.9%	27.3%	25.8%	26.2%	32.8%	32.9%	29.6%	30.0%
OKTA INC	OKTA	\$83.79	\$13,854	\$13,264	45.1%	22.2%	10.5%	12.1%	77.9%	79.5%	80.1%	80.4%	(45.7%)	(18.8%)	16.8%	18.9%	2.9%	19.0%	19.6%	20.4%
PALO ALTO NETWORKS	PANW	\$325.24	\$102,548	\$97,888	27.0%	22.8%	18.1%	17.8%	73.1%	74.2%	76.8%	76.7%	(0.2%)	12.1%	26.4%	28.1%	43.1%	39.0%	36.4%	38.5%
RAPID7 INC	RPD	\$55.05	\$3,383	\$4,083	28.0%	13.0%	12.4%	13.3%	73.0%	73.9%	74.1%	74.4%	(16.3%)	12.2%	16.0%	17.3%	8.4%	10.4%	18.1%	20.3%
SENTINELONE INC	S	\$25.33	\$7,565	\$6,790	--	49.7%	32.1%	31.2%	71.3%	76.8%	77.3%	77.8%	(97.7%)	(57.5%)	(3.4%)	6.5%	(48.0%)	(14.9%)	0.1%	10.6%
TENABLE	TENB	\$47.06	\$5,503	\$5,225	26.3%	15.9%	14.3%	14.4%	77.3%	79.7%	79.3%	79.5%	(9.9%)	13.7%	14.2%	16.1%	16.4%	17.4%	21.0%	22.8%
QUALYS	QLYS	\$193.10	\$7,103	\$6,674	19.1%	13.3%	11.3%	11.4%	81.1%	81.9%	81.4%	81.2%	26.7%	41.3%	39.3%	39.5%	37.5%	37.3%	38.0%	37.8%
ZSCALER	ZS	\$230.77	\$34,231	\$33,122	57.7%	41.0%	25.2%	24.6%	81.0%	80.8%	80.5%	80.6%	(23.7%)	(6.0%)	17.6%	19.3%	20.4%	25.2%	22.2%	24.9%
Average					31.6%	24.0%	17.7%	17.5%	76.8%	78.3%	78.6%	78.8%	(12.8%)	6.7%	20.6%	23.1%	17.8%	22.1%	24.4%	27.1%
Median					27.5%	22.2%	14.3%	14.9%	76.7%	78.6%	78.7%	79.1%	(9.9%)	12.1%	17.6%	19.3%	20.4%	25.2%	22.2%	24.9%
Overall Average					31.6%	21.5%	17.0%	17.8%	77.4%	78.6%	78.7%	78.9%	(11.9%)	7.5%	20.9%	22.9%	17.0%	22.1%	23.9%	26.1%
Overall Median					28.0%	20.6%	16.7%	17.4%	77.9%	79.7%	80.1%	80.4%	(8.3%)	10.7%	18.7%	20.8%	18.5%	25.2%	24.1%	25.0%

Source: BoFA Global Research estimates for covered issuers, Bloomberg

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Exhibit 4: Comps (2/2)

Comparable analysis between cybersecurity and software verticals

Pricing as of 1/12/23	EV/FCF				EV/Sales				EV/Sales/Growth			
	2022	2023	2024E	2025E	2022	2023	2024E	2025E	2022	2023	2024E	2025E
SaaS												
ADOBE INC	36.3x	37.9x	30.0x	25.4x	15.1x	13.7x	12.4x	11.1x	1.3x	1.3x	1.2x	0.9x
DOCUSIGN INC	29.4x	16.3x	17.1x	15.9x	4.9x	4.5x	4.2x	4.0x	0.2x	0.5x	0.7x	0.6x
JFROG LTD	174.4x	54.1x	39.4x	31.0x	10.6x	8.6x	7.1x	5.8x	0.3x	0.4x	0.3x	0.3x
HUBSPOT INC	143.4x	99.5x	73.6x	57.1x	15.9x	12.8x	10.8x	9.0x	0.5x	0.5x	0.6x	0.5x
SNOWFLAKE INC	125.8x	84.1x	60.4x	44.4x	29.9x	21.8x	16.9x	12.9x	0.4x	0.6x	0.6x	0.4x
PALANTIR TECHNOLOGIES INC	182.4x	59.8x	50.2x	34.9x	17.6x	15.1x	12.6x	10.4x	0.7x	0.9x	0.6x	0.5x
ATLASSIAN CORP	83.5x	60.8x	53.3x	41.7x	18.9x	15.6x	13.4x	10.8x	0.6x	0.7x	0.8x	0.5x
TWILIO INC	--	47.0x	25.8x	18.4x	2.8x	2.6x	2.4x	2.1x	0.1x	0.3x	0.3x	0.2x
WORKDAY INC	55.8x	42.1x	35.9x	29.1x	11.6x	9.9x	8.5x	7.3x	0.5x	0.6x	0.5x	0.4x
Average	103.9x	55.7x	42.9x	33.1x	14.1x	11.6x	9.8x	8.2x	0.5x	0.6x	0.6x	0.5x
Median	104.6x	54.1x	39.4x	31.0x	15.1x	12.8x	10.8x	9.0x	0.5x	0.6x	0.6x	0.5x
Cybersecurity software												
CHECK POINT SOFTWARE TECHNOLOGIES LTD	14.5x	15.3x	14.5x	13.6x	6.7x	6.5x	6.2x	5.9x	0.9x	1.8x	1.3x	1.2x
CROWDSTRIKE HOLDINGS INC	101.2x	72.8x	55.1x	42.2x	30.2x	22.0x	17.1x	13.7x	0.5x	0.6x	0.6x	0.5x
CYBERARK SOFTWARE LTD	234.0x	243.5x	--	45.3x	14.7x	11.8x	9.5x	7.7x	0.8x	0.5x	0.4x	0.3x
FORTINET INC	31.6x	26.3x	26.0x	22.3x	10.4x	8.6x	7.7x	6.7x	0.3x	0.4x	0.6x	0.5x
OKTA INC	256.1x	31.4x	27.6x	23.7x	7.3x	6.0x	5.4x	4.8x	0.2x	0.3x	0.5x	0.4x
PALO ALTO NETWORKS INC	37.6x	33.8x	30.7x	24.7x	16.2x	13.2x	11.2x	9.5x	0.6x	0.6x	0.6x	0.5x
RAPID7 INC	70.6x	50.9x	25.9x	20.3x	6.0x	5.3x	4.7x	4.1x	0.2x	0.4x	0.4x	0.3x
SENTINELONE INC	--	--	--	61.3x	16.9x	11.3x	8.5x	6.5x	--	0.2x	0.3x	0.2x
TENABLE	46.7x	37.9x	27.4x	22.2x	7.6x	6.6x	5.8x	5.0x	0.3x	0.4x	0.4x	0.4x
QUALYS	36.4x	32.2x	28.4x	25.7x	13.6x	12.0x	10.8x	9.7x	0.7x	0.9x	1.0x	0.8x
ZSCALER	124.6x	71.4x	--	46.5x	25.4x	18.0x	14.4x	11.5x	0.4x	0.4x	0.6x	0.5x
Average	95.3x	61.6x	29.5x	31.6x	14.1x	11.0x	9.2x	7.7x	0.5x	0.5x	0.5x	0.4x
Median	58.6x	35.9x	27.5x	24.7x	13.6x	11.3x	8.5x	6.7x	0.4x	0.4x	0.5x	0.4x
Overall Average	99.1x	58.8x	36.6x	32.3x	14.1x	11.3x	9.5x	7.9x	0.5x	0.6x	0.6x	0.5x

Exhibit 4: Comps (2/2)

Comparable analysis between cybersecurity and software verticals

Pricing as of 1/12/23	EV/FCF				EV/Sales				EV/Sales/Growth			
Overall Median	77.1x	47.0x	30.0x	27.4x	14.2x	11.5x	9.0x	7.5x	0.5x	0.5x	0.6x	0.5x

Source: BofA Global Research estimates for covered issuers, Bloomberg

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Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CHKP	CHKP US	Check Point	US\$ 158.73	B-1-9
CRWD	CRWD US	CrowdStrike	US\$ 283.35	C-1-9
CYBR	CYBR US	CyberArk Software	US\$ 224.09	C-1-9
FTNT	FTNT US	Fortinet	US\$ 62.44	B-1-9
PANW	PANW US	Palo Alto Networks	US\$ 325.24	B-2-9
ZS	ZS US	Zscaler	US\$ 230.77	C-1-9

Source: BofA Global Research

Price objective basis & risk**Check Point Software Technologies (CHKP)**

We arrive at our PO of \$180 by applying an EV/FCF multiple of roughly 16x 2025E EV/FCF, which is on the lower end of the peer group average for mature software companies, which trade at roughly 16x-18x. We believe a discount is warranted given roughly 19% of revenue is derived from perpetual licensing and hardware, and given Check Point's low-growth profile in a dynamic cyber security industry. Longer-term, a greater mix shift to ratable recurring revenue is positive for the model.

Downside risks to our PO are 1) increased competition and potential share loss to comparable products from Cisco, Fortinet, and Palo Alto Networks, 2) lengthened upgrade cycles due to slow macro, 3) new network architectures opening competition to cloud-based alternatives, 4) slower adoption of advanced software blades as customers choose discrete competitive solutions, 5) lack of traction in high end data centers, 6) limited upside to margins, and 7) overall risks of slower macro environment or overall IT spending.

Upside risks to our PO are 1) better-than-expected execution that could translate into higher than anticipated growth rates, 2) broad adoption of Check Point's Quantum, CloudGuard, Harmony, and Infinity offerings, 3) better-than-expected operating margin improvement.

CrowdStrike Holdings Inc. (CRWD)

Our PO of \$325 is based on roughly 15x our CY25E EV/Sales. We choose EV/Sales as our target valuation metric due to CrowdStrike's early growth stage and investment period making the profitability level still in early stages. We believe the valuation is warranted due to CrowdStrike's higher growth profile and potential to take meaningful share in new markets that would increase TAM and potentially accelerate growth. The positives of CrowdStrike's high growth and long-term opportunities are somewhat offset by lower margins and expected growth deceleration.

Downside risks to our PO are 1) investor sentiment and sensitivity to the premium valuation levels, 2) a lower take-rate of new offerings, 3) potential slowdown in new customer adoption and expansion deals, 4) risk of security breaches, and 5) an increase in competition from incumbent vendors and newer next-generation players.

CyberArk (CYBR)

Our PO of \$255 is based on roughly 12x 2025E EV/Sales. This is near the middle of SaaS security peers at 10-14x. CyberArk's transition to SaaS is gaining additional momentum, which should support the multiple.

Upside risks to our price objective are difficulties in sizing the market given its newness and low market awareness, stronger conversion of qualified customers that are currently in the pipeline, and higher average deal sizes from rising license attach rates.

Downside risks are FX risk exposure (40% international exposure), difficulties sizing the market, and competition from large, well-established operators.

Fortinet (FTNT)

Our \$75 PO is based on roughly 35x 2025E EV/FCF. Our multiple is slightly below the hardware peer group average multiple of 30-40x and a discount to software peers as well. We believe the slightly below multiple to the hardware peer group is appropriate at this stage given the current business environment despite some recent share gains, shift to more recurring software, and expansion into adjacent security markets. New market tailwinds, such as software defined wide area networking (SD-WAN) should drive further market share gains.

Upside risks to our price objective are growth of non-FortiGate products, which could support high growth and acceleration from current levels and could result in more SaaS-like multiples and drive up the valuation.

Downside risks to our price objective are 1) product convergence leading to a shrinking market with larger competitors, 2) exposure to public spending and EMEA, 3) reputation risk if major threats missed and 4) early ordering that occurred during CY21/CY22 creates tough comps heading in CY23

Palo Alto Networks (PANW)

Our price objective of \$340 is based on roughly 10.5x CY25E EV/Sales, which is above the high-end range of appliance companies, which trade at roughly 6-8x 2025E EV/Sales. The migration to Software and Cloud warrants a higher valuation, in our view, with successful SaaS vendors trading at 11-15x forward revenues.

Downside risks to our PO are increased competition and execution-related challenges as the company transitions to the cloud and SASE models.

Zscaler (ZS)

Our PO of \$255 is based on roughly 13x CY25E EV/Sales. The multiple is a premium versus high-growth software peers (7-10x), which we justify by the higher growth profile. We believe a premium is warranted due to Zscaler's higher growth profile and potential to take meaningful share in new markets that would increase the TAM and potentially accelerate growth.

Upside risks to our PO are 1) faster-than-expected adoption of Zscaler's new products, such as Zscaler Private Access, 2) higher ASP uplift due to adoption of high-end offerings like the Cloud Next-generation firewall and Cloud Sandbox, and 3) a more significant shift to cloud-based security across enterprises of all sizes.

Downside risks to our PO are 1) a lower take-rate of new offerings, 2) material slowdown in new customer adoption and expansion deals, 3) risk of network outages or security breaches, and 4) an increase in competition from incumbent vendors and newer start-ups.

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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
	CommScope	COMM	COMM 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
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani

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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%

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