

Arista Networks

Greater risk into 2024, but the long-term remains promising

Reiterate Rating: BUY | PO: 305.00 USD | Price: 280.88 USD

Visibility into 2024 is lower than in prior years

4Q23 revenue growth of 20.8% was in-line with the Street and adjusted EPS, ex one-time tax impact, had a 26c beat to Street's \$1.71. 1Q24 and 2024 guidance was largely in-line, and we fine-tune our estimates accordingly. However, the risks into 2024 are high. Arista remains the best Networking play on the growing investment in AI and non-AI infrastructure, particularly within the cloud provider vertical, and the company's 12% 2024 growth guidance seems conservative. However, with Cloud Titan up 25% YoY and Enterprise up 50.5% in 2023, both supported by elevated backlog, the visibility into 2024 is lower than in prior years, especially given the high correlation of switching demand to the current declines in server orders. While we favor the stock and reiterate our Buy rating and \$305 PO, mainly on the solid long-term fundamentals, we also note that these factors, combined with the +106% LTM stock performance, could drive more timid stock performance until visibility improves.

AI only moving to pilots in 2024, driving cautious growth

Following the 25% Cloud Titan growth in 2023, we expect some moderation. Microsoft grew 50.5% YoY and accounted for 18% of revenue, while Meta grew 10.2% to 21% of revenue. Other Cloud Titans accounted for 4% of revenue, down from 4.5% in 2022. Meta and Microsoft pointed to growing investments in 2024 and beyond, and Arista also noted that in 4 of the last 5 AI deals, Ethernet was selected over InfiniBand, suggesting a growing long-term market opportunity. However, Cloud Titans are only moving to pilots in 2024, with deployments starting in 2025, hence our caution on 2024 growth.

Solid growth from Enterprise, mostly on backlog support

Non-Cloud Titan verticals grew 41.2% YoY in 2023, more than double 2022's 14.6%, with Enterprise growing 50.5%. Our 2024 concerns center around three factors. First, most of the growth last year was supported by strong backlog levels. Also, our research suggests that excluding Cloud providers, Arista and Cisco maintained their relevant market shares. Lastly, the market growth was abnormal in 2023, in historical terms, and orders had experienced a hard landing in 2H23 with likely negative trends in 1H24. Arista might somewhat beat the trends on Campus switching and gain small market share. Yet these underlying trends in the Cloud and Enterprise explain management's guidance conservatism. Margins were solid, with GM and OM 230bps and 540bps above expectations, driven by greater Enterprise mix (Cloud carries lower margins).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.58	6.94	7.30	8.18	9.07
GAAP EPS	4.27	6.58	6.37	7.10	7.80
EPS Change (YoY)	59.6%	51.5%	5.2%	12.1%	10.9%
Consensus EPS (Bloomberg)			7.29	8.16	9.29
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	61.3x	40.5x	38.5x	34.3x	31.0x
GAAP P/E	65.8x	42.7x	44.1x	39.6x	36.0x
EV / EBITDA*	42.8x	29.8x	28.0x	24.9x	22.5x
Free Cash Flow Yield*	0.5%	2.4%	3.0%	3.2%	3.4%

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

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Timestamp: 13 February 2024 01:00AM EST

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	6,561.9	6,586.5
2025E Rev (m)	7,407.3	7,443.7
2026E Rev (m)	8,231.1	8,272.4
2024E EPS	7.28	7.30
2025E EPS	8.12	8.18
2026E EPS	9.06	9.07

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Stock Data

Price	280.88 USD
Price Objective	305.00 USD
Date Established	5-Feb-2024
Investment Opinion	B-1-9
52-Week Range	130.08 USD - 292.66 USD
Mrkt Val (mn) / Shares Out (mn)	83,140 USD / 296.0
Free Float	77.7%
Average Daily Value (mn)	514.25 USD
BofA Ticker / Exchange	ANET / NYS
Bloomberg / Reuters	ANET US / ANET.N
ROE (2024E)	27.8%
Net Dbt to Eqty (Dec-2023A)	-26.9%
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".

iQprofileSM Arista Networks

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	27.8%	30.6%	23.8%	20.8%	18.5%
Return on Equity	32.7%	36.3%	27.8%	24.1%	21.3%
Operating Margin	41.0%	44.4%	42.9%	42.7%	42.5%
Free Cash Flow	448	2,000	2,498	2,685	2,862

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	0.9x	1.1x	1.0x	1.0x
Asset Replacement Ratio	0.7x	0.5x	1.3x	1.5x	1.8x
Tax Rate	21.8%	20.5%	21.5%	21.5%	21.5%
Net Debt-to-Equity Ratio	-13.7%	-26.9%	-47.2%	-59.8%	-67.9%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,381	5,860	6,587	7,444	8,272
% Change	48.6%	33.8%	12.4%	13.0%	11.1%
Gross Profit	2,711	3,667	4,137	4,682	5,207
% Change	41.9%	35.3%	12.8%	13.2%	11.2%
EBITDA	1,859	2,674	2,846	3,196	3,533
% Change	56.1%	43.8%	6.4%	12.3%	10.6%
Net Interest & Other Income	55	165	146	158	184
Net Income (Adjusted)	1,448	2,199	2,334	2,619	2,906
% Change	58.3%	51.9%	6.1%	12.2%	10.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,351	2,087	2,036	2,272	2,500
Depreciation & Amortization	63	71	19	18	16
Change in Working Capital	(913)	(16)	242	160	68
Deferred Taxation Charge	(244)	(371)	0	0	0
Other Adjustments, Net	236	263	225	262	307
Capital Expenditure	(45)	(34)	(25)	(27)	(28)
Free Cash Flow	448	2,000	2,498	2,685	2,862
% Change	-52.9%	346.2%	24.9%	7.5%	6.6%
Share / Issue Repurchase	48	62	75	87	102
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	672	1,939	4,511	7,283	10,247
Trade Receivables	923	1,025	1,164	1,321	1,470
Other Current Assets	3,956	5,427	5,784	6,116	6,405
Property, Plant & Equipment	95	102	111	124	139
Other Non-Current Assets	1,130	1,455	1,451	1,448	1,444
Total Assets	6,775	9,947	13,021	16,291	19,706
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,294	1,910	2,450	2,923	3,287
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	552	818	1,015	1,192	1,335
Total Liabilities	1,890	2,728	3,466	4,115	4,622
Total Equity	4,886	7,219	9,555	12,176	15,084
Total Equity & Liabilities	6,775	9,947	13,021	16,291	19,706

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

Company Sector

Data Networking

Company Description

Arista Networks develops high-performance cloud networking solutions, including switches, routers, Wi-Fi software. The company's low latency switches lower networking costs for high-frequency trading platforms, large internet companies and cloud service providers.

Investment Rationale

We have a Buy rating on ANET given continued momentum in 2024 with Cloud and AI Titan commentary pointing to continued infrastructure spending, accelerating growth in enterprise, financials, tier-2 cloud providers, and other key verticals. We remain positive on management's ability to execute, the company's technological differentiation, product positioning, and its TAM growing to \$60bn by 2027.

Stock Data

Average Daily Volume 2,121,968

Quarterly Earnings Estimates

	2023	2024
Q1	1.43A	1.68E
Q2	1.58A	1.78E
Q3	1.83A	1.89E
Q4	2.08A	1.95E

Financial Highlights

Exhibit 1: Actual versus Estimated Results

Actual revenue and EPS of \$1,540.4mn and \$2.08, respectively, were above BofA estimates for \$1,535.1mn and \$1.71

	Dec-22 Q4	Mar-23 Q1	Jun-23 Q2	Sep-23 Q3	Dec-23 Q4	BofA Q4E	delta	QoQ	YoY
Revenue	1,275.6	1,351.4	1,458.9	1,509.5	1,540.4	1,535.1	5.3	2.1%	20.8%
QoQ % Chg	8.4%	5.9%	8.0%	3.5%	2.1%	1.7%			
YoY % Chg	54.7%	54.1%	38.7%	28.3%	20.8%	20.3%			
Gross Profit	778.5	814.3	893.8	951.8	1,006.7	968.5	38.2	5.8%	29.3%
Gross Margin	61.0%	60.3%	61.3%	63.1%	65.4%	63.1%			
R & D	153.2	164.8	188.5	164.4	165.0	198.9	(33.9)	0.4%	7.7%
S & M	69.9	78.4	82.1	81.5	85.9	98.7	(12.7)	5.4%	22.9%
G & A	12.2	14.3	16.6	9.6	11.8	11.6	0.2	22.9%	-2.6%
Total Opex	235.3	257.5	287.3	255.6	262.7	309.2	(46.5)	2.8%	11.7%
Operating Income	543.2	556.8	606.5	696.2	744.0	659.3	84.7	6.9%	37.0%
QoQ % Chg	10.4%	2.5%	8.9%	14.8%	6.9%	-5.3%			
YoY % Chg	67.6%	65.9%	42.5%	41.5%	37.0%	21.4%			
Total Other Income	16.9	12.1	56.3	41.8	54.5	36.8	17.7	30.3%	221.9%
Pretax Income	560.1	568.9	662.8	738.0	798.4	696.1	102.3	8.2%	42.5%
Net Income	445.1	452.5	501.2	581.4	664.3	546.4	117.9	14.3%	49.2%
Dil. Share Count	315,201	315,578	316,485	317,631	318,845	319,000	(155.0)	0.4%	1.2%
Non-GAAP EPS	\$1.41	\$1.43	\$1.58	\$1.83	\$2.08	\$1.71	0.37	13.8%	47.5%
Margin Analysis									
Gross Margin	61.0%	60.3%	61.3%	63.1%	65.4%	63.1%	23 bps	230bps	432bps
Operating Margin	42.6%	41.2%	41.6%	46.1%	48.3%	42.9%	53 bps	217bps	571bps
Non-GAAP Tax Rate	20.5%	20.5%	24.4%	21.2%	16.8%	21.5%	-47 bps	-443bps	-373bps
Non-GAAP Net Margin	34.9%	33.5%	34.4%	38.5%	43.1%	35.6%	75 bps	461bps	823bps

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

	Sales			EPS			Gross Margin			Operating Margin		
	Old	New	Delta	Old	New	Delta	Old	New	Delta	Old	New	Delta
2023												
Q1	\$1,351.4	\$1,351.4	\$0.0	\$1.43	\$1.43	\$0.00	60.3%	60.3%	0 bps	41.2%	41.2%	0 bps
Q2	\$1,458.9	\$1,458.9	\$0.0	\$1.58	\$1.58	\$0.00	61.3%	61.3%	0 bps	41.6%	41.6%	0 bps
Q3	\$1,509.5	\$1,509.5	\$0.0	\$1.83	\$1.83	\$0.00	63.1%	63.1%	0 bps	46.1%	46.1%	0 bps
Q4	\$1,535.1	\$1,540.4	\$5.3	\$1.71	\$2.08	\$0.37	63.1%	65.4%	226 bps	42.9%	48.3%	535 bps
Total	\$5,854.8	\$5,860.2	\$5.3	\$6.56	\$6.94	\$0.37	62.0%	62.6%	60 bps	43.0%	44.4%	141 bps
2024												
Q1E	\$1,524.4	\$1,540.4	\$16.1	\$1.67	\$1.68	\$0.01	62.8%	62.0%	-77 bps	42.1%	42.0%	-4 bps
Q2E	\$1,612.8	\$1,612.8	\$0.1	\$1.78	\$1.78	(\$0.00)	62.9%	62.8%	-9 bps	42.7%	42.6%	-7 bps
Q3E	\$1,683.7	\$1,683.8	\$0.1	\$1.88	\$1.89	\$0.01	63.1%	63.0%	-9 bps	43.2%	43.4%	25 bps
Q4E	\$1,741.0	\$1,749.5	\$8.5	\$1.94	\$1.95	\$0.01	63.4%	63.3%	-5 bps	43.5%	43.5%	-5 bps
Total	\$6,561.9	\$6,586.5	\$24.7	\$7.28	\$7.30	\$0.03	63.0%	62.8%	-24 bps	42.9%	42.9%	3 bps
2025												
Q1E	\$1,718.4	\$1,740.7	\$22.4	\$1.87	\$1.89	\$0.02	62.7%	62.6%	-9 bps	42.3%	42.1%	-12 bps
Q2E	\$1,811.2	\$1,815.6	\$4.4	\$1.97	\$1.99	\$0.01	62.9%	62.8%	-9 bps	42.4%	42.5%	14 bps
Q3E	\$1,898.1	\$1,900.9	\$2.8	\$2.10	\$2.11	\$0.01	63.1%	63.0%	-9 bps	42.9%	43.0%	12 bps
Q4E	\$1,979.7	\$1,986.4	\$6.7	\$2.18	\$2.19	\$0.01	63.2%	63.1%	-9 bps	43.0%	43.0%	3 bps
Total	\$7,407.3	\$7,443.7	\$36.3	\$8.12	\$8.18	\$0.06	63.0%	62.9%	-9 bps	42.7%	42.7%	4 bps
2026												
Q1E	\$1,924.3	\$1,950.7	\$26.4	\$2.13	\$2.13	\$0.01	62.8%	62.7%	-9 bps	42.9%	42.3%	-59 bps
Q2E	\$2,001.2	\$2,005.3	\$4.1	\$2.20	\$2.20	(\$0.00)	62.9%	62.8%	-9 bps	42.7%	42.4%	-32 bps
Q3E	\$2,101.3	\$2,105.6	\$4.3	\$2.31	\$2.31	(\$0.00)	63.1%	63.0%	-8 bps	42.9%	42.6%	-31 bps
Q4E	\$2,204.3	\$2,210.9	\$6.6	\$2.42	\$2.43	\$0.00	63.3%	63.2%	-9 bps	43.0%	42.7%	-30 bps
Total	\$8,231.1	\$8,272.4	\$41.3	\$9.06	\$9.07	\$0.01	63.0%	62.9%	-9 bps	42.9%	42.5%	-37 bps

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 3: Income Statement

Updated summary of financials; we increase our 2024 revenue estimate by \$24.7mn to \$6,586.5mn

(\$ mn, except per share)	Mar-22	Jun-22	Sep-22	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	2022	2023	2024E	2025E	2026E
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E					
Total Revenues	\$877.1	\$1,051.9	\$1,176.8	\$1,275.6	\$1,351.4	\$1,458.9	\$1,509.5	\$1,540.4	\$1,540.4	\$1,612.8	\$1,683.8	\$1,749.5	\$1,740.7	\$1,815.6	\$1,900.9	\$1,986.4	\$4,381.3	\$5,860.2	\$6,586.5	\$7,443.7	\$8,272.4
YoY	31.4%	48.7%	57.2%	54.7%	54.1%	38.7%	28.3%	20.8%	14.0%	10.5%	11.6%	13.6%	13.0%	12.6%	12.9%	13.5%	48.6%	33.8%	12.4%	13.0%	11.1%
QoQ	6.4%	19.9%	11.9%	8.4%	5.9%	8.0%	3.5%	2.1%	0.0%	4.7%	4.4%	3.9%	-0.5%	4.3%	4.7%	4.5%					
COGS	\$316.2	\$400.3	\$457.0	\$497.1	\$537.0	\$565.2	\$557.7	\$533.7	\$585.3	\$599.7	\$623.3	\$641.2	\$650.3	\$674.8	\$703.3	\$733.7	\$1,670.6	\$2,193.6	\$2,449.6	\$2,762.1	\$3,065.4
Gross Profit	\$560.9	\$651.6	\$719.8	\$778.5	\$814.3	\$893.8	\$951.8	\$1,006.7	\$955.1	\$1,013.1	\$1,060.5	\$1,108.2	\$1,090.5	\$1,140.8	\$1,197.6	\$1,252.8	\$2,710.8	\$3,666.5	\$4,136.9	\$4,681.6	\$5,207.0
Gross Margin	63.9%	61.9%	61.2%	61.0%	60.3%	61.3%	63.1%	65.4%	62.0%	62.8%	63.0%	63.3%	62.6%	62.8%	63.0%	63.1%	61.9%	62.6%	62.8%	62.9%	62.9%
R&D	\$144.4	\$149.7	\$150.1	\$153.2	\$164.8	\$188.5	\$164.4	\$165.0	\$193.0	\$204.6	\$206.6	\$219.0	\$225.6	\$234.6	\$241.7	\$253.8	\$597.5	\$682.7	\$823.3	\$955.7	\$1,077.8
S&M	\$67.6	\$66.5	\$65.3	\$69.9	\$78.4	\$82.1	\$81.5	\$85.9	\$100.5	\$106.6	\$107.6	\$113.0	\$115.3	\$117.6	\$121.1	\$127.2	\$269.4	\$328.0	\$427.7	\$481.1	\$537.4
G&A	\$13.2	\$9.9	\$12.2	\$12.2	\$14.3	\$16.6	\$9.6	\$11.8	\$13.8	\$14.7	\$15.0	\$15.7	\$16.0	\$16.4	\$16.7	\$17.5	\$47.5	\$52.4	\$59.2	\$66.6	\$74.6
Total Operating Expenses	\$225.3	\$226.1	\$227.7	\$235.3	\$257.5	\$287.3	\$255.6	\$262.7	\$307.4	\$325.8	\$329.2	\$347.8	\$356.9	\$368.6	\$379.5	\$398.4	\$914.4	\$1,063.1	\$1,310.3	\$1,503.4	\$1,689.7
QoQ/YoY Growth	9.2%	0.4%	0.7%	3.4%	9.4%	11.5%	-11.0%	2.8%	17.0%	6.0%	1.0%	5.6%	2.6%	3.3%	3.0%	5.0%	18.9%	16.3%	23.3%	14.7%	12.4%
Operating Income	\$335.6	\$425.5	\$492.1	\$543.2	\$556.8	\$606.5	\$696.2	\$744.0	\$647.7	\$687.3	\$731.2	\$760.5	\$733.5	\$772.2	\$818.1	\$854.3	\$1,796.4	\$2,603.4	\$2,826.7	\$3,178.2	\$3,517.3
Operating Margin	38.3%	40.4%	41.8%	42.6%	41.2%	41.6%	46.1%	48.3%	42.0%	42.6%	43.4%	43.5%	42.1%	42.5%	43.0%	43.0%	41.0%	44.4%	42.9%	42.7%	42.5%
Other Expense, net	\$31.5	-\$0.5	\$6.8	\$16.9	\$12.1	\$56.3	\$41.8	\$54.5	\$37.3	\$37.3	\$37.3	\$34.3	\$38.3	\$37.3	\$42.3	\$40.3	\$54.7	\$164.8	\$146.2	\$158.2	\$184.2
Pretax Income	\$367.1	\$424.9	\$499.0	\$560.1	\$568.9	\$662.8	\$738.0	\$798.4	\$685.0	\$724.6	\$768.5	\$794.8	\$771.8	\$809.5	\$860.4	\$894.6	\$1,851.1	\$2,768.2	\$2,972.9	\$3,336.4	\$3,701.5
Taxes	-\$98.5	-\$82.3	-\$107.0	-\$115.0	-\$116.5	-\$161.6	-\$156.6	-\$134.1	-\$147.3	-\$155.8	-\$165.2	-\$170.9	-\$165.9	-\$174.1	-\$185.0	-\$192.3	-\$402.8	-\$568.8	-\$639.2	-\$717.3	-\$795.8
Non GAAP Net Income	\$268.5	\$342.7	\$391.9	\$445.1	\$452.5	\$501.2	\$581.4	\$664.3	\$537.7	\$568.8	\$603.3	\$623.9	\$605.9	\$635.5	\$675.4	\$702.3	\$1,448.3	\$2,199.4	\$2,333.7	\$2,619.1	\$2,905.7
Non GAAP EPS, diluted	\$0.84	\$1.08	\$1.25	\$1.41	\$1.43	\$1.58	\$1.83	\$2.08	\$1.68	\$1.78	\$1.89	\$1.95	\$1.89	\$1.99	\$2.11	\$2.19	\$4.58	\$6.94	\$7.30	\$8.18	\$9.07
GAAP EPS, diluted	\$0.85	\$0.94	\$1.13	\$1.35	\$1.38	\$1.55	\$1.72	\$1.92	\$1.46	\$1.55	\$1.65	\$1.71	\$1.64	\$1.72	\$1.83	\$1.91	\$4.27	\$6.58	\$6.37	\$7.10	\$7.80
Shares outstanding, basic	308,045	306,754	304,931	306,162	306,985	308,636	310,185	311,612	312,112	312,612	313,112	313,612	314,112	314,612	315,112	315,612	306,473	309,355	312,862	314,862	316,862
Shares outstanding, diluted	319,652	316,581	314,401	315,201	315,578	316,485	317,631	318,845	319,500	319,600	319,700	319,800	319,900	320,000	320,100	320,200	316,459	317,135	319,650	320,050	320,450
Margin Analysis																					
Gross Margin	63.9%	61.9%	61.2%	61.0%	60.3%	61.3%	63.1%	65.4%	62.0%	62.8%	63.0%	63.3%	62.6%	62.8%	63.0%	63.1%	61.9%	62.6%	62.8%	62.9%	62.9%
Total Operating Expenses	25.7%	21.5%	19.3%	18.4%	19.1%	19.7%	16.9%	17.1%	20.0%	20.2%	19.6%	19.9%	20.5%	20.3%	20.0%	20.1%	20.9%	18.1%	19.9%	20.2%	20.4%
Operating Margin	38.3%	40.4%	41.8%	42.6%	41.2%	41.6%	46.1%	48.3%	42.0%	42.6%	43.4%	43.5%	42.1%	42.5%	43.0%	43.0%	41.0%	44.4%	42.9%	42.7%	42.5%
(Non GAAP) Tax Rate	-26.8%	-19.4%	-21.5%	-20.5%	-20.5%	-24.4%	-21.2%	-16.8%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax Rate	-12.0%	-17.4%	-16.5%	-12.1%	-12.1%	-16.1%	-15.4%	-11.6%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.5%	-21.8%	-20.5%	-21.5%	-21.5%	-21.5%
Non GAAP Net Income	30.6%	32.6%	33.3%	34.9%	33.5%	34.4%	38.5%	43.1%	34.9%	35.3%	35.8%	35.7%	34.8%	35.0%	35.5%	35.4%	33.1%	37.5%	35.4%	35.2%	35.1%
YoY Growth																					
Total Revenue	31.4%	48.7%	57.2%	54.7%	54.1%	38.7%	28.3%	20.8%	14.0%	10.5%	11.6%	13.6%	13.0%	12.6%	12.9%	13.5%	48.6%	33.8%	12.4%	13.0%	11.1%
Gross Profit	29.8%	41.2%	48.1%	46.8%	45.2%	37.2%	32.2%	29.3%	17.3%	13.4%	11.4%	10.1%	14.2%	12.6%	12.9%	13.0%	41.9%	35.3%	12.8%	13.2%	11.2%
R&D	30.7%	24.6%	19.6%	17.2%	14.1%	25.9%	9.5%	7.7%	17.1%	8.5%	25.7%	32.8%	16.9%	14.7%	17.0%	15.9%	22.7%	14.3%	20.6%	16.1%	12.8%
S&M	11.0%	12.3%	14.4%	12.0%	15.9%	23.4%	24.9%	22.9%	28.3%	29.7%	32.0%	31.5%	14.7%	10.3%	12.5%	12.5%	12.4%	21.7%	30.4%	12.5%	11.7%
G&A	40.5%	-4.8%	25.3%	-6.9%	8.3%	68.3%	-21.4%	-2.6%	-3.4%	-11.6%	55.5%	32.8%	15.8%	11.4%	11.4%	11.4%	11.5%	10.3%	13.0%	12.4%	12.0%
Total Operating Expenses	24.6%	19.2%	18.3%	14.1%	14.3%	27.0%	12.3%	11.7%	19.4%	13.4%	28.8%	32.4%	16.1%	13.1%	15.3%	14.6%	18.9%	16.3%	23.3%	14.7%	12.4%
Operating Income	33.5%	56.6%	67.6%	67.6%	65.9%	42.5%	41.5%	37.0%	16.3%	13.3%	5.0%	2.2%	13.2%	12.4%	11.9%	12.3%	57.5%	44.9%	8.6%	12.4%	10.7%
Non GAAP EPS	34.5%	59.2%	68.2%	72.1%	70.7%	46.3%	46.8%	47.5%	17.4%	12.4%	3.1%	-6.4%	12.5%	11.6%	11.8%	12.4%	59.6%	51.5%	5.3%	12.1%	10.8%
GAAP EPS	50.4%	53.0%	60.4%	81.1%	62.4%	64.5%	52.5%	42.0%	5.9%	-0.1%	-3.9%	-11.4%	11.9%	10.8%	11.1%	11.8%	62.2%	54.0%	-3.2%	11.4%	9.9%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Price objective basis & risk

Arista Networks (ANET)

Our \$305 PO is based on a 2025E P/E multiple of roughly 37.5x. This is a discount to high-growth software peers of 40x and a premium versus networking peers of 20x. We compare the stock to the two groups given its growth attributes and networking hardware solutions, as well as its exposure to secular growth trends across the cloud, OTT video, and big data.

Downside risks are 1) margin pressure from the ramp in sales to Cloud Titans, 2) lumpiness around large customer spending, 3) valuation risks, especially if issues arise around newer growth opportunities.

Upside risks are 1) better-than-expected execution that could translate into higher-than-anticipated growth rates, especially within Cloud Titan 2) solid market share gains in new areas, such as campus switching and 400G

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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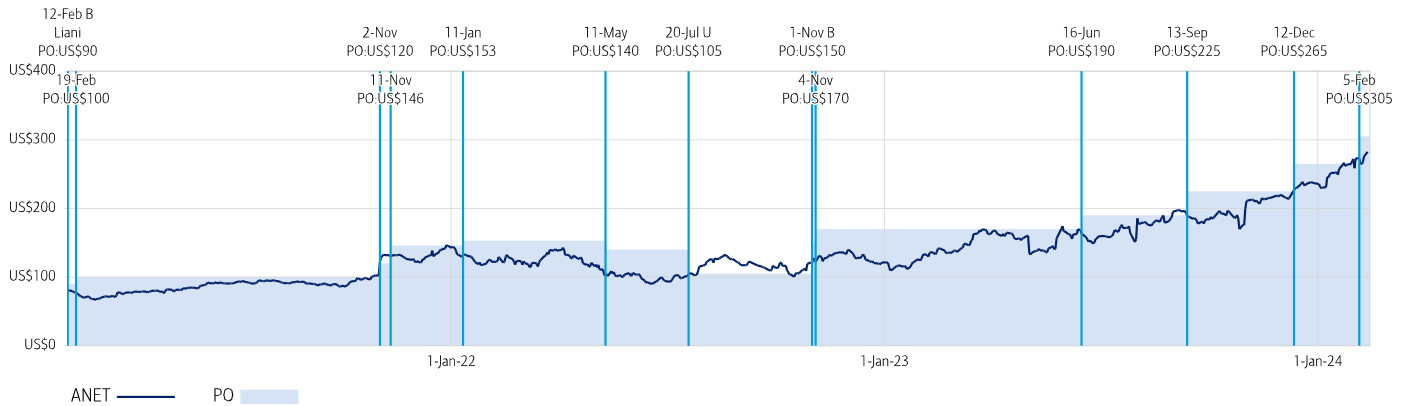
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Disclosures

Important Disclosures

Arista Networks (ANET) 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 ^{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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