

Arista Networks Inc. (NYSE: ANET)

Industry Overview: Communications Equipment

Communications equipment refers to the tools and devices used to facilitate communication between individuals and groups, both locally and globally. The global communications equipment market is expected to continue to grow in the coming years, with a CAGR of 31.1% through 2030, driven by increasing demand for internet and data services, specifically those requiring cloud computing.

Company Overview

Arista Networks is a leading provider of software-driven cloud networking solutions for data centers and cloud computing environments. Arista Networks designs, develops, and sells cloud networking solutions, including a range of switches, routers, and network management software. Arista Networks operates in a highly competitive market; however, the company has differentiated itself by focusing on the development of software-driven solutions, specifically their new EOS technology.

Catalysts

Tech Layoffs leading to a dependency on AI services

Many major tech companies are going through a series of layoffs right now, but an issue arrives in the form of how the missing labor will be replaced. As companies like MSFT and other major tech players lay off employees, they may turn to AI-based solutions to automate certain tasks and reduce labor costs. Additionally, as people lose their jobs in other industries, they may be more likely to seek work in the AI sector, increasing the pool of talent available to AI-based corporations. Finally, as the economy struggles during a recession, companies may be more likely to invest in cost-saving technologies like AI, which can lead to increased profits for corporations in the AI sector, like Arista. Given this, I expect this to drive up revenues by 6-10% across a two-year horizon.

Partnerships with large corporations in need of cloud computing

The cloud computing industry is one of the fastest growing in the semiconductor space (18.53% CAGR till 2030). ANET's EOS (Extensible Operating System) technology positions it well to take full advantage of this rapid growth. Given that EOS is fully modular and programmable, it is incredibly easy to scale up. Smaller to medium-sized businesses who need less personalized solutions will turn to ANET due to their ease of implementation and scalability. I anticipate a 5% growth in revenue above analyst expectations due to ANET's unique positioning in the industry.

Today's Date (January 22nd, 2023)

Ticker: ANET

Price: \$115.13

Rating: BUY

Price Target: \$159.20

Investment Rationale Summary

- Layoffs at tech companies are leading to the dependence on AI to fulfill missing roles.
- ANET has strong partnerships with leading technology companies, including Microsoft and Meta, two companies seizing the AI industry

Risks and Uncertainties

- Production Issues: Ongoing supply disruptions combined with other supply chain-related constraints could impact Arista's ability to fulfill this increased demand and, as a result, could negatively impact future business prospects.
- Cash Flows Uncertainty: Operating cash flow shortages may be negatively impacted by inventory tie ups from limited access to scarce parts.

Key Metrics

Market Cap: \$35.18 billion

P/E (NTM): 26.35

Industry P/E (NTM): 19.37

Dividend Yield: N/A

Beta: 1.28

EPS: 1.25



The stock is on a current downtrend and is expected to continue this. Waiting to invest till it reaches a bottom is an ideal strategy, and seeing its historical performance, it has performed very well, supporting the bullish thesis on this stock.