Next-Gen Security: On the security use cases, our MWC and RSA conference conversations suggest that the "best" solutions bundle – involving F5's BIG IP or Viprion ADC running the Traffic Management, Access Policy Management, and Web Application Security + Network Firewalling Modules – is currently seeing the most sales traction – versus the "good" or the "better" solutions bundle (which do not include the security SW modules).

Higher than anticipated IT customer demand for the "best" solutions module – which includes F5's ADC feature-functions and at least 1 security related SW module – suggests to us that interest in F5's Next-Gen Security solutions is clearly on the uptick – the key demand driver, in our view, is Datacenter IT customer's preference for high-performance DDOS mitigation systems (which require 100's of Gbps of traffic processing throughput (offered by F5) – versus peers mostly selling 10s of Gbps capable DDOS mitigation appliances).

A related demand driver for F5's Application + Network Firewall solutions is the differentiated value proposition of F5's "Full Proxy" architecture – which, in our view, has higher security efficacy (in terms of threat mitigation efficiency, application aware security policies, etc) versus conventional stateful inspection firewalls (which mostly look at ports and protocols versus examine application layer events).

Our MWC and RSA conference meetings suggest to us that F5 is likely to introduce a range of subscription services oriented security services – for DDOS mitigation, etc – which could help improve the visibility of the quarterly revenue flow – given inherent lumpiness in box oriented purchases.

There are 2 positive catalysts for F5's security business heading into CY15, in our view:

1. Outbound Firewalls: While F5 is adding limited outbound security features to its inbound firewall solution this year, the company is likely to launch a new Outbound Firewall SW module in CY15, complementing the Inbound Firewall solution. We therefore see F5 competing more effectively versus CSCO, PANW, CHKP, etc for both inbound and outbound security use cases, heading into CY15 – helping to expand F5's share of wallet to the full $8B a year security market [Infonetics data]. We estimate F5's current wallet share in security around $2B/year.

2. APT Defense: We see F5 targeting APT Defense opportunities in CY15 – a market segment in which FireEye is currently the market leader. APT complements F5's Next-Gen Firewall in our view – adding more depth to F5's security skill sets.

In summary, we remain positive with our Buy rating on F5 – noting Security + Telco as next-phase growth opportunities.

### F5: Valuation and risks

We raise our Price Target, from $120 to $130; reflecting our improved conviction on F5's next-phase growth opportunities in Telco and in Next-Gen Security - following our recent MWC and RSA conference meetings. While we leave our FY14/15 estimates unchanged, we maintain a positive bias to our estimates – which we plan on updating post the Mar Q report. At our $130 PT, the stock would trade at appx 18x P/E on an FY15 First Call consensus EPS est basis (ex cash) – which is in line with our data networking peer group multiple of 18-19x.

We have established our $130 Price Target using discounted cash flow (DCF) analysis. For our DCF, we assume a discount rate of 11.5% and a 5% growth rate. Our discount rate is derived on a weighted average cost of capital basis using a risk-free rate of 5.5%,