



Our key insight on F5 is our higher conviction on the company's next-phase growth opportunities in Telco Network Intelligence and Next-Gen Security use cases, as we highlight below:

Telco Network Intelligence: Field color from our MWC industry meetings correlate well with our recent round of IT channel conversations – which note that F5's +2 years of R&D and sales cycle investment at the major telcos (e.g. Verizon, AT&T, Vodafone, Telefonica, etc) on Layer 4/7 network intelligence initiatives is starting to positively impact F5's telco sales pipeline.

While the company noted recent set of LTE signaling and mobile data traffic management related design wins at OI in Latin America and at carriers in the EMEA and APAC – our research suggests likely design wins at the large US telcos during 2014 (e.g. at Verizon, AT&T Domain 2.0, etc) – for LTE Diameter Signaling, LTE Roaming, mobile web traffic steering, enforcing BW caps for mobile data plans, mobile network firewalls, etc.

The telco design wins involve a multi-Q sales pipeline for F5's HW platforms such as the higher-end BIG-IP 7k/10k series and Viprion, SW modules such as Traffix Diameter Signaling, CG-NAT, Local and Global Traffic Management, Policy Enforcement, Application and Network Firewalls, Access Policy Management, etc, and pre/post-sales telco solutions integration + consulting opportunities.

F5 has "crossed the chasm" in our view – in terms of being a viable carrier-grade SW and HW platform solution for the large telcos – for enabling the mobile operators in particular to effectively monetize their LTE data services subscribers – using sophisticated usage based charging schemes - and pricing methods for specific consumer and business demographics – such as teen-rate plans, corporate plans, etc [refer to our recent FITT on Big Data Networking for the SW use cases in network intelligence].

Driving the demand for F5's layer 4/7 and application-aware service provider network intelligence solutions is the carrier industry's imperative around Network Functions Virtualization [NFV] and "Network Consolidation".

We plan on a deep-dive follow-on note on the Telco NFV and Network Consolidation themes.

In the context of this note, it is noteworthy to highlight that F5 is seeing opportunities to sell its Layer 4/7 network intelligence solutions at the large mobile operators – primarily due to the window of opportunity that has opened up for F5 in:

1. Telco NFV: which involves deploying SW and virtual appliances for Control Plane use cases such as LTE Diameter Signaling Routing, LTE Roaming, Usage-Based Mobile Data Plans, Web Traffic Steering, etc;

2 Network Consolidation: Mobile operators, keen on meaningfully improving the EBITDA profitability of their LTE mobile data service offerings are looking to consolidate multiple legacy network elements (security, policy servers, DPI/analytics, charging servers, IPv4/v6 address translation, etc) in the Gi and SGi network – i.e. the network segment between the mobile packet core (GGSN/S-GW, etc) and the IP edge router – using newer technology platforms such as F5's multi Gigabit BIG IP or Viprion ADC platforms running multiple SW modules – so as to structurally lower their network cost basis and also leverage new application- and web traffic aware network intelligence features to implement new usage and traffic based mobile rate plans, etc.