

## F-5 Networks, Inc. (FFIV)

Sector: Information Technology (Industry: Application Software)

Prepared by Anthony Martinez on 11/27/2012

Key Stock Statistics (Source S&P, Value Line, Company Reports)

<b>Recommendation:</b>	BUY	<b>Dividend Yield:</b>	0%	<b>52 Week Range:</b>	\$81-\$139	<b>Beta:</b>	1.38
<b>Intrinsic Value:</b>	\$120.86	<b>Dividend Rate/Share:</b>	\$0.00	<b>PE Ratio (TTM):</b>	26.8x	<b>Forward PE (2013E):</b>	14.2x
<b>Current Price:</b>	\$91.84	<b>3 Year FV Reversion:</b>	7.98%	<b>EPS (TTM):</b>	\$3.45	<b>5 Year Proj EPS CAGR:</b>	21.3%
<b>Market Cap:</b>	7.26B	<b>5 Year FV Reversion:</b>	4.71%	<b>Credit Rating:</b>	N/A		



**Investment Theme:** Our buy recommendation on F-5Networks is based on its high growth opportunities and its dominating control in the Application Delivery Controller (ADC) market. FFIV's expected growth is expected to outpace the growth of its peers and they are diversifying their product portfolio with products that are complementary to their main product (ADC).

Additionally, FFIV's products are considered the best in the industry. They are customizable to the company's needs, therefore making the switching costs to a competing product very high. No competitor offers the same technology of FFIV, so any move to a competing product would be a downgrade.

**Overview:** F-5 Networks benefits from its dominant position in the Application Software industry. Their products are considered the best in class and they are known for being well ahead of the current technology of their competitors. FFIV is strategically positioned to take advantage of the growth in cloud computing. With the increased use of tablets and mobile devices being used in corporations to do daily tasks, having a network management system to direct the network traffic efficiently and provided adequate security will be of utmost importance. Currently, Application Delivery Controllers provide FFIV with more than 50% of their revenue, however, strategic acquisitions of companies that provide complementary products will add to the product portfolio and diversify their revenues. FFIV has been able to maintain extremely high margins, with operating margins greater than 30% and net margin greater than 20%. This can be attributed to the expertise FFIV has in the development of their products and the ability to minimize input costs. These high margins can also be attributed to the premium price corporate customers pay for the functionality of their products.

FFIV's revenue is expected to grow between 15% and 20% annually, with margins being slightly variable due the hiring of additional personnel because of the tremendous growth that has occurred at FFIV. If F-5 Networks is able to continue stay ahead of its competitors technologically and to provide its users with the ability to customize products to fit their needs, the high end of the revenue growth range is likely to be realized over the projection period.

F-5 Networks, trading at \$91.84, results in a P/E ratio of approximately 26.8x based on a trailing 12 months EPS of \$3.45. The provided discounted cash flow valuation that assumes a 14.2% five year compounded annual growth rate and a WACC of 9.96%, resulting in an intrinsic value of \$120.86. When performing a sensitivity analysis on the WACC between 8%-11% we receive a fair value range of \$103-\$145.

The primary risk to the performance of FFIV is global economic growth, should major markets in which AAPL operates see a major and prolonged economic downturn revenue growth will be significantly less than expected. This is because in poor economic conditions, corporate customers can delay the purchase of new technology or technology upgrades until there are better business conditions. Our group remains cautiously optimistic regarding the global economy and do not foresee significant negative impacts to FFIV, but the global economy continues to be a macroeconomic factor we will continue to monitor.

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**2012 Full Year Results:** This past year FFIV had revenues of \$1.37 billion (20% increase year over year) and an EPS of \$3.45. These earnings results failed to meet Wall Street expectations. This failure to meet expectations occurred because fourth quarter earnings were lower than expected. Earnings in this quarter were due to a slowdown in demand for FFIV products and services. There has been a lot of uncertainty regarding the direction of the economy, which has flown through the operations of many companies, resulting in a lackluster third/fourth quarter earnings season.

### 5 Year Stock Price Performance



**Investment Thesis:** During the last five years F5 has been able to increase its market share in the growing application delivery controller (ADC) market. The company has been able to double its market share in this industry at the expense of a much larger rival (Cisco). They also have an industry leading gross margin of approximately 80% and a proprietary operating system that allows customers to customize it to their specifications and therefore invest more into the system. F5 also benefits from its technological advantage over its competitors as its consumers become reliant on their hardware.

### Pros:

- F5 allows vendors such as Oracle to program specific tasks for its product, which opens up a significant sales channel of enterprise software partners.
- F5's main product (ADC's) is considered top of the line and will unlikely see this status deteriorate.
- The company holds 48.2% market share for ADC's
- A fully customizable operating system allows users to create its own rules to fit their business needs, making the product difficult to replace.
- February 2012 acquisition of Traction adds complementary offerings to FFIV's current portfolio of products/offerings.
- Strong balance sheet with no debt and over \$1 billion in cash available to further develop its products and acquire companies to widen its offerings.
- FFIV will continue to benefit from growth in mobile data from tablet and smartphone usage.

**Industry Trends:** Trends in the Communication Equipment industry is leaning towards virtualization and data center transmission. In the long term the growth of tablets and smartphones will aid in continuing the rapid growth in the consumption of network capacity. Corporations are being very conservative with their spending due to uncertain economic conditions and aggressive network upgrades in 2010. The industry is undergoing a technology shift towards convergence, where customers demand multiple products in one spot. Additionally, with cloud computing gaining greater acceptance, communication equipment companies can see increased demand in products that will help support the capacity.

**Business Summary:** F5 Networks provides products and services to help companies manage their internet protocol traffic and file storage infrastructure efficiently and securely. Their application delivery networking products improve the performance, availability and security of application on internet based networks. F5's storage virtualization products simplify and reduce the cost of managing files and file storage devices, and ensure fast, secure, easy access to files for users and applications. The company also offers a broad range of services, including consulting, training, maintenance and other technical supports services.

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**Management Review:** F-5 Networks is led by John McAdams. McAdams formerly ran IBM's web server division and has been with FFIV since 2000. He is surrounded by a strong management team who has held executive positions at companies such as Cisco, IBM, Lucent, among other highly respected and successful firms. Many of these executives have been with the firm since the early 2000's. Over this time they have proven to be able to navigate the firm through a number of events successfully, for example, the burst of the dot com bubble, the great recession, and economic slowdowns. During these events FFIV has been able to expand their business and increase market share in network management products at the expenses of their largest rival, Cisco.

The board of directors consists of successful professionals from a variety of backgrounds and industries. These directors have held executive positions within the technology industry, financial services industry and investments industry. Having such a diverse board allows FFIV to obtain views regarding their strategy from a variety of different lenses. Having these viewpoints will help them to make the best decisions for the company moving forward.

**Financial Trend Analysis:** Financial trends over the trailing five years have been very positive. FFIV's revenue and earnings has grown at a 25.5% CAGR over the last five years. While this growth rate cannot be assumed to be sustainable indefinitely, we do expect F-5 Network's performance to continue to outpace its competitors into the future. We project revenue and earnings to grow at an average rate of 14%-17% over the next five years. FFIV has continually improved on its margins, for example its operating margin has reached 33% in 2012, from 15% in 2007. We expect FFIV to maintain these margins into the future. Additionally, FFIV has consistently improved its return on shareholders' equity, looking forward we expect the company to continue to produce high ROE due to their dominant position in the data networking industry and their strong business model.

**Financial Health:** FFIV maintains a strong balance sheet with over \$500 million in cash available to fund investments in research and development as well as acquiring perspective companies to help enhance their portfolio in certain services, for example its February acquisition of Traffix. Through the tremendous amount of volatility in the market FFIV has been able to maintain strong margins across the board. Financial Metrics such as return on equity (ROE) are very high compared to competitors. The company also has a long history of having positive cash flows; we expect this trend will continue into the future. FFIV also has no debt on its balance sheet; all residual cash flows enhance the value to equity holders.

**Competitive Analysis:** FFIV main product, the Application Delivery Controller is considered to be the best product in the industry. This product accounts for upwards of 50% of the company's revenue. However, FFIV has pursued a strategy of acquiring companies whose technology is compatible or complementary to their own products. This increases the number of products the company can bundle for their customers and allows FFIV to diversify its product portfolio. In the upcoming fiscal year, FFIV expects their acquisition of Traffix to substantially affect the company's revenue. In more recent news, FFIV predominant competitor, Cisco, recently stated that it would significantly reduce the amount it invests in Application Delivery products. This leaves the market wide open where FFIV can capitalize as former Cisco customers look to upgrade their devices. Smaller companies such as Riverbed Technologies, and Citrix Systems have made some headway in the ADC market which may cause margins to reduce, however, their products still do not have the same functionality as FFIV's, and we expect FFIV clients to remain. We do not feel this is a major threat to the F-5 Networks business.

### **Risk Factors:**

- F5 competes with Cisco, who has considerable financial leverage and can take market share from F5 by bundling its own products.
- Significant changes in the competitive environment, for example the entry of new competition or the substantial discounting of products and services.
- The ability to develop, introduce and gain market acceptance of new products, technologies and services,
- Reductions in customers' budgets for IT purchases or delays in these purchases.
- The ability of contract manufacturers to provide critical component parts, hardware platforms and other products in a timely manner.
- Fluctuations in demand for their products due to changing market conditions.

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### DCF Valuation Model:

FFIV Discounted Cash Flow Analysis							
	Current		Projection Period				
	2012	2013	2014	2015	2016	2017	Terminal
Revenue	1377.24	1603.80	1972.67	2367.20	2722.28	3048.96	3140.43
EBITDA	444.26	641.52	789.07	958.72	1088.91	1204.34	1224.77
Depreciation	41.42	48.23	79.10	94.92	95.51	106.98	110.15
EBIT	402.84	593.29	709.97	863.80	993.40	1097.36	1114.62
Tax	140.99	224.53	276.17	335.55	381.12	421.52	428.67
EBIT (1-t)	303.26	416.99	512.89	623.17	707.79	782.82	796.10
Plus: Depreciation	41.42	48.23	79.10	94.92	95.51	106.98	110.15
Less: Δ Net Working Capital	67.45	73.16	83.33	94.47	106.49	119.28	0.00
Less: Capital Expenditures	41.42	48.23	79.10	94.92	95.51	106.98	110.15
<b>Free Cash Flow to the Firm</b>	<b>235.81</b>	<b>343.82</b>	<b>429.56</b>	<b>528.70</b>	<b>601.30</b>	<b>663.54</b>	<b>796.10</b>
<b>Terminal Value</b>						11443.53	
<b>Discounted Cash Flow</b>		312.69	355.29	397.69	411.34	7532.33	
 <b>Implied EV/EBITDA Multiple</b>	 20.28						
 <b>Enterprise Value</b>	 9009.34						
<b>Plus: Cash</b>	542.55						
<b>Less: Long Term Debt</b>	0.00						
<b>Equity Value</b>	<u>9551.89</u>						
 <b>Implied Equity Value/EBITDA Multiple</b>	 21.50						
 <b>Shares Outstanding</b>	 <u>79.03</u>						
<b>Equity Value Per Share</b>	<u>120.86</u>						
 <b>Buy Price=Fair Value Less 20%</b>	 96.69						
<b>Sell Price=Fair Value Plus 20%</b>	145.04						

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### Sensitivity Analysis:

#### Sensitivity Analysis

##### Revenue Growth Rate

	15.8%	16.3%	16.8%	17.25%	17.750%	18.250%	18.750%
Discount Rate							
8.46%	145.30	148.19	151.13	154.12	157.16	160.24	163.38
8.96%	132.88	135.50	138.16	140.87	143.62	146.42	149.27
9.46%	122.39	124.79	127.22	129.69	132.21	134.76	137.36
9.96%	113.43	115.63	117.87	120.14	122.45	124.79	127.18
10.46%	105.69	107.72	109.78	111.88	114.01	116.18	118.38
10.96%	98.93	100.81	102.72	104.67	106.65	108.66	110.70
11.46%	92.98	94.73	96.51	98.33	100.17	102.04	103.94

##### Terminal Growth Rate

	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Discount Rate						
8.46%	134.04	143.24	154.12	167.20	183.21	203.27
8.96%	124.11	131.84	140.87	151.56	164.40	180.12
9.46%	115.53	122.10	129.69	138.56	149.05	161.66
9.96%	108.04	113.68	120.14	127.59	136.30	146.60
10.46%	101.45	106.34	111.88	118.22	125.54	134.09
10.96%	95.61	99.87	104.67	110.11	116.34	123.53
11.46%	90.40	94.14	98.33	103.04	108.39	114.50

### Comparative Valuation Analysis:

#### Direct Competitor Comparison

	F5 Networks	Cisco	Citrix	Juniper
Current Price	91.68	18.87	59.67	17.62
Market Cap	7.24B	100.18B	11.1b	8.98B
P/E (TTM)	26.55	12.17	32.49	48.94
Dividend Yield	0%	2.9%	0%	0%
EV/EBITDA	14.58	5.44	18.11	11.2
Price/Book	5.44	1.91	3.71	1.24
ROA	19.98%	7.41%	5.84%	2.63%
ROE	22.60%	16.73%	12.19%	2.67%
PEG	1.1	1.15	1.3	1.58
Operating Margin	30.95%	22.79%	15.87%	9.51%
Beta	1.38	1.43	1.88	2.15

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### WACC Calculation:

WACC Calculation	
Marginal tax rate	35%
Risk free rate	1.80%
Market risk premium	5.90%
Levered Beta	1.3825
Cost of equity	9.96%
Credit Rating (LT Capital Structure)	N/A
Cost of debt pre-tax	0.00%
After tax cost of debt	0.00%
Share price	\$96
Market capitalization (billions)	7.75
Total debt	0
Total capital	7.75
% equity capital	100.00%
% debt capital	0.00%
<b>Weighted average Cost of capital</b>	<b>9.9568%</b>

### Total Return Calculation:

Total Return Calculation	
Current Price	\$83
Fair Value	\$ 120.86
Div 1	\$ -
Div 2	\$ -
Div 3	\$ -
Div 4	\$ -
Div 5	\$ -
Total Annual Return 3 yr to FV	7.98%
Total Annual Return 5 yr to FV	4.71%

### Valuation Assumptions:

Assumption Summary	
Current Price	\$ 83.00
2013 Est. EPS	\$ 4.90
2014 Est. EPS	\$ 5.86
Revenue Growth	14%
Tax Rate	34%
WACC	9.96%
Terminal Growth Rate	3.0%

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**Income Statement Projection:**

	Projections					
	2012	2013	2014	2015	2016	2017
<b>Net Sales</b>	156,924.11	185,170.45	214,890.31	246,049.40	278,035.82	286,376.90
<b>Cost of Goods Sold</b>	89,446.74	103,695.45	118,189.67	132,866.68	147,358.99	148,915.99
<b>Gross Profit</b>	67,477.37	81,475.00	96,700.64	113,182.72	130,676.84	137,460.91
<b>Selling, General &amp; Admin Expenses</b>	15,692.41	18,146.70	20,629.47	23,128.64	25,579.30	25,773.92
<b>EBITDA</b>	51,784.96	63,328.29	76,071.17	90,054.08	105,097.54	111,686.99
<b>Depreciation</b>	2,196.94	2,592.39	3,008.46	3,444.69	3,892.50	4,370.11
<b>Operating Income (EBIT)</b>	49,588.02	60,735.91	73,062.70	86,609.39	101,205.04	107,316.88
<b>Pretax Income</b>	49,588.02	60,735.91	73,062.70	86,609.39	101,205.04	107,316.88
<b>Income Taxes</b>	12,397.00	15,183.98	18,265.68	21,652.35	25,301.26	26,829.22
<b>Net Income to Common Shareholders</b>	37,191.01	45,551.93	54,797.03	64,957.04	75,903.78	80,487.66

**Shareholder Information**

<b>Common Shares Used to Calc Diluted EPS</b>	936.65	936.65	936.65	936.65	936.65	937.65
<b>EPS - Continuing Operations</b>	39.71	48.63	58.50	69.35	81.04	85.84
<b>Dividends</b>	9,928.44	14,548.11	17,836.87	24,162.10	28,642.00	28,781.32
<b>Dividend Per Share</b>	10.60	15.53	19.04	25.80	30.58	30.70

**Average Operating Margins**

Gross Margin	43%
Operating Margin	32%
Net Margin	24%



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### Historical Financial Data:

Annual Income Statement					
	9/30/2012	9/30/2011	9/30/2010	9/30/2009	9/30/2008
<b>Income Statement</b>					
Net Sales or Revenues	1,377.2	1,151.8	882.0	653.1	650.2
Operating Expenses - Total	950.9	801.2	652.0	526.8	545.6
Cost of Goods Sold	201.0	187.1	148.1	116.3	125.4
Selling, General & Admin Expenses	714.8	593.2	480.0	384.1	396.6
Depreciation, Depletion & Amortization	35.1	20.9	23.8	26.4	23.6
Operating Income	426.3	350.7	230.0	126.3	104.6
Extraordinary Charge - Pretax	0.0	0.0	1.5	4.3	5.3
Non-Operating Interest Income	6.9	8.1	8.1	-	-
Other Income/Expense - Net	(1.0)	2.0	1.0	9.7	19.0
Pretax Income	432.2	360.8	237.6	131.6	118.3
Income Taxes	157.0	119.4	86.5	40.1	43.9
Net Income Before Extra Items/Preferred Div	275.2	241.4	151.2	91.5	74.3
Net Income Before Preferred Dividends	275.2	241.4	151.2	91.5	74.3
Preferred Dividend Require	0.0	0.0	0.0	0.0	0.0
<b>Net Income to Common Shareholders</b>	<b>275.2</b>	<b>241.4</b>	<b>151.2</b>	<b>91.5</b>	<b>74.3</b>
EPS Incl Extraordinary Items	3.5	3.0	1.9	-	0.9
EPS - Continuing Operations	3.5	3.0	1.9	-	0.9
Common Shares Used to Calc Diluted EPS	79,780,000.0	81,482,000.0	81,049,000.0	80,073,000.0	83,428,000.0
<b>Annual Balance Sheet</b>					
	9/30/2012	9/30/2011	9/30/2010	9/30/2009	9/30/2008
<b>Assets</b>					
Cash & ST Investments	532.2	542.6	428.5	317.1	190.2
Receivables (Net)	185.2	165.7	112.1	107.0	97.1
Inventories - Total	17.4	17.1	18.8	13.8	10.1
Other Current Assets	41.3	38.3	46.5	30.3	26.0
<b>Current Assets - Total</b>	<b>776.1</b>	<b>763.7</b>	<b>606.0</b>	<b>468.2</b>	<b>323.4</b>
Other Investments	663.0	470.4	433.8	265.8	269.1
Property Plant & Equipment - Net	59.6	48.0	34.2	39.4	47.6
Other Assets	377.1	251.8	250.5	246.3	252.3
<b>Total Assets</b>	<b>1,875.7</b>	<b>1,533.8</b>	<b>1,324.3</b>	<b>1,019.6</b>	<b>892.3</b>
<b>Liabilities</b>					
Accounts Payable	27.0	33.5	21.2	18.9	13.1
Accrued Payroll	61.7	47.8	40.9	33.3	28.2
Income Taxes Payable	8.6	4.9	2.5	8.2	8.9
Other Current Liabilities	368.7	286.1	222.5	162.6	136.6
<b>Current Liabilities - Total</b>	<b>466.0</b>	<b>372.3</b>	<b>287.1</b>	<b>223.0</b>	<b>186.8</b>
Long Term Debt	0.0	0.0	0.0	0.0	0.0
Deferred Income	94.7	85.1	64.4	40.6	30.0
Deferred Taxes	(35.5)	(34.8)	(37.9)	(49.0)	(46.9)
Other Liabilities	21.1	5.7	7.0	6.1	4.1
<b>Total Liabilities</b>	<b>546.3</b>	<b>428.4</b>	<b>320.6</b>	<b>220.6</b>	<b>174.0</b>
<b>Shareholders' Equity</b>					
Common Equity	1,329.4	1,105.4	1,003.7	799.0	718.3
Common Stock	326.9	380.7	517.2	462.8	477.3
Other Appropriated Reserves	(3.8)	(6.4)	(3.2)	(2.3)	(6.1)
Retained Earnings	1,006.3	731.1	489.7	338.6	247.0
<b>Total Shareholders Equity</b>	<b>1,329.4</b>	<b>1,105.4</b>	<b>1,003.7</b>	<b>799.0</b>	<b>718.3</b>
<b>Total Liabilities &amp; Shareholders Equity</b>	<b>1,875.7</b>	<b>1,533.8</b>	<b>1,324.3</b>	<b>1,019.6</b>	<b>892.3</b>
Common Shares Outstanding	78.7	79.1	80.4	78.3	79.1



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#### Annual Cash Flow Statement

	9/30/2012	9/30/2011	9/30/2010	9/30/2009	9/30/2008
<b>Operations</b>					
Net Income / Starting Line	275.2	241.4	151.2	91.5	74.3
Depreciation, Depletion & Amortization	35.1	20.9	23.8	26.4	23.6
Deferred Income Taxes & Investment Tax Credit	(4.3)	4.5	8.2	(6.1)	(5.6)
Other Cash Flow	97.5	90.6	71.9	58.7	63.4
Funds From Operations	403.5	357.3	255.1	170.6	155.7
Funds From/For Other Operating Activities	91.9	59.6	58.5	31.4	38.0
<b>Net Cash Flow - Operating Activities</b>	<b>495.4</b>	<b>416.9</b>	<b>313.6</b>	<b>202.0</b>	<b>193.7</b>
<b>Investing</b>					
Capital Expenditures (Addition to Fixed Assets)	(29.9)	(30.4)	(12.6)	(11.7)	(27.9)
Additions To Other Assets	(0.3)	(5.7)	0.0	(0.7)	0.0
Net Assets From Acquisitions	(128.3)	0.0	0.0	0.0	(1.0)
Increase In Investments	(1,059.9)	(979.6)	(877.0)	(414.9)	(494.1)
Decrease In Investments	866.0	876.0	648.9	328.1	535.5
Other Use/(Source) - Investing	0.0	(0.0)	(2.5)	(0.0)	(1.2)
<b>Net Cash Flow - Investing</b>	<b>(352.3)</b>	<b>(139.7)</b>	<b>(238.2)</b>	<b>(99.1)</b>	<b>13.7</b>
<b>Financing</b>					
Net Proceeds From Sale/Issue of Com & Pref	25.2	21.2	31.7	18.7	18.5
Com/Pfd Purchased	(184.8)	(271.5)	(75.0)	(87.4)	(200.0)
Other Source (Use) - Financing	10.4	23.6	26.5	(2.0)	(0.2)
<b>Net Cash Flow - Financing</b>	<b>(149.2)</b>	<b>(226.7)</b>	<b>(16.8)</b>	<b>(70.7)</b>	<b>(181.7)</b>
Effect of Exchange Rate On Cash	0.5	(2.5)	(0.7)	0.4	(1.7)
<b>Inc(Dec) In Cash &amp; Short Term Investments</b>	<b>(5.6)</b>	<b>48.0</b>	<b>57.9</b>	<b>32.5</b>	<b>24.0</b>

#### Annual Ratios

	9/30/2012	9/30/2011	9/30/2010	9/30/2009	9/30/2008
<b>Valuation Measures</b>					
Market Cap	-	8,398.9	10,459.0	4,148.9	1,808.1
Net Sales or Revenues	1,377.2	1,151.8	882.0	653.1	650.2
Total Debt	0.0	0.0	0.0	0.0	0.0
Net Assets	1,875.7	1,533.8	1,324.3	1,019.6	892.3
Enterprise Value	7,704.6	5,080.7	7,913.2	2,786.9	1,659.0
EBITDA	467.4	381.6	261.5	158.1	141.9
EBIT	432.2	360.8	237.6	131.6	118.3
Capital Expenditure	29.9	30.4	12.6	11.7	27.9
<b>Valuation</b>					
Price/Earnings	30.3	24.0	55.8	34.8	26.3
Price/Sales	6.0	4.9	9.5	4.8	2.8
Price/Cash Flow	20.7	16.2	33.0	18.6	12.5
Price/Book Value	6.2	5.1	8.3	3.9	2.6
Price/Tangible BV	8.6	6.5	11.0	5.6	4.0
<b>Enterprise Value</b>					
Enterprise Value / Sales	5.6	4.4	9.0	4.3	2.6
Enterprise Value/ EBITDA	16.5	13.3	30.3	17.6	11.7
Enterprise Value / EBIT	17.8	14.1	33.3	21.2	14.0
Enterprise Value / Cash Flow	19.1	14.2	31.0	-	10.7
Enterprise Value / Free Cash Flow	16.5	13.1	26.3	14.6	10.0

## F-5 Networks, Inc. (FFIV)

### Sector: Information Technology (Industry: Application Software)

Prepared by Anthony Martinez on 11/27/2012

Credit Statistics					
Total Debt/ Enterprise Value	0.0	0.0	0.0	0.0	0.0
Net Debt / Enterprise Value	-	-	-	-	-
Total Debt / EBITDA	0.0	0.0	0.0	0.0	0.0
Net Debt / EBITDA	NEG	NEG	NEG	NEG	NEG
EBITDA / Interest Expense	-	-	-	-	-
EBITDA - Capex / Interest Expense	-	-	-	-	-
EBIT/ Interest Expense	-	-	-	-	-
Liquidity Leverage					
Quick Ratio	1.5	1.9	1.9	1.9	1.5
Current Ratio	1.7	2.1	2.1	2.1	1.7
Cash Flow/Current Liabilities	1.1	1.1	1.1	0.9	1.0
Long Term Debt / Equity	0.0	0.0	0.0	0.0	0.0
Total Debt / Equity	0.0	0.0	0.0	0.0	0.0
Long Term Debt / Total Capital	0.0	0.0	0.0	0.0	0.0
Total Debt / Total Capital	0.0	0.0	0.0	0.0	0.0
Working Capital / Total Capital	23.3	35.4	31.8	30.7	19.0
Profitability Ratios					
Gross Margin	82.85%	81.94%	80.50%	78.15%	77.08%
Gross Margin - 5 Yr Average	80.10%	79.03%	78.17%	77.10%	76.40%
EBITDA Margin	33.93%	33.13%	29.64%	24.20%	21.82%
EBITDA Margin - 5 Yr Average	29.92%	28.13%	26.54%	25.93%	26.00%
EBIT Margin	31.38%	31.32%	26.94%	20.16%	18.19%
EBIT Margin - 5 Yr Average	27.16%	25.27%	23.28%	22.57%	22.87%
Pre-Tax Margin	31.38%	31.32%	26.94%	20.16%	18.19%
Pre-Tax Margin - 5 Yr Average	25.60%	24.18%	23.38%	23.67%	23.03%
Net Margin	19.98%	20.96%	17.14%	14.02%	11.43%
Net Margin - 5 Yr Average	16.71%	15.64%	14.80%	15.05%	16.09%
Efficiency Ratios					
Sales Per Employee	0.5	0.5	0.4	0.4	0.4
Operating Profit Per Employee	0.1	0.1	0.1	0.1	0.1
Net Income Per Employee	0.1	0.1	0.1	0.1	0.0
Assets Per Employee	0.6	0.6	0.7	-	0.5
Total Asset Turnover	0.7	0.8	0.7	-	0.7
Inventory Turnover	11.6	10.4	9.1	-	12.0
Receivable Turnover	7.9	8.3	8.1	6.4	6.9
Payable Turnover	6.6	6.8	7.4	7.3	6.5
Management Effectiveness					
Return on Equity	22.60%	22.89%	16.77%	12.07%	9.99%
Return on Equity - 5 Yr Average	16.86%	14.56%	12.43%	11.75%	12.49%
Return On Assets	16.14%	16.89%	12.90%	9.58%	8.27%
Return On Assets - 5 Yr Average	12.75%	11.43%	10.23%	10.13%	10.95%
Return On Invested Capital	22.60%	22.89%	16.77%	12.07%	9.99%
Return On Invested Capital - 5 Yr Average	16.86%	14.56%	12.43%	11.75%	12.49%
Growth Rates					
Sales	19.57%	30.60%	35.05%	0.45%	23.69%
Sales - 5 Yr	21.24%	23.93%	25.67%	30.71%	41.19%
EBITDA	22.46%	45.96%	65.42%	11.39%	(1.16%)
EBITDA - 5 Yr	26.63%	26.21%	24.68%	35.65%	69.63%
Net Income	14.00%	59.70%	65.13%	23.15%	(3.47%)
Net Income - 5 Yr	29.01%	29.61%	23.92%	22.67%	78.63%
EPS	-	43.78%	75.00%	31.91%	10.59%
EPS - 5 Yr	-	28.95%	24.86%	18.31%	49.71%
Capital Expenditure	(1.90%)	141.15%	-	-	69.70%
Capital Expenditure - 5 Yr	12.66%	7.31%	6.32%	-	60.97%
Research & Development	27.71%	17.41%	14.13%	0.26%	49.78%
Research & Development - 5 Yr	20.78%	23.08%	30.43%	33.59%	39.97%

**F-5 Networks, Inc. (FFIV)****Sector: Information Technology (Industry: Application Software)****Prepared by Anthony Martinez on 11/27/2012****Notes:**