

# INVESTOR'S BUSINESS DAILY

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## THE IBD 100

### IBD 100 PROFILE

# Online Holiday Shopping Safer, Easier, Thanks To F5

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INVESTOR'S BUSINESS DAILY

It's that time of the year again when shoppers start their holiday gift buying. This season, as in the recent past, more consumers will be drawn to the convenience of shopping online.

This year, the number of U.S. consumers turning to the Web for some or all of their holiday shopping will increase 6% from 2005, bringing the total to nearly 115 million shoppers, according to Jupiter Research.

**F5 Networks<sup>FFIV</sup>** makes products that can help make the holiday online shopping experience quicker, more convenient and more secure. Its core BIG-IP product is a combined software and hardware system that directs traffic between servers.

"The basic value proposition we bring to customers is we make applications like accessing e-mail or ordering items run better," said Dan Matte, F5's senior vice president of marketing. "Our technology makes these applications go faster, it makes them more secure, and it makes them highly available."

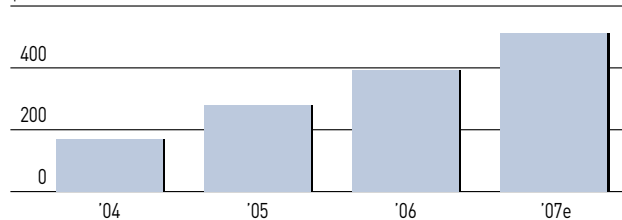
For example, say during the holidays a shopper goes to a site that has particularly heavy traffic, causing one

### Speedy Data Delivery

F5's core BIG-IP product is a combined software and hardware system that directs traffic between various servers to make data delivery faster and optimal. It stands to benefit from the launch of a new generation of the BIG-IP, slated to be shipped in coming months, as well as increased sales from another product line used to speed up data delivery across branch offices

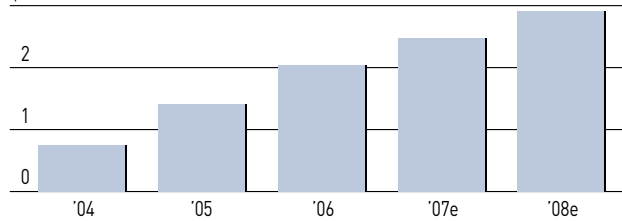
#### Annual revenue

\$600 In millions



#### Annual earnings per share

\$3



Sources: WR Hambrecht & Co., company reports, First Call

Fiscal year ends in September

server to become overloaded. The BIG-IP system redirects the shopper's request to a different server that's performing optimally.

Also, through encryption, the system can mask sensitive information like credit card and Social Security numbers as they're sent over the Internet.

More than 300 e-com-

merce sites, including those run by retailers, banks and airlines, use the BIG-IP product.

### Big Customers

F5's customers are mainly Fortune 1000 companies and telecommunications service providers. In all, more than 10,000 organizations and services providers worldwide use F5's

products to keep their applications running.

Companies also use BIG-IP to manage internal intranet traffic.

The BIG-IP product is part of a category called application delivery controllers. Here, F5 competes with networking behemoths like **Cisco<sup>CSCO</sup>** and **Nortel<sup>NT</sup>**.

Despite the heavy competition, F5 is the No. 1 player in the ADC market with a 32.9% share of the worldwide market, slightly above Cisco's 30.2% share, according to research by Gartner.

One reason for its leadership: "F5 has continued to innovate and introduce new products at a faster pace than its larger peers," said analyst Ryan Hutchinson of WR Hambrecht & Co. "In our view, with its current lineup, (F5) has a sustainable lead of at least 12 to 18 months over the competition. The product road map continues to be solid and will position the company to continue growth and market share gains over the long term."

The BIG-IP8800, the next-generation platform of F5's flagship BIG-IP, is in beta trials and is expected to be shipped in coming months. The new product has greater throughput and more features than the current generation, Hutchinson says. (Continue)

Another plus for F5: The architectural design of its products is “superior” in terms of performance, Hutchinson says.

F5 also has a unique advantage in the relationships it’s forged with major vendors, giving the company tremendous leverage “to get into large enterprises which are deploying these vendors’ applications,” said F5 spokeswoman Alane Moran.

A small portion of F5’s revenue comes from its offerings in the WAN (wide area network) optimization market. Offerings in this category are used to speed up the delivery of data across branch offices.

Here, F5’s products — WANJet and WebAcceler-

ator — help speed up remote access to any Web application. F5 acquired those products with the October 2005 purchase of WAN optimization technology company **Swan Labs** for \$43 million.

“The value of (WAN optimization) is to speed up application response time in a world where applications may reside across the globe,” said F5’s Matte.

F5 is faring well. In the fourth quarter ended Sept. 30, earnings rose 23% to 58 cents a share. Revenue increased 39% to \$111.7 million.

Its BIG-IP product sales accounted for 90% of product sales for the quarter and 89% for the year.

When it reported earn-

ings, F5 said it was continuing to cooperate with investigations by the Department of Justice and SEC into its stock-option granting practices. It’s one of scores of companies that have been questioned by one of those agencies about possible backdating of stock options.

### Stock Options

Moreover, F5 has completed its own internal inquiry into its stock-option practices and found a total of \$22.9 million in additional stock-based compensation expenses for fiscal years 1999 through 2006. It plans to file its third-quarter 10-Q with the SEC and all restated financial statements as soon as is practical.

It has also said it might have to restate financial statements for fiscal years 1999 to 2005 and amend statements for the first half of 2006.

The investigation hasn’t affected F5’s outlook. Analysts polled by First Call see earnings for the 2007 first quarter rising 23% to 58 cents share and for the 2007 full year they see a gain of 22% to \$2.48.

“The application delivery infrastructure market has reached an inflection point and is poised for significant growth in 2007,” said analyst Hutchinson.

The worldwide market for application delivery infrastructure, which includes F5’s products, is expected to grow from \$1.1 billion in 2006 to \$1.8 billion in 2007, according to Gartner.