

FireEye, Inc.

NASDAQGS:FEYE

Analyst: Ryan Ahlers

Sector: Technology

BUY

Price Target: \$49.46

Key Statistics as of 3/18/2015

Market Price:	\$42.60
Industry:	Infrastructure Software
Market Cap:	\$6,630.6 M
52-Week Range:	\$77.25 – 24.81
Beta:	N/A

Thesis Points:

- Fast growing market will keep demand high and fuel strong growth
- Industry leading technology
- Improving margins will increase value

Company Description:

FireEye, Inc. provides cyber security solutions to companies worldwide. They specialize in detecting, preventing, and resolving cyber-attacks. FireEye takes a unique approach to cybersecurity by preventing cyber-attacks before they occur versus identifying them after they have happened. FireEye is operated by a management team that has extensive background and knowledge in the field of cybersecurity. Chairman and CEO, David DeWalt, was president and CEO of security software giant McAfee from April 2007 to May 2012 before leaving for FireEye, Chief Operating Officer, Kevin Mandia and Chief Technology Officer, David Merkel, both have a background in cybersecurity as special agents with the Air Force Office of Special Investigations. FireEye competes among some of the industry leaders in cybersecurity such as IBM, Oracle, Cisco Systems and Palo Alto Networks, but differentiates itself with its industry leading MVX engine virtual technology, which has allowed FireEye to rapidly grow and become a new industry leader.



Thesis

Cybersecurity, the processes and practices designed to protect networks, computers, programs and data from attack, damage or unauthorized access is not a new concept and has been around since the inception of the internet. Although, what is new are the methods, resources and frequency that hackers are performing malicious activity against corporations. FireEye Inc., is becoming the go-to provider for cutting-edge security systems and services for the corporate world. With cyber-attacks becoming more frequent every day, the demand for FireEye's industry leading technology will continue to grow and their revenues will grow with it. As FireEye's revenue increases, their margins will improve, increasing value.

Industry Overview

The cyber-security industry has been in a continuous growing demand the past couple of years and shows no sign of slowing down. This industry demand is fueled by the growing number of cyber-crimes that are occurring and the realization of how important it is for corporations to protect themselves. In December of 2013, Target had a data breach that allowed thieves to steal 40 million credit/debit card numbers, 70 million personal records of customers (name, address, email, phone, etc.) which resulted in a 46% decrease in profits for the Q4 of 2013 when compared to the previous year. Breaches, such as the Target breach, have been happening more frequent among companies, exposing their corporation and customers to risk. This unfortunate truth is what is driving the cyber-security market today. Corporations want to avoid being the next victim of a data breach, which in result will expose private information of the company and their clients.

High Demand, High Revenue Growth

As mentioned, the cyber-security market is growing due to the overall demand needed to secure corporations private and sensitive information from the increasing threat of cyber-attacks. What is promising about this industry growth for FireEye is where the growth is occurring. Some of the obvious growth for FireEye over the past year has been from high profile companies in

which they jumped from less than 15% of the Global 2000 to about 25% of the Global 2000 (an annual ranking of the top 2000 public companies in the world by Forbes magazine). This trend still allows FireEye to gain a potential 75% growth among the world's top 2000 companies.

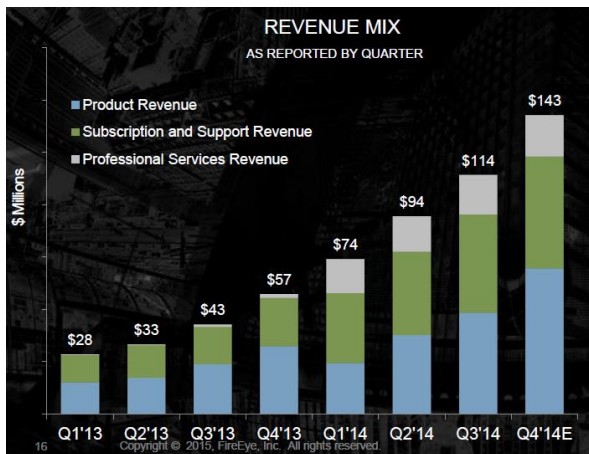
Another reason for the fast growing security market is because of the emphasis for an increase in security spending from within a corporation's top management. With the publicity of recent data breaches at notable companies, other CEOs, boards and executive teams have become more aware of the risk their company could have and, in response, are beginning to increase security budgets. This resonates throughout the entire corporation making a ripple effect to whoever they do business with. The result, FireEye is seeing a shift in the demographic of companies that they do business with. CEO David DeWalt states, "Our customers include the governments of more than 60 countries now; hundreds of financial firms and critical infrastructure companies as well as retailers, healthcare providers, and now entertainment companies. We are even seeing small companies from hospitals, the law firms, to biotech, high-tech start-ups turning to FireEye to protect their critical assets and reduce their risk." This evolving demand for cyber security across all sectors of the economy are allowing for an immense growth opportunity for FireEye.

The demand in growth among various companies has led FireEye to increase the number of channel partners 75%, from 673 to 1121, in 2014, including major companies such as Sing Tel, Verizon, Deutsche Telekom and Telefonica which increases the effectiveness of their flagship virtual machine MVX technology.



In result, FireEye has seen tremendous year-to-year revenue growth of 163.5% from 2013 to 2014 and has added 1030 new customers in 2014 alone. Below is a

quarterly representation in the increase of FireEye's revenue.



FireEye's impressive growth over the past couple of years should continue. The cyber-security market is still growing and nowhere near maturity yet; therefore FireEye will continue to be the leader of the market.

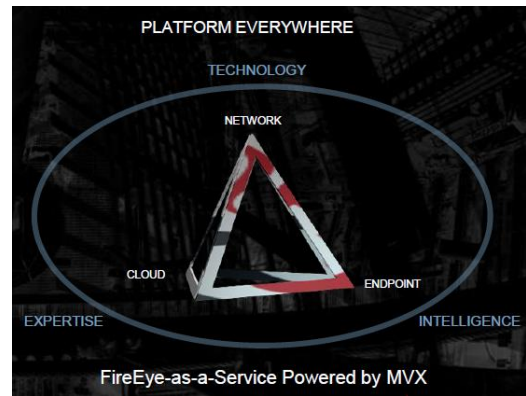
FireEye is expected to continue expanding into three key areas: the Global 2000, internationally and smaller companies lower in the supply chain to the larger companies. As mentioned, larger companies are raising their budgets to expand on cyber-security and they will expect the smaller companies in their supply chain to follow suit and increase their cyber-security measures, keeping the window of high demand and revenue growth open for FireEye.

Industry Leading Technology

FireEye currently has the industry leading technology in cyber-security. Currently, there are threats among three areas: the network, the cloud and the endpoint.



What sets FireEye apart from their competitors is their ability to monitor and control threats from everywhere that a user may be.



The ability for FireEye to do this stems from their technology, intelligence and expertise. At the core of the technology is their MVX engine virtual machine which simulates an operating system, such as Microsoft's Windows or Apple's OS X, to make the malicious code believe it is within an actual operating system and activate within the virtual operating system instead of the customers actual network. Once this happens, the threat is detected and isolated, saving the customer from a data breach.

What makes FireEye's approach even more unique is their intelligence capabilities. All of the MVX devices are strengthened through FireEye's subscription service, Dynamic Threat Intelligence cloud. This service utilizes data from around the world keeping systems up to date the instant a new threat is known. Customers of FireEye have their security updated around 60 times a day, compared to other main competitors that update their services once or twice a day, at the most. As FireEye adds additional customers, more data points are added, making the cloud more effective and, in turn, making FireEye's system more valuable and appealing to more customers, a very lucrative circle. As customers use FireEye's products they like the results, resulting in a high retention rate and the customers enroll in the subscription service. This subscription service is offered at \$10,000 a month which allows for a base of recurring and predictable revenues. With improving and leading technology, FireEye will continue to draw in new customers and grow their revenues, a key value driver.

Improving Margins

When looking at FireEye's margins, one would think that they are not a healthy company, but there are reasons for their current subpar margins. Pre-IPO (September of 2013) FireEye had a focus on growing the company for future growth. CEO David Dewalt explains, "We

invested heavily on becoming a global company, things like putting human capital on locations around the world, 24x7 support, setting up our international subsidiaries to create better tax effective rates, doing things that allow us to become a strong big company.” This effort of becoming a large, strong and international company raised expenses far faster than revenues. FireEye set up a sales presence in 67 countries and grew their total employees from 416 in 2012 to 2,418 in 2014. This large expense set up FireEye to succeed in the future as a cyber-security provider, not just for the United States, but for the world. It has allowed them to sustain the high revenue growths they have achieved in the past couple of years and will allow them to continue in the years to come. As sales continue to increase throughout the next couple of years revenues will become greater than expenses, improving FireEye’s margins. Management is projecting operating cash flow to be positive in 2 – 4 years and operating income to be positive in 3 – 5 years.

Conclusion

FireEye Inc. is an innovative technology company operated by a management team with more than enough experience in the industry of cyber-security. With their industry leading technology they are able to answer the three questions all companies want to know: who attacked them, what was taken and what they should do next. The cyber-security industry is rapidly expanding in an attempt to protect companies against the equally rapidly expanding cyber-attacks that are occurring thousands of times a day. With the expanding and growing market, FireEye will continue to organically grow into a profitable company and continue to add value to the company and to shareholders. As cyber-crime activity continues to grow and affect more people everyday the technology and services that FireEye sells will become much more valuable. FireEye is a company that will keep corporations and their stakeholders’ information safe, a cost many will become more open to paying. For these reasons, FireEye Inc. is a BUY.

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FireEye, Inc.		feye	Analyst Ryan Ahlers	Current Price \$42.60	Intrinsic Value \$43.18	Target Value \$49.46	Divident Yield 0%	Target Return 16.13%	NEUTRAL
General Info		Peers		Market Cap.	Management				
Sector	Information Technology	Fortinet Inc		\$5,785.31	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Industry	Software	Splunk, Inc		\$7,620.17	DeWalt, David	Chairman and Chief Executive C	\$ 7,463,188.00	\$ 971,177.00	\$ -
Last Guidance	Feb-11-2015	Palo Alto Networks, Inc		\$11,923.00	Aziz, Ashar	Founder, Vice Chairman and Ch	\$ 2,387,037.00	\$ 452,869.00	\$ -
Next earnings date	NM	Tableau Software, Inc		\$6,728.46	Sheridan, Michael	Chief Financial Officer, Princip	\$ 359,536.00	\$ 715,207.00	\$ -
Market Data		Proofpoint, Inc		\$2,274.52	Mandia, Kevin	Chief Operating Officer and Seni	\$ -	\$ -	\$ -
Enterprise value	\$6,228.43	Imperva Inc		\$1,288.18	King, Alexa	Senior Vice President, General C	\$ 654,371.00	\$ 658,722.00	\$ -
Market Capitalization	\$6,630.64	Barracuda Networks, Inc		\$2,022.61	Williams, Jeffrey	Senior Vice President of America	\$ 686,202.00	\$ 869,173.00	\$ -
Daily volume	3.30	Qualys, Inc		\$1,579.42	Historical Performance				
Shares outstanding	155.67	Symantec Corporation		\$16,220.17		feye	Peers	Industry	All U.S. firms
Diluted shares outstanding	142.18	Progress Software Corporation		\$1,346.71	Growth	28.9%	16.2%	11.8%	6.0%
% shares held by institutions	57.31%	Current Capital Structure			Retention Ratio	0.0%	175.5%	74.8%	57.5%
% shares held by insiders	13.53%	Total debt/market cap		0.00%	ROIC		4.0%	18.3%	12.7%
Short interest	9.93%	Cost of Borrowing		0.00%	EBITDA Margin	0.0%	27.9%	15.6%	13.7%
Days to cover short interest	2.20	Interest Coverage		0.00%	Revenues/Invested capital	20.1%	79.2%	137.2%	202.3%
52 week high	\$78.74	Altman Z		6.27	Excess Cash/Revenue	#DIV/0!	17.2%	38.4%	18.5%
52-week low	\$24.81	Debt Rating		D	Unlevered Beta		0.97	1.01	0.95
5y Beta	0.00	Levered Beta		1.41	TEV/REV	20.5x	4.1x	4.4x	2.4x
6-month volatility	56.82%	WACC (based on market value weights)		9.37%	TEV/EBITDA		17.3x	15.6x	11.3x
Past Earning Surprises					TEV/EBITDA		21.0x	18.7x	15.4x
	Revenue	EBITDA	Norm. EPS		TEV/UFCF		76.0x	24.0x	26.8x
Last Quarter	1.1%				Non GAAP Adjustments				
Last Quarter-1	-1.7%				Operating Leases Capitalization	100%	Straightline		10 years
Last Quarter-2	4.8%				R&D Exp. Capitalization	100%	Straightline		10 years
Last Quarter-3	3.2%				Expl./Drilling Exp. Capitalization	0%	N/A		N/A
Last Quarter-4	2.0%				SG&A Capitalization	50%	Straightline		10 years
Proforma Assumptions		Rev. Growth			Adj. Op. Cost/Rev		Forecasted Profitability		
	Period						NOPLAT	Invested capital	UFCF
Operating Cash/Cash	0.0%	LTM	163%	51%	\$425.66		-\$115.74	\$1,420.87	\$86.81
Unlevered Beta	1.40	LTM+1Y	60%	24%	\$681.06		-\$64.17	\$2,305.37	-\$746.12
Rev/Invested Capital	79.0%	LTM+2Y	40%	23%	\$953.48		\$120.35	\$2,854.71	-\$428.99
Continuing Period Revenue Growth	3.4%	LTM+3Y	35%	23%	\$1,287.20		\$318.60	\$3,388.22	-\$214.91
Long Term ROIC	13.5%	LTM+4Y	32%	21%	\$1,699.11		\$551.48	\$3,938.64	\$1.06
Invested Capital Growth	Equals to Maintenance	LTM+5Y	26%	24%	\$2,140.87		\$742.93	\$4,536.80	\$144.78
Justified TEV/REV	4.0x	LTM+6Y	22%	26%	\$2,611.87		\$924.14	\$5,281.92	\$179.02
Justified TEV/EBITDA	15.6x	LTM+7Y	18%	28%	\$3,082.00		\$1,094.78	\$5,950.29	\$426.41
Justified TEV/EBITDA	18.7x	LTM+8Y	12%	29%	\$3,451.84		\$1,217.64	\$6,618.42	\$549.51
Justified TEV/UFCF	25.0x	LTM+9Y	10%	30%	\$3,797.03		\$1,326.10	\$7,252.95	\$691.58
Valuation									
	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price	
LTM	-7.1%	9.4%	-\$234.48	\$6,809.20	\$0.00	\$114.24	\$6,694.96	\$44.14	
LTM+1Y	-4.5%	9.5%	-\$322.36	\$8,104.88	\$0.00	\$584.46	\$7,520.42	\$50.21	
LTM+2Y	5.2%	9.6%	-\$123.92	\$9,597.96	\$0.00	\$787.96	\$8,810.01	\$58.44	
LTM+3Y	11.2%	9.7%	\$50.94	\$10,941.95	\$0.00	\$772.70	\$10,169.25	\$67.34	
LTM+4Y	16.3%	9.8%	\$256.90	\$12,186.45	\$0.00	\$529.91	\$11,656.54	\$76.89	
LTM+5Y	18.9%	9.9%	\$408.83	\$13,317.40	\$0.00	\$177.61	\$13,139.79	\$86.71	
LTM+6Y	20.4%	9.9%	\$550.38	\$14,485.65	\$0.00	-\$183.06	\$14,668.70	\$96.16	
LTM+7Y	20.7%	10.0%	\$635.36	\$15,457.32	\$0.00	-\$654.18	\$16,111.50	\$105.32	
LTM+8Y	20.5%	10.1%	\$682.62	\$16,366.60	\$0.00	-\$1,106.82	\$17,473.42	\$114.06	
LTM+9Y	20.0%	10.3%	\$709.73	\$17,208.01	\$0.00	-\$1,618.66	\$18,826.67	\$120.94	
Monte Carlo Simulation Assumptions		Monte Carlo Simulation Results							
	Base	Stddev	Min	Max	Distribution		Intrinsic Value	1y-Target	
Revenue Variation	0	10%	N/A	N/A	Normal	Mean est.	\$44.14	\$50.21	
Op. Costs Variation	0	10%	N/A	N/A	Normal	σ(e)	\$0.32	\$0.25	
Market Risk Premium	5%	N/A	5%	7%	Triangular	3 σ(e) adjusted price	\$43.18	\$49.46	
Long term Growth	3%	N/A	3%	29%	Triangular	Current Price	\$42.60		
Terminal Value	0	0.1	N/A	N/A	Normal	Analysts' median est.		\$43.35	