Arista Networks, Inc.

Connectivity = Cash

The bottleneck for the multi-trillion-dollar AI revolution is no longer the chip, but the networking infrastructure that allows the chip to work to its full potential. Arista Networks is quickly becoming the preferred vendor among hyperscalers and large language models due to its EOS simplicity and its ability to handle massive loads of information with minimal interruption and extreme reliability. With its mix of proficient operating margins, debt-free balance sheet, hefty deferred revenue, and capability to consolidate its position in the AI networking market, **we rate ANET a BUY with a one-year PT of $171**.

Thesis Point 1 Publication regarding artificial intelligence is centered around chipmakers; however, the real limitation is the movement and accessibility of data that those chips depend on. ANET provides these solutions through its focus on Ethernet hardware and EOS software. Together, these two create a high-bandwidth and scalable datacenter network. Put simply, Arista provides the tools that allow big datacenters to move large amounts of information quickly, reliably, and in a way that can keep growing as demand for new data increases. Amidst the quarterly noise, demand for Arista's products grew as its revenue increased by 28.2% (Nine Months Ended) compared to 2024. Their services were also experiencing increasing demand in their own respect, at 30.1% this year, up from 19.3% in 2024. On a trailing-twelve-month basis, Arista reported $8.5 billion in revenue and a net income of $3.4 billion, resulting in a 39.7% profit margin. In the future, the company will be aligned with the unprecedented growth of AI, which requires networking infrastructure to handle massive data flows with high speed and reliability.

Thesis Point 2 Arista is now pulling away from alternative competition in centralized networking. AI datacenters run differently from traditional CPU datacenters. Because AI datacenters are relatively new, AI networks require innovative architecture designed to optimize performance. This is where Arista has been a pioneer in their field. High-speed cloud datacenter switching has effectively become a duopoly, with Arista and Cisco controlling most deployments. However, with the introduction of its new 800G hardware, the 7060X Series, Arista is now ahead of Cisco, because this cutting-edge technology is a better fit for AI-scale workloads and delivers faster results than Cisco's comparable offerings. Currently, Cisco does have hardware that supports 800G applications; however, its system is much more complex and runs multiple operating systems. Arista is the top choice for hyper-scaling clients because it has a single, consistent operating system across all platforms. This means less variation, less complexity, and fewer features to manage/learn. For large cloud operators, changes occur often, and simplicity is the major advantage Arista offers. Within this structure, Arista is quickly gaining market share in next-gen Ethernet fabrics, positioning it as the preferred vendor for AI customers such as Anthropic, OpenAI, ARM, AMD, Broadcom, and others.

Company Overview Arista Networks (ANET) is an American computer networking company that engages in the designing, selling, and servicing of computer hardware and software for data centers, cloud computing platforms, and routing environments in the Americas, Europe, the Middle East, Africa, and Asia. Founded in 2004, ANET has become one of the fastest-growing companies in its industry, shown by its 47.3 P/E ratio (TTM) and supported by its strong 27.5% YoY revenue growth. The company generates revenue through hardware sales, software licensing for its Extensible Operating System (EOS), and recurring maintenance such as technical support, bug fixes, and upgrade services. These revenue streams mean the company gets a hefty upfront check via their hardware sales, but potential for recurring revenue due to their subscriptions and maintenance contracts. Arista serves a wide range of clients, like internet companies, cloud service providers, financial services organizations, government agencies, media and entertainment, etc. Its headquarters are in Santa Clara, CA.
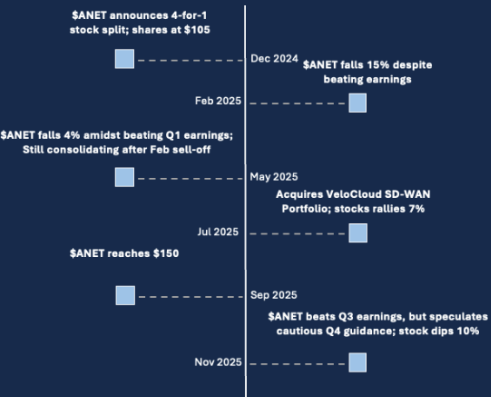
TICKER:	$ANET
RATING:	BUY
PRICE:	$124.55
PRICE TARGET:	$171
MARKET CAP:	$166.68bn
52-W RANGE:	$59.43 - $164.94
P/E:	47.3x
IMPLIED UPSIDE:	35.95%

1 Year Price History

Recent Events Timeline

$ANET announces 4-for-1 stock split; shares at $105 — Dec 2024
$ANET falls 15% despite beating earnings — Feb 2025
$ANET falls 4% amidst beating Q1 earnings; Still consolidating after Feb sell-off — May 2025
Acquires VeloCloud SD-WAN Portfolio; stocks rallies 7% — Jul 2025
$ANET reaches $150 — Sep 2025
$ANET beats Q3 earnings, but speculates cautious Q4 guidance; stock dips 10% — Nov 2025

EBIT Margin with Annual Revenue

	2022	2023	2024
Revenue	$2,948	$4,381	$5,860
EBIT Margin	31%	35%	39%

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Technology | *Communications Equipment*
Dec 12, 2025

Revenue Geography

- United States
- International
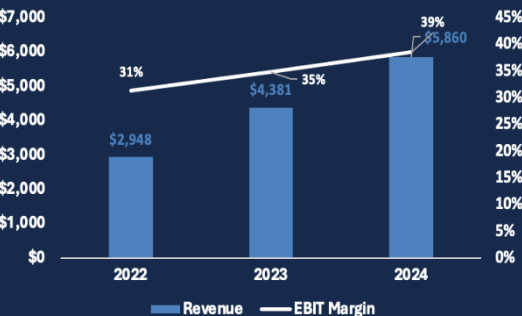
Risk 1 Like every enterprise, the inability to attract new, large customers or sell additional products/services to existing customers could adversely affect Arista's revenue growth. An increase in focus on the deployment of AI-enabled solutions by large customers has accelerated the need for advanced technology offerings. In addition, although the focus on deployment of AI-enabled solutions has driven increased demand for Arista, the long-term trajectory is unknown. If Arista is unable to satisfy the requirements of its customers, it is liable to accept product returns, leading to inaccurate revenue projections and increased volatility.

Risk 2 While Arista's supply chain has not experienced significant disruption because of geopolitical tension, the extent of such policies and tariffs that will ultimately be implemented is still a gray area at this time, and the future impact of these actions on its supply chain and cost of products is uncertain. In addition, inflation pressure in its supply chain and scarcity of some commodities needed to build products have increased COGS and may continue to negatively impact gross margins.

Catalysts Several determinants could serve as catalysts for ANET. First, the opportunity for Arista to leverage its size, expertise, and established customer base (including Microsoft and Meta), as well as its operating efficiency, to capture a disproportionately large share of the growing market serves as a catalyst. ANET's centralized EOS and ability to manage substantial, high-speed networks position it well to grow its revenue and profitability faster than the market itself. Second, direct demand for advanced component foundations to support efficient datacenter functionality tied to the broader AI trend could serve as a trigger for ANET to move to our price target. Lastly, beyond initial hardware sales, the accelerating, high-margin growth of Arista's Services and Software business ensures powerful customer lock-in. It provides a predictable, long-term recurring revenue stream as ANET's deferred revenue has climbed from $1.8 billion to $3.6 billion in the last nine months.
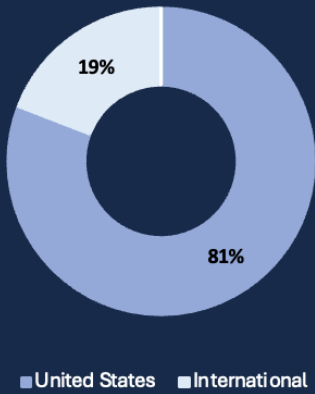
Terminal Value	
EV/EBITDA Exit Multiple	40.0x
Terminal Value	$278,554
PV of Terminal Value	$178,878
Implied TEV	**$205,910**
(-) Debt	$0
(+) Cash	$10,106
Implied Equity Value	$216,016
Diluted Shares Outstanding	1,259
Implied Share Price	**$171.54**
Upside/Downside	37.2%

Football Field Valuation Range
Price: $124,55 PT: $171

Valuation

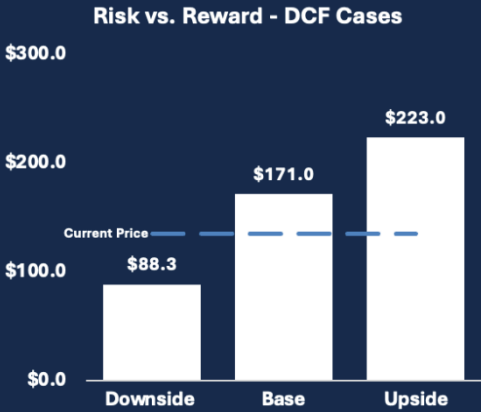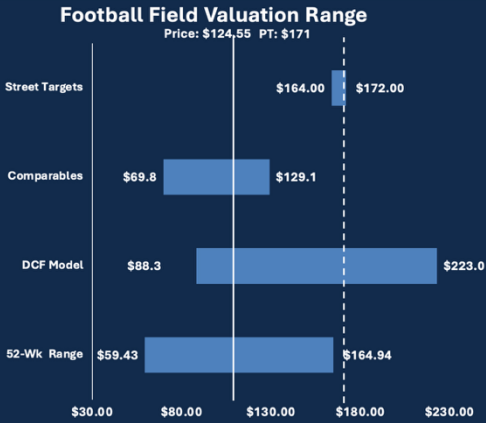| DCF Analysis ($mm)						
	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Revenue	8,800	11,132	13,484	15,607	17,227	18,088
Revenue Growth	*26%*	*27%*	*21%*	*16%*	*10%*	*5%*
Computer Networks	8,800	11,132	13,484	15,607	17,227	18,088
EBIT	3,400	4,230	5,124	5,931	6,546	6,873
EBIT Margin	*39%*	*38%*	*38%*	*38%*	*38%*	*38%*
Tax Expense	410	558	674	777	854	894
Effective Tax Rate	*12%*	*13%*	*13%*	*13%*	*13%*	*13%*
NOPAT	2,990.00	3,671.78	4,450.00	5,153.85	5,691.83	5,979.86
D&A	50	63	74	83	89	90
Capex	30	56	61	62	60	54
Changes in NWC	(630)	(790)	(957)	(1,108)	(1,223)	(1,284)
UFCF	3,640	4,470	5,421	6,283	6,944	7,300
PV of FCF	3,631	4,236	4,661	4,902	4,915	4,688

Our base case DCF warrants a premium intrinsic valuation, driven by assumptions about its leading position in the AI networking business. Through 2030, Arista's outlook strengthens as projected EBIT margins and revenue growth average at 38% and 15.7%, respectively. These numbers are supplemented by a 22.2% CAGR and calculated using a 40x EV/EBITDA multiple.

Conclusion Arista Networks is an investment in the infrastructure that enables the AI revolution, going beyond the current focus on chipmakers to address the true constraint in data movement. ANET's impressive balance sheet, dominant EOS software platform, and its leadership in 800G hardware provide a competitive moat. With incredible financial health, including industry-leading margins and a vast deferred revenue backlog, **we initiate a BUY rating for ANET with a one-year PT of $171.**

Risk vs. Reward - DCF Cases

Income Statement ($mm)	2025E	2026E	2027E	2028E	CAGR%
Revenue	8,800	11,132	13,484	15,607	22.2%
EBITDA	3,450	4,294	5,198	6,014	19.1%
EBIT	3,400	4,230	5,124	5,931	19.1%
NOPAT	2,990	3,672	4,450	5,154	19.4%

Margin & Growth Data	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	39.2%	38.6%	38.6%	38.5%	39.5%
EBIT Margin	38.6%	38.0%	38.0%	38.0%	38.9%
Revenue Growth	25.7%	26.5%	21.1%	15.8%	21.7%
EBIT Growth	15.5%	24.4%	21.1%	15.8%	21.4%

Valuation Metrics	2025E	2026E	2027E	2028E	AVG%
P/FCF	43.2x	35.2x	29.0x	25.0x	36.5x
EV/Sales	16.7x	13.2x	10.9x	9.4x	14.3x
EV/EBITDA	42.7x	34.3x	28.3x	24.5x	35.8x
FCF Yield	2.3%	2.8%	3.4%	4.0%	2.9%

Comparable Companies
$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Cisco Systems, Inc. (NasdaqGS:CSCO)	$311,583	$325,484	30.4x	$57,696	$15,676
Motorola Solutions, Inc. (NYSE:MSI)	$61,860	$70,919	29.8x	$11,313	$3,345
Lumentum Holdings Inc. (NasdaqGS:LITE	$24,292	$26,450	219.6x	$1,842	$146
Marvell Technology, Inc. (NasdaqGS:MRV	$78,025	$80,088	32.4x	$7,793	$2,448
🏛 ARISTA NETWORKS, INC. (XNYS:A	$163,795	$152,480	49.1x	$8,448	$3,671

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Cisco Systems, Inc. (NasdaqGS:CSCO)	20.8x	64.8%	27.2%	22.5%	8.9%
Motorola Solutions, Inc. (NYSE:MSI)	21.2x	51.6%	29.6%	26.3%	6.2%
Lumentum Holdings Inc. (NasdaqGS:LITE	181.5x	34.9%	7.9%	(5.5%)	33.6%
Marvell Technology, Inc. (NasdaqGS:MRV	32.7x	50.7%	31.4%	14.7%	45.0%
🏛 ARISTA NETWORKS, INC. (XNYS:A	41.5x	64.3%	43.5%	42.9%	27.8%

High	181.54x	64.8%	43.5%	42.9%	45.0%
75th Percentile	41.53x	64.3%	31.4%	26.3%	33.6%
Average	59.55x	53.3%	27.9%	20.2%	24.3%
Median	32.71x	51.6%	0.0%	22.5%	27.8%
25th Percentile	21.20x	50.7%	27.2%	14.7%	8.9%
Low	20.76x	34.9%	7.9%	-5.5%	6.2%

🏛 ARISTA NETWORKS, INC. (XNYS:ANET)

Implied Enterprise Value (25th Percentile)	$	77,835
Implied Enterprise Value (Median)	$	**120,091**
Implied Enterprise Value (75th Percentile)	$	152,480

Implied Share Price (25th Percentile)	$	69.83
Implied Share Price (Median)	$	**103.39**
Implied Share Price (75th Percentile)	$	129.11

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	1.41
Risk Free Rate	4.14%
Cost of Equity	10.19%
Weighted Average Cost of Debt	5.40%
Tax Rate	13.20%
Cost of Debt	0.03%
Total Equity	$157,511
Total Debt	($10,106)
Equity/Total Capitalization	99.41%
Debt/Total Capitalization	0.59%
WACC	10.22%

Downside Case: Our **$88** downside case assumes a **38x EV/EBITDA** multiple, which has revenue growing at roughly **9% annually** through 2030 and EBIT margins peaking at **25%**. In such a scenario, the broader AI landscape would slow, causing margins to slim and limit ANET's FCF generation.

Upside Case: Our **$223** upside case displays a **42x EV/EBITDA** multiple, which has revenue growing at ~**20% annually** through 2030 and EBIT margins steady around **40%**. Assuming continued AI expansion, more hyperscaler contracts, and sustained margin expansion are explanations for ANET's **78%** return.