

# ARISTA

Arista in Q2 2019

# Safe Harbor

This presentation and the accompanying oral presentation contain forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to management. Forward-looking statements include all statements other than statements of historical fact contained in this presentation, including concerning our business plans and objectives, total addressable market, potential growth opportunities, market potential by speed, trends relating to increase in storage, the router market, the campus market, the transition from 100GbE products to 400GbE products, competitive position, benefits of Arista's platforms, including the newly introduced 400GbE products and optics, industry environment and potential market opportunities.

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# Arista Networks Overview

Q2 2019

Q1 2019

**\$608.3M**

Q2'19 Revenue

**\$595.4M**

Q1'19 Revenue

**\$2.44**

Q2'19 diluted EPS <sup>(1)</sup>

**\$2.31**

Q1'19 diluted EPS <sup>(1)</sup>

**17.0%**

Q2'19 Y/Y Revenue Growth

**26.0%**

Q1'19 Y/Y Revenue Growth

**38.7%**

Q2'19 Operating Margin <sup>(1)</sup>

**37.5%**

Q1'19 Operating Margin <sup>(1)</sup>

**IPO 2014**

June 6th

**S&P 500**

Added in 2018

**5 Year TAM**

\$16B 2018 to \$30B 2023



Company

Headquarters: Santa Clara, California

Website: [www.arista.com](http://www.arista.com)

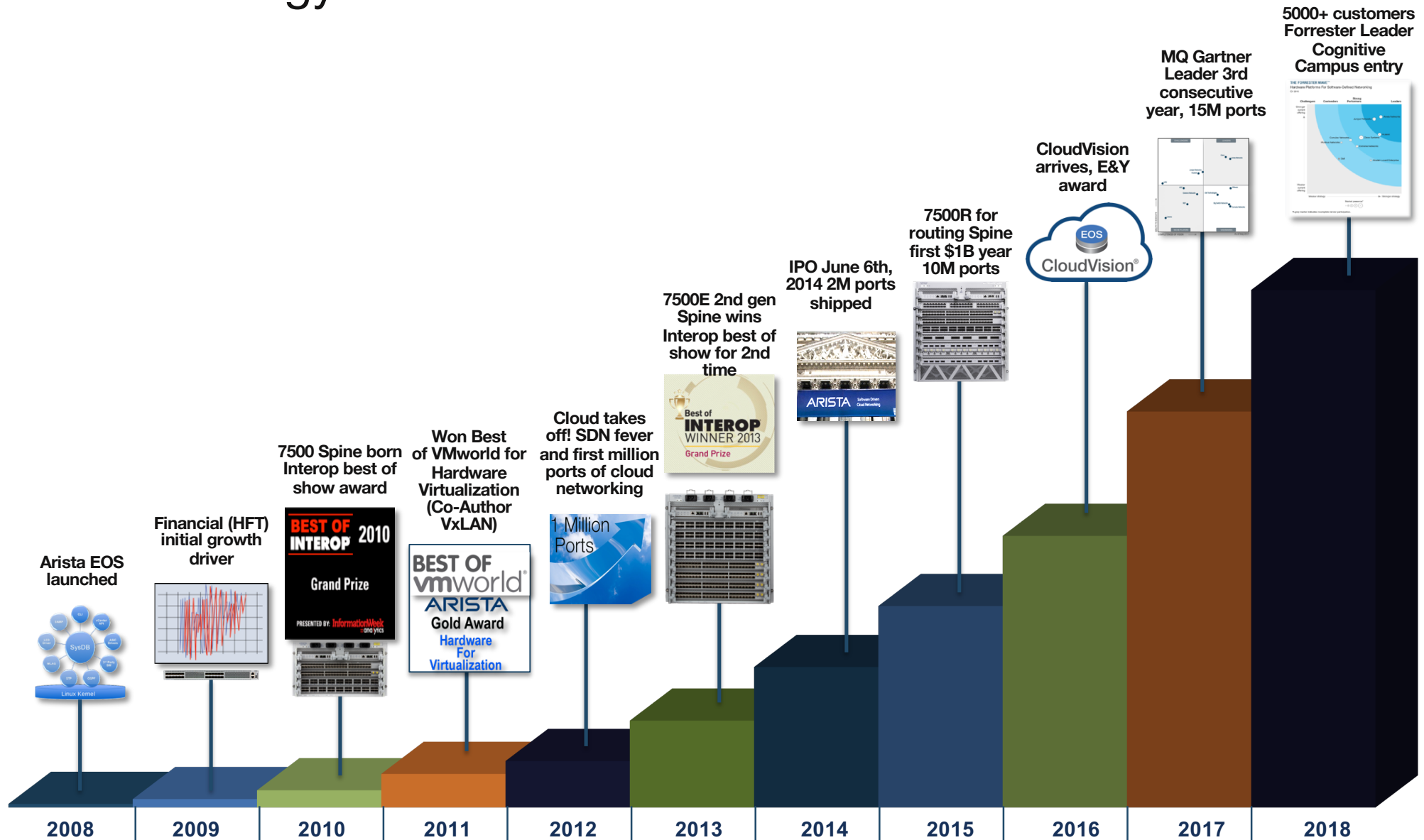
Email: [info@arista.com](mailto:info@arista.com)



Ticker: ANET

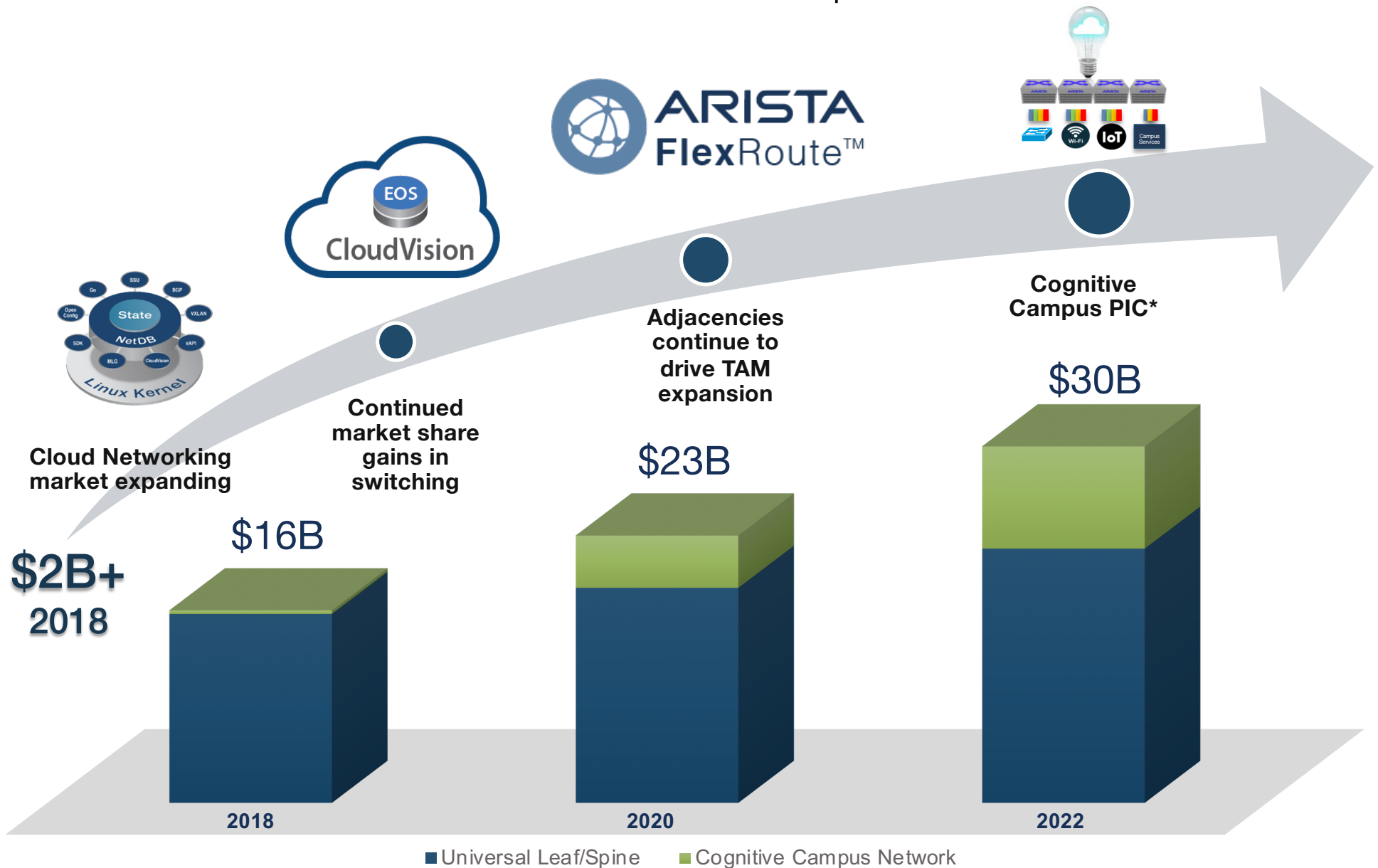
<sup>(1)</sup> Non-GAAP

# Arista Has a History of Delivering Industry Leading Technology





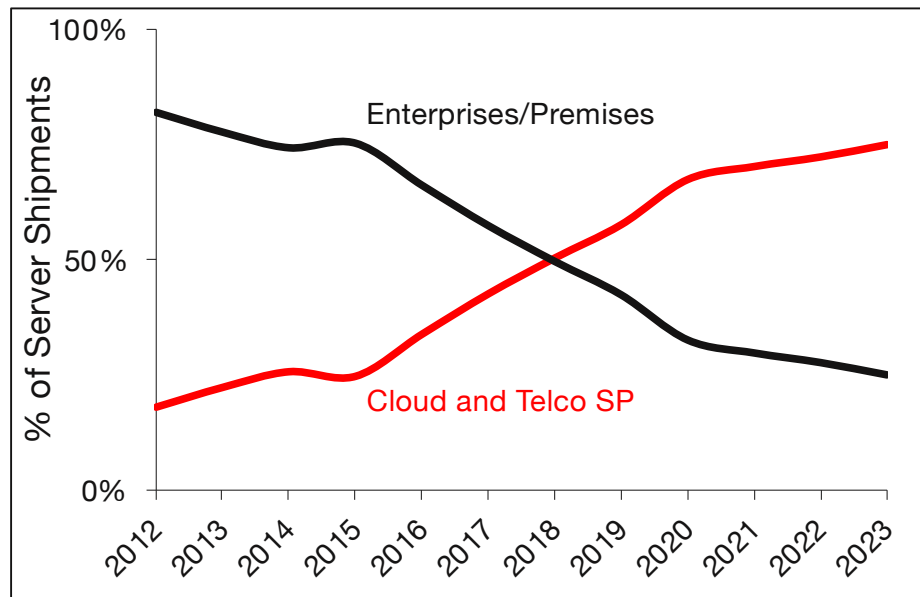
# Arista's Growth Drivers and Path to \$30B TAM



Source: Arista internal estimates and various industry analysts \* PIC – Places In the Cloud

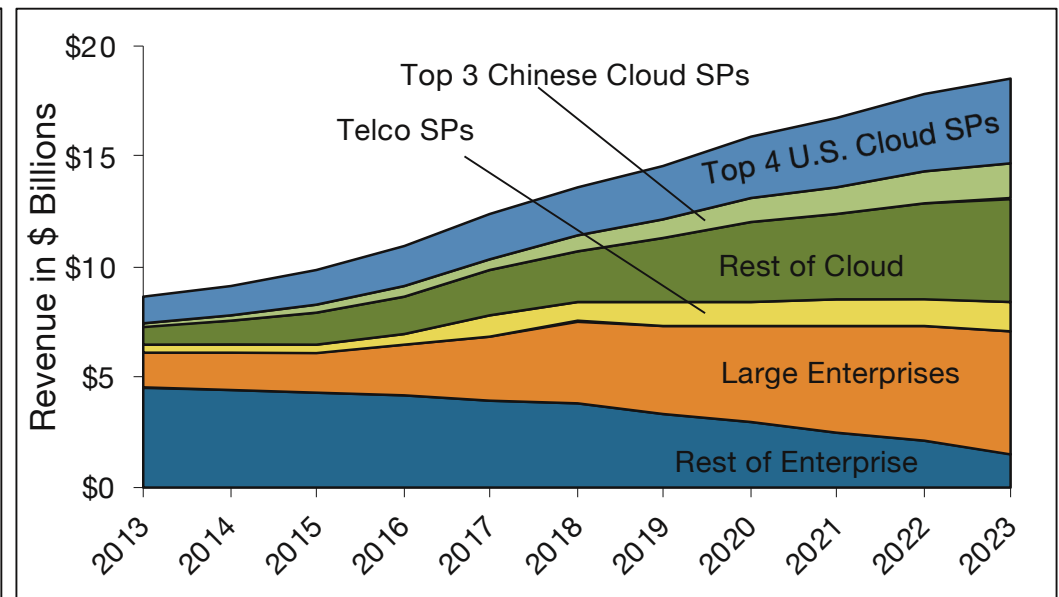
# Arista's Cloud Networking Opportunity

## Server Shipments



Source: Dell'Oro Group Server Research July 2019

## Data Center Ethernet Switch Revenue



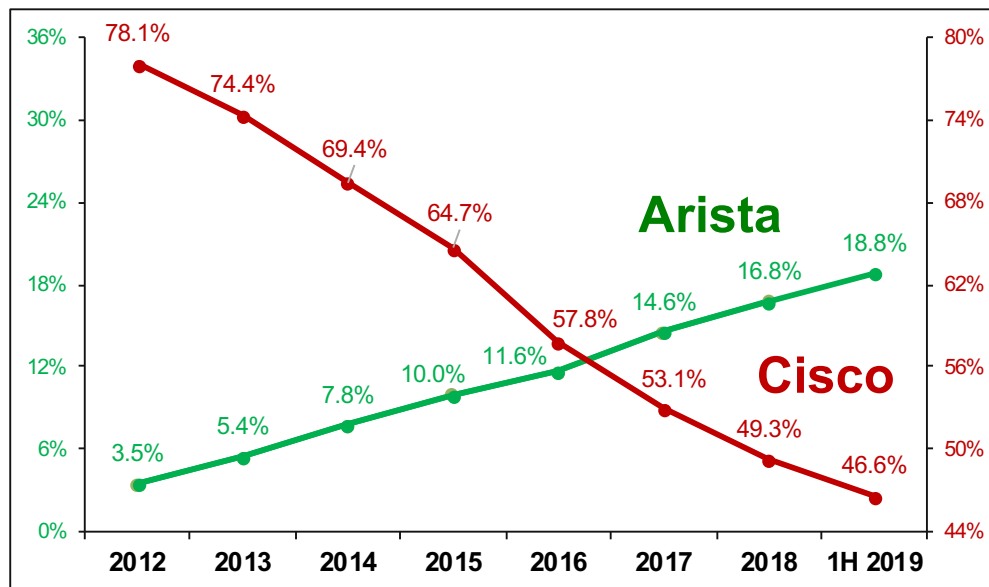
Source: Dell'Oro Ethernet Switch Data Center Forecast July 2019

- Enterprise workloads are migrating to public & hybrid clouds
- Traditional enterprise served <100,000 employees vs. clouds @ hundreds of millions of users
- The emergence of cloud native apps & containers necessitates a new architecture

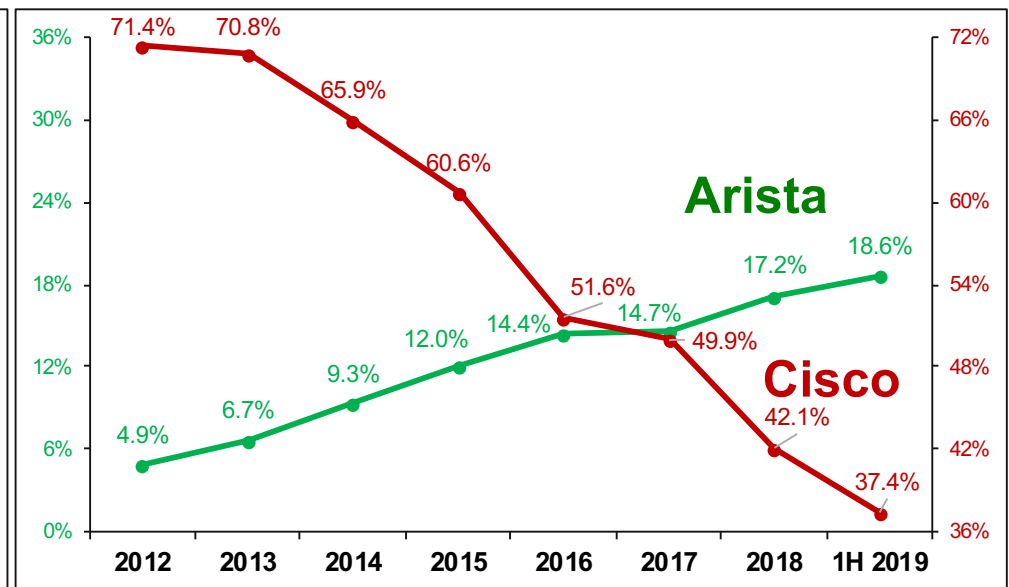
# Arista Market Share vs Cisco

## High Speed Data Center Switching Market

### Share in Dollars



### Share in Ports

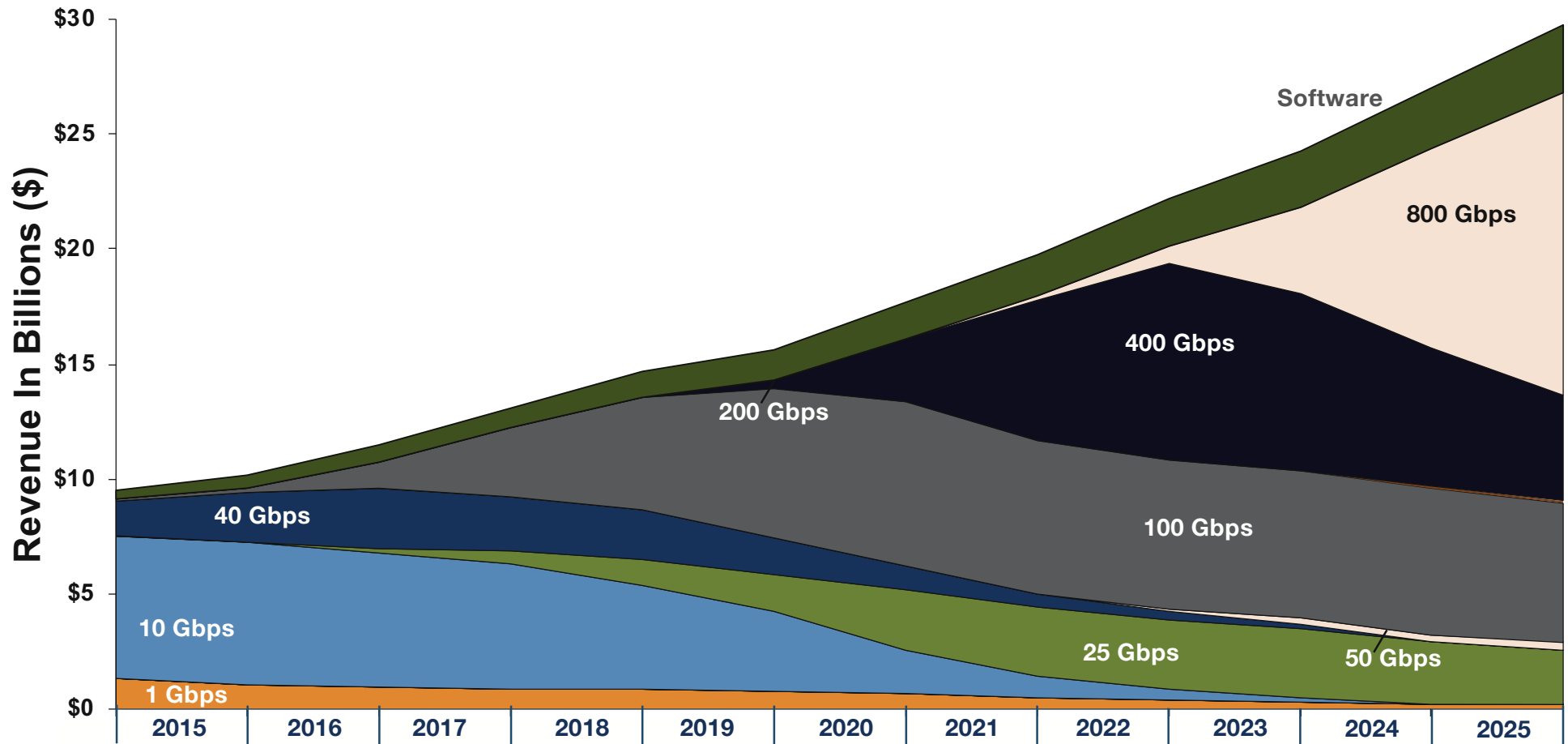


**Source:** Crehan Research Datacenter Switch Market Share Report Q2'2019

Note: 10GbE and Higher - Excludes blade switches

# Market Potential by Speed

Data Center Ethernet Switch Revenue (\$Bn)



Source: 650 Group June 2019 - Long Term Ethernet Switch forecast

# Recognized by Gartner

As a Leader for the 5th consecutive year in 2019 Magic Quadrant for Data Center Networking

Magic Quadrant

Figure 1. Magic Quadrant for Data Center Networking



[View a Complimentary Copy of the Report:](https://www.gartner.com/doc/reprints?id=1-1OAIHHDJ&ct=190718&st=sb)

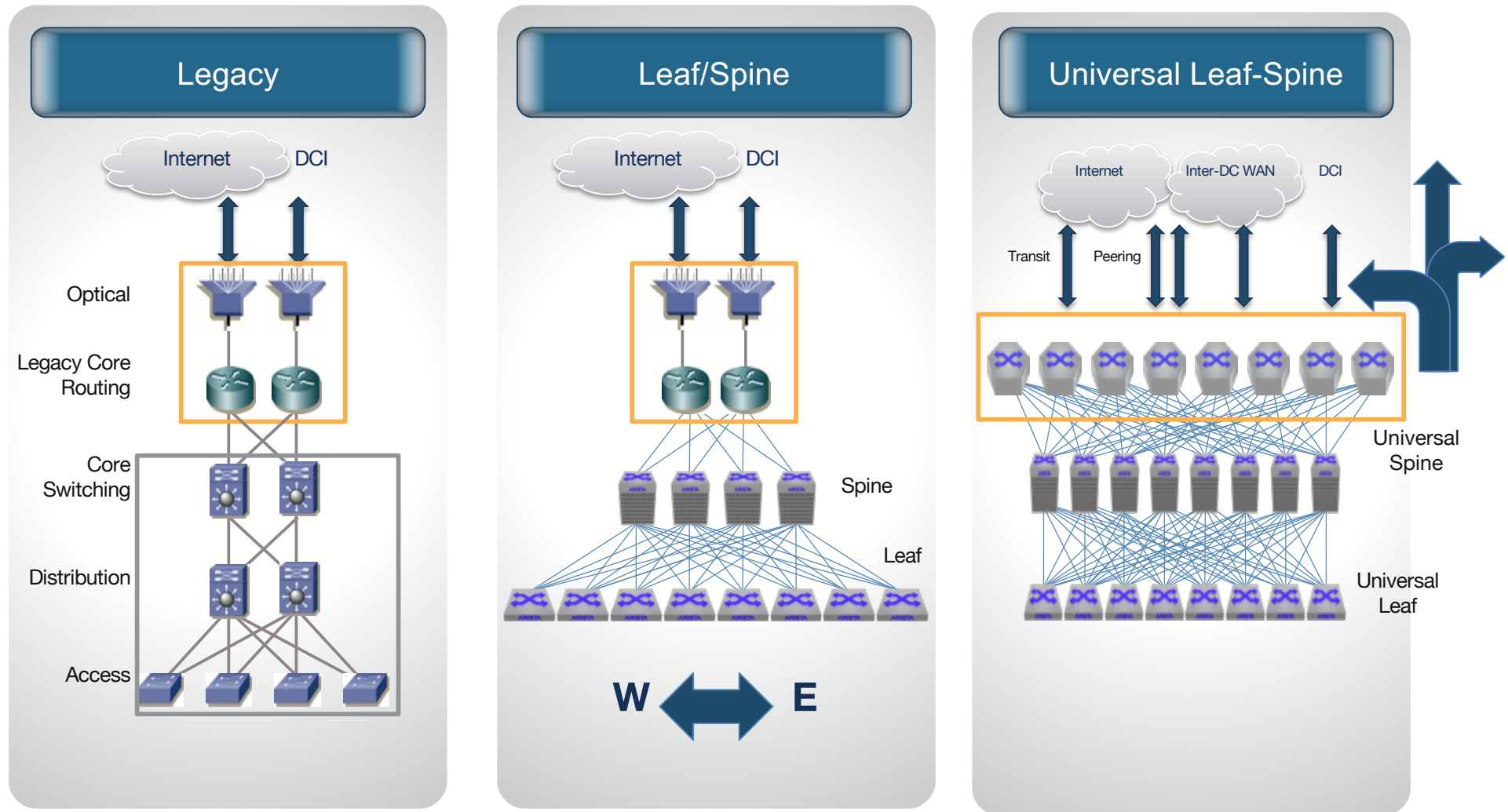
<https://www.gartner.com/doc/reprints?id=1-1OAIHHDJ&ct=190718&st=sb>

Report published on 15 July 2019; Authored by Andrew Lerner, Mike Toussaint, et al.  
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# Evolution of the Universal Cloud Network Architecture



Routing is Integrated into the Universal Spine and Leaf

# Proven Architectural Flexibility

Open, Programmable, Modular, Scalable

Automation,  
Telemetry,  
Diagnostics



One Tool for Automation,  
Control, Telemetry and  
Diagnostics



One Image, Flexible  
Packaging Option

Arista EOS

Abstraction Layer

Hardware  
System Design

Merchant Silicon  
7 Architectures

|         |                |
|---------|----------------|
| Trident | Tomahawk       |
| Tofino  | Jericho/Qumran |
| Fulcrum | Xpliant Helix  |

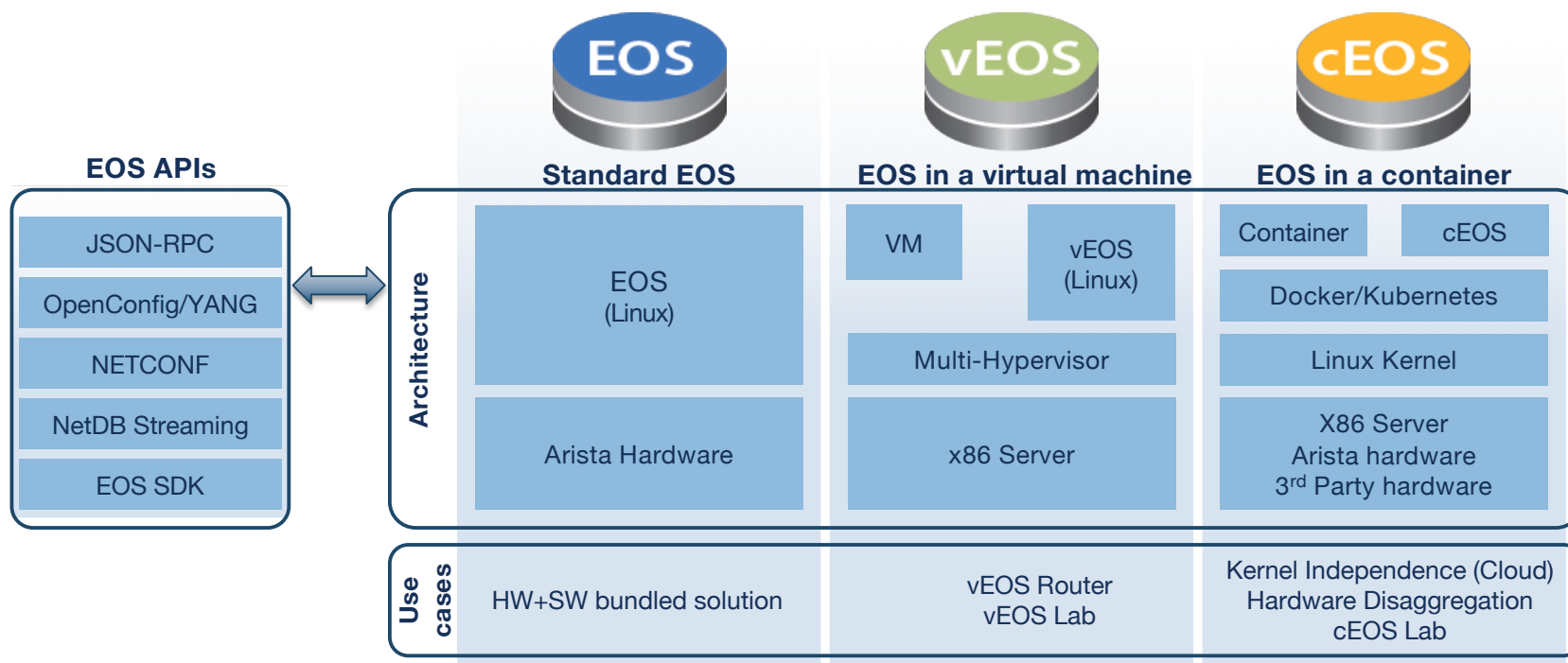


Leading Performance in  
Cooling, Energy Efficiency,  
Serviceability, Scale and  
Breadth of Optics

10G, 25G, 40G, 50G, 100G, 200G, 400G

Leading Performance  
Best of Breed  
Merchant Silicon

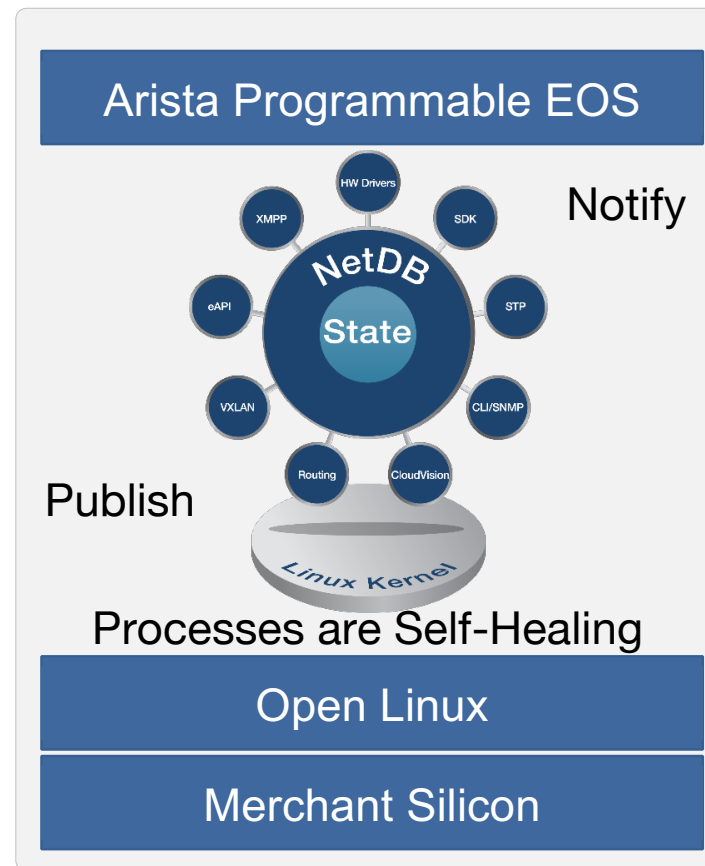
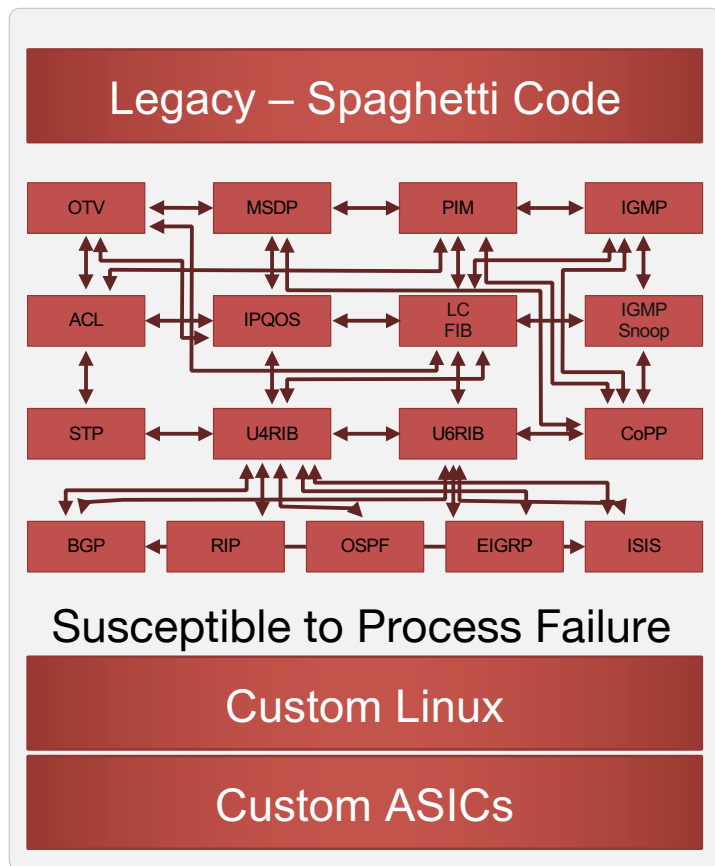
# Arista's EOS offers an Open Programmable Environment with Flexible Packaging Options



EOS was engineered from the beginning to support open Linux with rich APIs. Adhering to these principles, Arista today delivers a scalable architecture that offers flexible packaging options in an open programmable environment.

# Arista's Cloud Scale Software Architecture

- Differentiated Advantages
  - Stateful Orientation
  - Modern, Open, and Scalable Architecture
  - Software Quality



Resilient

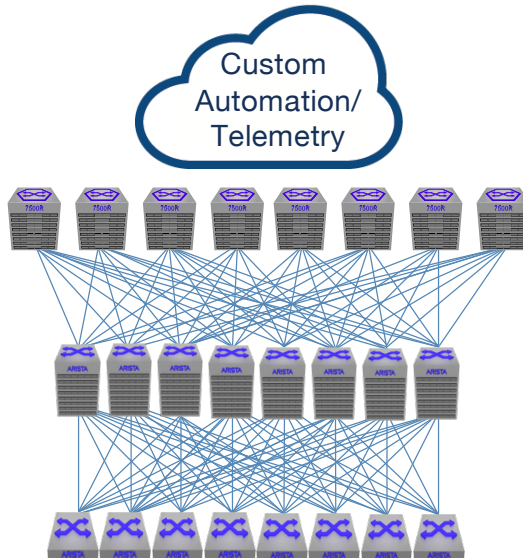
Programmable

Scalable

# Cloud Networking is Everywhere: Three Key Markets – One Architecture – One EOS

Arista  
Cloud Scale

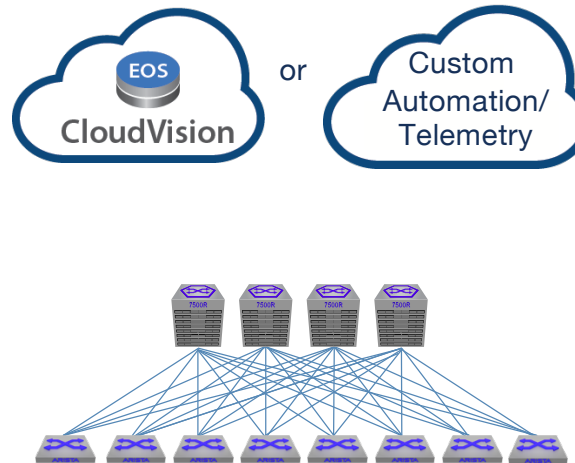
Cloud Titans



Scale and  
Control Driven

Arista  
Cloud Class

Key Verticals



Best of Breed  
Driven

Arista  
Cognitive Cloud

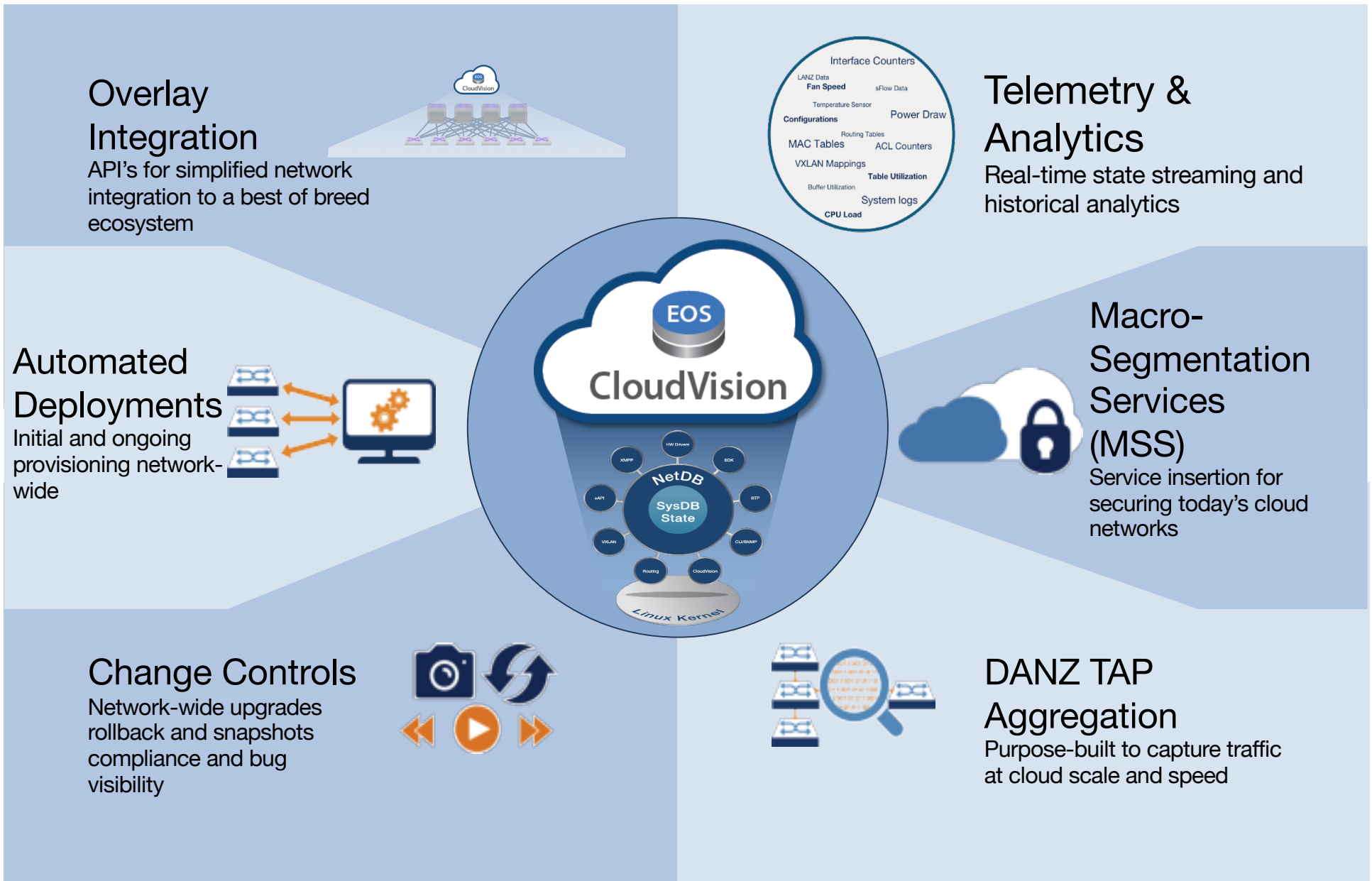
Enterprise



Turnkey  
Driven

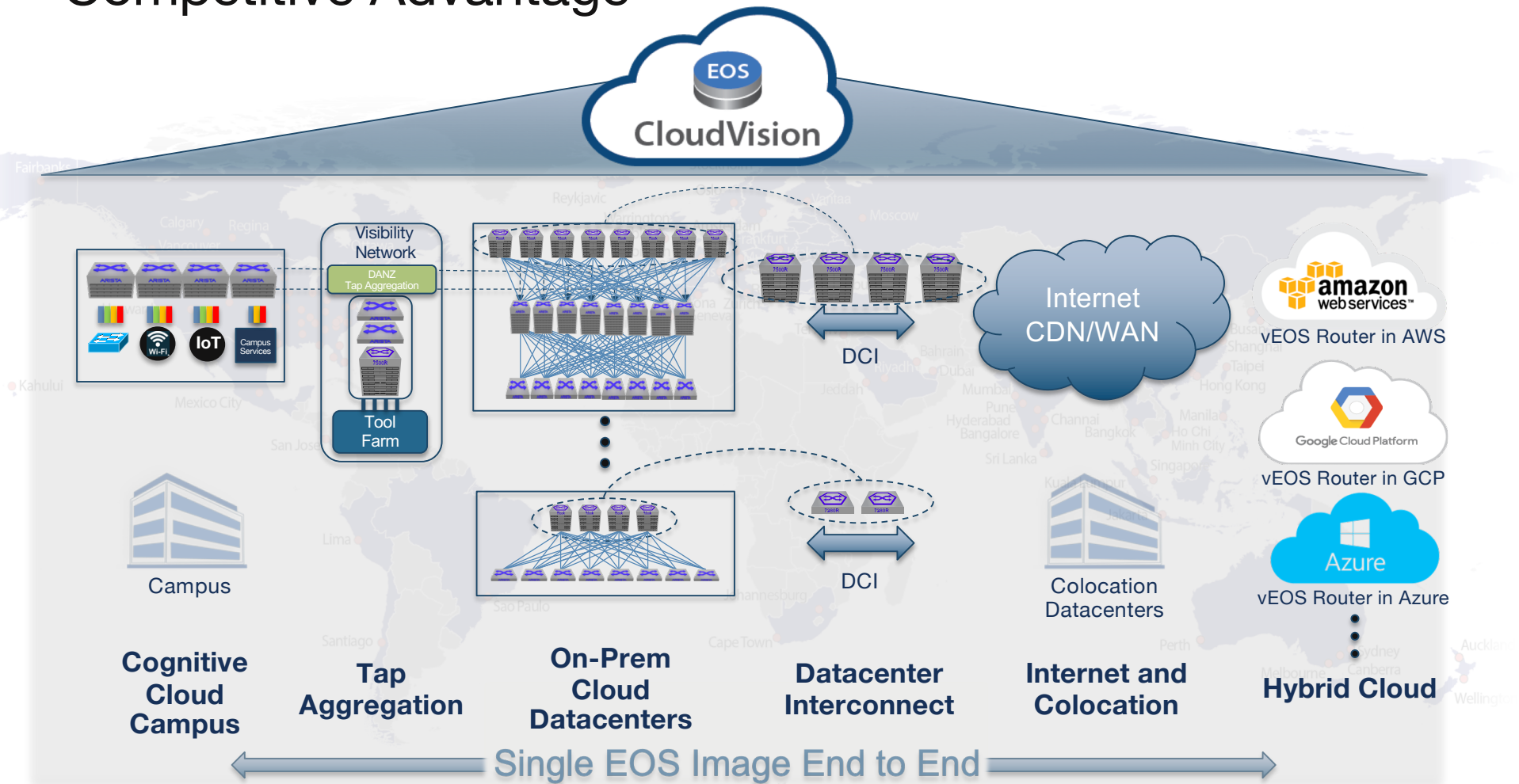


# CloudVision: Multi-Function Hybrid Cloud Platform





# A Single EOS Image Underpins a Sustainable Competitive Advantage



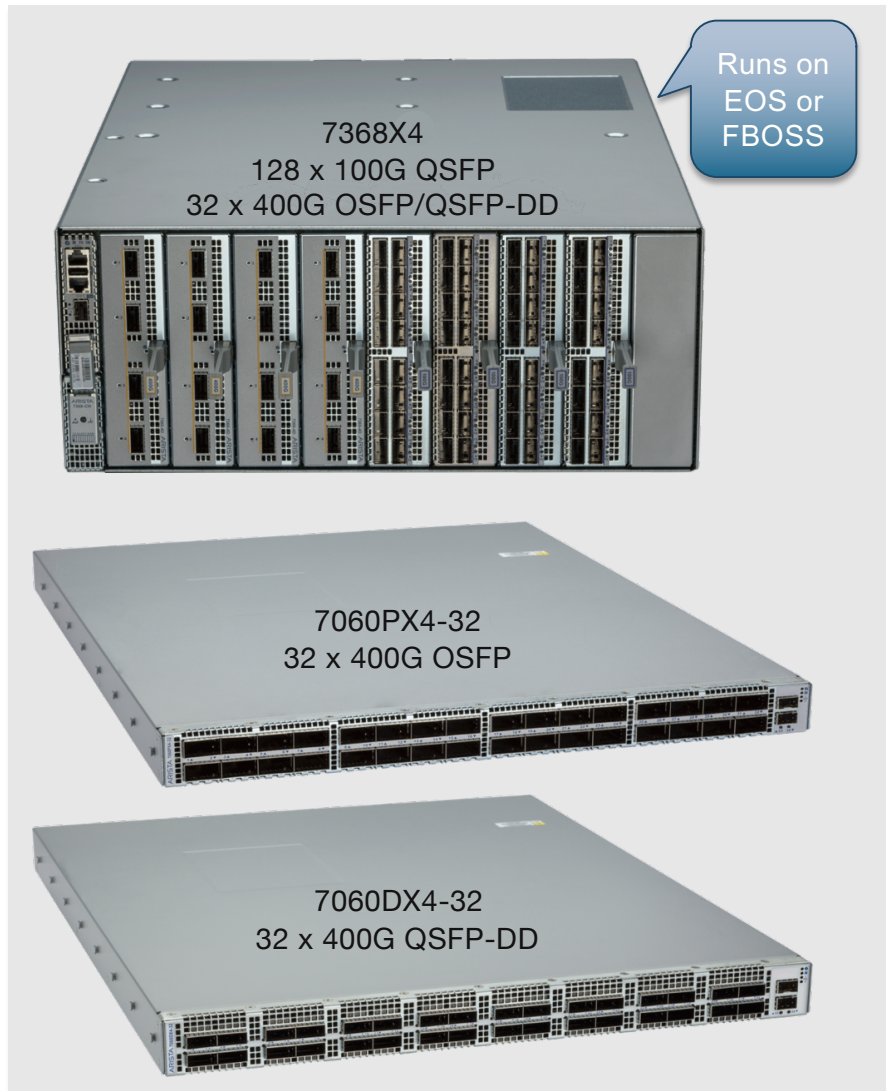
A single image improves network availability while lowering TCO. Legacy vendors have multiple images with multiple management tools, adding complexity, multiplying cost and reducing stability.

# Cloud-Class Market Leadership Platform Portfolio



Single Image Arista EOS Across All Platforms

## Arista 100G/400G Platforms with Optics Form Factor Choices



- 400G Switches Deliver
  - 2x price performance
  - 2x power efficiency
  - 4x density per 1RU
  - 4x network scale without change to topology
- Optics Form Factor Choices
  - 32 x 400G OSFP
    - » 128 x 100G with parallel optics and cables
    - » 32 x 100G with OSFP to QSFP Adapter
  - 32 x 400G QSFP-DD
    - » 128 x 100G with parallel optics and cables
    - » 32 x 100G with QSFP28 optics



Consistent architecture with choice of industry standard interfaces

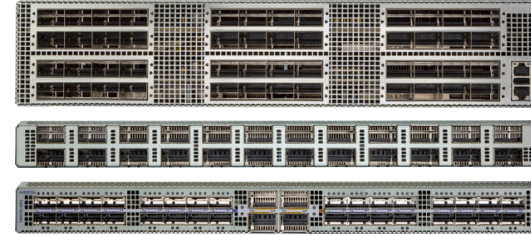


# Arista R3-Series – 3<sup>rd</sup> Generation Switching and Routing

Consistent, Scalable and Programmable

## 7280R3 – Scalable and Power Efficient

- Up to 48 x 400G wire speed ports
- Non-blocking 19.2Tbps with 2.5M routes
- Flexible forwarding options in proven architecture



## 7500R3 – Up to 230Tbps

- 288 x 400G wire speed ports
- 24 port 400G and 36 port 100G line cards
- Backwards compatible with 7500R and 7500R2



## 7800R3 – Up to 460Tbps

- Up to 576 x 400G wire speed ports
- 36 port 400G and 48 port 100G line cards
- 4 and 8 slots with choice of 100G and 400G
- 16 slot chassis – 1<sup>st</sup> half 2020

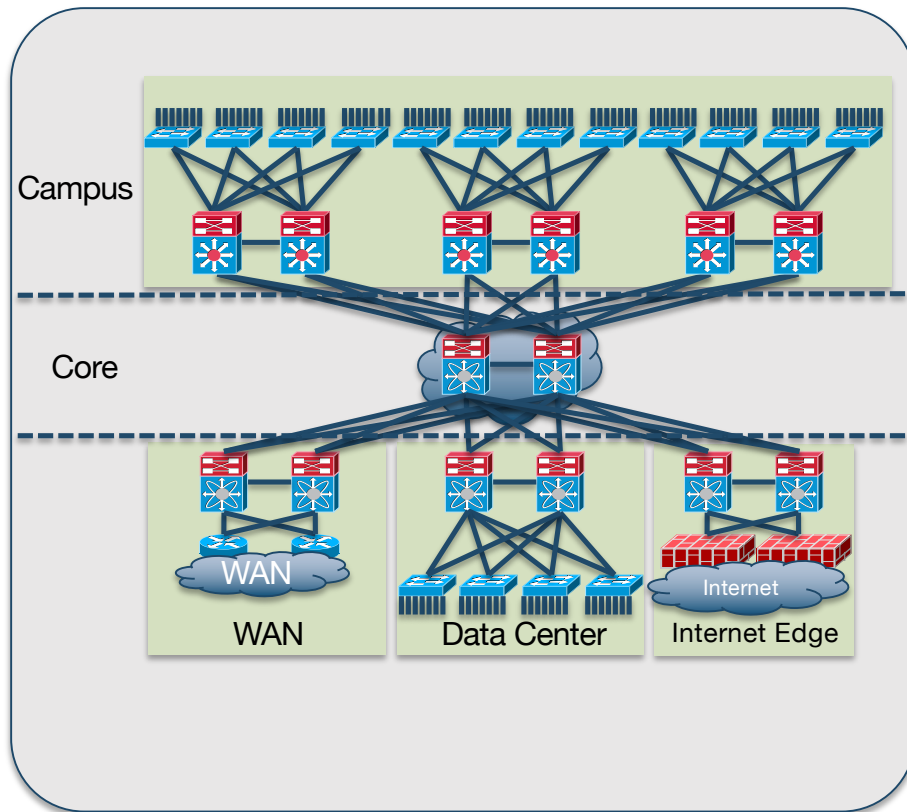


Next Gen Cloud Scale Universal Spine

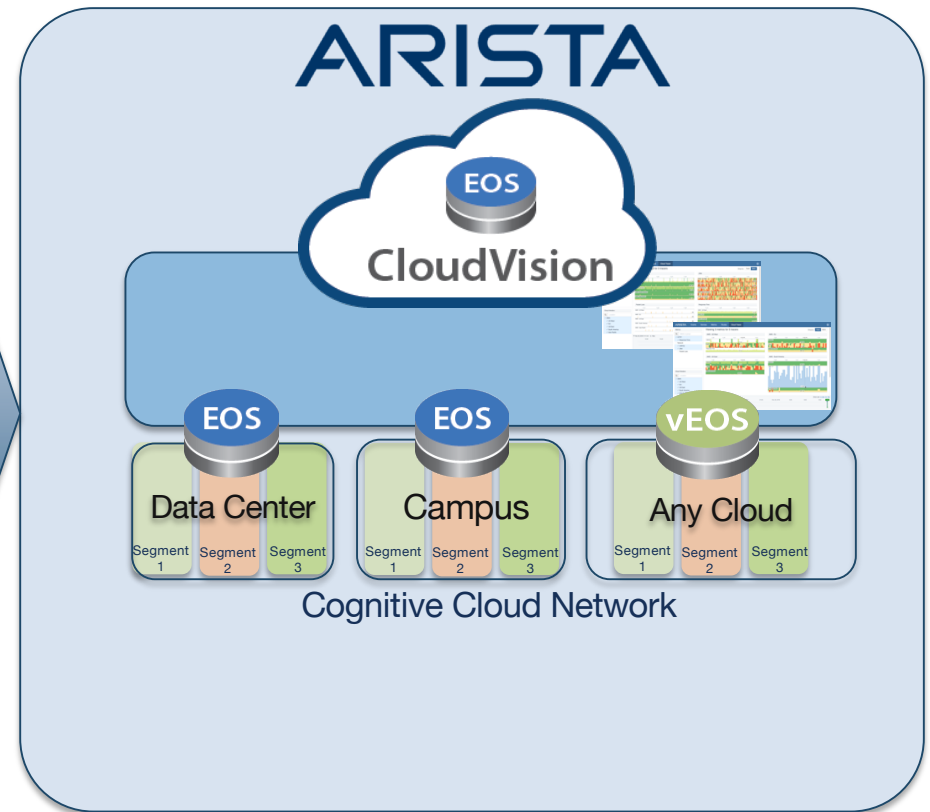
# Arista Datacenter Principles Applied to Campus

## Moving from PINs to PICs

Legacy: Silo Products  
Places In the Network (PIN)



Modern: Unified Products  
Places In the Cloud (PIC)



# Cognitive Campus Platforms and Partners

## Cognitive Splines™



**7300X3**  
4 & 8 Slot  
Modular System  
Up to 256 100G ports



**7050X3**  
Fixed System  
Up to 32 100G ports

Simplify with Collapsed Spline  
Architecture

## Cognitive Edge



**720XP PoE switches**  
24 & 48 Port mGig,  
24 & 48 Port 1G



**Arista C-250 - WiFi-6**  
8x8 MIMO  
3rd Radio functionality for dedicated  
WIPS, client emulation testing

Automation and Telemetry for  
Operational Efficiency

## Cognitive Management And OS



CloudVision foundation, Wired and  
Wireless, across Provisioning, Telemetry,  
and Orchestration



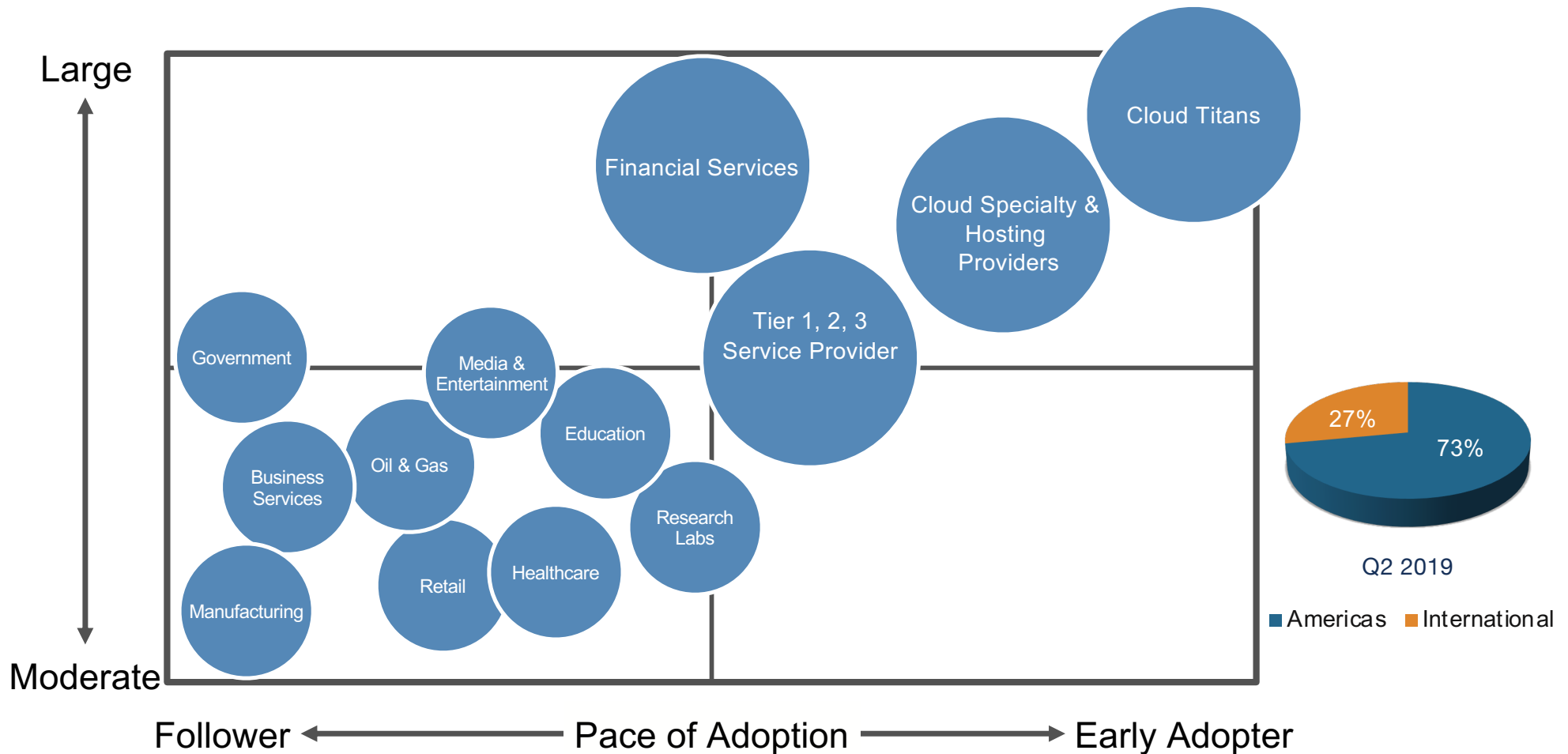
Hitless Patching  
High Availability with Stateful Switchover  
Flow Telemetry, NetDB Streaming  
Dynamic Path Selection

Single Software Image Federated  
across DC & Campus



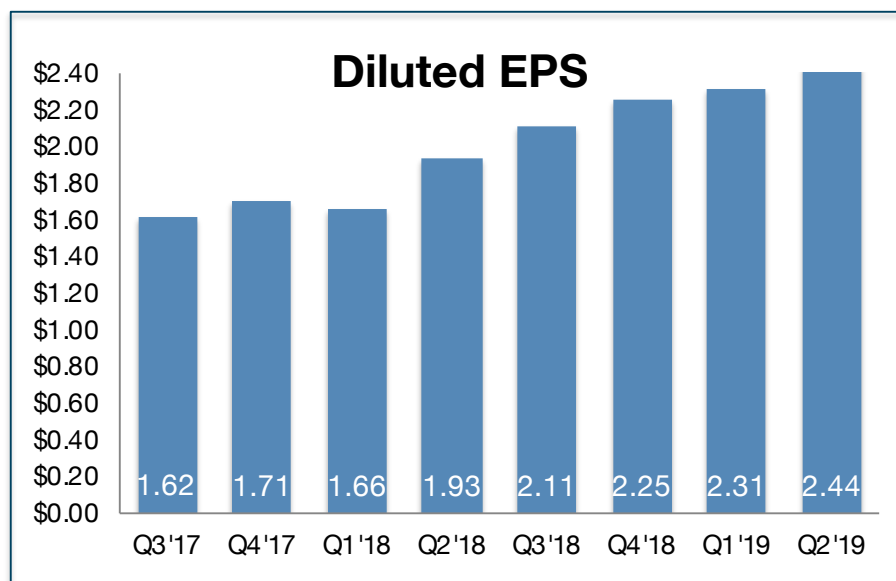
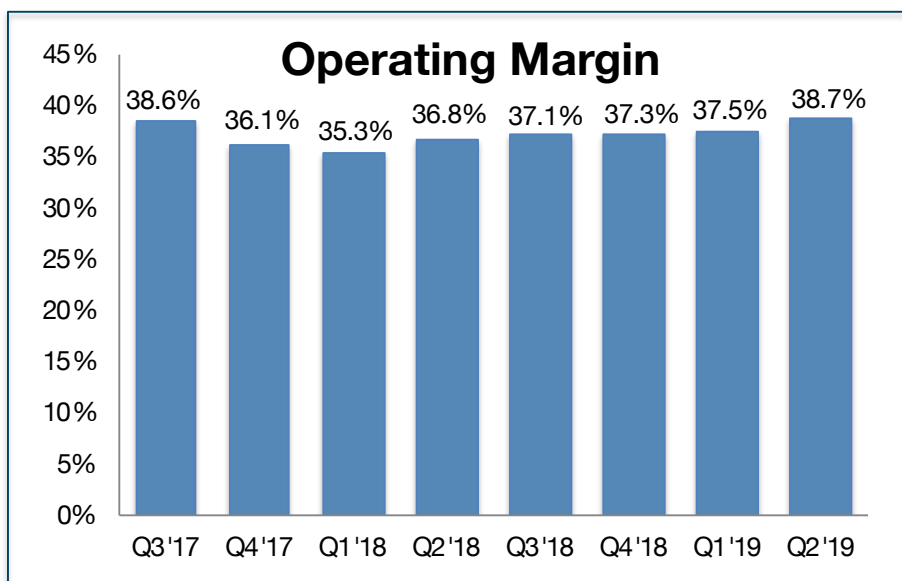
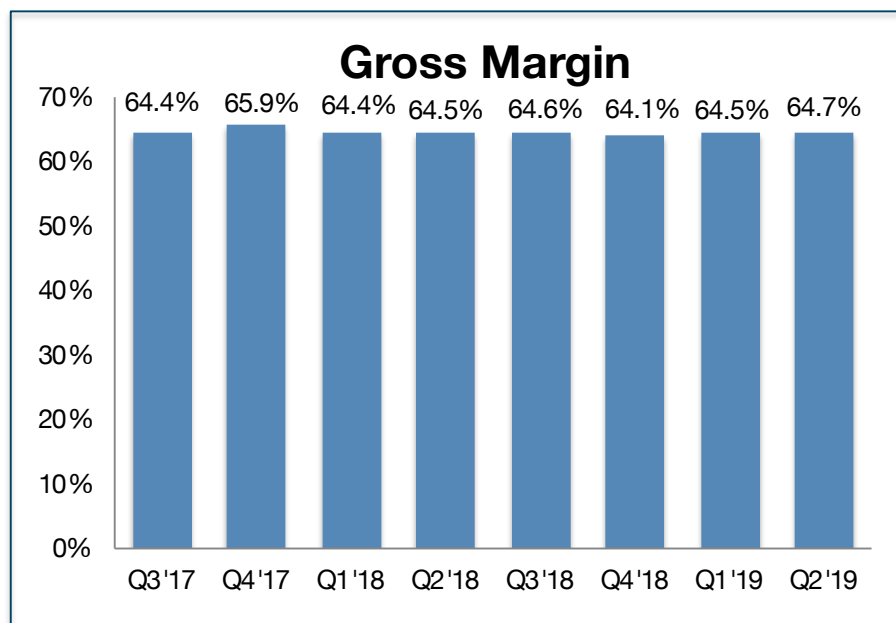
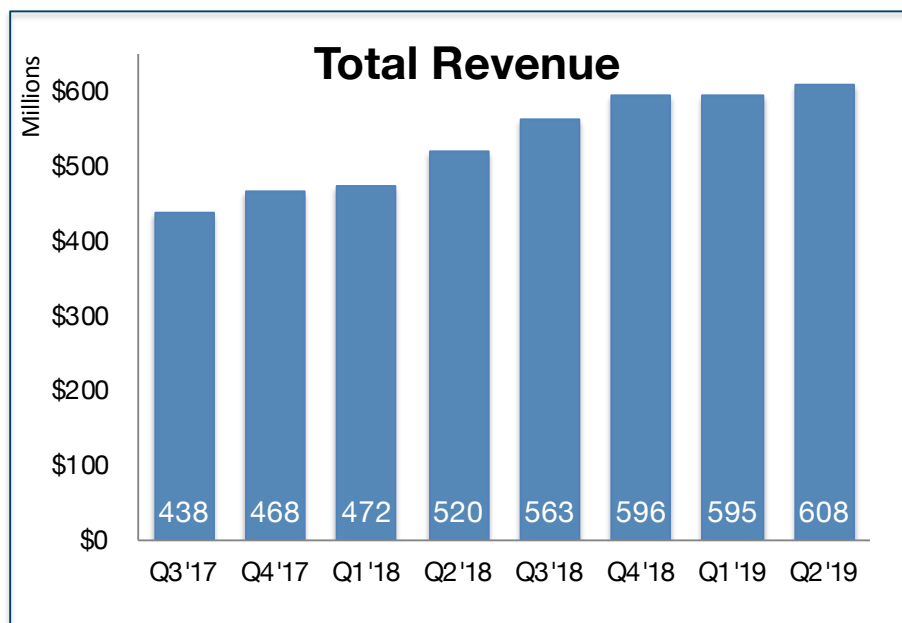


# Major Verticals



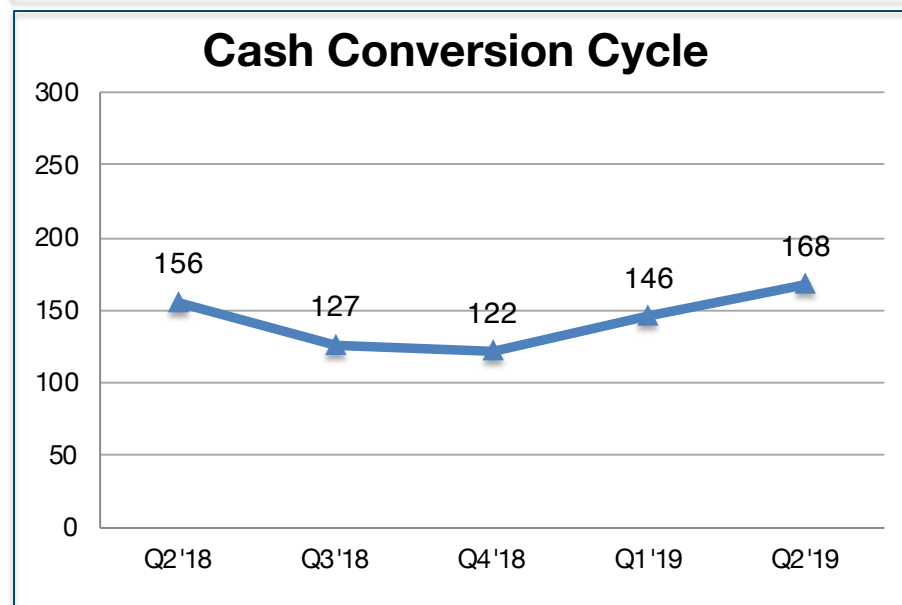
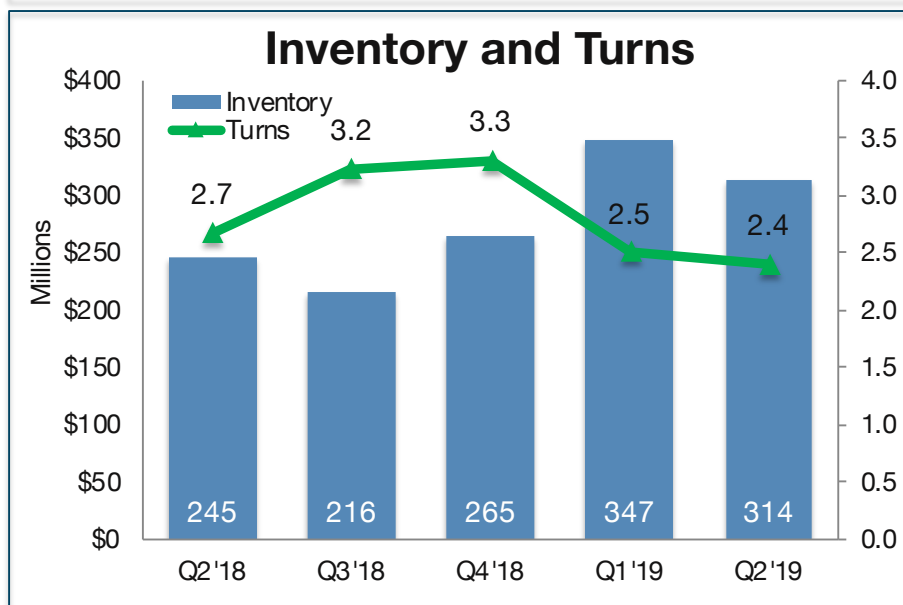
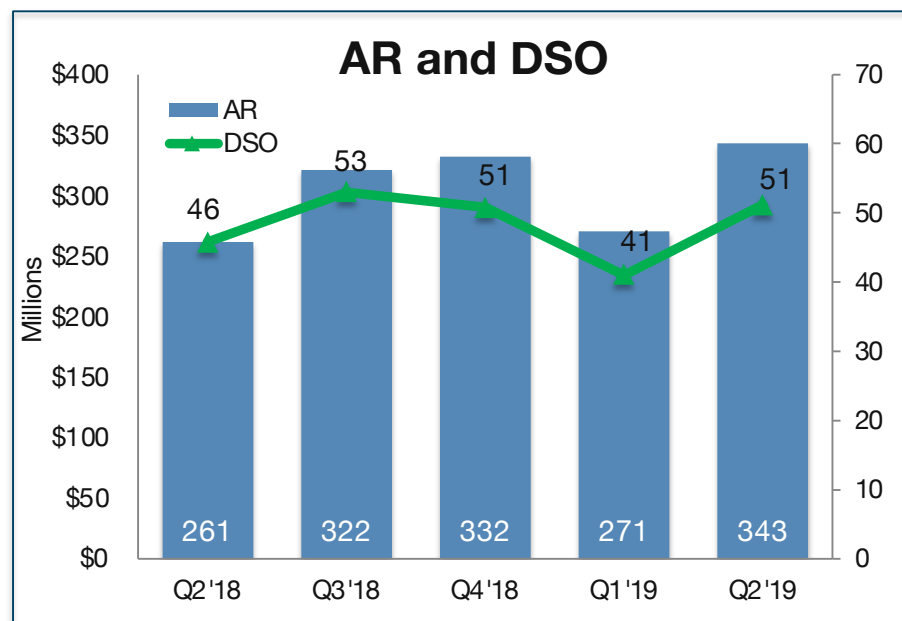
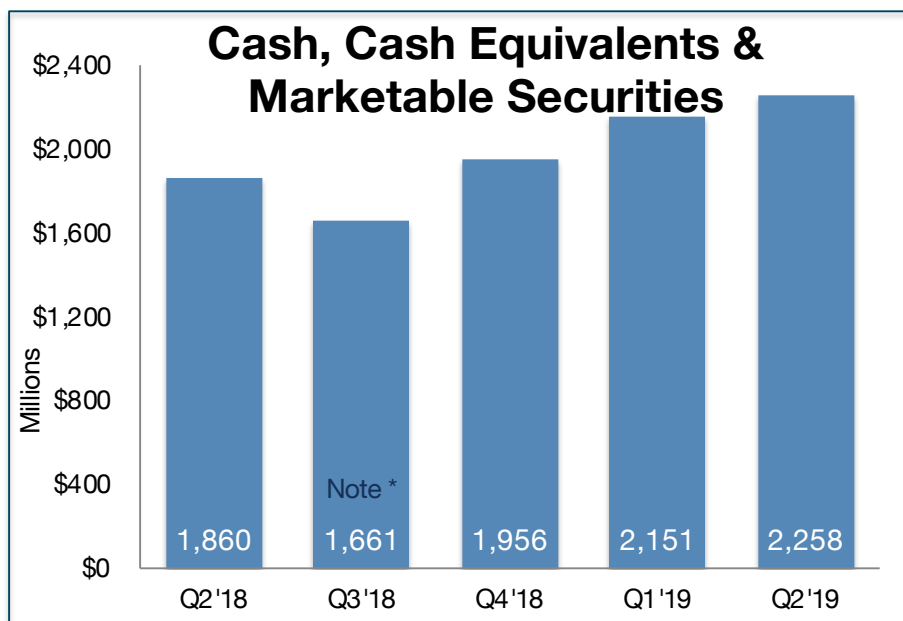
Note: Only selected verticals shown. Diagram not to scale.

# Financial Highlights<sup>1</sup>



<sup>1</sup> Amounts are non-GAAP except for Revenue; refer to reconciliation between non-GAAP and GAAP in the appendix.

# Balance Sheet & Cash Conversion Cycle



# Foundational Technology Underpins TAM Expansion

- We partner with customers and follow their journey
- EOS software quality drives repeat purchases
- EOS software organically enables additional use cases

| Top 15 Customers | Q3 2016 | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 | Q4 2017 | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 |
|------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Customer 1       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 2       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 3       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 4       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 5       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 6       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 7       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 8       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 9       |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 10      |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 11      |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 12      |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 13      |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 14      |         |         |         |         |         |         |         |         |         |         |         |         |
| Customer 15      |         |         |         |         |         |         |         |         |         |         |         |         |

Note: Chart illustrates the top 15 customers based on the last 12 quarters of total product and service billings.

 Additional Purchases  
 Did Not Purchase

# Arista Highlights - Second Quarter 2019

## Key Highlights

### Q2-2019:

**[Arista Delivers Universal 400G Platforms for Cloud Network Transformation](#)** – Introducing the new Arista 7800R family for demanding 400G cloud networks and the next generation of the Arista 7500R, 7280R Series. The new platforms support 100G and 400G Ethernet with compelling throughput, density and price-performance and offer new telemetry and intelligence.

**[Arista Enables Cloud Area Networking on Microsoft Azure](#)** – Announcing the next-generation hybrid cloud architecture for the enterprise. This new offering leverages the [Microsoft Azure](#) global network, integrates Arista [EOS](#) with Azure and Azure Stack, focusing on the delivery of a seamless hybrid computing experience for organizations of any size.

**[Arista Cognitive Cloud Networking Redefines the Campus](#)** - Arista Networks announced an expansion of the [cognitive campus](#) portfolio with unified wired and wireless campus edge products designed to address transitional changes as the enterprise moves to an IoT (Internet of Things)-ready campus.

**[Best Workplaces for Millennials™ 2019](#)** - Arista Networks has been named to the "2019 Best Workplaces for Millennials" by Great Place to Work and FORTUNE.

## Financial Results (non-GAAP)<sup>1</sup>

### Q2-2019:

Q2'19 Revenue: \$608.3M  
Q2'19 EPS: \$2.44

YOY Revenue Growth: 17%

Q2'19 Gross Margin: 64.7%

Q2'19 Operating Margin: 38.7%

### **Mission:**

Deliver the best cloud networking solutions for private, public and hybrid cloud deployments



# Appendix: GAAP to Non-GAAP Reconciliation

| In 000's except per share data                              | Q3'17      | Q4'17      | Q1'18      | Q2'18        | Q3'18      | Q4'18      | Q1'19      | Q2'19      |
|-------------------------------------------------------------|------------|------------|------------|--------------|------------|------------|------------|------------|
| GAAP gross profit                                           | \$ 280,617 | \$ 307,165 | \$ 302,919 | \$ 333,883   | \$ 361,583 | \$ 374,992 | \$ 380,570 | \$ 390,191 |
| GAAP gross margin                                           | 64.1%      | 65.7%      | 64.1%      | 64.2%        | 64.2%      | 62.9%      | 63.9%      | 64.1%      |
| Stock-based compensation expense                            | 1,113      | 1,129      | 1,202      | 1,236        | 1,268      | 1,381      | 1,098      | 1,028      |
| Intangible asset amortization                               | -          | -          | -          | -            | 1,198      | 2,626      | 2,625      | 2,626      |
| Acquisition-related costs                                   | -          | -          | -          | -            | -          | 3,138      | -          | -          |
| Non-GAAP gross profit                                       | \$ 281,730 | \$ 308,294 | \$ 304,121 | \$ 335,119   | \$ 364,049 | \$ 382,137 | \$ 384,293 | \$ 393,845 |
| Non-GAAP gross margin                                       | 64.4%      | 65.9%      | 64.4%      | 64.5%        | 64.6%      | 64.1%      | 64.5%      | 64.7%      |
| GAAP income (loss) from operations                          | \$ 140,832 | \$ 139,388 | \$ 138,738 | \$ (239,803) | \$ 180,770 | \$ 193,642 | \$ 194,342 | \$ 206,837 |
| GAAP operating margin                                       | 32.2%      | 29.8%      | 29.4%      | -46.1%       | 32.1%      | 32.5%      | 32.6%      | 34.0%      |
| Stock-based compensation expense                            | 20,152     | 20,436     | 20,851     | 22,478       | 23,254     | 24,619     | 24,291     | 24,297     |
| Litigation expenses (benefit)                               | 7,857      | 9,072      | 7,085      | 3,569        | (100)      | (3,988)    | 1,448      | 514        |
| Legal settlement                                            | -          | -          | -          | 405,000      | -          | -          | -          | -          |
| Intangible asset amortization                               | -          | -          | -          | -            | 1,610      | 3,500      | 3,499      | 3,499      |
| Acquisition-related costs                                   | -          | -          | -          | -            | 3,432      | 4,313      | -          | -          |
| Non-GAAP income from operations                             | \$ 168,841 | \$ 168,896 | \$ 166,674 | \$ 191,244   | \$ 208,966 | \$ 222,086 | \$ 223,580 | \$ 235,147 |
| Non-GAAP operating margin                                   | 38.6%      | 36.1%      | 35.3%      | 36.8%        | 37.1%      | 37.3%      | 37.5%      | 38.7%      |
| GAAP diluted net income (loss) to common stockholders       | \$ 133,555 | \$ 103,758 | \$ 144,456 | \$ (155,187) | \$ 168,445 | \$ 170,218 | \$ 200,918 | \$ 189,158 |
| Net income attributable to participating securities         | 167        | 75         | 82         | (82)         | 79         | 104        | 111        | 93         |
| Stock-based compensation expense                            | 20,152     | 20,436     | 20,851     | 22,478       | 23,254     | 24,619     | 24,291     | 24,297     |
| Litigation expenses (benefit)                               | 7,857      | 9,072      | 7,085      | 3,569        | (100)      | (3,988)    | 1,448      | 514        |
| Loss (gain) on investments in privately held companies      | -          | -          | -          | 9,100        | -          | 4,700      | (1,150)    | -          |
| Legal settlement                                            | -          | -          | -          | 405,000      | -          | -          | -          | -          |
| Intangible asset amortization                               | -          | -          | -          | -            | 1,610      | 3,500      | 3,499      | 3,499      |
| Acquisition-related costs                                   | -          | -          | -          | -            | 3,432      | 4,313      | -          | -          |
| Acquisition-related tax expense                             | -          | -          | -          | -            | 5,853      | -          | -          | -          |
| Altera stock-based tax charge                               | -          | -          | -          | -            | -          | -          | -          | 9,781      |
| Tax benefits on stock-based awards                          | (24,562)   | (38,287)   | (32,846)   | (25,472)     | (26,130)   | (8,227)    | (37,054)   | (23,455)   |
| Impact of the U.S. Tax Cuts and Jobs Act                    | -          | 51,812     | -          | -            | -          | (12,632)   | -          | -          |
| Tax effect of non-GAAP exclusions                           | (8,947)    | (9,536)    | (5,505)    | (103,686)    | (5,149)    | (429)      | (4,333)    | (5,324)    |
| Non-GAAP net income                                         | \$ 128,222 | \$ 137,330 | \$ 134,123 | \$ 155,720   | \$ 171,294 | \$ 182,178 | \$ 187,730 | \$ 198,563 |
| GAAP diluted income (loss) per share to common stockholders | \$ 1.68    | \$ 1.29    | \$ 1.79    | \$ (2.08)    | \$ 2.08    | \$ 2.10    | \$ 2.47    | \$ 2.33    |
| Non-GAAP adjustments to net income (loss) per share         | (0.06)     | 0.42       | (0.13)     | 4.01         | 0.03       | 0.15       | (0.16)     | 0.11       |
| Non-GAAP diluted income per share                           | \$ 1.62    | \$ 1.71    | \$ 1.66    | \$ 1.93      | \$ 2.11    | \$ 2.25    | \$ 2.31    | \$ 2.44    |
| GAAP weighted diluted shares                                | 79,322     | 80,243     | 80,721     | 74,503       | 81,018     | 80,928     | 81,201     | 81,335     |
| Non-GAAP weighted diluted shares                            | 79,322     | 80,243     | 80,721     | 80,826       | 81,018     | 80,928     | 81,201     | 81,335     |
| <b>Summary of non-GAAP adjustments:</b>                     |            |            |            |              |            |            |            |            |
| Cost of revenue-product                                     | \$ 552     | \$ 573     | \$ 556     | \$ 562       | \$ 1,770   | \$ 6,366   | \$ 3,202   | \$ 3,144   |
| Cost of revenue-service                                     | 561        | 556        | 646        | 674          | 696        | 779        | 521        | 510        |
| Research and development                                    | 11,048     | 11,207     | 10,945     | 11,745       | 13,025     | 13,505     | 13,131     | 12,568     |
| Sales and marketing                                         | 5,115      | 5,302      | 5,960      | 6,274        | 6,949      | 7,098      | 7,408      | 7,970      |
| General and administrative                                  | 10,733     | 11,870     | 9,829      | 6,792        | 5,756      | 696        | 4,976      | 4,118      |
| Legal settlement                                            | -          | -          | -          | 405,000      | -          | -          | -          | -          |
| Other expense (income)                                      | -          | -          | -          | 9,100        | -          | 4,700      | (1,150)    | -          |
| Income tax benefit                                          | (33,509)   | 3,989      | (38,351)   | (129,158)    | (25,426)   | (21,288)   | (41,387)   | (18,998)   |





# Thank You

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