



Rating  
**Hold**

North America  
United States

TMT  
Software

Company  
**FireEye**

Reuters FEYE.OQ    Bloomberg FEYE US    Exchange NAS    Ticker FEYE

Date  
31 October 2018

**Forecast Change**

Price at 30 Oct 2018 (USD)	16.85
Price target	20.00
52-week range	18.97 - 13.57

## A Respectable Q3 Print. Maintain Hold

### Solid Q3 Results. Mostly In-Line Guide.

FEYE reported fairly solid Q3 results with a 2% beat on billings, 1% upside on revenue and substantially better than expected operating income and EPS. In addition, Q4 guidance on billings and revenue was effectively in-line with expectations and the outlook on operating profit improved. Perhaps the biggest highlight from the quarter was a substantial improvement in product billings - which grew 5% yr./yr. in Q3'18 versus what we estimate was a high teens decline in 1H'18. While we remain unsure if this trend is repeatable - we were pleased by the better than expected performance. Looking forward, we would expect declines on product billings to be less of a headwind as the category now accounts for just over 15% of total billings vs 19% in 2017 and 22% in 2016. Helix additions also improved in the quarter with FEYE adding over 100+ new customers in Q3 vs 75 in Q2. All in, it was a relatively clean quarter with few major surprises. We maintain our Hold rating on the stock.

### Further Thoughts

FEYE showed another quarter of improved top line execution and better than expected profitability. In addition, new product and Helix commentary was encouraging. That said, Helix penetration at just over 5% of FEYE's installed base (~400 out of 7400+ customers) is still relatively low and we continue to wait for more evidence on an inflection in adoption trends. While FEYE's billings mix is improving and becoming more predictable - it is worth noting that just over 50% of non-services related billings is still related to appliance sales and attached subscriptions. Ultimately, we think FEYE's new initiatives like Helix and the move towards becoming a front line email security solution makes a lot of sense. However, we also think that it will take time for these efforts to materialize into significant improvements in revenue growth. To this point, our 2018 and 2019 revenue and billings estimates were mostly unchanged / revised fractionally higher. Lastly, we increased our 2019 free cash flow estimate to \$92MM from \$83MM previously.

### Price Target Increased to \$20/Share (\$18 Previously)

We increased our price target to \$20/share from \$18 previously. The upward revision is primarily due to rolling over our target to our 2020 forecasts while maintaining a 4.0x target EV/sales multiple. Downside risks to our price target include competition from larger security vendors with more traditional platforms, pricing pressure in FEYE's core APT product line, and historical operating volatility. Upside risks include faster revenue contribution of new products.

### Valuation & Risks

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### Key changes

TP	18.00 to 20.00	↑	11.1%
Revenue (USDm)	828.5 to 830.0	↑	0.2%

Source: Deutsche Bank

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Figure 1: Summary of Estimates / Results

\$'s in millions	Q3'18A	Q3'18E	Abs \$ Diff	% Diff	Q3'18A	Street Q3'18E	Abs Diff	% Diff
Calculated Billings	\$219.3	\$215.1	\$4.2	2.0%	\$219.3	\$215.2	\$4.0	1.9%
Y/Y Growth	8.1%	6.0%			8.1%	6.1%		
<b>Revenue:</b>								
Product, subscription, and support	\$175.7	\$172.6	\$3.0	2%	\$175.7	\$172.6	\$3.1	2%
Yr./Yr. Growth	7.6%	5.8%			7.6%	5.8%		
Professional services	\$36.0	\$36.1	(\$0.1)	0%	\$36.0	\$35.8	\$0.2	1%
Yr./Yr. Growth	5.3%	5.5%			5.3%	4.7%		
<b>Total Revenue</b>	<b>\$211.7</b>	<b>\$208.7</b>	<b>\$2.9</b>	<b>1.4%</b>	<b>\$211.7</b>	<b>\$208.4</b>	<b>\$3.3</b>	<b>1.6%</b>
Yr./Yr. Growth	7.2%	5.7%			7.2%	5.6%		
Gross Profit	160.3	156.4	3.8	2.5%	160.3	156.2	4.1	2.6%
Margin	75.7%	75.0%			75.7%	75.0%		
Non GAAP Operating Income	\$14.2	\$6.6	\$7.6	NMF	\$14.2	\$3.5	\$10.7	NMF
As a % of Revenue	6.7%	3.2%			6.7%	1.7%		
Yr./Yr. Growth	NMF	NMF			NMF	NMF		
Non GAAP Net Income	\$11.9	\$5.1	\$6.7	NMF	\$11.9	\$3.9	\$8.0	NMF
Diluted EPS	\$0.06	\$0.03	\$0.03	NMF	\$0.06	\$0.02	\$0.04	NMF
Operating Cash Flow	\$21.9	\$15.4	6.5	42.0%	\$21.9	\$16.0	5.9	36.9%
% of revenue	10.3%	7.4%			10.3%	7.7%		
Capex	(\$10.4)	(\$9.4)	(1.0)	10.5%	(\$10.4)	\$8.6	(19.0)	-220.6%
% of revenue	4.9%	4.5%			4.9%	4.1%		
Free Cash Flow	\$11.5	\$6.0	5.5	91.0%	\$11.5	\$6.2	5.3	85.9%
% of revenue	NMF	2.9%			NMF	NMF		

Note: (1) Non GAAP Net Income excludes stock comp, amortization expense, restructuring charges and other non cash / 1x items

Source: Company reports and Deutsche Bank estimates

Figure 2: Summary of New Quarterly Estimates

\$'s in millions	New Guidance Q4'18E	Street Q4'18E	Our Prior Q4'18E	Our New Q4'18E
Calculated Billings	245-255	\$250.8	\$253.8	\$252.6
Y/Y Growth		4.3%	5.5%	5.0%
<b>Revenue:</b>				
Product, subscription, and support		\$179.7	\$181.1	\$180.4
Yr./Yr. Growth		5.1%	5.9%	5.5%
Professional services		\$36.9	\$36.9	\$36.2
Yr./Yr. Growth		5.9%	6.0%	4.0%
<b>Total Revenue</b>	<b>214-218</b>	<b>\$216.6</b>	<b>\$218.0</b>	<b>\$216.6</b>
Yr./Yr. Growth		5.2%	5.9%	5.2%
Gross Profit	163.1	162.8	163.6	163.7
Margin	75-76%	75.2%	75.1%	75.6%
Non GAAP Operating Income	13.0	\$10.30	\$11.7	\$14.0
As a % of Revenue	5-7%	4.8%	5.4%	6.5%
Yr./Yr. Growth	NMF	NMF	NMF	NMF
Non GAAP Net Income		\$7.7	\$7.9	\$11.9
Diluted EPS	.04-.06	\$0.04	\$0.04	\$0.06
Operating Cash Flow	30-35	\$36.1	\$38.2	\$33.5
% of revenue		16.7%	17.5%	15.5%
Capex		(\$12.2)	(\$9.2)	(\$10.8)
% of revenue		-5.6%	4.2%	5.0%
Free Cash Flow		\$28.3	\$29.0	\$22.7
% of revenue		13.1%	13.3%	10.5%

Note: (1) Non GAAP Net Income excludes stock comp, amortization expense, restructuring charges and other non cash / 1x items

Source: Company reports and Deutsche Bank estimates

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Figure 3: Summary of Estimates

\$'s in millions	NEW FY'18E	OLD FY'18E	NEW FY'19E	OLD FY'19E
Calculated Billings	\$843.1	\$840.1	\$918.9	\$898.9
Y/Y Growth	10.6%	10.2%	9.0%	7.0%
<b>Revenue:</b>				
Product, subscription, and support <i>Yr./Yr. Growth</i>	\$688.9 6.7%	\$686.6 6.3%	\$740.6 7.5%	\$727.8 6.0%
Professional services <i>Yr./Yr. Growth</i>	\$141.1 5.5%	\$141.9 6.1%	\$149.6 6.0%	\$150.4 6.0%
<b>Total Revenue</b> <i>Yr./Yr. Growth</i>	<b>\$830.0</b> 6.5%	<b>\$828.5</b> 6.3%	<b>\$890.1</b> 7.2%	<b>\$878.2</b> 6.0%
Gross Profit <i>Margin</i>	622.7 75.0%	618.8 74.7%	668.3 75.1%	658.2 75.0%
Non GAAP Operating Income As a % of Revenue <i>Yr./Yr. Growth</i>	<b>\$26.0</b> 3.1% NMF	<b>\$16.1</b> 1.9% NMF	<b>\$54.1</b> 6.1% 108.4%	<b>\$52.3</b> 6.0% 225.6%
Non GAAP Net Income	<b>\$16.8</b>	<b>\$6.0</b>	<b>\$41.7</b>	<b>\$39.1</b>
Diluted EPS	<b>\$0.08</b>	<b>\$0.03</b>	<b>\$0.20</b>	<b>\$0.18</b>
Operating Cash Flow % of revenue	\$20.3 2.4%	\$18.5 2.2%	\$131.9 14.8%	\$122.0 13.9%
Capex % of revenue	(\$47.8) 5.8%	(\$45.2) 5.5%	(\$40.1) 4.5%	(\$39.5) 4.5%
Free Cash Flow % of revenue	(\$27.6) -3.3%	(\$26.7) -3.2%	\$91.8 10.3%	\$82.5 9.4%

Note: (1) Non GAAP Net Income excludes stock comp, amortization expense, restructuring charges and other non cash / 1x items

Source: Company reports and Deutsche Bank estimates

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# Appendix 1

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
FireEye	FEYE.OQ	16.85 (USD) 30 Oct 2018	2, 6, 9

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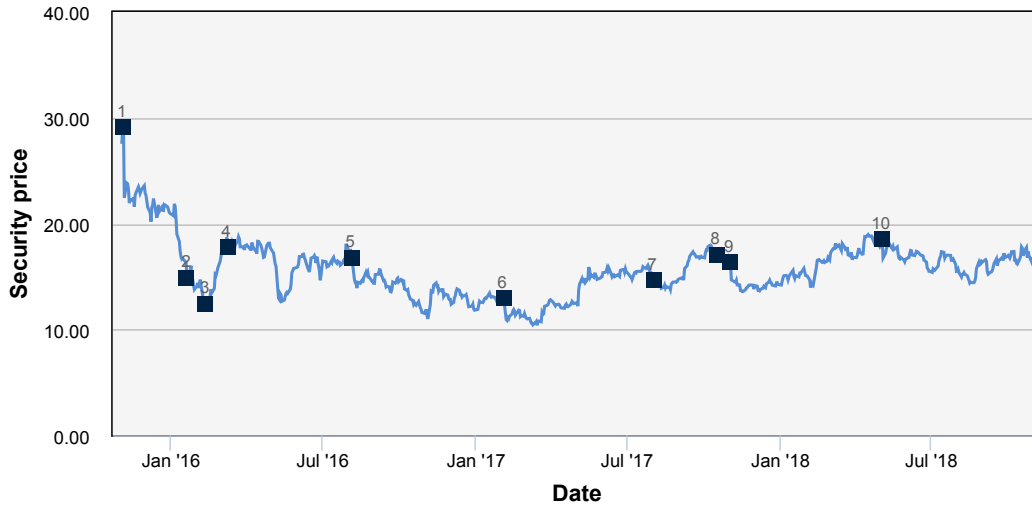
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Historical recommendations and target price. FireEye (FEYE.OQ)

(as of 10/30/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

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2.	01/21/2016	Hold, Target Price Change USD 20.00	Karl Keirstead	7.	08/02/2017	Hold, Target Price Change USD 15.00	Karl Keirstead
3.	02/12/2016	Hold, Target Price Change USD 15.00	Karl Keirstead	8.	10/17/2017	Hold, Target Price Change USD 18.00	Gray Powell, CFA
4.	03/09/2016	Hold, Target Price Change USD 20.00	Karl Keirstead	9.	11/02/2017	Hold, Target Price Change USD 16.00	Gray Powell, CFA
5.	08/05/2016	Hold, Target Price Change USD 15.00	Karl Keirstead	10.	05/03/2018	Hold, Target Price Change USD 18.00	Gray Powell, CFA

Equity Rating Key

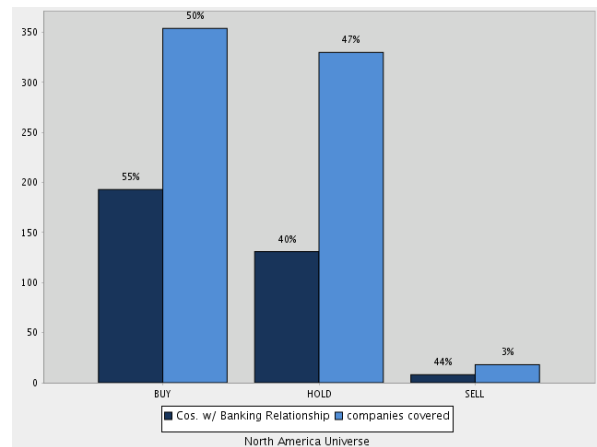
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31 October 2018

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