

Palo Alto Networks (PANW US)

Results beat; AI-related security brings new waves of growth opportunity

Palo Alto Networks (PANW) announced 2QFY26 (year-end Jul) results: revenue was up 14.9% YoY to US\$2.59bn, 1% ahead of Bloomberg consensus, and non-GAAP net income reached US\$732mn, up 29.4% YoY and 9% better than consensus. Management highlighted that PANW has completed the acquisitions of Chronosphere and CyberArk, respectively, on 29 Jan and 11 Feb (UST), which in our view should help enhance PANW's product deployment in the AI era. We remain positive that PANW is one of the key beneficiaries in the Gen-AI era as demand for security should grow steadily with an increasing scale in AI-related deployment. Factoring into the impact from acquisitions and better-than-expected operating efficiency improvement of organic business, we lift our FY26E revenue/non-GAAP net profit forecasts by 7/3%, while we lower TP to US\$222.7 per ADS after considering the share issuance impact for CyberArk acquisition. Our new TP is based on 14.6x EV/sales multiple (was 15.4x), inline with three-year average EV/sales plus 2 s.d.. Maintain BUY.

■ **2QFY26 earnings beat driven by better-than-expected unleashing in operating leverage.** In 2QFY26, subscription and support revenue grew 13.3% YoY to US\$2.08bn, 1% shy of consensus and accounted for 80.2% of PANW's total revenue (2QFY25: 81.3%), while product revenue came in 5% ahead of consensus. Non-GAAP OP reached US\$785mn, 4% better than consensus, and translated into a 30.3% non-GAAP OPM, up 1.9ppts YoY and 0.9ppts better than consensus, driven by more optimized-than-expected sales and marketing and R&D spending.

■ **SASE ARR growth saw an accelerated trend.** Next-Generation Security (NGS) ARR reached US\$6.3bn by end-2QFY26, up 33% YoY, and was 28% YoY if excluding contribution from acquisition of Chronosphere, inline with management's previous guidance. The number of accounts with >US\$5mn/>US\$10mn NGS ARR in 2QFY26 reached 173/60 respectively, up 48%/50% YoY. SASE ARR recorded c.40% YoY growth to over US\$1.5bn (1QFY26: 34% YoY), and platformization helped drive the reacceleration in revenue growth. As of end-2QFY26, PANW achieved ~1,550 total Platformizations with ~110 net new adds QoQ (1QFY26: ~60 QoQ). Management highlighted that net retention rate was 119% for platformized customers while churn rate was only low-single digit. XSIAM now has over 600 customers, up >200% YoY. Management guided for US\$7.94bn-7.96bn NGS ARR in 3QFY26E, implying 56% growth YoY, which is inline with consensus if excluding US\$1.47bn underlying assumption of M&A contribution. Management reiterated its target to achieve US\$20bn NGS ARR by FY30E, implying a FY25-30E CAGR of 29%.

■ **AI security platform is rapidly gaining traction.** PANW's Prisma AIRS has recorded >100 customers, up >3x from 1QFY26. Meanwhile, management announced its intent to acquire KOI, a pioneer of Agentic Endpoint Security, to enhance PANW's endpoint capabilities within XDR2.0, and to help extend security and governance to autonomous agents at the device layer as part of PANW's universal AI security platform.

■ **3QFY26 revenue guidance for organic business was inline with consensus.** Management expects: 1) total revenue of US\$2.941bn-2.945bn, up 28-29% YoY, inline with consensus if excluding US\$340mn contribution from acquisitions; 2) non-GAAP net income of US\$633mn-654mn (consensus: US\$660mn), after considering the impacts from acquisitions.

BUY (Maintain)

Target Price US\$222.70
 (Previous TP) US\$236.70
Up/Downside 47.5%
Current Price US\$150.99

China Internet

Saiyi HE, CFA
 (852) 3916 1739
 hesaiyi@cmbi.com.hk

Ye TAO, CFA
 (852) 3850 5226
 franktao@cmbi.com.hk

Wentao LU, CFA
 luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	116,180.1
Avg 3 mths t/o (US\$ mn)	1,460.6
52w High/Low (US\$)	221.38/150.99
Total Issued Shares (mn)	769.5

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-18.0%	-17.2%
3-mth	-18.4%	-20.8%
6-mth	-18.1%	-23.8%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	8,028	9,222	11,283	13,594	15,450
YoY growth (%)	16.5	14.9	22.4	20.5	13.6
Net profit (US\$ mn)	2,577.6	1,133.9	1,523.6	2,228.5	2,916.6
Adjusted net profit (US\$ mn)	1,948.1	2,344.5	2,831.6	3,430.6	4,042.5
YoY growth (%)	35.3	20.3	20.8	21.2	17.8
EPS (Adjusted) (US\$)	5.67	3.31	3.68	4.06	4.76
Consensus EPS (US\$)	na	3.34	3.87	4.34	4.91

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	2QFY26 consensus	Diff%
Revenue	2,139	2,257	2,289	2,536	2,474	2,594	2,582	0.5%
<i>Growth - YoY</i>	13.9%	14.3%	15.3%	15.8%	15.7%	14.9%		
Product revenue	354	422	453	574	434	514	492	4.5%
<i>Growth - YoY</i>	3.7%	7.9%	15.8%	19.4%	22.7%	21.9%		
Subscription and support revenue	1,785	1,836	1,836	1,962	2,040	2,080	2,092	-0.6%
<i>Growth - YoY</i>	16.1%	15.9%	15.2%	14.8%	14.3%	13.3%		
<i>Subscription revenue as % of total revenue</i>	83.5%	81.3%	80.2%	77.4%	82.5%	80.2%		
Gross profit	1,651.9	1,726.9	1,738.7	1,920.7	1,900.0	1,954.0	1,983.9	-1.5%
GAAP R&D expenses	480.4	505.7	494.5	503.5	528.0	511.0	552.9	
GAAP S&M expenses	720.1	758.3	792.5	829.3	820.0	823.0	862.9	
GAAP G&A expenses	97.7	153.8	163.9	27.3	179.0	178.0	168.5	
Operating profit - GAAP	286.5	240.4	218.8	497.2	309.0	397.0	329.0	
Net profit - GAAP	350.7	267.3	262.1	253.8	334.0	432.0	352.8	22.5%
Operating profit - non-GAAP	616.2	640.4	627.1	768.2	746.0	785.0	757.9	3.6%
Net profit - non-GAAP	544.9	565.7	560.9	673.0	662.0	732.0	670.6	9.2%
<i>Growth - YoY</i>	16.9%	12.1%	23.3%	28.9%	21.5%	29.4%		
Margins								
GPM	77.2%	76.5%	76.0%	75.7%	76.8%	75.3%	76.8%	-1.5 ppt
R&D expenses ratio	22.5%	22.4%	21.6%	19.9%	21.3%	19.7%	21.4%	-1.7 ppt
S&M expenses ratio	33.7%	33.6%	34.6%	32.7%	33.1%	31.7%	33.4%	-1.7 ppt
G&A expenses ratio	4.6%	6.8%	7.2%	1.1%	7.2%	6.9%	6.5%	0.3 ppt
OPM	13.4%	10.6%	9.6%	19.6%	12.5%	15.3%		
NPM	16.4%	11.8%	11.5%	10.0%	13.5%	16.7%	13.7%	3.0 ppt
Non-GAAP OPM	28.8%	28.4%	27.4%	30.3%	30.2%	30.3%	29.3%	0.9 ppt
Non-GAAP NPM	25.5%	25.1%	24.5%	26.5%	26.8%	28.2%	26.0%	2.2 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

USD mn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	11,282.7	13,594.3	15,449.6	10,538.3	11,877.9	13,421.5	7.1%	14.5%	15.1%
Gross profit	8,210.5	9,826.4	11,191.4	7,788.1	8,805.4	9,979.2	5.4%	11.6%	12.1%
Non-GAAP net profit	2,833.0	3,419.8	4,043.4	2,755.6	3,200.7	3,638.0	2.8%	6.8%	11.1%
Gross margin	72.8%	72.3%	72.4%	73.9%	74.1%	74.4%	-1.1 ppt	-1.8 ppt	-1.9 ppt
Non-GAAP net margin	25.1%	25.2%	26.2%	26.1%	26.9%	27.1%	-1.0 ppt	-1.8 ppt	-0.9 ppt

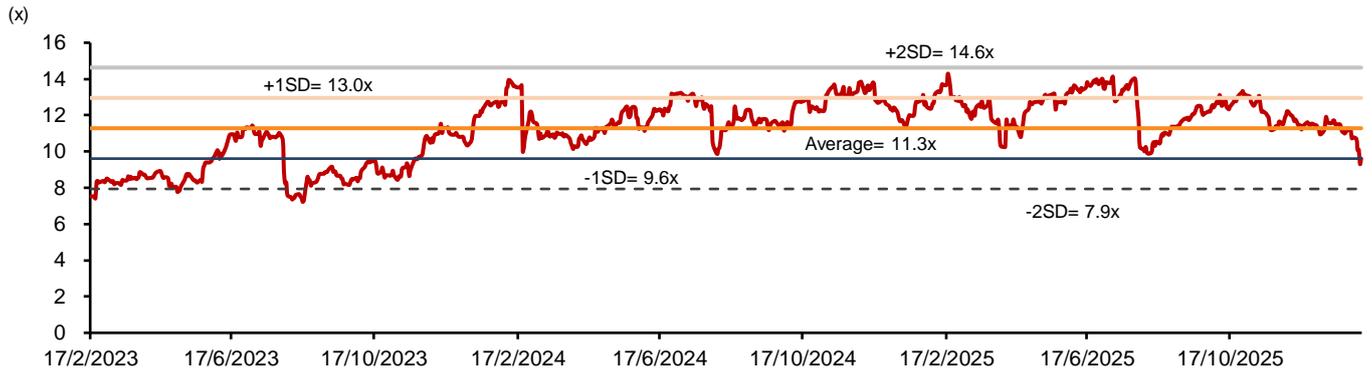
Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US\$m)	FY26E
FY26E revenue	11,283
Target EV/Sales	14.6x
Enterprise value	164,727
+ net cash	6,645
Equity value	171,372
No. of shares outstanding (diluted; mn)	769
Target price (USD)	222.7

Source: Company data, CMBIGM estimates

Figure 4: PANW: one-year forward EV/sales band over the past three years



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Revenue	6,893	8,028	9,222	11,283	13,594	15,450
Cost of goods sold	(1,910)	(2,059)	(2,452)	(3,072)	(3,768)	(4,258)
Gross profit	4,983	5,968	6,770	8,210	9,826	11,191
Operating expenses	(4,596)	(5,284)	(5,527)	(6,791)	(7,727)	(8,345)
Selling expense	(2,544)	(2,795)	(3,100)	(3,751)	(4,358)	(4,742)
Admin expense	(448)	(681)	(443)	(737)	(760)	(809)
R&D expense	(1,604)	(1,809)	(1,984)	(2,303)	(2,609)	(2,795)
Operating profit	387	684	1,243	1,419	2,099	2,846
Other income	206	313	356	401	504	525
Interest expense	(27)	(8)	(3)	(2)	0	0
Pre-tax profit	566	988	1,596	1,819	2,603	3,372
Income tax	(127)	1,589	(462)	(295)	(375)	(455)
Others	0	0	0	0	0	0
Net profit	440	2,578	1,134	1,524	2,228	2,917
Adjusted net profit	1,440	1,948	2,345	2,832	3,431	4,043

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Current assets	6,048	6,850	7,523	11,957	17,024	23,966
Cash & equivalents	1,135	1,535	2,269	6,264	11,291	17,491
Account receivables	2,463	2,619	2,965	3,351	3,858	4,420
Other current assets	2,450	2,696	2,289	2,342	1,875	2,056
Non-current assets	8,453	13,141	16,053	16,532	16,415	16,258
PP&E	355	361	387	404	358	289
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	3,048	4,173	5,556	3,362	3,362	3,362
Intangibles	315	375	763	1,173	1,021	869
Goodwill	2,927	3,350	4,567	6,931	6,931	6,931
Other non-current assets	1,809	4,882	4,781	4,663	4,743	4,807
Total assets	14,501	19,991	23,576	28,489	33,439	40,224
Current liabilities	7,738	7,683	7,988	9,165	9,651	10,889
Account payables	132	116	232	317	374	420
Other current liabilities	6,666	6,505	6,302	6,933	7,533	8,515
Accrued expenses	939	1,061	1,454	1,915	1,744	1,954
Non-current liabilities	5,015	7,139	7,764	8,255	8,848	9,819
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	5,015	7,139	7,764	8,255	8,848	9,819
Total liabilities	12,753	14,821	15,752	17,420	18,499	20,708
Retained earnings	(1,227)	1,350	2,484	4,008	6,236	9,153
Other reserves	2,976	3,820	5,340	7,061	8,704	10,363
Total shareholders equity	1,748	5,170	7,824	11,069	14,940	19,516
Minority interest	0	0	0	0	0	1
Total equity and liabilities	14,501	19,991	23,576	28,489	33,439	40,224

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	566	988	1,596	1,819	2,603	3,372
Depreciation & amortization	282	283	343	362	364	364
Tax paid	(127)	1,589	(462)	(295)	(375)	(455)
Change in working capital	563	910	923	968	958	1,403
Others	1,492	(513)	1,316	1,603	1,643	1,659
Net cash from operations	2,778	3,258	3,716	4,456	5,193	6,343
Investing						
Capital expenditure	(146)	(157)	(246)	(279)	(167)	(143)
Others	(1,888)	(1,353)	(1,959)	(78)	0	0
Net cash from investing	(2,034)	(1,510)	(2,205)	(357)	(167)	(143)
Financing						
Share repurchases	(273)	(567)	0	0	0	0
Others	(1,454)	(776)	(779)	(106)	0	0
Net cash from financing	(1,726)	(1,343)	(779)	(106)	0	0
Net change in cash						
Cash at the beginning of the year	2,119	1,135	1,535	2,269	6,264	11,291
Exchange difference	0	0	0	0	0	0
Others	(1)	(5)	1	2	0	0
Cash at the end of the year	1,135	1,535	2,269	6,264	11,291	17,491

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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