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Palo Alto Networks (PANW US)

Net new ARR inflects; platformization compounds

Palo Alto Networks (PANW) announced 4QFY26 (year-end Jul) results: revenue rose 34% YoY to US$3.41bn, 2% ahead of Bloomberg consensus; non-GAAP net income reached US$853mn, up 27% YoY and 5% above consensus. For FY26, PANW recorded revenue growth of 24% with FCF margin of 38.4%. The company added net new Next-Generation Security (NGS) ARR of c.US$970mn in 4QFY26 (+98% YoY), taking NGS ARR to US$9.1bn (+63% YoY). A record c.220 net new platformizations (+44% YoY) underpinned the beat. Management framed three AI inflections observed during FY26: 1) the shift from prompting to autonomous agents; 2) the weaponization of cyber-capable models; and 3) the normalization of open-weight models; all served as multi-year tailwinds that simultaneously expand traffic to inspect, data to observe and machine identities to secure. Initial FY27 guidance was set above consensus on both revenue (US$14.10bn-14.20bn, +23-24% YoY, 2-3% ahead) and non-GAAP EPS (US$4.16-4.19 vs consensus US$4.11). We lower our FY27E revenue forecast by 0.6% and non-GAAP net profit by 3.4% to bring our forecast inline with consensus, and we introduce FY29E forecast. We lift our TP to US$389.0, based on a 22.7x EV/sales multiple (was 16.5x), inline with three-year average plus 2 s.d.. We remain positive that PANW is one of the key beneficiaries of the Gen-AI era, as demand for security should grow steadily alongside the increasing scale of AI-related deployments. Maintain BUY.

- **Record net new NGS ARR on record platformizations.** PANW closed FY26 with NGS ARR of US$9.1bn, up 63% YoY, adding net new NGS ARR of c.US$970mn in 4QFY26 alone. RPO reached US$21.2bn (+34% YoY), with current RPO of US$9.3bn also up 34%. The engine remains platformization: c.220 net new platformizations in 4QFY26 was a record, and net retention among platformized customers exceeded 120%, and more than 65% of NGS ARR now comes from platformized customers. Large deals scaled accordingly, and accounts with >US$5mn/>US$10mn NGS ARR reached 223/78, up 45%/50% YoY. Management guided for ARR of US$11.075-11.175bn for FY27, up 22-23% YoY.
- **New platform disclosure shows where AI demand is landing.** PANW began reporting revenue across three platforms. Network & AI Security generated US$8.35bn in FY26 (+17% YoY): SASE bookings grew 40%, with competitive displacements of c.US$450mn TCV across c.100 accounts (c.2x YoY) in FY26, agentic traffic across SASE rose more than 9x over nine months. Prisma AIRS reached c.US$120mn ARR within four quarters of General Availability (GA), with over 800 customers (>2x QoQ) and over 100 agentic endpoint logos post-Koi acquisition. Cortex revenue was US$1.92bn (+25% YoY), with XSIAM ARR above US$700mn (+70% YoY) across over 1,000 customers, and observability ARR surpassing US$500mn, more than doubling since the Chronosphere close (aided by a nine-figure net new ARR benefit from a large LLM customer migration); XSIAM plus observability now exceeds US$1bn of ARR. Idira (CyberArk identity, ex- Certificate LifeCycle Management business) delivered pro-forma revenue of US$1.26bn in FY26 , +21% YoY, with 4QFY26 bookings growing faster than revenue, over 400 shared leads, over 200 new logos won from the legacy PANW base and US$5mn+ TCV deals up 50% YoY.
- **FY27 guidance ahead of consensus.** For FY27, management guided revenue of US$14.10bn-14.20bn (+23-24% YoY), non-GAAP operating margin of 29.5% (+30bps YoY), non-GAAP EPS of US$4.16-4.19 and adjusted FCF margin of 38.0%. 1QFY27 revenue guidance of US$3.30bn-3.31bn (+33-34% YoY) and EPS of US$0.96-0.98 are also 2-4% above consensus. FY28 adjusted FCF margin of 40% and the FY30 targets of 4,000+ platformizations and US$20bn NGS ARR were reaffirmed.

BUY (Maintain)

Target Price	**US$389.00**
(Previous TP	US$299.70)
Up/Downside	**7.4%**
Current Price	**US$362.09**

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

Shuyin GUO
(852) 3916 3716
guoshuyin@cmbi.com.hk

Stock Data

Mkt Cap (US$ mn)	305,863.3
Avg 3 mths t/o (US$ mn)	586.6
52w High/Low (US$)	396.00/141.67
Total Issued Shares (mn)	844.7

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

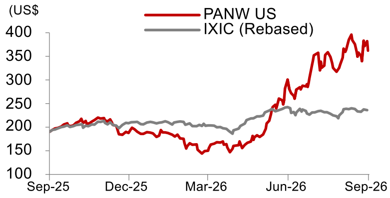
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	9.1%	6.1%
3-mth	21.8%	26.5%
6-mth	141.2%	110.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue (US$ mn)	9,222	11,480	14,198	15,643	17,206
YoY growth (%)	14.9	24.5	23.7	10.2	10.0
Net profit (US$ mn)	1,133.9	307.0	1,926.5	2,938.1	3,477.0
Adjusted net profit (US$ mn)	2,344.5	2,931.0	3,526.5	4,012.4	4,571.2
YoY growth (%)	20.3	25.0	20.3	13.8	13.9
EPS (Adjusted) (US$)	3.31	3.83	4.17	4.72	5.35
Consensus EPS (US$)	3.34	3.78	4.11	4.81	5.71

Source: Company data, Bloomberg, CMBIGM estimates

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Figure 1: PANW: quarterly results trend

(USDmn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	3QFY26	4QFY26	4QFY26 consensus	Diff%
Revenue	**2,139**	**2,257**	**2,289**	**2,536**	**2,474**	**2,594**	**3,002**	**3,410**	**3,352**	**1.7%**
Growth - YoY	*13.9%*	*14.3%*	*15.3%*	*15.8%*	*15.7%*	*14.9%*	*31.1%*	*34.4%*		
Product revenue	**354**	**422**	**453**	**574**	**434**	**514**	**594**	**738**	**679**	**8.7%**
Growth - YoY	*3.7%*	*7.9%*	*15.8%*	*19.4%*	*22.7%*	*21.9%*	*31.2%*	*28.6%*		
Subscription and support revenue	**1,785**	**1,836**	**1,836**	**1,962**	**2,040**	**2,080**	**2,408**	**2,672**	**2,673**	**-0.1%**
Growth - YoY	*16.1%*	*15.9%*	*15.2%*	*14.8%*	*14.3%*	*13.3%*	*31.1%*	*36.2%*		
Subscription revenue as % of total revenue	*83.5%*	*81.3%*	*80.2%*	*77.4%*	*82.5%*	*80.2%*	*80.2%*	*78.4%*		
Gross profit	**1,651.9**	**1,726.9**	**1,738.7**	**1,920.7**	**1,900.0**	**1,973.0**	**2,270.0**	**2,547.0**	**2,548.9**	**-0.1%**
GAAP R&D expenses	480.4	505.7	494.5	503.5	528.0	511.0	734.0	779.0		
GAAP S&M expenses	720.1	758.3	792.5	829.3	820.0	823.0	1,161.0	1,127.0		
GAAP G&A expenses	97.7	153.8	163.9	27.3	179.0	178.0	316.0	226.0		
Operating profit - GAAP	**286.5**	**240.4**	**218.8**	**497.2**	**309.0**	**397.0**	**(183.0)**	**172.0**		
Net profit - GAAP	**350.7**	**267.3**	**262.1**	**253.8**	**334.0**	**432.0**	**(177.0)**	**(282.0)**		
Operating profit - non-GAAP	**616.2**	**640.4**	**627.1**	**768.2**	**746.0**	**785.0**	**814.0**	**1,011.0**	**983.1**	**2.8%**
Net profit - non-GAAP	**544.9**	**565.7**	**560.9**	**673.0**	**662.0**	**732.0**	**684.0**	**853.0**	**814.1**	**4.8%**
Growth - YoY	*16.9%*	*12.1%*	*23.3%*	*28.9%*	*21.5%*	*29.4%*	*21.9%*	*26.7%*		
Margins										
GPM	77.2%	76.5%	76.0%	75.7%	76.8%	76.1%	75.6%	74.7%	76.0%	-1.3 ppt
R&D expenses ratio	22.5%	22.4%	21.6%	19.9%	21.3%	19.7%	24.5%	22.8%		
S&M expenses ratio	33.7%	33.6%	34.6%	32.7%	33.1%	31.7%	38.7%	33.0%		
G&A expenses ratio	4.6%	6.8%	7.2%	1.1%	7.2%	6.9%	10.5%	6.6%		
OPM	13.4%	10.6%	9.6%	19.6%	12.5%	15.3%	-6.1%	5.0%		
NPM	16.4%	11.8%	11.5%	10.0%	13.5%	16.7%	-5.9%	-8.3%	0.0%	-8.3 ppt
Non-GAAP OPM	28.8%	28.4%	27.4%	30.3%	30.2%	30.3%	27.1%	29.6%	29.3%	0.3 ppt
Non-GAAP NPM	25.5%	25.1%	24.5%	26.5%	26.8%	28.2%	22.8%	25.0%	24.3%	0.7 ppt

Source: Company data, Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

	Current			Previous			Change (%)		
USD mn	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**	**FY27E**	**FY28E**	**FY29E**
Revenue	14,197.7	15,642.5	17,205.9	14,282.9	16,053.7	-	-0.6%	-2.6%	-
Gross profit	10,013.6	11,404.1	12,573.5	9,809.4	11,127.1	-	2.1%	2.5%	-
Non-GAAP net profit	3,526.5	4,012.4	4,571.2	3,650.8	4,240.1	-	-3.4%	-5.4%	-
Gross margin	70.5%	72.9%	73.1%	68.7%	69.3%	-	1.9 ppt	3.6 ppt	-
Non-GAAP net margin	24.8%	25.7%	26.6%	25.6%	26.4%	-	-0.7 ppt	-0.8 ppt	-

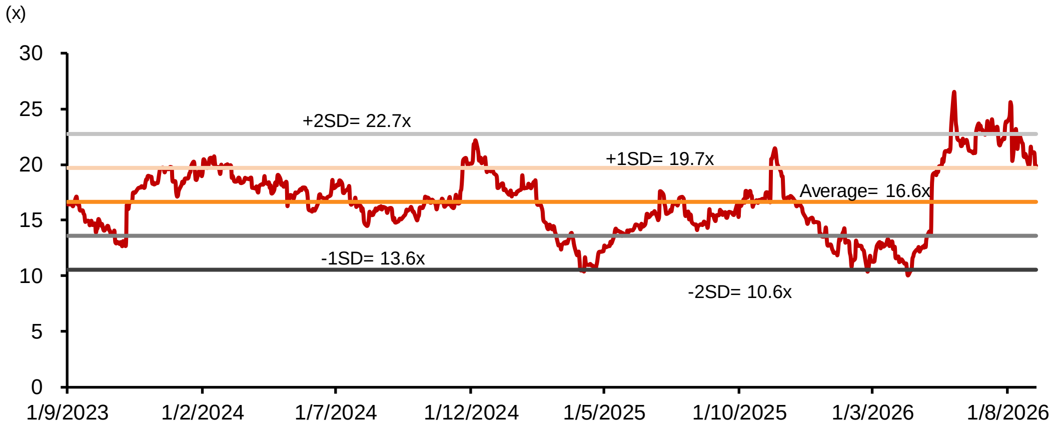
Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US$mn)	FY27E
FY27E revenue	14,198
Target EV/Sales	22.7x
Enterprise value	322,288
+ net cash	6,695
Equity value	328,983
No. of shares outstanding (diluted; mn)	845
Target price (USD)	**389.0**

Source: Company data, CMBIGM estimates

Figure 4: PANW: EV/sales band over the past two years



Source: Bloomberg, CMBIGM

Risks

1) Slower-than-expected margin expansion owing to intensified market competition; 2) slower-than-expected NGS ARR growth owing to slower-than-expected customer acquisition and ramp-up in cross-selling and platformization.

Financial Summary

INCOME STATEMENT	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Revenue	**8,028**	**9,222**	**11,480**	**14,198**	**15,643**	**17,206**
Cost of goods sold	(2,059)	(2,452)	(3,403)	(4,184)	(4,238)	(4,632)
Gross profit	**5,968**	**6,770**	**8,077**	**10,014**	**11,404**	**12,574**
Operating expenses	**(5,284)**	**(5,527)**	**(7,382)**	**(8,189)**	**(8,660)**	**(9,354)**
Selling expense	(2,795)	(3,100)	(3,931)	(4,508)	(4,727)	(5,151)
Admin expense	(681)	(443)	(899)	(733)	(782)	(831)
R&D expense	(1,809)	(1,984)	(2,552)	(2,947)	(3,151)	(3,371)
Operating profit	**684**	**1,243**	**695**	**1,825**	**2,744**	**3,220**
Other income	313	356	(159)	341	512	736
Interest expense	(8)	(3)	0	(10)	(10)	(10)
Pre-tax profit	**988**	**1,596**	**536**	**2,156**	**3,247**	**3,946**
Income tax	1,589	(462)	(229)	(229)	(309)	(469)
Others	0	0	0	0	0	0
Net profit	**2,578**	**1,134**	**307**	**1,927**	**2,938**	**3,477**
Adjusted net profit	**1,948**	**2,345**	**2,931**	**3,526**	**4,012**	**4,571**

BALANCE SHEET	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Current assets	**6,850**	**7,523**	**8,643**	**14,082**	**20,766**	**28,273**
Cash & equivalents	1,535	2,269	2,514	7,914	14,174	21,242
Account receivables	2,619	2,965	3,629	3,933	4,230	4,538
Other current assets	2,696	2,289	2,500	2,236	2,363	2,494
Non-current assets	**13,141**	**16,053**	**39,817**	**39,496**	**39,383**	**39,242**
PP&E	361	387	523	766	745	694
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	4,173	5,556	4,835	4,835	4,835	4,835
Intangibles	375	763	7,017	6,381	6,230	6,079
Goodwill	3,350	4,567	22,010	22,010	22,010	22,010
Other non-current assets	4,882	4,781	5,432	5,505	5,563	5,624
Total assets	**19,991**	**23,576**	**48,460**	**53,578**	**60,149**	**67,515**
Current liabilities	**7,683**	**7,988**	**9,923**	**10,719**	**11,690**	**12,798**
Account payables	116	232	290	322	347	372
Other current liabilities	6,505	6,302	7,747	8,484	9,496	10,619
Accrued expenses	1,061	1,454	1,886	1,913	1,847	1,807
Non-current liabilities	**7,139**	**7,764**	**11,045**	**11,712**	**12,628**	**13,644**
Long-term borrowings	0	0	1,774	1,774	1,774	1,774
Other non-current liabilities	7,139	7,764	9,271	9,938	10,854	11,870
Total liabilities	**14,821**	**15,752**	**20,968**	**22,431**	**24,317**	**26,442**
Retained earnings	1,350	2,484	2,791	4,718	7,656	11,133
Other reserves	3,820	5,340	24,701	26,430	28,177	29,940
Total shareholders equity	**5,170**	**7,824**	**27,492**	**31,148**	**35,832**	**41,073**
Minority interest	0	0	0	0	0	0
Total equity and liabilities	**19,991**	**23,576**	**48,460**	**53,578**	**60,149**	**67,515**

CASH FLOW	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul (US$ mn)						
Operating						
Profit before taxation	**988**	**1,596**	**536**	**2,156**	**3,247**	**3,946**
Depreciation & amortization	283	343	855	876	391	391
Tax paid	1,589	(462)	(229)	(229)	(309)	(469)
Change in working capital	910	923	968	1,350	1,404	1,626
Others	(513)	1,316	2,423	1,729	1,746	1,764
Net cash from operations	**3,258**	**3,716**	**4,553**	**5,882**	**6,479**	**7,257**
Investing						
Capital expenditure	(157)	(246)	(440)	(483)	(219)	(189)
Others	(1,353)	(1,959)	(2,664)	0	0	0
Net cash from investing	**(1,510)**	**(2,205)**	**(3,104)**	**(483)**	**(219)**	**(189)**
Financing						
Share repurchases	(567)	0	(1,000)	0	0	0
Others	(776)	(779)	(202)	0	0	0
Net cash from financing	**(1,343)**	**(779)**	**(1,202)**	**0**	**0**	**0**
Net change in cash						
Cash at the beginning of the year	1,135	1,535	2,269	2,514	7,914	14,174
Exchange difference	0	0	0	0	0	0
Others	(5)	1	(3)	0	0	0
Cash at the end of the year	**1,535**	**2,269**	**2,514**	**7,914**	**14,174**	**21,242**

GROWTH	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Revenue	16.5%	14.9%	24.5%	23.7%	10.2%	10.0%
Gross profit	19.8%	13.4%	19.3%	24.0%	13.9%	10.3%
Operating profit	76.6%	81.7%	(44.1%)	162.5%	50.4%	17.3%
Net profit	486.2%	(56.0%)	(72.9%)	527.5%	52.5%	18.3%
Adj. net profit	35.3%	20.3%	25.0%	20.3%	13.8%	13.9%

PROFITABILITY	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Gross profit margin	74.3%	73.4%	70.4%	70.5%	72.9%	73.1%
Operating margin	8.5%	13.5%	6.1%	12.9%	17.5%	18.7%
Adj. net profit margin	24.3%	25.4%	25.5%	24.8%	25.7%	26.6%
Return on equity (ROE)	74.5%	17.5%	1.7%	6.6%	8.8%	9.0%

GEARING/LIQUIDITY/ACTIVITIES	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
Current ratio (x)	0.9	0.9	0.9	1.3	1.8	2.2
Receivable turnover days	117.4	115.8	113.8	99.7	0.0	0.0
Payable turnover days	23.2	38.3	37.4	32.6	0.0	0.0

VALUATION	2024A	2025A	2026A	2027E	2028E	2029E
YE 31 Jul						
P/E	48.3	226.5	902.3	158.8	104.8	88.9
P/E (diluted)	48.3	226.5	902.3	158.8	104.8	88.9
P/B	24.1	32.8	10.1	9.8	8.6	7.5
P/CFPS	40.1	74.0	67.3	56.6	49.2	43.7

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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