

# Palo Alto Networks (PANW US)

## Acceleration of Platformization delivered encouraging early-stage results

Palo Alto Networks (PANW) announced 4QFY24 (Jul year-end) results: total revenue was up 12.1% YoY to US\$2.2bn, 1% ahead of Bloomberg consensus, and non-GAAP net income reached US\$522.2mn, up 8.2% YoY, 7% better than consensus. For FY24, total revenue grew 16.5% YoY to US\$8.0bn (FY23: +25.3% YoY), non-GAAP net income grew 35% YoY to US\$1.9bn, and non-GAAP FCF reached USD3.1bn, translating into a 38.9% FCF margin (FY23: 38.8%). PANW has delivered upbeat 4Q results compared to its previous guidance, which in our view demonstrated PANW's competitive product portfolio and management's strong execution capability. The accelerated Platformization strategy is delivering early-stage results, in our view, and should help drive its long-term market share gains. We raise our target price by 2% to US\$398.7 based on an unchanged 16x 2024E EV/sales multiple. Reiterate BUY ([link](#) for initiation report).

- **Delivered upbeat 4QFY24 results.** In 4QFY24, subscription and support revenue grew 18% YoY to US\$1.7bn and accounted for 78% of PANW's total revenue (4QFY23: 74%), driven by the solid increase in client adoption of NGS products. Non-GAAP OP reached US\$588.3mn, and translated into a 26.9% non-GAAP OPM. Revenue/non-GAAP EPS for 4QFY24 was 1%/7% better than the mid-point of guidance.
- **NGS products are seeing solid growth momentum.** In terms of key operating metrics: 1) SASE customers reached over 5,300 by end-4Q, up 21% YoY, and over 1/3 of new SASE customers were new to PANW in FY24; 2) for Prisma Cloud, it is the first pure-play cybersecurity cloud security business to achieve over US\$700mn in ARR, and saw >30% YoY growth in annual contract value from new business; 3) Cortex crossed US\$900mn in ARR with strength driven by XSIAM, and the average ARR per customer of Cortex has reached c.US\$150k in FY24; XSIAM bookings reached c. US\$500mn, and XSIAM customers grew by fourfold YoY in FY24. PANW's newly launched AI products are also seeing early-stage growth momentum: management highlighted that AI ARR (generated from Cortex XSIAM, AIOps subscription, and ADEM products) has surpassed US\$200mn by the end of FY24.
- **Accelerated Platformization strategy is delivering results.** As of end-FY24, PANW has achieved >1,000 (3QFY24: ~900) total Platformizations with >90 QoQ net adds (3QFY24: ~65) among its top 5k customers, which demonstrated an acceleration in the pace of execution. Although Platformization is still in early stage, and management is targeting 2.5k-3.5k Platformizations in FY30 to help drive US\$15bn in NGS ARR (FY24: US\$4.2bn with 43% YoY growth), management highlighted that the strategy is delivering early-stage results: average ARR per platformized customer was up 10% since 1QFY24.
- **FY25 guidance in line with market expectation.** For FY25, management guided for 19-20% YoY growth for RPO to US\$15.2-15.3bn, 13-14% YoY growth in revenue to US\$9.10-9.15bn, and US\$6.18-6.31 non-GAAP EPS which indicates 9-11% YoY growth, which are all in line with consensus. The 37.0-38.0% guidance of adjusted FCF margin for FY25 speaks to PANW's balanced growth and profitability prospects, in our view, and makes PANW an attractive pick within our US software coverage universe.

**BUY (Maintain)**

**Target Price** US\$398.70  
(Previous TP US\$391.70)  
**Up/Downside** 16.1%  
**Current Price** US\$343.36

### US Internet & Software

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

**Ye TAO**  
franktao@cmbi.com.hk

**Wentao LU, CFA**  
luwentao@cmbi.com.hk

### Stock Data

Mkt Cap (US\$ mn)	109,617.7
Avg 3 mths t/o (US\$ mn)	607.5
52w High/Low (US\$)	376.90/226.53
Total Issued Shares (mn)	319.3

Source: FactSet

### Shareholding Structure

Vanguard Group Inc	29.3%
Blackrock Inc.	24.7%

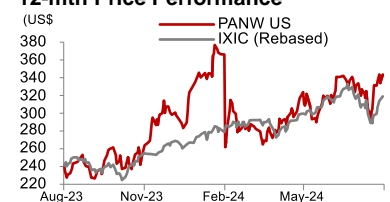
Source: Nasdaq

### Share Performance

	Absolute	Relative
1-mth	3.8%	2.9%
3-mth	6.1%	-0.4%
6-mth	-6.2%	-18.0%

Source: FactSet

### 12-month Price Performance



Source: FactSet

**Earnings Summary**

<b>(YE 31 Jul)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
<b>Revenue (US\$ mn)</b>	6,893	8,028	9,124	10,665	12,300
<b>YoY growth (%)</b>	25.3	16.5	13.7	16.9	15.3
<b>Net profit (US\$ mn)</b>	439.7	2,577.6	1,395.1	1,926.2	2,365.0
<b>Adjusted net profit (US\$ mn)</b>	1,440.0	1,948.1	2,220.8	2,721.0	3,134.9
<b>YoY growth (%)</b>	79.4	35.3	14.0	22.5	15.2
<b>EPS (Reported) (US\$)</b>	1.28	7.28	3.98	5.38	6.51
<b>Consensus EPS (US\$)</b>	na	6.88	3.59	4.51	4.27

Source: Company data, Bloomberg, CMBIGM estimates

**Figure 1: PANW: change in CMBI forecast**

USD mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,124.3	10,664.8	12,300.3	9,211.8	10,772.6	-	-0.9%	-1.0%	-
Gross Profit	6,840.7	8,044.8	9,313.2	7,143.5	8,356.4	-	-4.2%	-3.7%	-
Non-GAAP net profit	2,220.8	2,721.0	3,134.9	2,182.1	2,653.0	-	1.8%	2.6%	-
Gross Margin	75.0%	75.4%	75.7%	77.5%	77.6%	-	-2.6 ppt	-2.1 ppt	-
Non-GAAP net margin	24.3%	25.5%	25.5%	23.7%	24.6%	-	0.7 ppt	0.9 ppt	-

Source: CMBIGM estimates

**Figure 2: PANW: CMBI forecast vs Bloomberg consensus**

USD mn	Current			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,124.3	10,664.8	12,300.3	9,110.6	10,608.0	12,442.6	0.2%	0.5%	0.5%
Gross Profit	6,840.7	8,044.8	9,313.2	7,042.9	8,203.6	9,665.7	-2.9%	-1.9%	0.5%
Non-GAAP net profit	2,220.8	2,721.0	3,134.9	2,182.0	2,590.3	3,004.2	1.8%	5.0%	0.5%
Gross Margin	75.0%	75.4%	75.7%	77.3%	77.3%	77.7%	-2.3 ppt	-1.9 ppt	-2.0 ppt
Non-GAAP net margin	24.3%	25.5%	25.5%	23.9%	24.4%	24.1%	0.4 ppt	1.1 ppt	1.3 ppt

Source: Bloomberg, CMBIGM estimates

**Figure 3: PANW: target valuation**

EV/S Valuation (US\$mn)		2024E
2024E revenue (3QFY24-2QFY25)		8,538
Target 2024E EV/Sales		16.0x
Enterprise value		136,608
+ net cash		3,116
Equity value		139,723
No. of shares outstanding (diluted; mn)		350
Target price (US\$)		398.7

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Revenue	5,502	6,893	8,028	9,124	10,665	12,300
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,284)	(2,620)	(2,987)
Gross profit	3,783	4,983	5,968	6,841	8,045	9,313
Operating expenses	(3,972)	(4,596)	(5,284)	(5,625)	(6,257)	(6,977)
Selling expense	(2,149)	(2,544)	(2,795)	(3,127)	(3,521)	(3,970)
Admin expense	(405)	(448)	(681)	(469)	(502)	(537)
R&D expense	(1,418)	(1,604)	(1,809)	(2,028)	(2,234)	(2,469)
Operating profit	(189)	387	684	1,216	1,788	2,337
Other income	9	206	313	344	378	348
Interest expense	(27)	(27)	(8)	(5)	0	0
Pre-tax profit	(207)	566	988	1,555	2,166	2,685
Income tax	(60)	(127)	1,589	(160)	(240)	(320)
Others	0	0	0	0	0	0
Net profit	(267)	440	2,578	1,395	1,926	2,365
Adjusted net profit	803	1,440	1,948	2,221	2,721	3,135

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Current assets	6,415	6,048	6,850	8,290	13,739	20,113
Cash & equivalents	2,119	1,135	1,535	2,072	6,672	11,927
Account receivables	2,143	2,463	2,619	3,183	3,851	4,633
Other current assets	2,154	2,450	2,696	3,035	3,216	3,553
Non-current assets	5,839	8,453	13,141	14,365	14,689	14,994
PP&E	358	355	361	421	496	615
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	4,173	4,173	4,173
Intangibles	385	315	375	240	105	(30)
Goodwill	2,748	2,927	3,350	3,350	3,350	3,350
Other non-current assets	1,297	1,809	4,882	6,180	6,565	6,886
Total assets	12,254	14,501	19,991	22,655	28,428	35,107
Current liabilities	8,306	7,738	7,683	8,739	10,672	12,594
Account payables	128	132	116	130	145	168
Other current liabilities	7,318	6,666	6,505	7,222	8,918	11,099
Accrued expenses	860	939	1,061	1,387	1,609	1,328
Non-current liabilities	3,737	5,015	7,139	8,130	9,759	11,855
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	8,130	9,759	11,855
Total liabilities	12,044	12,753	14,821	16,869	20,431	24,449
Retained earnings	(1,667)	(1,227)	1,350	2,745	4,671	7,036
Other reserves	1,877	2,976	3,820	3,040	3,325	3,622
Total shareholders equity	210	1,748	5,170	5,785	7,997	10,659
Minority interest	0	0	0	0	0	0
Total equity and liabilities	12,254	14,501	19,991	22,655	28,428	35,107

<b>CASH FLOW</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Jul (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	(207)	566	988	1,555	2,166	2,685
Depreciation & amortization	283	282	283	284	284	274
Tax paid	(60)	(127)	1,589	(160)	(240)	(320)
Change in working capital	521	563	910	818	2,051	2,578
Others	1,448	1,492	(513)	1,173	1,462	1,197
<b>Net cash from operations</b>	<b>1,985</b>	<b>2,778</b>	<b>3,258</b>	<b>3,671</b>	<b>5,724</b>	<b>6,414</b>
<b>Investing</b>						
Capital expenditure	(193)	(146)	(157)	(210)	(224)	(258)
Others	(741)	(1,888)	(1,353)	0	0	0
<b>Net cash from investing</b>	<b>(933)</b>	<b>(2,034)</b>	<b>(1,510)</b>	<b>(210)</b>	<b>(224)</b>	<b>(258)</b>
<b>Financing</b>						
Share repurchases	(892)	(273)	(567)	(925)	(900)	(900)
Others	86	(1,454)	(776)	(1,999)	0	0
<b>Net cash from financing</b>	<b>(807)</b>	<b>(1,726)</b>	<b>(1,343)</b>	<b>(2,924)</b>	<b>(900)</b>	<b>(900)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	2,072	6,672
Exchange difference	0	0	0	0	0	0
Others	(0)	(1)	(5)	0	0	0
<b>Cash at the end of the year</b>	<b>2,119</b>	<b>1,135</b>	<b>1,535</b>	<b>2,072</b>	<b>6,672</b>	<b>11,927</b>
<b>GROWTH</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Jul</b>						
Revenue	29.3%	25.3%	16.5%	13.7%	16.9%	15.3%
Gross profit	26.9%	31.7%	19.8%	14.6%	17.6%	15.8%
Operating profit	na	na	76.6%	77.8%	47.0%	30.7%
Net profit	na	na	486.2%	(45.9%)	38.1%	22.8%
Adj. net profit	30.8%	79.4%	35.3%	14.0%	22.5%	15.2%
<b>PROFITABILITY</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Jul</b>						
Gross profit margin	68.8%	72.3%	74.3%	75.0%	75.4%	75.7%
Operating margin	(3.4%)	5.6%	8.5%	13.3%	16.8%	19.0%
Adj. net profit margin	14.6%	20.9%	24.3%	24.3%	25.5%	25.5%
Return on equity (ROE)	(54.8%)	44.9%	74.5%	25.5%	28.0%	25.4%
<b>GEARING/LIQUIDITY/ACTIVITIES</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Jul</b>						
Current ratio (x)	0.8	0.8	0.9	0.9	1.3	1.6
Receivable turnover days	140.2	128.7	117.4	125.6	130.0	0.0
Payable turnover days	31.7	28.7	23.2	23.1	22.2	0.0
<b>VALUATION</b>	<b>2022A</b>	<b>2023A</b>	<b>2024A</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>YE 31 Jul</b>						
P/E	ns	267.3	47.1	86.3	63.8	52.8
P/E (diluted)	ns	267.3	47.1	86.3	63.8	52.8
P/B	166.3	67.2	23.5	20.8	15.4	11.7
P/CFPS	19.5	44.7	39.2	34.8	22.3	20.3

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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