

Palo Alto Networks (PANW US)

Platformization strategy resonating well with customers

Palo Alto Networks (PANW) announced 1QFY25 (Jul year-end) results: total revenue was up 13.9% YoY to US\$2.1bn, 1% ahead of Bloomberg consensus, and non-GAAP net income reached US\$544.9mn, up 17% YoY, 6% better than consensus, driven by more optimized-than-expected sales and marketing and G&A spend aided by operating efficiency improvement. The accelerated Platformization strategy is delivering early-stage results, in our view, and should help drive its long-term market share gains. Our FY25E revenue/non-GAAP net profit are lifted by 0.3%/2.2% to factor in better-than-expected results. We roll over our valuation period to 2025E, and raise our target price by 17% to US\$464.4 based on an unchanged EV/sales multiple of 16.0x. Maintain BUY.

- **Solid 1QFY25 results better than market expectation.** In 1QFY25, subscription and support revenue grew 16% YoY to US\$1.8bn, inline with consensus, and accounted for 83% of PANW's total revenue (1QFY24: 82%), driven by the solid increase in client adoption of NGS products. NGS ARR reached US\$4.52bn by the end of 1QFY25, up 40% YoY. Non-GAAP OP reached US\$616.2mn, and translated into a 28.8% non-GAAP OPM, 1.2ppts better than consensus, driven by more optimized-than-expected sales and marketing and G&A spend. Revenue/non-GAAP OP for 1QFY25 were 1%/5% better than Bloomberg consensus. We estimate 2QFY25 total revenue of US\$2.23bn, up 13% YoY, driven by solid subscription and support revenue growth.
- **NGS products continued to deliver solid growth.** In terms of key operating metrics: 1) the no. of active SASE customers saw 20% YoY growth, and over 40% of the new SASE customers were new to PANW in 1QFY25; also, the number of SASE US\$1mn+ deals was up 40% YoY; 2) Cortex crossed US\$1.0bn in ARR with strength driven by XSIAM; currently 40 XSIAM customers have an ARR profile of over US\$1mn, up 180% YoY. We forecast NGS ARR to grow 35% YoY to US\$4.7bn in 2QFY25, driven by continued penetration of SASE and XSIAM products.
- **Platformization strategy is resonating well among customers.** As of end-1QFY25, PANW had achieved 1,100 (4QFY24: >1000) total Platformizations with >70 QoQ net adds (4QFY24: >90) among its top 5k customers. Management highlighted a 6% increase in the NGS ARR per platformized customer in 1QFY25 compared with FY24. We remain constructive that accelerated Platformization should help drive PANW's market share gains as well as margin expansion over the long-term, as it can help optimize the cost of sales.
- **Update on FY25 guidance.** Due to the upbeat 1QFY25 results, and sustained solid business performance, management lifted FY25 guidance: 1) NGS ARR to US\$5.52bn-5.57bn (from US\$5.42bn-5.47bn); 2) total revenue to US\$9.12bn-9.17bn (from US\$9.10bn-9.15bn); and 3) diluted non-GAAP EPS to US\$6.26-6.39 (from US\$6.18-6.31).

Earnings Summary

(YE 31 Jul)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	6,893	8,028	9,149	10,641	12,274
YoY growth (%)	25.3	16.5	14.0	16.3	15.3
Net profit (US\$ mn)	439.7	2,577.6	1,436.2	1,786.2	2,321.6
Adjusted net profit (US\$ mn)	1,440.0	1,948.1	2,261.3	2,652.6	3,142.0
YoY growth (%)	79.4	35.3	16.1	17.3	18.5
EPS (Adjusted) (US\$)	4.43	5.67	6.45	7.48	8.76
Consensus EPS (US\$)	na	na	6.28	7.23	8.60

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$464.40
(Previous TP US\$398.70)
Up/Downside 16.8%
Current Price US\$397.70

US Internet & Software

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

Ye TAO, CFA
franktao@cmbi.com.hk

Wentao LU, CFA
luwentao@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	139,500.5
Avg 3 mths t/o (US\$ mn)	384.7
52w High/Low (US\$)	402.36/261.97
Total Issued Shares (mn)	350.8

Source: FactSet

Shareholding Structure

Vanguard Group Inc	30.8%
Blackrock Inc.	25.8%

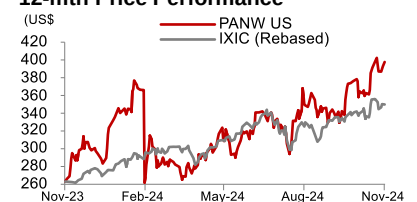
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	5.7%	3.6%
3-mth	13.8%	5.7%
6-mth	28.9%	14.2%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PANW: quarterly results trend

(US\$ mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	1QFY25 consensus	Diff%
Revenue	1,878	1,975	1,985	2,190	2,139	2,120	0.9%
Growth - YoY	20.1%	19.3%	15.3%	12.1%	13.9%		
Product revenue	341	391	391	481	354	344	2.9%
Growth - YoY	3.4%	10.7%	0.7%	-5.3%	3.7%		
Subscription and support revenue	1,537	1,584	1,594	1,709	1,785	1,778	0.4%
Growth - YoY	24.6%	21.7%	19.6%	18.2%	16.1%		
Subscription revenue as % of total revenue	81.8%	80.2%	80.3%	78.1%	83.5%		
Gross profit	1,465.8	1,538.7	1,538.6	1,680.8	1,651.9	1,643.7	0.5%
GAAP R&D expenses	409.5	447.9	457.2	494.8	480.4	467.3	
GAAP S&M expenses	660.5	673.0	718.7	742.3	720.1	732.8	
GAAP G&A expenses	120.1	301.5	118.6	140.3	97.7	128.2	
Operating profit - GAAP	215.2	53.6	176.7	238.4	286.5	240.5	19.1%
Net profit - GAAP	194.2	1,746.9	278.8	357.7	350.7	268.8	30.5%
Operating profit - non-GAAP	529.3	564.2	507.9	588.3	616.2	585.5	5.2%
Net profit - non-GAAP	466.3	504.7	454.9	522.2	544.9	516.0	5.6%
Growth - YoY	75.0%	52.2%	26.6%	8.2%	16.9%		
Margins							
GPM	78.0%	77.9%	77.5%	76.8%	77.2%	77.5%	-0.3 ppt
R&D expenses ratio	21.8%	22.7%	23.0%	22.6%	22.5%	22.0%	0.4 ppt
S&M expenses ratio	35.2%	34.1%	36.2%	33.9%	33.7%	34.6%	-0.9 ppt
G&A expenses ratio	6.4%	15.3%	6.0%	6.4%	4.6%	6.1%	-1.5 ppt
OPM	11.5%	2.7%	8.9%	10.9%	13.4%	11.3%	2.1 ppt
NPM	10.3%	88.4%	14.0%	16.3%	16.4%	12.7%	3.7 ppt
Non-GAAP OPM	28.2%	28.6%	25.6%	26.9%	28.8%	27.6%	1.2 ppt
Non-GAAP NPM	24.8%	25.6%	22.9%	23.9%	25.5%	24.3%	1.1 ppt

Source: Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

US\$ mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,148.8	10,641.2	12,273.8	9,124.3	10,664.8	12,300.3	0.3%	-0.2%	-0.2%
Gross profit	6,814.9	8,031.3	9,297.4	6,840.7	8,044.8	9,313.2	-0.4%	-0.2%	-0.2%
Non-GAAP net profit	2,261.3	2,652.6	3,142.0	2,220.8	2,721.0	3,134.9	1.8%	-2.5%	0.2%
Gross margin	74.5%	75.5%	75.7%	75.0%	75.4%	75.7%	-0.5 ppt	0.0 ppt	0.0 ppt
Non-GAAP net margin	24.7%	24.9%	25.6%	24.3%	25.5%	25.5%	0.4 ppt	-0.6 ppt	0.1 ppt

Source: CMBIGM estimates

Figure 3: PANW: CMBI forecast vs Bloomberg consensus

US\$ mn	Current			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,148.8	10,641.2	12,273.8	9,131.0	10,595.7	12,227.3	0.2%	0.4%	0.4%
Gross profit	6,814.9	8,031.3	9,297.4	7,067.1	8,208.3	9,479.4	-3.6%	-2.2%	-1.9%
Non-GAAP net profit	2,261.3	2,652.6	3,142.0	2,213.6	2,609.0	3,086.3	2.2%	1.7%	1.8%
Gross margin	74.5%	75.5%	75.7%	77.4%	77.5%	77.5%	-2.9 ppt	-2.0 ppt	-1.8 ppt
Non-GAAP net margin	24.7%	24.9%	25.6%	24.2%	24.6%	25.2%	0.5 ppt	0.3 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: PANW: target valuation

EV/S Valuation (US\$mn)	2025E
2025E Revenue (3QFY25-2QFY26)	9,888
Target EV/Sales	16.0x
Enterprise value	158,200
+ net cash	4,691
Equity value	162,891
No. of shares outstanding (diluted; mn)	351
Target price (US\$)	464.4

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	9,149	10,641	12,274
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,334)	(2,610)	(2,976)
Gross profit	3,783	4,983	5,968	6,815	8,031	9,297
Operating expenses	(3,972)	(4,596)	(5,284)	(5,645)	(6,324)	(7,045)
Selling expense	(2,149)	(2,544)	(2,795)	(3,127)	(3,517)	(3,962)
Admin expense	(405)	(448)	(681)	(521)	(583)	(619)
R&D expense	(1,418)	(1,604)	(1,809)	(1,997)	(2,223)	(2,464)
Operating profit	(189)	387	684	1,170	1,708	2,252
Other income	9	206	313	342	322	392
Interest expense	(27)	(27)	(8)	(4)	(4)	(3)
Pre-tax profit	(207)	566	988	1,508	2,026	2,642
Income tax	(60)	(127)	1,589	(72)	(240)	(320)
Others	0	0	0	0	0	0
Net profit	(267)	440	2,578	1,436	1,786	2,322
Adjusted net profit	803	1,440	1,948	2,261	2,653	3,142

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Current assets	6,415	6,048	6,850	10,188	15,234	22,052
Cash & equivalents	2,119	1,135	1,535	4,228	8,367	14,107
Account receivables	2,143	2,463	2,619	2,974	3,590	4,331
Other current assets	2,154	2,450	2,696	2,985	3,277	3,613
Non-current assets	5,839	8,453	13,141	14,958	15,871	15,918
PP&E	358	355	361	405	479	598
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	4,120	4,120	4,120
Intangibles	385	315	375	688	525	362
Goodwill	2,748	2,927	3,350	4,051	4,051	4,051
Other non-current assets	1,297	1,809	4,882	5,695	6,697	6,788
Total assets	12,254	14,501	19,991	25,146	31,105	37,970
Current liabilities	8,306	7,738	7,683	9,117	10,740	12,307
Account payables	128	132	116	132	145	168
Other current liabilities	7,318	6,666	6,505	7,593	8,988	10,814
Accrued expenses	860	939	1,061	1,393	1,606	1,325
Non-current liabilities	3,737	5,015	7,139	8,141	9,482	11,236
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	8,141	9,482	11,236
Total liabilities	12,044	12,753	14,821	17,258	20,222	23,543
Retained earnings	(1,667)	(1,227)	1,350	3,623	5,410	7,731
Other reserves	1,877	2,976	3,820	4,265	5,474	6,696
Total shareholders equity	210	1,748	5,170	7,888	10,884	14,427
Minority interest	0	0	0	0	0	0
Total equity and liabilities	12,254	14,501	19,991	25,146	31,105	37,970

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	(207)	566	988	1,508	2,026	2,642
Depreciation & amortization	283	282	283	318	312	302
Tax paid	(60)	(127)	1,589	(72)	(240)	(320)
Change in working capital	521	563	910	699	(589)	2,153
Others	1,448	1,492	(513)	1,158	2,853	1,222
Net cash from operations	1,985	2,778	3,258	3,612	4,362	5,998
Investing						
Capital expenditure	(193)	(146)	(157)	(201)	(223)	(258)
Others	(741)	(1,888)	(1,353)	(500)	0	0
Net cash from investing	(933)	(2,034)	(1,510)	(700)	(223)	(258)
Financing						
Share repurchases	(892)	(273)	(567)	0	0	0
Others	86	(1,454)	(776)	(220)	0	0
Net cash from financing	(807)	(1,726)	(1,343)	(220)	0	0
Net change in cash						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	4,228	8,367
Exchange difference	0	0	0	0	0	0
Others	(0)	(1)	(5)	2	0	0
Cash at the end of the year	2,119	1,135	1,535	4,228	8,367	14,107

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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