

Palo Alto Networks (PANW US)

AI-related ARR continues ramping up

Palo Alto Networks (PANW) announced 3QFY25 (Jul year-end) results: total revenue was up 15.3% YoY to US\$2.3bn, 1% ahead of Bloomberg consensus, and non-GAAP net income reached US\$560.9mn, up 23% YoY and 3% better than consensus, driven by more optimized-than-expected sales and marketing and R&D spend on enhanced scale effect. AI-related ARR reached c.US\$400mn in 3QFY25 and accounted for c. 8% of total ARR. We remain positive that PANW is one of the key beneficiaries in the Gen-AI era as demand for security should grow sharply with an increasing scale in AI-related deployment. Our FY25E revenue and non-GAAP net profit forecast remain largely unchanged, and our TP is nudged down to US\$229.7 (was US\$230.3), based on an unchanged EV/sales multiple of 16.0x. Maintain BUY.

■ **Solid revenue growth with profitability expansion.** In 3QFY25, subscription and support revenue grew 15.2% YoY to US\$1.8bn, 1% shy of consensus, and accounted for 80.2% of PANW's total revenue (3QFY24: 80.3%). Next-Generation Security (NGS) ARR reached US\$5.09bn by end-3QFY25, up 34% YoY (3QFY24: 47%; 2QFY25: 37%). Non-GAAP OP reached US\$627.1mn, and translated into a 27.4% non-GAAP OPM, up 1.8ppts YoY and 0.3ppts better than consensus, driven by more optimized-than-expected sales and marketing and R&D spend. We estimate 4QFY25 total revenue of US\$2.5bn, up 14.6% YoY, and non-GAAP OPM of 28.6%, up 1.7ppts YoY.

■ **NGS products continued to gain traction.** In terms of key operating metrics: 1) the number of active SASE customers reached >6,000 in 3QFY25, up 22% YoY, and the number of SASE US\$1mn+ deals was up 16% YoY; in 3QFY25, SASE ARR recorded 36% YoY growth; 2) XSIAM now has ~270 customers and average ARR per customer reached over US\$1mn in 3QFY25; XSIAM ARR recorded over 200% YoY growth. Driven by the robust ARR growth of SASE and XSIAM, we forecast NGS ARR to grow 31.5% YoY to US\$5.55bn in 4QFY25.

■ **Platformization on track to meet long-term goal.** As of end-3QFY25, PANW achieved ~1,250 total Platformizations with 90 net new adds (2QFY25: 75) among its top 5k customers. Management highlighted continuous large deal wins which further validates the Platformization strategy: the number of accounts that had transactions in 3QFY25 totalling >US\$5mn/>US\$10mn reached 130/44 respectively, up 41%/63% YoY. PANW is on track to achieve 2,500-3,500 Platformizations to reach US\$15bn NGS ARR target in FY30E, in our view.

■ **Update on FY25 guidance.** To account for the better-than-expected results in 3QFY25, management lifted FY25 guidance of: 1) total revenue to US\$9.17bn-9.19bn (from US\$9.14bn-9.19bn), up 15% YoY; 2) non-GAAP OPM to 28.2%-28.5% (from 28.0%-28.5%); and 3) diluted non-GAAP EPS to US\$3.26-3.28 (from US\$3.18-3.24). Our FY25-27E non-GAAP NP forecasts remain largely unchanged.

Earnings Summary

(YE 31 Jul)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	6,893	8,028	9,193	10,550	12,216
YoY growth (%)	25.3	16.5	14.5	14.8	15.8
Net profit (US\$ mn)	439.7	2,577.6	1,221.5	1,658.1	2,260.5
Adjusted net profit (US\$ mn)	1,440.0	1,948.1	2,288.5	2,689.3	3,232.3
YoY growth (%)	79.4	35.3	17.5	17.5	20.2
EPS (Adjusted) (US\$)	4.43	5.67	3.26	3.82	4.56
Consensus EPS (US\$)	na	na	3.23	3.67	4.26

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **US\$229.70**

(Previous TP US\$230.30)

Up/Downside **26.7%**

Current Price **US\$181.26**

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Stock Data

Mkt Cap (US\$ mn)	127,280.8
Avg 3 mths t/o (US\$ mn)	464.5
52w High/Low (US\$)	208.28/145.05
Total Issued Shares (mn)	702.2

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

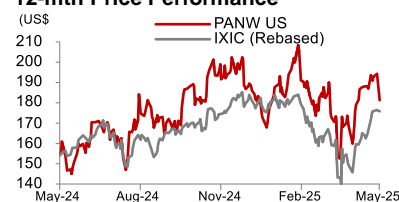
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	10.8%	-5.7%
3-mth	-5.1%	-3.2%
6-mth	-5.4%	-6.1%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	consensus	Diff%
Revenue	1,878	1,975	1,985	2,190	2,139	2,257	2,289	2,276	0.6%
Growth - YoY	20.1%	19.3%	15.3%	12.1%	13.9%	14.3%	15.3%		
Product revenue	341	391	391	481	354	422	453	424	6.9%
Growth - YoY	3.4%	10.7%	0.7%	-5.3%	3.7%	7.9%	15.8%		
Subscription and support revenue	1,537	1,584	1,594	1,709	1,785	1,836	1,836	1,855	-1.0%
Growth - YoY	24.6%	21.7%	19.6%	18.2%	16.1%	15.9%	15.2%		
Subscription revenue as % of total revenue	81.8%	80.2%	80.3%	78.1%	83.5%	81.3%	80.2%		
Gross profit	1,465.8	1,538.7	1,538.6	1,680.8	1,651.9	1,726.9	1,738.7	1,756.6	-1.0%
GAAP R&D expenses	409.5	447.9	457.2	494.8	480.4	505.7	494.5	510.6	
GAAP S&M expenses	660.5	673.0	718.7	742.3	720.1	758.3	792.5	796.6	
GAAP G&A expenses	120.1	301.5	118.6	140.3	97.7	153.8	163.9	140.4	
Operating profit - GAAP	215.2	53.6	176.7	238.4	286.5	240.4	218.8	242.0	-9.6%
Net profit - GAAP	194.2	1,746.9	278.8	357.7	350.7	267.3	262.1	270.9	-3.2%
Operating profit - non-GAAP	529.3	564.2	507.9	588.3	616.2	640.4	627.1	617.0	1.6%
Net profit - non-GAAP	466.3	504.7	454.9	522.2	544.9	565.7	560.9	544.6	3.0%
Growth - YoY	75.0%	52.2%	26.6%	8.2%	16.9%	12.1%	23.3%		
Margins									
GPM	78.0%	77.9%	77.5%	76.8%	77.2%	76.5%	76.0%	77.2%	-1.2 ppt
R&D expenses ratio	21.8%	22.7%	23.0%	22.6%	22.5%	22.4%	21.6%	22.4%	-0.8 ppt
S&M expenses ratio	35.2%	34.1%	36.2%	33.9%	33.7%	33.6%	34.6%	35.0%	-0.4 ppt
G&A expenses ratio	6.4%	15.3%	6.0%	6.4%	4.6%	6.8%	7.2%	6.2%	1.0 ppt
OPM	11.5%	2.7%	8.9%	10.9%	13.4%	10.6%	9.6%	10.6%	-1.1 ppt
NPM	10.3%	88.4%	14.0%	16.3%	16.4%	11.8%	11.5%	11.9%	-0.4 ppt
Non-GAAP OPM	28.2%	28.6%	25.6%	26.9%	28.8%	28.4%	27.4%	27.1%	0.3 ppt
Non-GAAP NPM	24.8%	25.6%	22.9%	23.9%	25.5%	25.1%	24.5%	23.9%	0.6 ppt

Source: Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

USD mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,193.4	10,549.9	12,215.5	9,187.8	10,705.2	12,409.1	0.1%	-1.5%	-1.6%
Gross profit	6,736.4	7,923.0	9,215.5	6,809.3	8,071.7	9,393.8	-1.1%	-1.8%	-1.9%
Non-GAAP net profit	2,288.5	2,689.3	3,232.3	2,286.3	2,677.6	3,219.4	0.1%	0.4%	0.4%
Gross margin	73.3%	75.1%	75.4%	74.1%	75.4%	75.7%	-0.8 ppt	-0.3 ppt	-0.3 ppt
Non-GAAP net margin	24.9%	25.5%	26.5%	24.9%	25.0%	25.9%	0.0 ppt	0.5 ppt	0.5 ppt

Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US\$m)	2025E
2025E Revenue (3QFY25-2QFY26)	9,839
Target 2025E EV/Sales	16.0x
Enterprise value	157,425
+ net cash	3,855
Equity value	161,280
No. of shares outstanding (diluted; mn)	702
Target price (USD)	229.7

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	9,193	10,550	12,216
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,457)	(2,627)	(3,000)
Gross profit	3,783	4,983	5,968	6,736	7,923	9,216
Operating expenses	(3,972)	(4,596)	(5,284)	(5,674)	(6,287)	(6,983)
Selling expense	(2,149)	(2,544)	(2,795)	(3,093)	(3,478)	(3,907)
Admin expense	(405)	(448)	(681)	(572)	(624)	(658)
R&D expense	(1,418)	(1,604)	(1,809)	(2,010)	(2,185)	(2,419)
Operating profit	(189)	387	684	1,062	1,636	2,232
Other income	9	206	313	335	264	350
Interest expense	(27)	(27)	(8)	(3)	(2)	(2)
Pre-tax profit	(207)	566	988	1,394	1,898	2,580
Income tax	(60)	(127)	1,589	(172)	(240)	(320)
Others	0	0	0	0	0	0
Net profit	(267)	440	2,578	1,221	1,658	2,260
Adjusted net profit	803	1,440	1,948	2,288	2,689	3,232

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Current assets	6,415	6,048	6,850	9,141	13,038	19,255
Cash & equivalents	2,119	1,135	1,535	3,322	6,330	11,403
Account receivables	2,143	2,463	2,619	3,010	3,615	4,399
Other current assets	2,154	2,450	2,696	2,810	3,093	3,454
Non-current assets	5,839	8,453	13,141	15,185	16,814	17,397
PP&E	358	355	361	407	575	649
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	5,152	5,152	5,152
Intangibles	385	315	375	688	517	347
Goodwill	2,748	2,927	3,350	4,051	4,051	4,051
Other non-current assets	1,297	1,809	4,882	4,888	6,519	7,198
Total assets	12,254	14,501	19,991	24,326	29,852	36,652
Current liabilities	8,306	7,738	7,683	8,511	9,794	11,368
Account payables	128	132	116	260	273	318
Other current liabilities	7,318	6,666	6,505	6,957	8,151	9,708
Accrued expenses	860	939	1,061	1,294	1,370	1,342
Non-current liabilities	3,737	5,015	7,139	7,884	9,091	10,664
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	7,884	9,091	10,664
Total liabilities	12,044	12,753	14,821	16,395	18,885	22,032
Retained earnings	(1,667)	(1,227)	1,350	3,409	5,067	7,327
Other reserves	1,877	2,976	3,820	4,522	5,901	7,293
Total shareholders equity	210	1,748	5,170	7,931	10,968	14,620
Minority interest	0	0	0	0	0	0
Total equity and liabilities	12,254	14,501	19,991	24,326	29,852	36,652

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	(207)	566	988	1,394	1,898	2,580
Depreciation & amortization	283	282	283	348	352	352
Tax paid	(60)	(127)	1,589	(172)	(240)	(320)
Change in working capital	521	563	910	921	(866)	1,324
Others	1,448	1,492	(513)	1,229	2,214	1,392
Net cash from operations	1,985	2,778	3,258	3,719	3,359	5,329
Investing						
Capital expenditure	(193)	(146)	(157)	(245)	(350)	(257)
Others	(741)	(1,888)	(1,353)	(1,282)	0	0
Net cash from investing	(933)	(2,034)	(1,510)	(1,527)	(350)	(257)
Financing						
Share repurchases	(892)	(273)	(567)	0	0	0
Others	86	(1,454)	(776)	(405)	0	0
Net cash from financing	(807)	(1,726)	(1,343)	(405)	0	0
Net change in cash						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	3,322	6,330
Exchange difference	0	0	0	0	0	0
Others	(0)	(1)	(5)	0	0	0
Cash at the end of the year	2,119	1,135	1,535	3,322	6,330	11,403
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Revenue	29.3%	25.3%	16.5%	14.5%	14.8%	15.8%
Gross profit	26.9%	31.7%	19.8%	12.9%	17.6%	16.3%
Operating profit	na	na	76.6%	55.3%	54.1%	36.4%
Net profit	na	na	486.2%	(52.6%)	35.8%	36.3%
Adj. net profit	30.8%	79.4%	35.3%	17.5%	17.5%	20.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Gross profit margin	68.8%	72.3%	74.3%	73.3%	75.1%	75.4%
Operating margin	(3.4%)	5.6%	8.5%	11.6%	15.5%	18.3%
Adj. net profit margin	14.6%	20.9%	24.3%	24.9%	25.5%	26.5%
Return on equity (ROE)	(54.8%)	44.9%	74.5%	18.6%	17.5%	17.7%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
Current ratio (x)	0.8	0.8	0.9	1.1	1.3	1.7
Receivable turnover days	140.2	128.7	117.4	117.9	123.3	129.7
Payable turnover days	31.7	28.7	23.2	42.9	41.7	41.9
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul						
P/E	ns	133.9	24.2	104.2	77.0	56.8
P/E (diluted)	ns	133.9	24.2	104.2	77.0	56.8
P/B	91.6	33.7	12.0	16.0	11.6	8.8
P/CFPS	10.7	22.4	20.1	36.6	42.4	25.3

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

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