

Palo Alto Networks (PANW US)

Solid rev growth and profitability expansion likely to sustain in FY26

Palo Alto Networks (PANW) announced 4QFY25 (Jul year-end) results: total revenue was up 15.8% YoY to US\$2.5bn, 1.4% ahead of Bloomberg consensus, and non-GAAP net income reached US\$673mn, up 28.9% YoY and 8% better than consensus. For FY25, total revenue grew 14.9% YoY and non-GAAP net income rose 20.3% YoY. AI-related ARR reached c.US\$545mn in 4QFY25 and was up 2.5 times YoY. 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. For FY26E, we are looking for 14%/15% growth in revenue/non-GAAP net income, and we estimate a further expansion in FCF margin to 38.4% (FY25: 38.0%), driven by improved profitability. PANW consistently adheres to the "rule of 50", which in our view should provide support for valuation. Our TP is nudged down to US\$226.8 (was US\$229.7), based on an unchanged EV/sales multiple of 16.0x (inline with two-year average EV/sales plus 2 s.d). Maintain BUY.

- **Solid 4Q25 results ahead of consensus expectation.** In 4QFY25, subscription and support revenue grew 14.8% YoY to US\$2.0bn, 1% ahead of consensus, and accounted for 77% of PANW's total revenue (4QFY24: 78%), while product revenue came in 4% ahead of consensus. Next-Generation Security (NGS) ARR reached US\$5.58bn by end-4QFY25, up 32.2% YoY (3QFY25: 34.3%). Non-GAAP OP reached US\$768.2mn, and translated into a 30.3% non-GAAP OPM, up 3.4ppts YoY and 1.5ppts better than consensus, driven by more optimized-than-expected operating expense spend. We estimate 1QFY26 total revenue of US\$2.46bn, up 15% YoY, and non-GAAP NP of US\$635.7mn, up 16.7% YoY.
- **NGS products delivered robust growth.** In terms of key operating metrics: 1) the number of active SASE customers reached >6,350 in 4QFY25, up 18% YoY, and SASE ARR recorded 35% YoY growth; 2) XSIAM now has ~400 customers, up >2x YoY, and average ARR per XSIAM customer reached over US\$1mn in 4QFY25. Total Cortex & Prisma Cloud ARR reached US\$1.7bn in 4QFY25, up c.25% YoY. Driven by the robust ARR growth of SASE and XSIAM, management guided for US\$7.0-7.1bn NGS ARR in FY26, implying 26-27% growth YoY, which was a uplift compared to the guidance of US\$6.5bn shared on 4QFY23 earnings call regarding medium-term outlook.
- **Platformization on track to meet long-term goal.** As of end-4QFY25, PANW achieved ~1,400 total Platformizations with ~150 net new adds QoQ. Management highlighted continuous large deal wins which further validates the Platformization strategy: the number of accounts that had transactions in 4QFY25 totalling >US\$5mn/>US\$10mn NGS ARR reached 156/51 respectively, up 51%/50% YoY.
- **FY26 guidance was ahead of consensus.** The acquisition of CyberArk is anticipated to close in 2HFY26, which in our view should enhance PANW's competitive strength in identity security industry. Excluding the impact of CyberArk, for FY26, management expects: 1) total revenue of US\$10.475bn-10.525bn, up 14% YoY and 0.2-0.7% ahead of consensus; 2) non-GAAP OPM to expand 40-90bps YoY to 29.2%-29.7% (consensus: 29.3%); 3) diluted non-GAAP EPS of US\$3.75-3.85 (consensus: US\$3.69), implying YoY growth of 12-15%; and 4) adj. FCF margin of 38.0-39.0% (consensus: 36.9%).

BUY (Maintain)

Target Price US\$226.80
(Previous TP) US\$229.70
Up/Downside 24.9%
Current Price US\$181.56

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Stock Data

Mkt Cap (US\$ mn)	128,780.5
Avg 3 mths t/o (US\$ mn)	551.4
52w High/Low (US\$)	208.28/152.44
Total Issued Shares (mn)	709.3

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

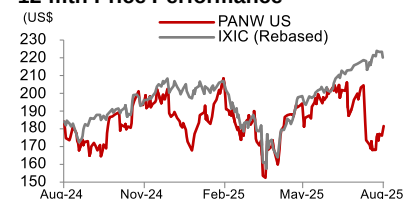
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-7.3%	-9.1%
3-mth	-6.6%	-16.2%
6-mth	-8.7%	-14.5%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	6,893	8,028	9,222	10,496	11,837
YoY growth (%)	25.3	16.5	14.9	13.8	12.8
Net profit (US\$ mn)	439.7	2,577.6	1,133.9	1,525.3	1,981.6
Adjusted net profit (US\$ mn)	1,440.0	1,948.1	2,344.5	2,704.7	3,136.9
YoY growth (%)	79.4	35.3	20.3	15.4	16.0
EPS (Adjusted) (US\$)	4.43	5.67	3.31	3.79	4.37
Consensus EPS (US\$)	na	na	3.27	3.69	4.18

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	4QFY25 consensus	Diff%
Revenue	1,878	1,975	1,985	2,190	2,139	2,257	2,289	2,536	2,502	1.4%
Growth - YoY	20.1%	19.3%	15.3%	12.1%	13.9%	14.3%	15.3%	15.8%		
Product revenue	341	391	391	481	354	422	453	574	551	4.1%
Growth - YoY	3.4%	10.7%	0.7%	-5.3%	3.7%	7.9%	15.8%	19.4%		
Subscription and support revenue	1,537	1,584	1,594	1,709	1,785	1,836	1,836	1,962	1,951	0.6%
Growth - YoY	24.6%	21.7%	19.6%	18.2%	16.1%	15.9%	15.2%	14.8%		
Subscription revenue as % of total revenue	81.8%	80.2%	80.3%	78.1%	83.5%	81.3%	80.2%	77.4%		
Gross profit	1,465.8	1,538.7	1,538.6	1,680.8	1,651.9	1,726.9	1,738.7	1,920.7	1,922.2	-0.1%
GAAP R&D expenses	409.5	447.9	457.2	494.8	480.4	505.7	494.5	503.5	535.3	
GAAP S&M expenses	660.5	673.0	718.7	742.3	720.1	758.3	792.5	829.3	837.4	
GAAP G&A expenses	120.1	301.5	118.6	140.3	97.7	153.8	163.9	27.3	151.6	
Operating profit - GAAP	215.2	53.6	176.7	238.4	286.5	240.4	218.8	497.2		
Net profit - GAAP	194.2	1,746.9	278.8	357.7	350.7	267.3	262.1	253.8	343.0	-26.0%
Operating profit - non-GAAP	529.3	564.2	507.9	588.3	616.2	640.4	627.1	768.2	719.2	6.8%
Net profit - non-GAAP	466.3	504.7	454.9	522.2	544.9	565.7	560.9	673.0	624.9	7.7%
Growth - YoY	75.0%	52.2%	26.6%	8.2%	16.9%	12.1%	23.3%	28.9%		
Margins										
GPM	78.0%	77.9%	77.5%	76.8%	77.2%	76.5%	76.0%	75.7%	76.8%	-1.1 ppt
R&D expenses ratio	21.8%	22.7%	23.0%	22.6%	22.5%	22.4%	21.6%	19.9%	21.4%	-1.5 ppt
S&M expenses ratio	35.2%	34.1%	36.2%	33.9%	33.7%	33.6%	34.6%	32.7%	33.5%	-0.8 ppt
G&A expenses ratio	6.4%	15.3%	6.0%	6.4%	4.6%	6.8%	7.2%	1.1%	6.1%	-5.0 ppt
OPM	11.5%	2.7%	8.9%	10.9%	13.4%	10.6%	9.6%	19.6%		
NPM	10.3%	88.4%	14.0%	16.3%	16.4%	11.8%	11.5%	10.0%	13.7%	-3.7 ppt
Non-GAAP OPM	28.2%	28.6%	25.6%	26.9%	28.8%	28.4%	27.4%	30.3%	28.7%	1.5 ppt
Non-GAAP NPM	24.8%	25.6%	22.9%	23.9%	25.5%	25.1%	24.5%	26.5%	25.0%	1.6 ppt

Source: Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

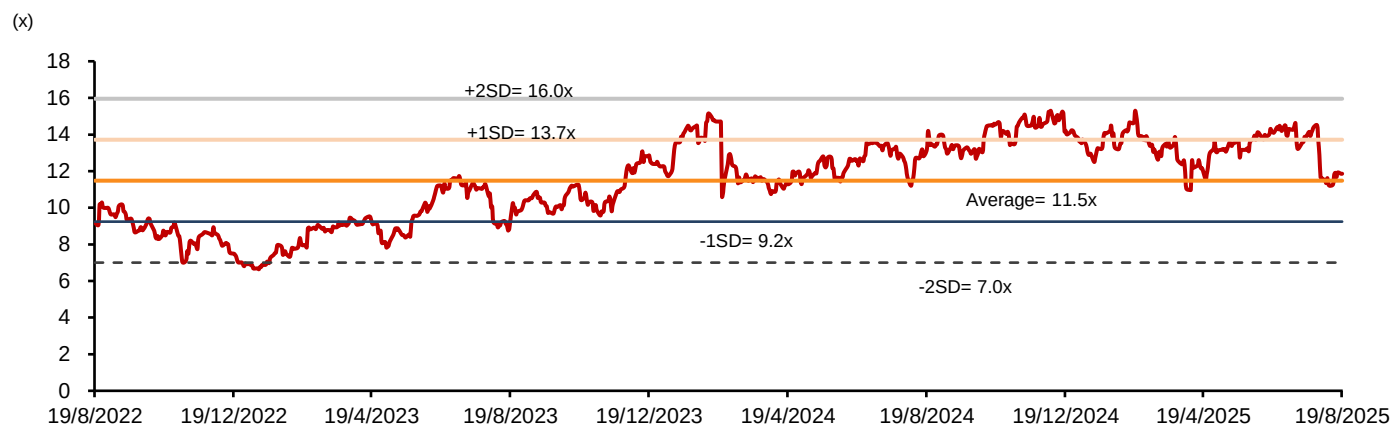
USD mn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,221.5	10,496.1	11,836.7	9,193.4	10,549.9	12,215.5	0.3%	-0.5%	-3.1%
Gross profit	6,769.9	7,748.0	8,768.5	6,736.4	7,923.0	9,215.5	0.5%	-2.2%	-4.9%
Non-GAAP net profit	2,344.5	2,704.7	3,136.9	2,288.5	2,689.3	3,232.3	2.4%	0.6%	-3.0%
Gross margin	73.4%	73.8%	74.1%	73.3%	75.1%	75.4%	0.1 ppt	-1.3 ppt	-1.4 ppt
Non-GAAP net margin	25.4%	25.8%	26.5%	24.9%	25.5%	26.5%	0.5 ppt	0.3 ppt	0.0 ppt

Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US\$mn)	2025E
2025E Revenue (3QFY25-2QFY26)	9,873
Target 2025E EV/Sales	16.0x
Enterprise value	157,961
+ net cash	2,903
Equity value	160,864
No. of shares outstanding (diluted; mn)	709
Target price (USD)	226.8

Source: Company data, CMBIGM estimates

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

Source: CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Revenue	5,502	6,893	8,028	9,222	10,496	11,837
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,452)	(2,748)	(3,068)
Gross profit	3,783	4,983	5,968	6,770	7,748	8,769
Operating expenses	(3,972)	(4,596)	(5,284)	(5,527)	(6,373)	(7,026)
Selling expense	(2,149)	(2,544)	(2,795)	(3,100)	(3,522)	(3,925)
Admin expense	(405)	(448)	(681)	(443)	(677)	(711)
R&D expense	(1,418)	(1,604)	(1,809)	(1,984)	(2,173)	(2,389)
Operating profit	(189)	387	684	1,243	1,375	1,743
Other income	9	206	313	356	353	519
Interest expense	(27)	(27)	(8)	(3)	(3)	0
Pre-tax profit	(207)	566	988	1,596	1,725	2,262
Income tax	(60)	(127)	1,589	(462)	(200)	(280)
Others	0	0	0	0	0	0
Net profit	(267)	440	2,578	1,134	1,525	1,982
Adjusted net profit	803	1,440	1,948	2,345	2,705	3,137

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Current assets	6,415	6,048	6,850	7,523	12,490	17,894
Cash & equivalents	2,119	1,135	1,535	2,269	6,302	11,041
Account receivables	2,143	2,463	2,619	2,965	3,405	3,810
Other current assets	2,154	2,450	2,696	2,289	2,783	3,043
Non-current assets	5,839	8,453	13,141	16,053	15,867	15,675
PP&E	358	355	361	387	353	310
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	5,556	5,556	5,556
Intangibles	385	315	375	763	569	372
Goodwill	2,748	2,927	3,350	4,567	4,567	4,567
Other non-current assets	1,297	1,809	4,882	4,781	4,824	4,870
Total assets	12,254	14,501	19,991	23,576	28,358	33,568
Current liabilities	8,306	7,738	7,683	7,988	8,902	9,536
Account payables	128	132	116	232	157	175
Other current liabilities	7,318	6,666	6,505	6,302	7,078	8,087
Accrued expenses	860	939	1,061	1,454	1,667	1,274
Non-current liabilities	3,737	5,015	7,139	7,764	8,558	9,590
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	7,764	8,558	9,590
Total liabilities	12,044	12,753	14,821	15,752	17,460	19,126
Retained earnings	(1,667)	(1,227)	1,350	2,484	4,009	5,991
Other reserves	1,877	2,976	3,820	5,340	6,888	8,451
Total shareholders equity	210	1,748	5,170	7,824	10,897	14,442
Minority interest	0	0	0	0	0	0
Total equity and liabilities	12,254	14,501	19,991	23,576	28,358	33,568

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	(207)	566	988	1,596	1,725	2,262
Depreciation & amortization	283	282	283	343	382	384
Tax paid	(60)	(127)	1,589	(462)	(200)	(280)
Change in working capital	521	563	910	923	380	955
Others	1,448	1,492	(513)	1,316	1,899	1,563
Net cash from operations	1,985	2,778	3,258	3,716	4,187	4,884
Investing						
Capital expenditure	(193)	(146)	(157)	(246)	(153)	(145)
Others	(741)	(1,888)	(1,353)	(1,959)	0	0
Net cash from investing	(933)	(2,034)	(1,510)	(2,205)	(153)	(145)
Financing						
Share repurchases	(892)	(273)	(567)	0	0	0
Others	86	(1,454)	(776)	(779)	0	0
Net cash from financing	(807)	(1,726)	(1,343)	(779)	0	0
Net change in cash						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	2,269	6,302
Exchange difference	0	0	0	0	0	0
Others	(0)	(1)	(5)	1	0	0
Cash at the end of the year	2,119	1,135	1,535	2,269	6,302	11,041

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

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