

Palo Alto Networks (PANW US)

Solid results with enhanced outlook

Palo Alto Networks (PANW) announced 2QFY25 (Jul year-end) results: total revenue was up 14.3% YoY to US\$2.26bn, 1% ahead of Bloomberg consensus, and non-GAAP net income reached US\$566mn, up 12% YoY, 4% better than consensus, driven by more optimized-than-expected sales and marketing spending aided by enhancing scale effect. We remain positive that PANW is one of the key beneficiaries in the Gen-AI era as demand for security should soar with increasing scale in AI related deployment. Our FY25-27E revenue/non-GAAP NP forecasts are lifted by 0-2%/1-3%, respectively, to factor in better-than-expected revenue growth and scale effect. Accounting for slight adjustment in share base count, our TP was nudged lower to US\$230.3 (was US\$232.2), based on unchanged EV/sales multiple of 16.0x. Maintain BUY.

■ **Solid results ahead of market expectation.** In 2QFY25, subscription and support revenue grew 16% YoY to US\$1.8bn, inline with consensus, and accounted for 81% of PANW's total revenue (2QFY24: 80%). Next-Generation Security (NGS) ARR reached US\$4.78bn by end-2QFY25, up 37% YoY (2QFY24: 50%; 1QFY25: 40%). Non-GAAP OP reached US\$640.4mn, and translated into a 28.4% non-GAAP OPM, 0.5ppts better than consensus, driven by more optimized-than-expected sales and marketing spending. We estimate 3QFY25 total revenue of US\$2.28bn, up 15% YoY, sustaining a sequential improvement trend, aided 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 reached >5,600 in 2QFY25, up 20% YoY, and the number of SASE US\$1mn+ deals was up 2.5x YoY; 2) total bookings across Cortex & Prisma Cloud was up c. 50% YoY, cumulative XSIAM bookings has reached over US\$1bn, and the number of Prisma Cloud deals over US\$1mn has nearly doubled YoY. We forecast NGS ARR to grow 34% YoY to US\$5.07bn in 3QFY25, driven by robust ARR growth of SASE and XSIAM products.

■ **Platformization strategy bodes well for long-term growth.** As of end-2QFY25, PANW achieved 1,150 (1QFY25: 1,100) total Platformizations with 75 net new adds (2QFY24: ~45) among its top 5k customers. Management highlighted large deal wins which further validates Platformization strategy: the number of accounts that had transactions in 2QFY25 totalling >US\$5mn/>US\$10mn reached 74/32 respectively, up 25%/52% YoY. We remain constructive that accelerated Platformization should help drive PANW's market share gains as well as margin expansion over the long term.

■ **Update on FY25 guidance.** Due to upbeat 2QFY25 results, and better-than-expected scale effect, management lifted FY25 guidance: 1) total revenue to US\$9.14bn-9.19bn (from US\$9.12bn-9.17bn); 2) non-GAAP OPM to 28.0%-28.5% (from 27.5%-28.0%); and 3) diluted non-GAAP EPS to US\$3.18-3.24 (from US\$3.13-3.20 if based on new share counts). Our FY25-27E revenue/non-GAAP NP forecasts are lifted by 0-2%/1-3%, to factor in better-than-expected revenue growth and scale effect.

Earnings Summary

(YE 31 Jul)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	6,893	8,028	9,188	10,705	12,409
YoY growth (%)	25.3	16.5	14.5	16.5	15.9
Net profit (US\$ mn)	439.7	2,577.6	1,338.1	1,735.4	2,337.3
Adjusted net profit (US\$ mn)	1,440.0	1,948.1	2,286.3	2,677.5	3,219.4
YoY growth (%)	79.4	35.3	17.4	17.1	20.2
EPS (Adjusted) (US\$)	4.43	5.67	3.24	3.78	4.52
Consensus EPS (US\$)	na	na	3.18	3.79	4.47

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$230.30
 (Previous TP US\$232.20)
Up/Downside 15.1%
Current Price US\$200.03

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Stock Data

Mkt Cap (US\$ mn)	141,226.2
Avg 3 mths t/o (US\$ mn)	935.6
52w High/Low (US\$)	202.95/130.99
Total Issued Shares (mn)	706.0

Source: FactSet

Shareholding Structure

Vanguard Group Inc	9.3%
Blackrock Inc.	7.9%

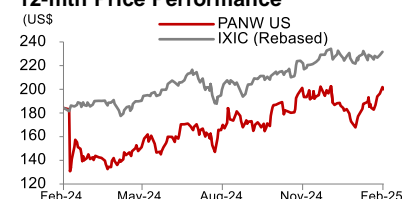
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	17.3%	11.5%
3-mth	1.4%	-3.2%
6-mth	17.7%	1.0%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	2QFY25 consensus	Diff%
Revenue	1,878	1,975	1,985	2,190	2,139	2,257	2,238	0.9%
Growth - YoY	20.1%	19.3%	15.3%	12.1%	13.9%	14.3%		
Product revenue	341	391	391	481	354	422	396	6.5%
Growth - YoY	3.4%	10.7%	0.7%	-5.3%	3.7%	7.9%		
Subscription and support revenue	1,537	1,584	1,594	1,709	1,785	1,836	1,842	-0.4%
Growth - YoY	24.6%	21.7%	19.6%	18.2%	16.1%	15.9%		
Subscription revenue as % of total revenue	81.8%	80.2%	80.3%	78.1%	83.5%	81.3%		
Gross profit	1,465.8	1,538.7	1,538.6	1,680.8	1,651.9	1,693.2	1,733.5	-2.3%
GAAP R&D expenses	409.5	447.9	457.2	494.8	480.4	505.7	496.6	
GAAP S&M expenses	660.5	673.0	718.7	742.3	720.1	758.3	767.2	
GAAP G&A expenses	120.1	301.5	118.6	140.3	97.7	153.8	129.0	
Operating profit - GAAP	215.2	53.6	176.7	238.4	286.5	240.4	269.2	10.7%
Net profit - GAAP	194.2	1,746.9	278.8	357.7	350.7	267.3	297.2	10.1%
Operating profit - non-GAAP	529.3	564.2	507.9	588.3	616.2	640.4	624.0	2.6%
Net profit - non-GAAP	466.3	504.7	454.9	522.2	544.9	565.7	545.5	3.7%
Growth - YoY	75.0%	52.2%	26.6%	8.2%	16.9%	12.1%		
Margins								
GPM	78.0%	77.9%	77.5%	76.8%	77.2%	75.0%	77.5%	-2.5 ppt
R&D expenses ratio	21.8%	22.7%	23.0%	22.6%	22.5%	22.4%	22.2%	0.2 ppt
S&M expenses ratio	35.2%	34.1%	36.2%	33.9%	33.7%	33.6%	34.3%	-0.7 ppt
G&A expenses ratio	6.4%	15.3%	6.0%	6.4%	4.6%	6.8%	5.8%	1.0 ppt
OPM	11.5%	2.7%	8.9%	10.9%	13.4%	10.6%	12.0%	-1.4 ppt
NPM	10.3%	88.4%	14.0%	16.3%	16.4%	11.8%	13.3%	0.5 ppt
Non-GAAP OPM	28.2%	28.6%	25.6%	26.9%	28.8%	28.4%	27.9%	0.7 ppt
Non-GAAP NPM	24.8%	25.6%	22.9%	23.9%	25.5%	25.1%	24.4%	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	9,187.8	10,705.2	12,409.1	9,148.8	10,641.2	12,273.8	0.4%	0.6%	1.1%
Gross profit	6,809.3	8,071.7	9,393.8	6,814.9	8,031.3	9,297.4	-0.1%	0.5%	1.0%
Non-GAAP net profit	2,286.3	2,677.5	3,219.4	2,261.3	2,652.6	3,142.0	1.1%	0.9%	2.5%
Gross margin	74.1%	75.4%	75.7%	74.5%	75.5%	75.7%	-0.4 ppt	-0.1 ppt	0.0 ppt
Non-GAAP net margin	24.9%	25.0%	25.9%	24.7%	24.9%	25.6%	0.2 ppt	0.1 ppt	0.3 ppt

Source: CMBIGM estimates

Figure 3: PANW: CMBI forecast vs Bloomberg consensus

USD mn	Current			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	9,187.8	10,705.2	12,409.1	9,153.4	10,567.5	12,088.6	0.4%	1.3%	2.7%
Gross profit	6,809.3	8,071.7	9,393.8	7,066.1	8,167.9	9,350.8	-3.6%	-1.2%	0.5%
Non-GAAP net profit	2,286.3	2,677.5	3,219.4	2,234.5	2,624.3	3,088.7	2.3%	2.0%	4.2%
Gross margin	74.1%	75.4%	75.7%	77.2%	77.3%	77.4%	-3.1 ppt	-1.9 ppt	-1.7 ppt
Non-GAAP net margin	24.9%	25.0%	25.9%	24.4%	24.8%	25.6%	0.5 ppt	0.2 ppt	0.4 ppt

Source: Bloomberg, CMBIGM estimates

Figure 4: PANW: target valuation

EV/S Valuation (US\$mn)	2025E
2025E Revenue (3QFY25-2QFY26)	9,903
Target 2025E EV/Sales	16.0x
Enterprise value	158,455
+ net cash	4,155
Equity value	162,610
No. of shares outstanding (diluted; mn)	706
Target price (USD)	230.3

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	9,188	10,705	12,409
Cost of goods sold	(1,719)	(1,910)	(2,059)	(2,379)	(2,633)	(3,015)
Gross profit	3,783	4,983	5,968	6,809	8,072	9,394
Operating expenses	(3,972)	(4,596)	(5,284)	(5,694)	(6,396)	(7,119)
Selling expense	(2,149)	(2,544)	(2,795)	(3,142)	(3,537)	(3,978)
Admin expense	(405)	(448)	(681)	(512)	(562)	(595)
R&D expense	(1,418)	(1,604)	(1,809)	(2,040)	(2,297)	(2,546)
Operating profit	(189)	387	684	1,115	1,675	2,274
Other income	9	206	313	338	303	385
Interest expense	(27)	(27)	(8)	(4)	(3)	(2)
Pre-tax profit	(207)	566	988	1,449	1,975	2,657
Income tax	(60)	(127)	1,589	(111)	(240)	(320)
Others	0	0	0	0	0	0
Net profit	(267)	440	2,578	1,338	1,735	2,337
Adjusted net profit	803	1,440	1,948	2,286	2,678	3,219

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Current assets	6,415	6,048	6,850	9,022	13,932	19,795
Cash & equivalents	2,119	1,135	1,535	3,682	7,694	12,480
Account receivables	2,143	2,463	2,619	2,441	3,016	3,718
Other current assets	2,154	2,450	2,696	2,899	3,222	3,598
Non-current assets	5,839	8,453	13,141	15,444	16,175	16,786
PP&E	358	355	361	398	447	533
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	1,052	3,048	4,173	4,560	4,560	4,560
Intangibles	385	315	375	684	509	333
Goodwill	2,748	2,927	3,350	4,051	4,051	4,051
Other non-current assets	1,297	1,809	4,882	5,752	6,609	7,309
Total assets	12,254	14,501	19,991	24,466	30,107	36,581
Current liabilities	8,306	7,738	7,683	8,698	10,130	11,421
Account payables	128	132	116	133	148	174
Other current liabilities	7,318	6,666	6,505	7,161	8,341	9,876
Accrued expenses	860	939	1,061	1,404	1,641	1,371
Non-current liabilities	3,737	5,015	7,139	8,055	9,248	10,800
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	3,737	5,015	7,139	8,055	9,248	10,800
Total liabilities	12,044	12,753	14,821	16,753	19,378	22,221
Retained earnings	(1,667)	(1,227)	1,350	3,525	5,261	7,598
Other reserves	1,877	2,976	3,820	4,188	5,469	6,763
Total shareholders equity	210	1,748	5,170	7,713	10,729	14,360
Minority interest	0	0	0	0	0	0
Total equity and liabilities	12,254	14,501	19,991	24,466	30,107	36,581

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	(207)	566	988	1,449	1,975	2,657
Depreciation & amortization	283	282	283	347	350	350
Tax paid	(60)	(127)	1,589	(111)	(240)	(320)
Change in working capital	521	563	910	809	(815)	1,065
Others	1,448	1,492	(513)	1,156	2,966	1,294
Net cash from operations	1,985	2,778	3,258	3,650	4,237	5,046
Investing						
Capital expenditure	(193)	(146)	(157)	(219)	(225)	(261)
Others	(741)	(1,888)	(1,353)	(833)	0	0
Net cash from investing	(933)	(2,034)	(1,510)	(1,052)	(225)	(261)
Financing						
Share repurchases	(892)	(273)	(567)	0	0	0
Others	86	(1,454)	(776)	(452)	0	0
Net cash from financing	(807)	(1,726)	(1,343)	(452)	0	0
Net change in cash						
Cash at the beginning of the year	1,874	2,119	1,135	1,535	3,682	7,694
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	3,682	7,694	12,480

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

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