

Palo Alto Networks (PANW US)

Results beat; announced acquisition of Chronosphere to tap new growth opportunity

Palo Alto Networks (PANW) announced 1QFY26 (Jul year-end) results: revenue was up 15.7% YoY to US\$2.5bn, 0.5% ahead of Bloomberg consensus, and non-GAAP net income reached US\$662mn, up 21.5% YoY and 4% better than consensus. Post results, we lift FY26-28E revenue/non-GAAP net profit by 0-1%/2% each to factor in better-than-expected product revenue growth and operating efficiency improvement. For FY26E, we are anticipating 14/18% growth in revenue/non-GAAP NP (was 14/15%), and an unchanged FCF margin at 38.4%. PANW announced its intent to acquire Chronosphere, a next-generation observability platform for the AI data center era, for a total consideration of US\$3.35bn. We believe the level of valuation is partially attributable to the fact that Chronosphere is seeing strong ARR growth, and that this acquisition should help expand PANW's development opportunity in observability industry with high growth potential. We roll over our valuation window to FY26E, and our TP is lifted to US\$236.7, based on 15.4x EV/sales multiple, inline with two-year average EV/sales plus 2 s.d. (was 16.0x). BUY.

- **Solid 1QFY26 results.** In 1QFY26, subscription and support revenue grew 14.3% YoY to US\$2.0bn, inline with consensus, and accounted for 82.5% of PANW's total revenue (1QFY25: 83.5%), while product revenue came in 3% ahead of consensus. Next-Generation Security (NGS) ARR reached US\$5.85bn by end-1QFY26, up 29.4% YoY (1QFY25: 40.1%; 4QFY25: 32.2%). Non-GAAP OP reached US\$746mn, and translated into a 30.2% non-GAAP OPM, up 1.4ppts YoY and 1.0ppts better than consensus, driven by more optimized-than-expected sales and marketing spend. We estimate 2QFY26 total revenue of US\$2.59bn, up 14.6% YoY, and non-GAAP NP of US\$671mn, up 18.6% YoY.
- **NGS products saw solid revenue growth.** In terms of key operating metrics: 1) the number of active SASE customers reached ~6,800 in 1QFY26, up 18% YoY (4QFY25: 18% YoY; 1QFY25: 22%), and SASE ARR recorded 34% YoY growth (4QFY25: 35% YoY); 2) XSIAM now has ~470 customers, up >150% YoY. Management guided for US\$6.11-6.14bn NGS ARR in 2QFY26E, implying 28% growth YoY, and lifted end-FY30E NGS ARR guidance to US\$20bn (was US\$15bn), driven by strong organic growth, and acquisition of CyberArk and Chronosphere.
- **Platformization on track to meet long-term goal.** As of end-1QFY26, PANW achieved ~1,450 total Platformizations with ~60 net new adds QoQ. Management highlighted continuous large deal wins which continues validating the Platformization strategy: the number of accounts with >US\$5mn/>US\$10mn NGS ARR in 1QFY26 reached 169/55 respectively, up 54%/49% YoY.
- **Announced acquisition of Chronosphere.** Management noted Chronosphere has generated ARR of over US\$160mn as of the end-Sep 2025, up triple digits YoY. The US\$3.35bn valuation offered by PANW implies a 20.9x multiple on the ARR as of end-Sep 2025, which in our view can be partly attributed to Chronosphere's rapid ARR growth, and we believe this can help PANW expand business development opportunities in observability industry.
- **2QFY26 guidance inline with consensus.** Management expects: 1) total revenue of US\$2.57bn-2.59bn, up 14-15% YoY, inline with consensus; 2) diluted non-GAAP EPS of US\$0.93-0.95 (consensus: US\$0.93), implying YoY growth of 15-17%.

BUY (Maintain)

Target Price	US\$236.70
(Previous TP)	US\$226.80)
Up/Downside	27.9%
Current Price	US\$185.07

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Stock Data

Mkt Cap (US\$ mn)	132,045.4
Avg 3 mths t/o (US\$ mn)	507.4
52w High/Low (US\$)	221.38/152.44
Total Issued Shares (mn)	713.5

Source: FactSet

Shareholding Structure

Blackrock Inc.	7.8%
Vanguard Group Inc	6.3%

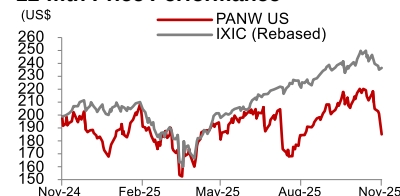
Source: Nasdaq

Share Performance

	Absolute	Relative
1-mth	-13.7%	-12.2%
3-mth	1.0%	-5.6%
6-mth	2.1%	-14.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Jul)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US\$ mn)	8,028	9,222	10,538	11,878	13,422
YoY growth (%)	16.5	14.9	14.3	12.7	13.0
Net profit (US\$ mn)	2,577.6	1,133.9	1,553.8	2,031.9	2,496.6
Adjusted net profit (US\$ mn)	1,948.1	2,344.5	2,755.6	3,200.7	3,638.0
YoY growth (%)	35.3	20.3	17.5	16.2	13.7
EPS (Adjusted) (US\$)	5.67	3.31	3.86	4.46	5.04
Consensus EPS (US\$)	na	3.34	3.81	4.31	4.74

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: PANW: quarterly results trend

(USDmn)	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	1QFY26 consensus	Diff%
Revenue	2,139	2,257	2,289	2,536	2,474	2,462	0.5%
Growth - YoY	13.9%	14.3%	15.3%	15.8%	15.7%		
Product revenue	354	422	453	574	434	421	3.0%
Growth - YoY	3.7%	7.9%	15.8%	19.4%	22.7%		
Subscription and support revenue	1,785	1,836	1,836	1,962	2,040	2,040	0.0%
Growth - YoY	16.1%	15.9%	15.2%	14.8%	14.3%		
Subscription revenue as % of total revenue	83.5%	81.3%	80.2%	77.4%	82.5%		
Gross profit	1,651.9	1,726.9	1,738.7	1,920.7	1,900.0	1,890.8	0.5%
GAAP R&D expenses	480.4	505.7	494.5	503.5	528.0	523.3	
GAAP S&M expenses	720.1	758.3	792.5	829.3	820.0	825.9	
GAAP G&A expenses	97.7	153.8	163.9	27.3	179.0	132.7	
Operating profit - GAAP	286.5	240.4	218.8	497.2	309.0		
Net profit - GAAP	350.7	267.3	262.1	253.8	334.0	332.0	0.6%
Operating profit - non-GAAP	616.2	640.4	627.1	768.2	746.0	716.9	4.1%
Net profit - non-GAAP	544.9	565.7	560.9	673.0	662.0	633.9	4.4%
Growth - YoY	16.9%	12.1%	23.3%	28.9%	21.5%		
Margins							
GPM	77.2%	76.5%	76.0%	75.7%	76.8%	76.8%	0.0 ppt
R&D expenses ratio	22.5%	22.4%	21.6%	19.9%	21.3%	21.3%	0.1 ppt
S&M expenses ratio	33.7%	33.6%	34.6%	32.7%	33.1%	33.5%	-0.4 ppt
G&A expenses ratio	4.6%	6.8%	7.2%	1.1%	7.2%	5.4%	1.8 ppt
OPM	13.4%	10.6%	9.6%	19.6%	12.5%		
NPM	16.4%	11.8%	11.5%	10.0%	13.5%	13.5%	0.0 ppt
Non-GAAP OPM	28.8%	28.4%	27.4%	30.3%	30.2%	29.1%	1.0 ppt
Non-GAAP NPM	25.5%	25.1%	24.5%	26.5%	26.8%	25.7%	1.0 ppt

Source: Bloomberg, CMBIGM

Figure 2: PANW: changes in CMBI forecast

USD mn	Current			Previous			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	10,538.3	11,877.9	13,421.5	10,496.1	11,836.7	13,345.1	0.4%	0.3%	0.6%
Gross Profit	7,788.1	8,805.4	9,979.2	7,748.0	8,768.5	9,918.8	0.5%	0.4%	0.6%
Non-GAAP net profit	2,755.6	3,200.7	3,638.0	2,704.7	3,136.9	3,563.1	1.9%	2.0%	2.1%
Gross margin	73.9%	74.1%	74.4%	73.8%	74.1%	74.3%	0.1 ppt	0.1 ppt	0.0 ppt
Non-GAAP net margin	26.1%	26.9%	27.1%	25.8%	26.5%	26.7%	0.4 ppt	0.4 ppt	0.4 ppt

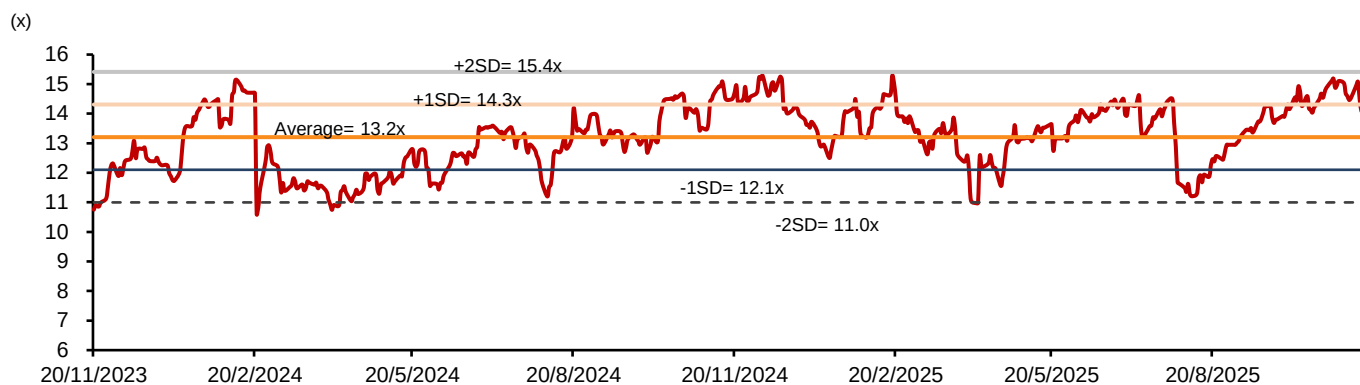
Source: CMBIGM estimates

Figure 3: PANW: target valuation

EV/S Valuation (US\$m)	FY26E
FY26E revenue	10,538
Target EV/Sales	15.4x
Enterprise value	162,290
+ net cash	6,568
Equity value	168,858
No. of shares outstanding (diluted; mn)	713
Target price (USD)	236.7

Source: Company data, CMBIGM estimates

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



Source: Bloomberg, CMBIGM

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Revenue	6,893	8,028	9,222	10,538	11,878	13,422
Cost of goods sold	(1,910)	(2,059)	(2,452)	(2,750)	(3,072)	(3,442)
Gross profit	4,983	5,968	6,770	7,788	8,805	9,979
Operating expenses	(4,596)	(5,284)	(5,527)	(6,385)	(6,959)	(7,610)
Selling expense	(2,544)	(2,795)	(3,100)	(3,489)	(3,890)	(4,342)
Admin expense	(448)	(681)	(443)	(709)	(736)	(775)
R&D expense	(1,604)	(1,809)	(1,984)	(2,187)	(2,333)	(2,492)
Operating profit	387	684	1,243	1,403	1,846	2,370
Other income	206	313	356	381	494	515
Interest expense	(27)	(8)	(3)	(2)	0	0
Pre-tax profit	566	988	1,596	1,782	2,340	2,885
Income tax	(127)	1,589	(462)	(228)	(308)	(388)
Others	0	0	0	0	0	0
Net profit	440	2,578	1,134	1,554	2,032	2,497
Adjusted net profit	1,440	1,948	2,345	2,756	3,201	3,638

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Current assets	6,048	6,850	7,523	12,336	17,616	24,194
Cash & equivalents	1,135	1,535	2,269	5,424	10,045	15,411
Account receivables	2,463	2,619	2,965	3,609	4,018	4,925
Other current assets	2,450	2,696	2,289	3,304	3,553	3,858
Non-current assets	8,453	13,141	16,053	16,149	15,974	15,787
PP&E	355	361	387	403	349	273
Deferred income tax	0	0	0	0	0	0
Investment in JVs & assos	3,048	4,173	5,556	5,982	5,982	5,982
Intangibles	315	375	763	599	433	267
Goodwill	2,927	3,350	4,567	4,567	4,567	4,567
Other non-current assets	1,809	4,882	4,781	4,599	4,643	4,698
Total assets	14,501	19,991	23,576	28,486	33,590	39,982
Current liabilities	7,738	7,683	7,988	8,962	9,510	10,745
Account payables	132	116	232	157	175	198
Other current liabilities	6,666	6,505	6,302	7,129	8,060	9,112
Accrued expenses	939	1,061	1,454	1,676	1,275	1,436
Non-current liabilities	5,015	7,139	7,764	8,444	9,370	10,416
Long-term borrowings	0	0	0	0	0	0
Other non-current liabilities	5,015	7,139	7,764	8,444	9,370	10,416
Total liabilities	12,753	14,821	15,752	17,406	18,880	21,161
Retained earnings	(1,227)	1,350	2,484	4,038	6,070	8,566
Other reserves	2,976	3,820	5,340	7,042	8,640	10,254
Total shareholders equity	1,748	5,170	7,824	11,080	14,710	18,820
Minority interest	0	0	0	0	0	0
Total equity and liabilities	14,501	19,991	23,576	28,486	33,590	39,982

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Jul (US\$ mn)						
Operating						
Profit before taxation	566	988	1,596	1,782	2,340	2,885
Depreciation & amortization	282	283	343	363	366	366
Tax paid	(127)	1,589	(462)	(228)	(308)	(388)
Change in working capital	563	910	923	968	771	1,015
Others	1,492	(513)	1,316	1,403	1,598	1,614
Net cash from operations	2,778	3,258	3,716	4,288	4,766	5,491
Investing						
Capital expenditure	(146)	(157)	(246)	(243)	(146)	(124)
Others	(1,888)	(1,353)	(1,959)	(899)	0	0
Net cash from investing	(2,034)	(1,510)	(2,205)	(1,142)	(146)	(124)
Financing						
Share repurchases	(273)	(567)	0	0	0	0
Others	(1,454)	(776)	(779)	8	0	0
Net cash from financing	(1,726)	(1,343)	(779)	8	0	0
Net change in cash						
Cash at the beginning of the year	2,119	1,135	1,535	2,269	5,424	10,045
Exchange difference	0	0	0	0	0	0
Others	(1)	(5)	1	1	0	0
Cash at the end of the year	1,135	1,535	2,269	5,424	10,045	15,411

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

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