

Palo Alto Networks, Inc. (NASDAQ: PANW)

Initial coverage | Data as of 28 September 2026 | Price of record \$374.74 (close, 25 September 2026)

Verdict Watchlist	Price \$374.74	Fair value (probability-weighted) \$355	Price of interest \$300
Investment Score 68 / 100	FY27 revenue guide \$14.10-14.20bn	P/E on FY27 EPS guide 89.8x	EV / FY27 FCF 56x

Summary. Palo Alto Networks is the strongest platform in enterprise security and is executing well. Fiscal 2026 revenue rose 24% to \$11.48bn, next-generation security ARR rose 63% to \$9.1bn, and the company added nearly \$1bn of net new ARR in the July quarter alone. Much of that growth was bought: CyberArk closed on 11 February 2026 and Chronosphere on 29 January 2026. The shares have risen from a February low near \$144 to \$374.74, and the valuation now assumes several more years of excellent execution.

Verdict: Watchlist. At \$374.74 the stock trades 5% above the probability-weighted fair value of \$355. Fiscal 2027 guidance calls for 23-24% revenue growth but only about 9% growth in non-GAAP EPS, to \$4.16-4.19, because the CyberArk share issuance, rising cloud-hosting costs and memory prices absorb most of the operating leverage. That puts the stock at about 90 times guided earnings. The name becomes interesting near **\$300**, about 72 times fiscal 2027 EPS and 45 times fiscal 2027 free cash flow, where the base case offers about 17% upside.

Highest-impact development: the fiscal 2027 outlook given on 1 September. It is what separates a great business from a good stock at this price: revenue growth is strong, but earnings per share grow at less than half that rate. It drives the Valuation and Growth scores and the price of interest.

Investment framework

Palo Alto sells firewalls (hardware and virtual), SASE, cloud security, security operations (Cortex XSIAM), identity security (Idira, formerly CyberArk) and, since Chronosphere, observability. The strategy is platformization: persuading large customers to consolidate many point products onto one vendor. Five variables drive returns over two years.

Driver	Why it matters here	How it is judged
Organic growth under the acquisitions	Reported growth in FY27 flatters the core because CyberArk and Chronosphere are only lapped in H2.	NGS ARR against the \$11.075-11.175bn guide; organic commentary; H2 FY27 growth rates.
Operating leverage and EPS	EPS guided +9% against revenue +23-24%.	Gross margin, hosting costs, hardware costs; EPS against \$4.16-4.19.
Platformization and cross-sell	The main reason customers pay more over time.	Net new platformizations; net retention above 120% for platformized customers.
Integration of CyberArk and Chronosphere	Identity is now about a ninth of revenue on a pro forma basis.	Idira growth (21% pro forma in FY26); synergy targets; observability ARR.
Valuation	The multiple, not earnings, is the largest swing factor.	P/E and EV/FCF against growth and peers; dilution from stock pay.

Enterprise security spending and long-term interest rates are the two macro variables that matter; both are covered under Valuation.

Business and industry

Revenue splits into Network and AI Security (\$8.35bn in fiscal 2026, up 17%), Cortex security operations and cloud (\$1.92bn, up 25%) and the newly acquired identity and observability businesses. Hardware firewalls are about 10% of revenue. Next-generation security ARR, the subscription and SaaS base that management treats as the lead indicator, reached \$9.1bn. Remaining performance obligations were \$21.2bn, up 34%.

The security market is consolidating. Customers facing AI-driven attacks and a shortage of staff increasingly prefer fewer vendors, and Palo Alto has the widest offering. Management said about 220 net new platformizations were signed in Q4, a record, and that SASE bookings grew 40% in fiscal 2026 with Palo Alto moving into the number two position in that market. Competitive intensity is still high: Zscaler leads SSE, CrowdStrike leads endpoint and competes in SecOps, Fortinet leads

the mid-market firewall business, and Microsoft bundles security into its licences.

Financials

Metric	FY2025	FY2026	FY2027 guide
Revenue	\$9.22bn	\$11.48bn (+24%)	\$14.10-14.20bn (+23-24%)
NGS ARR (year end)	\$5.58bn	\$9.10bn (+63%)	\$11.075-11.175bn (+22-23%)
Remaining performance obligations	\$15.8bn	\$21.2bn (+34%)	\$25.2-25.4bn
Gross margin (non-GAAP)	76.4%	75.8%	Pressured by hosting and memory costs
Operating margin (non-GAAP)	28.8%	29.2%	29.5%
Non-GAAP EPS	\$3.34	\$3.84	\$4.16-4.19 (+about 9%)
GAAP EPS	n/a	\$0.40	n/a
Adjusted free cash flow	n/a	\$4.41bn (38.4%)	38.0% margin
Stock-based compensation	\$1.30bn	\$1.77bn (15.5% of revenue)	n/a
Diluted shares	n/a	n/a	844-847m

FY2025 NGS ARR, RPO, gross and operating margins are derived from FY2026 figures and the growth or basis-point changes the company reported. FY2027 figures are company guidance.

The fourth quarter was strong on every headline measure: revenue up 34% to \$3.41bn, non-GAAP EPS of \$1.02 (\$0.04 above guidance), adjusted free cash flow of \$1.29bn, and net new NGS ARR that almost doubled year on year. Q4 GAAP net income was a loss of \$282m, driven by acquisition costs and stock pay.

The weaker line is margin. Q4 gross margin was 74.8%, down 100 basis points, because the faster-growing SaaS products have not reached mature margins and cloud-hosting costs are growing faster than revenue. Management expects both pressures, and higher memory and storage prices in hardware, to persist through fiscal 2027. Together with a diluted share count of 844-847m, up sharply after the CyberArk stock issuance (2.2005 Palo Alto shares plus \$45 in cash for each CyberArk share), this is why EPS growth is guided at about 9%.

The balance sheet is strong. Cash and short-term investments were \$3.07bn and long-term investments \$4.84bn at 31 July, against about \$2.57bn of debt, for net cash and investments of about \$5.3bn. The company repurchased \$1.13bn of stock in fiscal 2026, but stock pay of \$1.77bn more than offset it.

Competitors

Company	Position	Growth	Valuation (approx.)
Palo Alto Networks	Broadest platform: network, SASE, SecOps, cloud, identity, observability	FY27 guide 23-24%, about 14% organic (our estimate)	21x EV/FY27 revenue; 90x FY27 EPS
Zscaler	SSE leader, cloud-native proxy	FY27 guide about 17%	7.6x EV/FY27 revenue; 40x FY27 EPS
Cloudflare	Network-first SASE and developer platform	About 32% (2026 guide)	About 44x 2026 revenue (25 Sep)
CrowdStrike	Endpoint, SecOps, identity, cloud	n/a	n/a
Fortinet, Microsoft, Cisco	Firewall and bundled security competitors	n/a	n/a

Zscaler figures from its FY27 guidance of 3 September 2026 and the 25 September close; Cloudflare from Beating The Bull's report of 25 September 2026.

Palo Alto's moat is breadth. No competitor can match its combination of firewall installed base, SASE, XSIAM and identity, and the consolidation trend works in its favour. The cost of that breadth is a lower gross margin than pure SaaS peers and a growth rate that depends partly on acquisitions. The valuation premium over Zscaler, about three times on revenue, is larger than the growth difference once acquisitions are stripped out.

Management

Chairman and CEO Nikesh Arora has transformed the company since 2018 into a platform business, and execution against guidance has been dependable: Q4 non-GAAP EPS came in \$0.04 above the company's own guidance. CFO Dipak Golechha has been clear about margin headwinds. Integration is ahead of plan on management's account: identity synergy targets are three to six months ahead of schedule, with over 400 shared leads and more than 200 net new logos.

Capital allocation is the question. Fiscal 2026 acquisition spending was \$4.66bn in cash plus the CyberArk share issuance, and further deals followed (Portkey, Koi, Console). When Piper Sandler asked about future M&A, Arora said "M&A is not a strategy... M&A is a consequence". Insider ownership is under 1%, and officers and directors filed a series of Form 4 and Rule 144 notices between 14 and 24 September.

Company developments

Development	Status and date	What is known	What is forecast (and by whom)	Impact
FY26 results and FY27 outlook	Reported 1 Sep 2026	Q4 revenue +34%, NGS ARR \$9.1bn. FY27 revenue \$14.10-14.20bn, EPS \$4.16-4.19, 844-847m shares, gross margin pressure.	Management: FY27 adjusted FCF margin 38%, operating margin 29.5%.	High
CyberArk (Idira) integration	Closed 11 Feb 2026; Idira GA 12 May 2026	Pro forma FY26 identity revenue \$1.26bn (+21%); Modern PAM launched; \$5m+ deals up 50% in Q4.	Management: synergies 3-6 months ahead of schedule.	Medium
Chronosphere observability	Closed 29 Jan 2026	ARR more than doubled since closing to over \$500m.	Management: priced 30-40% below incumbent tools.	Medium
Prisma AIRS (AI security)	Reported with Q4	Over \$100m ARR within four quarters of launch; 800+ customers.	Management: fastest-scaling product in company history.	Medium
Unit 42 Continuous Frontier AI Defense	Launched 22 Sep 2026	Offensive testing service using Anthropic and OpenAI models; annual subscription; pricing not disclosed.	n/a	Low
Portkey, Koi and Console acquisitions	Portkey closed 29 May 2026	AI gateway, endpoint and agentic workflow tools folded into the platform; terms not material.	n/a	Low

Fiscal 2027 outlook: strong revenue, slow earnings (High)

What is known. On 1 September the company guided fiscal 2027 revenue to \$14.10-14.20bn (+23-24%), NGS ARR to \$11.075-11.175bn (+22-23%), non-GAAP operating margin to 29.5%, adjusted free cash flow margin to 38%, and non-GAAP EPS to \$4.16-4.19 on 844-847m diluted shares. The Q1 guide is revenue of \$3.30-3.31bn and EPS of \$0.96-0.98. The CFO said cloud-hosting costs would grow faster than revenue and that memory and storage cost increases would persist in hardware. The stock fell 9.3% on 2 September.

Why it matters here. At about 90 times earnings the share price rests on EPS compounding quickly for years. The guide shows reported revenue growth of 23-24% converting into about 9% EPS growth. Part of the gap is temporary: CyberArk shares were issued before the acquired profit reaches a mature margin. Part is structural: SaaS products and AI workloads carry hosting costs that firewall software did not.

What success and failure look like. Success is quarterly EPS above guidance with gross margin stabilising near 75%, and NGS ARR tracking the top of the range. Failure is further gross margin erosion, a lower EPS guide or organic growth slipping as the acquisitions are lapped in the second half. The first data point is Q1 fiscal 2027 results, expected in mid-to-late November (based on prior years; not yet announced).

Input (our model)	Value
FY27 revenue guide midpoint	\$14,150m
FY27 EPS guide midpoint	\$4.175

Input (our model)	Value
Diluted shares (guide midpoint)	845.5m
Tax rate on non-GAAP profit	21%
Pro forma FY26 revenue incl. full-year CyberArk and Chronosphere	About \$12.4bn

Case	FY27 operating margin vs 29.5% guide	FY27 EPS effect	Value at 90x
Success (margin +1.0 point)	30.5%	+\$0.13	+\$12
Base (guide met)	29.5%	0	0
Failure (margin -1.5 points)	28.0%	-\$0.20	-\$18

Our calculation. On the pro forma base, FY27 revenue growth is roughly 14%, and between about 13% and 16% depending on the assumed pre-close revenue of the acquired businesses.

Economics, precedent and what the price assumes. The direct earnings effect of a margin surprise is modest, worth about \$12-18 a share at the current multiple. The larger exposure is the multiple itself. Our base case already capitalises fiscal 2028 free cash flow of \$6.4bn at 45 times, a premium to most large software companies; if the market instead values the stock at 30 times free cash flow, the bear case, fair value falls to \$219. The price rose about 160% from its February low, mostly through a higher multiple, and after the 2 September drop recovered on the 14 September sector rally rather than on new company earnings information. **Verdict test:** without this item the case for a Buy would rest on revenue growth alone; with it, the stock is fully priced, so the item drives the Watchlist verdict and the \$300 level. It sets Valuation at 2 and Growth at 7.

Still unknown. How much of the margin pressure is transitional, and the organic growth rate once the acquisitions are lapped from February 2027.

Growth drivers

Driver	Status and date	Fact or forecast	Likelihood	Impact
Platformization of large customers	Ongoing	Fact: about 220 net new platformizations in Q4, a record.	High	High
Identity cross-sell (Idira)	GA 12 May 2026	Fact: 21% pro forma growth; 200+ new logos from shared leads.	High	Medium
XSIAM and SecOps	Ongoing	Fact: XSIAM ARR above \$700m, up 70%; 1,000+ customers.	High	Medium
AI security (Prisma AIRS, Unit 42 services)	Ongoing; new service 22 Sep 2026	Fact: AIRS ARR over \$100m. Forecast (management): fastest-scaling product.	Medium	Medium
Observability (Chronosphere)	Ongoing	Fact: ARR over \$500m, more than doubled since closing.	Medium	Medium
Firewall refresh (Gen 5 hardware)	Ongoing	Fact: management cites accelerated hardware bookings.	Medium	Low

Risks

Risk	Probability	Severity	Comment
Multiple compression	Medium	High	At 90x earnings, a return to 45-60x on unchanged profits would cut the price by a third or more.
Gross margin erosion from hosting and memory costs	Medium	Medium	Management expects both pressures through FY27.
Integration of CyberArk, Chronosphere and smaller deals	Low	Medium	Early signs are good; three integrations at once add execution load.

Risk	Probability	Severity	Comment
Organic growth slows when acquisitions are lapped	Medium	Medium	Reported growth steps down in H2 FY27.
Dilution	High	Medium	Stock pay of \$1.77bn outweighed \$1.13bn of buybacks in FY26.
Long-term interest rates	Medium	Medium	The 10-year Treasury near 5.1% weighs on long-duration valuations.

The business risk is low; the valuation risk is high. Together they support a Risk score of 5 out of 10, where 10 is lowest risk.

Valuation

Measure	Value	Comment
Market capitalisation	\$306.5bn	818m shares at \$374.74
Enterprise value	\$301.2bn	Net cash and investments about \$5.3bn
EV / FY27 revenue guide	21.3x	Zscaler 7.6x
P/E on FY27 EPS guide (\$4.175)	89.8x	About 10 times the guided EPS growth rate
EV / FY27 FCF (38% margin, \$5.38bn)	56x	Before deducting stock pay
FY26 FCF minus stock pay	About \$2.64bn	About 23% of revenue
Analyst average target	\$395.70	55 analysts; consensus Buy

This report's calculations from company filings and the 25 September close, except the analyst average.

Free cash flow is the right anchor: it is large, recurring and less distorted by acquisition accounting than GAAP earnings. Even so, 56 times forward free cash flow for a company growing organically in the mid-teens is expensive against its own history and against peers, and the P/E is higher still because EPS growth lags. The base-case value of \$350 applies 45 times to fiscal 2028 free cash flow of about \$6.4bn, adds projected net cash of about \$9.3bn and divides by 845.5m shares. The stock is modestly overvalued on that basis.

Macro drivers. Enterprise security budgets are the first. They have held up, supported by a resilient economy: August payrolls rose 162,000 against a 58,000 forecast and the S&P Global composite PMI reached 58.4 in September. AI-driven threats add urgency. The second is the discount rate, and here the backdrop is unhelpful. The Federal Reserve raised rates by 25 basis points to 3.75-4.00% on 16 September, core CPI rose 0.3% in August, and the 10-year Treasury yield traded around 5.1% in the week of 21 September, its highest since 2007. Demand is largely insensitive to rates; a 90 times earnings multiple is not.

Sentiment

Signal	Reading
Analyst ratings	Consensus Buy across 55 analysts; average target \$395.70.
Recent changes	BTIG raised its target to \$425 (28 Sep); Morgan Stanley to \$410 (21 Sep). Bernstein downgraded to Market Perform with a \$351 target on 17 Sep, citing valuation.
News flow	Positive on products (Unit 42 AI defense service, 22 Sep) and AI threat awareness; valuation debate intensifying.
Insider transactions	Several officer and director Form 4 filings and Rule 144 notices between 14 and 24 Sep, including a proposed sale of about \$13.8m by an officer.
Short interest	About 2.7% of float.

Sentiment is bullish and crowded. The average target sits only about 6% above the price, and the most recent downgrade was explicitly on valuation, which suggests that most of the good news is already reflected in expectations.

Technicals

Indicator	Value	Reading
Price vs 20-day SMA (\$360.92)	+3.8%	Above short-term trend
Price vs 50-day SMA (\$356.52)	+5.1%	Medium-term uptrend
Price vs 200-day SMA (\$245.23)	+52.8%	Very extended
RSI(14)	54.4	Neutral
MACD (12,26,9)	7.98 vs signal 5.16	Positive
ATR(14)	\$17.78 (4.7%)	Elevated volatility
Volume 20-day vs 50-day	7.1m vs 6.3m (+13%)	Participation rising
52-week range	\$139.57-398.88	Price is 91% of the way up the range

Computed from 300 completed daily sessions to 25 September 2026.

The long-term trend is strongly up. The stock failed near \$393-399 on 23-25 September and fell 3.9% on 25 September. Support sits at the 50-day average near \$357 and the early-September range of \$328-338. The distance above the 200-day average, 53%, leaves room for a sizeable pullback without breaking the trend.

Scorecard

Factor	Score	Basis
Business Quality (15%)	9/10	Broadest security platform; \$9.1bn NGS ARR; platformized customers above 120% net retention.
Financial Strength (15%)	8/10	About \$5.3bn net cash and investments; 38% adjusted FCF margin; stock pay \$1.77bn.
Competitive Advantage (15%)	9/10	Scale, cross-sell across network, SecOps, cloud and identity; consolidation favours it.
Management (10%)	8/10	Strong execution under Arora; heavy acquisition use and share dilution.
Growth Potential (15%)	7/10	23-24% reported FY27 growth, roughly 14% organic on our estimate; EPS only about 9%.
Valuation (15%)	2/10	90x FY27 EPS and 56x FY27 FCF for mid-teens organic growth.
Risk (10 = lowest risk) (10%)	5/10	Valuation, integration of three deals, margin pressure, rate sensitivity.
Technical Setup (5%)	5/10	Strong uptrend but 53% above the 200-day average and turned back at \$399.
Investment Score	68 / 100	Weighted sum of factor scores, weights sum to 100.

Scored 1-10, where 10 is always best, including Risk. The Investment Score is the weighted sum of factor scores divided by 10. The fiscal 2027 outlook set Valuation at 2 and Growth at 7.

Scenario analysis

Case	Probability	Outlook	Fair value
Bull	25%	Organic growth accelerates on AI security and identity; FY28 revenue about \$17.3bn, 40% FCF margin, 60x FCF.	\$501
Base	50%	Guidance met with modest beats; FY28 revenue about \$16.6bn (+17%), 38.5% FCF margin, 45x FCF.	\$350
Bear	25%	Growth slows toward 12% as hosting and memory costs squeeze margins; FY28 revenue about \$15.9bn, 37% FCF margin, 30x FCF.	\$219
Weighted	100%	Probability-weighted value	\$355

Each case adds projected net cash of about \$9.3bn and divides by 845.5m diluted shares. The bull case assumes the success outcome of the fiscal 2027 margin item; the bear case assumes the failure outcome and a lower multiple. Our calculation.

Recommendation

Watchlist. The stock is not a Buy at \$374.74: the \$355 weighted value implies about 5% downside, and the bear case of \$219 sits 42% below the price. The name becomes interesting at about **\$300**, where it would trade near 72 times fiscal 2027 EPS, 60 times our fiscal 2028 EPS estimate of about \$5.01 and 45 times fiscal 2027 free cash flow, with about 17% upside to the base case. The level is about 6% below the 100-day average of \$318. No cut-loss or take-profit is published because no position is recommended.

What would change the view

Trigger	Direction and timing
Price near \$300 (about 72x FY27 EPS, 45x FY27 FCF)	Upgrade to Buy; available any time.
Q1 FY27 EPS above the \$0.96-0.98 guide with gross margin stable	More positive; Q1 results, expected mid-to-late November.
FY27 EPS guide raised materially above \$4.19	More positive; any quarterly report.
Further gross margin erosion or an EPS guide cut	More negative; any quarterly report.
Organic growth falls toward 10% as acquisitions are lapped	More negative; H2 FY27.
A further sustained rise in long-term yields	More negative for the multiple; ongoing.

Final verdict

Would a disciplined investor put new money into Palo Alto Networks today? Not at this price. It is the best-positioned company in security: the broadest platform, record platformization deals, fast-scaling AI and identity products, and a 38% free cash flow margin. Few businesses in the sector are this well run.

The single biggest concern is valuation. At about 90 times guided earnings and 56 times forward free cash flow, the stock prices in years of flawless execution while fiscal 2027 EPS is guided to grow only about 9%. The fiscal 2027 outlook drove this answer. A pullback toward \$300, or evidence that margins are recovering fast enough to lift EPS growth well above guidance, would change it.

Sources

Palo Alto Networks fiscal Q4 and FY2026 results release (Form 8-K Exhibit 99.1, 1 September 2026). Palo Alto Networks Q4 FY2026 earnings call, 1 September 2026. Palo Alto Networks press releases: completion of CyberArk acquisition (11 February 2026), completion of Chronosphere acquisition (29 January 2026), Idira launch (12 May 2026), Unit 42 Continuous Frontier AI Defense (22 September 2026). Form 10-K for fiscal 2026 (10 September 2026). Market data and analyst targets as of 25-28 September 2026. Economic data from the US Bureau of Labor Statistics, the Federal Reserve and S&P Global, as reported in September 2026.

This report is for informational purposes only and does not constitute financial advice. Figures labelled as calculations or estimates are the author's own. Past performance does not guarantee future results.