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Palo Alto Networks, Inc.

(PANW)

Date: Feb 16, 2026 05:00am
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1. Executive summary

Company: Palo Alto Networks, Inc.

Ticker: PANW

Recommendation: Strong Sell

Current price: US$166.95

Estimated value: US$31.77

Upside: -81.0%

Expected IRR: 5.5%

I believe Palo Alto Networks is overvalued at US$167. The market is pricing in a long run profile that looks closer to 23.4% revenue growth, a 49.1% stable net income margin, and a 1.4 sales to equity ratio. I see a different picture. The company guides to about 14% FY2026 revenue growth (US$10.475–US$10.525B), reported a much lower recent GAAP net margin of 13.5% in Q1 FY2026, and faces ongoing cloud hosting, sales coverage, and integration costs that make a 49% net margin and very high capital efficiency hard to sustain at this scale. Using a base case of 10.5% growth, 22.0% stable net margin, and 0.7 sales to equity, I estimate fair value at about US$20–US$51 per share (base case US$32), which implies 70%–88% downside versus today's price. Compared with peers and PANW's own history, the shares also trade at rich multiples that already bake in the market's optimistic assumptions. Key events such as FY2026 earnings and guidance updates and any firm detail on the CyberArk acquisition terms and timeline will test whether growth, margins, and capital intensity can move towards what the market assumes. The main risks are a faster platform consolidation cycle that keeps growth nearer 20%+, stronger operating leverage than I model, and a less dilutive capital path. Taking all this together, I rate the shares a Strong Sell over the next 12 months.

Share price and forecast
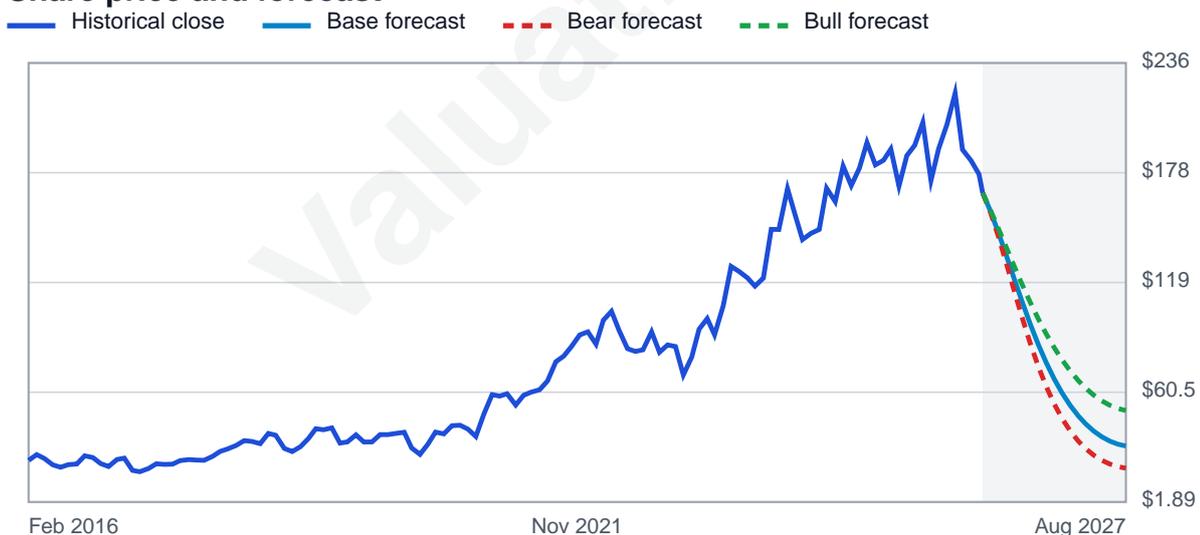
Historical close prices and forecast scenarios. Forecast horizon: 18 months. Generated Feb 2026.

2. Overview

Company	Palo Alto Networks, Inc.
Ticker	PANW

Analysis date

Feb 16, 2026

Expected IRR

Expected IRR

5.5%

5.5%

Latest filing

10-Q, Nov 20, 2025

Industry

Software – Infrastructure

Sector

Sector

Technology

Recommendation

Strong Sell

Strong Sell

Upside potential

-81.0%

-81.0%

Exchange

Market cap

$116.36bn

$116.36bn

Current price

US$166.95

Estimated value

US$31.77

US$31.77

3. Investment summary

Recommendation: Strong Sell PANW (Palo Alto Networks, Inc.) shares at US$167.

Thesis: The market values Palo Alto Networks as if it can deliver near hyper growth, very high capital efficiency, and an extreme 49% net margin at scale. I expect a mature platform path instead, with growth fading towards low teens, a more normalised 22% long run net margin, and lower efficiency as acquisitions and equity-based dilution expand the equity base.

Catalysts: FY2026 results and guidance updates over the next two reporting points (timing unconfirmed, but likely March 2026 and May 2026 based on past cadence) should keep revenue growth anchored near the guided mid teens rather than 23.4%. Any clearer update on CyberArk closing and the stock issuance and integration cost profile in the second half of FY2026 (unconfirmed) should also challenge the market's 1.4 sales to equity assumption and keep long run margin expectations closer to 22% than 49%.

Valuation: My intrinsic value range is US$20–US$51 per share (bear US$20, base US$32, bull US$51), which implies 70%–88% downside versus US$167. The 90th percentile of simulated intrinsic values is about US$41, which still sits far below the current price and supports a Strong Sell.

Risks: The main risk is that platform consolidation and CyberArk-driven cross-sell lift growth much closer to 23.4% for several years while operating leverage lifts long run net margin far above 22%. A second risk is that buybacks and cash generation offset dilution and push the sales to equity ratio nearer 1.4, which would support higher justified multiples and reduce downside.

4. Company background

Industry
Software – Infrastructure

Description
Palo Alto Networks sells cybersecurity software and appliances and a large set of subscription services across network security, cloud security, and security operations. It earns most revenue from subscriptions and support under multi-year contracts, with additional revenue from products and professional services. The strategy centres on platform consolidation, renewals, and cross-sell of modules such as Prisma Cloud and Cortex into a large enterprise installed base.

Key products
Next-generation firewalls (hardware and software); Panorama; threat prevention and URL filtering; endpoint protection; DNS and Internet of Things security; SaaS security and data loss prevention; Prisma Cloud; secure access service edge; Cortex analytics and automation; threat intelligence; consulting, professional services, education, and support.

Business model
Value proposition: Reduce cyber risk and tool sprawl with an integrated platform across network, cloud, and security operations.
Revenue engine: Predominantly subscriptions and support with multi-year contracts, renewals, and module attach.
Cost drivers and investment focus: High R&D and sales spend, cloud hosting costs, and

integration costs from acquisitions.

Unit economics

Key unit: Annual recurring revenue (ARR), including Next-Generation Security ARR.
Revenue per unit: Not disclosed; expand ARR per customer through platform cross-sell and renewals.
Cost per unit: Not disclosed; major drivers include hosting, support delivery, and sales coverage.
Contribution margin: Indirectly supported by gross margins in the low to mid 70s, before operating spend.

Competitive landscape

Direct competitors: Direct competitors: Fortinet, Check Point, CrowdStrike, Zscaler, Microsoft.
Relative positioning: Direct competitors: Fortinet, Check Point, CrowdStrike, Zscaler, Microsoft.
Key threat/trend: Platform consolidation and cloud-native security intensify competition and can cap margins.

Operating segments

Subscriptions and support (80%): Recurring security subscriptions, support, and platform services
Products (20%): Firewall appliances, software, and related licences

Geographic segments

United States (largest): Large enterprise and public sector demand
EMEA (meaningful): Regulated customers and multi-country deployments
APAC (meaningful): Mix of developed and emerging enterprise adoption
Rest of World (small): Smaller international markets

5. Financial summary

All financial figures in $ millions

Fiscal year	2025	2024	2023	2022	2021
Revenue	9,222	8,028	6,893	5,502	4,256
YoY growth	14.9%	16.5%	25.3%	29.3%	24.9%
Adjusted net profit	2,047	3,658	1,615	882	421
Margin	22.2%	45.6%	23.4%	16.0%	9.9%
Reinvestment	2,418	3,091	1,343	(11)	(757)
FCFE	(371)	567	273	892	1,178
Adjusted equity	16,318	12,750	8,249	5,535	4,940
Return on equity (ROE)	12.5%	28.7%	19.6%	15.9%	8.5%
Sales to equity ratio	0.57	0.63	0.84	0.99	0.86

6. Investment thesis

The market values Palo Alto Networks as if it can deliver near hyper growth, very high capital efficiency, and an extreme 49% net margin at scale. I expect a mature platform path instead, with growth fading towards low teens, a more normalised 22% long run net margin, and lower efficiency as acquisitions and equity-based dilution expand the equity base.

Growth expectations look too high at this scale: The market implies 23.4% revenue growth, but I forecast 10.5% because Palo Alto Networks looks like a late growth firm moving into maturity. Management's FY2026 revenue guide of US$10.475–US$10.525B implies about 14% growth, which already sits well below the market's assumption. The subscription engine and ARR growth stay healthy, but the larger base, tougher competition, and acquisition integration drag usually push growth towards the low teens. This supports my view that the market overstates the sustainable growth rate.

A 49% stable net margin does not fit the cost structure: The market implies a 49.1% stable net income margin, but I forecast 22.0% because the business still carries meaningful hosting costs and heavy operating spend. Q1 FY2026 GAAP net margin was 13.5%, which sits far below a near 50% steady state and signals ongoing cost friction. The company targets FY2026 non-GAAP operating margin of 29.2%–29.7%, which supports strong profitability but still does not map to a 49% net margin once ongoing platform costs and non-operating items flow through. Competitive pressure and continued AI and cloud investment also cap long run margin expansion.

Capital efficiency looks overstated given acquisitions and dilution: The market implies a 1.4 sales to equity ratio, but I forecast 0.7 because acquisitions and share issuance expand the equity base. A large deal funded with stock can raise equity faster than revenue in the near term and depress revenue per dollar of equity until synergies arrive. The platform strategy also requires ongoing investment in R&D and go-to-market, which limits the chance of extreme balance sheet efficiency. This makes the market's implied efficiency look optimistic.

7. Catalysts

FY2026 guidance should keep growth below the market view: The next FY2026 earnings and guidance update (timing unconfirmed, but likely March 2026) should confirm whether revenue growth tracks the guided mid teens rather than 23.4%. If reported growth remains around the recent mid teens, investors should have to reset long run growth assumptions towards my 10.5% base case. That reset would usually compress the valuation multiple for a stock already priced at a high level. A move towards my base case value of about US$32 implies about 81% downside from US$167.

Cost disclosures should cap long run margin expectations: The next two quarterly updates (timing unconfirmed, but likely March 2026 and May 2026) should show whether net margin can move decisively above the recent 13.5% level. If margin improves only gradually and stays consistent with a path towards 22.0% rather than anything close to 49.1%, the market should have to reprice long run profitability. This should pressure the multiple because the current price assumes exceptional margins. A re-rating towards the DCF range of US$20–US$51 would imply 70%–88% downside from today.

CyberArk terms should clarify equity intensity and dilution: Any firm update on CyberArk closing and consideration mix in the second half of FY2026 (unconfirmed) will clarify how much equity the deal adds and how quickly revenue can scale after close. If the equity base expands faster than revenue, the market should move away from the implied 1.4 sales to equity ratio towards my 0.7 view. This would reduce justified valuation multiples because it lowers the long run return profile. That shift supports a move down

towards my base case value near US$32.

8. Valuation

Current price: US$166.95

Base case value: US$31.77

Upside potential: -81.0%

Expected IRR: 5.5%

Currency: USD

Report date: Feb 16, 2026

Latest annual financials: Jul 31, 2025

Base case assumptions   DCF model   Bull/Bear scenarios

Story:

Palo Alto Networks sits in late growth and moves towards maturity. It keeps winning large enterprises by selling an integrated security platform, with most revenue coming from recurring subscriptions and support. Platformisation and selective acquisitions broaden the product set and lift customer lifetime value, but they also bring integration, compliance, and pricing risks that slow margin expansion in the near term. The base case assumes steady demand for cybersecurity, moderate share gains, and gradual operating leverage as the firm scales.

Multiples snapshot

Comparable cybersecurity and infrastructure software stocks trade at premium valuations, and PANW also screens expensive at 56.8x P/E, 12.6x P/S, and 7.1x P/B, which sit at the 70th, 82nd, and 87th percentiles versus its own history. The market pays this premium because it expects durable platform-led growth and very high long run profitability, but those expectations look closer to the market implied 23.4% growth and 49.1% net margin than to the company's mid teens revenue guide and the more realistic margin path implied by recent results. If I anchor to more normalised valuation levels consistent with my base case drivers, I prefer the median implied prices from the provided ranges, which point to about US$63 on P/S, US$89 on P/E, and US$75 on P/B, all well below US$167; P/B is meaningful here given the positive multiple and the firm's scale, but it remains less informative for software businesses with large intangibles. This multiple evidence reinforces my DCF signal that the stock embeds optimistic assumptions, so I keep a Strong Sell rating.

Price-to-sales: 12.6x (82th percentile vs. peers) with implied share prices from US$23 to US$272 across the revenue-weighted peer set.

Price-to-earnings: 56.8x (70th percentile vs. peers) with implied share prices from US$41 to US$549 across the revenue-weighted peer set.

Price-to-book: 7.1x (87th percentile vs. peers) with implied share prices from US$38 to US$180 across the revenue-weighted peer set.

9. Risks

A faster consolidation cycle could lift growth towards the market view: Large customers could accelerate vendor consolidation and adopt more modules across Prisma

and Cortex, which would raise ARR expansion and sustain growth above my 10.5% forecast. If CyberArk closes smoothly and cross-sell ramps faster than I assume, reported growth could stay nearer the market implied 23.4% for several years. In that case, fair value would rise materially above my US$32 base case. The shares could then hold a high multiple for longer despite today's valuation.

Operating leverage could push net margin above my 22% steady state: Margins could beat my 22.0% stable net margin if hosting costs stabilise and management holds the line on operating spend while subscriptions scale. If the firm converts its 29.2%–29.7% FY2026 non-GAAP operating margin target into a much higher sustained GAAP net margin than I expect, long run profitability could move towards the market implied 49.1%. That outcome would support a higher DCF value and reduce downside. It would also justify richer trading multiples than I apply.

Buybacks and cash funding could lift the sales to equity ratio: The sales to equity ratio could rise towards the market implied 1.4 if PANW funds growth mainly with cash flow, limits equity issuance, and steps up buybacks that shrink equity. If CyberArk closes with less stock dilution than expected and revenue scales quickly after close, revenue per dollar of equity could improve. That would raise the justified valuation even if growth slows. It would weaken the Strong Sell case.

10. Appendix

10.1 Base case assumptions

Valuation story

Palo Alto Networks sits in late growth and moves towards maturity. It keeps winning large enterprises by selling an integrated security platform, with most revenue coming from recurring subscriptions and support. Platformisation and selective acquisitions broaden the product set and lift customer lifetime value, but they also bring integration, compliance, and pricing risks that slow margin expansion in the near term. The base case assumes steady demand for cybersecurity, moderate share gains, and gradual operating leverage as the firm scales.

Revenue growth rate

Value: 10.5%

Explanation: I treat Palo Alto Networks as a late growth firm moving into maturity. The analyst revenue path rises from about $9.2B to about $15.1B over several years, which implies a low teens CAGR, so I set a slightly lower base-case rate to allow for tougher competition, larger scale, and some integration drag from acquisitions. This rate still fits a subscription-led security platform with strong renewal and upsell dynamics.

Stable growth rate

Value: 3.5%

Explanation: I set terminal growth just below the risk-free rate to respect the hard constraint and reflect long-run nominal economic growth. Cybersecurity stays essential, but a firm of this scale should not outgrow the economy forever in a base case. The subscription mix supports durability, not perpetual high growth.

Years to stability

Value: 10.0

Explanation: I use a 10-year glide path because the firm still has room to expand the platform across cloud, identity, and security operations, but growth should fade as the base gets larger. With Y=10, the initial growth rate acts like a 5-year CAGR and stays consistent with the analyst revenue trajectory, while allowing a second phase of tapering towards maturity. This also matches a business with recurring revenue and ongoing consolidation in a competitive market.

Sales-to-equity ratio

Value: 0.7

Explanation: I keep sales to equity near the industry middle and below the firm's earlier higher levels because acquisitions and capitalised intangibles raise the equity base. The platform strategy needs sustained investment in R&D and go-to-market, so capital efficiency should look solid but not extreme. This sits close to the firm's recent range and the sector's typical levels.

Stable net profit margin

Value: 22.0%

Explanation: I target a stable margin near the upper industry quartiles but below the firm's unusually high spike, because competitive pressure, cloud hosting costs, and ongoing investment should cap long-run profitability. The subscription and support mix supports strong operating leverage, but integration and compliance costs limit how far margins can rise in a base case. This stable level also stays consistent with a mature software infrastructure leader rather than a hyper-profitable niche.

FY+1 net profit margin

Value: 20.0%

Explanation: I set next-year margin slightly below the current adjusted level because the firm will likely keep investing in product, sales capacity, and integration work for recent deals. Analysts' medium-term profit expectations rise with scale, but their margins are on an expensed basis, so I anchor to the adjusted margin trend and assume only modest near-term expansion. This creates a realistic bridge into the longer-run stable margin rather than a jump.

Margin convergence

Value: 6.0

Explanation: I assume margins take most of the high-growth phase to settle because platformisation benefits arrive gradually and integration costs can linger. Competitive pricing pressure and regulatory compliance also slow the pace of steady-state optimisation. Six years gives enough time for operating leverage to show up without assuming a smooth, immediate uplift.

Stable ROE

Value: 16.0%

Explanation: I set stable ROE above the stable cost of equity to reflect a durable franchise with switching costs and recurring revenue. It also aligns with industry comparables around the 60th to 70th percentile rather than assuming the firm sustains peak ROE indefinitely. This fits a mature platform business that still earns economic profits but faces strong rivals.

Credit rating

Value: Baa2/BBB

Explanation: I assign an investment-grade rating because the firm is large, generates strong cash flow, and sells mission-critical subscriptions with good visibility. Acquisition activity adds leverage and execution risk, but the recurring revenue base and scale should keep default risk moderate in a base case. BBB also matches a firm that may use debt opportunistically while staying financially flexible.

Recovery ratio

Value: 50.0%

Explanation: I assume a mid-range recovery because value sits in software, customers, and intangibles, which are harder to realise in distress than hard assets. The firm still has meaningful enterprise contracts and an installed base, which supports some recoverable value. A 50% ratio reflects this balance in a base-case default scenario.

10.2 DCF model

All financial data in US$ millions unless stated otherwise

	Base year	FY+1	FY+2	FY+3	FY+4	FY+5	FY+6
Revenue	9,222	10,190	11,260	12,442	13,748	15,192	16,574
YoY growth, %	14.9%	10.5%	10.5%	10.5%	10.5%	10.5%	9.1%
All expenses	7,174	8,152	8,970	9,871	10,861	11,951	12,983
Net profit	2,047	2,038	2,289	2,571	2,887	3,241	3,591
Net margin, %	22.2%	20.0%	20.3%	20.7%	21.0%	21.3%	21.7%
Reinvestment	2,418	1,490	1,646	1,819	2,010	2,221	2,127
Invested equity	16,318	17,808	19,454	21,273	23,283	25,504	27,631
ROE, %	12.5%	11.4%	11.8%	12.1%	12.4%	12.7%	13.0%
S/E ratio, x	0.6	0.7	0.7	0.7	0.7	0.7	0.7
FCFE	-371	548	643	752	877	1,020	1,464
Stable value							
FCFs to discount		548	643	752	877	1,020	1,464
Discount factor		0.9	0.8	0.7	0.6	0.6	0.5
Cost of equity, %	14.3%	14.3%	14.0%	13.6%	13.2%	12.9%	12.5%
PV of FCFE		516	532	547	564	581	741

	...	FY+7	FY+8	FY+9	FY+10	Stability
Revenue		17,851	18,975	19,905	20,602	21,323
YoY growth, %		7.7%	6.3%	4.9%	3.5%	3.5%
All expenses		13,923	14,801	15,526	16,069	16,632
Net profit		3,927	4,175	4,379	4,532	4,691
Net margin, %		22.0%	22.0%	22.0%	22.0%	22.0%
Reinvestment		1,963	1,730	1,430	1,072	1,026
Invested equity		29,594	31,324	32,755	33,826	
ROE, %		13.3%	13.3%	13.4%	13.4%	16.0%
S/E ratio, x		0.7	0.7	0.7	0.7	0.7
FCFE		1,964	2,444	2,949	3,461	3,665
Stable value						48,310
FCFs to discount		1,964	2,444	2,949	3,461	48,310
Discount factor		0.5	0.4	0.4	0.3	0.3
Cost of equity, %		12.2%	11.8%	11.4%	11.1%	11.1%
PV of FCFE		886	986	1,067	1,128	15,742

Sum of PV of FCFE	23,289.1
Less: Distress adjustments	484.2
Distress likelihood, %	3.2%
Recovery ratio, %	50.0%
Value of common equity	22,804.9
Less: Employee options	0.0
Less: Unfunded liabilities	659.2
Value of common shareholders' equity	22,145.7
Divide: Share count	697.0
Equity value per share	US$31.77

10.3 Scenarios

Bear case

Value: US$19.95
Upside: -88.1%
Story: Palo Alto Networks moves from late growth into early maturity faster than expected.

Competition tightens in cloud and platform security, so the firm cuts prices and pays up on channel incentives to defend renewals and win large deals. Integration work from acquisitions consumes management time and raises costs, while regulators and cross-border rules slow international expansion. The business stays relevant because security remains critical, but the bear case assumes weaker net expansion rates and slower operating leverage than the market expects.

Revenue growth rate: 7.5%

Stable growth rate: 3.2%

FY+1 net margin: 16.5%

Stable net margin: 18.0%

Sales-to-equity ratio: 0.6

Years to stability: 8.0

Stable ROE: 13.0%

Bull case

Value: US$50.74

Upside: -69.6%

Story: Palo Alto Networks sits in late growth and extends its platform phase rather than moving quickly into maturity. It turns platformisation into larger multi-year deals and higher net revenue retention, with identity security and observability adding new spending pools and stronger cross-sell. It keeps winning in cloud and hybrid environments because the integrated platform lowers customer complexity and improves outcomes, which supports pricing and renewal strength. This bull case stays plausible because recurring subscriptions and support already dominate revenue, and scale can still drive operating leverage if integrations run well.

Revenue growth rate: 13.5%

Stable growth rate: 3.8%

FY+1 net margin: 21.5%

Stable net margin: 26.0%

Sales-to-equity ratio: 0.8

Years to stability: 12.0

Stable ROE: 20.0%

10.4 Other claims

(in US$ millions unless stated)

Employee stock options

Number of stock options: 0.0

Weighted avg. strike price: 0.00

Weighted avg. maturity: 0.0

Assumed volatility: 0.0%

Assumed dividend yield: 0.0%

Value of options: 0.0

Unfunded liabilities

Pension obligations: 0.0

Post-retirement benefits: 0.0

Healthcare liabilities: 0.0

Deferred compensation: 0.0

Lawsuit contingencies: 145.6 – I used the accrued litigation liability of $145.6m for the Centripetal Networks judgment and estimated interest as of July 31st 2025. I treated it as 100% probable because the company recorded an accrual, so the expected value is $145.6m.

Environmental liabilities: 0.0
Other: 513.6 – I used the contingent consideration obligation of $513.6m recorded on the balance sheet as of July 31st 2025 for the IBM QRadar asset acquisition. I treated it as 100% probable because it is a recognised liability measured at fair value, so the expected value is $513.6m.
Total liabilities: 659.2

10.5 Cost of equity

Inputs for risk-free rate

Ten-year bond yield, %	4.2%
Bond yield country	United States of America
Default spread, %	0.3%
Risk-free rate, %	3.9%

Beta calculation

Operating segment	Sales	EV/Sales	Weight, %	Business beta
Security & Protection Services	2,445	2.5	14.6%	1.0
Software - Application	4,974	5.3	62.7%	1.8
Software - Application	1,802	5.3	22.7%	2.1
Business beta				1.78
Debt-to-equity ratio, %				0.3%
Cash-to-firm value ratio, %				2.5%
Marginal tax rate, %				23.5%
Equity beta				1.7

Beta selection notes

Security & Protection Services (40th percentile of the industry, 1.0): Support revenue is typically contracted and renewal-based, making demand less discretionary and less sensitive to economic swings. While there are fixed personnel costs, delivery is more scalable and stable than product development, so risk should sit modestly below the industry median.

Software – Application (50th percentile of the industry, 1.8): Subscription cybersecurity is generally sticky and essential, which reduces pure demand cyclicality versus one-off product sales. However, the segment still carries material operating leverage from recurring R&D and sales costs, so a middle-of-the-pack risk level is most appropriate.

Software – Application (60th percentile of the industry, 2.1): Cybersecurity products (hardware appliances and related software) tend to be mission-critical but can still be deferred in weaker IT spending cycles, and sales can be more deal-driven and competitive. The cost base is meaningfully fixed (engineering and go-to-market), so earnings can swing more than revenues, supporting a slightly above-median beta.

Equity risk premium (ERP) calculation

Geographic segment	Sales	Weight, %	ERP, %	Tax rate, %
Americas	6,205	67.3%	5.5%	23.1%
Europe, Middle East, and Africa (EMEA)	1,917	20.8%	7.4%	23.6%
Asia-Pacific	1,099	11.9%	6.4%	25.5%
Company ERP, %				6.0%

Cost of equity calculation

Cost of equity calculation (continued)

Risk-free rate, %	3.9%
Beta x ERP	10.4%
Equity beta	1.7
Equity risk premium, %	6.0%
Cost of equity, %	14.3%

Stable cost of equity calculation

Risk-free rate, %	3.9%
Beta x ERP	7.2%
Stable beta (clamped)	1.2
Equity risk premium, %	6.0%
Stable cost of equity, %	11.1%

10.6 Reverse DCF

Expected IRR	5.5%

Driver	Base value	Market-implied value	Difference
Stable net profit margin, %	22.0%	49.1%	+27.1
Revenue growth rate, %	10.5%	23.4%	+12.9
Sales-to-equity ratio	0.7	1.4	+0.8