



Palo Alto Networks, Inc. (NASDAQ: PANW) – Gearing Up For M&As

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- Current Price: \$187.70 (January 24th, 2025)
- Reverse DCF [P.17](#)
- DCF Price: \$202.27 [P.21](#)
- Appendix [P.23](#)



PANW Snapshot

| | |
|------------|---------|
| TTM EBITDA | 1,787 |
| TTM Rev | 8,244 |
| TTM NI | 2,690 |
| Shares | 656 |
| TTM EPS | \$ 4.10 |
| PE | 45.93x |
| P/Sales | 14.99x |
| EV/Rev | 14.70x |
| EV/EBITDA | 67.80x |

usd millions ex. per share

| | | |
|-------------|-----------|--------------|
| Price | \$ 188.34 | Jan. 22, '25 |
| Shares | 656 | |
| Mkt Cap | 123,551 | |
| Cash | 3,391 | |
| Funded Debt | 1,025 | |
| EV | 121,185 | |

| | |
|----------------|-----------|
| PIC | 4,215 |
| AD | (4) |
| Net cash/share | \$ 3.61 |
| EV/share | \$ 184.73 |

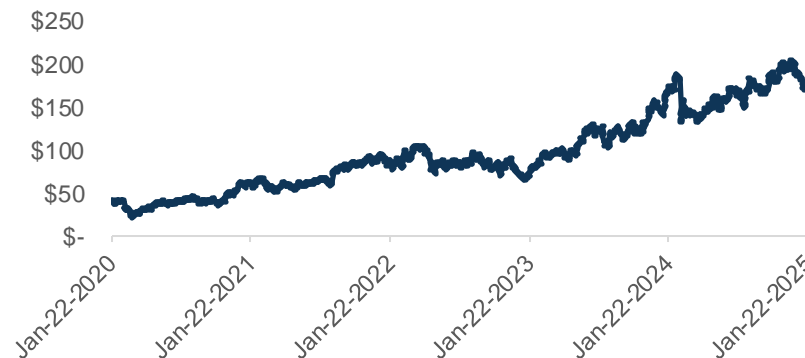
Major Holders (as of Sept. 30th, '24)

| Holder | Shares (m's) | % of out. |
|----------------------|--------------|-----------|
| Vanguard Group, Inc. | 59.91 | 9.13% |
| Blackrock, Inc. | 50.17 | 7.65% |
| Morgan Stanley | 29.99 | 4.57% |
| State Street Corp | 27.76 | 4.23% |
| Bank of America Corp | 16.3 | 2.48% |
| Geode Capital Mgmt | 15.31 | 2.33% |
| JPM Chase & Co | 14.34 | 2.19% |

Palo Alto Networks is one of the world's leading cybersecurity providers. In financial disclosures, the company segments its operations between products, subscriptions and support. In practice, they provide network security, cloud security, security operations (analytics, automation), and threat intelligence (Unit 42).

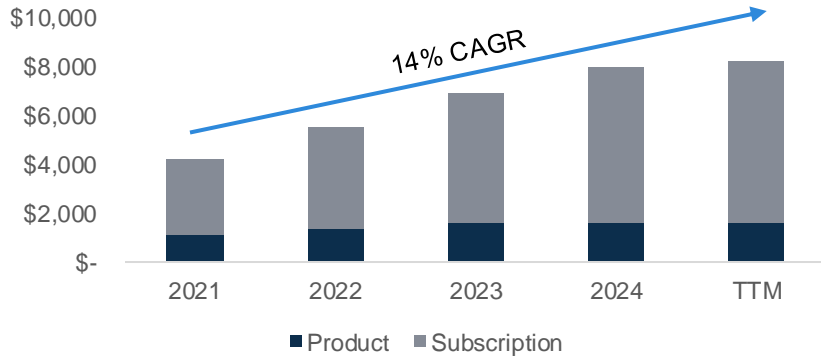
The company incorporated in 2005 and is headquartered in Santa Clara, California.

(NASDAQ: PANW) 5-Year Stock Price

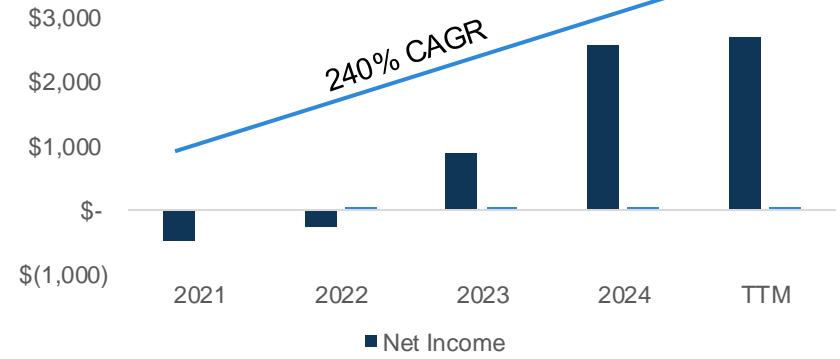


Historical Financials

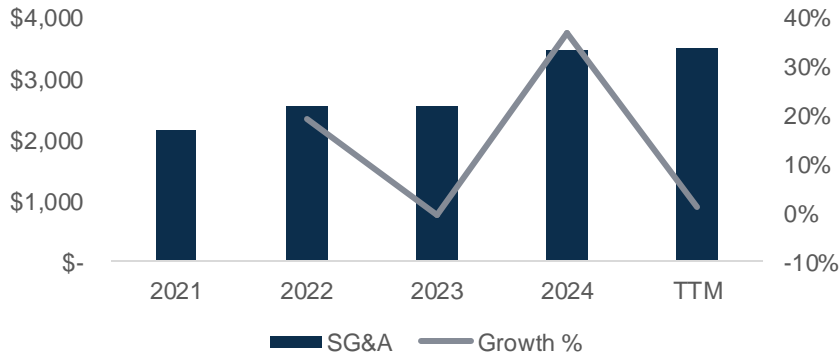
Historical Revenue, usd millions



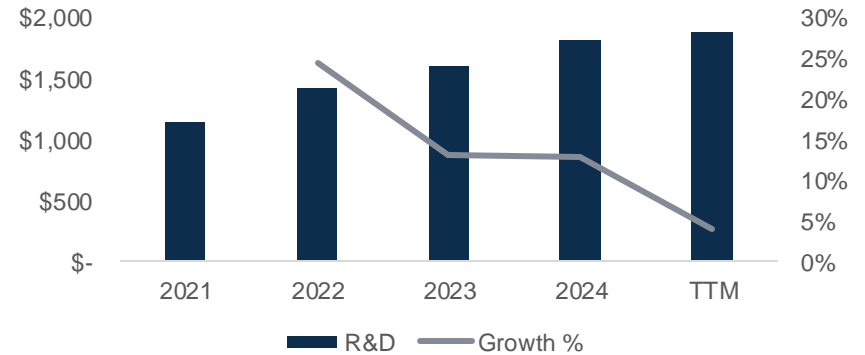
Net Income, usd millions



SG&A Spending, usd millions



R&D Spending, usd millions





Industry Overview



Competitors and Market Share

Industry and Peer Overview, usd millions

| Company | Geography | Service | Mkt Cap | LTM Revenue | # of Employees | LTM R&D Spending |
|-------------|-----------|---|---------|-------------|----------------|------------------|
| Cisco | US | Network infra + cybersecurity | 239,881 | 52,976 | 84,900 | 8,356 |
| CrowdStrike | US | Endpoint detection, response and services | 87,933 | 3,740 | 7,925 | 976 |
| Fortinet | US | Cybersecurity and network solutions | 72,223 | 5,711 | 13,568 | 678 |
| Zscaler | US | Cloud and zero trust services | 28,782 | 2,299 | 7,348 | 535 |

What PANW Does Better Than Peers

- PANW's next-gen firewalls are better than Cisco's for application-level control and inspection
- PANW's firewalls tested by NSS Labs at 7,888 Mbps vs Cisco's 5,291 Mbps
- PANW was the first company to adopt the platformization approach of consolidating services

What PANW Does Worse Than Peers

- Zscaler's zero trust network access, for remote work scenarios, outpaces PANW's offering
- According to industry experts (analyst reports), PANW seems to have worse customer support than its peers
- High transition costs to adopt cloud-based services



Investment Theses

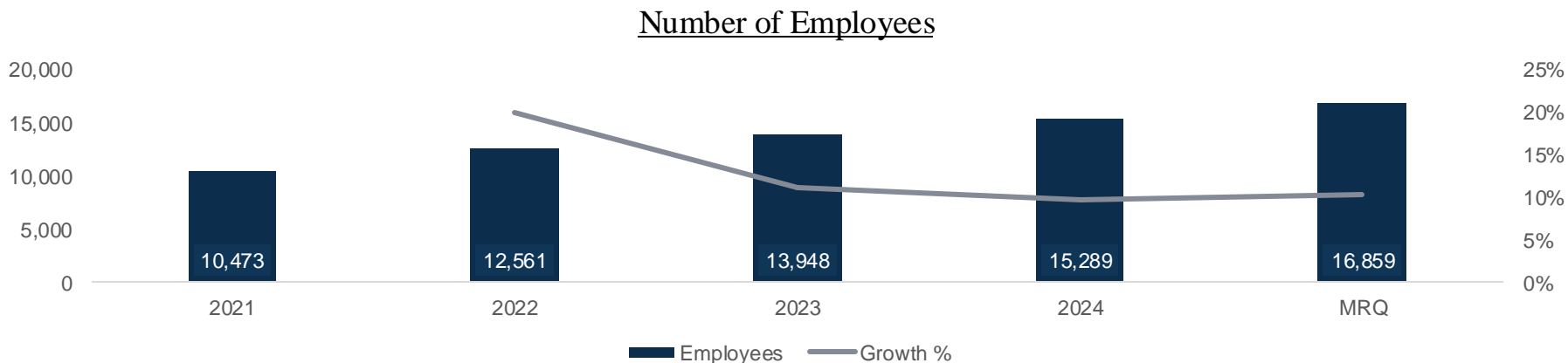


Growing Focus on Bottom Line Growth

New Focus = Platformization

- **Platformization is the process of consolidating products and services into a single product (for ex. Microsoft Office for PPT, Excel, Word, Outlook, etc.)**
 - The goal of this process is to increase operational efficiency, integration and reduce vendor sprawls.
 - Even though PANW was the first company to start this process, operational cost cuts have still not been materialized. **I believe this will change.**
- **The tide is also turning in big tech employment with various companies laying off portions of their workforce: Meta (-5%), Microsoft (-4%), PayPal (-9%), Snap (-10%) and Cisco (-7%)**

Reducing Headcount After Years of Growth?





Acquisitions Incoming

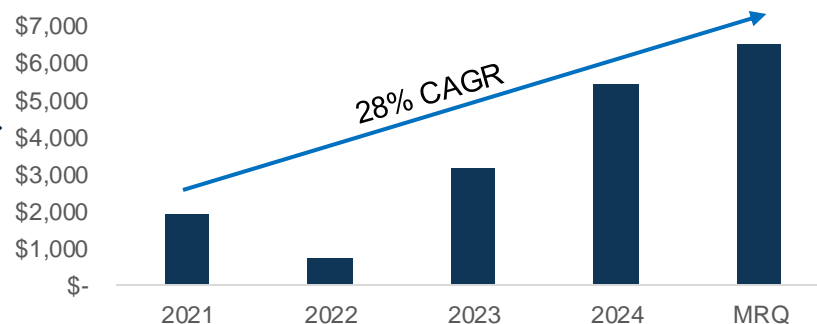
Why PANW Will Start a Buying Spree

- I believe PANW is currently consolidating its resources to start acquiring more companies for the following reasons:

 - The firm has started accumulating an increasing amount of net cash instead of repurchasing or investing in R&D
 - Under the strict M&A presidency of Joe Biden, many tech companies focused more on R&D.
 - Trump appointed pro-M&A Andrew Ferguson to serve as new chair of FTC.
 - PANW has hired a growing number of “corporate development”, M&A accounting and overall M&A financiers, as of late.

Growing War Chest

Cash + ST & LT Investments Net of Debt, usd millions



Bigger M&A Dept.

| | |
|--------------|---|
| Jan 14th, 25 | 4 Strategic finance employees |
| Jan 14th, 25 | 6 M&A employees on LinkedIn |
| Jan 14th, 25 | 274 employees under corporate development |
| Jan 14th, 25 | Head of corporate Development (Santa Clara) = M&A |
| Jan 14th, 25 | Sr mgr M&A accounting and integration (Santa Clara) |
| Jan 14th, 25 | Director, Strategic Finance |



Reverse DCF – What the Market is Currently Implying



WACC Calculations – Beta, Funded Debt and D/E

Bottom-Up Beta (usd millions)

| Ticker | Geography | Mkt Cap | LTM EBITDA Margin | Levered Beta (5Y) | D/E | Effective Tax Rate LTM | Unlevered Beta | Weight | Weight Rationale |
|--------------|-----------|---------|-------------------|-------------------|---------|------------------------|-----------------------|-------------|---|
| NASDAQ:CSCO | US | 239,881 | 27% | 0.83 | 73.50% | 6.60% | 0.49 | 35% | Competes on network security, similar to PANW's core offering |
| NASDAQ:CRWD | US | 87,933 | 4% | 1.13 | 25.60% | 22.70% | 0.94 | 25% | Competes in endpoint security and threat intelligence |
| NASDAQ:FTNT | US | 72,223 | 30% | 1.00 | 118.60% | 16.00% | 0.50 | 30% | Strong emphasis on network security and firewalls |
| NASDAQ:ZS | US | 28,782 | -3% | 0.86 | 86.70% | 0.00% | 0.46 | 10% | Cloud-native approach, past growth similar to PANW's |
| NASDAQ: PANW | US | 116,184 | 22% | 1.14 | 18.60% | 0.00% | 0.96 | | |
| | | | | | | | Relevered Beta | 0.72 | |

| Funded Debt, usd millions | MRQ | weighted-avg yield |
|---------------------------|--------------|--------------------|
| Convertible senior notes | 646 | |
| LT lease liability | 380 | 5.30% |
| Total Funded Debt | 1,025 | |

Debt/Equity Weightings

| | |
|---------------------|---------|
| Funded Debt usd m's | 1,025 |
| Market Cap usd m's | 116,184 |
| Firm Value | 117,209 |
| Debt Weighting | 0.87% |
| Equity weighting | 99.13% |



WACC Calculations

Cost of Equity (Ke) = Rf + β (ERP)

| | | |
|-----------------------|--------------|--------------------|
| Rf | 4.59% | 10-yr avg US10Y |
| Beta | 0.72 | bottom-up |
| ERP | 4.00% | Damodaran Jan. '24 |
| Cost of Equity | 7.47% | |

Cost of Debt (Kd) = Rf + Credit Spread

| | | |
|----------------------------------|--------------|-------------------------|
| 5-yr avg interest coverage ratio | 45.91 | Damodaran credit spread |
| Credit Spread | 0.45% | |
| Rf | 4.59% | |
| Cost of Debt (Kd) | 5.04% | |

WACC For Forecast Period

$$WACC = ((E/V * Ke) + ((D/V * Kd) * (1 - Tc)))$$

WACC Calculations FCFE

| | |
|------------------------|--------|
| Cost of Debt (Kd) | 5.04% |
| Weight of Debt (D/V) | 0.87% |
| Marginal Tax Rate (Tc) | 25.00% |

| | |
|------------------------|--------|
| Cost of Equity (Ke) | 7.47% |
| Weight of Equity (E/V) | 99.13% |

WACC 7.44%

Terminal Value (TV) WACC

$$WACC = ((E/V * Ke) + ((D/V * Kd) * (1 - Tc)))$$

TV WACC Calculations

| | |
|------------------------|--------|
| Cost of Debt (Kd) | 5.04% |
| Weight of Debt (D/V) | 0.87% |
| Marginal Tax Rate (Tc) | 25.00% |

| | |
|------------------------|--------|
| Cost of Equity (Ke) | 6.50% |
| Weight of Equity (E/V) | 99.13% |

TVWACC 6.48%

[Damodaran Credit Spread](#)

[Damodaran Equity Risk Premium \(ERP\)](#)

10y US Rf from TradingEconomics and [FRED St-Louis Fed Data](#)



Non-Cash Working Capital

| usd millions | Historicals | | | | | Assumptions | Forecasts | | | | | | | | | |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | 2021 | 2022 | 2023 | 2024 | LTM | | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| Revenues | 4,256 | 5,502 | 6,893 | 8,028 | 8,244 | | 9,120 | 10,123 | 11,237 | 12,473 | 13,845 | 15,368 | 17,058 | 18,935 | 21,017 | 23,329 |
| % growth | | 29% | 25% | 16% | 3% | | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% | 11% |
| Accounts Receivable | 1,240 | 2,254 | 2,852 | 3,345 | 1,938 | | | | | | | | | | | |
| % of revenue | 29% | 41% | 41% | 42% | 24% | | | | | | | | | | | |
| Prepays + Other CA | 229 | 209 | 467 | 557 | 546 | | | | | | | | | | | |
| % of revenue | 5% | 4% | 7% | 7% | 7% | | | | | | | | | | | |
| Non-Cash Current Assets | 1,470 | 2,463 | 3,319 | 3,902 | 2,484 | | | | | | | | | | | |
| % of revenue | 35% | 45% | 48% | 49% | 30% | | | | | | | | | | | |
| Accounts Payable | 57 | 128 | 132 | 116 | 212 | | | | | | | | | | | |
| % of revenue | 1% | 2% | 2% | 1% | 3% | | | | | | | | | | | |
| Accrued + Other CL | 760 | 860 | 548 | 1,061 | 1,038 | | | | | | | | | | | |
| % of revenue | 18% | 16% | 8% | 13% | 13% | | | | | | | | | | | |
| Current Liabilities | 817 | 988 | 681 | 1,178 | 1,249 | | | | | | | | | | | |
| % of revenue | 19% | 18% | 10% | 15% | 15% | | | | | | | | | | | |
| Non-Cash Working Capital | 653 | 1,474 | 2,638 | 2,724 | 1,235 | | 2,280 | 2,531 | 2,809 | 3,118 | 3,461 | 3,842 | 4,265 | 4,734 | 5,254 | 5,832 |
| % of revenue | 15% | 27% | 38% | 34% | 15% | | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Change in NCWC | | 822 | 1,164 | 86 | (1,489) | | 1,045 | 251 | 278 | 309 | 343 | 381 | 423 | 469 | 521 | 578 |

Sources: Capital IQ and SEC 10Ks + 10Qs



Assumptions

| Assumptions | |
|-------------------------------------|--------|
| 10-year AI Spending CAGR | 25.00% |
| 10-year Cybersecurity Spending CAGR | 7.00% |
| SG&A Growth % | -0.50% |
| AI Market Share | 0.10% |
| Cybersecurity Market Share | 2.00% |
| Effective Tax Rate | 22.00% |

- To forecast PANW's revenues, I assumed worldwide AI spending to grow at 25%/year for the next 10 years
- I also assumed that worldwide cybersecurity spending would grow at 7% for the next years
- One of my thesis mentioned previously touched on PANW aiming to increase bottom line growth, most likely by cutting back on SG&A spending. I assumed a 0.5% decrease/year
- Lastly, I assumed a 0.10% and 2% market share for the AI and cybersecurity markets, respectively



Revenue Build + Forecast Assumptions

Revenue Build

| usd millions | 2021 | 2022 | 2023 | 2024 | TTM | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|------------------------------|---------|---------|---------|---------|---------|--|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Global Spending | | | | | | Softbank \$500bn amortized over five years | | | | | | | | | |
| AI Spending | 34,380 | 51,270 | 70,940 | 94,410 | 100,000 | 225,000 | 381,250 | 576,563 | 820,703 | 1,125,879 | 1,407,349 | 1,759,186 | 2,198,982 | 2,748,728 | 3,435,910 |
| growth % | | 49% | 38% | 33% | 6% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| Cybersecurity Spending | 262,400 | 302,760 | 348,174 | 400,400 | 450,000 | 481,500 | 515,205 | 551,269 | 589,858 | 631,148 | 675,329 | 722,602 | 773,184 | 827,307 | 885,218 |
| growth % | | 15% | 15% | 15% | 12% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% |
| AI Market Share | | | | | | 225 | 381 | 577 | 821 | 1,126 | 1,407 | 1,759 | 2,199 | 2,749 | 3,436 |
| % of mktshare | | | | | | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% | 0.10% |
| Cybersecurity Market Share | | | | | | 9,630 | 10,304 | 11,025 | 11,797 | 12,623 | 13,507 | 14,452 | 15,464 | 16,546 | 17,704 |
| % of mktshare | | | | | | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |
| Business Segments | | | | | | | | | | | | | | | |
| Product | 1,120 | 1,363 | 1,578 | 1,603 | 1,616 | 3,403 | 3,782 | 4,215 | 4,714 | 5,291 | 5,865 | 6,528 | 7,302 | 8,209 | 9,278 |
| growth % | | 22% | 16% | 2% | 1% | 111% | 11% | 11% | 12% | 12% | 11% | 11% | 12% | 12% | 13% |
| Subscription | 3,136 | 4,138 | 5,314 | 5,876 | 6,035 | 3,852 | 4,122 | 4,410 | 4,719 | 5,049 | 5,403 | 5,781 | 6,185 | 6,618 | 7,082 |
| growth % | | 32% | 28% | 11% | 3% | -36% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% |
| Support | | | | 549 | 593 | 2,600 | 2,782 | 2,977 | 3,185 | 3,408 | 3,647 | 3,902 | 4,175 | 4,467 | 4,780 |
| growth % | | | | | 8% | 338% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% | 7% |

Income Statement

| | | | | | | | | | | | | | | | |
|---------------------------|-------|-------|-------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 4,256 | 5,502 | 6,893 | 8,028 | 8,244 | 9,855 | 10,685 | 11,602 | 12,618 | 13,749 | 14,914 | 16,211 | 17,663 | 19,295 | 21,140 |
| growth % | | 29% | 25% | 16% | 3% | 20% | 8% | 9% | 9% | 9% | 8% | 9% | 9% | 9% | 10% |
| COGS | 1,275 | 1,719 | 1,910 | 2,059 | 2,141 | 2,562 | 2,778 | 3,017 | 3,281 | 3,575 | 3,878 | 4,215 | 4,592 | 5,017 | 5,496 |
| Gross Profit | 2,981 | 3,783 | 4,983 | 5,968 | 6,103 | 7,293 | 7,907 | 8,585 | 9,337 | 10,174 | 11,036 | 11,996 | 13,070 | 14,278 | 15,644 |
| gross margin % | | 70% | 69% | 72% | 74% | 74% | 74% | 74% | 74% | 74% | 74% | 74% | 74% | 74% | 74% |
| Operating Expenses | | | | | | | | | | | | | | | |
| R&D | 1,140 | 1,418 | 1,604 | 1,809 | 1,880 | 2,068 | 2,275 | 2,503 | 2,753 | 3,028 | 3,331 | 3,664 | 4,031 | 4,434 | 4,877 |
| growth % | | 24% | 13% | 13% | 4% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% | 10% |
| SG&A | 2,145 | 2,554 | 2,544 | 3,475 | 3,512 | 3,495 | 3,477 | 3,460 | 3,442 | 3,425 | 3,408 | 3,391 | 3,374 | 3,357 | 3,340 |
| growth % | | 19% | 0% | 37% | 1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% | -1% |
| Total Operating Expenses | 3,285 | 3,972 | 4,148 | 5,284 | 5,393 | 5,563 | 5,752 | 5,962 | 6,195 | 6,454 | 6,739 | 7,055 | 7,405 | 7,791 | 8,218 |
| Operating Income | (304) | (189) | 835 | 684 | 711 | 1,730 | 2,155 | 2,623 | 3,142 | 3,721 | 4,297 | 4,941 | 5,666 | 6,487 | 7,426 |
| operating margin % | | -7% | -3% | 9% | 9% | 18% | 20% | 23% | 25% | 27% | 29% | 30% | 32% | 34% | 35% |



Implied Share Price

Summary – What the Market is Assuming for PANW

- According to the reverse DCF, the market is currently implying:
 - Decreasing SG&A expenses
 - 8% CAGR Revenue (next 10 years)
 - 18% CAGR FCF (next 10 years)
 - Growing AI spending worldwide
 - Growing cybersecurity spending worldwide

| Valuation | |
|----------------|-------|
| WACC | 7.44% |
| TVWACC | 6.48% |
| TV Growth Rate | 2.00% |

| | | |
|----------------------------|-----------------|--|
| Sum of PV of FCF | 28,989 | |
| Terminal Value | 176,073 | TV = (FCFFlast * (1 + TVg)) / (TVWACC - TVg) |
| PV of TV | 93,975 | PV of TV = TV / ((1 + TVWACC) ^ 10) |
| Enterprise Value | 122,963 | |
| (+) Cash | 3,391 | Q1'25 |
| (-) Debt | 1,025 | Q1'25 |
| Equity Value | 125,329 | |
| Shares Outstanding | 656 | Q1'25 |
| Implied Share Price | \$191.05 | |
| Current Price | \$188.00 | |
| Upside/Downside | 2% | |

Discounted Cash Flow

| | | | | | | | | | | |
|----------------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | 9,855 | 10,685 | 11,602 | 12,618 | 13,749 | 14,914 | 16,211 | 17,663 | 19,295 | 21,140 |
| EBIT | 1,730 | 2,155 | 2,623 | 3,142 | 3,721 | 4,297 | 4,941 | 5,666 | 6,487 | 7,426 |
| Interest + Other Income | 350 | 403 | 463 | 532 | 612 | 704 | 810 | 931 | 1,071 | 1,231 |
| % of revenue | 4% | 4% | 4% | 4% | 4% | 5% | 5% | 5% | 6% | 6% |
| Tax Expense | 381 | 474 | 577 | 691 | 819 | 945 | 1,087 | 1,246 | 1,427 | 1,634 |
| % of EBIT | 22% | 22% | 22% | 22% | 22% | 22% | 22% | 22% | 22% | 22% |
| NO PAT | 1,699 | 2,083 | 2,509 | 2,983 | 3,514 | 4,056 | 4,664 | 5,350 | 6,131 | 7,024 |
| D&A | 1,000 | 1,050 | 1,103 | 1,158 | 1,216 | 1,276 | 1,340 | 1,407 | 1,477 | 1,551 |
| % of revenue | 10% | 10% | 10% | 9% | 9% | 9% | 8% | 8% | 8% | 7% |
| CapEx | 170 | 179 | 187 | 197 | 207 | 217 | 228 | 239 | 251 | 264 |
| % of revenue | 2% | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 1% | 1% |
| Change in NCWC | 1,045 | 251 | 278 | 309 | 343 | 381 | 423 | 469 | 521 | 578 |
| FCFF | 1,484 | 2,704 | 3,145 | 3,635 | 4,180 | 4,734 | 5,353 | 6,049 | 6,836 | 7,733 |
| PV of FCFF = FCFF / ((1/WACC)^t) | 1,381 | 2,342 | 2,536 | 2,728 | 2,920 | 3,078 | 3,239 | 3,407 | 3,584 | 3,773 |



Valuation



DCF Assumptions

Latest PANW Acquisitions (usd millions)

| Quarter | Date | Size | Method | Target | Synergies | Synergy Return Ratio (Synergies/Size) | Goal of Transaction |
|---------|---------------------|-------|--------|------------------------|-----------|---------------------------------------|--|
| Q4'24 | May 15th, 2024 | 1,143 | Mixed | IBM Qradar | 701 | 61% | Accelerate growth of Cortex business |
| Q2'23 | November 6th, 2023 | 459 | Cash | Talon Cyber Security | 237 | 52% | Provide Prisma SASE secure access to business apps |
| Q1'23 | October 31st, 2023 | 255 | Cash | Dig Security Solutions | 186 | 73% | Enhance Prisma Cloud data security |
| Q2'22 | November 17th, 2022 | 198 | Cash | Cider Security | 165 | 83% | Help Prisma Cloud better its securing of entire application security lifecycle |
| Average | | 514 | Cash | | 322 | 67% | |

Assumptions for my Valuation

- For my DCF, I'll use the same WACC as the one I used for the reverse DCF.
 - I'll also use the same assumptions as the reverse DCF with a few additions.
- ↓
- I'll use these assumptions to value PANW going forward:
 - 1 acquisition/year all cash (\$500m adjusted for inflation) + 67% synergy returns

New Assumptions

- The company currently has \$6.5bn in liquid assets (net of debt) for acquisitions
- Historically, PANW conducts cash acquisitions in the ~\$500m range and materializes returns of 67%
- According to transcripts and SEC filings, past acquisitions did not result in significant employee increases = my SG&A reduction assumption stays the same



DCF Matrix

| USD millions | Historical | Forecasts | | | | | | | | | |
|--------------------------------|------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | LTM | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
| Acquisitions (size) | 1,142 | 500 | 510 | 520 | 531 | 541 | 552 | 563 | 574 | 586 | 598 |
| Acquisition Revenue (synergy) | 701 | 335 | 342 | 349 | 356 | 363 | 370 | 377 | 385 | 393 | 400 |
| Organic Revenue | 8,244 | 9,855 | 10,685 | 11,602 | 12,618 | 13,749 | 14,914 | 16,211 | 17,663 | 19,295 | 21,140 |
| Total Revenue | | 10,190 | 11,027 | 11,950 | 12,973 | 14,111 | 15,284 | 16,588 | 18,047 | 19,687 | 21,541 |
| <i>growth %</i> | | 24% | 8% | 8% | 9% | 9% | 8% | 9% | 9% | 9% | 9% |
| COGS | | 2,562 | 2,778 | 3,017 | 3,281 | 3,575 | 3,878 | 4,215 | 4,592 | 5,017 | 5,496 |
| <i>% of revenue</i> | | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% | 26% |
| Gross Profit | | 7,628 | 8,249 | 8,934 | 9,693 | 10,537 | 11,406 | 12,374 | 13,455 | 14,671 | 16,044 |
| <i>% of revenue</i> | | 77% | 77% | 77% | 77% | 77% | 76% | 76% | 76% | 76% | 76% |
| R&D | | 2,068 | 2,275 | 2,503 | 2,753 | 3,028 | 3,331 | 3,664 | 4,031 | 4,434 | 4,877 |
| <i>% of revenue</i> | | 21% | 21% | 22% | 22% | 22% | 22% | 23% | 23% | 23% | 23% |
| SG&A | | 3,495 | 3,477 | 3,460 | 3,442 | 3,425 | 3,408 | 3,391 | 3,374 | 3,357 | 3,340 |
| <i>% of revenue</i> | | 35% | 33% | 30% | 27% | 25% | 23% | 21% | 19% | 17% | 16% |
| EBIT | | 2,065 | 2,497 | 2,972 | 3,497 | 4,083 | 4,667 | 5,318 | 6,050 | 6,880 | 7,827 |
| <i>% of revenue</i> | | 21% | 23% | 26% | 28% | 30% | 31% | 33% | 34% | 36% | 37% |
| Interest + Other Income | | 350 | 403 | 463 | 532 | 612 | 704 | 810 | 931 | 1,071 | 1,231 |
| <i>% of revenue</i> | | 4% | 4% | 4% | 4% | 4% | 5% | 5% | 5% | 6% | 6% |
| Tax Expense | | 381 | 474 | 577 | 691 | 819 | 945 | 1,087 | 1,246 | 1,427 | 1,634 |
| <i>% of EBIT</i> | | 18% | 19% | 19% | 20% | 20% | 20% | 20% | 21% | 21% | 21% |
| NOPAT | | 2,034 | 2,425 | 2,857 | 3,338 | 3,877 | 4,426 | 5,041 | 5,735 | 6,523 | 7,424 |
| D&A | | 1,000 | 1,050 | 1,103 | 1,158 | 1,216 | 1,276 | 1,340 | 1,407 | 1,477 | 1,551 |
| <i>% of revenue</i> | | 10% | 10% | 9% | 9% | 9% | 8% | 8% | 8% | 8% | 7% |
| CapEx | | 170 | 179 | 187 | 197 | 207 | 217 | 228 | 239 | 251 | 264 |
| <i>% of revenue</i> | | 2% | 2% | 2% | 2% | 1% | 1% | 1% | 1% | 1% | 1% |
| Change in NCWC | | 1,045 | 251 | 278 | 309 | 343 | 381 | 423 | 469 | 521 | 578 |
| FCFF | | 1,819 | 3,046 | 3,494 | 3,990 | 4,543 | 5,104 | 5,731 | 6,434 | 7,229 | 8,134 |
| PV of FCFF = FCFF/((1+WACC)^t) | | 1,693 | 2,638 | 2,817 | 2,995 | 3,173 | 3,318 | 3,468 | 3,624 | 3,789 | 3,969 |



Implied Share Price

| Valuation | |
|-----------|-------|
| WACC | 7.44% |
| TV WACC | 6.48% |
| TV Growth | 2.00% |

| | |
|----------------------------|---|
| Sum of PV of FCFF | 31,484 |
| Terminal Value | 185,188 $TV = (FCFF_{last} * (1 + TVg)) / (TVWACC - TVg)$ |
| PV of TV | 98,840 $PV\ of\ TV = TV / ((1 + TVWACC)^{10})$ |
| Enterprise Value | 130,324 |
| (+) Cash | 3,391 Q1'25 |
| (-) Debt | 1,025 Q1'25 |
| Equity Value | 132,690 |
| Shares Outstanding | 656 Q1'25 |
| Implied Share Price | \$202.27 |
| Current Price | \$187.70 |
| Upside | 7.76% |

- Even with a very strong forecast of acquisitions (+ synergy gains from the latter) the implied upside is only ~8%

▪ **I recommend a modest buy and if any of the following risks materialize the stock will be a sale:**

- AI market growth lower than 25%/year
- Cybersecurity growth lower than 7%/year
- Poor company guidance
- Poor AI and cybersecurity market share penetration



Appendix



Historical Income Statement

| <i>usd millions</i> | Q123 | Q223 | Q323 | Q423 | Q124 | Q224 | Q324 | Q424 | Q125 | 2021 | 2022 | 2023 | 2024 | TTM |
|--------------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|-----------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Product | 330 | 353 | 388 | 507 | 341 | 391 | 391 | 481 | 354 | 1,120 | 1,363 | 1,578 | 1,603 | 1,616 |
| <i>growth %</i> | | | | | | | | | | | 22% | 16% | 2% | 1% |
| Subscription | 1,233 | 1,302 | 1,333 | 1,446 | 988 | 1,584 | 1,594 | 2,258 | 1,192 | 3,136 | 4,138 | 5,314 | 6,424 | 6,628 |
| <i>growth %</i> | | | | | | | | | | | 32% | 28% | 21% | 3% |
| Support | | | | | 549 | | | | 593 | | | | | |
| Revenue | 1,563 | 1,655 | 1,721 | 1,953 | 1,878 | 1,975 | 1,985 | 2,738 | 2,139 | 4,256 | 5,502 | 6,893 | 8,028 | 8,244 |
| COGS | 462 | 466 | 475 | 507 | 473 | 499 | 514 | 574 | 554 | 1,275 | 1,719 | 1,910 | 2,059 | 2,141 |
| GP | 1,102 | 1,189 | 1,246 | 1,447 | 1,405 | 1,476 | 1,471 | 2,165 | 1,585 | 2,981 | 3,783 | 4,983 | 5,969 | 6,103 |
| R&D | 372 | 404 | 414 | 414 | 410 | 448 | 457 | 495 | 480 | 1,140 | 1,418 | 1,604 | 1,809 | 1,880 |
| SG&A | 715 | 745 | 754 | 331 | 781 | 975 | 837 | 883 | 818 | 2,145 | 2,554 | 2,544 | 3,475 | 3,512 |
| Opex | 1,086 | 1,149 | 1,167 | 745 | 1,190 | 1,422 | 1,295 | 1,377 | 1,298 | 3,285 | 3,972 | 4,148 | 5,284 | 5,393 |
| OP | 15 | 40 | 79 | 701 | 215 | 54 | 177 | 787 | 287 | (304) | (188) | 835 | 684 | 711 |
| Interest exp | (7) | (7) | (8) | (6) | (3) | (3) | (2) | (0) | (1) | (163) | (27) | (27) | (8) | (7) |
| Other income | 26 | 51 | 60 | 69 | 70 | 85 | 77 | 81 | 83 | 2 | 9 | 206 | 313 | 326 |
| Pretax income | 34 | 84 | 131 | 764 | 283 | 136 | 251 | 868 | 369 | (465) | (207) | 1,014 | 989 | 1,030 |
| Taxes (benefit) | 14 | 0 | 23 | 89 | 88 | (1,611) | (28) | (39) | 18 | 34 | 60 | 127 | (1,589) | (1,660) |
| NI | 20 | 84 | 108 | 675 | 194 | 1,747 | 279 | 906 | 351 | (499) | (266) | 888 | 2,578 | 2,690 |
| Shares (split-adjusted) | 600 | 605 | 608 | 606 | 620 | 639 | 646 | 638 | 656 | 578 | 591 | 606 | 638 | 656 |
| EPS | \$0.03 | \$0.14 | \$0.18 | \$1.11 | \$0.31 | \$2.73 | \$0.43 | \$1.42 | \$0.53 | -\$0.86 | -\$0.45 | \$1.46 | \$4.04 | \$4.10 |
| EBITDA | 665 | 750 | 920 | 1,215 | 714 | 542 | 668 | 1,324 | 847 | 832 | 790 | 1,830 | 1,710 | 1,787 |
| Interest Coverage | 2.24 | 5.78 | 10.09 | 123.02 | 74.21 | 19.14 | 76.83 | 2,623.67 | 238.75 | 1.86 | 6.87 | 30.71 | 82.42 | 107.69 |
| Gross margin % | 70% | 72% | 72% | 74% | 75% | 75% | 74% | 79% | 74% | 70% | 69% | 72% | 74% | 74% |
| Operating margin % | 1% | 2% | 5% | 36% | 11% | 3% | 9% | 29% | 13% | -7% | -3% | 12% | 9% | 9% |
| Net margin % | 1% | 5% | 6% | 35% | 10% | 88% | 14% | 33% | 16% | -12% | -5% | 13% | 32% | 33% |
| EBITDA margin % | 43% | 45% | 53% | 62% | 38% | 27% | 34% | 48% | 40% | 20% | 14% | 27% | 21% | 22% |
| <i>Rev Q/Q growth %</i> | | | | | | 19% | 15% | 40% | 14% | | 29% | 25% | 16% | 3% |



Historical Balance Sheet

| <i>usd millions</i> | Q123 | Q223 | Q323 | Q423 | Q124 | Q224 | Q324 | Q424 | Q125 | 2021 | 2022 | 2023 | 2024 | TTM |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|
| Cash & equivalents | 2,067 | 1,346 | 1,993 | 1,135 | 2,491 | 1,783 | 1,374 | 1,535 | 2,283 | 1,874 | 2,119 | 1,135 | 1,535 | 2,283 |
| ST investments | 1,737 | 2,001 | 1,965 | 1,255 | 1,402 | 1,589 | 1,517 | 1,044 | 1,108 | 1,027 | 1,516 | 1,255 | 1,044 | 1,108 |
| AR + OR | 1,238 | 1,278 | 1,444 | 2,852 | 1,859 | 2,342 | 2,288 | 3,345 | 1,938 | 1,240 | 2,254 | 2,852 | 3,345 | 1,938 |
| Deferred | 311 | 313 | 317 | 339 | 329 | 328 | 337 | 369 | 368 | 277 | 318 | 339 | 369 | 368 |
| Prepays | 381 | 467 | 695 | 467 | 396 | 406 | 404 | 557 | 546 | 229 | 209 | 467 | 557 | 546 |
| TCA | 5,734 | 5,406 | 6,414 | 6,048 | 6,478 | 6,447 | 5,919 | 6,850 | 6,243 | 4,647 | 6,415 | 6,048 | 6,850 | 6,243 |
| PP&E | 354 | 345 | 342 | 355 | 353 | 352 | 350 | 361 | 361 | 318 | 358 | 355 | 361 | 361 |
| Operating lease asset | 260 | 251 | 248 | 263 | 274 | 356 | 370 | 386 | 389 | 263 | 242 | 263 | 386 | 389 |
| LT investments | 2,095 | 2,821 | 2,710 | 3,048 | 2,989 | 3,620 | 3,504 | 4,173 | 4,120 | 888 | 1,052 | 3,048 | 4,173 | 4,120 |
| LT financing receivables | 0 | 0 | 0 | 653 | 640 | 640 | 883 | 1,182 | 1,092 | 0 | 192 | 653 | 1,182 | 1,092 |
| LT deferred costs | 520 | 511 | 504 | 547 | 515 | 505 | 511 | 562 | 532 | 495 | 550 | 547 | 562 | 532 |
| Intangibles | 355 | 362 | 341 | 315 | 291 | 440 | 408 | 375 | 810 | 499 | 385 | 315 | 375 | 810 |
| Deferred taxes | 0 | 0 | 0 | 0 | 0 | 2,234 | 2,292 | 2,399 | 2,398 | 0 | 0 | 0 | 2,399 | 2,398 |
| ONCA | 478 | 556 | 686 | 345 | 343 | 326 | 321 | 353 | 380 | 421 | 313 | 345 | 353 | 380 |
| TNCA | 4,063 | 4,845 | 4,830 | 5,526 | 5,404 | 8,473 | 8,639 | 9,791 | 10,081 | 2,884 | 3,091 | 5,526 | 9,791 | 10,081 |
| TA | 9,796 | 10,251 | 11,244 | 11,574 | 11,882 | 14,919 | 14,558 | 16,641 | 16,324 | 7,532 | 9,506 | 11,574 | 16,641 | 16,324 |
| AP | 126 | 128 | 92 | 132 | 132 | 179 | 109 | 116 | 212 | 57 | 128 | 132 | 116 | 212 |
| Accrued | 649 | 724 | 720 | 548 | 703 | 847 | 799 | 1,061 | 1,038 | 760 | 860 | 548 | 1,061 | 1,038 |
| Deferred rev | 3,741 | 3,943 | 4,147 | 4,675 | 4,732 | 4,918 | 5,015 | 5,541 | 5,508 | 2,742 | 3,641 | 4,675 | 5,541 | 5,508 |
| Convertible senior notes | 3,679 | 3,680 | 3,682 | 1,992 | 1,947 | 1,822 | 1,163 | 964 | 646 | 1,558 | 3,677 | 1,992 | 964 | 646 |
| TCL | 8,195 | 8,475 | 8,641 | 7,347 | 7,513 | 7,766 | 7,085 | 7,683 | 7,403 | 5,117 | 8,306 | 7,347 | 7,683 | 7,403 |
| LT deferred rev | 3,438 | 3,612 | 3,943 | 4,622 | 4,711 | 4,900 | 5,153 | 5,939 | 5,586 | 2,282 | 3,353 | 4,622 | 5,939 | 5,586 |
| Deferred taxes | 0 | 0 | 0 | 0 | 0 | 589 | 503 | 388 | 251 | 0 | 0 | 0 | 388 | 251 |
| LT operating lease liability | 283 | 274 | 265 | 279 | 276 | 363 | 370 | 381 | 380 | 313 | 276 | 279 | 381 | 380 |
| ONCL | 119 | 74 | 90 | 114 | 138 | 318 | 353 | 431 | 844 | 98 | 108 | 114 | 431 | 844 |
| TNCL | 3,841 | 3,959 | 4,297 | 5,015 | 5,125 | 6,169 | 6,378 | 7,139 | 7,060 | 2,693 | 3,737 | 5,015 | 7,139 | 7,060 |
| TL | 12,036 | 12,434 | 12,938 | 12,362 | 12,638 | 13,935 | 13,463 | 14,821 | 14,463 | 7,810 | 12,044 | 12,362 | 14,821 | 14,463 |
| PIC | 2,266 | 2,303 | 2,708 | 3,019 | 3,297 | 3,650 | 3,531 | 3,821 | 4,215 | 2,311 | 1,933 | 3,019 | 3,821 | 4,215 |
| AD | (111) | (11) | (21) | (43) | (93) | (7) | (55) | (2) | (4) | (10) | (56) | (43) | (2) | (4) |
| SE | (2,240) | (2,183) | (1,694) | (788) | (756) | 984 | 1,095 | 1,820 | 1,861 | (278) | (2,538) | (788) | 1,820 | 1,861 |



Historical Cash Flow Statement

| <i>usd millions</i> | Q123 | Q223 | Q323 | Q423 | Q124 | Q224 | Q324 | Q424 | Q125 | 2021 | 2022 | 2023 | 2024 | TTM |
|---------------------------------------|---------|---------|--------|---------|--------|---------|---------|---------|--------|---------|---------|---------|---------|---------|
| Model NI | 20 | 84 | 108 | 675 | 194 | 1,747 | 279 | 906 | 351 | (499) | (266) | 888 | 2,578 | 2,690 |
| Reported NI | 20 | 84 | 108 | 228 | 194 | 1,747 | 279 | 358 | 351 | (499) | (267) | 440 | 2,578 | 2,734 |
| SBC | 266 | 283 | 271 | 254 | 271 | 272 | 264 | 269 | 294 | 895 | 1,011 | 1,075 | 1,075 | 1,099 |
| Deferred Taxes | 0 | 3 | 3 | 7 | (0) | (1,691) | 3,510 | (3,852) | (137) | 0 | (3) | 13 | (2,034) | (2,171) |
| D&A | 71 | 70 | 72 | 69 | 64 | 69 | 74 | 76 | 84 | 260 | 283 | 282 | 283 | 303 |
| Amortization of costs + debt | 99 | 101 | 103 | 117 | 107 | 110 | 111 | 122 | 111 | 441 | 369 | 420 | 450 | 454 |
| Reduction in lease assets | 12 | 13 | 12 | 13 | 12 | 14 | 15 | 15 | 16 | 45 | 54 | 50 | 55 | 59 |
| Amortization of premiums | 2 | (16) | (20) | (18) | (15) | (16) | (16) | (14) | (15) | 13 | 14 | (52) | (60) | (60) |
| Change in receivables | 904 | (126) | (411) | (1,426) | 1,007 | (482) | (189) | (1,356) | 1,496 | (172) | (932) | (1,059) | (1,020) | (530) |
| Change in deferred costs | (60) | (93) | (98) | (181) | (63) | (96) | (126) | (204) | (79) | (441) | (459) | (432) | (489) | (505) |
| Change in prepaids | (41) | (37) | (91) | (101) | 54 | (8) | 1 | (181) | (4) | (299) | (110) | (271) | (134) | (192) |
| Change in AP | (1) | 2 | (34) | 34 | (0) | 48 | (68) | 6 | 97 | (12) | 69 | 1 | (15) | 82 |
| Change in accrued | (220) | 38 | (16) | 208 | (251) | 352 | (39) | 326 | (294) | 77 | (15) | 10 | 388 | 345 |
| Change in deferred rev | 186 | 374 | 535 | 1,207 | 146 | 372 | 349 | 1,313 | (417) | 1,196 | 1,970 | 2,302 | 2,181 | 1,618 |
| CFFO | 1,237 | 695 | 436 | 411 | 1,526 | 690 | 4,166 | (3,124) | 1,503 | 1,503 | 1,985 | 2,778 | 3,258 | 3,235 |
| Purchase of investments | (2,113) | (1,607) | (742) | (999) | (855) | (1,157) | (475) | (1,065) | (660) | (1,959) | (2,272) | (5,460) | (3,551) | (3,357) |
| Sale of investments | 485 | 15 | 375 | 91 | 305 | 127 | 70 | 455 | 291 | 131 | 449 | 966 | 956 | 943 |
| Maturities of investments | 348 | 651 | 505 | 1,308 | 458 | 350 | 556 | 488 | 369 | 1,241 | 1,119 | 2,812 | 1,853 | 1,764 |
| Acquisitions | 0 | (186) | (19) | 0 | 0 | (611) | 0 | 0 | (500) | (777) | (37) | (205) | (611) | (1,111) |
| CAPEX | (40) | (38) | (31) | (37) | (37) | (35) | (37) | (47) | (44) | (116) | (193) | (146) | (157) | (164) |
| CFFI | (1,320) | (1,165) | 88 | 363 | (129) | (1,326) | 113 | (169) | (544) | (1,481) | (933) | (2,034) | (1,510) | (1,925) |
| Payments of convertible notes | 0 | 0 | 0 | (1,692) | (46) | (126) | (662) | (200) | (319) | (1) | (1) | (1,692) | (1,034) | (1,307) |
| Stock repo | (23) | (250) | 0 | 0 | (67) | 0 | (500) | 0 | 0 | (1,178) | (892) | (273) | (567) | (500) |
| Proceeds from sales of stock to empl. | 68 | 1 | 130 | 60 | 86 | 58 | 116 | 24 | 121 | 104 | 137 | 259 | 284 | 318 |
| Taxes relating to SBC | (14) | (2) | (2) | (3) | (16) | (4) | (3) | (4) | (21) | (29) | (50) | (20) | (27) | (33) |
| CFFF | 31 | (251) | 128 | (1,635) | (42) | (73) | (1,049) | (179) | (220) | (1,104) | (807) | (1,726) | (1,343) | (1,521) |
| CIC | (52) | (721) | 652 | (861) | 1,355 | (708) | 3,229 | (3,472) | 740 | (1,081) | 245 | (983) | 405 | (211) |
| FCF | 1,197 | 656 | 404 | 374 | 1,489 | 655 | 4,128 | (3,171) | 1,459 | 1,387 | 1,792 | 2,631 | 3,101 | 3,071 |
| <i>growth %</i> | | -45% | -38% | -8% | 299% | -56% | 530% | -177% | -146% | | 29% | 47% | 18% | -1% |
| FCF/Share (split-adjusted) | \$2.00 | \$1.09 | \$0.67 | \$0.62 | \$2.40 | \$1.02 | \$6.39 | -\$4.97 | \$2.22 | \$2.40 | \$3.03 | \$4.34 | \$4.86 | \$4.68 |
| FCF yield % | 1.15% | 0.63% | 0.38% | 0.36% | 1.38% | 0.59% | 3.69% | -2.86% | 1.28% | 1.38% | 1.75% | 2.50% | 2.80% | 2.70% |