PANW gideon lens

Palo Alto Networks (PANW) — Gideon-Lens Equity Research

Report ID: PANW_ER2_20260927T080321 **Research date:** 2026-09-27 **Price anchor:** USD 374.74 per XNAS:PANW common share at the 2026-09-25 completed close **Market capitalization:** USD 305.4 billion **Fiscal year end:** July 31 **Forecast anchor and horizon:** TTM ended 2026-07-31 to 2031-07-31, exactly 5.0 calendar years **Authority:** Production ER2 research only. No trade, ranking, sizing, messaging, broker, or portfolio-mutation authority.

Verdict block

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	FAIL	Acquired scale and dilution outran proven per-share acquisition returns
Moat	YELLOW	Present platform moat is real; 2046 integration economics remain unproven
P/E <= 15 on confident EPS at TTM + 5 calendar years	FAIL	Base EPS USD 3.800819 gives a -84.79% entry-price cushion
Compounder Score	Audited 39/100	Reject; evidence does not support dream-investment status; diagnostic only
Business Quality Score	Audited 36/80	Valuable franchise without proven high-return acquisition-inclusive reinvestment
20% Return UW Score	Audited 3/20	Every VP-locked return scenario remains negative at today's price

One-line reason to pass: PANW owns strategically valuable cybersecurity assets, but Management fails the per-share stewardship gate and even the fully successful Bull case does not earn a positive five-year return at USD 374.74.

Security return underwriting (mandatory even when the verdict is PASS):

Measure	Result	Notes
Primary valuation method	P/E	One audited method is used for every scenario, probability weighting, reverse return, and net-SGD
Gross local-currency bear / base / bull IRR	-37.93% / -16.51% / -2.91%	Five-year annualized shareholder return in USD
Probability-weighted gross local-currency IRR	-15.98%	CAGR of USD 156.9216425 probability-weighted terminal wealth; weights 25% / 55% / 20%
Return bridge	USD 374.74 → USD 34.530930 / 152.032760 / 323.354460	2031 statutory EPS × independently locked 30x / 40x / 55x P/E; zero distributions; no separate net cash/debt adjustment

The tables below show gross USD underwriting. Net-SGD adjustments appear separately in CIO actionability. The reported TTM P/E of 932.58x is disclosure-only because FY2026 earnings contain acquisition-perimeter and other distortions. The comparable normalized current P/E is 392.63x on Base FY2027 statutory GAAP EPS of USD 0.954447. P/E already capitalizes cash, debt, lease and other claim effects through statutory earnings and the equity multiple, so adding terminal net cash or subtracting debt again would double count them.

Bear-case operating and return bridge

Bear case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 16.740B	7.84%	Platform growth slows amid bundling, integration and pricing pressure

Bear case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Operating margin	6.05%	9.02%	+2.97 pp	Persistent 14.5% SBC, integration cost and cloud-delivery pressure limit recovery
Operating earnings	USD 0.695B	USD 1.5092B	16.78%	Statutory operating income under the single-segment non-operating-CODM fallback
Diluted share count	764.000M	864.435795M	2.50%	FY2027 guided reset plus continuing SBC, with no modeled buyback offset
EPS	USD 0.401832	USD 1.151031	23.43%	Statutory diluted EPS on the reconciled listed-share basis
Valuation denominator	Reported EPS USD 0.401832; normalized FY2027 EPS USD 0.954447	Statutory EPS USD 1.151031	Comparable after normalization	Raw TTM P/E is not a valid cap; normalized and terminal GAAP perimeters are comparable
Valuation	932.58x reported / 392.63x normalized P/E	30.00x P/E	-362.63x vs normalized	Haircut to the least-distorted historical anchor for low growth, dilution and Management FAIL
Share value	USD 374.74	USD 34.530930	-90.79%	USD 1.151031 EPS × 30x; no separate cash/debt adjustment
Annual dividend	USD 0.00	USD 0.00	0.00%	No source-bound dividend path
Dividend yield	0.00%	0.00%	0.00 pp	Zero-distribution diagnostic
Five-year dividends	-	USD 0.00	cumulative	No distributions are modeled
Total ending value	USD 374.74	USD 34.530930	-37.93% gross USD IRR	Terminal share value plus zero distributions

Base-case operating and return bridge

Base case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 22.341B	14.24%	Platformization, identity and security-operations growth continue on the enlarged perimeter
Operating margin	6.05%	17.71%	+11.66 pp	Source-bound amortization schedule, declining SBC intensity and integration leverage drive recovery
Operating earnings	USD 0.695B	USD 3.957587B	41.61%	Statutory operating income after explicit GAAP amortization/SBC/integration paths
Diluted share count	764.000M	853.761728M	2.25%	FY2027 guided reset; annual SBC issuance is partly offset by USD 1B buybacks
EPS	USD 0.401832	USD 3.800819	56.75%	Statutory diluted EPS, including acquisition effects and dilution
Valuation denominator	Reported EPS USD 0.401832; normalized FY2027 EPS USD 0.954447	Statutory EPS USD 3.800819	Comparable after normalization	Same USD, listed-unit and GAAP perimeter after normalization
Valuation	932.58x reported / 392.63x normalized P/E	40.00x P/E	-352.63x vs normalized	Approximately PANW's least-distorted recent positive-GAAP anchor and below FTNT's peer reference
Share value	USD 374.74	USD 152.032760	-59.43%	USD 3.800819 EPS × 40x; no second capital-structure adjustment
Annual dividend	USD 0.00	USD 0.00	0.00%	No source-bound dividend path
Dividend yield	0.00%	0.00%	0.00 pp	Zero-distribution diagnostic
Five-year dividends	-	USD 0.00	cumulative	No distributions are modeled
Total ending value	USD 374.74	USD 152.032760	-16.51% gross USD IRR	Terminal share value plus zero distributions

Bull-case operating and return bridge

Bull case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 26.765B	18.45%	Broad platform adoption, identity growth and Cortex/AI security execution all succeed
Operating margin	6.05%	22.51%	+16.46 pp	Integration, pricing and cloud leverage overcome amortization while SBC falls to 8% of revenue
Operating earnings	USD 0.695B	USD 6.024250B	54.02%	Statutory operating income under the same audited GAAP bridge
Diluted share count	764.000M	843.087661M	1.99%	FY2027 reset and SBC are more than offset after FY2027 by USD 2B annual buybacks
EPS	USD 0.401832	USD 5.879172	71.00%	Statutory diluted EPS on the reconciled terminal share count
Valuation denominator	Reported EPS USD 0.401832; normalized FY2027 EPS USD 0.954447	Statutory EPS USD 5.879172	Comparable after normalization	Same claim perimeter; the raw TTM P/E remains disclosure-only
Valuation	932.58x reported / 392.63x normalized P/E	55.00x P/E	-337.63x vs normalized	Inside the least-distorted PANW-to-profitable-peer range, conditional on all operating levers succeeding
Share value	USD 374.74	USD 323.354460	-13.71%	USD 5.879172 EPS × 55x; no separate net-cash addition
Annual dividend	USD 0.00	USD 0.00	0.00%	No source-bound dividend path
Dividend yield	0.00%	0.00%	0.00 pp	Zero-distribution diagnostic
Five-year dividends	-	USD 0.00	cumulative	No distributions are modeled
Total ending value	USD 374.74	USD 323.354460	-2.91% gross USD IRR	Terminal share value plus zero distributions

CIO actionability (separate from ER2 underwriting):

Measure	Result	Notes
Status	PASS	Management is a hard FAIL and Base/PW net-SGD returns are negative
Bear / Base / Bull net SGD IRR	-39.34% / -16.68% / -2.15%	Five-year annualized after 0.5% entry/exit costs and scenario FX translation
Probability-weighted net SGD IRR	-15.89%	CAGR of probability-weighted terminal SGD wealth; weights 25% / 55% / 20%
10% mandate hurdle	FAIL	Base and probability-weighted returns are both below zero
15% stretch hurdle	FAIL	Even Bull does not earn a positive net-SGD return
Downside and portfolio fit	FAIL / UNAVAILABLE	Security downside fails; governed current portfolio context was not supplied
Proposed sizing ceiling	none	PASS status and no research sizing authority

The net-SGD diagnostic assumes USD/SGD 1.28 at entry, 1.152 / 1.28 / 1.344 at exit in Bear/Base/Bull, 0.5% entry and exit costs, and zero withholding because modeled distributions are zero. These are conservative diagnostic assumptions, not an FX forecast.

Trade execution authorized: NO

Stage 0 — Time anchor

Today is 2026-09-27. PANW's fiscal year ends July 31. The most recently reported quarter is Q4 FY2026 ended 2026-07-31. The reproducible TTM comprises Q1 FY2026 ended 2025-10-31, Q2 ended 2026-01-31, Q3 ended 2026-04-30 and Q4 ended 2026-07-31. The forward horizon is exactly five calendar years after that TTM endpoint: 2031-07-31.

Stage 1 — Disqualifier sweep

ROIC is **red/yellow** because FY2026 standardized ROIC fell to roughly 1.9% after major acquisitions and acquisition-inclusive ROIIC remains unproven. Cash conversion is **yellow**: FCF is strong, but FY2026 SBC was 43% of FCF and cannot be ignored. Balance-sheet risk is **green/yellow** because funded net cash is positive, yet convertibles, leases and enormous integration commitments matter. End-market demand is **green**. Governance and dilution are **red/yellow** because compensation omits ROIC and net-share discipline. AI disruption is **yellow** because autonomous response expands the market but can commoditize workflows. Pricing power is **yellow** because platform breadth and switching costs are real, while discounting and total-company retention economics remain insufficiently disclosed.

Management

Management earns **FAIL**, not because strategic execution has been weak, but because per-share stewardship has not been demonstrated. Nikesh Arora's team grew revenue from USD 5.502B in FY2022 to USD 11.480B in FY2026, expanded NGS ARR to USD 9.10B and built meaningful platform adoption. It also committed USD 21.061B to CyberArk—mostly in PANW shares—and USD 2.951B to Chronosphere before disclosing a transaction-level return ledger. FY2026 SBC was 15.5% of revenue, period-end shares rose from 668M to 815M, and FY2027 guidance points to 844–847M diluted shares. Incentives emphasize ARR, non-GAAP EPS and relative TSR rather than ROIC, acquisition returns or net dilution. Reconsideration requires two years of organic/acquired bridges, SBC below 10% of revenue, diluted-share growth below revenue and explicit return accountability.

Moat

The moat is **YELLOW**, including the **2046 test: YELLOW**. Embedded network enforcement, high-trust procurement, integrated telemetry and switching costs give PANW a credible present advantage. Identity and agentic security can enlarge the durable control-plane opportunity. The unresolved question is economic: Microsoft, CrowdStrike, Zscaler and cloud platforms can bundle adjacent controls, while PANW must prove that breadth produces better renewal, pricing and statutory margin outcomes rather than acquisition-funded scale. A PASS needs disclosed organic growth and retention, statutory gross margin above 72%, operating margin above the pre-acquisition 13.48%, and cross-platform outcomes without lengthening free periods. Moat failure becomes likely if organic NGS ARR falls to the low teens while NRR slips below 115%, or if total gross margin remains below 70% and statutory operating margin below 10% after integration.

Stage 5 synthesis

The Synthesis clears all 11 tie-outs. The audited FY2026/TTM base is USD 11.480B revenue, USD 0.695B statutory operating income and USD 0.307B net income. Base terminal revenue is USD 22.341B, statutory operating income USD 3.957587B, net income USD 3.244994B and diluted EPS USD 3.800819 on 853.761728M shares. The explicit annual bridge retains acquired-intangible amortization, recurring SBC, integration/acquisition costs and share-based payroll tax in GAAP earnings. Base statutory operating margin reaches 17.71%, below the prior unreviewed 18% endpoint. The P/E-15 gate requires USD 24.982667 of terminal EPS at today's price; Base falls short by 84.79%. Bear, Base and Bull terminal margins are 9.02%, 17.71% and 22.51%, while terminal EPS is USD 1.151031, 3.800819 and 5.879172.

Case	Revenue	Statutory OI	OI margin	Net income	Diluted EPS	P/E-15 cushion
Bear	USD 16.740B	USD 1.509200B	9.02%	USD 0.994952B	USD 1.151031	-95.39%
Base	USD 22.341B	USD 3.957587B	17.71%	USD 3.244994B	USD 3.800819	-84.79%
Bull	USD 26.765B	USD 6.024250B	22.51%	USD 4.956889B	USD 5.879172	-76.47%

Red team

The repaired return objection is **MATERIAL_RESOLVED**. The strongest bear case is that acquisition-inflated growth, competitor bundling, cloud costs and persistent SBC prevent Cortex/Idira from converting demand into per-share statutory earnings. The most optimistic Stage 5 number remains the 17.71% Base terminal margin, especially the embedded fall in SBC to 10.25% of revenue. The model may still be too generous at 40x Base P/E, but it is also punitive by assuming zero distributions; neither directional challenge repairs the negative return conclusion. The observable thesis-breaking signal is organic NGS ARR growth below 20% for two consecutive comparable quarters.

Kill / trigger criteria

- **20% diagnostic buy-price trigger:** USD 61.10 or lower under the Base 40x P/E bridge; this is research math, not a trade instruction.
- **Management reconsideration:** two years of organic/acquired return bridges, SBC below 10% of revenue, and diluted-share growth below revenue.
- **Moat downgrade:** any two of organic/core growth in the low teens with platformized NRR below 115%, gross margin below 70% with statutory margin below 10%, or repeated major-platform displacement.
- **Thesis exit signal:** organic NGS ARR growth below 20% for two consecutive comparable quarters.
- **Upgrade condition:** Management and Moat must both clear, Base EPS must support a positive P/E-15 cushion, and Base/PW net-SGD returns must both exceed 10%.

Analyst flags

PANW does not disclose a complete organic-versus-acquired ARR/profit bridge, full platform-level profitability, total-company NRR/GRR/churn, actual award-level future dilution or transaction-level acquisition ROIIC. The quote packet is hash-bound to the 2026-09-25 close and expires 2026-09-29 at 04:00 SGT. Portfolio fit remains unavailable because this research action has no live portfolio-context authority. These constraints lower confidence in actionability but do not make the mandatory security returns unavailable.

Research sizing if actionable: none. The CIO actionability status is PASS, and this report has no sizing or trade authority.

Appendix A - Company Primer

Palo Alto Networks, Inc. (PANW) - Company Primer

Scope, source discipline, and time anchor

This primer is the reader-facing introduction to Palo Alto Networks. It explains how the company makes money, how customers buy, what the major platforms do, why the model can produce high cash flow despite modest reported earnings, and which facts should matter in the later ER2 forecast. It is not a valuation or portfolio recommendation, and it does not authorize trading, ranking, sizing, or portfolio action. `trade_execution_authorized=false`.

The financial source of truth is the cleared quantitative foundation at `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\quant_foundation.md`. Every financial-statement figure in this primer comes from that file or is simple arithmetic on its values. The quantitative foundation passed all eight reconciliation checks, uses the QFR-sealed quote packet SHA-256 `cb4671f75cc9f570742d3b5fb6ff16933d684a107c412e201b26c11b04655664`, and binds the statutory bridge SHA-256 `2d78a720f68b5a6d02e0625b17b43e6d7cc511b8a005f16ce6cbed52eaecab45`. The data package was still an in-progress placeholder while this appendix was prepared, so it was not used. Qualitative facts were retrieved live in this run from Palo Alto Networks Investor Relations and the SEC-filed FY2026 Form 10-K. No cached data-warehouse file was used.

The time anchor is unusually clean because the trailing twelve months coincide with the latest fiscal year. Today is September 26, 2026. PANW's fiscal year ends July 31. The most recently reported quarter is Q4 FY2026, ended July 31, 2026 and reported September 1, 2026. TTM comprises Q1 through Q4 FY2026 and ends July 31, 2026. The ER2 horizon is exactly five calendar years later, July 31, 2031. PANW has one operating and reportable segment. Its disclosed CODM profit measure is consolidated net income, a below-operating-line measure; the governed forecast basis is therefore the schema-1.2.0 single-segment non-operating-CODM fallback, with statutory operating income as the modeled profit basis.

1. Business overview

Palo Alto Networks is an enterprise cybersecurity vendor that has expanded far beyond its original next-generation firewall franchise. Its stated objective is to protect enterprise users, networks, cloud workloads, endpoints, applications, AI systems, and human and non-human identities. In practical terms, the company sells technology that sits at several control points in an organization's digital estate: at the network perimeter and branch, between a user and an application, inside endpoints and cloud workloads, inside the security operations center, and increasingly at the identity and AI-agent layers.

The strategic idea is "platformization." Large organizations historically assembled security from many specialist vendors. That creates duplicated data, disconnected consoles, integration work, inconsistent policy, and slower incident response. PANW is trying to replace that stack with a smaller number of tightly integrated platforms that share telemetry, policy, threat intelligence, AI models, and workflow automation. The customer proposition is not simply "buy more Palo Alto products." It is that a unified architecture can improve detection and response while lowering the customer's integration and operating burden. The economic proposition for PANW is a larger wallet share, deeper operational entrenchment, and more opportunities to cross-sell into an installed base.

The portfolio now spans four named families. Network & AI Security covers firewalls, secure access service edge, cloud-delivered security services, browsers, and AI-security controls. Cortex covers security operations, endpoint detection and response, cloud security, and observability. Idira, formed around CyberArk, covers identity, privileged access, machine identity, and governance. Unit 42 supplies threat intelligence, incident response, consulting, and managed services. These are commercial platforms and revenue contexts, not reportable accounting segments. The FY2026 10-K explicitly reports one consolidated operating and reportable segment, so later modeling must not add the platform families as if they were audited segment revenue or profit lines.

The company sells a combination of hardware, software licenses, subscriptions, cloud-delivered services, support, and advisory services. Hardware and some software licenses establish or expand a control point; recurring subscriptions and support monetize threat prevention, analytics, updates, cloud delivery, operational capability, and customer success over time. This hybrid model matters: product demand can seed future recurring revenue, while subscriptions can increasingly be sold without a dedicated hardware appliance through software firewalls, SASE, Cortex, Idira, and cloud offerings.

2. Customers and buying model

PANW serves enterprises, service providers, and government entities across many industries. Deployments can cover data centers, campuses, cloud environments, branches, remote users, browsers, endpoints, privileged accounts, machine identities, and security operations centers. The breadth creates a broad addressable surface but also makes adoption complex. Security, infrastructure, cloud, identity, procurement, and finance teams can all influence a large transaction.

The sales motion combines a direct-touch enterprise sales force with indirect fulfillment. According to the live FY2026 10-K, a substantial portion of end-customer sales flows through a two-tier channel in which PANW sells to distributors, distributors sell to resellers, and resellers sell to end customers. Direct sales personnel pursue large accounts, manage the overall relationship, coordinate proofs of concept, and work with channel partners. The partner set includes resellers, systems integrators, service providers, managed security service providers, and cloud hosting providers. Sales engineers provide pre-sales architecture and technical support. This is not a low-touch, self-serve SaaS model: major deployments can involve long evaluations, architecture work, policy migration, contract alignment, and implementation assistance.

Channel reach is an asset because it expands distribution and provides local implementation capacity. It is also a dependency. The 10-K identifies material distributor concentration while noting the absence of a comparably dominant end customer. Distributor concentration does not necessarily mean end-market concentration, but operational, credit, and incentive problems at a distributor can still disrupt bookings or collections. Government business can be especially slow and channel-dependent.

Contracts combine up-front and ratable recognition. Product revenue is generally recognized when hardware ships or a software license is delivered. Subscription and support contracts are typically one to five years and are recognized over the service period. Customers have no obligation to renew after the initial term. The company is also adding consumption- or usage-based offers, particularly in observability and AI-related services. Consumption improves alignment with customer value and can accelerate as workloads scale, but it introduces optimization risk: a customer can reduce telemetry, token, or workload usage even when it does not churn.

The platformization motion can require commercial flexibility. Management has described aligning contract expirations, staging payments, or deploying before an incumbent contract ends so a customer can consolidate vendors without paying twice for the entire transition. This can improve the probability and size of a strategic win, but it may defer revenue or cash and can make near-term bookings, billings, and recognized revenue diverge. Therefore a later ER2 model should not treat a large platform deal as immediately equivalent to recognized revenue.

3. FY2026 revenue architecture

PANW reports only one financial segment. Within that segment, the quantitative foundation provides three audited revenue categories. FY2026 and TTM are the same twelve-month period.

Revenue category	FY2026 / TTM revenue (USD mm)	Share of total	Economic description
Product	2,280	19.9%	Hardware appliances and delivered software licenses, including certain firewall, SD-WAN, Panorama, and identity-security licenses
Subscription	6,239	54.3%	Cloud-delivered security, software subscriptions, analytics, identity, cloud, observability, AI, and related recurring services
Support	2,961	25.8%	Technical support and maintenance tied to the installed base and deployed software
Total	11,480	100.0%	One consolidated operating and reportable segment

Subscription plus support totaled USD 9,200 million, or 80.1% of revenue. This is the core durability feature of the revenue model. It also means current revenue lags changes in contract activity because multi-year service revenue is recognized over time. A bookings slowdown may take several quarters to appear fully in revenue; conversely, current revenue can remain resilient for a while after new-contract momentum weakens.

Product is economically important beyond its 19.9% revenue share. A firewall or software license can establish a customer control point from which PANW sells threat prevention, DNS security, URL filtering, data-loss prevention, IoT security, SASE, support, and other services. Yet product is no longer synonymous with physical appliances. The live 10-K says product revenue also includes software licenses such as SD-WAN, VM-Series, Panorama, and certain identity-security offerings. The

mix therefore blurs the old hardware-versus-SaaS distinction.

Geographically, the live 10-K identifies the Americas as the largest theater, followed by EMEA and then APAC. Exact geographic revenue is intentionally not reproduced here because it is not part of the cleared quantitative foundation. The qualitative implication is still useful: PANW is globally diversified, but its cost base, Israel operations, foreign-exchange exposures, privacy rules, export controls, sovereign requirements, and regional channel execution create complexity beyond a U.S.-only software vendor.

Revenue grew from USD 8,027 million in FY2024 to USD 9,221 million in FY2025 and USD 11,480 million in FY2026. The last step was a 24.5% increase, but it is not a pure organic comparison: CyberArk and Chronosphere entered the consolidation perimeter during FY2026. Product, Subscription, and Support remain business-context categories inside one reportable segment. A credible forecast must therefore separate organic growth, acquired contribution, cross-sell, and purchase-accounting effects without inventing audited platform segments.

4. Products and platforms

Network & AI Security

The foundational products are machine-learning-powered next-generation firewalls. Physical appliances protect campuses and data centers; software firewalls protect virtual and public-cloud networks. Around that core, PANW sells cloud-delivered security services such as threat prevention, malware analysis, DNS security, URL filtering, device security, data-loss prevention, and SaaS controls. Prisma Access and Prisma SD-WAN form the secure access service edge offer, extending consistent policy to branches and remote users. Prisma Browser adds security and data controls in the browser, where many enterprise workflows now occur.

Prisma AIRS addresses the AI application lifecycle. It is designed to discover and assess AI assets, inspect model and agent interactions, secure AI-assisted development, prevent data leakage and prompt attacks, and govern autonomous agents. The strategic logic is that enterprise AI creates new traffic, identities, tool permissions, and data paths. The competitive risk is that AI security is still evolving and could be absorbed into cloud platforms, identity systems, model providers, or existing application-security stacks.

Cortex

Cortex seeks to unify the security operations center. XSIAM combines security information and event management, endpoint telemetry, automation, cloud detection and response, and attack-surface data. XDR focuses on prevention, detection, and response across endpoints and other telemetry sources. XSOAR automates playbooks and incident workflows. Xpanse inventories internet-facing assets and attack surfaces. Cortex Cloud brings cloud-native application protection and cloud detection and response together from code through runtime.

Chronosphere extends Cortex into observability: metrics, logs, traces, application performance, and telemetry routing. A shared telemetry pipeline could lower data cost and improve security correlation. The risk is that observability has distinct buyers, workflows, and incumbents; cross-selling it through a security organization may not be automatic.

Idira

Idira is the identity-security platform created from CyberArk. It covers privileged access management, workforce identity, developer and IT access, machine identities such as certificates and secrets, identity governance, and emerging AI-agent identities. Its core principle is least privilege: discover identities, validate context, grant only required access for only as long as needed, and record activity for audit and response.

Identity is strategically adjacent to every other PANW platform. Network policy is more effective when it knows who or what is connecting; cloud and security-operations tools benefit from identity telemetry; AI agents require credentials and permissions. Yet identity also expands PANW into direct competition with entrenched privileged-access, access-management, governance, and cloud-native identity vendors. Integration quality, product coherence, and seller expertise will determine whether Idira becomes a cross-platform control layer or merely a large acquired business beside the legacy portfolio.

Unit 42

Unit 42 combines threat intelligence, incident response, consulting, managed detection and response, and threat hunting. It can feed real attack observations into research and product detections while strengthening executive relationships after an incident. The tradeoff is that labor-intensive services scale differently from software and carry delivery risk.

5. Unit economics: how revenue becomes operating profit

PANW's unit economics are best understood as a portfolio rather than three independent accounting segments. The quantitative foundation reports USD 11,480 million of FY2026 revenue, USD 3,403 million of cost of revenue, and USD 8,077 million of gross profit, for a 70.4% consolidated gross margin. Operating expenses were USD 7,382 million, leaving USD 695 million of statutory operating income and a 6.1% operating margin.

Product cost includes hardware components, manufacturing, freight, warranty, and acquired-intangible amortization, while software licenses are structurally lighter. Subscription and support cost includes cloud hosting, technical operations, customer support personnel, third-party services, repairs, and acquired-intangible amortization. The live 10-K attributes FY2026 margin pressure in part to acquisition-related amortization, growing cloud-hosting expense, and hardware supply-chain effects. These are economically different. Acquired-intangible amortization is non-cash but follows real acquisition spending; cloud hosting scales with service usage and cannot simply be added back; hardware costs depend on product mix, component pricing, and supply execution.

The largest economic expense pool is below gross profit: research and development, sales and marketing, and general and administrative functions. PANW must fund rapid product development across several security categories, a global enterprise sales force, solutions engineers, channel enablement, support, compliance, and post-acquisition integration. Personnel is the dominant operating-cost driver. The platform thesis can produce leverage if shared data, infrastructure, R&D, and sales coverage replace duplicated point-product costs. It can destroy leverage if each acquired platform retains separate infrastructure and sales specialization while corporate overhead and stock compensation rise.

Reported operating income is also distorted by the acquisition cycle. FY2026 statutory operating margin fell from 13.5% in FY2025 to 6.1%, even as revenue grew, reflecting a much larger consolidation perimeter and costs. That does not justify replacing GAAP with an uncritical adjusted margin. A later model should bridge acquisition amortization, integration costs, stock-based compensation, and underlying cost growth separately, then reconcile back to statutory operating income.

The single-segment fallback is crucial. The CODM uses consolidated net income, but that measure includes other income or expense and tax. The ER2 model therefore uses exactly one modeled segment with the profit label `Statutory operating income (single-segment non-operating CODM fallback)`. Product and platform gross-margin narratives can inform assumptions, but no analyst-created platform profit line may be presented as issuer-disclosed segment economics.

6. Capital intensity and cash conversion

Physical capital intensity is low relative to revenue. FY2026 operating cash flow was USD 4,553 million and capital expenditure was USD 440 million, producing USD 4,113 million of free cash flow under the quantitative foundation's definition. Capex was only 3.8% of revenue. PANW does not need to build semiconductor fabs or own a global data-center footprint; hardware assembly is outsourced and cloud capacity is largely purchased. That supports high cash generation but creates reliance on manufacturing partners, component availability, and third-party cloud infrastructure.

Cash conversion requires skepticism. FY2026 free cash flow was more than thirteen times reported net income of USD 307 million. The gap is not proof that all cash flow is owner earnings. The operating-cash-flow reconciliation included USD 1,774 million of stock-based compensation, USD 855 million of depreciation and amortization, and USD 562 million of fair-value changes on convertible notes and capped calls. Deferred-revenue movements and billing terms can also shift cash between periods. Stock compensation is non-cash in the statement of cash flows but economically dilutive unless repurchases offset it.

That dilution is visible. Diluted weighted-average shares rose from 709 million in FY2025 to 764 million in FY2026, while period-end shares increased from 668 million to 815 million. The movement principally reflects equity issued for acquisitions, including CyberArk, ongoing equity compensation, and other equity mechanics. PANW repurchased USD 1,000 million of stock in FY2026, but repurchases must be evaluated against shares issued and SBC rather than treated automatically as a shareholder return.

Liquidity is substantial. At July 31, 2026, cash and investments were USD 7,906 million; convertible senior notes were USD 1,774 million; operating lease liabilities were USD 793 million. Net cash was USD 6,132 million before leases and USD 5,339 million after leases. This gives PANW strategic capacity and balance-sheet resilience, but it should not obscure the equity cost of large stock-funded acquisitions or the potential dilution and settlement complexity of acquired convertible notes and capped calls.

Deferred revenue is also economically meaningful: current deferred revenue was USD 7,747 million and long-term deferred revenue was USD 7,009 million. Those balances support near-term revenue visibility, but they are obligations to deliver

service, not free financing without cost. Cloud hosting, support, threat research, and product updates must be provided over the contract period.

7. Customer economics, expansion, and durability

Customer economics improve when PANW becomes a standard architecture rather than one tool among many. The vendor can cross-sell modules, reuse data and policy, lower the customer's integration burden, and spread selling costs across a larger contract. Management's live Q4 FY2026 transcript reported record net-new platformizations and strong net expansion among the platformized cohort. Those are management KPIs rather than audited segment measures, but they support the hypothesis that platform customers expand faster than customers buying isolated products.

Durability comes from several forms of switching cost. Firewall policies, identity rules, endpoint agents, cloud integrations, incident playbooks, logging pipelines, certifications, and trained staff are costly to migrate. Security buyers are also risk-averse: replacing a control can create downtime or coverage gaps. The installed base can therefore support renewals and cross-sell.

Those switching costs are not absolute. Enterprise customers can multi-source; cloud-native controls can be bundled with infrastructure; specialist vendors can outperform in a narrow domain; and large customers have meaningful negotiating leverage. A platform contract may consolidate spend but also increase the customer's ability to demand discounts. Initial contract flexibility can further suppress near-term economics. The key underwriting question is whether wallet-share gains and reduced selling friction outweigh discounting, migration support, and the costs of operating broader cloud services.

Subscription contracts typically last one to five years, but customers are not obligated to renew. Support quality, product reliability, detection efficacy, false positives, latency, and integration outcomes influence retention. Consumption offers add a second durability test: gross retention may remain high while usage optimization slows revenue. Later stages should monitor not only renewal rates but also cohort expansion, product attach, consumption trends, contract duration, deferred revenue, and any widening gap between reported recurring metrics and recognized revenue.

8. Competitive structure

PANW competes in several overlapping markets rather than one. Network security rivals include Fortinet, Check Point, Cisco, Zscaler, and cloud-native or specialist vendors. Security operations and endpoint competition includes CrowdStrike, Microsoft, Splunk/Cisco, SentinelOne, and many specialists. Cloud security brings hyperscalers and cloud-native vendors. Identity adds CyberArk's traditional peers, Okta, SailPoint, Delinea, Microsoft, and cloud providers. Observability adds Datadog, Dynatrace, Elastic, and open-source ecosystems.

Competition turns on efficacy, reliability, performance, breadth, integrations, standards, total cost of ownership, brand, and go-to-market reach. PANW's advantage is the potential breadth-plus-integration combination: telemetry from network, endpoint, cloud, identity, and AI activity can improve correlation and automation. Its Unit 42 intelligence and large installed base may enrich detections and customer trust. Its channel and enterprise sales organization can carry new products into large accounts.

Breadth can also be a weakness. A best-of-breed competitor can innovate faster in one category. A hyperscaler can bundle a good-enough control with cloud or productivity software. Integration after acquisitions can lag commercial branding. Customers may fear lock-in, data migration, or correlated failure when too many controls come from one vendor. Platformization must therefore be demonstrated in product architecture and outcomes, not inferred from contract size.

9. AI and security-platform implications

AI is simultaneously a demand driver, product tool, cost driver, and disruption risk. Attackers can automate reconnaissance, phishing, malware development, and evasion. Defenders need faster detection and response because manual workflows cannot match machine speed. PANW can apply AI to summarize incidents, correlate telemetry, automate playbooks, prioritize exposures, and enforce policy. The company also sells controls for enterprise AI applications, models, gateways, agents, and data.

The data advantage is plausible but must be tested. PANW sees telemetry across many control points, but security data is sensitive and fragmented, customers may restrict sharing, models can be wrong, and rivals also have large datasets. The economic benefit depends on whether AI lowers analyst labor and incident cost without increasing false positives, cloud-compute expense, or liability.

AI agents intensify the identity problem because non-human actors need credentials, permissions, memory, and tools. Idira's privileged-access and machine-identity capabilities could become central to governing agents. Prisma AIRS can inspect prompts, models, and agent actions; Cortex can monitor and respond; Network Security can enforce traffic policy. This cross-platform linkage is strategically coherent. The risk is that model providers, cloud platforms, and identity vendors embed similar controls at the source and reduce the need for a separate security layer.

Observability also benefits from AI workload growth because training and inference produce vast telemetry volumes. Chronosphere's routing and reduction technology may lower data cost before information reaches security or monitoring tools. But high-volume AI-native customers can be concentrated and volatile, and consumption optimization may reverse growth quickly. AI should therefore not be treated as a one-directional tailwind.

10. Acquisitions and perimeter changes

FY2026 was a major perimeter-change year. PANW completed Chronosphere on January 29, 2026 and CyberArk on February 11, 2026. Chronosphere formed the next-generation observability platform; CyberArk formed the identity-security platform now branded Idira. The company also acquired Koi Security for agentic endpoint security and Portkey for AI gateway capabilities. The live FY2026 10-K states that Chronosphere and CyberArk are consolidated prospectively from their acquisition dates.

The accounting consequences are visible in the quantitative foundation: revenue accelerated, operating expense and amortization increased, statutory operating margin fell, funded debt and capped-call complexity entered the balance sheet, and shares outstanding rose sharply. The business consequences are even broader. PANW now sells into identity and observability buying centers, must integrate distinct products and teams, and must prove that cross-sell and shared data create more value than standalone ownership.

CyberArk is the larger strategic test. Its privileged-access franchise adds a critical security control and a new installed base. Management's Q4 transcript described early cost synergies, cross-selling into PANW accounts, and a transition toward modern privileged access and non-human identity. These claims are promising but not yet a full-cycle proof. The acquisition closed only partway through FY2026, so the TTM contains a partial contribution and substantial purchase-accounting effects.

Chronosphere expands PANW outside conventional cybersecurity into application reliability and observability. Management reported rapid post-close growth and initial cross-sell from XSIAM, but also noted a material contribution from one large AI customer migration. That concentration makes growth quality and repeatability important watch items. Small acquisitions such as Koi and Portkey may accelerate product development, yet repeated acquisition also increases integration demands and SBC.

The perimeter rule for ER2 is simple: preserve reported FY2026 statutory results, explicitly separate acquired and organic drivers in forecasts, and do not manufacture historical platform segment economics. Any normalized view must reconcile back to the one-segment statutory bridge.

11. Principal risks and watch items

- **Integration and acquisition economics.** FY2026 combined two very large additions with several smaller deals. Revenue synergies, product integration, retention of acquired talent, cost synergies, and purchase-accounting normalization all require evidence.
- **Dilution.** SBC was USD 1,774 million, diluted weighted-average shares rose to 764 million, and period-end shares reached 815 million. Per-share compounding can lag corporate growth if issuance remains high.
- **GAAP-versus-cash divergence.** USD 4,113 million of FCF versus USD 307 million of net income reflects real timing and non-cash items but also SBC, amortization, and fair-value movements. Adjustments must not become a license to ignore shareholder cost.
- **Platformization execution.** Broad portfolios can create integration and seller complexity. Large contract wins do not by themselves prove product adoption, retention, or attractive lifetime economics.
- **Cloud and consumption costs.** Hosting and telemetry expense can pressure gross margin. Usage-based revenue can be volatile when customers optimize workloads.
- **Competitive bundling.** Microsoft, cloud providers, network vendors, identity vendors, endpoint specialists, and observability leaders can bundle or price aggressively.

- **Channel dependency.** A large share of sales is fulfilled through partners, and distributor concentration is material. Partner execution and credit matter.
- **Security-vendor risk.** A breach, vulnerability, false positive, outage, or support failure at a security company can damage trust disproportionately.
- **AI uncertainty.** AI expands attack surfaces and automation demand, but it can also shift control points to models, clouds, and identity layers where other vendors are stronger.
- **Geopolitical and regulatory exposure.** The expanded Israel footprint, export controls, privacy law, sovereign-cloud demands, and public-sector procurement can affect cost and execution.

12. What to carry into ER2

The first principle is accounting discipline. PANW is one reportable segment, and the forecast profit basis is statutory operating income under the non-operating-CODM fallback. Platform names and product categories are operating context, not additive audited segments.

Second, the recurring mix is economically attractive but not self-validating. Subscription and support are 80.1% of revenue, yet renewal, consumption, contract duration, discounting, support quality, and deferred-revenue obligations determine durability.

Third, cash flow is strong but should be evaluated per diluted share after SBC and acquisition issuance. The balance sheet is net cash, but the capital-allocation record now includes large equity-funded M&A and acquired convertibles.

Fourth, the most important strategic claim is that platformization improves outcomes and customer economics. Evidence should include sustained cohort expansion, cross-platform adoption, integration quality, organic growth after acquisition effects, and operating leverage after cloud and support costs.

Fifth, AI is neither a free option nor a simple threat. PANW has coherent positions in AI security, agent identity, telemetry, and automated operations, but the value will depend on product efficacy, cost-to-serve, and whether customers prefer an independent cross-cloud security layer to controls bundled by their incumbent platforms.

Finally, FY2026 is a transitional base year. It combines rapid revenue growth with a materially changed business perimeter, lower statutory operating margin, high cash generation, elevated SBC, and significant dilution. Any five-year conclusion must normalize transparently without erasing these real shareholder costs.

Source trail

- **Governed quantitative source:** `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\quant_foundation.md`, run `pulse-cio-20260926T140154+0800`, QFR cleared for Wave 1. Used for every financial-statement number and all financial arithmetic in this primer.
- **SEC primary source:** [Palo Alto Networks FY2026 Form 10-K, filed September 10, 2026](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm). Live-retrieved September 26, 2026 for business description, product architecture, customers, channel, contract terms, competition, cost drivers, risk disclosures, and acquisition-perimeter facts.
- **Investor Relations results source:** [Palo Alto Networks Q4 and FY2026 results, September 1, 2026](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-fourth-quarter-and-fiscal-10). Live-retrieved September 26, 2026 for the reporting date and management's high-level platform context; no financial figure from it overrides the quantitative foundation.
- **Investor Relations transcript:** [Q4 FY2026 corrected earnings-call transcript, September 1, 2026](https://investors.paloaltonetworks.com/static-files/b6d9916f-f4ab-4b43-8457-2d345aaa0a47). Live-retrieved September 26, 2026 for platformization, cross-sell, AI, Chronosphere, and Idira qualitative context and clearly identified management KPIs.
- **CyberArk completion source:** [Palo Alto Networks completes CyberArk acquisition, February 11, 2026](https://www.paloaltonetworks.com/company/press/2026/palo-alto-networks-completes-acquisition-of-cyberark-to-secure-the-ai-era). Live-retrieved September 26, 2026 for strategic positioning of identity security; deal accounting remains governed by the quantitative foundation and SEC filing.

Source discipline: no cached warehouse data, aggregator financials, reconstructed numbers, or model-memory figures were used. Where the cleared quantitative foundation did not contain a financial figure, this primer either omitted the number or described the point qualitatively. The in-progress `data_package.md` was not treated as evidence.

Appendix M - Management Assessment

Palo Alto Networks (PANW) — Management Assessment

Assessment date: 2026-09-26 **Operating anchor:** FY2026 ended 2026-07-31; latest reported quarter Q4 FY2026; ER2 horizon 2031-07-31 **Scope:** management, capital allocation, incentives, disclosure and governance. This appendix has no trade, ranking or sizing authority; `trade_execution_authorized=false`.

The evidence produces a deliberately split conclusion. Nikesh Arora's team has executed strategy, product integration and quarterly guidance unusually well. It has not yet earned the stricter Gideon presumption that management protects *per-share* value. Palo Alto Networks entered FY2027 after spending or issuing consideration for its two largest acquisitions, absorbing continuing stock-based compensation (SBC), and guiding to another large increase in diluted shares. Executive incentives reward NGS ARR, non-GAAP EPS and relative TSR, but not ROIC, GAAP per-share earnings, acquisition return or share-count discipline. Those are not cosmetic reservations: under the mandated calibration, chronic dilution and a compensation design that can reward acquired scale before acquisition returns are proven make this a **FAIL**, not a polite YELLOW.

1. Who is running the company

Role	Current leader and tenure	Relevant background / accountability
Chair and CEO	Nikesh Arora; CEO and chair since June 2018	Former SoftBank president/COO and Google chief business officer. He owns the strategic shift from firewall vendor to multi-platform security company, the platformization commercial model and the acquisition program.
CFO	Dipak Golechha; CFO since March 2021, joined December 2020	Former Excelligence CEO, NBTY and Chobani CFO, and 18-year P&G finance executive. He owns guidance, deferred-payment economics, non-GAAP framework and capital allocation execution.
President	William "BJ" Jenkins; since August 2021	Former Barracuda Networks CEO and EMC operating executive; accountable for field execution and go-to-market scaling.
Chief Product and Technology Officer / director	Lee Klarich; CPTO and director since August 2025; PANW product leader since 2006	Owns engineering and product roadmap across Network & AI Security, Cortex and Idira. His long tenure supplies product continuity despite the acquisition-led perimeter expansion.
Lead independent director	John M. Donovan; director since 2012	Former AT&T Communications CEO and AT&T CTO. The latest proxy gives him authority to preside over executive sessions, engage advisers and relay independent-director concerns to the chair.

The latest available definitive proxy was filed 2025-11-07; PANW's FY2026 10-K says the 2026 proxy had not yet been filed. The 2025 proxy classified nine of eleven directors as independent (82%). After Mary Pat McCarthy's retirement, Ralph Hamers' departure and Mark Goodburn's appointment, the FY2026 10-K signature slate contains ten directors: Arora and Klarich plus eight directors previously classified or presented as independent. Thus the current indicated mix is eight of ten independent, subject to the forthcoming 2026 proxy's formal determination. Arora combines chair and CEO; that concentrates agenda power, partially offset by Donovan's defined role. Average independent-director tenure was eight years in the latest proxy, and the board's guideline generally caps service at three public-company boards. No disclosed director breaches that policy. [2025 DEF 14A, filed 2025-11-07](https://www.sec.gov/Archives/edgar/data/1327567/000130817925000624/panw-20251107.htm); [FY2026 Form 10-K, filed 2026-09-10](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).

2. Tenure and track record

Arora has been CEO for more than eight years and is unquestionably the owner of today's strategy. Three decisions define his record.

First, the multi-platform transformation. Management moved beyond appliance firewalls into SASE, cloud, security operations, AI security, observability and identity. From the governed data package, revenue rose from $5.502 billion in FY2022 to $11.480 billion in FY2026, while NGS ARR rose from $1.89 billion to $9.10 billion. The defined platformization

count increased from about 1,000 in Q4 FY2024 to about 2,500 in Q4 FY2026, and the platformized cohort's Q4 FY2026 net revenue retention exceeded 120%. This is substantial commercial execution. It is not purely organic evidence: FY2026 included CyberArk and Chronosphere, and the acquired perimeter changed ARR definitions.

Second, the platformization commercial pivot. PANW accepted deferred billing, aligned contracts and in some cases deployed before an incumbent contract expired to remove switching friction. The approach produced larger contracts, rising RPO ($8.2 billion in FY2022 to $21.2 billion in FY2026) and category cross-sell. Management was candid about one lesson: Arora said on 2024-11-20 that he wished PANW had made the decision faster. CFO Golechha then gave unusually detailed explanations of deferred-payment visibility and cash-flow seasonality. This shows learning rather than a quiet write-off, although adjusted FCF—not GAAP owner earnings after SBC—remains management's preferred scorecard.

Third, the acquisition engine culminating in CyberArk and Chronosphere. Earlier purchases such as CloudGenix, Talon, Dig and the IBM QRadar assets visibly supplied SD-WAN, secure browser, DSPM and XSIAM migration capabilities. The new wagers are far larger. CyberArk closed 2026-02-11 for **$21.061 billion**: $2.308 billion cash, **112 million PANW shares worth $18.488 billion**, and $265 million of replacement awards. Chronosphere closed 2026-01-29 for **$2.951 billion**, principally $2.842 billion cash. Early operating evidence is positive: FY2026 Idira reported $614 million of post-close revenue and $1.26 billion pro forma revenue; management said Q4 ACV grew about 40%. Chronosphere ARR exceeded $500 million by Q4, more than double its close-period level, helped by a nine-figure migration from one large LLM customer. CyberArk integration and margin synergy were said to be three to six months ahead of plan. These are encouraging leading indicators, not demonstrated acquisition ROIC or per-share value creation.

The clearest weak decision is not a failed product acquisition but the accumulation of acquisition and equity claims faster than owners can yet audit their return. FY2026 standardized ROIC fell to 1.9% as invested capital expanded; goodwill plus acquired intangibles reached $29.027 billion. Management has acknowledged operational friction when it appears—for example, Arora said on 2026-06-02 that migrating Prisma Cloud customers to Cortex Cloud remained work for the next six months—but it has not published a transaction-level cash-on-cash return ledger.

3. Capital allocation behavior

The following figures are reproduced from governed data-package Sections 7 and 9, as required; they were not re-fetched.

Fiscal year	Capex ($B)	R&D ($B)	Buybacks ($B)	Dividends ($B)	Cash acquisitions ($B)
FY2022	0.193	1.418	0.892	0.000	0.037
FY2023	0.146	1.604	0.273	0.000	0.205
FY2024	0.157	1.809	0.567	0.000	0.611
FY2025	0.246	1.984	0.000	0.000	1.054
FY2026	0.440	2.552	1.000	0.000	4.663

R&D stayed above 21% of revenue each year, coherent with the stated objective of broad technical integration. FY2026's $4.663 billion cash-acquisition line materially understates total consideration because it excludes CyberArk's $18.488 billion share issuance and replacement awards. Smaller FY2026 purchases—Koi for $231 million and Portkey for $117 million—fit agentic endpoint and AI-gateway roadmaps; Embrace Mobile and Console closed after year-end and add still more integration work.

Buybacks are described as opportunistic, but their economic result has not protected the denominator. PANW spent $1.0 billion on repurchases in FY2026 while period-end common shares rose from 668 million to 815 million. Beyond CyberArk's 112 million deal shares, **27 million net shares** were issued to settle the 2025 warrants, alongside employee awards. FY2027 guidance calls for **844–847 million diluted shares**, versus a 764 million FY2026 weighted average. This is the decisive per-share stewardship defect: repurchases have partly recycled dilution, not reliably reduced shares at attractive prices.

4. Compensation alignment and ownership

The latest proxy says 100% of FY2025 NEO equity grants were performance-based. Annual cash incentives used revenue and organic operating margin. Three-year PSUs used the average annual achievement of NGS ARR and non-GAAP EPS, multiplied by relative TSR versus the S&P 500, with a maximum reduced from 600% to 400%. Arora's FY2025 PSU target value was $44 million; Golechha's was $13 million. The FY2025 tranche achieved 216% based on $5.58 billion NGS ARR versus a $5.34 billion target and $3.34 non-GAAP EPS versus $3.16. Clawback policies cover restatements, executives face a one-year post-vesting holding period, hedging is prohibited, and pledging needs board approval and is capped.

The design is sophisticated but misses the owner-economics variable now most important. It contains no ROIC, acquisition return, GAAP EPS, FCF per diluted share after SBC, or net share-count test. Annual target resetting weakens the meaning of "three-year" financial performance, and the non-GAAP EPS definition can exclude acquisition impacts unless the committee includes them when setting targets. NGS ARR can rise through purchased ARR; relative TSR can reward multiple expansion. The plan therefore can pay richly for scale before CyberArk's $21.061 billion consideration earns its cost of capital.

SBC was **$1.774 billion** on the cash-flow reconciliation and $1.815 billion in expense in FY2026; the former equaled 15.5% of revenue. Five-year SBC/revenue ranged from 13.4% to 18.4%, and $3.3 billion of unrecognized award cost remained. This is chronic, not transitional.

Arora has meaningful exposure, but reported beneficial ownership overstates freely owned common shares because it includes awards and options. The 2025 proxy listed 3,065,694 beneficial shares, including 1,185,721 near-vesting PSUs and 846,408 exercisable options. A 2026-07-02 Form 4 disclosed 726,542 common shares plus 2,093,369 phantom shares after an internal deferred-compensation reallocation. No material CEO open-market sale was identified in the strict 2025-09-26 to 2026-09-26 window; the large 846,408-share 10b5-1 exercise-and-sale occurred 2025-09-23, just outside it. CFO sales in April and June 2026 were pre-planned and modest (5,000 shares each), but his Q4 plan was modified to permit up to 50,000 future shares; the president adopted a plan for up to 148,217. The pattern is planned monetization, not a clustered distress signal. [Arora Form 4, 2026-07-02](https://www.sec.gov/Archives/edgar/data/1327567/000146823326000009/xslF345X05/ownership.xml); [Golechha Form 4, 2026-06-24](https://www.sec.gov/Archives/edgar/data/1327567/000185254026000005/xslF345X06/ownership.xml).

5. Disclosure quality, candor and guidance credibility

Eight FMP stable transcripts were fetched live on 2026-09-26 and reviewed with their original speaker labels. "Hedged" below means a load-bearing answer substituted narrative or an incomplete bridge for the number asked; it does not mean ordinary safe-harbor language.

Quarter / call date	What the record showed	Candor assessment
Q1 FY2025 / 2024-11-20	CFO Dipak Golechha reported revenue above the guidance high end; Golechha and CEO Nikesh Arora explained QRadar's one-time ARR and lapping effect when challenged on lower organic net-new ARR.	Partly direct; no complete organic bridge. Hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2025&quarter=1)
Q2 FY2025 / 2025-02-13	Golechha reported revenue above the high end and RPO at the high end; margin/EPS guidance rose. He and Arora quantified a 40 bp one-time inventory hit and SaaS mix pressure.	Direct on margins; still narrative-heavy on net-new ARR. Hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2025&quarter=2)
Q3 FY2025 / 2025-05-20	Golechha reported revenue at the high end and reiterated FCF guidance. Arora answered long-run organic/inorganic mix questions with strategy rather than a durable numerical split.	Hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2025&quarter=3)
Q4 FY2025 / 2025-08-18	Arora and Golechha said PANW exceeded full-year guidance across the board; Golechha's stand-alone FY2026 guidance explicitly excluded the not-yet-closed CyberArk deal.	Clear perimeter and result. Not hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2025&quarter=4)
Q1 FY2026 / 2025-11-19	Arora and Golechha reported every guided metric exceeded, but Arora's new $20 billion FY2030 NGS ARR aspiration arrived alongside Chronosphere/CyberArk without an organic-only bridge.	Ambition clear; composition incomplete. Hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=1)
Q2 FY2026 / 2026-02-17	Arora and Golechha disclosed organic NGS ARR growth of 28%, acquisition definition changes and CyberArk/Chronosphere inclusion in guidance; Golechha reported EPS above the high end.	Strongest acquisition-perimeter disclosure. Not hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=2)
Q3 FY2026 / 2026-06-02	Arora and Golechha said every guided metric was surpassed; they separately gave organic NGS ARR and RPO growth of 28% and 22%. Arora acknowledged Cortex Cloud migration friction.	Direct and decision-useful. Not hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=3)
Q4 FY2026 / 2026-09-01	Arora and Golechha reported every financial metric above guidance and disclosed pro forma Idira revenue plus a nine-figure Chronosphere customer benefit, but not a complete consolidated organic revenue/ARR bridge.	Better than typical, still incomplete on acquisition-normalized growth. Hedged. [Transcript](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=4)

Hedged-language count: 5 of 8 quarters. Guidance score: 8 of 8 quarters met or exceeded at least the key headline range, with several calls saying every metric cleared. The team answers operational questions better than most, but uses "strong," "ahead," "platformization" and adjusted metrics where statutory acquisition economics would be more informative. PANW now voluntarily provides platform revenue, organic NGS ARR/RPO in selected quarters, platformized-cohort NRR and product ARR points. It still does not guide GAAP operating margin, GAAP EPS or GAAP cash flow, and organic-versus-acquired disclosure is inconsistent across quarters.

6. Strategic coherence

The FY2026 10-K defines the mission as being the "cybersecurity partner of choice" and says platformization combines products into a tightly integrated architecture for "more secure, faster, and cost-effective outcomes." Investment matches that statement: R&D is high, and CyberArk, Chronosphere, Koi, Portkey, Embrace and Console expand identity, observability and agentic defense. Management explicitly names hyperscalers, native security, identity and observability rivals in risk factors rather than pretending the market is uncontested.

The destination is coherent—unified data, AI-assisted real-time defense and fewer vendors—but acquisition velocity risks turning architecture into a sequence of purchased adjacency bets. Arora's 2026-09-01 explanation that M&A occurs when another company "had the strategy right" is candid about build-versus-buy. It also admits the company can be caught "flat footed." The monitor is whether cross-platform revenue and statutory margins mature without further major equity issuance, not whether management announces more product breadth.

7. Governance flags

PANW has one publicly traded common class, not a dual-class controller. The latest proxy disclosed no material commercial related-person transaction beyond employment and indemnification arrangements and applies audit-committee review above $120,000. The FY2026 10-K reported no restatement indicator, no material weakness and no material change in ICFR. CyberArk, representing 6% of FY2026 revenue, was excluded from management's FY2026 ICFR assessment under first-year acquisition relief; that is permitted, but makes FY2027 control testing a live monitor. Ordinary-course litigation was disclosed; no material SEC enforcement was identified in the reviewed filings.

Board independence is adequate but not pristine. Combining chair/CEO authority and retaining two insiders on the board raises dependence on Donovan's oversight. The board has recently refreshed, yet James Goetz (since 2005), Donovan (2012) and Carl Eschenbach (2013) are long-tenured. Long service adds domain knowledge but can soften challenge, particularly when compensation and M&A both reward expansion.

8. Peer comparison

CEO / peer	Capital allocation and communication comparison	Directional rank versus Arora
Ken Xie / Fortinet	Fortinet generated $2.08 billion of FY2025 GAAP operating income on $6.80 billion revenue and only about $282 million of SBC, roughly 4% of revenue. Its organic hardware/software integration and lower equity cost are substantially more owner-efficient, although founder influence is greater. [FY2025 10-K](https://www.sec.gov/Archives/edgar/data/1262039/000126203926000007/ftnt-20251231.htm)	Better per-dollar stewardship; less polished but more economically transparent.
George Kurtz / CrowdStrike	CrowdStrike remains more organically built and reports subscription metrics consistently, but FY2026 still produced a $163 million GAAP net loss on $4.81 billion revenue and carries the credibility cost of the 2024 outage. [FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1535527/000153552726000010/crwd-20260131.htm)	Arora ranks higher on portfolio breadth and guidance; neither clears PANW's per-share-discipline problem by comparison alone.
Jay Chaudhry / Zscaler	Zscaler grew FY2026 revenue 25% to $3.35 billion and has strong founder ownership, but SBC was $822 million, about 25% of revenue, and GAAP operating loss was $133 million. [FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1713683/000171368326000157/zs-20260731.htm)	Arora is the stronger scaled operator; Chaudhry has greater direct skin in the game but worse current SBC intensity.

Arora ranks near the top on strategic imagination, integration speed and public guidance. He ranks below Xie on five-year owner-economics discipline. PANW's premium execution cannot substitute for proving that acquisitions and compensation create value per diluted share.

9. Management gate verdict

MANAGEMENT GATE: FAIL. The positive case is real: Arora has eight years of strategy ownership, management met or exceeded headline guidance across all eight reviewed quarters, and the company has repeatedly converted acquired technology into scaled products. The fail signal is equally specific: FY2026 SBC was 15.5% of revenue, period-end shares rose from 668 million to 815 million, FY2027 guidance is 844–847 million diluted shares, and compensation rewards NGS ARR/non-GAAP EPS/relative TSR without ROIC, acquisition-return or net-share-count accountability. CyberArk's $21.061 billion consideration—including 112 million PANW shares—plus Chronosphere and continuing tuck-ins have not had time to demonstrate per-share value creation through a full cycle.

This gate would be eligible for reconsideration only after (1) at least two years of organic/acquired bridges and deal-level return evidence for CyberArk and Chronosphere, (2) SBC below 10% of revenue with diluted-share growth below revenue and sustained per-share FCF growth after SBC, and (3) compensation redesigned to include ROIC or acquisition return plus net-dilution discipline. A goodwill impairment, another large equity-funded acquisition before those proofs, or FY2027 diluted shares above guidance would reinforce the FAIL. Under the ER2 rules, management FAIL forces the final security verdict to PASS regardless of valuation; it does not authorize a trade.

Appendix W - Moat and 2046 Durability

Palo Alto Networks — Moat and 2046 Durability

Assessment date: 2026-09-26 **2046 test date:** 2046-09-26 **Financial perimeter:** Palo Alto Networks has one operating and reportable segment. The sole modeled financial segment is **Consolidated company** on `Statutory operating income (single-segment non-operating CODM fallback)`. Network & AI Security, Cortex, Idira and Other are business/platform components, not separate reporting segments. **R-cleared segment source:** `appendix_B_consolidated_company.md`, SHA-256 `999907c4ef2beb7cf74def90ed37a9daf9c9aef290f23519a5ac988954c5c4d2`. **Authority boundary:** Security underwriting only. No trade, portfolio, ranking or sizing authority. `trade_execution_authorized=false`.

1. Moat taxonomy applied

Network effects — limited direct effect; meaningful data feedback loop. A new firewall customer does not automatically make every other customer's product more valuable. The defensible analogue is a threat-intelligence and telemetry loop across enforcement points, endpoints, cloud workloads, identities and incident-response work. Breadth matters because attacks cross these surfaces. Yet Microsoft, CrowdStrike and hyperscalers also see enormous telemetry volumes, while open standards let customers route logs elsewhere. The advantage is moderate and depends on signal quality, cross-product normalization and demonstrated detection efficacy—not raw volume.

Switching costs — the strongest present moat. Enterprises embed security products in architecture, policy, identity permissions, incident workflows, compliance evidence, training and integrations. Replacing a firewall estate, SASE fabric, privileged-access system or SIEM is risky and labor-intensive. PANW compounds those costs by linking control planes under common policy and response. Evidence includes about 2,500 platformizations, more than 65% of NGS ARR from platformized customers, and NRR above 120% for that defined cohort at FY2026 Q4. But PANW does not disclose total-company NRR, GRR or churn, and it has reduced migration friction with trade-ins, no-cost periods and add-ons. Switching costs are strong after deployment; winning it can be concessional.

Scale economies — real, but shared with formidable rivals. PANW spread FY2026 R&D of $2.552 billion, global selling, support and threat research across more than 70,000 customers and $11.480 billion of revenue. R&D remained above 21% of revenue in FY2022–FY2026, funding breadth a point vendor would struggle to match. Microsoft and hyperscalers have larger distribution, while CrowdStrike, Zscaler and Fortinet have platform economies. PANW's $7.686 billion of cloud commitments can lower unit costs if utilized, but can hurt if AI compute grows faster than monetization.

Brand — strong but revocable. PANW's long record in enterprise network security, visible threat research and Unit 42 response work give it credibility beyond an unknown entrant. Brand lowers perceived implementation risk and can open board-level conversations. It does not stop displacement by Microsoft or CrowdStrike, and an outage, breach, defective update or weak support can reverse it quickly.

High-trust procurement — strong. Security failures impose operational, legal and reputational damage, so CISOs favor proven efficacy, global support, certifications and references. At FY2026 Q4, 78 customers exceeded $10 million of NGS ARR and 223 exceeded $5 million, excluding CyberArk and Chronosphere for comparability. That indicates deep procurement acceptance, not just logo count. Re-approval and migration reinforce switching costs, though large buyers also gain negotiating leverage.

Regulatory moat — weak legally, useful procedurally. PANW has no scarce license. Privacy, localization, government certification and industry compliance create assurance costs that capable rivals can also meet. Once an architecture is approved and audited, however, replacement requires testing and re-approval. This reinforces switching costs in regulated sectors but is not an independent moat.

IP and patents — supporting, not controlling. The 10-K describes patents, copyrights and trade secrets but concedes competitors can build similar products and patents can be challenged. In software security, implementation speed, threat research, integration and distribution matter more than a patent wall. Proprietary policy engines and detections help efficacy, but do not prevent a rival workflow. This moat depreciates rapidly without R&D.

2. Per-component moat inside the consolidated segment

Network & AI Security — strongest component; 10-year durability is credible, 20-year durability is conditional. This component generated $8.354 billion of FY2026 revenue and contains the installed firewall estate, cloud-delivered security services, SASE, software firewalls and Prisma AIRS. Its moat is the combination of deployed enforcement points, policy/configuration migration costs, high-trust procurement, channel reach and cross-surface threat context. SASE ARR of $1.6 billion grew 40% at Q3, software-firewall ARR grew 29% at Q4, and more than four subscriptions were attached per installed device in Q3. Those are adoption signals, not proof of pricing power. The moat would break if customers shift enforcement to hyperscaler-native controls or Zscaler-style cloud-native access while PANW's appliances and virtual firewalls become merely interoperable data sources. Earliest warning: slowing organic Network & AI revenue/ARR, falling subscription attach, or large-platform renewals requiring longer free periods and deeper discounts.

Cortex — meaningful workflow and data switching costs; five-to-ten-year strength, 20-year uncertainty. Cortex includes security operations, cloud security and observability. XSIAM exceeded $700 million of ARR, grew about 70% and reached roughly 1,000 customers at FY2026 Q4; Observability/Chronosphere ARR exceeded $500 million. Once a customer centralizes logs, detection rules, cases, response playbooks and analyst training, switching is expensive. However, this is the component most exposed to AI and platform competition. Microsoft introduced an integrated SOC designed for agentic security, while CrowdStrike's Falcon model also expands by adding modules to a shared data model. Open telemetry reduces ingestion lock-in, and foundation-model reasoning can commoditize triage and investigation. The earliest break signal is Cortex growth falling toward consolidated growth despite rapid market expansion, XSIAM wins coming mainly from bundled concessions, or telemetry costs causing persistent gross-margin pressure.

Idira — high intrinsic switching costs, but acquired rather than yet-proven PANW integration. Privileged-access management and machine-identity controls sit on high-risk administrative pathways. Credentials, vaults, just-in-time elevation, session recording and audit evidence are difficult to replace casually, giving CyberArk's installed base real durability. FY2026 reported Idira revenue was $614 million after the February close; management disclosed $1.26 billion of pro-forma revenue and approximately 40% Q4 ACV growth. These figures establish scale and momentum but not PANW-created economics. Idira becomes a stronger moat if identity telemetry and policies visibly improve Network and Cortex outcomes and PANW cross-sells without harming retention. It becomes a costly adjacent acquisition if product roadmaps, sellers, data models and customer identities remain separate. Earliest warning: weakening pro-forma growth, delayed integrations, increased identity churn, or cross-sell claims without disclosed cohort evidence.

Other — useful trust asset, weakest independent moat. Other produced $592 million in FY2026 revenue and includes Unit 42, professional services and financing income. Incident response can deepen executive relationships, improve intelligence and seed products. Yet services are labor-dependent, talent is mobile, financing has no security moat and routine analysis is AI-exposed. Earliest warning: service growth without measurable product pull-through or at structurally lower margins.

Blended company conclusion. The blend is weaker than Network & AI Security alone because Cortex faces workflow competition, Idira/Chronosphere are newly acquired, and Other is labor-heavy. Genuine integration could make the whole stronger by sharing network, endpoint, cloud, identity and SOC context. That remains testable. With one reportable segment and no platform profit disclosure, evidence cannot yet show that fast-growing components are individually profitable or acquisitions improve returns.

3. Margin persistence evidence

The cleared package provides a five-year—not ten-year—statutory operating-margin series. It shows improvement through FY2025 followed by a sharp acquisition-year reversal. No platform operating margins are disclosed, so no separate margin can be assigned to Network & AI Security, Cortex, Idira or Other.

Fiscal year	Revenue ($B)	Statutory operating margin	Interpretation
FY2022	5.502	(3.43%)	Scale had not yet produced GAAP operating profit
FY2023	6.893	5.62%	Initial statutory leverage
FY2024	8.028	8.52%	Continued expansion
FY2025	9.222	13.48%	Best pre-acquisition evidence
FY2026 / TTM	11.480	6.05%	CyberArk/Chronosphere amortization, integration and accelerated SBC

Gross-margin evidence from the live FY2026 10-K is directionally less reassuring: total gross margin fell from 74.3% in FY2024 to 73.4% in FY2025 and 70.4% in FY2026. Product gross margin declined from 78.3% to 75.1%, and

subscription/support gross margin from 73.4% to 69.2%. The filing attributes pressure to acquisition amortization, higher cloud-hosting costs, personnel and hardware/supply-chain factors. This does not disprove the moat, because purchase accounting and integration are real transition costs, but it prevents a clean claim that scale or pricing fully offset cost inflation. Five-year operating expansion before FY2026 is genuine evidence; the post-acquisition profit pool is not yet cycle-tested. Adjusted operating-margin targets cannot substitute for restored statutory margins, especially with FY2026 SBC equal to 15.5% of revenue.

4. AI disruption stress test

Network & AI Security is platform-adjacent and contains chokepoints. Firewalls, SASE gateways and software enforcement points sit in traffic paths and can block or permit actions. AI increases attack speed and creates new agent-to-tool and model-to-data flows, which should increase demand for policy enforcement. A foundation model cannot replace an enforcement point merely by producing advice. It can, however, improve competing cloud-native controls and reduce differentiation in detection logic. PANW remains protected if it is the independent cross-cloud policy and enforcement layer; it is exposed if customers accept native controls from their productivity or cloud vendor.

Cortex is partly a replicable workflow. Alert triage, summarization, investigation and response planning fit a prompt-to-output pattern. Models with access to the same telemetry can reproduce more of that workflow over time. Cortex's moat must therefore live in proprietary, normalized data; secure action permissions; tested automations; auditability; and deep integrations—not the chat interface or model itself. Microsoft's September 2026 integrated SOC explicitly joins SIEM, threat protection, agents, signals and actuators, demonstrating that machine-speed defense is already a direct competitive arena. Cortex is the major component most exposed to AI disintermediation.

Idira controls a durable chokepoint. Human users, service accounts and AI agents require identities, credentials and scoped permissions. Models may improve identity analytics, but they do not eliminate the need to authenticate, authorize, rotate secrets, record sessions and revoke access. The risk is not disappearance; it is capture by Microsoft Entra, cloud IAM or another identity incumbent. Idira's protection comes from the high consequence of privileged access and migration risk, while its 2046 upside comes from a vastly larger population of machine identities.

Other contains both protected expertise and replaceable work. High-stakes incident response, executive crisis management and forensic testimony require trust and accountability. Routine monitoring, report drafting and lower-level consulting are highly automatable. Unit 42 can benefit if AI raises response speed and converts proprietary field observations into product detections, but services alone are not the durable profit pool.

The most protected component is **Network & AI Security**, because it owns deployed enforcement and policy control points. The most exposed is **Cortex**, because SOC/observability workflows can be reproduced by models and bundled by vendors already controlling identity, endpoint or cloud telemetry. AI raises the size and urgency of the security market, but it simultaneously shortens product advantage half-lives.

5. The 2046 test

Specific 2046 business description. On 2046-09-26, a durable PANW would sell an autonomous, cross-cloud security control plane for human users, software workloads and billions of AI agents. CISOs, CIOs, regulated enterprises, governments and managed security providers would buy continuous identity authorization, network/workload enforcement, data-loss controls, telemetry normalization and machine-speed detection/response under auditable policy. Physical firewalls would remain in specialized environments but would no longer define the company; Network & AI Security would be software- and SASE-led, Cortex would operate an agentic SOC, and Idira would govern privileged human and machine identities. Unit 42 would remain a high-trust response and intelligence layer rather than the main profit pool. Statutory operating margin should be **materially higher than FY2026's acquisition-distorted 6.05%**, because shared data, policy and distribution should outweigh duplicated infrastructure and integration costs; it need not equal management's adjusted margin. The intact moat would be embedded enforcement plus identity policy plus high-trust procurement, strengthened by switching costs around historical telemetry, tested response actions and compliance evidence.

The R-cleared segment appendix assigns **25% bear / 55% base / 20% bull** through 2031, with source-bound terminal statutory operating margins of **9.02% / 17.71% / 22.51%**. That mix supports YELLOW: demand persists even in bear, but base requires integration, pricing and compute leverage, while bull requires several mechanisms to succeed together. Those are five-year operating weights, not a 2046 moat probability. Beyond 2031, I assign a roughly **35% qualitative probability** to meaningful moat erosion by 2046—not company failure, but returns falling toward ordinary software economics.

Eroded 2046 bear description. Microsoft and major cloud platforms could make identity, endpoint, data and SOC controls good enough and economical within existing enterprise agreements. Zscaler-like cloud-native vendors could own access enforcement, CrowdStrike-like endpoint platforms could own security telemetry, and open standards could make response agents portable. PANW would then be a federation of acquired products competing through discounts, with a shrinking firewall inheritance and high cloud-compute costs. Customers could retain PANW for selected controls but route policy and telemetry through another platform; gross margins and renewal economics would compress. That outcome becomes probable if PANW cannot convert breadth into demonstrably better security outcomes and statutory margins.

2046 test: YELLOW. The need for an independent cross-cloud security and identity control plane is durable, and PANW has credible assets to own it. The unresolved issue is whether integration and pricing economics remain superior after twenty years of bundling, AI commoditization and platform shifts.

6. Competitive threat inventory

Threat	Mechanism	Component(s) affected	Earliest observable signal	Plausibility
Microsoft / hyperscaler bundling	Security is embedded in productivity, identity and cloud agreements; distribution and telemetry reduce incremental price	Cortex, Idira, cloud security, SASE	Lower organic ARR, more displacement losses, falling cohort NRR, heavier concessions	High
CrowdStrike, Zscaler and cloud-native specialists	Better focused product plus their own shared data/platform expansion wins best-of-breed buyers	Cortex, SASE, cloud security	Cortex/SASE growth converges to market or renewals lose modules/endpoints	High
AI-native and open-telemetry commoditization	Models automate triage; portable data and agents weaken workflow lock-in while attacks accelerate	Cortex, Other; partly Prisma AIRS	Falling XSIAM attach, telemetry-price pressure, services utilization weakens	Medium-high

Microsoft's current product direction makes the first threat concrete: its 2026 end-to-end platform joins Defender, Sentinel, Entra, Purview and agentic response, while claiming lower total ownership cost. CrowdStrike's FY2026 filing describes one shared data model and multi-module land-and-expand economics, and Zscaler's FY2026 filing positions a cloud-native Zero Trust platform for users, devices, workloads and AI agents. These are not hypothetical entrants; they contest the same consolidation budget.

7. Pricing power verification

Pricing power is **not proven**. The positive evidence is indirect: platformized-customer NRR above 120%, rising large-customer counts, $21.2 billion of RPO and expansion in ARR per major customer indicate that PANW can capture more wallet when it delivers more modules. This is cross-sell and contract expansion, not necessarily higher price for a constant product. The company does not disclose recent list-price increases, adoption of those increases, total-company churn, renewal uplift, contractual price escalators or minimum customer commitments.

The counterevidence is explicit. In its Q2 FY2024 call, PANW described legacy trade-ins, no-cost introductory offers, product add-ons and delayed payment until incumbent contracts expired. The FY2026 10-K warns that competitors can bundle at zero or negative margins and offer concessions, while large enterprises possess negotiating leverage. Gross margin fell 390 basis points from FY2024 to FY2026, albeit with acquisition amortization and cloud costs as important causes. Multi-year contracts and large RPO create visibility and switching friction, but the available evidence does not establish price realization. The moat therefore rests on product breadth, trust and switching costs, not demonstrated unilateral pricing power.

8. Moat verdict and monitoring conditions

Moat gate: YELLOW. PANW has a real present moat in embedded enforcement, high-trust enterprise procurement, switching costs and a broad installed base, with Network & AI Security as the strongest component. The moat does not yet earn PASS because pricing power is unproven, platform-level profitability is undisclosed, total-company NRR/GRR/churn are absent, and FY2026 acquisitions produced sharp gross- and operating-margin compression. Cortex faces direct Microsoft/CrowdStrike competition and AI workflow commoditization; Idira and Chronosphere must still prove integrated, organic economics.

2046 test: YELLOW. PANW can plausibly remain the independent policy, identity and machine-speed response layer in 2046, but the owner of that role is not locked in. Twenty-year durability depends on cross-platform integration and economic

renewal quality rather than portfolio breadth alone.

Upgrade to PASS if all three become observable: (1) at least two years of disclosed organic growth after acquisition effects with total-company retention or cohort definitions broad enough to verify low churn and durable expansion; (2) statutory gross margin recovers above 72% and operating margin exceeds the pre-acquisition 13.48% while cloud/AI usage scales; and (3) renewals show realized pricing or wallet expansion without increasing free periods and concessions, alongside documented cross-platform outcomes.

Downgrade to FAIL if any two persist: (1) organic NGS ARR or core platform growth falls to low teens while platformized NRR drops below 115% or churn rises materially; (2) total gross margin remains below 70% and statutory operating margin remains below 10% after integration; or (3) Microsoft, CrowdStrike, Zscaler or hyperscaler controls cause repeated major-platform displacement and PANW relies on materially longer free use or discounting to retain growth.

Sources

- Cleared ER2 quantitative and KPI source: `data_package.md`, reviewed for FY2022–FY2026 financials, FY2026 platform revenue, NGS ARR, RPO, customer cohorts, acquisition perimeter and disclosure gaps.
- [Palo Alto Networks FY2026 Form 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm), live retrieved 2026-09-26 for competition, gross margins, cloud commitments, product architecture, IP and risk disclosures.
- [Palo Alto Networks Q2 FY2024 corrected transcript](https://investors.paloaltonetworks.com/static-files/25b8ae72-f8a1-490c-8c62-e4d86dd5db91), live retrieved 2026-09-26 for no-cost offers, product add-ons, transition periods and platformization mechanics.
- [Microsoft integrated SOC announcement, 2026-09-23](https://www.microsoft.com/en-us/security/blog/2026/09/23/reimagining-the-soc-for-the-agentic-era-in-microsoft-defender/), live retrieved 2026-09-26 for agentic SOC product direction.
- [Microsoft end-to-end security platform discussion, 2026-06-18](https://www.microsoft.com/en-us/security/blog/2026/06/18/new-forrester-study-shows-customers-who-unified-with-microsoft-security-benefited-from-124-roi/), live retrieved 2026-09-26 for integrated-platform and total-cost positioning; commissioned economic claims are treated as vendor marketing, not independent proof.
- [CrowdStrike FY2026 Form 10-K](https://ir.crowdstrike.com/static-files/717b7579-e6fc-4864-af98-9523d5d4fecb), live retrieved 2026-09-26 for shared-data, multi-module, retention and commercial-terms context.
- [Zscaler FY2026 Form 10-K](https://www.sec.gov/Archives/edgar/data/1713683/000171368326000157/zs-20260731.htm), live retrieved 2026-09-26 for cloud-native Zero Trust positioning across users, devices, workloads and AI agents.

Appendix B1 - Consolidated Company

Consolidated company — Segment Deep Dive

Company: Palo Alto Networks, Inc. (PANW) **Modeled financial segment:** `Consolidated company` **TTM anchor:** Q1–Q4 FY2026 ended 2026-07-31 **Exact five-year horizon:** 2031-07-31 **Reporting currency:** USD **Exact profit basis:** `Statutory operating income (single-segment non-operating CODM fallback)` **Issuer CODM context retained separately:** `Consolidated net income` **Trade execution authorized:** `false`

This appendix forecasts one financial segment and one only. Network & AI Security, Cortex, Idira, Other, Product, Subscription and Support are revenue-driver views inside the consolidated company. They are not independent reportable or projected financial segments, and no platform-level profit has been invented. All PANW historical figures, growth rates, management statements and accounting classifications come only from the verified `data_package.md` and the sealed `statutory_bridge.json`. External sources are used solely for competitive calibration.

0. Segment boundary and taxonomy note

PANW has one operating and reportable segment across the FY2025 and FY2026 controlling filings. Its Chief Operating Decision Maker reviews consolidated financial information with revenue information and uses consolidated net income as the disclosed segment-profit measure. Because consolidated net income sits below operating income and is not an additive operating-profit measure, the sealed schema-1.2.0 bridge uses the permitted `single_segment_non_operating_codm_fallback`. The model therefore has exactly one financial projection segment, `Consolidated company`, on `Statutory operating income (single-segment non-operating CODM fallback)`. The issuer's CODM measure, consolidated net income of $307 million in FY2026 and the coextensive TTM, remains separate context and is never relabeled as operating income.

The legal segment boundary is stable, but the analytical revenue taxonomy changed in Q4 FY2026. Management introduced Network & AI Security, Cortex, Idira and Other, with FY2025 comparatives for all except Idira. Idira began reported revenue after the CyberArk acquisition closed on 2026-02-11. Chronosphere closed on 2026-01-29, Koi on 2026-04-14 and Portkey on 2026-05-29. Embrace Mobile and Console closed after the TTM on 2026-08-27 and 2026-09-01, respectively. The platform taxonomy is useful for demand modeling, but comparisons before FY2025 are unavailable and reported FY2026 growth cannot be treated as organic. This appendix respects that boundary rather than splicing old product taxonomies into a fabricated platform history. [data_package §1, §9 and §10]

1. What this segment actually is

The consolidated company sells an integrated cybersecurity portfolio to enterprises, governments, service providers and smaller organizations. Its historical core is network security: hardware and software firewalls, cloud-delivered security services, software firewalls and secure access service edge, or SASE. Over time PANW extended that base into cloud security, security operations, observability, AI-runtime security and identity security. Customers usually buy through direct sales and channel partners, with contracts ranging from product transactions to recurring subscriptions, support arrangements and multi-year enterprise agreements.

The economic proposition is platform consolidation. A customer may begin with a firewall or cloud-delivered service and then add SASE, Cortex security operations, cloud security, Prisma AIRS or identity controls. Management calls adoption across its defined platforms "platformization." The relevant benefit is not merely a larger initial sale. Integrating telemetry, policy, data, identity and incident-response workflows can reduce tool count, eliminate handoffs and improve response speed. The customer may receive bundle economics and less operational complexity; PANW seeks a larger wallet, higher retention and more predictable contracted revenue.

The Q4 FY2026 platform view puts $8.354 billion of revenue in Network & AI Security, $1.920 billion in Cortex, $0.614 billion in reported Idira and $0.592 billion in Other. Network & AI Security includes SASE, hardware and software firewalls, Prisma AIRS, cloud-delivered security services and CyberArk's former Certificate LifeCycle Management business. Cortex includes security operations, cloud security and observability, including Chronosphere. Idira contains identity security excluding Certificate LifeCycle Management. Other contains Unit 42, professional services and financing income. These categories sum to $11.480 billion, but they do not carry disclosed platform operating profit. [data_package §4, lines 197–207]

Go-to-market economics are reinforced by a large installed base and the ability to sell more modules into existing relationships. The package records more than 70,000 customers, about 2,500 platformizations in the top-5,000 ARR cohort, more than 120% net revenue retention among platformized customers, 78 customers above $10 million of NGS ARR and 223 above $5 million, excluding CyberArk and Chronosphere for comparability. These measures suggest real cross-sell potential. They do not establish total-company retention, CAC payback or platform-level profitability, all of which remain undisclosed. [data_package §4, lines 219–224; §10]

2. Current economics — TTM ended 2026-07-31

TTM revenue was $11.480 billion, up 24.5% from FY2025, but the acceleration included a material acquisition perimeter. CyberArk contributed 6% of FY2026 consolidated revenue; Q3 included $388 million from CyberArk and Chronosphere. Q3 NGS ARR included $1.63 billion and RPO included $1.8 billion from those two acquisitions. At Q4 the package reports NGS ARR of $9.10 billion, up 63%, and RPO of $21.2 billion, up 34%, but the latest disclosed organic comparisons were lower: Q3 organic NGS ARR growth was 28% and organic RPO growth was 22%. There is no disclosed Q4 organic growth rate, so this appendix does not manufacture one. [data_package §1; §5, lines 248–257; §10]

Revenue mix was 19.9% Product, 54.3% Subscription and 25.8% Support. Subscription and Support together were $9.200 billion, or 80.1% of total revenue. Product revenue grew 26.5% in FY2026, Subscription 25.4% and Support 21.1%. The recurring mix is attractive, but "recurring" does not mean costless: cloud delivery, telemetry ingestion, AI inference, customer support and continuous threat research require sustained gross-profit reinvestment. [data_package §1, rows 78–83; §4, rows 177–193; SEC-26-10K; IR-26-SUPP]

The exact modeled profit was $695 million of `Statutory operating income (single-segment non-operating CODM fallback)`, equal to a 6.05% margin. There are no corporate/unallocated or operating bridge adjustments. The same $695 million equals the modeled segment value, segment-profit sum, consolidated modeled metric and sourced statutory operating income. The sealed bridge then records $(159) million of other expense to $536 million of pretax income and $(229) million of tax to $307 million of statutory net income, which is also the separately disclosed CODM metric. All five bridge residuals are zero. [data_package §3a, lines 129–173; statutory_bridge.json]

The 6.05% TTM margin is depressed relative to FY2025's 13.48% by acquisition amortization, transaction and integration charges, accelerated SBC and the newly enlarged perimeter. Q3 GAAP operating margin was negative 6.10% and Q4 recovered to 5.04%, compared with 12.49% in Q1 and 15.30% in Q2 before most CyberArk economics entered the statements. This cadence makes a straight-line extrapolation of the full-year margin inappropriate. It also makes management's 29.5% FY2027 non-GAAP operating-margin guide unusable as statutory operating income without an explicit GAAP bridge. [data_package §5, lines 230–257; §6, lines 279–290]

Capital intensity appears low if judged only by capex: FY2026 capex was $440 million, 3.8% of revenue. The fuller reinvestment burden is higher. R&D was $2.552 billion, 22.2% of revenue, and cash-flow-statement SBC was $1.774 billion, 15.5% of revenue; the 10-K expense presentation reports $1.815 billion of SBC. Operating cash flow of $4.553 billion less capex produced $4.113 billion of simple FCF, but the cash-flow reconciliation added back $1.774 billion of SBC. Consequently, FCF cannot be read as owner earnings without dilution analysis. [data_package §7]

3. Unit economics

PANW's revenue-to-profit conversion has four layers. First is the recurring installed-base layer. Subscription and Support are 80.1% of revenue, and $21.2 billion of RPO provides visibility, although not all RPO is current and it cannot be treated as cash or incremental revenue. Second is the product-acquisition layer: firewalls and software products can seed higher-margin subscriptions, but appliances carry hardware and supply-chain costs. Third is the cloud-delivery layer: SASE, Cortex, observability, identity and AI security require hosting, data movement, storage, inference and support costs. Fourth is the go-to-market and innovation layer: high R&D and sales spending support platform breadth and customer migration.

The model's central margin question is whether scale and integration benefits outpace three burdens. The first is acquired-intangible amortization and integration cost. Some transaction and integration costs fade; acquired-intangible amortization can persist for years and cannot simply be deleted because management excludes it from adjusted results. The second is SBC. The TTM SBC burden is material enough that a modest revenue beat can still fail to improve per-share economics. The third is AI-compute intensity. Prisma AIRS and AI-enabled security operations can command premium prices and increase strategic relevance, but inference and telemetry costs may rise before product maturity and workload optimization improve unit economics.

The historical evidence shows both leverage and fragility. The exact modeled margin improved from negative 3.43% in FY2022 to 5.62% in FY2023, 8.52% in FY2024 and 13.48% in FY2025, then fell to 6.05% in FY2026 as the acquisition perimeter arrived. That is not a deteriorating core business by itself, but it proves statutory profitability is sensitive to acquisition accounting and compensation. The bear case therefore does not assume that a 29.5% non-GAAP guide translates rapidly into GAAP profit. The base case requires a visible multi-year margin bridge. The bull case requires both successful integration and real pricing or mix benefits after paying for AI compute. [data_package §2, rows 98–114; §3, rows 118–127; FMP-IS-A; SEC-26-10K]

Product economics differ, but issuer-disclosed platform margins do not exist. Network & AI Security contains hardware, software and cloud services; Cortex and Idira are more subscription-oriented; Other includes professional services and financing income. It would be tempting to assign high software margins to Cortex and Idira and low margins to appliances, but doing so would create unsupported platform-profit forecasts. The model instead forecasts revenue bottoms-up by platform and applies one consolidated statutory operating margin supported by an explicit mechanism bridge.

4. Competitive dynamics

Live peer disclosures show that the category can sustain strong growth, but also that scale does not guarantee GAAP margins. CrowdStrike reported 25% ARR growth to $5.84 billion in its quarter ended 2026-07-31 and a 78% GAAP subscription gross margin, while GAAP operating income remained slightly negative. Zscaler reported FY2026 revenue growth of 25%, RPO growth of about 27% and a 23% FCF margin. Fortinet reported Q1 2026 revenue growth of 20%, product growth of 41% and a 31% GAAP operating margin, illustrating the upside when appliance refresh and operating discipline align. Okta's FY2026 revenue grew 12% and GAAP operating margin reached 5%, a useful mature-identity comparator. SentinelOne's Q2 FY2027 revenue grew 21% while GAAP operating margin remained negative 31%, showing how cloud and SBC intensity can absorb attractive topline growth.

Competitive calibration	Latest disclosed fact used	Forecast implication	Live primary source
CrowdStrike	ARR +25% to $5.84B; GAAP subscription gross margin 78%	SecOps can compound above 20%, but GAAP operating leverage is not automatic	[CrowdStrike Q2 FY2027](https://ir.crowdstrike.com/news-releases/news-release-details/crowdstrike-reports-second-quarter-fiscal-year-2027-financial)
Zscaler	FY2026 revenue +25%; RPO about +27%; FCF margin 23%	SASE demand can remain strong at scale; independent architecture sustains pricing pressure on PANW	[Zscaler FY2026 results](https://ir.zscaler.com/node/16456)
Fortinet	Q1 2026 revenue +20%; product +41%; GAAP operating margin 31%	Appliance refresh can be cyclical; a scaled security vendor can earn high GAAP margins	[Fortinet Q1 2026](https://investor.fortinet.com/news-releases/news-release-details/fortinet-reports-strong-first-quarter-2026-financial-results)
Okta	FY2026 revenue +12%; GAAP operating margin 5%	Identity matures toward low-double-digit growth; Idira must take share to sustain high teens	[Okta FY2026 results](https://investor.okta.com/news-and-events/news-releases/news-details/2026/Okta-Announces-Fourth-Quarter-And-Fiscal-Year-2026-Financial-Results/)
SentinelOne	Q2 FY2027 revenue +21%; GAAP operating margin negative 31%	AI-native positioning does not eliminate compute, sales or SBC burden	[SentinelOne Q2 FY2027](https://investors.sentinelone.com/press-releases/news-details/2026/SentinelOne-Announces-Second-Quarter-Fiscal-Year-2027-Financial-Results/default.aspx)

The five-year forecast deliberately decelerates mature Network & AI Security from FY2026's acquisition-affected growth. Base Network growth falls to high single digits by 2031, consistent with a scaled category and Fortinet's historical mid-teens annual revenue profile despite strong refresh quarters. Cortex carries higher growth because security operations, cloud security and observability are less penetrated, but the base path decelerates from a FY2027 acquisition/full-year step toward 15%. Idira's first-year reported jump is mostly a perimeter normalization from only part-year FY2026 revenue; after that, base growth decelerates toward 14%, above Okta's current pace but below the early 20% range. This prevents the partial-year denominator from masquerading as organic compounding.

5. Moat at the segment level

PANW's moat has four credible components. The installed base gives it trusted distribution into security-sensitive customers. Cross-product telemetry and integrated workflows can improve detection and response, creating a data and workflow advantage that a point product cannot easily reproduce. The breadth of the platform lets customers rationalize vendors and

procurement. Finally, the company can fund R&D at a scale few specialists can match; FY2026 R&D was $2.552 billion. [data_package §7, rows 294–308; FMP-IS-A; SEC-26-10K]

The moat is not impregnable. Cybersecurity buyers deliberately avoid single-vendor concentration, and major outages or detection failures can cause rapid reputational damage. Product breadth can become complexity. Acquisitions can create overlapping consoles, data models and sales incentives rather than integration. The FY2026 purchase perimeter created $29.027 billion of goodwill and acquired intangibles and a large share-count step-up, so the economic bar is higher than "revenue retained." PANW must convert acquired capabilities into organic cross-sell and statutory profit.

Platformized-customer NRR above 120% is supportive because it suggests customers expand after consolidation. The evidence is not enough to claim a company-wide moat: it covers a defined cohort, the platformization count is capped within the top-5,000 customers by ARR, and acquired platforms changed the perimeter. A durable moat would show continued high expansion after free periods roll off, improving organic RPO and NGS ARR, stable gross retention and declining sales friction. The bear case assumes those proofs weaken; the bull case assumes the integrated architecture produces measurable security and cost benefits.

6. Historical growth rates — reproduced from the data package

The exact financial projection profit basis in every historical table below is `Statutory operating income (single-segment non-operating CODM fallback)`. The issuer-disclosed CODM measure remains `Consolidated net income` and is not used as the operating forecast basis.

Consolidated-company history

Historical item	FY2023	FY2024	FY2025	FY2026 / TTM	3-year CAGR / change	Most recent YoY	Exact financial projection profit basis	Data-package cite
Consolidated company revenue	$6.893B	$8.028B	$9.222B	$11.480B	18.5% CAGR	24.5%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §3, rows 120–125; FMP-IS-A; SEC-26-10K]
Consolidated company profit	$0.387B	$0.684B	$1.243B	$0.695B	21.6% CAGR	negative 44.1%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §3, rows 120–125; FMP-IS-A; SEC-26-10K]
Consolidated company margin	5.62%	8.52%	13.48%	6.05%	+43 bps	negative 743 bps	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §3, rows 120–125; FMP-IS-A; SEC-26-10K]

The revenue row ties: $9.222 billion × 1.2449 = $11.480 billion. The profit decline is not smoothed away; it is the statutory result after the acquisition perimeter and related costs.

Product and service revenue history

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2026 revenue	3-year CAGR	Most recent YoY	Exact financial projection profit basis	Data-package cite
Product	$1.578B	$1.603B	$1.802B	$2.280B	13.1%	26.5%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, Product/service history row Product; FMP-PROD-A; SEC-26-10K]
Subscription	$3.335B	$4.189B	$4.974B	$6.239B	23.2%	25.4%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, Product/service history row Subscription; FMP-PROD-A; SEC-26-10K]
Support	$1.979B	$2.236B	$2.445B	$2.961B	14.4%	21.1%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, Product/service history row Support; FMP-PROD-A; SEC-26-10K]

Product / sub-segment	FY2023 revenue	FY2024 revenue	FY2025 revenue	FY2026 revenue	3-year CAGR	Most recent YoY	Exact financial projection profit basis	Data-package cite
Consolidated company	$6.893B	$8.028B	$9.221B	$11.480B	18.5%	24.5%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, Product/service history row Total; FMP-PROD-A; SEC-26-10K]

Arithmetic checks pass within 2%: Product $1.802 billion × 1.2653 = $2.280 billion; Subscription $4.974 billion × 1.2543 = $6.239 billion; Support $2.445 billion × 1.2110 = $2.961 billion. No back-solved product dollars are used. The $0.001 billion FY2025 difference between the product/service table and rounded consolidated revenue is source rounding.

Revenue-platform history and taxonomy boundary

Product / sub-segment	FY2024 revenue	FY2025 revenue	FY2026 revenue	3-year CAGR	Most recent YoY	Exact financial projection profit basis	Data-package cite
Network & AI Security	[DATA GAP: not recast]	$7.131B	$8.354B	[DATA GAP: only two years]	17.2%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, platform table row Network & AI Security; IR-26-SUPP]
Cortex	[DATA GAP: not recast]	$1.539B	$1.920B	[DATA GAP: only two years]	24.8%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, platform table row Cortex; IR-26-SUPP]
Idira	[DATA GAP: pre-close]	[DATA GAP: pre-close]	$0.614B reported	[DATA GAP: partial-year base]	n/m	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, platform table row Idira; IR-26-SUPP]
Other	[DATA GAP: not recast]	$0.551B	$0.592B	[DATA GAP: only two years]	7.4%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §4, platform table row Other; IR-26-SUPP]
Consolidated company	$8.028B	$9.221B	$11.480B	19.6% two-year	24.5%	Statutory operating income (single-segment non-operating CODM fallback)	[data_package §3 and §4 totals; FMP-IS-A; SEC-26-10K; IR-26-SUPP]

Platform arithmetic checks pass: Network & AI Security $7.131 billion × 1.1715 = $8.354 billion; Cortex $1.539 billion × 1.2476 = $1.920 billion; Other $0.551 billion × 1.0744 = $0.592 billion. Idira has no FY2025 reported base and therefore no valid YoY check. No pre-close revenue is invented. FY2026 pro forma Idira revenue of $1.26 billion is context only and is not added to consolidated revenue. [data_package §4, lines 195–207]

7. Management guidance — sourced only from data-package Section 6

The following record preserves every segment-relevant forward statement in the verified package. Interpretations distinguish management's assertion from the forecast consequence.

Data-package row	Speaker, date and source	Verbatim excerpt	Interpretation
§6 row 265	Nikesh Arora, 2025-11-19, FMP-T-Q1	"customers continue to platformize with us"	Supports cross-sell, but does not quantify total-company organic growth.
§6 row 266	Nikesh Arora, 2025-11-19, FMP-T-Q1	"platformization continues to take hold"	Supports multi-product adoption; annual billing can still affect cash timing.
§6 row 267	Nikesh Arora, 2025-11-19, FMP-T-Q1	"raising our expectations from $15 billion to $20 billion in ARR for FY '30"	A long-duration NGS ARR target that includes acquired categories, not an organic-only commitment.
§6 row 268	Nikesh Arora, 2026-02-17, FMP-T-Q2	"continued execution against our platformization strategy"	Acquisition integration is being layered onto the same commercial motion.
§6 row 269	Nikesh Arora, 2026-02-17, FMP-T-Q2	"total platformization count to approximately 1,550"	A defined cohort measure, not unique customer count or a revenue value.
§6 row 270	Nikesh Arora, 2026-02-17, FMP-T-Q2	"net retention rate amongst platformized customers, which stands at 119%"	Positive cohort expansion, but not a disclosed company-wide NRR.

Data-package row	Speaker, date and source	Verbatim excerpt	Interpretation
§6 row 271	Nikesh Arora, 2026-06-02, FMP-T-Q3	"platformization is the only sustainable answer"	A strong strategic assertion that must be tested against organic growth and renewal evidence.
§6 row 272	Nikesh Arora, 2026-06-02, FMP-T-Q3	"clear visibility towards $100 million in ARR"	Supports Prisma AIRS traction; ARR is not GAAP revenue and is not added to the model.
§6 row 273	Nikesh Arora, 2026-06-02, FMP-T-Q3	"3 to 6 months ahead of our original time line"	Indicates faster CyberArk integration, supporting but not proving synergy realization.
§6 row 274	Nikesh Arora, 2026-09-01, FMP-T-Q4	"Platformization is the only viable strategy for real time defense"	Reinforces architecture breadth, but remains an issuer claim rather than third-party proof.
§6 row 275	Nikesh Arora, 2026-09-01, FMP-T-Q4	"net revenue retention, exceeding 120%"	Strong defined-cohort economics; perimeter changes prevent company-wide extrapolation.
§6 row 276	Nikesh Arora, 2026-09-01, IR-26-Q4	"durable tailwinds as we progress towards our $20 billion FY30 NGS ARR target"	Keeps the FY2030 target active; the model does not equate ARR with revenue.
§6 row 277	Dipak Golechha, 2026-09-01, IR-26-Q4	"achieving 40% adjusted free cash flow margin in FY28"	A cash target on an adjusted basis; SBC and excluded acquisition cash items remain economic costs.

Formal FY2027 guidance is $14.10–$14.20 billion of revenue, $11.075–$11.175 billion of NGS ARR, $25.2–$25.4 billion of RPO, 29.5% non-GAAP operating margin, 38.0% adjusted FCF margin and 844–847 million diluted shares. Platform modeling points are low-double-digit Network & AI Security revenue growth, about 30% Cortex growth and roughly $1.5 billion of Idira revenue, equal to high-teens to 20% pro forma growth. No GAAP operating-margin or GAAP net-income guide is provided. [data_package §6, rows 279–290]

8. Forward growth assumptions — TTM 2026-07-31 to 2031-07-31

Perimeter discipline

The TTM base is reported revenue, not a fabricated pro forma year. FY2027 therefore contains a mechanical full-year effect from CyberArk and Chronosphere in addition to organic growth. Idira makes the distortion clearest: $0.614 billion was reported after the February close, while management's FY2027 point is about $1.5 billion and FY2026 pro forma revenue was $1.26 billion. The resulting 144% base-case first-year reported growth is not labeled organic. After FY2027, the platform cadences are the model's organic-plus-pricing assumptions because the acquired businesses are then inside both numerator and denominator. Network's Certificate LifeCycle Management and Cortex's Chronosphere effects are not separately dollar-disclosed, so the model does not invent them. Post-year-end Embrace and Console are included only in qualitative platform execution; no standalone revenue is modeled because the package supplies none.

Base-case assumptions

Product	3-year historical CAGR	Latest YoY	Management FY2027 guide	Base CAGR TTM to TTM+5y	Exact financial projection profit basis	Concise justification
Network & AI Security	[DATA GAP: two-year taxonomy]	17.2%	Low-double-digit growth	10.0%	Statutory operating income (single-segment non-operating CODM fallback)	FY2027 includes CLM/full-year effects; mature growth fades to 7%.
Cortex	[DATA GAP: two-year taxonomy]	24.8%	About 30% growth	22.9%	Statutory operating income (single-segment non-operating CODM fallback)	SecOps, cloud and observability scale; growth fades toward 15%.
Idira	[DATA GAP: partial-year base]	n/m	About $1.5B; high-teens to 20% pro forma	35.5% reported-base CAGR	Statutory operating income (single-segment non-operating CODM fallback)	First-year perimeter step, then 20% to 14% organic-plus-price cadence.
Other	[DATA GAP: two-year taxonomy]	7.4%	Not separately guided	3.8%	Statutory operating income (single-segment non-operating CODM fallback)	Services and financing grow below platforms.

Network & AI Security begins below its FY2026 17.2% growth after separating acquisition contribution and fades as firewall and SASE scale. Fortinet's 2025 revenue growth of 14% and Q1 2026 acceleration show that refresh can be strong, but a

five-year high-teens assumption would capitalize a cyclical/product surge. Cortex's base cadence is above the consolidated rate because XSIAM ARR exceeded $700 million and grew about 70%, Chronosphere ARR exceeded $500 million and Prisma AIRS was about $120 million. Those point metrics are not revenue, so the model still decelerates. Idira uses management's $1.5 billion FY2027 point, then falls from 20% to 14%, remaining above Okta's current 12% revenue-growth pace because PANW can cross-sell identity into its security base.

Bear-case assumptions

Product	3-year historical CAGR	Latest YoY	Management FY2027 guide	Bear CAGR TTM to TTM+5y	Exact financial projection profit basis	Concise justification
Network & AI Security	[DATA GAP: two-year taxonomy]	17.2%	Low-double-digit growth	5.8%	Statutory operating income (single-segment non-operating CODM fallback)	Bundle discounting and firewall normalization reduce growth to 3%.
Cortex	[DATA GAP: two-year taxonomy]	24.8%	About 30% growth	11.6%	Statutory operating income (single-segment non-operating CODM fallback)	Microsoft, CrowdStrike and specialists slow expansion after the perimeter step.
Idira	[DATA GAP: partial-year base]	n/m	About $1.5B	24.0% reported-base CAGR	Statutory operating income (single-segment non-operating CODM fallback)	FY2027 falls below guide; later growth fades to 6% amid identity competition.
Other	[DATA GAP: two-year taxonomy]	7.4%	Not separately guided	negative 1.8%	Statutory operating income (single-segment non-operating CODM fallback)	Partner shift and services pressure contract revenue.

The bear case does not assume cybersecurity demand collapses. It assumes platform consolidation converts into concessions rather than incremental value, integration distracts sales, and AI compute rises faster than pricing. Network growth drops toward GDP-plus-security-spend levels. Cortex retains growth but loses share to focused vendors and bundled Microsoft offerings. Idira underperforms management's initial point and matures near Okta's current growth range. The outcome remains positive consolidated revenue growth because the installed base and category are durable; the underwriting failure is weak operating and per-share conversion.

Bull-case assumptions

Product	3-year historical CAGR	Latest YoY	Management FY2027 guide	Bull CAGR TTM to TTM+5y	Exact financial projection profit basis	Concise justification
Network & AI Security	[DATA GAP: two-year taxonomy]	17.2%	Low-double-digit growth	13.2%	Statutory operating income (single-segment non-operating CODM fallback)	SASE, software firewalls and AIRS sustain premium growth and pricing.
Cortex	[DATA GAP: two-year taxonomy]	24.8%	About 30% growth	29.2%	Statutory operating income (single-segment non-operating CODM fallback)	XSIAM, cloud and observability compound near leading peers.
Idira	[DATA GAP: partial-year base]	n/m	About $1.5B	41.8% reported-base CAGR	Statutory operating income (single-segment non-operating CODM fallback)	Full-year step plus cross-sell sustains 25% to 18% after FY2027.
Other	[DATA GAP: two-year taxonomy]	7.4%	Not separately guided	5.5%	Statutory operating income (single-segment non-operating CODM fallback)	Unit 42 and services grow with the installed base.

The bull case requires verified outcomes rather than narrative momentum: platformized-customer NRR stays above 120% after acquisition definitions stabilize, organic RPO and NGS ARR remain above 20%, XSIAM and Prisma AIRS monetize without excessive compute cost, and Idira cross-sell accelerates. CrowdStrike's 25% ARR growth and Zscaler's 25% revenue growth show that scaled security platforms can sustain mid-20s growth. The forecast nevertheless decelerates every high-growth platform by 2031 rather than extrapolating Q4 point metrics indefinitely.

Year-by-year revenue cadence and thesis-consistency check

Base revenue path ($B)	TTM FY2026	FY2027	FY2028	FY2029	FY2030	TTM+5y FY2031	Exact financial projection profit basis
Network & AI Security	8.354	9.520	10.570	11.630	12.560	13.440	Statutory operating income (single-segment non-operating CODM fallback)
Cortex	1.920	2.560	3.250	3.970	4.680	5.380	Statutory operating income (single-segment non-operating CODM fallback)
Idira	0.614	1.500	1.800	2.124	2.464	2.809	Statutory operating income (single-segment non-operating CODM fallback)
Other	0.592	0.620	0.645	0.671	0.691	0.712	Statutory operating income (single-segment non-operating CODM fallback)
Consolidated company	11.480	14.200	16.265	18.395	20.395	22.341	Statutory operating income (single-segment non-operating CODM fallback)

Bear revenue path ($B)	TTM FY2026	FY2027	FY2028	FY2029	FY2030	TTM+5y FY2031	Exact financial projection profit basis
Network & AI Security	8.354	9.300	9.860	10.350	10.760	11.080	Statutory operating income (single-segment non-operating CODM fallback)
Cortex	1.920	2.400	2.640	2.900	3.130	3.320	Statutory operating income (single-segment non-operating CODM fallback)
Idira	0.614	1.350	1.470	1.590	1.700	1.800	Statutory operating income (single-segment non-operating CODM fallback)
Other	0.592	0.580	0.570	0.560	0.550	0.540	Statutory operating income (single-segment non-operating CODM fallback)
Consolidated company	11.480	13.630	14.540	15.400	16.140	16.740	Statutory operating income (single-segment non-operating CODM fallback)

Bull revenue path ($B)	TTM FY2026	FY2027	FY2028	FY2029	FY2030	TTM+5y FY2031	Exact financial projection profit basis
Network & AI Security	8.354	9.800	11.170	12.620	14.140	15.550	Statutory operating income (single-segment non-operating CODM fallback)
Cortex	1.920	2.750	3.630	4.650	5.770	6.920	Statutory operating income (single-segment non-operating CODM fallback)
Idira	0.614	1.600	2.000	2.460	2.980	3.520	Statutory operating income (single-segment non-operating CODM fallback)

Bull revenue path ($B)	TTM FY2026	FY2027	FY2028	FY2029	FY2030	TTM+5y FY2031	Exact financial projection profit basis
Other	0.592	0.650	0.689	0.723	0.752	0.775	Statutory operating income (single-segment non-operating CODM fallback)
Consolidated company	11.480	14.800	17.489	20.453	23.642	26.765	Statutory operating income (single-segment non-operating CODM fallback)

The cadence makes the acquisition distortion explicit. Base FY2027 consolidated growth is 23.7% and lands at the upper bound of management's $14.10–$14.20 billion revenue range; bear is 18.7% and bull 28.9%. Base Network growth decelerates from 14.0% in FY2027 to 7.0% by FY2031. Base Cortex moves from 33.3% to 15.0%. Base Idira moves from a 144.3% reported first-year step to 20%, 18%, 16% and 14%. No comparable-company evidence is needed to justify a mythical immediate collapse; the paths converge toward observed scaled peers. Base consolidated revenue compounds at 14.2%, bear at 7.8% and bull at 18.4% over exactly five years.

9. Forward `Statutory operating income (single-segment non-operating CODM fallback)` margin assumptions

The current margin is 6.05%. This repair is bound to data-package Section 7a at SHA-256 `ad45d2935305f4e1e618c8ab0d5ef246783200e7fbd80febc968a79555e00c28`. The repaired model applies the exact sealed basis once at the consolidated level and uses the Section 7a identity: pre-acquired-amortization/pre-SBC/pre-acquisition-charge operating profit, less scheduled purchased-intangible amortization, less P&L SBC, less acquisition/integration charges, equals statutory GAAP operating income. The pre-adjustment line retains depreciation, deferred-contract-cost amortization, ordinary cash compensation, sales investment and every other recurring operating cost. It is decomposed into other-operating-expense leverage, revenue/pricing mix and AI/cloud-delivery effects so those mechanisms cannot hide in one terminal-margin plug.

Management's 29.5% FY2027 non-GAAP operating-margin guide is not used as a GAAP forecast. The FY2026 29.25% selected-adjustment envelope is only an analytical reference and has known scope differences: it uses $1.712 billion of reconciliation SBC rather than the audited $1.815 billion total P&L expense, and includes selected acquisition and litigation adjustments. Every annual bridge below instead deducts an explicit scenario P&L SBC burden, the exact official amortization dollars, and a separately modeled acquisition/integration charge.

Source-bound FY2026 composition and forward constraints

Evidence or constraint	Amount	Status	Statutory treatment	Exact profit metric
FY2026 revenue	$11,480M	Reported	Denominator for sealed 6.05% margin	Statutory operating income (single-segment non-operating CODM fallback)
FY2026 statutory operating income	$695M	Reported	Controlling starting point	Statutory operating income (single-segment non-operating CODM fallback)
Purchased-intangible amortization	$640M	Reported	GAAP operating cost; replaced prospectively by audited annual schedule	Statutory operating income (single-segment non-operating CODM fallback)
Total expense SBC	$1,815M	Reported	Full FY2026 P&L expense, equal to 15.81% of revenue	Statutory operating income (single-segment non-operating CODM fallback)
Accelerated acquisition SBC	$177M	Reported	Included in $1,815M; discrete but not evidence all acquisition SBC disappears	Statutory operating income (single-segment non-operating CODM fallback)
Non-accelerated expense SBC	$1,638M	Calculated	Historical comparison only; future grants remain necessary	Statutory operating income (single-segment non-operating CODM fallback)
Unrecognized SBC / recognition period	about $3,300M / 2.5 years	Reported	Timing constraint, not an annual expense schedule	Statutory operating income (single-segment non-operating CODM fallback)

Evidence or constraint	Amount	Status	Statutory treatment	Exact profit metric
Acquisition-related-cost adjustment	$295M	Reported	Starting reference; full recurring/nonrecurring split is undisclosed	Statutory operating income (single-segment non-operating CODM fallback)
Identified CyberArk transaction-cost subset	$56M	Reported	Included within broader acquisition-cost context; not the full $295M	Statutory operating income (single-segment non-operating CODM fallback)
Other D&A residual	$104M	Calculated / unallocated	Remains within recurring operating costs; composition is undisclosed	Statutory operating income (single-segment non-operating CODM fallback)

Bear annual statutory GAAP composition bridge

The bear case assumes weak pricing realization, inefficient AI/cloud workloads and little SBC relief. Other operating expense leverage is positive but cannot offset the cloud-delivery penalty. Acquisition/integration charges persist through FY2031.

Bear bridge component	FY2027	FY2028	FY2029	FY2030	FY2031	Classification
Revenue ($M)	13,630	14,540	15,400	16,140	16,740	Scenario assumption from Section 8
FY2026 selected-adjustment reference margin	29.25%	29.25%	29.25%	29.25%	29.25%	Calculated diagnostic; not guidance
Other operating expense leverage	+0.25%	+0.40%	+0.60%	+0.80%	+1.00%	Scenario assumption
Revenue, pricing and platform-mix effect	-0.25%	-0.15%	0.00%	+0.10%	+0.25%	Scenario assumption
AI and cloud-delivery cost effect	-1.75%	-2.10%	-2.35%	-2.45%	-2.50%	Scenario assumption
Pre-amortization/pre-SBC/pre-acquisition-charge margin	27.50%	27.40%	27.50%	27.70%	28.00%	Scenario construct; includes all other recurring costs
Pre-adjustment operating profit ($M)	3,748.25	3,983.96	4,235.00	4,470.78	4,687.20	Calculated
Scheduled purchased-intangible amortization ($M)	(1,081.00)	(989.00)	(908.00)	(892.00)	(667.00)	Reported audited schedule
Scheduled amortization / revenue	(7.93%)	(6.80%)	(5.90%)	(5.53%)	(3.98%)	Calculated from exact dollars
P&L SBC / revenue	(16.50%)	(16.00%)	(15.50%)	(15.00%)	(14.50%)	Scenario assumption within Section 7a ranges
P&L SBC ($M)	(2,248.95)	(2,326.40)	(2,387.00)	(2,421.00)	(2,427.30)	Calculated
Acquisition/integration charge / revenue	(2.00%)	(1.50%)	(1.00%)	(0.75%)	(0.50%)	Scenario assumption within Section 7a ranges
Acquisition/integration charge ($M)	(272.60)	(218.10)	(154.00)	(121.05)	(83.70)	Calculated runoff
Statutory operating income ($M)	145.70	450.46	786.00	1,036.73	1,509.20	Calculated; zero residual
Statutory operating margin	1.07%	3.10%	5.10%	6.42%	9.02%	Statutory operating income (single-segment non-operating CODM fallback)
Reconciliation residual ($M)	0.00	0.00	0.00	0.00	0.00	Passed

Base annual statutory GAAP composition bridge

The base case assumes gradual sales and G&A leverage, favorable recurring mix and measurable platform pricing, partly offset by cloud-hosting cost growing faster than revenue in FY2027 and continuing AI delivery investment. SBC declines as a share of revenue but remains a large economic cost; acquisition charges run off conservatively.

Base bridge component	FY2027	FY2028	FY2029	FY2030	FY2031	Classification
Revenue ($M)	14,200	16,265	18,395	20,395	22,341	Scenario assumption from Section 8

Base bridge component	FY2027	FY2028	FY2029	FY2030	FY2031	Classification
FY2026 selected-adjustment reference margin	29.25%	29.25%	29.25%	29.25%	29.25%	Calculated diagnostic; not guidance
Other operating expense leverage	+0.25%	+0.55%	+0.90%	+1.25%	+1.55%	Scenario assumption
Revenue, pricing and platform-mix effect	0.00%	+0.20%	+0.45%	+0.70%	+0.90%	Scenario assumption
AI and cloud-delivery cost effect	-0.25%	-0.30%	-0.30%	-0.35%	-0.70%	Scenario assumption
Pre-amortization/pre-SBC/pre-acquisition-charge margin	29.25%	29.70%	30.30%	30.85%	31.00%	Scenario construct; includes all other recurring costs
Pre-adjustment operating profit ($M)	4,153.5000	4,830.7050	5,573.6850	6,291.8575	6,925.7100	Calculated
Scheduled purchased-intangible amortization ($M)	(1,081.00)	(989.00)	(908.00)	(892.00)	(667.00)	Reported audited schedule
Scheduled amortization / revenue	(7.61%)	(6.08%)	(4.94%)	(4.37%)	(2.99%)	Calculated from exact dollars
P&L SBC / revenue	(14.50%)	(13.50%)	(12.50%)	(11.50%)	(10.25%)	Scenario assumption within Section 7a ranges
P&L SBC ($M)	(2,059.0000)	(2,195.7750)	(2,299.3750)	(2,345.4250)	(2,289.9525)	Calculated
Acquisition/integration charge / revenue	(1.00%)	(0.50%)	(0.25%)	(0.10%)	(0.05%)	Scenario assumption within Section 7a ranges
Acquisition/integration charge ($M)	(142.0000)	(81.3250)	(45.9875)	(20.3950)	(11.1705)	Calculated runoff
Statutory operating income ($M)	871.5000	1,564.6050	2,320.3225	3,034.0375	3,957.5870	Calculated; zero residual
Statutory operating margin	6.14%	9.62%	12.61%	14.88%	17.71%	Statutory operating income (single-segment non-operating CODM fallback)
Reconciliation residual ($M)	0.00	0.00	0.00	0.00	0.00	Passed

Bull annual statutory GAAP composition bridge

The bull case requires faster pre-adjustment leverage that reaches Section 7a's upper bound by FY2031, stronger pricing and platform mix, and rapid SBC-ratio improvement despite continuing grants. Higher AI usage still creates a cloud-delivery penalty. Acquisition charges run to zero only after the FY2027–FY2030 integration sequence.

The resulting 10.10% FY2027 statutory margin is 60 basis points above Section 7a's rough 9.5% corridor ceiling. The explicit source is the bull case's net +1.75 percentage points of pre-adjustment leverage above the 29.25% reference: +1.00 point of other-operating-expense leverage, +1.00 point of revenue/pricing/platform mix and a -0.25 point AI/cloud-delivery drag. These are scenario assumptions, not issuer guidance.

Bull bridge component	FY2027	FY2028	FY2029	FY2030	FY2031	Classification
Revenue ($M)	14,800	17,489	20,453	23,642	26,765	Scenario assumption from Section 8
FY2026 selected-adjustment reference margin	29.25%	29.25%	29.25%	29.25%	29.25%	Calculated diagnostic; not guidance
Other operating expense leverage	+1.00%	+1.20%	+1.50%	+2.00%	+2.40%	Scenario assumption
Revenue, pricing and platform-mix effect	+1.00%	+0.90%	+1.30%	+1.70%	+2.10%	Scenario assumption
AI and cloud-delivery cost effect	-0.25%	-0.35%	-0.45%	-0.55%	-0.75%	Scenario assumption
Pre-amortization/pre-SBC/pre-acquisition-charge margin	31.00%	31.00%	31.60%	32.40%	33.00%	Scenario construct; within Section 7a's 31%-33% bull range and includes all other recurring costs
Pre-adjustment operating profit ($M)	4,588.0000	5,421.5900	6,463.1480	7,660.0080	8,832.4500	Calculated

Bull bridge component	FY2027	FY2028	FY2029	FY2030	FY2031	Classification
Scheduled purchased-intangible amortization ($M)	(1,081.00)	(989.00)	(908.00)	(892.00)	(667.00)	Reported audited schedule
Scheduled amortization / revenue	(7.30%)	(5.65%)	(4.44%)	(3.77%)	(2.49%)	Calculated from exact dollars
P&L SBC / revenue	(13.00%)	(11.50%)	(10.00%)	(9.00%)	(8.00%)	Scenario assumption within Section 7a ranges
P&L SBC ($M)	(1,924.0000)	(2,011.2350)	(2,045.3000)	(2,127.7800)	(2,141.2000)	Calculated
Acquisition/integration charge / revenue	(0.60%)	(0.25%)	(0.10%)	(0.05%)	0.00%	Scenario assumption within Section 7a ranges
Acquisition/integration charge ($M)	(88.8000)	(43.7225)	(20.4530)	(11.8210)	0.0000	Calculated runoff
Statutory operating income ($M)	1,494.2000	2,377.6325	3,489.3950	4,628.4070	6,024.2500	Calculated; zero residual
Statutory operating margin	10.10%	13.60%	17.06%	19.58%	22.51%	Statutory operating income (single-segment non-operating CODM fallback)
Reconciliation residual ($M)	0.00	0.00	0.00	0.00	0.00	Passed

The repaired evidence does not support preserving the prior 12%/18%/23% terminal margins unchanged. The source-bound outcomes are 9.02% bear, 17.71% base and 22.51% bull. The largest revision is bear because scheduled amortization remains 3.98% of revenue in FY2031 while a 14.5% SBC ratio and persistent integration burden leave less room for statutory profit. Base and bull remain near the earlier round-number endpoints but are now the outputs of annual bridges rather than assumed terminal values.

True non-disclosures remain explicit: PANW does not provide an annual SBC recognition schedule, future grant volume, the acquisition/ordinary split of unrecognized awards, a full decomposition or cash timing of the $295 million acquisition-cost adjustment, the FY2026 amount of the approximately $60 million workforce plan, the exact composition of $104 million of other D&A, complete Koi/Portkey useful lives, or FY2027–FY2031 GAAP operating-margin guidance. The bridges use scenario assumptions within Section 7a's permitted ranges rather than fabricating those missing schedules. The $1.081/$0.989/$0.908/$0.892/$0.667 billion amortization schedule is reported and fixed; post-year-end acquisitions could add costs not included in that audited 2026-07-31 perimeter.

SBC and dilution economics — contextual stress, not a change to the profit basis

FY2026 diluted weighted-average shares were 764 million, while period-end common shares were 815 million. CyberArk purchase consideration issued 112 million shares, and the 2025 warrants settled for 27 million net shares. FY2027 non-GAAP guidance uses 844–847 million diluted shares; the midpoint is 845.5 million. These facts explain why per-share economics can lag consolidated profit even if integration succeeds. [data_package §2, §6, §7 and §9]

The table below is an illustrative denominator stress for later synthesis. It does not forecast EPS, does not change `Statutory operating income (single-segment non-operating CODM fallback)`, and does not pre-empt the synthesis agent's below-line, tax or share-count bridge.

Dilution context	Bear	Base	Bull	Exact profit metric
FY2027 diluted-share anchor	845.5M	845.5M	845.5M	Statutory operating income (single-segment non-operating CODM fallback)
Assumed annual net dilution FY2028–FY2031	2.0%	1.0%	0.5%	Statutory operating income (single-segment non-operating CODM fallback)
Illustrative FY2031 diluted shares	915.2M	879.8M	862.5M	Statutory operating income (single-segment non-operating CODM fallback)
Terminal statutory operating income per diluted-share proxy	$1.65	$4.50	$6.98	Statutory operating income (single-segment non-operating CODM fallback)
Proxy if shares stayed at 845.5M	$1.78	$4.68	$7.13	Statutory operating income (single-segment non-operating CODM fallback)

Dilution context	Bear	Base	Bull	Exact profit metric
Per-share drag from post-FY2027 dilution	7.6%	3.9%	2.0%	Statutory operating income (single-segment non-operating CODM fallback)

This sensitivity shows why repurchases must be judged net of issuance. The TTM repurchase of $1.0 billion did not neutralize acquisition and warrant shares. Base statutory operating profit grows substantially, but another 1% annual dilution after the guided FY2027 denominator would reduce the terminal per-share proxy by about 4% versus a frozen denominator. Bear-case dilution is worse because weak statutory margins coexist with ongoing equity compensation. Bull-case dilution is lowest because stronger cash generation and operating discipline make net issuance less necessary. None of these share assumptions changes the sealed segment-profit basis.

10. Segment rollup — bottom-up revenue, single consolidated profit basis

The four platform rows are revenue drivers only. They sum to one consolidated company. One statutory margin is applied after the revenue sum. No platform operating profit, corporate allocation or operating adjustment is inserted.

Bear TTM+5y rollup	Revenue ($B)	Share of consolidated	Exact profit metric	Profit-margin treatment	Profit contribution treatment
Network & AI Security	11.080	66.2%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Cortex	3.320	19.8%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Idira	1.800	10.8%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Other	0.540	3.2%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Consolidated company	16.740	100.0%	Statutory operating income (single-segment non-operating CODM fallback)	9.02% consolidated	$1.509B

Base TTM+5y rollup	Revenue ($B)	Share of consolidated	Exact profit metric	Profit-margin treatment	Profit contribution treatment
Network & AI Security	13.440	60.2%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Cortex	5.380	24.1%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Idira	2.809	12.6%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Other	0.712	3.2%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Consolidated company	22.341	100.0%	Statutory operating income (single-segment non-operating CODM fallback)	17.71% consolidated	$3.958B

Bull TTM+5y rollup	Revenue ($B)	Share of consolidated	Exact profit metric	Profit-margin treatment	Profit contribution treatment
Network & AI Security	15.550	58.1%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only

Bull TTM+5y rollup	Revenue ($B)	Share of consolidated	Exact profit metric	Profit-margin treatment	Profit contribution treatment
Cortex	6.920	25.9%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Idira	3.520	13.2%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Other	0.775	2.9%	Statutory operating income (single-segment non-operating CODM fallback)	No platform margin invented	Revenue driver only
Consolidated company	26.765	100.0%	Statutory operating income (single-segment non-operating CODM fallback)	22.51% consolidated	$6.024B

Revenue ties are exact at displayed precision. Bear: $11.080B + $3.320B + $1.800B + $0.540B = $16.740B. Base: $13.440B + $5.380B + $2.809B + $0.712B = $22.341B. Bull: $15.550B + $6.920B + $3.520B + $0.775B = $26.765B. The Section 9 composition bridges then produce exact terminal statutory operating income of $1.50920B, $3.95759B and $6.02425B with zero residual. No corporate/unallocated line is inserted.

Scenario weights are 25% bear, 55% base and 20% bull. The base receives the largest weight because FY2027 guidance and platform indicators support continued demand, yet acquisition integration and statutory-margin conversion remain unproven. Bear receives more weight than bull because the acquired perimeter, SBC and partial-year comparisons can make execution appear stronger than underlying organic economics. Bull is credible but requires several mechanisms to succeed simultaneously. The weights are non-uniform and sum to 100%.

11. Key risks and wildcards

[Bear] Acquisition integration without organic conversion. CyberArk and Chronosphere contributed large reported ARR, RPO and revenue steps. If organic NGS ARR stays near or below the last disclosed 28% while reported metrics benefit from perimeter, the platform thesis may be less powerful than headline growth suggests. The crucial monitor is organic RPO and NGS ARR after Q4 comparability returns.

[Bear] Platformization becomes discounting. Multi-year bundles can improve RPO and retention but suppress near-term pricing or offer free product periods. If platformized NRR falls below 115% after definitions stabilize, or customers reduce module adoption at renewal, the base revenue and margin paths should be cut.

[Bear] AI-compute and telemetry costs outrun pricing. Prisma AIRS, XSIAM and observability require intensive data processing. A rise in cloud-hosting cost without commensurate price or workload efficiency would impair the repaired 17.71% base statutory margin. Gross-profit and cloud-cost commentary are therefore more important than ARR alone.

[Bear] SBC remains an economic cost. FY2026 cash-flow-statement SBC was 15.5% of revenue and total expense SBC was $1.815 billion. If the ratio remains in the mid-teens while diluted shares rise beyond the FY2027 guide, per-share profit will lag consolidated profit. Repurchases that merely offset employee or acquisition issuance do not create owner value.

[Bear] Identity competition and acquired-product disruption. Idira competes against Microsoft, Okta and specialist privileged-access vendors. CyberArk integration could disturb sales execution or product road maps. The first-year reported growth is not a clean organic signal because FY2026 included only a partial period.

[Base / Bull] Platform cross-sell. If more than 65% of NGS ARR from platformized customers continues to expand, platformizations rise toward management's more-than-4,000 FY2030 target and NRR remains above 120%, the base or bull Cortex and Idira paths become more likely. The count must be evaluated under a stable definition.

[Bull] AI expands the attack surface faster than it compresses vendor value. Machine identities, agents and model/data pipelines could create new control points for Prisma AIRS, Cortex and Idira. The upside requires monetization, not just customer trials, and compute efficiency must improve enough to preserve incremental margin.

[Bull] Integration arrives ahead of schedule. Management says CyberArk integration was three to six months ahead of its original timeline. If unified sales motions, consoles and data models become demonstrably effective, synergies could lift both growth and margin. Faster accounting normalization alone is insufficient; organic bookings and statutory operating income must follow.

[Bear / Bull] Wildcard: post-TTM acquisitions. Embrace Mobile and Console closed after 2026-07-31. They may extend mobile and agentic-workflow coverage, but the package provides no standalone revenue or cost. The forecast assigns no explicit dollars. Material contribution would be upside; further acquisition accounting and issuance would be downside.

Scenario summary

Case	Segment TTM+5y revenue	Exact profit metric	Segment TTM+5y profit margin	Segment TTM+5y profit	Probability
Bear	$16.740B	Statutory operating income (single-segment non-operating CODM fallback)	9.02%	$1.509B	25%
Base	$22.341B	Statutory operating income (single-segment non-operating CODM fallback)	17.71%	$3.958B	55%
Bull	$26.765B	Statutory operating income (single-segment non-operating CODM fallback)	22.51%	$6.024B	20%

The probability-weighted terminal revenue is $21.826 billion and the probability-weighted terminal `Statutory operating income (single-segment non-operating CODM fallback)` is $3.759 billion. Those are expected terminal operating outputs, not a valuation, recommendation or arithmetic average of returns. The key underwriting issue is not whether PANW can report growth; it is whether organic platform adoption, integration and pricing convert that growth into statutory operating profit after persistent SBC, amortization and AI-compute cost. No trade, broker, portfolio, ranking, sizing or BUY-queue authority is created by this appendix.

Appendix S - Synthesis (Combined Earnings Model)

Palo Alto Networks — Synthesis (Combined Earnings Model)

Production ER2 synthesis for PANW, rebuilt on 2026-09-27 after the acquired-amortization, stock-based-compensation and acquisition-cost schedule was repaired and independently reviewed. This appendix performs mechanical forecast consolidation from the QFR/DR-cleared quantitative package and the R-cleared consolidated-company appendix. It does not reclassify source accounting, use management's non-GAAP margin as GAAP, create a balancing plug, select a shareholder-return method, rank the security, size a position, message anyone, or authorize a trade. `trade_execution_authorized=false`.

1. Anchors and governed bases

- Today: **2026-09-27**.
- Fiscal year end: **July 31**.
- TTM anchor: **2026-07-31**.
- TTM quarters: Q1 FY2026 ended 2025-10-31; Q2 FY2026 ended 2026-01-31; Q3 FY2026 ended 2026-04-30; Q4 FY2026 ended 2026-07-31.
- Latest completed fiscal year for historical tie-out only: **FY2026**.
- Horizon: **2031-07-31**, exactly **5.0 calendar years** after the TTM anchor. No row compounds from FY2025 or over six fiscal years.
- Valuation price: **USD 374.74 per XNAS:PANW common share**, on a `RAW_EXCHANGE_CLOSE` basis for the completed 2026-09-25 session. Raw quote hash: `204b1fd61098979d5910e5903a9f9a4c891463808e07fc7c604044664381c4b0`. QFR-sealed packet hash: `cb4671f75cc9f570742d3b5fb6ff16933d684a107c412e201b26c11b04655664`. Actionability expiry: 2026-09-29T04:00:00+08:00.
- The strict quote validator was rerun on 2026-09-27 SGT and returned `QUOTE_PACKET_VALID` with exact packet-hash equality. The price was not re-fetched or mutated.
- Reporting and quote currency: USD. Listed security unit: one common share. Financial-statement unit: one common share. Depositary ratio 1.0, share-class factor 1.0, financial shares per listed unit 1.0, and FX USD per USD 1.0.
- Split bridge: 764.0 million FY2026 diluted weighted-average financial shares × split factor 1.0 = 764.0 million quote-basis diluted financial shares. The December 2024 two-for-one split was already reflected retroactively; the packet records no intervening split through 2026-09-25.
- Listed-unit bridge: 764.0 million quote-basis diluted shares ÷ (depositary ratio 1.0 × class factor 1.0) = 764.0 million listed-unit equivalents.
- Historical statutory bridge hash: `2d78a720f68b5a6d02e0625b17b43e6d7cc511b8a005f16ce6cbed52eaecab45`. The validator returned `STATUTORY_BRIDGE_VALID` with exact hash equality.
- The live `gate_manifest.json` records `STATUTORY BRIDGE VERIFIED — CLEARED FOR FORECASTING`, data-package SHA-256 `ad45d2935305f4e1e618c8ab0d5ef246783200e7fbd80febc968a79555e00c28`, and R-cleared segment-appendix SHA-256 `3d1eb5a64c06c1dd7376194a00f536834e6f119ad149e5711a0e939dfe99143c`, with zero unresolved segment issues.
- Exact modeled profit basis: `Statutory operating income (single-segment non-operating CODM fallback)`. The issuer-disclosed CODM metric is consolidated net income; it remains separate and is not renamed operating income.

The insurer lane is **NOT TRIGGERED — issuer is not a P&C insurer or reinsurer**. No `insurer_return_bridge.json` is created.

2. Segment-level forward assumptions

PANW has one operating and reportable segment. The reviewed appendix preserves Network & AI Security, Cortex, Idira and Other as revenue drivers, but PANW does not disclose platform profit. The sole financial-projection segment is therefore the consolidated company on the sealed statutory operating-income basis. The updated terminal margins are outputs of the annual statutory composition bridges, not round-number assumptions.

Segment	Exact profit metric	TTM revenue USD B	Bear TTM+5y revenue	Base TTM+5y revenue	Bull TTM+5y revenue	Bear profit margin	Base profit margin	Bull profit margin
Consolidated company	Statutory operating income (single-segment non-operating CODM fallback)	11.480	16.740	22.341	26.765	9.02%	17.71%	22.51%

Source: R-cleared `appendix_B_consolidated_company.md` Sections 8–10. Exact terminal statutory operating income reproduced from that appendix is USD 1.509200 billion, USD 3.957587 billion and USD 6.024250 billion for bear, base and bull. The source-bound repair supersedes the prior 12% / 18% / 23% round-number margin path.

2a. Acquired-perimeter separation

The TTM anchor is the reported FY2026 perimeter, not a fabricated pro-forma year. CyberArk closed on 2026-02-11, Chronosphere on 2026-01-29, Koi on 2026-04-14 and Portkey on 2026-05-29. Consequently, FY2026 contains only part-year CyberArk and Chronosphere revenue. The FY2027 model uses the reviewed appendix's USD 14.2 billion base path, consistent with management's USD 14.10–14.20 billion guidance, and labels the first-year step as a combination of full-year acquired-perimeter seasoning and organic-plus-price growth. It does not call the whole 23.7% increase organic.

Revenue driver	TTM USD B	Bear horizon USD B	Base horizon USD B	Bull horizon USD B	Perimeter treatment
Network & AI Security	8.354	11.080	13.440	15.550	Includes CLM inside the reported perimeter; no separate acquired dollar estimate
Cortex	1.920	3.320	5.380	6.920	Includes Chronosphere in reported TTM; post-FY2027 cadence is organic-plus-price
Idira	0.614	1.800	2.809	3.520	Partial-year reported base; FY2027 uses explicit full-year guide rather than calling the step organic
Other	0.592	0.540	0.712	0.775	Services and financing revenue; no acquisition uplift invented
Consolidated company	11.480	16.740	22.341	26.765	Sum of four revenue drivers; one statutory composition bridge after summation

Post-TTM Embrace Mobile and Console acquisitions receive zero explicit revenue, expense or share issuance because the reviewed package provides no standalone economics. This is conservative and keeps the acquired perimeter distinct from the modeled organic-plus-price cadence. ARR, RPO and platformization counts remain demand evidence only; none is added to GAAP revenue.

3. Combined revenue build

Line	Bear	Base	Bull
Sum of segment TTM+5y revenue, USD B	16.740	22.341	26.765
Corporate eliminations	0.000	0.000	0.000
Combined TTM+5y revenue, USD B	**16.740**	**22.341**	**26.765**
Implied TTM 2026-07-31 to horizon 2031-07-31 CAGR	7.84%	14.24%	18.44%

There is no separate corporate or elimination perimeter in the sealed bridge. The four platform revenue rows sum to the one modeled segment. The base case is below the historical consolidated three-year revenue CAGR of 18.5%; bear assumes security demand persists but integration and competitive pressure reduce conversion; bull requires several high-growth

platforms to retain premium trajectories concurrently.

4. Combined statutory operating-income build

Line	Bear	Base	Bull
Sum of segment horizon profit on sealed common metric, USD B	1.509200	3.957587	6.024250
Corporate or unallocated adjustments	0.000000	0.000000	0.000000
Consolidated horizon segment-profit metric, USD B	1.509200	3.957587	6.024250
Operating bridge adjustments	0.000000	0.000000	0.000000
Combined statutory horizon operating income, USD B	**1.509200**	**3.957587**	**6.024250**
Implied statutory operating margin	9.0155%	17.7145%	22.5079%

The forecast-driver ledger has empty corporate/unallocated and operating-adjustment arrays for both historical anchors. S therefore projects no lines in either array. The annual composition model applies directly to consolidated revenue on the sealed statutory operating-income fallback basis. It is not a non-GAAP operating margin.

4a. Source-bound statutory composition and treatment of true non-disclosures

FY2026 reported revenue is USD 11.480 billion, statutory operating income USD 0.695 billion, purchased-intangible amortization USD 0.640 billion and total expense SBC USD 1.815 billion. Accelerated acquisition SBC of USD 0.177 billion is included inside the total, while expense SBC excluding that disclosed acceleration is USD 1.638 billion. PANW reported USD 0.295 billion of selected acquisition-related costs in the official reconciliation, including a separately identified USD 0.056 billion CyberArk transaction-cost subset. These figures describe the historical starting point; they are not mechanically repeated as terminal costs.

The audited acquired-intangible schedule is fixed at USD 1.081 billion in FY2027, USD 0.989 billion in FY2028, USD 0.908 billion in FY2029, USD 0.892 billion in FY2030 and USD 0.667 billion in FY2031. The annual GAAP bridge deducts those exact dollars before calculating statutory operating income. It does not fabricate acquisition-level rolloffs from incomplete asset-life disclosure and does not assume amortization becomes zero after the horizon; USD 2.480 billion remains scheduled for FY2032 and thereafter.

PANW does not disclose an annual SBC recognition schedule, future award volume, acquisition-versus-organic composition of unrecognized awards, or a complete annual integration-cost schedule. The model therefore uses explicitly labeled scenario ratios within the DR-cleared ranges. It does not present them as issuer guidance. Most importantly, **share-based payroll tax remains inside the pre-amortization/pre-SBC/pre-acquisition-charge operating margin in every case and every year**. It is not separately deducted because PANW does not disclose the required point estimates. That treatment prevents the pre-adjustment margin from becoming management's broader non-GAAP margin by stealth and avoids double-counting the payroll tax inside both an adjusted margin and a separate cost row.

The pre-adjustment margin also retains depreciation, deferred-contract-cost amortization, ordinary cash compensation, cloud-hosting cost, sales investment and all other recurring operating costs. Only scheduled acquired-intangible amortization, modeled P&L SBC and modeled acquisition/integration charges are shown outside it. The FY2026 29.25% selected-adjustment envelope and FY2027 29.5% non-GAAP guidance are reference points, not statutory forecasts.

4b. Full FY2027–FY2031 bear statutory GAAP path

Bear bridge component	FY2027	FY2028	FY2029	FY2030	FY2031
Revenue, USD M	13,630	14,540	15,400	16,140	16,740
Pre-amortization/pre-SBC/pre-acquisition-charge margin	27.50%	27.40%	27.50%	27.70%	28.00%
Pre-adjustment operating profit, USD M	3,748.25	3,983.96	4,235.00	4,470.78	4,687.20
Scheduled acquired-intangible amortization, USD M	(1,081.00)	(989.00)	(908.00)	(892.00)	(667.00)
P&L SBC / revenue	16.50%	16.00%	15.50%	15.00%	14.50%
P&L SBC, USD M	(2,248.95)	(2,326.40)	(2,387.00)	(2,421.00)	(2,427.30)

Bear bridge component	FY2027	FY2028	FY2029	FY2030	FY2031
Acquisition/integration charge / revenue	2.00%	1.50%	1.00%	0.75%	0.50%
Acquisition/integration charge, USD M	(272.60)	(218.10)	(154.00)	(121.05)	(83.70)
Share-based payroll tax treatment	Embedded	Embedded	Embedded	Embedded	Embedded
Statutory operating income, USD M	**145.70**	**450.46**	**786.00**	**1,036.73**	**1,509.20**
Statutory operating margin	**1.07%**	**3.10%**	**5.10%**	**6.42%**	**9.02%**
Arithmetic residual, USD M	0.00	0.00	0.00	0.00	0.00

The bear case keeps SBC near the FY2026 burden and permits acquisition/integration costs to persist. Its pre-adjustment margin absorbs weak pricing realization and AI/cloud delivery inefficiency. The path is not a claim that PANW's core business structurally earns only a 9% margin; it is the statutory result after economically real SBC, the audited amortization schedule and an explicit integration burden.

4c. Full FY2027–FY2031 base statutory GAAP path

Base bridge component	FY2027	FY2028	FY2029	FY2030	FY2031
Revenue, USD M	14,200	16,265	18,395	20,395	22,341
Pre-amortization/pre-SBC/pre-acquisition-charge margin	29.25%	29.70%	30.30%	30.85%	31.00%
Pre-adjustment operating profit, USD M	4,153.5000	4,830.7050	5,573.6850	6,291.8575	6,925.7100
Scheduled acquired-intangible amortization, USD M	(1,081.0000)	(989.0000)	(908.0000)	(892.0000)	(667.0000)
P&L SBC / revenue	14.50%	13.50%	12.50%	11.50%	10.25%
P&L SBC, USD M	(2,059.0000)	(2,195.7750)	(2,299.3750)	(2,345.4250)	(2,289.9525)
Acquisition/integration charge / revenue	1.00%	0.50%	0.25%	0.10%	0.05%
Acquisition/integration charge, USD M	(142.0000)	(81.3250)	(45.9875)	(20.3950)	(11.1705)
Share-based payroll tax treatment	Embedded	Embedded	Embedded	Embedded	Embedded
Statutory operating income, USD M	**871.5000**	**1,564.6050**	**2,320.3225**	**3,034.0375**	**3,957.5870**
Statutory operating margin	**6.14%**	**9.62%**	**12.61%**	**14.88%**	**17.71%**
Arithmetic residual, USD M	0.0000	0.0000	0.0000	0.0000	0.0000

The base case assumes gradual sales and G&A leverage, favorable recurring mix and measurable platform pricing. Cloud-hosting expense growing faster than revenue in FY2027 and continued AI-delivery investment remain inside the pre-adjustment margin. SBC declines as a percentage of revenue but remains USD 2.290 billion in FY2031 because future grants are not assumed away. Integration charges run down conservatively instead of disappearing on an unsupported date.

4d. Full FY2027–FY2031 bull statutory GAAP path

Bull bridge component	FY2027	FY2028	FY2029	FY2030	FY2031
Revenue, USD M	14,800	17,489	20,453	23,642	26,765
Pre-amortization/pre-SBC/pre-acquisition-charge margin	31.00%	31.00%	31.60%	32.40%	33.00%
Pre-adjustment operating profit, USD M	4,588.0000	5,421.5900	6,463.1480	7,660.0080	8,832.4500
Scheduled acquired-intangible amortization, USD M	(1,081.0000)	(989.0000)	(908.0000)	(892.0000)	(667.0000)
P&L SBC / revenue	13.00%	11.50%	10.00%	9.00%	8.00%
P&L SBC, USD M	(1,924.0000)	(2,011.2350)	(2,045.3000)	(2,127.7800)	(2,141.2000)
Acquisition/integration charge / revenue	0.60%	0.25%	0.10%	0.05%	0.00%

Bull bridge component	FY2027	FY2028	FY2029	FY2030	FY2031
Acquisition/integration charge, USD M	(88.8000)	(43.7225)	(20.4530)	(11.8210)	0.0000
Share-based payroll tax treatment	Embedded	Embedded	Embedded	Embedded	Embedded
Statutory operating income, USD M	**1,494.2000**	**2,377.6325**	**3,489.3950**	**4,628.4070**	**6,024.2500**
Statutory operating margin	**10.10%**	**13.60%**	**17.06%**	**19.58%**	**22.51%**
Arithmetic residual, USD M	0.0000	0.0000	0.0000	0.0000	0.0000

The bull requires faster pre-adjustment leverage, strong pricing/platform mix and rapid SBC-ratio improvement despite continuing grants. FY2027's 10.10% statutory margin is 60 basis points above the data package's rough 9.5% reference corridor ceiling. The explicit reason is 1.75 percentage points of net pre-adjustment leverage above the 29.25% reference: positive 1.00 point from other operating expense, positive 1.00 point from revenue/pricing/platform mix and negative 0.25 point from AI/cloud delivery. Those are scenario assumptions, not issuer guidance.

Across all three cases, true non-disclosures remain visible: the annual SBC recognition schedule, future grant volume, acquisition/ordinary split of unrecognized awards, full decomposition and cash timing of the USD 0.295 billion selected acquisition-cost adjustment, amount recognized from the approximately USD 0.060 billion workforce plan, exact composition of USD 0.104 billion other D&A, complete Koi/Portkey useful lives, and GAAP margin guidance. These omissions constrain precision; they do not justify reverting to null margins or to a non-GAAP measure.

5. Net income and EPS build

The below-line forecast stays separate from operating income. FY2026 other income/(expense), net was negative USD 0.159 billion and included non-repeat CyberArk convertible-note and capped-call fair-value effects. Extrapolating the exact historical amount as an operating cost would be wrong. Bear uses negative USD 0.200 billion per year, base positive USD 0.150 billion and bull positive USD 0.250 billion as transparent scenario diagnostics. These figures are assumptions, not undisclosed company estimates. They are held flat because a source-bound terminal cash/debt schedule is unavailable; no compounding yield or hidden net-cash plug is introduced.

The normalized tax anchor is the 21% rate used in the governed package's standardized NOPAT diagnostic. Bear uses 24% to allow for less favorable tax mix. Base and bull use 21%; bull is not assigned a lower tax rate because the package supplies no source-bound credit schedule. The same assumptions are used through the annual EPS path so the margin repair is not obscured by an unrelated below-line change.

Terminal line	Bear	Base	Bull
Combined horizon statutory OI, USD B	1.509200	3.957587	6.024250
Net interest income/(expense) separately disclosed	Unavailable	Unavailable	Unavailable
Other income/(expense), net scenario schedule, USD B	(0.200000)	0.150000	0.250000
Pre-tax income, USD B	1.309200	4.107587	6.274250
Normalized tax rate	24.0%	21.0%	21.0%
Tax expense, USD B	(0.314208)	(0.862593)	(1.317593)
Net income, USD B	**0.994992**	**3.244994**	**4.956658**
Quote-basis diluted financial shares at horizon, M	864.435795	853.761728	843.087661
EPS in reporting currency per quote-basis share	1.151031	3.800819	5.879172
Financial shares per listed unit	1.000000	1.000000	1.000000
EPS in reporting currency per listed unit	1.151031	3.800819	5.879172
FX, quote USD per reporting USD	1.000000	1.000000	1.000000
EPS in quote currency per listed unit	**USD 1.151031**	**USD 3.800819**	**USD 5.879172**

The mandatory bridge is `NI_REPORTING ÷ QUOTE_BASIS_DILUTED_FINANCIAL_SHARES`, then multiplication by the sealed financial-shares-per-listed-unit and FX factors. Base is USD 3.24499373 billion ÷ 853.761728 million = USD

3.80081892 per quote-basis share; × 1.0 × 1.0 = USD 3.80081892 per listed unit.

5a. Full annual statutory margin and EPS path

The next table makes the earnings cadence visible. Other income/(expense) and tax rates are the disclosed scenario diagnostics above, not claims about management guidance. EPS uses each case's explicit year-end denominator path from Section 6. This is conservative for interpretation because weighted-average and year-end shares can differ, but it is internally consistent and avoids inventing quarterly dilution timing.

Case / year	Statutory OI USD M	OI margin	Other income/(expense) USD M	Tax rate	Net income USD M	Diluted shares M	EPS USD per listed unit
Bear FY2027	145.7000	1.07%	(200.0000)	24.0%	(41.2680)	845.500000	(0.048809)
Bear FY2028	450.4600	3.10%	(200.0000)	24.0%	190.3496	850.233949	0.223879
Bear FY2029	786.0000	5.10%	(200.0000)	24.0%	445.3600	854.967898	0.520908
Bear FY2030	1,036.7300	6.42%	(200.0000)	24.0%	635.9148	859.701847	0.739692
Bear FY2031	1,509.2000	9.02%	(200.0000)	24.0%	994.9920	864.435795	1.151031
Base FY2027	871.5000	6.14%	150.0000	21.0%	806.9850	845.500000	0.954447
Base FY2028	1,564.6050	9.62%	150.0000	21.0%	1,354.5380	847.565432	1.598151
Base FY2029	2,320.3225	12.61%	150.0000	21.0%	1,951.5548	849.630864	2.296944
Base FY2030	3,034.0375	14.88%	150.0000	21.0%	2,515.3896	851.696296	2.953388
Base FY2031	3,957.5870	17.71%	150.0000	21.0%	3,244.9937	853.761728	3.800819
Bull FY2027	1,494.2000	10.10%	250.0000	21.0%	1,377.9180	845.500000	1.629708
Bull FY2028	2,377.6325	13.60%	250.0000	21.0%	2,075.8297	844.896915	2.456903
Bull FY2029	3,489.3950	17.06%	250.0000	21.0%	2,954.1220	844.293830	3.498926
Bull FY2030	4,628.4070	19.58%	250.0000	21.0%	3,853.9415	843.690746	4.567955
Bull FY2031	6,024.2500	22.51%	250.0000	21.0%	4,956.6575	843.087661	5.879172

The bear's negative FY2027 EPS is not an insolvency claim; it is an annual statutory earnings outcome after the audited USD 1.081 billion amortization burden and the explicit SBC and integration stresses. EPS turns positive in FY2028 as integration charges decline and pre-adjustment profit grows. Base reaches a 17.71% statutory margin only after five years of SBC-ratio and amortization relief. Bull reaches 22.51% only with stronger pre-adjustment leverage and faster SBC discipline. This cadence removes the prior unsupported shortcut in which an 18% base terminal GAAP margin appeared without a source-bound acquired-amortization/SBC composition.

5b. Return-method input bridge for VP

S does not select the eventual return method. The table provides complete P/E candidate inputs and the EV/NOPAT candidates the package can support. "Unavailable" is a finding, not an invented zero. Because terminal capital structure is not source-bound, EV/NOPAT cannot control unless VP later obtains a governed path without changing this synthesis gate.

Candidate input	Bear	Base	Bull	Source-bound treatment
Statutory operating income, USD B	1.509200	3.957587	6.024250	R-cleared B Sections 9–10
Normalized cash tax rate	24.0%	21.0%	21.0%	Governed 21% NOPAT diagnostic; bear tax stress
Normalized NOPAT, USD B	1.146992	3.126494	4.759158	OI × one minus normalized tax rate
Terminal cash and investments	Unavailable	Unavailable	Unavailable	Opening USD 7.906B is sourced; terminal cash deployment path is absent
Terminal gross funded debt	Unavailable	Unavailable	Unavailable	Opening convertible notes USD 1.774B; terminal repayment/conversion path absent
Terminal operating lease liabilities	Unavailable	Unavailable	Unavailable	Opening USD 0.793B; terminal lease path absent
Preferred equity	Unavailable	Unavailable	Unavailable	No separate terminal preferred-equity path; no zero assumed

Candidate input	Bear	Base	Bull	Source-bound treatment
Minority interest	Unavailable	Unavailable	Unavailable	No terminal NCI path; no zero assumed
Other senior claims	Unavailable	Unavailable	Unavailable	No source-bound terminal schedule
Separately valued non-operating assets	Unavailable	Unavailable	Unavailable	Opening investments are not projected independently from cash
Diluted listed-equivalent shares, M	864.435795	853.761728	843.087661	Section 6; unit factor 1.0
Terminal net income, USD B	0.994992	3.244994	4.956658	Section 5 below-line and tax schedule
Terminal EPS, USD per listed unit	1.151031	3.800819	5.879172	Fully reconciled P/E candidate denominator

For precision, normalized NOPAT is USD 1.146992 billion bear, USD 3.12649373 billion base and USD 4.75915750 billion bull. Opening capital structure is retained separately: cash and equivalents USD 2.514 billion, short-term investments USD 0.557 billion, long-term investments USD 4.835 billion, convertible notes USD 1.774 billion and operating leases USD 0.793 billion. Funded net cash is USD 6.132 billion before leases. The package does not supply a five-year cash accumulation, acquisition, repurchase, note-conversion or lease-maturity model. A terminal EV-to-equity bridge would therefore be incomplete. The P/E candidate is arithmetically available because its earnings and share denominators are modeled.

6. Explicit share-count path

The packet's 764.0 million starting amount is FY2026 diluted weighted-average shares, not 2026-07-31 common shares outstanding. Period-end common shares rose from 668 million to 815 million. The 815 million already includes 112 million CyberArk acquisition shares and 27 million net warrant-settlement shares, plus employee issuance and repurchase effects. Those 139 million discrete shares are not added again to 764 million: the weighted average contains a time-weighted portion, and FY2027 guidance captures the full-year denominator effect.

The FY2027 guide midpoint of 845.5 million is one governed denominator reset: 764.0 + 81.5 = 845.5 million. The 81.5 million is not labeled new issuance; it includes full-year weighting of already-issued shares, award dilution and any repurchase assumptions embedded in guidance. The package does not disclose a precise sub-allocation, so none is invented.

From FY2028 onward, SBC issuance uses the required disclosed approximation: TTM cash-flow-statement SBC of USD 1.774 billion divided by USD 374.74 equals 4.733949 million share equivalents annually. This is a simplified forward proxy, not a claim that accounting expense equals cash proceeds or actual shares granted. Bear assumes no buyback; base repeats the FY2026 USD 1.0 billion buyback; bull uses USD 2.0 billion. Each divides by the immutable USD 374.74 price to avoid a hidden share-price forecast.

Case/year	Starting quote-basis shares M	Buyback USD B	Avg price USD	Shares retired M	SBC issuance proxy M	Guided reset M	Ending quote-basis shares M
Bear FY2027	764.000000	Embedded	Embedded	0.000000	0.000000	81.500000	845.500000
Bear FY2028	845.500000	0.000	374.74	0.000000	4.733949	0.000000	850.233949
Bear FY2029	850.233949	0.000	374.74	0.000000	4.733949	0.000000	854.967898
Bear FY2030	854.967898	0.000	374.74	0.000000	4.733949	0.000000	859.701847
Bear FY2031	859.701847	0.000	374.74	0.000000	4.733949	0.000000	864.435795
Base FY2027	764.000000	Embedded	Embedded	0.000000	0.000000	81.500000	845.500000
Base FY2028	845.500000	1.000	374.74	2.668517	4.733949	0.000000	847.565432
Base FY2029	847.565432	1.000	374.74	2.668517	4.733949	0.000000	849.630864
Base FY2030	849.630864	1.000	374.74	2.668517	4.733949	0.000000	851.696296
Base FY2031	851.696296	1.000	374.74	2.668517	4.733949	0.000000	853.761728
Bull FY2027	764.000000	Embedded	Embedded	0.000000	0.000000	81.500000	845.500000
Bull FY2028	845.500000	2.000	374.74	5.337034	4.733949	0.000000	844.896915
Bull FY2029	844.896915	2.000	374.74	5.337034	4.733949	0.000000	844.293830
Bull FY2030	844.293830	2.000	374.74	5.337034	4.733949	0.000000	843.690746
Bull FY2031	843.690746	2.000	374.74	5.337034	4.733949	0.000000	843.087661

The reconciliation is `ending = starting + guided reset + SBC issuance proxy − shares retired`. The 112 million acquisition shares and 27 million warrant shares are disclosed but never double-counted. FY2027's midpoint stays inside management's 844–847 million range.

7. Binary P/E 15 entry-price test

The P/E 15 test is an entry-price gate, not a terminal exit multiple. Required horizon EPS at USD 374.74 is USD 24.982667 per listed unit.

Case	EPS USD per listed unit	EPS × 15	Quote-packet price USD	Cushion	Pass?
Bear	1.151031	17.265458	374.74	(95.39%)	FAIL
Base	3.800819	57.012284	374.74	(84.79%)	FAIL
Bull	5.879172	88.187582	374.74	(76.47%)	FAIL

The base case controls. Base EPS × 15 remains far below the immutable quote-packet price; therefore the binary P/E 15 gate **FAILS with an 84.79% negative cushion**, regardless of bull. No return exit multiple is inferred from 15×.

8. Reflexivity and historical anchor check

The sole segment's TTM revenue of USD 11.480 billion equals consolidated TTM revenue of USD 11.480 billion; residual zero and ratio 100.00%. Its USD 0.695 billion TTM modeled profit equals segment-profit sum, consolidated modeled metric and statutory operating income. Corporate/unallocated and operating adjustments are empty; residual zero. FY2026 is coextensive with TTM and repeats the same bridge. The statutory packet's tolerance is USD 1 million, and all five residuals are zero for both anchors.

The statutory below-line bridge stays separate: USD 0.695 billion OI plus negative USD 0.159 billion other income/(expense) equals USD 0.536 billion pretax income; less USD 0.229 billion tax equals USD 0.307 billion net income. No part of the negative USD 0.159 billion is moved into platform margin. Historical revenue and statutory OI are anchored without a residual, scaling factor or classification repair.

9. Latest interim bridge reconciliation

NOT TRIGGERED — four non-overlapping quarters used. The TTM is Q1 FY2026 ended 2025-10-31, Q2 ended 2026-01-31, Q3 ended 2026-04-30 and Q4 ended 2026-07-31. The standalone quarters sum to FY2026/TTM: revenue USD 2.474 + 2.594 + 3.002 + 3.410 = USD 11.480 billion. There is no cumulative YTD subtraction, overlap, or mixture of half-year and quarterly inputs.

10. Sensitivity — variables that move the gate

PANW has only one modeled segment, so a second-segment margin sensitivity is genuinely not triggered. The equivalent required margin test varies the consolidated segment's statutory OI margin. All other base assumptions remain fixed: USD 0.150 billion other income, 21% tax and 853.761728 million terminal shares, unless the tested variable is shares.

Revenue sensitivity preserves the repaired terminal composition rather than applying a stale 18% margin. The base terminal identity is `OI = revenue × (31.00% pre-adjustment margin − 10.25% SBC − 0.05% integration) − USD 0.667B amortization`, or `revenue × 20.70% − USD 0.667B`.

Variable tested	Down case	Base EPS USD	Up case	EPS effect versus base	P/E 15 conclusion
Consolidated revenue CAGR, ±200 bps	12.24%; USD 20.453B revenue; USD 3.439 EPS	3.801	16.24%; USD 24.366B revenue; USD 4.189 EPS	(0.362) / +0.388	FAIL in both
Second-segment margin	NOT TRIGGERED; one modeled segment	3.801	NOT TRIGGERED; one modeled segment	n/a	n/a
Consolidated statutory OI margin, ±200 bps substitute	USD 3.511B OI; USD 3.387 EPS	3.801	USD 4.404B OI; USD 4.214 EPS	(0.413) / +0.413	FAIL in both
Terminal diluted shares, ±5%	810.974M; USD 4.001 EPS	3.801	896.450M; USD 3.620 EPS	+0.200 / (0.181)	FAIL in both
Tax rate, ±300 bps	18.0%; USD 3.945 EPS	3.801	24.0%; USD 3.656 EPS	+0.144 / (0.144)	FAIL in both

Revenue growth and statutory margin are the largest modeled EPS sensitivities, but neither approaches the valuation threshold. The management FAIL also independently prevents a favorable final security verdict under ER2. This synthesis

nevertheless remains scenario-complete; governance failure does not excuse a null earnings model.

11. Combined earnings summary

Case	Revenue USD B	OI USD B	OI margin	NI USD B	EPS USD per listed unit	Probability	EPS × 15	Versus USD 374.74
Bear	16.740	1.509200	9.02%	0.994992	1.151031	25%	17.265458	95.39% below
Base	22.341	3.957587	17.71%	3.244994	3.800819	55%	57.012284	84.79% below
Bull	26.765	6.024250	22.51%	4.956658	5.879172	20%	88.187582	76.47% below
Probability-weighted EPS	21.825550	3.758823	n/a	3.024826	3.554042	100%	53.310637	85.77% below

Weights are 25% bear, 55% base and 20% bull, exactly as reviewed. Base receives the greatest weight because FY2027 guidance and platform indicators support demand, but bear outweighs bull because integration, SBC and partial-year acquisition comparisons can flatter reported execution. Probability-weighted EPS is the arithmetic scenario expectation for this earnings table; it is not a probability-weighted shareholder IRR.

Management is **FAIL**, moat is **YELLOW**, and the 2046 durability test is **YELLOW**. Management's fail is driven by acquisition and dilution stewardship: 112 million CyberArk consideration shares, 27 million net warrant shares, chronic SBC, and compensation without a sufficiently direct ROIC or net-dilution test. The repaired statutory build shows why this matters: base revenue nearly doubles over five years, but USD 2.290 billion of terminal SBC and USD 0.667 billion of acquired amortization keep base EPS at only USD 3.80.

12. Tie-out checks

- **PASS — reported-financial and statutory-bridge tie-out.** TTM and FY2026 are coextensive. Revenue is USD 11.480 billion in the sole segment and consolidated statement. Segment modeled profit USD 0.695 billion + USD 0 corporate + USD 0 operating adjustments = USD 0.695 billion statutory OI. USD 0.695 – USD 0.159 = USD 0.536 billion pretax; USD 0.536 – USD 0.229 = USD 0.307 billion NI. All sealed residuals are zero versus USD 1 million tolerance. The strict bridge validator returns `STATUTORY_BRIDGE_VALID` and exact SHA-256 equality.

- **PASS — NI, shares, listed unit and FX reproduce EPS.** Bear: USD 0.994992B ÷ 864.435795M × 1 × 1 = USD 1.151031. Base: USD 3.24499373B ÷ 853.761728M × 1 × 1 = USD 3.800819. Bull: USD 4.95665750B ÷ 843.087661M × 1 × 1 = USD 5.879172. The annual EPS table uses the same identity in every year.

- **PASS — segment sum at horizon.** There is one modeled segment. Bear 16.740 ÷ 16.740 = 100.00%; base 22.341 ÷ 22.341 = 100.00%; bull 26.765 ÷ 26.765 = 100.00%. Corporate eliminations are zero.

- **PASS — product-to-segment rollup.** R-cleared B Section 10 shows bear 11.080 + 3.320 + 1.800 + 0.540 = 16.740; base 13.440 + 5.380 + 2.809 + 0.712 = 22.341; bull 15.550 + 6.920 + 3.520 + 0.775 = 26.765. Every platform sum equals the consolidated segment at displayed precision.

- **PASS, platform weighting not triggered — weighted margin and statutory composition.** PANW discloses no platform profit, and the reviewed appendix invents none. A single consolidated statutory composition bridge is applied after platform revenue summation. Terminal arithmetic is exact: bear 16.740 × 28.00% – 0.667 – 16.740 × 14.50% – 16.740 × 0.50% = USD 1.509200B; base 22.341 × 31.00% – 0.667 – 22.341 × 10.25% – 22.341 × 0.05% = USD 3.957587B; bull 26.765 × 33.00% – 0.667 – 26.765 × 8.00% – zero integration = USD 6.024250B. All 15 annual composition residuals are zero at displayed precision. Share-based payroll tax stays embedded in the pre-adjustment margin and is not deducted twice.

- **PASS — share count and security-unit path.** 764.0M × split factor 1 = 764.0M quote-basis shares; ÷ depositary/class factor 1 = 764.0M listed equivalents. FY2027's 81.5M guided denominator reset produces 845.5M and embeds rather than double-counts the 112M CyberArk and 27M warrant shares. Thereafter, each year ties as start + SBC proxy – repurchases. Horizon shares are 864.435795M, 853.761728M and 843.087661M. All paths run in financial shares, never ADR units.

- **PASS — growth plausibility.** Base consolidated CAGR is 14.24%, below 1.2 × the disclosed 18.5% historical three-year CAGR, or 22.2%. Platform rows with incomplete histories carry explicit perimeter and peer justification in R-cleared B Sections 8–10. Idira's 35.5% reported-base CAGR is expressly labeled a partial-year perimeter effect, with FY2027 using management's roughly USD 1.5 billion point and subsequent growth decelerating from 20% to 14%.

- **PASS — five-year historical arithmetic.** Recalculation of all 12 platform/scenario rows using `TTM revenue × (1 + CAGR)^5` produces deviations between negative 0.165% and positive 0.191% versus stated terminal revenue, comfortably inside 1%. Examples: base Network USD 8.354B × 1.10^5 = USD 13.454B versus USD 13.440B; base Cortex USD 1.920B × 1.229^5 = USD 5.383B versus USD 5.380B; base Idira USD 0.614B × 1.355^5 = USD 2.805B versus USD 2.809B. These are display-rounding differences, not model residuals.

- **PASS with quantified step-change evidence — recency anchor.** Base FY2027 revenue USD 14.200 billion is 23.7% above USD 11.480 billion TTM, exceeding the ordinary 10% threshold. The reviewed appendix quantifies the reason: management guided USD 14.10–14.20 billion, CyberArk and Chronosphere receive their first full-year weighting, and Idira rises from a USD 0.614 billion partial-year reported base toward approximately USD 1.5 billion. The step is not labeled organic; post-FY2027 cadences decelerate. FY2027's repaired base statutory margin is 6.14%, close to the FY2026 6.05% anchor, rather than an unsupported immediate jump to 18%.

- **PASS — period and horizon integrity.** Four non-overlapping standalone quarters construct TTM. No cumulative YTD bridge is used. Every displayed terminal growth rate starts 2026-07-31 and ends 2031-07-31, exactly five calendar years. FY2026 is used only for historical tie-out because it happens to equal the TTM; it does not create an extra forecast year. The annual amortization schedule maps FY2027 through FY2031 one-for-one to the five forecast years.

- **PASS — valuation, unit bridge, hashes and probability arithmetic.** Exact packet-byte hashes recompute to `cb4671f75cc9f570742d3b5fb6ff16933d684a107c412e201b26c11b04655664` and `2d78a720f68b5a6d02e0625b17b43e6d7cc511b8a005f16ce6cbed52eaecab45`. MIC, raw price basis, split factor 1, class/depositary factors 1 and FX 1 reproduce the listed-unit bridge. Scenario probabilities 25% + 55% + 20% = 100%. Probability-weighted EPS = 0.25 × 1.151031 + 0.55 × 3.800819 + 0.20 × 5.879172 = USD 3.554042. Each EPS × 15 and cushion against USD 374.74 recomputes. Base, not bull, controls the FAIL.

SYNTHESIS CLEARED — 11/11 TIE-OUTS PASSED.

The synthesis is mechanically complete. It supplies P/E and EV/NOPAT candidate inputs for Valuation Preflight but makes no VP or CS decision. Terminal capital-structure paths remain explicitly unavailable, so no EV-to-equity bridge or gross shareholder IRR is fabricated here. Later stages must retain the same quote packet, statutory basis, scenario weights and exact five-year horizon. No trade, broker, message, portfolio, ranking or sizing authority is created.

Appendix CS - Compounder Score

Palo Alto Networks - Compounder Score

Analysis date: 2026-09-27 **Security:** XNAS:PANW common share **Reporting and return currency:** USD **Primary valuation method:** P/E **Valuation-preflight binding:** `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\valuation_preflight.json`, SHA-256 `a6e12bf62a732098ce901f087a89e42714d6fa1e63369bc647724504b39f673f` **Preflight validation:** `VALUATION_PREFLIGHT_VALID`; status `CLEARED`; five of five foundations passed; blocker list empty. The locked method, normalized denominator, capital-structure treatment and 30x/40x/55x exit P/Es are reproduced exactly.

1. Executive Verdict

Compounder Score 44/100 Business Quality Score 41/80 20% Return Underwriting/Stretch Score 3/20 Score-implied classification: Reject

PANW has a large and durable cybersecurity opportunity, meaningful switching costs, credible enterprise distribution and a demonstrated ability to scale new products. Those strengths do not overcome the evidence on incremental returns, dilution and price. The acquisition-inclusive return on incremental capital is below the cost of capital on any supportable recent calculation. Even a favorable ceiling that counts disclosed acquisition consideration while omitting ordinary capex and working-capital reinvestment is about 1.0% over FY2023-FY2026 and 2.8% over FY2022-FY2026. FY2026 standardized ROIC fell to 1.9% as CyberArk and Chronosphere expanded the invested-capital base. Organic ROIIC cannot be separated credibly from the acquired perimeter, so it receives no high-score presumption.

The equity price is the decisive problem. At USD 374.74, the VP-locked normalized current P/E is 392.625228473887x on Base FY2027 normalized statutory GAAP diluted EPS of USD 0.954447072738025. The raw 932.577719869707x TTM P/E is disclosed but is acquisition-denominator-distorted and is not used as a cap. Applying the locked 30x/40x/55x scenario P/Es to 2031 statutory diluted EPS of USD 1.151031 / 3.800819 / 5.879172 produces gross USD IRRs of **-37.93% / -16.51% / -2.91%** for bear/base/bull. Probability-weighted terminal wealth is USD 156.92164250000002 per share and its five-year CAGR is **-15.98%**. These are finite security returns, not a portfolio recommendation.

Management is a hard **FAIL**, moat is **YELLOW**, the 2046 test is **YELLOW**, and the separate P/E-15 gate is **FAIL** with an 84.79% negative Base cushion. CIO actionability is **PASS** because Management fails and the Base and probability-weighted net-SGD returns are negative. Current governed portfolio holdings and risk-budget context were not supplied, so only portfolio fit is `UNAVAILABLE`; the finite return diagnostics and overall actionability status remain complete. No ranking, sizing, funding, message, portfolio mutation or trade instruction is authorized. `trade_execution_authorized=false`.

2. Data Source Map

Evidence need	Controlling source	Period / use
Price and market capitalization	QFR-sealed `quote_packet.json`; archived live FMP quote	USD 374.74 close on 2026-09-25; market cap USD 305.4131B
Enterprise-value diagnostic	FY2026 10-K balance sheet in `data_package.md` plus current market cap	USD 300.0741B; diagnostic only because P/E controls
Income statement and statutory bridge	FY2026 Form 10-K; `quant_foundation.md`; QFR-sealed `statutory_bridge.json`	FY2022-FY2026 and TTM ended 2026-07-31
Balance sheet and cash flow	FY2026 Form 10-K; `quant_foundation.md`; `data_package.md`	Cash, investments, notes, leases, FCF, capex, acquisitions and SBC
Share count and dilution	FY2026 Form 10-K; FY2027 guidance; `appendix_synthesis.md`; cleared VP	764M FY2026 diluted weighted shares, 815M period-end, 845.5M FY2027 midpoint, terminal shares
Segment and platform data	`data_package.md`; reviewed `appendix_B_consolidated_company.md`	One reportable segment; statutory OI is the audited modeling basis
Management and governance	`appendix_management.md`; proxy; FY2026 10-K; live earnings-call transcripts	Management gate FAIL; acquisition, incentive and dilution assessment
Moat, pricing and competition	`appendix_moat.md`; FY2026 10-K; issuer calls; peer filings	Moat YELLOW and 2046 YELLOW; pricing not proven
Scenario earnings and probabilities	`appendix_synthesis.md`	2031 EPS, revenue, margins, shares and 25%/55%/20% weights

Evidence need	Controlling source	Period / use
Valuation method and multiples	Cleared `valuation_preflight.json`	P/E; 30x/40x/55x; normalized denominator and counted-once dilution treatment
Net-SGD overlay	Explicit diagnostic assumptions in this appendix	1.28 entry USD/SGD, scenario FX, 0.50% entry and exit costs; not an FX forecast

The sealed VP hash was recomputed before any score or return work. Its evidence-file validator passed. The current report does not reselect the valuation method, normalize the earnings anchor, reinterpret a provider denominator, invent a dilution treatment or alter an exit multiple.

3. Key Financial and Quality Metrics

The audited history contains five fiscal observations, FY2022-FY2026, spanning four annual intervals rather than a true five-year CAGR. Unsupported ten-year metrics are not manufactured.

Metric	1-year	3-year	Longest supported history	Interpretation
Revenue growth	24.5%	18.53% CAGR	20.19% FY2022-FY2026 four-year CAGR	Strong, but FY2026 includes acquired revenue
NOPAT growth	(44.1%)	21.51% CAGR	Not meaningful from negative FY2022 NOPAT	Statutory margin reset dominates the latest year
FCF growth	18.5%	16.06% CAGR	23.09% four-year CAGR	Strong cash generation, but not owner earnings after SBC
Standardized ROIC	1.90%	14.85% / 18.97% / 1.90% in FY2024-FY2026	14.10% five-observation median	Acquisition-expanded capital exposes weak current return
Acquisition-inclusive ROIIC ceiling	Below cost of capital	0.97% FY2023-FY2026	2.76% FY2022-FY2026	Ceiling excludes ordinary reinvestment, so it is favorable
FCF / NOPAT	749.18%	Not economically stable	Not meaningful	SBC, D&A, marks and deferred revenue inflate conversion
Diluted-share growth	7.71% weighted-average	3.73% CAGR	6.63% four-year CAGR	Period-end shares rose 668M to 815M in FY2026
SBC / revenue	15.45%	13.4%-15.5% recent range	13.4%-18.4% FY2022-FY2026	Chronic economic cost, not a transitional add-back
SBC / gross profit	21.96%	n/a	n/a	FY2026 CFS SBC divided by gross profit
SBC / CFO / FCF	38.96% / 43.13%	n/a	n/a	Material dilution behind strong reported cash conversion
Net debt / EBITDA	(4.10x)	n/a	n/a	Funded net cash; balance sheet is not the return problem
FCF yield	1.35%	n/a	n/a	USD 4.113B FCF / USD 305.4131B market cap
EV / normalized NOPAT	546.58x	n/a	n/a	Diagnostic only; EV/NOPAT is rejected as the return method
Dividend yield	0.00%	0.00%	0.00%	No distribution support in the governed forecast

The acquisition-inclusive ROIIC ceiling is deliberately favorable to PANW. FY2023-FY2026 NOPAT rose by only USD 0.243B. Disclosed FY2024-FY2026 cash acquisitions plus CyberArk stock consideration and replacement awards total at least USD 25.081B, yielding 0.97% before capex, working capital, capitalized R&D or other reinvestment. From FY2022, NOPAT improved by USD 0.698B against at least USD 25.323B of the same disclosed consideration, or 2.76%. The organic/inorganic split is unavailable, so an organic ROIIC point estimate would be false precision.

4. Rubric Scorecard

All category scores were recalculated after the VP reseal. Business evidence did not improve because the reseal corrected the terminal GAAP cadence rather than the historical return, runway, moat, accounting or capital-allocation record.

Category	Score	Maximum	Evidence-based conclusion
Incremental Returns on Capital	7	25	Median ROIC is 14.1%; acquisition-inclusive ROIIC is below 8%; unit demand exceeds owner-return evidence
Reinvestment Runway	16	20	Large security need and organic ARR evidence support runway; acquired perimeter limits proof
Durability of Moat	9	15	Switching costs and trust are real; pricing, platform profitability and 2046 ownership remain unresolved
Accounting and Financial Quality	6	10	Statements reconcile and liquidity is sound; SBC and acquisition accounting weaken owner earnings
Capital Allocation Discipline	3	10	R&D is coherent, but acquisition returns, buybacks and incentives do not protect per-share value
Price and 20% Return Underwriting	3	20	Exit P/Es are independently justified and contracting, yet all scenario IRRs remain negative
Business Quality Score	**41/80**	**80**	**Quality evidence is below the 55/80 promising threshold**
20% Return Underwriting/Stretch Score	**3/20**	**20**	**Current price does not support the 20% stretch hurdle**
Compounder Score	**44/100**	**100**	**Evidence does not support dream-investment status; classification Reject**

Category 1 awards 2/5 for normalized ROIC, 0/8 for ROIIC, 0/3 for non-deterioration, 2/3 for unit economics, 1/3 for cash conversion and 2/3 for avoiding an artificially tiny capital base. Category 2 awards 5/5 market opportunity, 3/5 reinvestment at scale, 3/4 organic opportunity, 2/3 repeatability, 2/2 market structure and 1/1 for a plausible non-collapsing long-run path. Category 3 awards 3/4 source of advantage, 1/3 pricing, 2/3 competitive evidence, 2/2 stickiness, 1/2 stress evidence and 0/1 disruption risk. Category 4 awards 2/2 revenue/statutory quality, 1/2 cash support, 0/2 SBC/dilution conservatism, 2/2 balance sheet, 0/1 disclosure completeness and 1/1 absence of a restatement or material weakness. Category 5 awards 1/2 reinvestment priority, 0/2 acquisition discipline, 0/2 buybacks, 0/2 incentives, 1/1 owner mentality and 1/1 product-decision evidence.

Category 6 awards 0/6 for Base IRR below 10%, 3/4 for independently justified contracting exit P/Es, 0/3 for an unacceptable bear case, 0/3 for an unachievable reverse-return hurdle, 0/2 because price still capitalizes perfection, and 0/2 for absent cash distributions. The valuation-multiple subscore is capped below 4/4 because the return hurdle is not cleared. No expansion is required; the stock still fails because terminal earnings are too small relative to the current price.

5. ROIIC and Reinvestment Analysis

PANW's economic reinvestment is much larger than capex. FY2026 capex was USD 0.440B, R&D was USD 2.552B, cash-flow-statement SBC was USD 1.774B and cash acquisition spending was USD 4.663B. CyberArk added USD 18.488B of stock consideration plus USD 265M of replacement awards, while Chronosphere contributed principally USD 2.842B of cash consideration. Any ROIIC model that ignores acquisitions or treats SBC as free overstates returns.

The evidence supports strong product investment. NGS ARR reached USD 9.10B, organic NGS ARR growth was disclosed at 28% in Q2 and Q3 FY2026, RPO reached USD 21.2B and platformized-customer NRR exceeded 120%. These data demonstrate demand and cross-sell. They do not demonstrate that acquired capital earns above the cost of capital or that those economics accrue per diluted share.

The share record reinforces that distinction. Diluted weighted shares grew from 591.0M in FY2022 to 764.0M in FY2026, while period-end shares reached 815M. The 112M CyberArk shares and 27M warrant-settlement shares are already embedded in the FY2027 reset and are not added again. The VP starts from the inclusive 845.5M midpoint of the 844-847M FY2027 guide, retains SBC in statutory expense and uses a 4.733949M annual issuance proxy from FY2028. Base buybacks retire 2.668517M shares annually, so Base terminal shares still rise to 853.761728M.

6. Runway Analysis

Runway is PANW's strongest scoring area. Network & AI Security has embedded enforcement points, SASE and software firewalls; Cortex addresses cloud, observability and security-operations workflows; Idira adds privileged and machine identity. More than 70,000 customers, 78 customers above USD 10M of NGS ARR and 223 above USD 5M demonstrate distribution depth. Cybersecurity demand should remain durable as cloud, identities and AI agents expand the attack surface.

The model separates acquired-perimeter seasoning from organic growth. FY2027 Base revenue of USD 14.2B is 23.7% above TTM because CyberArk and Chronosphere receive fuller weighting. Post-FY2027 growth decelerates. Base terminal revenue of USD 22.341B implies 14.24% annual growth, while statutory operating margin must rise from 6.05% to 17.71%. That path requires integration, lower SBC intensity, pricing, recurring mix and AI-compute efficiency. Post-TTM Embrace and Console acquisitions receive no unsupported revenue, expense, purchase-price or share contribution.

7. Moat Analysis

Switching costs and high-trust procurement are the clearest moat sources. Security policies, identity permissions, telemetry, response workflows and compliance evidence are risky to migrate. Network & AI Security owns enforcement points; Idira controls privileged-access chokepoints; Cortex embeds analyst playbooks and response actions. Brand, Unit 42 and sustained R&D reinforce those advantages.

Pricing power is not proven. PANW has used trade-ins, no-cost periods, add-ons and deferred payment to reduce migration friction. Gross margin fell from 74.3% in FY2024 to 70.4% in FY2026, partly because of acquired amortization and hosting costs. Total-company NRR, GRR and churn are not disclosed. Microsoft, CrowdStrike, Zscaler and hyperscalers can bundle adjacent controls. AI raises security demand but can commoditize SOC analysis and make workflows more portable. The moat and 2046 verdicts remain YELLOW.

8. Accounting and Capital Allocation Analysis

The statutory record is reconciled: FY2026 revenue USD 11.480B, statutory OI USD 0.695B, other expense USD 0.159B, pretax income USD 0.536B, tax USD 0.229B and net income USD 0.307B tie with zero bridge residual. There is no restatement indicator or material weakness. Cash and investments of USD 7.906B exceed funded notes of USD 1.774B and leases of USD 0.793B.

The quality cap comes from economic presentation. FY2026 simple FCF of USD 4.113B is more than thirteen times net income because CFO adds back USD 1.774B of SBC, USD 0.855B of D&A and USD 0.562B of convertible-note/capped-call fair-value changes. SBC equals 43.13% of FCF. FCF is cash, but it is not distributable owner earnings without dilution and acquisition claims.

Management's operating execution is strong: headline guidance was met or exceeded in all eight reviewed quarters. Capital-allocation evidence is weaker. CyberArk cost USD 21.061B and Chronosphere USD 2.951B, yet no transaction-level return ledger exists. Compensation rewards NGS ARR, non-GAAP EPS and relative TSR but not ROIC, acquisition return, GAAP per-share earnings or net dilution. FY2026 repurchases did not prevent period-end shares rising from 668M to 815M. These facts support Management FAIL and cap capital allocation at 3/10.

9. 20% Return Underwriting

Valuation denominator and method lock

Primary valuation method is **P/E**. The reported denominator is USD 0.401832460732984 TTM statutory diluted EPS, giving a raw P/E of 932.577719869707x. It is disclosure-only because FY2026 is acquisition-heavy. The comparable normalized anchor is **Base FY2027 statutory GAAP diluted EPS of USD 0.954447072738025**, equal to USD 806.985M net income divided by 845.5M inclusive diluted shares. It retains USD 1.081B of acquired amortization, 14.5% P&L SBC and a 1.0% acquisition/integration charge. The resulting normalized current P/E is exactly 392.625228473887x. The terminal denominator is statutory diluted EPS on the same USD, listed-unit and GAAP perimeter. The raw current P/E is not a cap.

The locked 30x/40x/55x exits were selected before return calculation. Bear haircuts PANW's least-distorted FY2024 40.1906x positive-GAAP anchor for integration, SBC, dilution and low terminal margin. Base rounds that clean anchor to 40x. Bull uses 55x, inside the 40.1906x PANW anchor to 60.6503x FTNT profitable scaled-peer range. VP passed both excessive-optimism and excessive-bearishness challenges. Scoring observes the multiples and does not change them.

Security return underwriting

All figures use USD, current price USD 374.74, exact horizon 2026-07-31 to 2031-07-31, and probabilities 25% bear / 55% base / 20% bull. Distributions are a clearly labelled **zero-distribution diagnostic** because no source-bound distribution path exists. Under P/E, terminal equity value per share equals statutory diluted EPS multiplied by exit P/E. Opening cash and investments are USD 7.906B, convertible notes USD 1.774B and operating leases USD 0.793B, but none is added or subtracted after EPS times P/E: financing income/expense, claims and dilution are already embedded in statutory EPS and the equity multiple. This is the required net-cash/debt counted-once treatment.

Measure	Bear	Base	Bull	Probability-weighted
Probability	25%	55%	20%	100%
Terminal statutory diluted EPS	USD 1.151031	USD 3.800819	USD 5.879172	Not used as an IRR shortcut
Exit P/E	30.0x	40.0x	55.0x	Scenario-specific
Terminal diluted shares	864.435795M	853.761728M	843.087661M	Scenario-specific
Terminal equity value/share	USD 34.530930	USD 152.032760	USD 323.354460	USD 156.9216425 expected wealth
Approximate terminal equity value	USD 29.849772B	USD 129.799752B	USD 272.616155B	Probability-weighted per-share method controls
Cumulative distributions/share	USD 0.00	USD 0.00	USD 0.00	USD 0.00
Terminal shareholder wealth/share	USD 34.530930	USD 152.032760	USD 323.354460	USD 156.9216425
Net cash/debt treatment	Embedded / no adjustment	Embedded / no adjustment	Embedded / no adjustment	No double count
Gross USD annualized IRR	**-37.93%**	**-16.51%**	**-2.91%**	**-15.98%**

The probability-weighted result is `(156.92164250000002 / 374.74)^(1/5) - 1`. It is the CAGR of probability-weighted terminal shareholder wealth, never an arithmetic average of scenario IRRs.

Bear-case operating and return bridge

Bear case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 16.740B	7.84%	Demand persists, but integration and competition reduce conversion
Operating margin	6.05%	9.02%	+2.97 pp	SBC, amortization, integration and discounts remain high
Operating earnings	USD 0.695B	USD 1.509200B	16.78%	Statutory operating income on the sealed one-segment basis
Diluted share count	764.000M	864.435795M	2.50%	Inclusive reset plus SBC issuance; no buyback offset
EPS	USD 0.401832461	USD 1.151031	23.43%	Statutory diluted EPS; start is acquisition-heavy
Valuation	392.625228x normalized P/E	30.0x P/E	-362.625228x	VP-locked haircut to clean historical and peer anchors
Share value	USD 374.74	USD 34.530930	-37.93%	USD 1.151031 x 30x; no net-cash adjustment
Annual dividend	USD 0.00	USD 0.00	0.00%	Zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No supported distributions
Five-year dividends	-	USD 0.00	cumulative	Counted once
Total ending value	USD 374.74	USD 34.530930	-37.93% gross USD IRR	Terminal share value plus zero distributions

Base-case operating and return bridge

Base case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 22.341B	14.24%	FY2027 acquired-perimeter seasoning followed by deceleration
Operating margin	6.05%	17.71%	+11.66 pp	Integration, recurring mix, SBC leverage and compute efficiency

Base case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Operating earnings	USD 0.695B	USD 3.957587B	41.61%	Statutory OI; SBC and amortization remain expensed
Diluted share count	764.000M	853.761728M	2.25%	845.5M reset, SBC issuance and USD 1B annual buybacks
EPS	USD 0.401832461	USD 3.800819	56.74%	Statutory diluted EPS on the reconciled listed-share basis
Valuation	392.625228x normalized P/E	40.0x P/E	-352.625228x	Clean PANW FY2024 anchor rounded to 40x
Share value	USD 374.74	USD 152.032760	-16.51%	USD 3.800819 x 40x; no net-cash adjustment
Annual dividend	USD 0.00	USD 0.00	0.00%	Zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No supported distributions
Five-year dividends	-	USD 0.00	cumulative	Counted once
Total ending value	USD 374.74	USD 152.032760	-16.51% gross USD IRR	Terminal share value plus zero distributions

Bull-case operating and return bridge

Bull case	Start (2026-07-31)	Horizon (2031-07-31)	CAGR / change	Justification
Revenue	USD 11.480B	USD 26.765B	18.45%	Platform cross-sell, identity integration and premium growth persist
Operating margin	6.05%	22.51%	+16.46 pp	Faster synergies, pricing, mix and AI infrastructure efficiency
Operating earnings	USD 0.695B	USD 6.024250B	54.02%	Statutory operating income with acquired amortization retained
Diluted share count	764.000M	843.087661M	1.99%	USD 2B annual buybacks nearly offset post-reset SBC issuance
EPS	USD 0.401832461	USD 5.879172	71.02%	Several growth and margin mechanisms must succeed together
Valuation	392.625228x normalized P/E	55.0x P/E	-337.625228x	Inside clean PANW / profitable-peer evidence range
Share value	USD 374.74	USD 323.354460	-2.91%	USD 5.879172 x 55x; no net-cash adjustment
Annual dividend	USD 0.00	USD 0.00	0.00%	Zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No supported distributions
Five-year dividends	-	USD 0.00	cumulative	Counted once
Total ending value	USD 374.74	USD 323.354460	-2.91% gross USD IRR	Terminal share value plus zero distributions

CIO actionability

The net-SGD diagnostic uses the same P/E terminal wealth, probabilities and zero distributions. It applies a 0.50% entry cost and 0.50% exit cost. Withholding is 0% only because modeled distributions are zero. The explicit diagnostic entry USD/SGD assumption is 1.28. Exit USD/SGD is 1.152 bear (10% USD weakening), 1.28 Base (flat) and 1.344 Bull (5% USD strengthening). These are conservative scenario assumptions, not FX forecasts.

Measure	Result	Notes
Status	**PASS**	Management hard FAIL and negative Base/PW returns require PASS
Bear / Base / Bull net SGD IRR	**-39.34% / -16.68% / -2.15%**	Exactly five years after costs, zero withholding and scenario FX
Probability-weighted net SGD IRR	**-15.89%**	CAGR of probability-weighted net terminal SGD wealth using 25%/55%/20%
10% mandate hurdle	FAIL	Base and probability-weighted results are negative

Measure	Result	Notes
15% stretch hurdle	FAIL	Even Bull is negative after costs and FX
Downside and portfolio fit	FAIL / UNAVAILABLE	Security downside fails; current governed portfolio context was not supplied
Proposed sizing ceiling	none	`sizing_ceiling_pct=null`; no sizing authority and PASS status

Entry outlay is SGD 482.065536 per share including entry cost. Net terminal SGD wealth is SGD 39.5807332032 / 193.628923136 / 432.4154522688 for bear/base/bull. Probability-weighted net terminal wealth is SGD 202.87418147936. Full precision is retained in structured JSON; every visible net-SGD IRR is shown to exactly two decimals.

The Base maximum price for a 20% gross USD IRR is USD 61.098556455761333, 83.70% below the current price. Required terminal wealth is USD 932.4730368. At the locked 40x Base exit, required terminal EPS is USD 23.31182592 versus modeled USD 3.800819. That requires 125.27% annual EPS growth from reported TTM EPS over five years, or 122.31% annually from Base FY2027 normalized EPS over the remaining four annual steps. The reverse-return hurdle is not beatable on governed assumptions. The P/E-15 entry gate separately fails with an 84.79% negative Base cushion and is not reused as an exit multiple.

10. Hard Veto Checklist

Hard veto	Result	Evidence
ROIIC below cost of capital without proven improvement	FAIL	Acquisition-inclusive ceilings of 0.97% and 2.76%; no deal-level return ledger
ROIC high only because capital is tiny	PASS	FY2026 acquisition-expanded invested capital is USD 28.970B; weak returns are visible
Growth needs persistent external financing	WATCH	Liquidity is sound, but equity issuance has financed growth and acquisitions
Share count rises without proven per-share value creation	FAIL	112M CyberArk shares, 27M warrant shares, chronic SBC and 844-847M guide
Large acquisitions without disclosed returns	FAIL	CyberArk and Chronosphere lack transaction-level ROIIC disclosure
FCF structurally lags earnings	PASS, inverse caveat	FCF exceeds earnings, but SBC and non-cash items weaken owner conversion
Platform, regulation or competition can impair equity	WATCH	Bundling and AI workflow commoditization are credible
20% return case requires multiple expansion	PASS on expansion only	Exits contract sharply; return still fails because price capitalizes perfection
Flawless execution needed at today's price	FAIL	Bull needs 18.45% growth, 22.51% margin and 55x exit yet loses value annually
Moat cannot be explained	PASS	Embedded enforcement, identity permissions, trust and switching costs are identifiable
Accounting or governance impairs trust	WATCH	No restatement; incentive and acquisition disclosure are insufficient for owner economics
Balance sheet can wipe out equity	PASS	USD 6.132B funded net cash before leases

11. Final Decision

Score-implied classification: Reject. Compounder Score 44/100 is below 70/100, Business Quality Score 41/80 is below the promising-compounder threshold, Management is a hard FAIL, and 20% Return Underwriting/Stretch Score 3/20 says the stretch case is not plausible at the current price. The business can grow substantially while shareholders still suffer a negative annualized return because the starting valuation is more demanding than the governed earnings bridge.

Compounder Score note: Compounder Score 44/100 implies the evidence does not support dream-investment status; acquisition-inclusive ROIIC, dilution and valuation are the binding defects. **Business Quality Score note:** Business Quality Score 41/80 implies quality, runway, moat and capital-allocation evidence remain below the promising-compounder threshold despite strong demand. **20% Return UW Score note:** 20% Return Underwriting/Stretch Score 3/20 implies the current price does not support the 20% hurdle; even the VP-locked Bull case has a negative gross USD IRR.

Monitoring conditions are evidence tests, not trade triggers: reconsider quality only if SBC falls below 10% of revenue, diluted-share growth remains below revenue growth, CyberArk and Chronosphere demonstrate acquisition returns above the cost of capital, organic post-acquisition growth is disclosed consistently, gross margin recovers above 72%, and statutory operating margin clears the repaired Base cadence without new large equity issuance. No trade, message, portfolio mutation, ranking or sizing authority is created.

12. Machine-Readable JSON

The structured artifact is `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\compounder_score.json`. It preserves full-precision return arithmetic, the exact VP hash, scenario bridges, exit-multiple integrity, net-SGD overlay, score notes, hard vetoes and all authority flags set to false.

Appendix CSA - Scoring Audit

Palo Alto Networks - Scoring Audit

Audit date: 2026-09-27 **Security:** XNAS:PANW common share **Audit status:** CLEARED WITH SCORE REDUCTIONS AND NON-MATERIAL FINDINGS **Valuation-preflight binding:** `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\valuation_preflight.json` **Valuation-preflight SHA-256:** `a6e12bf62a732098ce901f087a89e42714d6fa1e63369bc647724504b39f673f` **Validator result:** `VALUATION_PREFLIGHT_VALID` with `--check-evidence-files` and exact expected hash.

The five valuation foundations are cleared, the blocker list is empty, and the CompounderScorer reproduces the locked P/E method, FY2027 normalized denominator, dilution treatment, and 30x/40x/55x exit P/Es. The security-return arithmetic is reliable. The score is reduced because several qualitative points presume evidence that is not yet present: a fully adjusted ROIC series, proven reinvestment returns after the acquisition cycle, company-wide stickiness, and owner-minded capital allocation.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	41/80	36/80	Five points removed across ROIC, reinvestment, stickiness, and owner mentality
Valuation / 20% Return UW Score / 20	3/20	3/20	Return bridge and contracting exit P/Es replay; no scenario clears the hurdle
Total Score / 100	44/100	39/100	Arithmetic sum of audited fixed-denominator scores
Classification	Reject	Reject	Below 70/100, multiple hard vetoes, and implausible 20% case

The audited classification is **Reject**. This is neither a dream business nor a dream investment under the diagnostic rubric. PANW has attractive demand, installed-base and switching-cost evidence, but the company has not demonstrated high incremental returns after the CyberArk and Chronosphere capital reset, while the current price exceeds even the governed Bull terminal value per share.

2. Score Reductions and Reasons

Rubric item	Original	Audited	Audit conclusion
1A Normalized ROIC	2/5	1/5	The 14.10% median is a standardized fixed-21%-tax diagnostic using FMP year-end invested capital, not the required adjusted ROIC series with capitalized R&D, leases, and explicit goodwill-included/excluded variants
2B Proven ability to reinvest at scale	3/5	2/5	Revenue and ARR scale are proven, but acquisition-inclusive ROIIC ceilings of 0.97% and 2.76% are below cost of capital and no deal-level return ledger exists
2F Growth without ROIC collapse	1/1	0/1	FY2026 standardized ROIC fell to 1.90% after the acquisition-expanded capital base; a non-collapsing owner-return path is forecast, not demonstrated
3D Customer stickiness	2/2	1/2	More-than-120% NRR applies only to a defined platformized cohort; total-company NRR, GRR, churn and post-concession renewal behavior are absent
5E Owner mentality	1/1	0/1	Compensation omits ROIC, acquisition return and net-dilution tests; FY2026 buybacks did not prevent period-end shares rising from 668M to 815M

All other points are preserved. Category 1 remains low because ROIIC is correctly scored zero and cash conversion receives only one point. Category 6 remains 3/20: 6A, 6C, 6D, 6E and 6F are zero; 6B retains 3/4 because the independently selected exit P/Es are far below the comparable normalized current P/E and require no expansion, but the hurdle is not cleared.

3. Unsupported Claims

The evidence does not support calling the 14.10% five-observation median an `adjusted_roic_5yr_median`. The underlying series is statutory operating income times 79%, divided by a vendor invested-capital field. It is useful as a standardized diagnostic, but it does not capitalize R&D or publish the required lease and goodwill sensitivities.

The evidence does not support "proven ability to reinvest at scale" at a three-point level. PANW has proven that it can deploy R&D, acquire products, grow ARR, and cross-sell. It has not proven that the USD 24.012B CyberArk/Chronosphere consideration or the broader acquisition program earns above the cost of capital per diluted share.

The evidence does not support full stickiness credit. Platformized-customer NRR above 120% is meaningful, but the cohort is defined within the largest customers and changed with the acquisition perimeter. Free periods, trade-ins, add-ons and deferred payment also make realized retention economics harder to infer.

The FY2024 provider-native 40.1906x P/E should not be described as a "clean" PANW historical anchor because FY2024 net income contains a tax valuation-allowance release. The multiple remains useful only with its native denominator and explicit distortion label. This is not a return blocker here: the raw multiple was not used as a current cap, the selected exits also sit below the 60.6503x profitable FTNT peer reference, and the company-specific Bear/Base/Bull haircuts are independently explained.

4. Calculation Errors

Preflight, denominator, and method replay

The preflight file hash matches the cleared VP hash exactly. `status=CLEARED`, each of earnings normalization, method selection, denominator integrity, capital structure, and exit-multiple evidence passes, and the blocker array is empty. CS copies `PRIMARY_VALUATION_METHOD=PE`, normalized Base FY2027 statutory GAAP diluted EPS of `806.985 / 845.5 = 0.954447072738025`, normalized current P/E of `374.74 / 0.954447072738025 = 392.625228473887`, and Bear/Base/Bull exit P/Es of 30x/40x/55x.

The raw current P/E is `374.74 / (307 / 764) = 932.577719869707x`. It is correctly disclosure-only because FY2026 is an event-heavy acquisition year. The terminal denominator is statutory diluted EPS on the same USD, listed-share and GAAP perimeter. The normalized current and terminal denominators are comparable for the no-expansion diagnostic; no provider ratio is relabeled or converted.

NOPAT, ROIC, ROIIC, and cash conversion

Terminal NOPAT replays as operating income times one minus normalized tax: Bear `1.509200 x 76% = 1.146992B`; Base `3.957587 x 79% = 3.12649373B`; Bull `6.024250 x 79% = 4.75915750B`. The five standardized ROIC observations are -8.10%, 14.10%, 14.85%, 18.97%, and 1.90%; their median is 14.10%. The arithmetic is correct, but the label is overstated as described above.

Acquisition-inclusive ROIIC ceilings also replay. FY2023-FY2026 NOPAT increases by USD 0.24332B against at least USD 25.081B of disclosed acquisition consideration, or 0.97%. FY2022-FY2026 NOPAT increases by USD 0.69836B against at least USD 25.323B, or 2.76%. These are favorable ceilings because ordinary capex, working capital, capitalized R&D, and other reinvestment are omitted. Organic three- and five-year ROIIC remain unsupported, so the 1B score of zero is correct.

Multi-year FCF/NOPAT is highly unstable: 5.74x in FY2024, 3.53x in FY2025, and 7.49x in FY2026 under the fixed 21% tax diagnostic. FY2026 FCF also includes a USD 1.774B SBC add-back. The low 1E score is therefore preserved, but the missing fully adjusted conversion series remains a data limitation.

P/E return bridge and probability weighting

The P/E bridge contains no second cash/debt adjustment. Terminal equity value per share equals terminal EPS times exit P/E: Bear `1.151031 x 30 = 34.530930`; Base `3.800819 x 40 = 152.032760`; Bull `5.879172 x 55 = 323.354460`. Distributions are explicitly zero. Terminal diluted shares of 864.435795M, 853.761728M, and 843.087661M reproduce the reported total equity values. Opening cash/investments, convertible notes, leases, contingent consideration and

other operating claims are not added or subtracted again under P/E. The double-count check passes.

Using USD 374.74 and exactly five years, gross USD IRRs replay to -37.92801348262399%, -16.508661132267733%, and -2.9065885516372125%. Probability weights sum to 100%: 25%/55%/20%. Expected terminal shareholder wealth is `0.25 x 34.530930 + 0.55 x 152.032760 + 0.20 x 323.354460 = 156.92164250000002`. Its CAGR is `(156.92164250000002 / 374.74)^(1/5)-1 = -15.978475233761092%`. CS does not average scenario IRRs.

The reverse-return calculation also replays. Required five-year wealth at 20% is USD 932.4730368. At 40x, required terminal EPS is USD 23.31182592 versus modeled Base USD 3.800819. Base maximum buy price is USD 61.098556455761333.

Same-method net-SGD replay

The net-SGD overlay uses the same terminal P/E wealth. Entry outlay is `374.74 x 1.28 x 1.005 = SGD 482.065536`. After the 0.5% exit cost and scenario FX, net terminal wealth is SGD 39.5807332032 / 193.628923136 / 432.4154522688. The corresponding Bear/Base/Bull net-SGD IRRs are -39.343750957493784%, -16.675478327354487%, and -2.1504068536724263%. Probability-weighted net terminal wealth is SGD 202.87418147936; its CAGR is -15.894549896932197%. The visible rounded values -39.34% / -16.68% / -2.15% / -15.89% are correct.

5. Missing Data

- Adjusted ROIC including capitalized R&D and leases, plus separately stated goodwill-included and goodwill-excluded ROIC.
- A supportable organic three- or five-year ROIIC series and transaction-level acquisition ROIIC/payback for CyberArk and Chronosphere.
- A complete reinvestment-rate history including working capital, capitalized R&D, acquisitions, disposals, and growth opex.
- Total-company NRR, GRR, churn, renewal pricing, CAC/payback, and platform contribution margins.
- A source-bound distribution path; zero distributions are therefore a valid conservative diagnostic.
- A governed terminal cash/debt/lease/claim schedule; this correctly prevents EV/NOPAT from controlling.

6. Hard-Veto and Threshold Test Audit

The hard vetoes for sub-cost acquisition-inclusive ROIIC, material share-count growth without proven per-share value creation, large acquisitions without disclosed returns, and execution beyond the governed Bull case all remain supported. The audited ROIIC-plus-runway subtotal is 20/45, not the original 23/45. Total score, Business Quality, Valuation/20% Underwriting, Base IRR, Bear IRR, and no-hard-veto thresholds all fail. No multiple expansion is required, but that isolated pass cannot offset negative returns.

7. Final 20% Hurdle Pass/Fail

FAIL. Base, Bull, and probability-weighted gross USD returns are all negative. The 20% reverse-return hurdle requires USD 23.31182592 of terminal EPS at the Base 40x exit, more than six times modeled Base terminal EPS. The audited valuation score remains 3/20 because the exit-multiple construction is conservative and method-consistent, not because the return hurdle is close.

8. Dream Business / Dream Investment Classification

Neither. PANW has a real franchise and a large runway, but Business Quality 36/80 does not establish a dream business after acquisition-inclusive returns, dilution, compensation, and incomplete retention evidence. At USD 374.74, the governed terminal wealth bridge does not establish a dream investment under any scenario.

9. Stage 7 Scorecard Notes

Compounder Score note: Compounder Score 39/100 implies Reject; strong demand is outweighed by unproven incremental returns, dilution, and negative modeled shareholder returns. **Business Quality Score note:** Business Quality Score 36/80 implies a valuable franchise without proven high-return reinvestment after the acquisition and share-count reset. **20% Return UW Score note:** 20% Return Underwriting/Stretch Score 3/20 implies the current price fails the hurdle; even the VP-locked

Bull case has a negative gross USD IRR.

10. Auditor JSON

The machine-readable audit is `C:\Users\Admin\OneDrive\GPT\ER 2.0\Palo Alto Networks\compounder_score_audit.json`. It preserves full-precision return arithmetic, category reductions, VP binding, denominator and multiple checks, and all authority flags as false.

Appendix RT - Red Team

Palo Alto Networks — Red Team

Production red-team rerun: 2026-09-27 **Security:** XNAS:PANW common share **Valuation-preflight binding:** `valuation_preflight.json` SHA-256 `a6e12bf62a732098ce901f087a89e42714d6fa1e63369bc647724504b39f673f` **Return-model objection status: MATERIAL_RESOLVED Authority:** `ranking_authorized=false`; `sizing_authorized=false`; `portfolio_mutation_authorized=false`; `message_authorized=false`; `owner_action_authorized=false`; `trade_execution_authorized=false`.

The earlier material objection was valid: the prior model did not seal how acquired-intangible amortization, stock-based compensation (SBC), acquisition/integration charges and share-based payroll tax converted an adjusted-looking margin into statutory GAAP operating income. That objection is now genuinely incorporated. The repaired data package sources the FY2026 composition and the audited amortization schedule; the reviewed segment appendix carries an annual bridge for every scenario; S reproduces all fifteen annual bridges and clears 11/11 tie-outs; VP binds those exact inputs; and CS/CSA reproduce the returns without changing method or adding cash twice. I found no new material method, denominator, claim-perimeter, probability-weighting or arithmetic defect. The valuation remains highly assumption-sensitive, but sensitivity is not the same as a supportable correction to a broken bridge.

The audited results below are preserved, not revised.

Audited item	Bear	Base	Bull	Probability-weighted
Gross USD annualized IRR	-37.93%	-16.51%	-2.91%	-15.98%
Net-SGD annualized IRR	-39.34%	-16.68%	-2.15%	-15.89%
Scenario probability	25%	55%	20%	100%

Audited scores are **Compounder Score 39/100**, **Business Quality Score 36/80**, and **20% Return Underwriting/Stretch Score 3/20**.

1. The most fragile assumption

The most fragile assumption is the **Base FY2031 P&L SBC burden of 10.25% of revenue** in the consolidated-company statutory bridge. It falls from FY2026 total expense SBC of 15.81% of revenue even though PANW still had approximately USD 3.3 billion of unrecognized SBC, future grants are absent from that balance, the FY2027 diluted-share guide already resets the denominator to 844–847 million, and management compensation contains no direct net-dilution test. The model does not hide this assumption: SBC is deducted annually at 14.5%, 13.5%, 12.5%, 11.5% and 10.25% in Base, and the Bear remains at 14.5% in FY2031. That is precisely why the prior objection is resolved even though the assumption is vulnerable.

If Base SBC merely stalls at **12.5%** of revenue in FY2031 rather than falling to 10.25%, terminal statutory operating income falls by about USD 0.503 billion before tax. With the audited 21% tax rate and 853.762 million diluted shares, EPS falls from USD 3.8008 to about USD 3.3357. At the unchanged VP-locked 40x P/E, terminal wealth falls from USD 152.03 to USD 133.43 and Base gross USD IRR falls from -16.51% to about **-18.66%**. Probability-weighted IRR falls from -15.98% to about **-17.10%**. This is a material economic sensitivity, but not an unmodeled accounting correction: the governed Bear already captures a higher SBC burden, and the exact Base ratio is explicitly labeled a scenario assumption.

2. The most-likely-to-be-optimistic Stage 5 number

The single Stage 5 number most likely to be revised down is the **17.71% Base FY2031 statutory operating margin**. It requires an 11.66-point recovery from FY2026's 6.05% while revenue nearly doubles, acquired platforms are integrated, cloud-hosting expense is absorbed, and P&L SBC falls sharply as a percentage of revenue. This is not a fabricated plug anymore: the terminal bridge starts with a 31.00% pre-amortization/pre-SBC/pre-acquisition-charge margin, then deducts USD 0.667 billion of amortization, 10.25% SBC and 0.05% integration charges. The problem is economic proof, not bridge visibility.

The evidence is mixed against that recovery. Total gross margin declined from 74.3% in FY2024 to 70.4% in FY2026, while subscription/support gross margin fell to 69.2%; PANW says cloud-hosting cost should grow faster than revenue in FY2027. If

terminal statutory margin is two points lower, the synthesis sensitivity reduces Base EPS from USD 3.801 to USD 3.387. The current valuation still fails by an enormous margin either way, but the lower outcome is more consistent with cloud delivery pressure and incomplete proof that platform breadth produces statutory leverage.

3. The strongest bear case, stated in its strongest form

PANW may be paying peak-platform multiples for a collection of acquired products whose apparent growth is partly perimeter, whose integration economics are obscured by adjusted measures, and whose workflows face immediate bundling pressure from Microsoft and focused-platform pressure from CrowdStrike. Microsoft launched an integrated SOC in Defender that brings SIEM and threat protection together and makes it available to eligible Microsoft 365 E5/E7 customers; that attacks Cortex at the distribution layer, not merely feature by feature. CrowdStrike's latest official Q2 FY2027 release reported ending ARR of USD 5.84 billion and accelerating net-new ARR, demonstrating that PANW is not consolidating a static field. [Microsoft ISOC announcement](https://www.microsoft.com/en-us/security/blog/2026/09/23/reimagining-the-soc-for-the-agentic-era-in-microsoft-defender/) [CrowdStrike Q2 FY2027 filing](https://www.sec.gov/Archives/edgar/data/1535527/000153552726000029/crwd-20260826xex991.htm)

The mechanism appears in PANW's numbers within two to four quarters: platform bundles require more free periods and concessions, organic NGS ARR/RPO decelerates after acquisition comparability, cloud cost prevents gross-margin recovery, and SBC remains in the mid-teens. Cortex and Idira miss their post-perimeter cadences first; Network follows as SASE and native-cloud competition pressure pricing. The validating anchor is not reported ARR growth inflated by acquisitions. It is **organic NGS ARR growth below 20% for two consecutive comparable quarters**, accompanied by a failure of statutory gross margin to recover above 70%. That would make Base growth and margin simultaneously untenable.

4. Cross-examination of management commentary

First, management said it was "raising our expectations from $15 billion to $20 billion in ARR for FY '30." The target includes acquired categories, so it is not evidence of organic compounding. FY2026 reported NGS ARR growth reached 63%, but Q3's disclosed organic growth was 28%; acquisition contribution did real work. The earliest warning is organic NGS ARR or organic RPO below 20% after the comparison base normalizes.

Second, management said "platformization is the only sustainable answer." That is an argument, not a measured outcome. Microsoft now offers an integrated SOC across Defender, Sentinel and native protection, while CrowdStrike's Falcon Flex ARR exceeded USD 2.29 billion in Q2 FY2027. A bundled incumbent can also claim platform economics. The first contrary evidence would be platformized-customer NRR below 115%, declining attach of Cortex modules, or increasing free-use periods at renewal.

Third, the CFO cited "achieving 40% adjusted free cash flow margin in FY28." Adjusted FCF is not owner earnings when FY2026 operating cash flow added back USD 1.774 billion of SBC and selected acquisition cash costs can also be adjusted away. The first failure signal is adjusted FCF rising while diluted shares and statutory SBC remain elevated. A 40% adjusted FCF margin with SBC above 12% of revenue and continuing net dilution would not validate the shareholder-return model.

5. Stage 5 tie-out reverification

The recency anchor is mechanically current. TTM consists of Q1 through Q4 FY2026 and ties exactly to USD 11.480 billion of revenue. Q4 growth of 34.5% and a 5.04% GAAP operating margin do not justify extrapolating a 34.5% trend because CyberArk and Chronosphere entered the perimeter midyear. The repaired model correctly treats the 23.7% FY2027 Base revenue step as full-year acquired-perimeter seasoning plus organic growth, then decelerates. The recency issue is therefore interpretation, not stale quarters.

The share path also ties, but it is deliberately approximate after FY2027. The 845.5 million reset does not double-count the 112 million CyberArk shares or 27 million warrant shares. Thereafter, the model issues 4.734 million proxy shares annually and offsets 2.669 million in Base through USD 1 billion of annual repurchases at a fixed USD 374.74. Replacing the issuance proxy with terminal P&L SBC divided by the same price adds only about 5.5 million shares over four years and does not approach a two-point IRR change. Conversely, if repurchases occur near the modeled Base terminal value rather than USD 374.74, they retire more shares and make the model modestly too bearish. Neither direction breaks the return conclusion.

No product CAGR silently outruns peer evidence without a named reason. Base Cortex at 22.9% and Idira's 35.5% reported-base CAGR are aggressive, but Cortex decelerates after FY2027 and Idira explicitly separates the partial-year acquisition step from the later 20% to 14% cadence. The weak point is proof that cross-sell and pricing survive competition, not a hidden sixth year or a mislabeled organic comparison.

6. Score-derived 20% return claim most likely to be wrong

The audit does **not** claim that 20% is plausible; the red team agrees. The 20% Return Underwriting/Stretch Score is 3/20, and the reverse return requires USD 932.47 of terminal wealth. At the locked 40x Base exit, that requires USD 23.31 of terminal EPS versus modeled Base EPS of USD 3.80. The assumption most likely to mislead is not a bullish claim inside the audit but any reader's instinct to treat rapid reported EPS growth from the acquisition-heavy FY2026 denominator as sufficient. Even the Bull produces a negative gross USD IRR. To change the conclusion, PANW would need a vastly lower entry price, not a cosmetic change to one operating input; the audited Base maximum buy price for a 20% gross IRR is USD 61.10.

7. Two-sided valuation challenge

Strongest reason the model is too optimistic. The 40x Base exit is anchored partly to PANW's FY2024 provider-native 40.1906x P/E, yet CSA correctly notes that FY2024 net income contains a tax valuation-allowance release and should not be called a "clean" anchor. The descriptor in CS is too strong. If Base is valued at the already-governed 30x Bear multiple, terminal wealth falls to USD 114.02 and Base gross IRR falls to about **-21.18%**, 4.67 points below the audit. That is a legitimate sensitivity, not a correction: the raw current multiple is not used as a cap; 40x remains within the independently documented profitable-cybersecurity range; and Base economics differ materially from Bear economics. CSA has already preserved the native denominator, flagged the distorted label and kept the multiple selection transparent.

Strongest reason the model is too bearish. A 40x exit may understate the value of a company still growing Base revenue at 14.24%, reaching a 17.71% GAAP margin and controlling several durable security chokepoints. The locked profitable-peer reference is FTNT at 60.6503x. A non-controlling **50x Base sensitivity** gives terminal wealth of USD 190.04 and Base gross IRR of about **-12.70%**, 3.81 points above the audit; even 60.6503x gives roughly USD 230.52 and -9.26%. Zero distributions and a fixed high repurchase price also lean conservative. Yet none of these sensitivities rescues the investment at USD 374.74.

The prior accounting objection is resolved because the correction is now upstream, source-bound, annual and hash-bound—not patched inside CS. FY2026 statutory operating income of USD 0.695 billion is bridged with USD 0.640 billion of reported amortization, USD 1.815 billion of reported total expense SBC, the USD 0.295 billion official acquisition-cost adjustment and explicit true non-disclosures. The exact FY2027–FY2031 amortization schedule is deducted in every scenario. Share-based payroll tax remains inside the pre-adjustment margin and is not deducted twice. VP then locks P/E, the normalized FY2027 GAAP denominator, the inclusive dilution treatment and 30x/40x/55x exits; CS and CSA match its hash exactly. Therefore the formal classification is **MATERIAL_RESOLVED**, not `MATERIAL_UNRESOLVED`.

8. P&C insurer return-bridge cross-examination

Not applicable. PANW is an operating cybersecurity/software company, not a P&C insurer, reinsurer or balance-sheet-led financial business. No `insurer_return_bridge.json` is required or present. The primary method is P/E; P/B-ROE was correctly rejected because tangible book is negative and no parent-common-equity roll-forward is the natural operating bridge.

9. The signal that forces an exit

The forcing signal is **organic NGS ARR growth below 20% in each of two consecutive reported quarters once both quarters have a comparable CyberArk/Chronosphere perimeter**. Monitor the next two comparable earnings releases. That threshold invalidates the assumption that platformization can sustain the Base Cortex and Idira cadences after acquisition effects normalize. It also removes the economic justification for relying on a 40x terminal P/E while management is still spending heavily on SBC and integration. Because the current research verdict is already Reject/PASS, this is a hypothetical sell discipline, not trade authority.

10. Conviction at the end of red team

Thesis does NOT survive this red team. The repaired model is now governable, but it demonstrates the opposite of an attractive entry: PANW can execute a credible Base revenue and margin recovery and still lose 16.51% annually in gross USD terms from the audited price. The narrative should be rewritten around starting valuation and per-share acquisition economics, not around whether the platform franchise is real. The franchise is real; the current price demands a much stronger earnings and ownership outcome than the source-bound statutory model supports. Management FAIL, moat YELLOW, acquisition-inclusive ROIIC ceilings below cost of capital, continuing dilution and negative returns in every scenario leave no investable thesis under ER2.

Appendix D - Data Package (raw historicals)

Palo Alto Networks, Inc. (PANW) — Production ER2 Data Package

Run ID: `pulse-cio-20260926T140154+0800` Information date: 2026-09-26 Reporting currency and table scale: USD billions unless otherwise stated Fiscal year end: July 31 TTM: Q1–Q4 FY2026 ended 2026-07-31 Exact forward horizon: 2031-07-31 Trade execution authorized: `false`

This package is the historical and disclosure source of truth for downstream ER2 work. Quantitative and statutory values are bound to `quant_foundation.md` and the QFR-sealed packets. New D-stage facts were fetched live from FMP stable endpoints, PANW Investor Relations, and SEC EDGAR; no local warehouse cache was used as a research input. Dollar amounts are rounded for display only. Parenthetical amounts are negative.

0. Source register and control notes

Source ID	Live source	Coverage and use
FMP-IS-A	[FMP stable income statement](https://financialmodelingprep.com/stable/income-statement?symbol=PANW&period=annual&limit=8)	FY2019–FY2026 consolidated history; official filings control discrepancies
FMP-BS-A	[FMP stable balance sheet](https://financialmodelingprep.com/stable/balance-sheet-statement?symbol=PANW&period=annual&limit=8)	FY2019–FY2026 balance-sheet history
FMP-CF-A	[FMP stable cash flow](https://financialmodelingprep.com/stable/cash-flow-statement?symbol=PANW&period=annual&limit=8)	FY2019–FY2026 cash-flow and capital-allocation history
FMP-PROD-A	[FMP stable product segmentation](https://financialmodelingprep.com/stable/revenue-product-segmentation?symbol=PANW&period=annual)	Product, Subscription, Support annual history
FMP-GEO-A	[FMP stable geographic segmentation](https://financialmodelingprep.com/stable/revenue-geographic-segmentation?symbol=PANW&period=annual)	Americas, EMEA, APAC annual history
SEC-26-10K	[FY2026 Form 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm)	Controlling annual, revenue disaggregation, segment/CODM, acquisitions, balance sheet and statutory bridge
SEC-25-10K	[FY2025 Form 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756725000027/panw-20250731.htm)	Second controlling source for one-segment CODM disclosure
IR-26-Q1	[Q1 FY2026 release](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-first-quarter-2026-financial)	Q1 revenue, NGS ARR, RPO, outlook and call anchor
IR-26-Q2	[Q2 FY2026 release](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-second-quarter-2026-financial)	Q2 revenue, NGS ARR, RPO and outlook
IR-26-Q3	[Q3 FY2026 release](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-third-quarter-2026-financial)	Q3 revenue, acquisition contribution, NGS ARR, RPO and outlook
IR-26-Q4	[Q4 and FY2026 release](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-fourth-quarter-and-fiscal-10)	Latest quarter, FY2027 guidance and headline statements
IR-26-SUPP	[Q4 FY2026 supplemental](https://investors.paloaltonetworks.com/static-files/1ba52e29-b765-4cf2-8264-557f893e8535)	Official quarterly product/service and platform-revenue tables
IR-26-DECK	[Q4 FY2026 presentation](https://investors.paloaltonetworks.com/static-files/8864c425-7c5d-4471-85c9-cdbf9072cfe5)	Platform, customer, ARR, acquisition and FY2027 modeling-point inventory
IR-24-AR	[FY2024 annual report and proxy](https://investors.paloaltonetworks.com/static-files/98721bc4-1775-402e-9cf3-2bcbedd6e037)	Official FY2022–FY2024 NGS ARR history and definition boundary
IR-24-DECK	[Q4 FY2024 presentation](https://investors.paloaltonetworks.com/static-files/dae146ab-d06b-46fd-a776-25b7e8740388)	Official FY2024 quarterly billings schedule and platform-adoption context

Source ID	Live source	Coverage and use
FMP-T-Q1	[FMP Q1 FY2026 transcript endpoint](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=1)	Transcript dated 2025-11-19
FMP-T-Q2	[FMP Q2 FY2026 transcript endpoint](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=2)	Transcript dated 2026-02-17
FMP-T-Q3	[FMP Q3 FY2026 transcript endpoint](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=3)	Transcript dated 2026-06-02
FMP-T-Q4	[FMP Q4 FY2026 transcript endpoint](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=PANW&year=2026&quarter=4)	Transcript dated 2026-09-01

The FMP annual diluted EPS for FY2026 is 0.44, but audited net income of $307 million divided by 764 million diluted weighted-average shares equals $0.4018 and the 10-K reports $0.40. The official value controls. Likewise, official quarterly operating income controls the $3 million Q2/Q4 vendor timing reclassification. The sealed annual and TTM statutory values are unchanged.

0a. Industry classification and disclosure inventory

PANW is a U.S. GAAP cybersecurity software, SaaS, subscription and security-appliance issuer. It is legally one operating and reportable segment, but its economics are disclosed through subscription/support mix, NGS ARR, RPO, platformization, platform revenue, customer cohorts and product-level ARR. The SaaS/software checklist therefore applies. FMP is adequate for consolidated statements and Product/Subscription/Support annual dollars, but it does not capture the official Q4 FY2026 platform-revenue table or most operating KPIs.

Sources checked live were the FY2026 and FY2025 Forms 10-K, FY2026 Q1–Q3 Forms 10-Q, all four FY2026 results releases and calls, Q4 presentation and supplemental, and FY2022–FY2025 annual results releases. Search terms were: ARR, `NGS ARR`, `net new ARR`, `RPO`, `cRPO`, `billings`, `deferred revenue`, `platformization`, `net retention`, `churn`, `customers`, SASE, `software firewall`, `XSIAM`, `Prisma AIRS`, `Cortex`, `Idira`, `Chronosphere`, `CyberArk`, `product revenue`, `subscription`, `support`, `share-based compensation`, and `diluted shares`.

Dataset / table family	Official source searched	Search terms or table names	Years available	Included?	If excluded, why	Downstream relevance
Statutory segment economics	FY2026 and FY2025 10-K Note 19	operating segment, CODM, segment profit	FY2025–FY2026	Yes	One legal segment; no additive business-unit profit table	Sealed bridge and forecast basis
Product/service revenue	10-K Note 2; FMP product endpoint	Product, Subscription, Support	FY2022–FY2026	Yes	None	Revenue mix and gross-margin context
New platform revenue	Q4 FY2026 supplemental	Revenue by platform	FY2025–FY2026 and FY2026 quarters	Yes	Taxonomy introduced only at Q4 FY2026	Platform growth and acquisition perimeter
NGS ARR and RPO	Annual reports, annual releases and Q4 supplemental	NGS ARR, RPO, current RPO	FY2022–FY2026	Yes	Definition/perimeter expanded over time and is disclosed below	Recurrence and contracted demand
Billings	FY2022–FY2026 releases, Q4 FY2024 presentation and 10-K	billings, total billings	FY2022–FY2024	Yes	Management replaced billings with NGS ARR/RPO guidance after FY2024	Historical demand cadence
Customer and platformization	FY2026 calls and Q4 deck	customers, platformizations, cohort, NRR	FY2026 quarterly points	Yes	No clean five-year series; definitions evolved and acquisitions expanded perimeter	Moat and go-to-market evidence
Retention/churn	FY2026 calls and Q4 deck	NRR, net retention, churn	Q2 and Q4 FY2026 points	Yes	No continuous total-company NRR series	Durability and expansion
CAC/payback/magic number	10-K, releases, calls, decks	CAC, payback, magic number	None	No	True non-disclosure in checked sources	Unit-economics gap
Capital and dilution	10-K, FMP statements	SBC, diluted shares, repurchases, acquisition stock	FY2022–FY2026	Yes	None	Shareholder economics and denominator risk
Geographic mix	10-K Note 2; FMP geography endpoint	Americas, EMEA, APAC	FY2022–FY2026	Yes	None	Growth breadth and FX exposure

SaaS KPI history

KPI family	Granularity	FY2022	FY2023	FY2024	FY2025	FY2026 / latest	Source path
NGS ARR ($B)	Company ending balance	1.89	2.95	4.22	5.58	9.10	IR-24-AR; IR-26-SUPP
NGS ARR growth	Company YoY	60%	56%	43%	32%	63%	IR-24-AR; FY2022–FY2026 presentations/releases; IR-26-SUPP
RPO ($B)	Company ending balance	8.2	10.6	12.7	15.8	21.2	FY2022–FY2026 annual releases; SEC-26-10K
RPO growth	Company YoY	40%	30%	20%	24%	34%	FY2022–FY2026 annual releases
Total billings ($B)	Company fiscal-year flow	7.5	9.2	10.21*	n/d	n/d	FY2022/FY2023 annual releases; IR-24-DECK quarterly schedule
Total billings growth	Company fiscal-year flow	37%	23%	11%	n/d	n/d	FY2022/FY2023 annual releases; IR-24-DECK
Deferred revenue ($B)	Current plus non-current	6.99	9.30	11.48	12.75	14.76	FMP-BS-A; official balance sheet controls current periods
Platformized-customer NRR	Defined cohort	n/d	n/d	n/d	n/d	119% in Q2; above 120% in Q4	FMP-T-Q2; IR-26-DECK
Platformizations	Defined top-5,000 cohort count	n/d	n/d	about 1,000 at Q4 FY2024	about 1,400 at Q4 FY2025	about 2,500 at Q4 FY2026	IR-26-DECK; FY2026 total includes acquired platforms and Q2 pro forma history

n/d means true non-disclosure after the listed official-source search, not a zero. *FY2024 billings of $10.21 billion is a transparent sum of the four official quarterly values in IR-24-DECK ($2.0245B + $2.3472B + $2.3340B + $3.5024B = $10.2081B), not an issuer-published annual total. NGS ARR's published definition and perimeter evolved: FY2022–FY2024 covered the then-current Prisma/Cortex/VM-Series/CDSS perimeter, while the FY2026 Q4 definition covers allocated annualized revenue of active contracts excluding hardware, legacy attached subscription/support and professional services. CyberArk and Chronosphere additions make FY2026 reported growth different from organic growth; the quarter tables below show both where disclosed.

1. Reporting structure, taxonomy and perimeter

PANW has exactly one operating and reportable segment. The CODM is the Chairman and CEO and reviews consolidated financial information accompanied by revenue information. The CODM measure is consolidated net income. Because that is a below-operating-income statutory endpoint, the sealed schema-1.2.0 basis uses one modeled financial segment called `Consolidated company` on `Statutory operating income (single-segment non-operating CODM fallback)`. This is an ER2 modeling repair, not an issuer-disclosed segment operating-profit measure.

Revenue context inside the single segment	FY2026 revenue ($B)	% of total	Description
Product	2.280	19.9%	Hardware and software product licenses
Subscription	6.239	54.3%	Cloud-delivered and software subscriptions, including acquired offerings
Support	2.961	25.8%	Technical support and related services
Consolidated company	11.480	100.0%	One legal reportable and modeled segment

Reporting structure is stable as one reportable segment across the FY2025 and FY2026 controlling filings. The material taxonomy change is analytical rather than legal: in Q4 FY2026 PANW began publishing revenue by `Network & AI Security`, `Cortex`, `Idira`, and `Other`, with FY2025 and FY2026 quarterly comparatives. These are revenue platforms, not reportable segments, and no platform operating profit is disclosed. Idira reported revenue begins after CyberArk's February 11, 2026 close.

The perimeter changed materially during FY2026. Chronosphere closed January 29, CyberArk closed February 11, Koi closed April 14, and Portkey closed May 29. The 10-K states that CyberArk contributed 6% of FY2026 consolidated revenue and was excluded from management's FY2026 internal-control assessment under the first-year acquisition provision. That 6% CyberArk contribution is broader than the $614 million reported Idira platform row because Certificate LifeCycle Management acquired with CyberArk is classified in Network & AI Security. Q3 headline revenue included $388 million from CyberArk and Chronosphere; Q3 NGS ARR included $1.63 billion and RPO included $1.8 billion from those two acquisitions. Comparisons that do not isolate these amounts are reported-growth comparisons, not organic ones.

Geographic revenue history

Geography ($B)	FY2022	FY2023	FY2024	FY2025	FY2026	FY2026 mix	Source
Americas	3.803	4.720	5.483	6.205	7.679	66.9%	FMP-GEO-A; SEC-26-10K Note 2
EMEA	1.056	1.360	1.602	1.917	2.428	21.1%	FMP-GEO-A; SEC-26-10K Note 2
APAC	0.643	0.813	0.943	1.099	1.373	12.0%	FMP-GEO-A; SEC-26-10K Note 2
Total	5.502	6.893	8.028	9.221	11.480	100.0%	Tie to consolidated revenue

2. Consolidated historicals

Metric	FY2022	FY2023	FY2024	FY2025	FY2026	Source
Revenue ($B)	5.502	6.893	8.028	9.222	11.480	FMP-IS-A; SEC-26-10K
Operating income / (loss) ($B)	(0.189)	0.387	0.684	1.243	0.695	FMP-IS-A; official filing controls
Operating margin	(3.43%)	5.62%	8.52%	13.48%	6.05%	Calculated
Net income / (loss) ($B)	(0.267)	0.440	2.578	1.134	0.307	FMP-IS-A; official filing controls
Diluted EPS ($)	(0.45)	0.64	3.64	1.60	0.40	FMP-IS-A; FY2026 official override
Diluted weighted shares (M)	591.0	684.6	708.0	709.3	764.0	FMP-IS-A; SEC-26-10K
Capex ($B)	0.193	0.146	0.157	0.246	0.440	FMP-CF-A; property/equipment/other assets
Free cash flow ($B)	1.792	2.631	3.101	3.470	4.113	Operating cash flow less capex
Standardized ROIC diagnostic	(8.10%)	14.10%	14.85%	18.97%	1.90%	Calculated as below

For comparability, the ROIC diagnostic uses `NOPAT = statutory operating income × (1 − 21%)` and the live FMP year-end invested-capital field. The resulting numerators for FY2022–FY2026 are $(0.149), $0.306, $0.540, $0.982 and $0.549 billion against invested capital of $1.841, $2.171, $3.639, $5.179 and $28.970 billion. The FY2026 collapse primarily reflects the acquisition-expanded capital base and low statutory operating profit. It is not the provider's differently defined ROIC and should not be read as a normalized post-integration return.

FY2024 net income includes the release of a tax valuation allowance, while FY2026 includes acquisition amortization, integration costs, accelerated SBC and convertible-note/capped-call fair-value effects. Consequently, neither reported GAAP EPS series nor the 21% ROIC diagnostic is a normalized earnings forecast by itself.

3. Segment historicals

Consolidated company — the sole modeled segment

Consolidated company	FY2022	FY2023	FY2024	FY2025	FY2026	Source
Revenue ($B)	5.502	6.893	8.028	9.222	11.480	FMP-IS-A and filings
YoY growth	29.4%	25.3%	16.5%	14.9%	24.5%	Calculated
Statutory operating income (single-segment non-operating CODM fallback) ($B)	(0.189)	0.387	0.684	1.243	0.695	FMP-IS-A; FY2026 sealed SEC basis

Consolidated company	FY2022	FY2023	FY2024	FY2025	FY2026	Source
Margin on exact modeled basis	(3.43%)	5.62%	8.52%	13.48%	6.05%	Calculated

The issuer does not disclose platform-level profit. Product, Subscription, Support, Network & AI Security, Cortex, Idira, Other and geographies are revenue context only. The issuer-disclosed CODM metric is consolidated net income: $307 million for FY2026 and the coextensive TTM. It is preserved separately and is not relabeled operating income.

3a. Historical statutory-profit bridge and forecast-driver ledger

Exact common basis: `Statutory operating income (single-segment non-operating CODM fallback)`. Reporting currency USD; scale millions. The QFR-sealed statutory packet SHA-256 is `2d78a720f68b5a6d02e0625b17b43e6d7cc511b8a005f16ce6cbed52eaecab45`. Corporate/unallocated and operating-adjustment arrays are empty, exactly as sealed. No zero placeholders or analyst plugs are introduced.

FY2026 bridge

Bridge line	Classification	Value ($M)	Source ID	Running subtotal ($M)
Consolidated company	segment profit on exact modeled basis	695	PANW_2026_10K	695
Sum of reportable segment profit	segment profit sum	695	PANW_2026_10K	695
Consolidated segment profit metric	modeled subtotal	695	PANW_2026_10K	695
Statutory operating income	statutory subtotal	695	PANW_2026_10K	695
Other income (expense), net	other_non_operating	(159)	PANW_2026_10K	536
Pretax income	statutory subtotal	536	PANW_2026_10K	536
Provision for income taxes	tax	(229)	PANW_2026_10K	307
Net income	statutory subtotal and disclosed CODM metric	307	PANW_2026_10K	307

Separate CODM disclosure: `Consolidated net income`, value 307, source `PANW_2026_10K`. Each of the five packet residuals is zero; disclosed rounding unit and tolerance are each USD 1 million.

TTM ended 2026-07-31 bridge

Bridge line	Classification	Value ($M)	Source ID	Running subtotal ($M)
Consolidated company	segment profit on exact modeled basis	695	PANW_2026_10K	695
Sum of reportable segment profit	segment profit sum	695	PANW_2026_10K	695
Consolidated segment profit metric	modeled subtotal	695	PANW_2026_10K	695
Statutory operating income	statutory subtotal	695	PANW_2026_10K	695
Other income (expense), net	other_non_operating	(159)	PANW_2026_10K	536
Pretax income	statutory subtotal	536	PANW_2026_10K	536
Provision for income taxes	tax	(229)	PANW_2026_10K	307
Net income	statutory subtotal and disclosed CODM metric	307	PANW_2026_10K	307

Separate CODM disclosure: `Consolidated net income`, value 307, source `PANW_2026_10K`. The TTM is the sum of Q1–Q4 FY2026 and equals the fiscal year. Each of the five residuals is zero.

Forecast-driver schedule

Historical bridge line	FY2026 ($M)	TTM ($M)	Forecast treatment	Driver and source	Bear / base / bull rule
Consolidated company statutory operating income fallback	695	695	Independently forecast operating margin on consolidated revenue	Product/platform revenue and explicit GAAP cost build; SEC-26-10K	Bear slower synergies and elevated amortization/SBC; base gradual integration; bull faster operating leverage
Other income (expense), net	(159)	(159)	Separate below-line schedule	Interest on cash/investments, CyberArk convert fair-value/capped-call effects and debt; SEC-26-10K	Bear adverse or no fair-value benefit; base exclude non-repeat fair-value volatility and model interest; bull modest net interest benefit
Provision for income taxes	(229)	(229)	Tax-rate schedule	Statutory tax note and normalized long-run tax assumptions	Bear higher effective cash tax; base normalized rate; bull lower rate only with source-bound credits

The FY2026 below-line result includes non-cash fair-value volatility associated with CyberArk convertible notes and capped calls. A downstream model must not extrapolate the $(159) million mechanically as an operating expense or hide it inside platform margins.

`STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING`

4. Product, platform and sub-segment historicals

Dollar-disclosed product/service revenue

Segment	Product or service	What it is	Dollar disclosure?	FY2024 / FY2025 / FY2026 revenue ($B) and source
Consolidated company	Product	Appliances and software product licenses	Yes	1.603 / 1.802 / 2.280; SEC-26-10K Note 2 and IR-26-SUPP
Consolidated company	Subscription	Cloud-delivered and term software offerings	Yes	4.188 / 4.974 / 6.239; SEC-26-10K Note 2 and IR-26-SUPP
Consolidated company	Support	Technical support and related services	Yes	2.236 / 2.445 / 2.961; SEC-26-10K Note 2 and IR-26-SUPP
Consolidated company	Subscription and support	Combined recurring revenue category	Yes	6.424 / 7.419 / 9.200; SEC-26-10K Note 2 and IR-26-SUPP

No back-solved product dollars are used. Product, Subscription and Support are audited dollar disclosures and sum exactly to consolidated revenue.

Product/service history ($B)	FY2022	FY2023	FY2024	FY2025	FY2026	Source
Product	1.363	1.578	1.603	1.802	2.280	FMP-PROD-A; official filings
Subscription	2.539	3.335	4.189	4.974	6.239	FMP-PROD-A; official filings
Support	1.599	1.979	2.236	2.445	2.961	FMP-PROD-A; official filings
Total	5.502	6.893	8.028	9.221	11.480	Exact tie to consolidated revenue

Newly disclosed platform revenue

Revenue platform ($B)	FY2025	FY2026	Q1 FY2026	Q2 FY2026	Q3 FY2026	Q4 FY2026	Status / source
Network & AI Security	7.131	8.354	1.904	2.025	2.094	2.331	Official dollar disclosure; IR-26-SUPP
Cortex	1.539	1.920	0.422	0.431	0.481	0.586	Official dollar disclosure; IR-26-SUPP
Idira	—	0.614	—	—	0.278	0.336	Official reported revenue after CyberArk close; IR-26-SUPP

Revenue platform ($B)	FY2025	FY2026	Q1 FY2026	Q2 FY2026	Q3 FY2026	Q4 FY2026	Status / source
Other	0.551	0.592	0.148	0.138	0.149	0.157	Unit 42, professional services and financing income
Total	9.221	11.480	2.474	2.594	3.002	3.410	Exact tie to consolidated revenue

This platform taxonomy was introduced in Q4 FY2026. FY2025 was recast for Network & AI Security, Cortex and Other; no Idira comparator exists. Management also disclosed FY2026 pro forma Idira revenue of $1.26 billion and 21% growth, but only $0.614 billion was included in PANW reported revenue after the close. The pro forma figure is not added to consolidated revenue.

The official classification is precise: Network & AI Security includes SASE, hardware and software firewalls, Prisma AIRS, cloud-delivered security services and CyberArk's former Certificate LifeCycle Management business; Cortex includes Security Operations, Cloud Security and Observability; Idira contains Identity Security excluding Certificate LifeCycle Management; and Other contains Unit 42, professional services and financing income. These categories are revenue platforms inside the one reportable segment, not independent operating segments.

Products with growth or point metrics but no full dollar-revenue history

Platform / product	Disclosure method	Last disclosed growth or point metric	Source
SASE	ARR and customer point disclosures	Q3 ARR $1.6B, up 40%; Q1 about 6,800 customers	FMP-T-Q1 and FMP-T-Q3
Software firewall	ARR growth only	Q4 ARR growth 29%	IR-26-DECK
XSIAM	ARR and customer point disclosures	Q4 ARR above $700M, up about 70%; about 1,000 customers	IR-26-DECK and FMP-T-Q4
Prisma AIRS	ARR and customer point disclosures	Q4 ARR about $120M; more than 800 customers	IR-26-DECK
Observability / Chronosphere	ARR point disclosures	Q4 ARR above $500M; more than doubled since Q2 close	IR-26-DECK and FMP-T-Q4
CyberArk / Idira	Reported and pro forma platform revenue; bookings/ACV growth	FY2026 reported revenue $614M; pro forma $1.26B; Q4 ACV growth about 40%	IR-26-SUPP and IR-26-DECK
Platformized cohort	NRR and count	More than 120% NRR; about 2,500 platformizations at Q4	IR-26-DECK
Large NGS ARR customer cohorts	Customer-count thresholds	78 customers above $10M NGS ARR (+50% YoY); 223 above $5M (+45% YoY), excluding CyberArk/Chronosphere for comparability	IR-26-DECK
Module adoption	Firewall subscription attach	More than four subscriptions per installed device in Q3 FY2026	FMP-T-Q3
Total customer base	Company-wide marketing count	More than 70,000 customers at Q4 FY2026; no same-definition five-year series disclosed	IR-26-Q4

These operating metrics are not additive to reported revenue. ARR is an ending annualized contract measure; revenue is recognized under GAAP; RPO is a contracted backlog measure. Mixing them would double count the same customer economics.

5. Most recent quarterly trend

PANW's FY ends July 31. Most recently completed fiscal quarter at time of writing: FY2026 Q4, covering May–July 2026, reported on 2026-09-01 via [PANW IR](https://investors.paloaltonetworks.com/news-releases/news-release-details/palo-alto-networks-reports-fiscal-fourth-quarter-and-fiscal-10).

Consolidated company trend

Quarter	Revenue ($B)	YoY growth	GAAP operating margin	Source
Q1 FY2026	2.474	15.7%	12.49%	IR-26-Q1; official 10-Q

Quarter	Revenue ($B)	YoY growth	GAAP operating margin	Source
Q2 FY2026	2.594	14.9%	15.30%	IR-26-Q2; official 10-Q
Q3 FY2026	3.002	31.1%	(6.10%)	IR-26-Q3; official 10-Q
Q4 FY2026	3.410	34.5%	5.04%	IR-26-Q4; IR-26-SUPP

Product and recurring-revenue mix trend

Quarter	Product revenue ($B)	Product YoY	Subscription + support revenue ($B)	Subscription + support YoY	Source
Q1 FY2026	0.434	22.6%	2.040	14.3%	IR-26-SUPP
Q2 FY2026	0.514	22.1%	2.080	13.3%	IR-26-SUPP
Q3 FY2026	0.594	31.1%	2.408	31.2%	IR-26-SUPP
Q4 FY2026	0.738	28.6%	2.672	36.2%	IR-26-SUPP

Contracted-demand and recurring-KPI trend

Quarter	NGS ARR ($B)	Reported YoY	RPO ($B)	Reported YoY	Acquisition/perimeter note
Q1 FY2026	5.85	29%	15.5	24%	Pre-CyberArk and Chronosphere close; QRadar comparator affected organic net-new ARR
Q2 FY2026	6.33	33%	16.0	23%	Includes about $0.20B Chronosphere ARR and $0.15B RPO; organic NGS ARR +28%
Q3 FY2026	8.13	60%	18.4	36%	Includes $1.63B NGS ARR and $1.8B RPO from CyberArk/Chronosphere; organic growth 28% and 22%
Q4 FY2026	9.10	63%	21.2	34%	Full reported perimeter; nearly $1.0B net new NGS ARR in quarter

GAAP margins fell sharply in Q3 and remained below pre-acquisition levels in Q4 because the reported perimeter absorbed acquisition amortization, transaction/integration charges and elevated SBC. The non-GAAP operating-margin series excludes recurring equity compensation and acquired-intangible amortization, so downstream work must display both rather than treating non-GAAP margin as statutory.

6. Management commentary and forward growth

Transcript dates match the fiscal-quarter anchors: Q1 2025-11-19, Q2 2026-02-17, Q3 2026-06-02, and Q4 2026-09-01. Short excerpts are verbatim; the interpretation column is analytical and not presented as a quote. Every transcript excerpt below was independently matched in the live FMP endpoint; the final two Q4 excerpts are verbatim attributed remarks in the live Q4 press release rather than the transcript.

Fiscal period / date	Speaker	Verbatim excerpt	Live source	Topic	Modeling interpretation
Q1 FY2026 / 2025-11-19	Nikesh Arora, CEO	"customers continue to platformize with us"	FMP-T-Q1	Platform demand	Consolidation remains the primary organic go-to-market thesis
Q1 FY2026 / 2025-11-19	Nikesh Arora, CEO	"platformization continues to take hold"	FMP-T-Q1	Customer adoption	Larger multi-product contracts support RPO but can affect bill timing
Q1 FY2026 / 2025-11-19	Nikesh Arora, CEO	"raising our expectations from $15 billion to $20 billion in ARR for FY '30"	FMP-T-Q1	Long-term ARR target	Target includes acquired categories and is not an organic-only commitment
Q2 FY2026 / 2026-02-17	Nikesh Arora, CEO	"continued execution against our platformization strategy"	FMP-T-Q2	Strategy	Acquisition integration is layered onto the existing platform motion
Q2 FY2026 / 2026-02-17	Nikesh Arora, CEO	"total platformization count to approximately 1,550"	FMP-T-Q2	Adoption scale	Count is a defined cohort metric, not customer count or revenue
Q2 FY2026 / 2026-02-17	Nikesh Arora, CEO	"net retention rate amongst platformized customers, which stands at 119%"	FMP-T-Q2	Expansion	Strong cohort expansion is not a disclosed total-company NRR

Fiscal period / date	Speaker	Verbatim excerpt	Live source	Topic	Modeling interpretation
Q3 FY2026 / 2026-06-02	Nikesh Arora, CEO	"platformization is the only sustainable answer"	FMP-T-Q3	Competitive framing	Management expects integrated architecture to win against point tools
Q3 FY2026 / 2026-06-02	Nikesh Arora, CEO	"clear visibility towards $100 million in ARR"	FMP-T-Q3	Prisma AIRS	Early product traction, but point estimate should not be annual-revenue conflated
Q3 FY2026 / 2026-06-02	Nikesh Arora, CEO	"3 to 6 months ahead of our original time line"	FMP-T-Q3	CyberArk integration	Synergy cadence may be faster than acquisition underwriting originally assumed
Q4 FY2026 / 2026-09-01	Nikesh Arora, CEO	"Platformization is the only viable strategy for real time defense"	FMP-T-Q4	Strategic durability	Reinforces multi-platform forecast, but remains an issuer assertion
Q4 FY2026 / 2026-09-01	Nikesh Arora, CEO	"net revenue retention, exceeding 120%"	FMP-T-Q4	Platform cohort	Q4 cohort economics strengthened; acquired platforms affect definition
Q4 FY2026 / 2026-09-01	Nikesh Arora, CEO	"durable tailwinds as we progress towards our $20 billion FY30 NGS ARR target"	IR-26-Q4	Long-term ARR	Long-term target remains active after acquisitions
Q4 FY2026 / 2026-09-01	Dipak Golechha, CFO	"achieving 40% adjusted free cash flow margin in FY28"	IR-26-Q4	Cash profitability	Target is adjusted and must be reconciled to statutory cash generation

Forward-guidance record

Issued on	Guided period	Revenue	NGS ARR	RPO	Profitability / denominator	Source
2025-11-19	FY2026	$10.50B–$10.54B	$7.00B–$7.10B	$18.6B–$18.7B	Non-GAAP OPM 29.5%–30.0%; 710M–716M diluted shares	IR-26-Q1
2026-02-17	FY2026	$11.28B–$11.31B	$8.52B–$8.62B	$20.2B–$20.3B	Non-GAAP OPM 28.5%–29.0%; 768M–773M diluted shares	IR-26-Q2
2026-06-02	FY2026	$11.415B–$11.425B	$8.90B–$8.95B	$20.9B–$21.0B	Non-GAAP OPM 28.9%–29.2%; 763M–766M diluted shares	IR-26-Q3
2026-09-01	FY2027	$14.10B–$14.20B	$11.075B–$11.175B	$25.2B–$25.4B	Non-GAAP OPM 29.5%; 844M–847M diluted shares; adjusted FCF margin 38.0%	IR-26-Q4

Guidance increased during FY2026 as acquisitions closed and outperformed, so the change is not pure organic estimate revision. FY2027 platform modeling points are low-double-digit Network & AI Security revenue growth, about 30% Cortex growth, and roughly $1.5 billion Idira revenue, representing high-teens to 20% pro forma growth. Management does not guide GAAP operating margin, GAAP net income, or GAAP cash flow because acquisition and compensation adjustments are not forecast with enough precision.

The strategic commentary consistently links the platformization motion to a larger customer wallet, better retention, and faster security response. The financial implication is not simply faster revenue: customers may move to multi-year ELAs or annual billing, cloud-hosting cost can rise ahead of SaaS gross-margin maturity, and the company can absorb near-term integration cost while claiming improving adjusted profitability. Downstream models should therefore separate recurring-demand evidence from statutory margin realization.

Management's FY2030 NGS ARR target is a long-duration aspiration rather than formal annual guidance. The Q4 deck says more than 65% of NGS ARR already comes from platformized customers and targets more than 4,000 platformizations by FY2030. The metric definition caps a customer at five platformizations and measures only the 5,000 largest customers by ARR. It should not be interpreted as unique customer count or multiplied by a company-wide average contract value.

7. Capital allocation history

Year	Capex ($B)	Capex / revenue	R&D ($B)	R&D / revenue	Buybacks ($B)	Dividends ($B)	Cash acquisitions ($B)	Source
FY2022	0.193	3.5%	1.418	25.8%	0.892	0.000	0.037	FMP-IS-A; FMP-CF-A
FY2023	0.146	2.1%	1.604	23.3%	0.273	0.000	0.205	FMP-IS-A; FMP-CF-A
FY2024	0.157	2.0%	1.809	22.5%	0.567	0.000	0.611	FMP-IS-A; FMP-CF-A
FY2025	0.246	2.7%	1.984	21.5%	0.000	0.000	1.054	FMP-IS-A; FMP-CF-A
FY2026	0.440	3.8%	2.552	22.2%	1.000	0.000	4.663	FMP-IS-A; FMP-CF-A

The cash-acquisition line excludes the $18.488 billion stock consideration and $265 million purchase-date replacement-award value issued for CyberArk. FY2026 cash acquisition spending reflects the cash-flow statement and is not the same as total purchase consideration. PANW paid $2.308 billion cash and issued 112 million shares for CyberArk; Chronosphere consideration was $2.951 billion, including $2.842 billion cash and $109 million of replacement awards allocated to purchase consideration.

FY2026 operating cash flow was $4.553 billion and capex was $0.440 billion, giving $4.113 billion FCF. The cash-flow reconciliation added back $1.774 billion of SBC. Economic owner earnings should therefore assess dilution explicitly rather than equating FCF with distributable cash. Adjusted FCF additionally adds back selected acquisition and litigation cash payments, so it is not interchangeable with the simple FCF series above.

R&D remained above 21% of revenue throughout the five-year history. That supports product breadth, but the same expense base contains material equity compensation. The FY2026 10-K reports $1.815 billion of total expense SBC, while the cash-flow statement reports $1.774 billion of equity-award SBC as a non-cash reconciliation line. The difference reflects presentation scope; the statutory statements control their respective contexts.

SBC and dilution indicator	FY2022	FY2023	FY2024	FY2025	FY2026	Source
Cash-flow-statement SBC ($B)	1.011	1.075	1.075	1.295	1.774	FMP-CF-A; official filing controls FY2026
Cash-flow-statement SBC / revenue	18.4%	15.6%	13.4%	14.0%	15.5%	Calculated from the cash-flow add-back; not the P&L expense basis used in Section 7a
Diluted weighted shares (M)	591.0	684.6	708.0	709.3	764.0	FMP-IS-A; official filing controls FY2026

7a. Acquisition accounting, SBC and statutory GAAP margin evidence

This section is a same-stage repair for the statutory-margin evidence gap identified in red-team review. It does not change the sealed statutory bridge or replace the consolidated company segment. The controlling sources are the audited FY2026 10-K, especially Notes 9, 10 and 15, and PANW's official Q4 FY2026 supplemental financials. Dollar amounts are in millions unless stated otherwise. Each item is tagged **Reported**, **Calculated**, or **Scenario assumption** so a downstream model cannot silently convert management's non-GAAP guidance into GAAP operating income.

FY2026 acquisition-amortization and SBC composition

FY2026 evidence item	Amount	Classification	Source / derivation	Statutory modeling treatment
Revenue	$11,480	Reported	Audited FY2026 income statement	Denominator for the 6.05% statutory operating margin
Statutory operating income	$695	Reported	Audited FY2026 income statement	Controlling starting point; do not replace with an adjusted measure
Statutory operating margin	6.05%	Calculated	$695 / $11,480	Exact sealed-basis anchor, subject only to display rounding
Purchased-intangible amortization in operating expense	$640	Reported	FY2026 10-K Note 9	GAAP operating cost; forecast from the audited amortization schedule

FY2026 evidence item	Amount	Classification	Source / derivation	Statutory modeling treatment
Depreciation expense	$111	Reported	FY2026 10-K Note 10	Remains inside GAAP operating costs; it is not an acquisition add-back
Depreciation and amortization in cash-flow reconciliation	$855	Reported	FY2026 cash-flow statement	Cash-flow presentation, not a standalone operating-margin adjustment
Other D&A inside the cash-flow line	$104	Calculated / unallocated	$855 - $640 purchased-intangible amortization - $111 depreciation	Exact composition is not disclosed; do not relabel it as depreciation or acquired-intangible amortization
Deferred-contract-cost amortization	$590	Reported	FY2026 cash-flow statement, separate line	Operating expense already reflected in GAAP earnings; not part of the $855 D&A line and not an add-back
Total expense SBC	$1,815	Reported	FY2026 10-K Note 15	Full P&L expense disclosure; recurring awards and acquisition acceleration are both economic costs
Accelerated acquisition SBC	$177	Reported	Note 15: CyberArk and Koi vesting acceleration	Discrete FY2026 item: $1 cost of subscription/support, $36 sales and marketing, $140 G&A
Expense SBC excluding disclosed acceleration	$1,638	Calculated	$1,815 - $177	Historical comparison only; not a promised recurring run rate because future grants continue
Equity-award SBC cash-flow add-back	$1,774	Reported	Audited cash-flow statement	Non-cash reconciliation amount; not interchangeable with Note 15's expense table
Difference between expense and cash-flow SBC	$41	Calculated / unallocated	$1,815 - $1,774	Scope/timing reconciliation is not separately disclosed; preserve both official contexts
SBC used in official operating-income reconciliation	$1,712	Reported	Q4 FY2026 supplemental	Reconciliation-specific amount; do not override the audited $1,815 total expense disclosure
Acquisition-related costs in operating-income reconciliation	$295	Reported	Q4 FY2026 supplemental	Separate from the supplemental's SBC and acquired-amortization lines
CyberArk transaction costs included in G&A	$56	Reported	FY2026 10-K business-combinations note	Identified subset of acquisition costs, not the entire $295
Litigation-related costs	$16	Reported	Q4 FY2026 supplemental	Separate selected adjustment; not an acquisition cost
Selected-adjustment operating-income envelope	$3,358 / 29.25%	Calculated diagnostic	$695 + $640 + $1,712 + $295 + $16; divided by $11,480	Upper-envelope diagnostic only. The official supplemental reports $3,356 non-GAAP OI; the $2 difference reflects table rounding/scope. Neither amount is GAAP guidance or a normalized margin forecast

The $640 million acquired-intangible amortization is functionally allocated as $75 million to product cost of revenue, $343 million to subscription and support cost of revenue, and $222 million to sales and marketing; no amount is listed for G&A. It increased from $166 million in FY2025 and $121 million in FY2024, principally because CyberArk and Chronosphere entered the FY2026 perimeter. The Q4 supplemental shows $638 million in its annual GAAP/non-GAAP reconciliation. Note 9's audited $640 million total controls the statutory schedule; the $2 million difference should remain an explicit presentation/rounding variance rather than being forced into another cost line.

The $295 million official acquisition-related-cost adjustment includes transaction costs, cash settlement of certain acquired equity awards, fair-value changes in contingent consideration, and costs to terminate employment, leases or contracts, including CyberArk integration activities. PANW does not publish a complete dollar decomposition of that $295 million. The 10-K separately identifies $56 million of CyberArk transaction costs in G&A. It also describes a workforce-optimization plan with total estimated costs of about $60 million expected to be substantially completed by the end of FY2027, but it does not disclose how much of the $60 million was recognized in FY2026 or map that plan one-for-one to the $295 million reconciliation

line. Those are true non-disclosures and prevent an exact recurring/nonrecurring split.

Purchased-intangible asset classes and forward amortization

Asset class at 2026-07-31	Gross carrying amount	Accumulated amortization	Net carrying amount	Major FY2026 acquisition lives disclosed	Evidence type
Developed technology	$3,402	$(614)	$2,788	CyberArk 5-7 years; Chronosphere 5 years	Reported
Customer relationships and platform renewals	$4,356	$(320)	$4,036	CyberArk platform renewals 12-14 years; Chronosphere customer relationships 6-10 years	Reported
Customer contracts	$219	$(55)	$164	CyberArk 2 years	Reported
Acquired intellectual property	$24	$(12)	$12	Individual remaining-life detail not separately disclosed	Reported / true non-disclosure on exact remaining lives
Trade names and trademarks	$33	$(16)	$17	CyberArk and Chronosphere trade names 1 year	Reported
Total purchased intangibles	$8,034	$(1,017)	$7,017	Mixed asset lives above	Reported

CyberArk contributed $6,279 million of identified intangibles: $2,537 million developed technology, $3,500 million platform renewals, $219 million customer contracts and $23 million trade name. Chronosphere contributed $565 million: $300 million developed technology, $255 million customer relationships and $10 million trade name. Koi and Portkey added $35 million and $15 million, respectively, but the 10-K does not provide a complete asset-class/useful-life schedule for each of those smaller transactions. Therefore, the audited consolidated future-amortization schedule below is the controlling forecast input; a model should not fabricate company-level rolloffs from incomplete acquisition-level lives.

Fiscal year ending July 31	Audited future purchased-intangible amortization	Evidence status	Downstream use
FY2027	$1,081	Reported	Direct GAAP operating-cost input; on official $14.10-$14.20B FY2027 revenue guidance, equals a calculated 7.61%-7.67% revenue drag
FY2028	$989	Reported	Direct GAAP operating-cost input; divide by the scenario's FY2028 revenue
FY2029	$908	Reported	Direct GAAP operating-cost input; divide by the scenario's FY2029 revenue
FY2030	$892	Reported	Direct GAAP operating-cost input; divide by the scenario's FY2030 revenue
FY2031	$667	Reported	Direct GAAP operating-cost input; divide by the scenario's FY2031 revenue
FY2032 and thereafter	$2,480	Reported	Terminal-period burden; do not assume amortization is zero after the ER2 horizon
Total at 2026-07-31	$7,017	Reported	Reconciles to net purchased intangibles

The schedule is based on the existing asset perimeter at 2026-07-31. Embrace Mobile and Console closed after year-end and are outside it. Future acquisitions, purchase-accounting measurement-period changes, impairments, disposals and foreign-exchange movements can change actual amortization. This is particularly important for FY2027: using $1,081 million is source-bound for the closing balance-sheet perimeter, but it is not a guarantee that total reported FY2027 amortization will equal that amount after post-year-end acquisitions.

SBC recognition evidence and forward constraints

SBC evidence	Amount / period	Classification	Interpretation
FY2026 total expense SBC	$1,815	Reported	15.81% of revenue, calculated; includes acquisition acceleration
FY2026 cash-flow SBC add-back	$1,774	Reported	15.45% of revenue, calculated; use for cash-flow reconciliation only

SBC evidence	Amount / period	Classification	Interpretation
Accelerated CyberArk/Koi SBC	$177	Reported	9.8% of total expense SBC, calculated; discrete vesting acceleration, not evidence that all acquisition SBC disappears in FY2027
Non-accelerated expense SBC	$1,638	Calculated	14.27% of revenue; includes ordinary grants plus acquisition-related awards not identified as accelerated
Unrecognized SBC at 2026-07-31	approximately $3,300	Reported	Excludes future grants; recognition generally follows straight-line award-level attribution
Weighted-average recognition period	2.5 years	Reported	Timing descriptor, not a contractual annual schedule
Mechanical annual average of unrecognized balance	approximately $1,320	Calculated diagnostic	$3,300 / 2.5; not an FY2027 expense forecast because award vintages overlap and future grants are absent

PANW does not disclose an annual recognition schedule for the $3.3 billion unrecognized balance. It also does not disclose a full acquisition-versus-organic split for the remaining balance, future grant volume, forfeitures, or the expense effect of post-year-end acquired awards. Consequently, a precise annual SBC rollforward would be fabricated. The downstream forecast must instead disclose scenario assumptions, validate them against observed FY2024-FY2026 SBC/revenue of 13.4%, 14.0%-14.1%, and 15.8% on the expense basis, and separately model diluted shares. Cash-flow SBC is not a substitute for the P&L expense input.

B/S-ready FY2027-FY2031 statutory GAAP operating-margin bridge

The required identity is:

`GAAP operating margin_t = pre-acquired-amortization/pre-SBC/pre-acquisition-charge operating margin_t - purchased-intangible amortization_t / revenue_t - SBC expense_t / revenue_t - acquisition/integration charge_t / revenue_t - any separately modeled operating item_t / revenue_t.`

The pre-adjustment margin is a **scenario construct**, not an issuer metric. It must retain depreciation, deferred-contract-cost amortization, ordinary cash compensation, cloud-hosting cost, sales investment and all other recurring operating costs. Only the specifically modeled acquired-intangible amortization, SBC and acquisition/integration charge lines are outside it. Share-based payroll tax must remain inside this pre-adjustment margin unless it is separately modeled as another operating item; PANW's non-GAAP reconciliation includes share-based payroll tax in its broader share-based-compensation-related adjustment, so using non-GAAP margin as the pre-adjustment margin without restoring that tax would overstate GAAP margin. The FY2026 calculated 29.25% selected-adjustment envelope and management's FY2027 29.5% non-GAAP operating-margin guidance are reference points, not GAAP forecasts and not proof that the modeled pre-adjustment margin is sustainable.

Bridge input	FY2027	FY2028	FY2029	FY2030	FY2031	Classification / discipline
Purchased-intangible amortization ($M)	1,081	989	908	892	667	Reported, audited schedule; use exact dollars before dividing by scenario revenue
Bear pre-amortization/pre-SBC/pre-acquisition-charge margin	27%-29%	27%-29%	27%-29%	27%-29%	27%-29%	Scenario assumption; below/around FY2026 selected-adjustment envelope to reflect cloud and integration pressure
Base pre-amortization/pre-SBC/pre-acquisition-charge margin	29%-31%	29%-31%	29%-31%	29%-31%	29%-31%	Scenario assumption; anchored around FY2026 29.25% diagnostic and FY2027 29.5% non-GAAP reference, not relabelled as GAAP
Bull pre-amortization/pre-SBC/pre-acquisition-charge margin	31%-33%	31%-33%	31%-33%	31%-33%	31%-33%	Scenario assumption requiring operating leverage beyond current selected-adjustment envelope

Bridge input	FY2027	FY2028	FY2029	FY2030	FY2031	Classification / discipline
Bear SBC / revenue	15%-17%	15%-17%	14%-16%	13%-15%	13%-15%	Scenario assumption; little relief from FY2026 15.8% and continued awards
Base SBC / revenue	13%-15%	12%-14%	11%-13%	10%-12%	9%-11%	Scenario assumption; gradual dilution discipline, not a disclosed target
Bull SBC / revenue	12%-14%	10%-12%	9%-11%	8%-10%	7%-9%	Scenario assumption; requires faster absolute-expense leverage despite future grants
Bear acquisition/integration charge / revenue	1.5%-2.5%	1.0%-2.0%	0.5%-1.5%	0.25%-1.0%	0.25%-1.0%	Scenario assumption; allows contingent-consideration and integration persistence
Base acquisition/integration charge / revenue	0.75%-1.5%	0.25%-1.0%	0%-0.5%	0%-0.25%	0%-0.25%	Scenario assumption; FY2027 range covers the known $60M plan plus residual integration on a conservative basis
Bull acquisition/integration charge / revenue	0.4%-0.9%	0%-0.5%	0%-0.25%	0%-0.1%	0%-0.1%	Scenario assumption; rapid integration, but not zero in FY2027

These bounded inputs deliberately do not publish a single-point GAAP margin. B/S should insert its independently underwritten revenue by year, divide the official amortization dollars by that revenue, choose internally consistent endpoints for the pre-adjustment margin, SBC and acquisition-cost ranges, then apply the identity. For FY2027, the official revenue range makes acquired amortization a 7.61%-7.67% margin drag before any SBC or acquisition costs. For FY2028-FY2031 there is no issuer revenue guidance; management's FY2030 $20 billion NGS ARR target is not revenue and must not be used as the denominator.

As a reasonableness check rather than a forecast, FY2027 source-bound references imply a broad statutory outcome. Starting from the 29.5% non-GAAP reference and subtracting only the official amortization drag, a scenario SBC burden of 12%-17%, and acquisition/integration charges of 0.4%-2.5% produces a rough 2.3%-9.5% GAAP operating-margin corridor before scope differences and any other separately modeled item. This corridor is intentionally broad and **Calculated from reported references plus Scenario assumptions**; it is not company guidance. Any B/S estimate above it must identify the explicit source of incremental operating leverage, while an estimate below it can reflect heavier cloud-hosting, integration, sales or other GAAP costs.

Post-acquisition perimeter effects remain material. CyberArk contributed about 6% of FY2026 revenue, while management separately reported $388 million of combined CyberArk and Chronosphere revenue in Q3 and $614 million of FY2026 Idira revenue in the Q4 platform presentation. Those disclosures use different periods/perimeters and cannot be summed into a clean acquisition-revenue bridge. PANW also said FY2027 cloud-hosting cost should grow faster than revenue as the portfolio shifts further to SaaS and cloud-delivered services. Therefore, the scenario's pre-adjustment margin must absorb gross-margin pressure and integration execution; amortization and SBC are not the only statutory differences.

True non-disclosures preserved: exact composition of the $104 million other D&A residual; full decomposition and cash/non-cash timing of the $295 million acquisition-cost adjustment; FY2026 amount recognized from the approximately $60 million workforce plan; annual SBC recognition schedule; future grant volume; remaining unrecognized SBC split by acquisition and ordinary awards; full Koi/Portkey useful-life detail; FY2027-FY2031 GAAP operating-margin guidance; and acquisition-organic revenue/cost splits sufficient to isolate acquired operating profit. These gaps constrain precision but do not justify null statutory-margin forecasts.

8. Balance sheet snapshot at 2026-07-31

Item	$B	Source / calculation
Cash and equivalents	2.514	SEC-26-10K
Short-term investments	0.557	SEC-26-10K
Long-term investments	4.835	SEC-26-10K

Item	$B	Source / calculation
Total cash and investments	7.906	Sum of preceding lines
Convertible senior notes	1.774	SEC-26-10K; acquired CyberArk notes
Operating lease liabilities	0.793	$0.067B current plus $0.726B long term
Net debt / (net cash), funded debt basis	(6.132)	Convertible notes less total cash and investments
Net debt / EBITDA	(3.96x)	Net debt divided by approximate statutory EBITDA of $1.550B
Goodwill plus acquired intangibles	29.027	FMP-BS-A; SEC-26-10K
Stockholders' equity	27.492	SEC-26-10K
Tangible book value	(1.535)	Equity less goodwill and intangibles

Approximate statutory EBITDA is operating income of $0.695 billion plus $0.855 billion of depreciation and amortization from the audited cash-flow statement. The net-debt ratio is a liquidity diagnostic, not a covenant ratio. FMP's $2.500 billion total-debt field includes long-term lease obligations; the funded-debt and lease components are shown separately here to avoid hiding the acquisition notes.

Goodwill and intangibles expanded sharply because CyberArk contributed $14.8 billion of goodwill and $6.279 billion of identified intangible assets, while Chronosphere contributed $2.364 billion of goodwill and $0.565 billion of intangibles. The tangible book deficit is acquisition-driven and does not indicate an immediate liquidity deficit, but it raises impairment and normalized-amortization risk.

Current deferred revenue was $7.747 billion and long-term deferred revenue was $7.009 billion. Total deferred revenue of $14.756 billion remains below total RPO of $21.2 billion because RPO includes contracted amounts not yet billed or recorded as deferred revenue. A model must not add RPO and deferred revenue as separate assets or revenue streams.

9. Recent corporate actions and perimeter changes

- **2025-11-19 — Chronosphere announced.** PANW agreed to acquire the observability company, then completed the acquisition on 2026-01-29. Final purchase consideration was $2.951 billion, principally $2.842 billion cash. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).
- **2026-02-11 — CyberArk closed.** Consideration was $21.061 billion: $2.308 billion cash, $18.488 billion of PANW common stock representing 112 million shares, and $265 million of replacement awards. Acquired assets included $14.8 billion goodwill and $6.279 billion intangibles; PANW also assumed CyberArk convertible notes. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).
- **2026-04-14 — Koi Security closed.** Purchase consideration was $231 million, substantially all cash. Koi adds agentic endpoint-security capabilities to security operations and Prisma AIRS. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).
- **2026-05-29 — Portkey closed.** Purchase consideration was $117 million, substantially all cash; Portkey adds AI-gateway capabilities to Prisma AIRS. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).
- **FY2026 — CyberArk and Koi accelerated vesting.** PANW recorded $177 million of acquisition-related accelerated SBC. Total expense SBC was $1.815 billion and unrecognized award cost was $3.3 billion over about 2.5 years. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm).
- **2026-08-27 and 2026-09-01 — post-year-end acquisitions.** PANW completed Embrace Mobile and Console, respectively; both are FY2027 business combinations and are outside the FY2026 statutory perimeter. Console is an AI-native platform intended to extend Cortex into enterprise agentic workflows. [SEC FY2026 10-K](https://www.sec.gov/Archives/edgar/data/1327567/000132756726000023/panw-20260731.htm) and IR-26-Q4.
- **Dig Security historical perimeter.** Dig closed on 2023-12-05 for $255 million and supplied data-security-posture-management technology. It is embedded in the current cloud/platform offering and is not a separately disclosed FY2026 revenue line. The 10-K search found $45 million of acquired technology and $186 million of goodwill, but no current Dig-only revenue or ARR table.

- **Share count and buybacks.** Period-end common shares rose from 668 million at FY2025 to 815 million at FY2026. The major discrete issuance sources included 112 million shares in CyberArk purchase consideration and 27 million net shares issued to settle the 2025 warrants, alongside employee equity awards; PANW spent $1.0 billion on repurchases, partially offsetting but not neutralizing issuance.
- **Board changes.** Mark Goodburn was appointed to the board and Mary Pat McCarthy retired effective 2026-01-23. No CEO or CFO transition occurred during the four-quarter research window.

The acquisition perimeter also affected internal control and comparability. CyberArk was excluded from management's FY2026 ICFR assessment under SEC transition guidance, while its results were included from close. This is a procedural scope item rather than a disclosed control failure, but integration risk and measurement controls remain material review points.

10. Open data gaps, classification and downstream cautions

Gap	Classification	Exact search performed	Downstream treatment
Platform operating profit	True non-disclosure	FY2026/FY2025 10-K Note 19; Q4 supplemental searches for segment profit, operating income and platform margin	Forecast one consolidated segment on sealed statutory OI basis; do not invent platform margins as issuer-reported
NGS ARR perimeter comparability	Definition/perimeter boundary, not missing history	FY2022–FY2026 annual reports, releases and Q4 FY2026 supplemental annual table	Preserve the disclosed FY2022–FY2026 series, but treat pre-acquisition and post-acquisition growth as different perimeters
Billings after FY2024	True non-disclosure after guidance change	FY2024 presentation's quarterly billings schedule; FY2025–FY2026 releases and FY2026 10-K search for billings	Use the transparent FY2024 quarterly sum, then RPO/cRPO and bookings commentary; do not infer FY2025/FY2026 billings
Total-company NRR, GRR and churn	True non-disclosure	Four FY2026 calls, releases, Q4 deck searched for NRR, retention and churn	Use only platformized-cohort 119%/above-120% NRR and low-single-digit churn; do not generalize
CAC, payback and magic number	True non-disclosure	FY2026 10-K, four calls and Q4 deck searched for CAC, payback, magic number	Unsupported; exclude from forecast mechanics
Standalone Q1/Q4 Subscription and Support in FMP quarterly segmentation	Vendor period-tag defect	Live annual and quarterly FMP product endpoints; Q4 official supplemental	Official supplemental supplies standalone quarters; do not use FMP's combined Q1+Q4 residual as Q4
FY2026 platform comparability	Taxonomy/perimeter boundary	Q4 supplemental and presentation revenue-by-platform tables	Network/Cortex have FY2025 comparatives; Idira begins Q3 FY2026; acquisitions prevent five-year clean platform history
Acquisition organic-growth split	Partial disclosure	Q2–Q4 releases and calls searched for organic ARR/RPO/revenue	Use disclosed Q2/Q3 organic measures only; do not estimate Q4 organic growth
Dig Security current economics	True non-disclosure	FY2026 10-K acquisition note and platform disclosures searched for Dig revenue/ARR	Treat Dig as embedded technology; no standalone revenue
GAAP forward margin	True non-disclosure	All FY2026 guidance tables searched for GAAP OPM/EPS reconciliation	Build explicit statutory forecast from costs, SBC and amortization; non-GAAP guidance is not a GAAP bridge
Customer-count continuity	Taxonomy/perimeter boundary	Four FY2026 calls and Q4 deck searched for platformization and customer definitions	Use period-specific definitions and disclosed cohort counts; do not create an apparent five-year series

Key downstream cautions follow. First, reported FY2026 growth is acquisition-heavy, particularly from Q3. Second, CyberArk's stock consideration created a large denominator step-up: FY2027 guidance assumes 844–847 million diluted shares versus 764 million weighted average in FY2026. Third, Q3/Q4 GAAP results reflect acquired-intangible amortization, integration costs and accelerated SBC; a normalized bridge must disclose every exclusion. Fourth, Q4 introduced a useful platform-revenue taxonomy, but those categories remain inside one reportable segment and cannot be treated as additive profit segments. Fifth, ARR, RPO, platformizations and revenue measure different economic objects and must not be summed.

The three required live self-checks passed. The latest-quarter headline was confirmed in IR-26-Q4: consolidated revenue grew 34% to $3.41 billion. The selected management statement was confirmed against the FMP Q4 FY2026 transcript dated 2026-09-01: platformized-cohort net revenue retention exceeded 120%. The annual revenue self-check was re-pulled from FMP-IS-A: FY2026 revenue was $11.480 billion, exactly tying the audited 10-K.

No statutory-bridge gap is open. No trade, broker, portfolio, ranking, sizing, messaging or BUY-queue authority is created by this package. `trade_execution_authorized=false`.