



# Bloomsburg Investment Group

Equity Analysis  
Palo Alto Networks (PANW)

Analyst:

Daniel Cummings, Class of 2019; Joshua Hitz and Erik Walkowiak, Class of 2017; Bryan Sztukowski, Class of 2018

## Bloomsburg Investment Group Opinion:

According to our fundamental analysis of Palo Alto Networks Inc., the technology sector believes the stock is a buy. Palo Alto sells a cybersecurity platform that is used by over 34,000 enterprises worldwide. The company sells its platform to customers who operate in education, energy, financial services, government, healthcare, internet and media, manufacturing, telecommunications, and the public sector. To add to the already diversified nature of their customer base, no more than 10% of Palo Alto's revenues come from a single enterprise. The company exists as a growth stock in a segment of the technology industry that is expected to grow exponentially in the next four years. Cybersecurity remains as the top global threat to U.S. national security, and Palo Alto is focused on positioning itself for growth. The company does not pay a dividend, similar to many companies in the technology sector, which is justified by their reinvestment of funds in order to sustain what has been rapid growth.

## Corporate Summary:

Palo Alto Networks Incorporated provides security platform solutions to enterprises, service providers, and government entities worldwide. Their Next-Gen security platform is made up of Next-gen Firewall, Advanced Endpoint Protection, and Threat Intelligence Cloud. The company provides firewall appliances; Panorama, a security management solution for the control of appliances deployed on an end-customer's network as a virtual or a physical appliance; and Virtual System Upgrades, which are available as an extension to the virtual system capacity that ships with the physical appliances. It also offers subscription services covering the areas of threat prevention, uniform resource filtering, malware and persistent threat, laptop and mobile device, and firewall protection services, as well as cyber-attack, threat intelligence, and content control services. Mark Mclaughlin is the current CEO of Palo Alto. Since their IPO in a span of four years share prices have grown 185%. Prior to being CEO of Palo Alto, Mclaughlin was the president of VeriSign. Under his control share prices grew by 61%. He is also the Chairman of National Security Telecommunications Advisory Committee, and was appointed by president Obama in 2011.

## Corporate Details:

Name	Palo Alto Networks Inc
Ticker	PANW
Domicile	United States
Sector	Technology
Industry	Software - Application
Exchange	NEW YORK STOCK EXCHANGE, INC.
Last Close	164.15
Price 52 Wk High	194.73
Price 52 Wk Low	111.09
Latest Dividend	
Dividend Yield % TTM	
Beta 5 Yr (Mo-End)	
Avg Daily Volume (3 Mo)	1,490,751.64
Shares Outstanding (mil)	90.85
Number of Analysts	10



# Palo Alto Networks Inc PANW



## Financial Summary, Year End 2013 (in millions)

Market Capitalization	14,913.10
Total Revenue	1,378.50
Gross Profit	1,008.50
Operating Income	-190.10
Net Income Cont Ops	-225.90
Net Income	-225.90
Current Assets	1,719.10
Cash	1,285.60
Total Assets	2,761.20
Current Liabilities	846.80
Long-term Liabilities	1,124.50
Total Liabilities	1,971.30
Total Equity	789.90
Operating Cash Flow	658.10
Investing Cash Flow	-338.90
Financing Cash Flow	39.40
Change In Cash	358.60
EBITDA	-138.90
Enterprise Value	14,135.70
Capital Expenditure	-72.50
P/E Ratio Forward	59.17
PEG Ratio	3.95
Dividend Yield % TTM	

## Financial Highlights

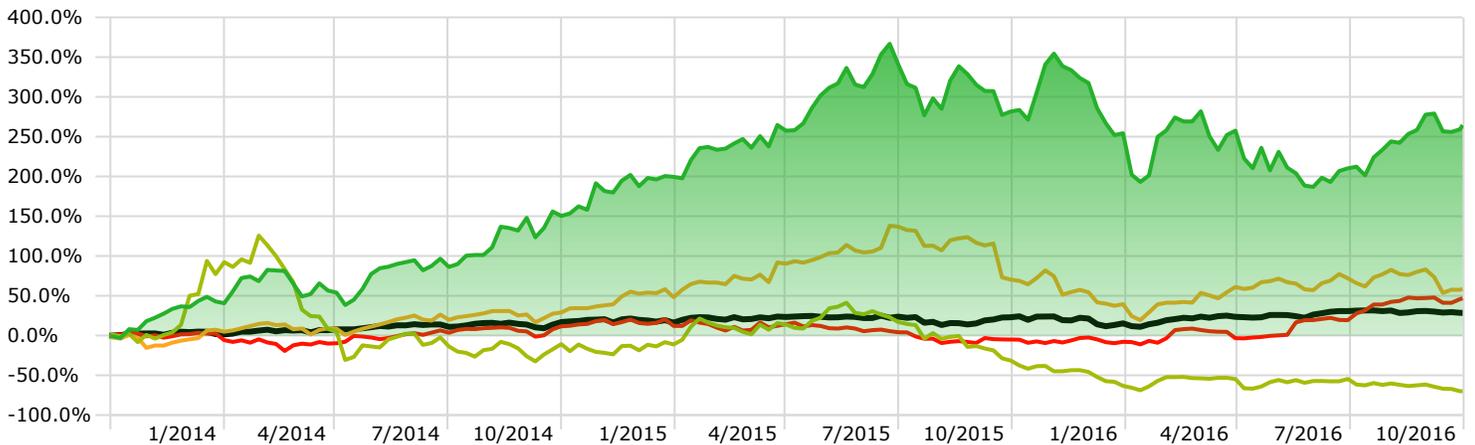
Palo Alto has seen massive growth since its IPO, but more specifically in their last three fiscal years. The company has grown their total revenue by 51.0%, 55.1%, and 48.5% in 2014, 2015, and 2016 respectively. Cash from operations has grown from \$88.4 million in 2014 to \$350.3 million in 2015 and \$658.1 million in 2016.

The company has been running negative earnings since its IPO. Its increase in Selling and Marketing as well as Research and Development expenses both contribute to this. Palo Alto's current ratio is 2.0x, which means they have enough assets to pay off current debt, and also suggests an efficient allocation of current assets.

The company has a negative P/E ratio due to negative earnings. However, PANW has a forward P/E of 56.18. Palo Alto's PEG ratio is 1.77, the lowest of its immediate competitors, which means the company is the most undervalued of its competitors.

## Investment Growth

Time Period: 11/1/2013 to 10/31/2016



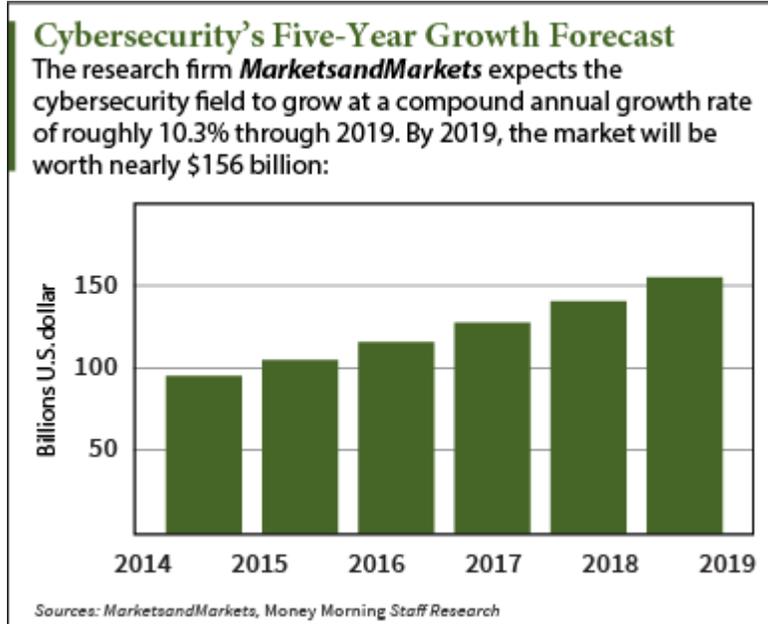
— Palo Alto Networks Inc  
— Symantec Corp

264.9% — FireEye Inc  
47.1% — S&P 500 TR USD

-69.3% — Fortinet Inc  
28.9% — 59.3%



# Palo Alto Networks Inc PANW



## Palo Alto Drops 7%

Shares of security technology firm Palo Alto Networks (PANW) are down \$9.85, or almost 7%, at \$133.60, after the company yesterday afternoon beat fiscal Q4 revenue expectations, sending its shares down initially. Palo Alto is getting a significant portion of its total sales from selling its security tech as a cloud computing service, which is depressing the company's traditional product revenue.

## Why we expect big things from PANW

Less than one year ago, Palo Alto Networks' (NYSE: PANW) stock price was near its highest historical levels and was looking like it could continue to rise. In 2014 and 2015, the stock price has risen over 200% and the company was growing quickly. Yet, despite the positive outlook for those couple years, the stock has dropped nearly 12% since the beginning of 2016. Yet despite a rough period at the beginning of the year which saw decreases of over 30%, the stock price had recovered had partially recovered but was unable to sustain its recovery.

## Palo Alto Networks Teams Up with Cyber Security Agency

Palo Alto Networks (PANW) signed a Memorandum of Collaboration with the Cyber Security Agency of Singapore (CSA) at the inaugural Singapore International Cyber Week 2016 (SICW). This allows the exchange of ideas, insights and expertise on cybersecurity between Palo Alto Networks and the Singapore Government. This will involve sharing of threat intelligence, industry education and national capability building, to help strengthen Singapore's cybersecurity.

## Palo Alto Networks CEO Sells \$130 Million Stock After

Palo Alto Networks (PANW) Chief Executive Officer Mark McLaughlin, the fifth highest-paid executive in the U.S. last year, sold \$130 million of shares after the company issued its biggest-ever stock grant to keep him on the job.



# Palo Alto Networks Inc PANW



## Industry Environment:

The technology sector has historically been very volatile, however this isn't necessary a bad thing. In the case of technology it has been volatile but with constant growth. We live in an ever increasing and more developing society, which is being pushed mainly from our recent technology advancements. Technology is inescapable in today's world. So regardless of recent speculations about the tech sector it's here to stay and continues to develop. PANW is being seen as the future leader of cyber security. PANW created the next Generation firewall, while other companies were still using outdated firewalls that were more susceptible to breaches and hacks. On May 18th 2016 the head of the SEC said that cyber security is the biggest risk facing the financial system. The Director of National Security said that cyber security is the biggest issue facing the United States. Here this graph shows that Industry is the largest target because that's where the most money is. The next biggest is government. Several months ago a couple million governments employee's information was stolen, this is suspected to of come out of China.

## Competitor Comparison

	Revenue (mil)	Revenue % Chg	Gross Profit (mil)	Gross Margin %	Net Income (mil)	Net Income % Chg	Net Margin %	Market Cap (mil) (Daily)	Current Ratio	Receivable Turnover
Palo Alto Networks Inc	1,378.50	48.53	1,008.50	73.16	-225.90		-16.39	14,913.10	2.03	4.91
FireEye Inc	622.97	46.35	389.76	62.57	-539.22		-86.56	2,357.73	3.03	3.40
Fortinet Inc	1,009.27	31.01	722.49	71.59	7.99	-68.48	0.79	5,474.97	1.87	4.54
Symantec Corp	3,600.00	-9.00	2,985.00	82.92	2,488.00	183.37	69.11	14,856.08	1.73	5.73

## Competitor Comparison (Cont.)

	Asset Turnover	ROA %	Total Debt to Total Equity	ROE %	Beta 5 Yr	P/E Ratio Forward	PEG Ratio	P/B Ratio Current	Dividend Yield % TTM	Free Cash Flow / Sales % TTM
Palo Alto Networks Inc	0.58	-9.56	0.64	-35.36		59.17	3.95	18.88		42.48
FireEye Inc	0.30	-25.67	0.68	-46.99		-30.40		2.74		
Fortinet Inc	0.63	0.50		1.12	1.30	39.06	1.60	6.65		21.05
Symantec Corp	0.29	19.90	0.60	51.77	1.22	21.46	1.66	3.85	1.57	

## Investment Growth

Time Period: 7/21/2012 to 10/31/2016



Palo Alto Networks Inc

189.5%



# Palo Alto Networks Inc

## PANW

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### Strengths:

Widely diversified customer base. Customers operate in education, energy, financial services, government entities, healthcare, Internet and media, manufacturing, public sector, and telecommunications. No single end-customer accounts for more than 10% of revenue.

Palo Alto grew their customer base by 30% in fiscal 2016. They now currently do business with over half of Fortune 100 companies.

Customers typically pair a product with a subscription service, which results in a steady revenue stream.

Strong and steady growth in revenue and cash from operations help sustain rapid growth in customer base.

Palo Alto continues to grow its patent portfolio in order to compete with others in the industry.

### Weaknesses:

Palo Alto's business is affected by seasonal fluctuations in customer spending. This phenomenon is expected to become more pronounced as the company continues to grow.

Rapid growth, if not sustained, could place a strain on management, operational, and financial resources.

The company has yet to turn a profit. Its earnings are expected to turn positive by the end of fiscal 2017.

Stock based compensation continues to increase, causing GAAP earnings to become increasingly negative, and also diluting shares.

Palo Alto, similar to many companies in the technology sector, does not offer a dividend.

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### Opportunities:

Cybersecurity remains as the top global threat to U.S. national security. This will cause the cybersecurity industry to grow at a fast pace in the next 5 years.

An increasing number of company breaches as well as attacks by foreign entities may cause companies and governments to increase cybersecurity spending.

Palo Alto currently possesses about 10% of the cybersecurity market, showing plenty of room for growth.

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### Threats:

About 30% of revenues come from overseas and therefore are exposed to foreign exchange risk. Palo Alto hedges against this risk by entering into forward contracts.

Any breach in their Next Gen firewall or any other products would tarnish the reputation of the company.

The cybersecurity industry as a whole is very competitive.



# Palo Alto Networks Inc

## PANW

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**Valuation: Discount Cash Flow Model (DCF)**

We used DCF to value PANW and yielded a value of \$203.38 per share compared to the current price of \$156.43 per share. We estimated total revenue to continue growing at a similar rate, but to begin to level off long term. We also expected capital expenditures to increase rapidly at 125% in the short term and to slow to 42.5% perpetuity growth.

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**Valuation: Discount Dividend Model (DDM)**

N/A

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**Valuation: Multiple Valuation**

N/A



# Palo Alto Networks Inc

## PANW

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### **Sources Cited**

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