



PALO ALTO NETWORKS, INC.

Q3 2026

Earnings Report Update

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Company Overview

Palo Alto Networks, Inc. operates as a global cybersecurity company providing integrated network security, cloud security, security operations, and artificial intelligence-driven threat detection solutions. Its core platforms include Strata for network security, Prisma for cloud and application security, and Cortex for AI-powered security operations, enabling organizations to prevent, detect, and respond to cyber threats across on-premises, cloud, and hybrid environments.

The company serves enterprises, government institutions, and service providers across diverse industries worldwide, supporting the protection of digital infrastructure, cloud workloads, applications, data, and connected devices through a subscription-based cybersecurity ecosystem.

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Palo Alto Networks maintains a strong growth outlook for FY2026, projecting total revenue of \$11.42 billion, up 24% year-on-year, supported by Next-Generation Security ARR of \$8.90–\$8.95 billion (+59–60%) and remaining performance obligations of \$20.9–\$21.0 billion (+32–33%). The company also expects solid profitability, with a non-GAAP operating margin of 28.9–29.2%, diluted EPS of \$3.77–\$3.79, and an adjusted free cash flow margin of 37.5%, reflecting continued demand for its AI-driven cybersecurity platforms and recurring subscription services.

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Outlook

Expectation Analysis

USD	Q3 2026	ESTIMATE	BEAT/MISS
REVENUE	3.00B	2.94B	2.00%
EBITDA	868M	841M	3.20%
EBIT	814M	765M	6.50%
EPS (adjusted)	0.85	0.80	6.60%

Source: Quatr

Revenue by Segment

Million USD	Q3 2025	Q3 2026	YOY
Product revenue	453	594	31.13%
Subscription and support	1,836	2,408	31.15%

Source: Company's Financial Statement

Palo Alto Networks' revenue remains heavily concentrated in its higher-quality recurring business. In Q3 FY2026, Subscription & Support revenue contributed 80.2% of total revenue, compared with 77.4% in Q3 FY2025, representing a 280bps increase in revenue mix contribution. Conversely, Product revenue contributed 19.8% of total revenue, down from 22.6% in the prior-year quarter, a 280bps decline in mix contribution.

The revenue mix evolution is particularly positive as subscription revenue typically carries greater visibility, customer stickiness, and long-term cash flow stability. This is further supported by the sharp increase in Next-Generation Security ARR to \$8.13bn (+60% YoY) and Remaining Performance Obligations (RPO) to \$18.4bn (+36% YoY), indicating that future growth is increasingly being driven by long-duration recurring contracts rather than one-time product sales.

Financial Summary

Billion USD	Q3 2025	Q3 2026	YOY
Total revenue	2,289	3,002	31.15%
Total cost of revenue	619	974	57.35%
Gross profit	1,670	2,028	21.44%
Operating expenses	1,451	2,211	52.38%
Operating income (loss)	219	(183)	-183.56%
Pre-tax Income (loss)	311	(156)	-150.16%
Net income (loss)	262.00	(177)	-167.56%
Net income per share	0.37	(0.22)	-159.46%
Net cash from operations	628	871	38.69%
Net cash from investing	(517)	(1,766)	-241.59%
Net cash from financing	47	(899)	-2012.77%
Closing cash balance	2,395	2,374	-0.88%

Source: Company's Financial Statement

Performance Highlights

- Palo Alto Networks delivered a strong Q3 FY2026 revenue performance, driven primarily by its high-quality recurring revenue business, as Subscription & Support revenue increased 31.15% YoY, contributing 80.21% of total revenue, compared with 80.17% in the prior-year quarter. Product revenue also expanded 31.13% YoY, contributing 19.79% of total revenue versus 19.83% in Q3 FY2025. The broad-based growth across both segments reflects sustained enterprise cybersecurity spending, increased cloud adoption, and growing demand for integrated security platforms.
- Cost growth accelerated during the quarter as the company absorbed acquisition-related expenses and continued investing aggressively in growth initiatives. Total cost of revenue increased 57.35% YoY, significantly outpacing revenue growth. Operating expenses rose 52.38% YoY, driven by Research & Development expenses (+48.58% YoY), Sales & Marketing expenses (+46.41% YoY), and General & Administrative expenses (+92.68% YoY). The sharp increase was largely attributable to CyberArk integration costs, acquisition-related charges, higher share-based compensation, and continued investment in innovation and go-to-market expansion.
- The elevated cost structure pressured profitability during the quarter. Gross margin declined to 67.55% from 72.96% in Q3 FY2025, representing a contraction of 541bps. Operating margin weakened materially to -6.10% from 9.57%, a deterioration of 1,567bps, as acquisition-related costs, intangible asset amortization, and share-based compensation weighed heavily on earnings. Consequently, the company recorded a GAAP net loss margin of -5.90%, compared with a GAAP net profit margin of 11.45% in the prior-year quarter. Despite this, underlying profitability remained resilient, with Non-GAAP operating margin at 27.12%, compared with 27.39% a year earlier, while Non-GAAP net income increased 21.93% YoY to \$684m.
- Cash generation remained a major strength of the business. Net cash provided by operating activities increased 38.69% YoY, supported by strong collections, recurring subscription revenue, and deferred revenue growth. Free cash flow rose 40.71% YoY, while adjusted free cash flow increased 57.44% YoY to \$910m. Adjusted free cash flow margin improved to 30.31% from 25.25%, representing an expansion of 506bps. These metrics indicate that despite the pressure on reported earnings, the company's ability to convert revenue into cash remains exceptionally strong.
- Palo Alto Networks' balance sheet strengthened significantly following the CyberArk acquisition, with total assets rising 96.3% to \$46.3 billion, driven by substantial increases in goodwill and intangible assets. Shareholders' equity expanded 253.6% to \$27.7 billion, while deferred revenue grew to \$13.6 billion, supporting strong revenue visibility and a solid liquidity position.
- The quarter's key strategic highlight was the integration of CyberArk, which significantly strengthened Palo Alto Networks' identity security and privileged access management capabilities. While the acquisition increased integration and amortization costs, management expects it to enhance the company's position as a comprehensive, platform-based cybersecurity provider.

Concerns Raised

Despite strong top-line growth, profitability came under pressure during the quarter. Revenue increased 31.2% year-on-year; however, the company reported a GAAP net loss of \$177 million, compared with a net profit of \$262 million in the corresponding period last year. Consequently, operating margin deteriorated to -6.1% from 9.6%, largely reflecting acquisition-related charges, integration expenses, and intangible asset amortisation associated with the CyberArk transaction.

Cost growth continues to outpace revenue growth, with total cost of revenue rising 57.35% YoY and operating expenses increasing 52.38% YoY. The sharp 92.68% increase in General & Administrative expenses highlights the near-term pressure from CyberArk integration and elevated operating investments, which could weigh on margin recovery if sustained.

Acquisition execution risk has increased materially following the CyberArk transaction. Goodwill surged 379.59% to \$21.90bn, while intangible assets increased 854.39% to \$7.28bn, significantly increasing reliance on management's ability to successfully integrate the acquisition and realize expected synergies without future impairment risks.

OUR INSIGHT

“ Palo Alto Networks remains well positioned to benefit from the long-term growth in cybersecurity spending, supported by strong 31.15% revenue growth, a recurring revenue contribution of 80.21%, and robust cash flow generation. The CyberArk acquisition further strengthens its platform strategy and expands its presence in the high-growth identity security market.

However, near-term profitability has come under pressure from acquisition-related costs and integration expenses, resulting in a GAAP net loss of \$177m and a decline in operating margin to -6.10%. The significant increase in goodwill and intangible assets also raises execution risk and places greater emphasis on successful integration.

The long-term outlook remains positive, underpinned by strong industry tailwinds and recurring revenue visibility. Key watchpoints include CyberArk integration, margin recovery, cost discipline, and the ability to sustain subscription growth while translating revenue expansion into stronger bottom-line performance.

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