



Palo Alto Networks: An Opportunity in Cybersecurity?

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- Palo Alto Networks has underperformed other major cybersecurity stocks over the last six months.
- The company is pivoting to a “platformization” model in order to better serve its customers and this has led to a short-term slowdown in growth.
- Its Next-Generation Security business is currently delivering strong growth, with ARR rising 37% year on year in Q2 of fiscal 2025.
- Analysts at McKinsey & Co believe that cybersecurity could be a \$2 trillion market in the future.

Cybersecurity is an area of technology that warrants investor attention today. Given the rise of artificial intelligence (AI), cyberthreats are increasingly becoming more sophisticated, meaning that the need for advanced threat detection and prevention is greater than ever.

One stock within this industry that deserves a look right now is Palo Alto Networks (PANW). It’s the largest player in the cybersecurity market with a market capitalization of approximately \$120 billion.

Over the last six months, this stock has underperformed others in its industry, rising just 7% versus 27% for Fortinet and 26% for CrowdStrike. So, there could be an opportunity here for investors seeking exposure to the cybersecurity theme.

| Palo Alto Network’s Performance | | | | |
|--|-------|-------|-------|--------|
| | 6M | 1Y | 3Y | 5Y |
|  Palo Alto Networks Inc | ↑ 2% | ↑ 23% | ↑ 68% | ↑ 529% |
|  Crowdstrike Holdings Inc | ↑ 31% | ↑ 14% | ↑ 65% | ↑ 535% |
|  Fortinet Inc | ↑ 28% | ↑ 46% | ↑ 50% | ↑ 393% |

Source: Google Finance chart, as of March 25, 2025

Two Decades of Experience

Palo Alto Networks was founded in 2005 by Nir Zuk (who was previously a principal engineer at cybersecurity firm Check Point) with the vision of revolutionizing network security. Zuk recognized the limitations of traditional firewalls, which relied on port and protocol inspection, and set out to create an advanced product that could identify and control applications, regardless of port or protocol.

Since its inception, the company has come a long way, adapting to meet the evolving needs of modern enterprises. Not only has it acquired a number of innovative cybersecurity start-ups and focused on integrating AI into its products, but it has also been pivoting to a “platformization” model¹, where it provides comprehensive protection to its customers via several different platforms (cloud security, network security, and security operations) instead of providing individual solutions.

Comprehensive Protection

This platformization approach integrates a range of cybersecurity solutions into a unified, scalable platform that is capable of providing comprehensive protection to customers while simultaneously providing operational efficiencies. Leveraging the power of AI, automation, and analytics, this approach simplifies threat detection, response, and management, reducing the complexity and costs associated with managing various cybersecurity tools.

Palo Alto refers to this platformization model as its “Next-Generation Security” business. And it’s having a lot of success with it at present.

Powerful Growth

Indeed, for the most recent quarter² (fiscal Q2 2025), annual recurring revenue (ARR) for the Next-Generation Security business rose 37% year over year to \$4.8 billion. This high level of growth suggests that customers are seeing significant value in the company’s AI-driven platform approach.

During the quarter, the company added 75 new customers using one of its security platforms. It ended the period with 1,150 platformizations within its top 5,000 customers.

It’s worth noting that many of its customers are adopting multiple platforms. *“Our number of two-platform customers grew over 50% in Q2, and we’re seeing the number of three-platform customers up three times year over year,”* said CEO Nikesh Arora on the Q2 earnings call.

Looking ahead, Palo Alto is hoping to have between 2,500 to 3,500 platformization customers by fiscal year 2030. It is also targeting \$15 billion in Next-Generation Security ARR by 2030.

Q2 highlights:

- Revenue grew 14% year over year to \$2.3 billion.
- Next-Generation Security ARR grew 37% year over year to \$4.8 billion.
- Remaining performance obligation grew 21% year over year to \$13.0 billion.

"In Q2, our strong business performance was fueled by customers adopting technology driven by the imperative of AI, including cloud investment and infrastructure modernization.", Nimesh Arora, Chairman and CEO of Palo Alto Networks

Why Has PANW Underperformed?

As for why the stock has underperformed over the last six months, it's most likely related to the recent pivot to platformization (which was first announced in late 2023) and the related slowdown in growth. To convince customers with solutions from various vendors to standardize on one of its platforms, Palo Alto agreed to give them solutions for free in the short term so that they didn't have to pay for the same solution from two different vendors at once.

This is set to negatively affect the company's revenue growth in the near term, and it can be seen in recent results. In fiscal 2024, revenue growth was just 16.5% versus 25.3% in 2023 and 29.3% in 2022, while for Q2 of fiscal 2025, revenue growth was just 14% year over year.

A \$2 Trillion Market Opportunity

This slowdown in growth is expected to be temporary, however. And those who are willing to look beyond the next few quarters could be rewarded.

In the long run, the platformization strategy should drive significant value for the company as once customers are locked in, it will be very inconvenient for them to leave. The strategy should also help to boost margins since it allows for the upselling of additional services with minimal sales costs.

It's worth noting that according to Grand View Research, the global cybersecurity market is likely to grow by 13% per year in the coming years to be worth more than \$500 billion by 2030. Looking further out, the market could grow to be worth \$2 trillion, according to McKinsey & Co³.

With its comprehensive set of cybersecurity solutions, Palo Alto Networks is well placed to capture the opportunity. So, now could be the time to get involved.

Footnotes:

¹PaloAlto Networks, Cybersecurity Platformization, as of April 26, 2024

²PaloAlto Networks, Palo Alto Networks Reports Fiscal Second Quarter 2025 Financial Results, as of February 13, 2025

³McKinsey & Company, The cybersecurity provider's next opportunity: Making AI safer, as of November 14, 2024

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