



Palo Alto Bulls See Resurgence in Shares

Ticker/Price: PANW (\$183)

Analysis:

Palo Alto Networks (PANW) with two bullish trades on 4/13 as 200 September \$180 calls opened above \$20 and 1000 of the June \$190 calls opened for \$10.25. PANW has 2000 April \$180 calls in open interest that bought on 4/6 and 3000 June \$200 calls that opened in a buy-write on 3/6. PANW shares are down 23% YTD but have rebounded the last month with \$200 likely resistance followed by the 200 MA at \$214. The \$17.55B network security leader trades 31X Earnings, 19.7X FCF and 5X EV/Sales with a lot of cash on the balance sheet to manage through tougher times. PANW has been active with bolt-on acquisitions and announced a \$420M deal for CloudGenix recently that accelerates its efforts to integrate SD-WAN with Prisma Access and closes a competitive gap. PANW remains a long-term leader in the cloud security market which is seen with a 21.2% CAGR through 2022. PANW has transitioned to a multi-platform company, 3 different platforms, one around cloud security, one around enterprise security, and one around AI and ML deployed to cybersecurity. Prisma for cloud security, Cortex for endpoint and SOAR and then Strata for core firewall. It sees a \$72.6B TAM for 2022. Palo Alto with a sizable insider buy on 11-27 from CEO Nikesh Arora of 25,000 shares at \$221.54, a greater than \$5.5M buy. Arora joined PANW in 2018 after spent 14 years at Google in a business development role before moving on to Softbank where he was considered Masa Son's successor. On 3/4 a Director bought around \$3M in stock in the \$179.75 to \$188.60 range. Analysts have an average target of \$212.50 and short interest at 6% of the float has nearly doubled over the last quarter. Rosenblatt upgraded shares to Buy with a \$225 target on 4/13 seeing it benefitting from the work-from-home trend with recent positive industry checks and seeing upside from its VPN solution. It notes "Overall, we believe that the company has the right vision and product strategy to be one of the best-positioned vendors in an increasingly complex hybrid environment, which is the reality today. With the company likely seeing incremental business from COVID-19 over the next few years, we have higher confidence that it can meet its 3-year plan that calls for 20% billings and revenue growth." Deutsche Bank noted the uptick in Firewall demand due to remote access increasing though sees the prospect of deal delays, and cut its target to \$180 on 4/1. Stifel out positive 3/31 on the latest M&A deal and has a Buy rating with a \$280 target, and sees this as another step in Palo's increasingly aggressive efforts in evolving its solution stack away from traditional appliances toward more flexible and scalable cloud-delivered solutions. Hedge Fund ownership rose 1.7% in Q4 filings, Cadian Capital and Hound Partners reducing concentrated stakes but still large holders, while Farallon added to its position, and Alyeska and Highline started new concentrated positions.

Hawk Vision:



Hawk's Perspective: PANW looks like it held the lower end of a monthly channel pattern, and though the name has experienced some missteps I think it is still a leader in a strong industry and like owning the name.

Confidence Ranking: \$\$