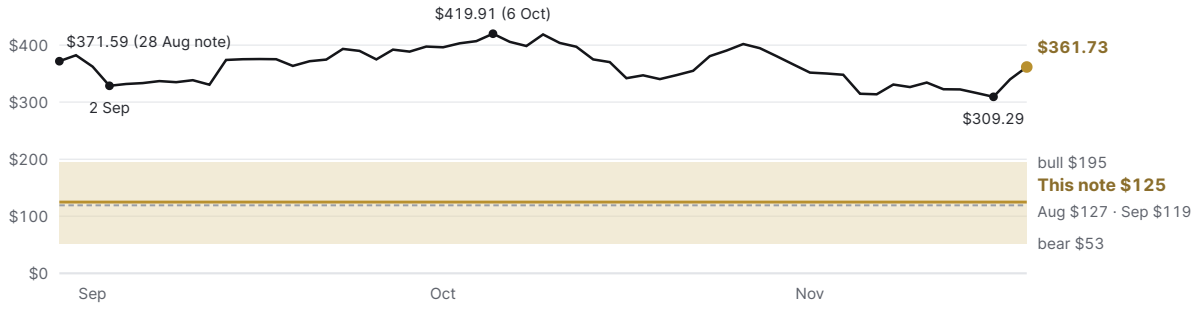
EQUITY VALUATION · CYBERSECURITY · PANW · 19 NOVEMBER 2026

Palo Alto Networks (PANW) — The Raise Was Real. The Price Needs a Decade of It.

Palo Alto Networks beat its first-quarter guide, raised the year, raised its recurring-revenue guide two quarters early, and agreed to buy an AI start-up for $4.5 billion of stock, as a wave of serious software flaws made national news. We value the stock at $124.97, against $361.73. The quarter strengthens the company's case for the next two years. With our other base-case inputs, the price needs about 28% revenue growth every year for eleven years.

TON618 CAPITAL RESEARCH · AS OF 19 NOVEMBER 2026



In September we valued Palo Alto Networks at $119 against a $328.47 close, and called the gap a disagreement about how long growth lasts: that price needed organic growth near 36% from the start (39% at the $362.09 close before the print), against a guide of 14.8% on a like-for-like base. This quarter, in the middle of a national story about a surge of serious software flaws, the company moved toward the price on every line it controls. Revenue grew 23% pro forma. The year's guide rose to 17.99% on the same base, a hair under the 18% line we froze in September, and the recurring-revenue guide went up two prints early. The same evening it agreed to buy Applied Compute, a 70-person maker of open-weight AI models, with 13.3 million new shares. Our number moved little, to $124.97, and for different reasons than it held in September: the quarter's data alone would have lifted September's model to $131.33, and rebuilding that model took most of it back. The gap is about as wide as in September. What moved is where the argument sits: next year is now common ground, and the dispute is over years five to eleven.

THE QUESTIONS

What this note answers

1. What did Palo Alto Networks report, and how much of the growth is organic?
2. Did the backlog blink again, or is the reported spread an accounting basis?
3. What does the wave of software flaws in the news mean for the company?
4. What is Applied Compute, what did it cost, and what is it worth?
5. What is the company worth, and what moved the number from $119?

6. What does $361.73 require?
7. What would change our view?

$125

FAIR VALUE A SHARE · BEAR $53 / BASE $112 / BULL $195 AT 20 / 50 / 30

The view. We value Palo Alto Networks at **$124.97** a share; the $361.73 close of 19 November is 189% above it and above even our bull case ($195). The quarter was good and it moved our cases: the base case starts from the raised guide, and we moved five points of weight from the bear case to the bull, because a like-for-like recurring-revenue guide of +26–27% makes the bear case's halving of growth within a year less likely. The size of the disagreement did not change. The price needs about **28% revenue growth a year for eleven years**; our base case has 19% next year, fading to 4% by fiscal 2036. The quarter's evidence, including the wave of software flaws in the news, favors the company over the next two years and says nothing about years five to eleven, where most of the price sits. Applied Compute changes little: paid in stock we value at a third of its price, it costs shareholders about what our cases say it is worth.

17.99%

fiscal 2027 revenue guide on the $12.327 billion pro forma base: $1 million short of the 18% line we froze in September

$11.50 billion

fiscal 2027 recurring-revenue guide midpoint, above the $11.125 billion line two prints early: our tripwire fired toward the price

−3.8 pts

backlog growth minus revenue growth, as reported; about −1.6 points like-for-like, and the fiscal 2027 guide still has backlog ahead by 1.8 points

28%

revenue growth a year for eleven years that $361.73 requires in our base case, against 19% next year in the base

Terms used throughout, defined once. NGS ARR: Next-Generation Security annualized recurring revenue, the company's measure of the yearly value of active contracts for its newer products, excluding hardware and legacy subscriptions. **RPO / cRPO:** remaining performance obligations, contracted revenue not yet recognized (the backlog); cRPO is the part due within twelve months. **Pro forma:** restated as if acquired businesses had been owned in both periods. **Organic:** growth excluding acquired businesses altogether. **Adjusted FCF:** the company's free cash flow measure (operating cash flow less capital spending, with acquisition and some one-off payments added back). **SBC:** stock-based compensation; the company's "SBC-related charges" include the payroll tax on it. **Open-weight model:** an AI model whose trained parameters are published, so a customer can run and modify it on its own hardware. **Post-training:** adapting a trained model to a customer's data and tasks after the original training run. **Fiscal year:** Palo Alto Networks' year ends 31 July, so fiscal 2028 runs from August 2027 to July 2028.

THE TWO CASES

The cases on either side of the price, in their own terms

The case that $361.73 is fair or low. It does not need our cases to be wrong about next year. It needs the next decade to look like the last three years.

1. **Like-for-like recurring revenue is growing 26–27%.** NGS ARR is guided to $11.50 billion for fiscal 2027, up 26–27% on a base that already includes CyberArk and Chronosphere. On the company's own guides NGS ARR is about four-fifths of revenue ($11.5 billion against $14.5 billion), and revenue follows it with a lag: if revenue converges on the ARR rate, mid-20s growth is the recurring business's own pace, not a stretch. Pro forma revenue grew 23% in the first quarter.
2. **Consolidation is accelerating.** Net new platformizations, customers moving several security products onto the company's platforms, hit a first-quarter record of about 170, more than the last two first quarters combined. Platformized customers hold two-thirds of NGS ARR and expand at more than 120% net retention (company figures that exclude identity and observability). The company's argument is that AI-driven attacks make fragmented tools untenable; the vulnerability count the company cites ran at nearly seven times last year's monthly average.

3. **The company is buying the next market before it exists.** Prisma AIRS, its AI-security product, reached about $170 million of ARR in five quarters, the fastest in its history. Applied Compute adds model training and inference for enterprises that want open-weight models under their own control; the company targets $1 billion of added NGS ARR by fiscal 2029 and calls it "our next multi-billion dollar ARR business."
4. **Customers pay in advance.** Deferred revenue of $14.6 billion exceeds every operating asset other than acquired goodwill and intangibles; before the January and February 2026 deals, invested capital was negative. A business its customers fund can grow without outside capital; our model credits that cash at 0.70 per dollar of revenue growth.
5. **The steelman-max reaches the price.** With fiscal 2027 revenue at the bull case's $14.70 billion, a 31% non-GAAP operating margin in fiscal 2028, fiscal 2028–29 at the like-for-like ARR rate (27% and 26%), a twelve-year fade, a 45% terminal operating margin, 5% SBC, 0.85 of each dollar of revenue growth funded by customers, no acquisition spending, a 50% return on new capital in the terminal and a 9.2% cost of equity (the stock's own 60-month beta), our model is worth $426.00, above $361.73. On those inputs the price needs a cost of equity of 10.0% or less.

The case that $361.73 is too high. It does not deny the quarter. It says the quarter is one data point in an eleven-year requirement.

1. **The organic rate is about 18–23%, not 39%.** Reported growth carries a full quarter of CyberArk and Chronosphere that a year earlier did not exist in the accounts. The fiscal 2027 guide is 17.99% pro forma.
2. **Revenue was raised and the backlog was not.** RPO grew 35% against revenue 39% and fell $0.2 billion from July. The fiscal 2027 RPO guide moved up $0.1 billion while revenue went up $395 million. Like-for-like the backlog still leads revenue, by 1.8 points, less than half September's lead.
3. **The fiscal 2028 cash target was cut.** In September the deck read "Reaffirming 40%+ FY'28 Adj. Free Cash Flow Margin." This quarter it reads "Targeting 38%+ Adjusted Free Cash Flow Margin, Excluding Data Center Capex, for FY'28": two points lower, before the cost of the compute build.
4. **Acquisitions have not yet earned their cost.** Capital including what the deals cost earns 5.0%, about half the 10.0% WACC. In the year $23 billion of acquisition capital arrived, trailing operating profit after tax moved −$0.05 billion. SBC-related charges were 18.1% of revenue in the first quarter.
5. **Growth at this scale has not lasted.** Salesforce and Adobe, from about $15 billion of revenue, each roughly halved their growth rate within three to four years. The price asks for 28% for eleven.

Both cases are tested below, not equally. In the first, the model runs claim 1 directly (fiscal 2028–29 growth is set from the ARR rate), claim 2 only through the length of the fade, the Applied Compute half of claim 3 as its own valuation leg (Prisma AIRS is not modeled separately), claim 4 through the share of growth funded by prepayments, and claim 5 as the steelman itself. In the second, the model runs claims 1–4 directly; claim 5 is a base rate, not a test, from the two software companies chosen because both crossed about $15 billion of revenue while still growing more than 20% (Salesforce in fiscal 2020–21, Adobe in 2021).

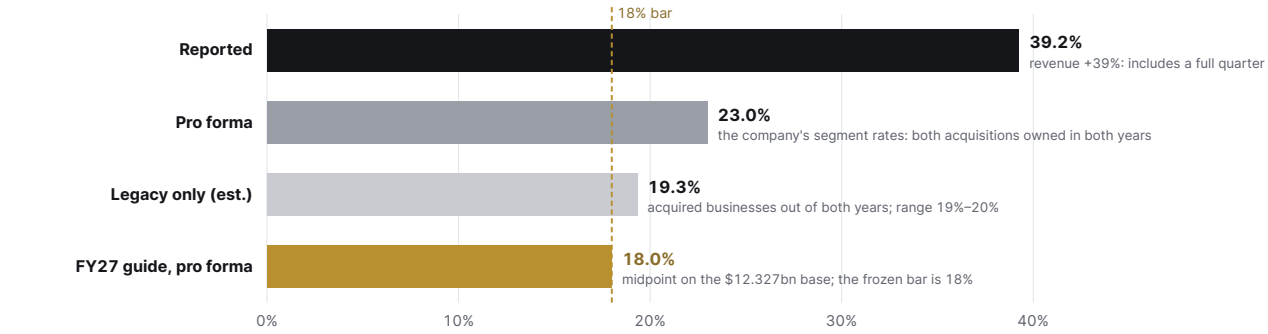
THE PRINT

Organic growth was 18–23%, and the raise came from the business

23% pro forma revenue growth in Q1, against 39% reported

Revenue was $3.445 billion, up 39% and $140 million above the midpoint of the company's own guide; non-GAAP earnings were $1.05 a share against a $0.96–0.98 guide. The reported rate includes a full quarter of two large businesses the company did not own a year ago, CyberArk (identity security, closed 11 February 2026) and Chronosphere (observability, closed 29 January), and of smaller ones (Koi in April, Embrace and Console in August and September). The 10-Q gives no pro forma table for the quarter, but the company gave pro forma rates for the two segments the deals sit in, and the third segment had no acquisitions.

EXHIBIT 1 · Q1 REVENUE GROWTH ON FOUR BASES



How to read it. Each bar is the same quarter's year-on-year revenue growth on a different basis. Reported counts everything in both years. Pro forma treats CyberArk and Chronosphere as owned in both years, using the company's segment rates (Network & AI Security +20%, Cortex +40% and Idira +23% pro forma). Legacy-only removes the acquired businesses from both years; the company does not split them out, so it is our estimate, with the range set by observability revenue of $120–160 million in the quarter. The gold bar is the full-year guide on the pro forma base, against the dashed 18% line we froze in September. The point: the quarter's like-for-like growth was 19–23%, and the year's guide sits at 18%.

The fiscal 2027 revenue guide rose from $14.10–14.20 billion to $14.52–14.57 billion, a midpoint 17.99% above the $12.327 billion pro forma base we used in September. Our rule said 18%. It is not crossed, by $1 million of revenue; on the 10-K's own pro forma figure ($12.312 billion, which aligns CyberArk's June year) the midpoint is 18.1%, but we grade on the rule as frozen. The raise came from the business: Chronosphere is in the base for the full year, and the company called Embrace and Console, the two small deals that closed in the quarter for $685 million, immaterial to the guide in September. Of the $395 million raise, $140 million is the first quarter's beat and $255 million was added to the remaining three quarters.

Three smaller items move the profit lines. GAAP net income ($0.57 a share) includes a $457 million tax benefit; $369 million of it is a discrete federal benefit on a fiscal 2018 transaction that now passes the accounting threshold "based on recent judicial developments" (10-Q), which we add once as an asset and keep out of the run-rate. Other expense includes a $157 million loss on the fair value of the convertible notes assumed with CyberArk ($141 million net of the capped calls bought against them), now current because the stock traded above the conversion trigger. And a $71 million Israeli research-and-development tax credit (10-Q Note 15) reduced research expense by about two points of the quarter's 30.7% non-GAAP operating margin; the 10-Q does not say how much relates to earlier periods, so the model starts from the company's 29.5% margin guide for the year, not the quarter's margin. Non-GAAP gross margin was 75.2%, down 1.7 points, which the company tied to hardware component costs and the mix of younger software-as-a-service products.

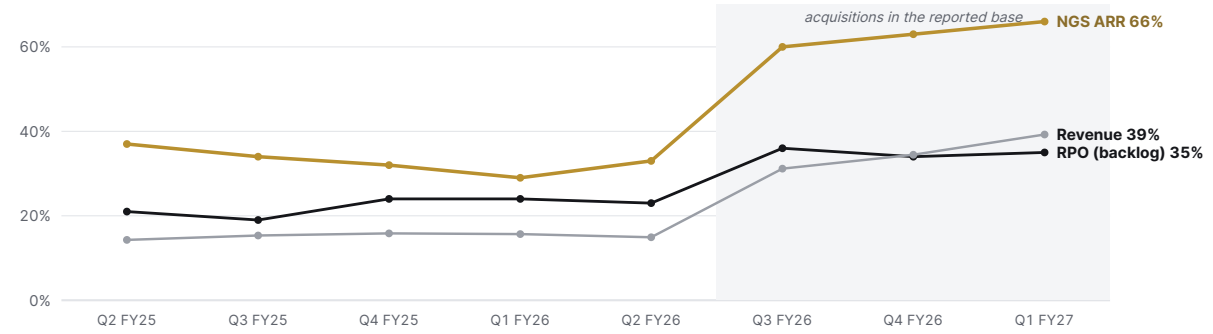
THE BACKLOG

The backlog blinked again as reported; like-for-like it is close to level

−3.8 pts RPO growth minus revenue growth, as reported

In September the backlog stopped outgrowing revenue, and we titled the note on it. This quarter the reported gap widened: RPO grew 35% to $21.0 billion while revenue grew 39%, and RPO fell $0.2 billion from July. In the same quarter NGS ARR rose 66% to $9.73 billion, with about $630 million of net new ARR, a first-quarter record.

EXHIBIT 2 · NGS ARR, BACKLOG AND REVENUE GROWTH, YEAR ON YEAR



How to read it. Each line is a year-on-year growth rate by fiscal quarter: NGS ARR (gold), RPO (black) and revenue (grey). The shaded quarters are the ones in which CyberArk and Chronosphere sit in the current figure but not in the year-earlier one, so all three rates are inflated by acquisition there, by different amounts. Compare the lines within the unshaded quarters for an organic read, and do not read the jump at Q3 FY26 as acceleration. The point: as reported, revenue now outgrows backlog; the gap is partly the different weight of the acquired businesses in each measure.

We ran the boring checks first. RPO also fell from the fourth quarter to the first a year ago ($15.8 billion to $15.5 billion): the sequential dip is the calendar. The CFO said contract durations "remained flat year-over-year." Product revenue, mostly hardware recognized on delivery and outside the backlog, grew 37%, partly, the chief executive said, because customers are "accelerating purchases because prices are going up" as component costs rise. And the reported rates compare unlike bases: a year ago RPO excluded CyberArk's backlog, which the filings do not give. CyberArk brought $776 million of deferred revenue at the close, and RPO jumped $2.4 billion in that quarter against a usual $0.5–0.6 billion, which puts its backlog near $1.8 billion. With $1.2–2.2 billion of acquired backlog a year earlier, like-for-like RPO grew 18.6%–25.7% against pro forma revenue of 23%: a spread of −4.3 to +2.8 points, about −1.6 at the center.

The forward numbers agree. The fiscal 2027 RPO guide of $25.3–25.5 billion is 19.8% above July, against 17.99% for revenue on the pro forma base: the backlog is still guided ahead of revenue, by 1.8 points, but by less than half September's lead of about 4.5 points. Deferred revenue on the balance sheet fell $167 million in the quarter, mostly long-term; a year ago it fell $522 million. Our reading: the September claim holds as reported and is neither confirmed nor refuted like-for-like. The model carries it through the cash flow, not the growth rate: the base case funds 0.70 of each dollar of revenue growth from customers' prepayments, below the roughly 0.9 of fiscal 2026, and the bear 0.55.

THE WAVE

The vulnerability wave: real demand, an overstated slide, and a company inside it

6.9× serious vulnerability disclosures at 21 large vendors in July 2026 against the 2025 monthly average (our count from Epoch AI's table)

The quarter landed in the middle of a national story. Since late October, critical flaws have been disclosed in software almost everything runs on: PHP and Node.js on 21 October, and Java, which the federal cybersecurity agency (CISA) told organizations on 17 November to patch immediately. Epoch AI counts 2,512 high- and critical-severity disclosures by 21 large vendors in July 2026, about five times the record month before cyber-capable AI models such as Mythos were released; on its own table that is about 6.9 times the 2025 monthly average. The fallout is what made the news. On 17 November the Director of National Intelligence tied an outage at the NSA to patching for the PHP flaw, in a week that also brought an FAA ground stop and a JPMorgan Chase payments outage. Coverage treats the wave as continuing.

The company's account is broader than the record. Its deck lists six incidents under the heading "The Vulnerability Apocalypse is Causing Real World Impacts", and the chief executive said many of the recent disruptions were partly the unintended consequence of patching and configuration changes made faster than IT teams can manage. That holds for the NSA, on the intelligence chief's own words. The FAA blamed a faulty network router and Chase a bug in its own

hardware systems, not patching; we found no public report of two of the six items (Microsoft emergency patches on 16 November, an Expedia outage), and three of the slide's dates are wrong. The surge in disclosures is real; the slide is the company's case, not the record.

The company is inside the wave, not only selling into it. CISA added a PAN-OS flaw (CVE-2026-0322) to its list of actively exploited vulnerabilities on 14 October, and the company reports active exploitation of the PHP flaw against PAN-OS management interfaces exposed to the internet, which it says affected about 0.02% of its installed base. Rivals' products joined the same list in November, Check Point's among them.

What it means for the valuation.

- *Demand now.* It is in the numbers: trailing firewall bookings up 28%, customers buying hardware ahead of price rises, and testing budgets that "have just come out of emergency funds." The raised fiscal 2027 guide and our base case's 19% for fiscal 2028 already carry it.
- *How long it lasts.* By management's own account, heavy patching lasts at least another 18 months, and standalone AI-driven testing 12 to 18 months before platforms absorb it, while security budgets rise and consolidate over the next two years: a two-year tailwind against an eleven-year requirement. The strongest form of the opposite view is that AI makes finding flaws permanently cheaper, so a disclosure rate several times the old one is the new normal, not a wave, and the tailwind is structural. The price's case gains if that is so, or if the wave pulls consolidation forward for good, which the record first-quarter platformizations suggest and one quarter cannot prove.
- *The other side.* The same wave raises the cost of a flaw in the company's own products, and consolidation concentrates that cost: a customer who moves everything onto one platform has one vendor to fail. We do not charge it separately; it sits in the bear case's margin and weight.

No model input changes. A new tripwire (pq1-vuln-wave, §8) reads whether growth outlasts the wave.

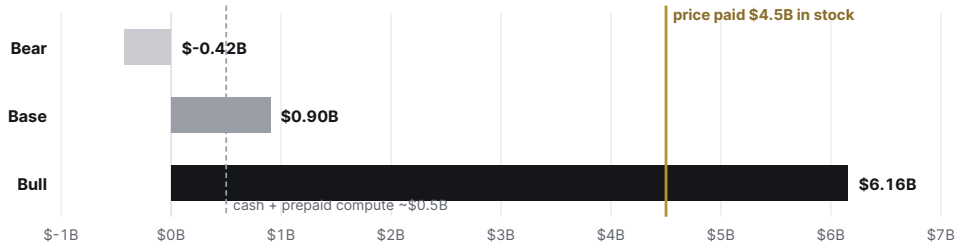
THE DEAL

Applied Compute: a stock-funded move into AI infrastructure, worth about what it costs us

$2.21 billion weighted value of Applied Compute in our cases, against $4.5 billion paid

Applied Compute post-trains and runs open-weight AI models for enterprises. The company said it reached about $100 million of annualized revenue within 18 months of its founding, has about 70 employees and brings about $500 million of cash and prepaid computing commitments. Palo Alto Networks pays $4.5 billion in stock at $337.16, the 15-day average before the deal: about 13.3 million shares, 1.6% of the 821 million outstanding on 11 November, with closing expected in its fiscal third quarter, subject to antitrust clearance. The guide excludes it. The CFO said it lowers the operating margin by up to one point in fiscal 2027 and two in fiscal 2028, with capital spending on inference capacity of less than $3 billion through fiscal 2030. The chief executive's case: to supervise AI models you must be able to train them, so "we have to get in the training business to be able to build a good supervision business."

EXHIBIT 3 · APPLIED COMPUTE, VALUE BY CASE AGAINST THE PRICE PAID



How to read it. Each bar is what Applied Compute is worth to the company in one of our cases, in billions of dollars: the present value of its revenue, losses and compute spending through fiscal 2038 and a terminal value, plus the cash and prepaid compute it brings (dashed line). The gold line is the $4.5 billion paid in stock. Compare each bar with the gold line. The bull reaches the company's $1 billion target in fiscal 2029; the base reaches about half of it; the bear stalls near $0.3 billion. The point: only the case that hits the company's target is worth more than the price paid.

What it costs. The deal is paid in stock that we value at about a third of its market price, so to shareholders the cost is 13.3 million shares at our value, about $1.7 billion, not $4.5 billion. At our weights Applied Compute is worth $2.21 billion, and the deal moves our fair value by +$0.64 a share.

What it risks. It moves the company into owning computing capacity, a business whose cash needs and cyclicality differ from security software; this is one reason we set the explicit-year cost of equity close to the stock's own 36-month beta rather than at its lower 60-month read. And the executives' performance stock units pay on NGS ARR and earnings per share: the proxy excludes the ARR of acquisitions costing more than 4% of market value, and at about 1.5% this one falls under that line, so Applied Compute's ARR would count toward the targets.

The buyback. The board extended the $1 billion repurchase authorization to 31 December 2027; no shares were bought in the quarter. Used in full at about today's price it would retire about 2.8 million shares, a fifth of the deal's issue and about half a year of SBC-related charges ($1.95 billion over the last twelve months). Bought at about three times our value, it would lower our per-share value to $124.20.

THE VALUE

What Palo Alto Networks is worth

$125

fair value a share, from $119 in September

We rebuilt the model rather than re-running September's, because three of its choices did not survive a second look. It held a 40% adjusted free cash flow margin into the perpetuity while growth fell to 3.5%, though much of that margin is customers paying in advance for growth, an inflow that shrinks when growth does. Its adjusted free cash flow included interest income on the company's cash, which the model then added again. And it charged nothing for acquisitions, in a company that has spent about $25 billion on them in a year. The new model builds each year's free cash flow to the firm from operating margin less SBC, tax, the prepayments that fund growth, capital spending and an acquisition line, and reinvests in the terminal what growth requires at a stated return on new capital.

	BEAR (20%)	BASE (50%)	BULL (30%)
Revenue, fiscal 2027 (guide $14.52–14.57B)	$14.45B	$14.54B	$14.70B
Revenue growth, fiscal 2028 / 2029	+13% / +10%	+19% / +17%	+23% / +21%
Years of fade to 4% after fiscal 2029	5	7	9
Non-GAAP operating margin, fiscal 2028 → terminal	29.5% → 31%	30.0% → 37%	30.5% → 40%
SBC, share of revenue, fiscal 2027 → terminal	16% → 11%	16% → 9%	16% → 7%
Revenue growth funded by prepayments, per $	0.55	0.70	0.80
Acquisition spend, share of revenue in fiscal 2028	4%	3%	2%
Return on new capital in the terminal	10%	15%	25%
Revenue, fiscal 2028 / 2033 / 2038	$16.3B / $24B / $29B	$17.3B / $32B / $41B	$18.1B / $40B / $58B
Free cash flow after SBC, share of revenue, fiscal 2028	12.1%	18.6%	24.0%
Terminal value, share of operating value	53%	59%	63%
Applied Compute, value ($B)	$-0.42B	$0.90B	$6.16B
Cost of equity, explicit → terminal	10.0% → 10.0%	10.0% → 9.6%	10.0% → 9.6%
Value a share	**$52.77**	**$111.84**	**$194.97**

How to read it. Each column is one case, with its weight in the heading. Rows run from the inputs (growth, margins, the share of revenue growth funded by customers, the acquisition line and the return on new capital) to the outputs (revenue, the terminal value's share of value, and value a share). Read across a row to see where the cases differ. The bold row is each case's value; the weighted sum is the fair value.

Why the bull case stops at a 40% margin. Check Point and Adobe earn mid-40s operating margins on software alone. About a tenth of Palo Alto Networks' revenue is hardware, and the company says Cortex's gross margin will stay below the company average over the medium term as observability and the security-operations platform grow; the bull case's 40% non-GAAP margin and 7% SBC leave room for that mix. At 42% in the base case the fair value is $131.48; the steelman-max uses 45%.

Stages. Each stage's length is set by what drives it, not by convention.

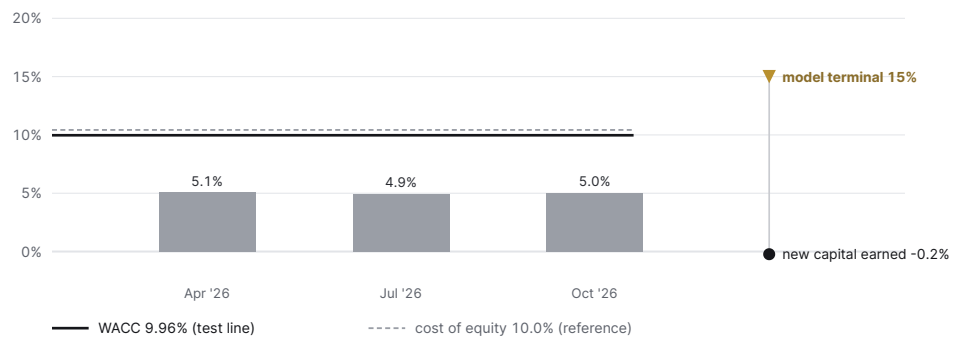
STAGE	YEARS	WHAT DRIVES IT	WHAT SETS THE LENGTH	GROWTH: BEAR / BASE / BULL
Guided year	1	FY27 at the company's raised guide ($14.52-14.57bn; base the midpoint, bull $14.70bn on the Q1 beat cadence, bear $14.45bn on a hardware pull-forward reversal)	FY27 only: the one year the company guides; Q1 is realized ($3.445bn, beat the guide midpoint by $140m)	+17.2% / +18.0% / +19.3% (FY27, pro forma)
ARR conversion after the CyberArk lap	2	Next-Generation Security ARR (about four-fifths of revenue) converting into revenue: FY27 NGS ARR guided +26-27% on a base that already includes the acquisitions, so it is the like-for-like rate; hardware and legacy subscriptions grow slower	FY28-FY29: the two years the exit FY27 ARR (guided $11.5bn) and the $9.4bn of current RPO (+36%) convert into recognized revenue; after FY29 growth depends on bookings not yet signed	FY28: +13% / +19% / +23% · FY29: +10% / +17% / +21%
Fade to the economy	7	Share gains from platform consolidation give way to the security budget's own growth as platformized customers (two-thirds of NGS ARR on the company figure, which excludes identity and observability) saturate; identity and observability extend the runway	Base FY30-FY36 (seven years; bull nine, bear five): base rates for software at $14bn+ revenue (Salesforce from FY21, Adobe from FY21) show growth near 20% halving within three to four years; the base takes five years to reach ~11% because the like-for-like ARR rate is 26-27% today, and seven to reach 4%	FY30: +8.8% / +15.1% / +19.1% · FY32: +6.4% / +11.4% / +15.3% · FY34: +4.0% / +7.7% / +11.6% · FY36: +4.0% / +4.0% / +7.8%
Terminal	perpetuity	A mature security platform growing with nominal GDP: non-GAAP operating margin 37% less SBC 9% (base; bull 40%/7%, bear 31%/11%), 21% tax, reinvesting g / RONIC of NOPAT at 15% on new capital (bull 25%, bear 10%), customer prepayments growing with revenue	Perpetuity from FY39 at 4.0%: Fed SEP 16 Sep 2026 longer-run real GDP 2.0% plus PCE inflation 2.0% (macro/sep_20260916.json); CBO cross-check ~3.8%	4.0% in every case

How to read it. Each row is one stage of the core business: what drives its growth, what sets its length, and the growth rate by year in each case (bear / base / bull). Applied Compute's stages are in the model kit. The point: the base case's above-economy growth lasts nine years, longer than Salesforce or Adobe sustained at this size.

Cost of capital. We use 10.0% for the cost of equity in fiscal 2027–29 (the 10-year Treasury at 5.07% on 18 November plus a beta of 1.10 times a 4.5% equity premium), converging to 9.6% (beta 1.00) by fiscal 2033 in the bull and base; the bear stays at 10.0%. The stock's own 60-month beta is 0.92, but that window starts when Palo Alto Networks was a firewall company with almost no acquired capital; the 36-month window, the platform company that now exists, reads 1.16, and we shrink it a little toward the longer read. Acquisition risk stays out of the rate: integration and overpayment risk diversify away, so they sit in the cases and weights. Applied Compute's move into computing capacity is different, which is why we go no lower. September used 9.84% at a 4.67% Treasury yield. The only debt is CyberArk's convertible ($1.93 billion at fair value), so the WACC, 10.0%, is close to the cost of equity.

Return on capital. Before the Chronosphere and CyberArk deals of January and February 2026, invested capital was negative or near zero: customers' prepayments exceeded every operating asset, so the return was not high but infinite, and meaningless. The capital the WACC test is now about is the $24.7 billion the acquisitions cost, so we count goodwill and acquired intangibles in capital.

EXHIBIT 4 · RETURN ON CAPITAL INCLUDING ACQUISITIONS VS WACC



How to read it. Bars are trailing-twelve-month operating profit after a 21% tax, divided by quarter-end invested capital including goodwill and acquired intangibles, for the three quarters since the CyberArk close; earlier quarters had negative capital and are not meaningful. The solid line is the 10.0% WACC, the test; the dashed line is the 10.0% cost of equity, for reference. At the right, the dot is the return earned on new capital over the deal year (October 2025 to October 2026) and the gold triangle is the 15% our base terminal assumes. The point: the acquisitions earn about half their cost of capital so far, and the year they arrived added no profit.

The return has been about 5.0% against the 10.0% WACC: a weakness regime. Over the deal year, trailing after-tax operating profit moved −$0.05 billion on $23 billion of new capital, a return of −0.2%, as SBC from replacement awards and integration costs absorbed the acquired profit. To earn the WACC on what they cost, the acquired businesses need about $2.5 billion of after-tax operating profit a year; Idira, the largest, runs at about $1.4 billion of revenue. Our base terminal assumes 15% on new capital (bull 25%, bear 10%): a bet that the core's organic reinvestment, not acquisitions, sets the marginal return. At 10% in every case the fair value is $103.29.

A market cross-check, at zero weight. At $361.73 the stock trades at 85 times the midpoint of the company's fiscal 2027 non-GAAP earnings guide ($4.26–4.30), which excludes SBC; on trailing GAAP earnings the multiple is above 500, distorted by the deals. Fortinet trades at 43 times and Check Point at 18.6 times trailing GAAP earnings; CrowdStrike and Zscaler have no meaningful GAAP multiple. The definitions do not match, so the cross-check carries no weight. It says only that the price is a growth price, which §6 measures.

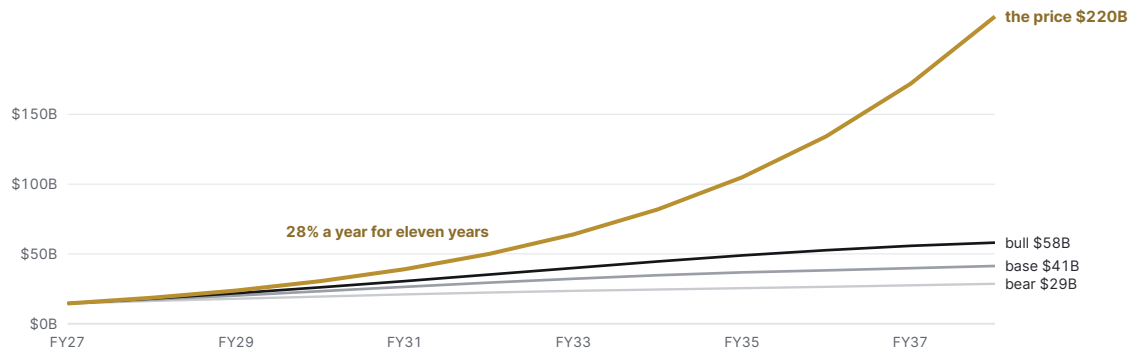
THE PRICE

What $361.73 requires

28% revenue growth a year for eleven years that the price requires, base case

Holding everything else in the base case, the price requires revenue growth of about 28% a year from fiscal 2028 to fiscal 2038, then 4%; or 19%, the base case's fiscal 2028 rate, held for 20 years; or the like-for-like ARR rate, 26.5%, for 12 years. On the base case's growth no operating margin closes the gap: even with all revenue as operating profit in the terminal and no SBC, the base is worth $299.89. A cost of equity of 5.7% in every year would do it. The bull case alone ($195) is worth about half the price. On September's own model the price still needs about 39% starting organic growth, as it did then.

EXHIBIT 5 · REVENUE PATHS OF OUR CASES AGAINST THE PATH THE PRICE REQUIRES

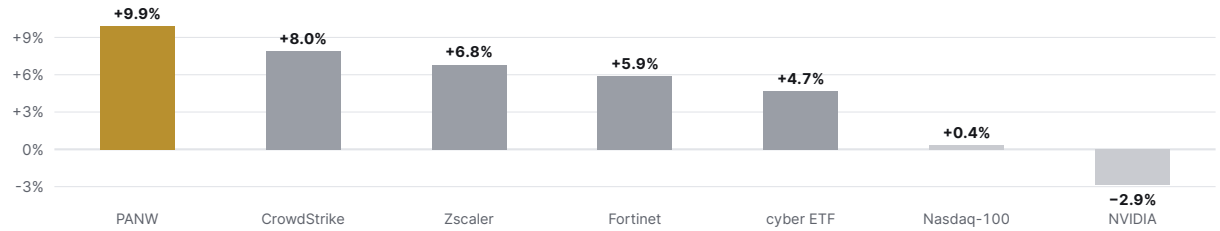


How to read it. Each line is revenue in billions of dollars by fiscal year for one of our cases, from the fiscal 2027 guide; the gold line is the path that makes the base case worth $361.73, the same growth rate every year for eleven years, with every other base-case input unchanged. Compare where the lines end in fiscal 2038. The point: the price needs revenue about 5.3 times our base case's by fiscal 2038.

This is the honest form of the disagreement. Next year the company and the price agree: like-for-like ARR at 26–27% supports growth in the low twenties, and our bull case has 23%. The disagreement is about years five to eleven. Our base case lets growth fade to the economy's rate over seven years after fiscal 2029, longer than Salesforce or Adobe held at this size; the price assumes it does not fade. The call does not settle it: management's own account of the wave's demand (§3) runs about two years, a consolidation argument for the company and a statement about one budget line, not about the decade. What would settle it is the rate at which ARR growth comes down after the CyberArk lap in February; the tripwires in §8 read it at each print.

The price arrived here through the sector. From 28 August, the close our pre-print valuation used, to 17 November the stock fell 17%; it then rose 9.9% on 18 November, before the release, on 17.2 million shares against a 20-day average of about 6.3 million. That session was a cybersecurity rally, not a leak: every listed peer rose and the Nasdaq-100 moved little. Two market news sites tied it to the Homeland Security Secretary's testimony that day on AI-enabled attacks; we found no wire-service account of the move, so its cause stays open.

EXHIBIT 6 · THE 18 NOVEMBER SESSION, BEFORE THE RELEASE



How to read it. Each bar is the regular-session price change on 18 November 2026, close to close, for Palo Alto Networks (gold), three security peers and the cyber ETF CIBR (grey), and the Nasdaq-100 and NVIDIA, which had reported the evening before (light grey). Compare the gold bar with the grey ones. The point: the move was the sector's; against CIBR, at the stock's 1.5 beta to it since August, about +2.8 points was the company's own.

THE RECEIPT

The receipt

Three of 10 armed tripwires that name the company fired at this print

Every armed tripwire that names Palo Alto Networks, scored on its own rule as written.

tripped or crossed | not tripped, not scored, cited or pending

NOT CROSSED (BY 0.01PP; WINDOW OPEN TO THE FQ2 PRINT)

Organic growth reaches 18% on the CyberArk lap (September)

Frozen rule: FY27 revenue guide midpoint / $12.327bn - 1 >= 18%. The raised guide's midpoint is $14.545bn: 17.99%, short of the bar by $1m of revenue ($14.546bn needed). Not crossed. Two facts sit beside the grade and do not change it: on the 10-K's own pro forma base ($12.312bn, which aligns CyberArk's June year) the midpoint is 18.1%; and the raise is not acquisitions (Chronosphere is in the base for the full year; Embrace and Console were called immaterial to the guide in September). The raise of $395m at the midpoint is $140m of Q1 beat and $255m added to Q2-Q4. Q1 itself grew 23.0% pro forma. The silence branch ('a beat-and-hold is not acceleration') does not apply: this is a raise. The window runs to the FQ2 print (2027-02-17).

TRIPPED ON THE REPORTED BASIS (SILENCE BRANCH); LIKE-FOR-LIKE UNRESOLVED

Backlog growth trails revenue like-for-like (September)

The 10-Q gives no pro forma table for the quarter (Embrace and Console 'not material'; CyberArk and Chronosphere are not restated), so the silence branch applies: grade on reported and flag the basis. Reported: RPO 35.5% vs revenue 39.2%, a spread of -3.8pp (release rounding 35% vs 39%: -4pp), against the -0.5pp line: tripped, toward the downside. Like-for-like estimate beside it: revenue grew 23.0% pro forma (company rates for Cortex and Idira); RPO a year ago excludes CyberArk's backlog, which the filings do not give (CyberArk's deferred revenue at the close was $776m; the Q2-to-Q3 FY26 jump in RPO, $2.4bn, less a normal $0.5-0.6bn organic step, puts acquired backlog near $1.8bn). With $1.2-2.2bn of acquired backlog a year earlier, like-for-like RPO grew 18.6%-25.7%: a spread of -4.3 to +2.8pp, about -1.6pp at the center. Three boring checks: RPO also fell from Q4 to Q1 last year ($15.8bn to $15.5bn); contract durations 'remained flat year-over-year' (CFO); product revenue (hardware, outside backlog) grew 37%. For FY27 the guide has RPO +19.8% against revenue +18.0% pro forma: backlog still leads by 1.8pp, down from about 4.5pp in the September guide, because revenue was raised and backlog was not. Model consequence: the base case's working-capital inflow is set at 0.70 per dollar of revenue growth, below the ~0.9 of FY26, and the bear at 0.55 (duration shortening); pq1-rpo-guide carries the next read.

TRIPPED TOWARD THE DOWNSIDE (FY28 40%+ TARGET REPLACED)

Fiscal 2028 cash-margin target held, cut or bridged (September)

FY27 adjusted FCF margin guide held at 38.0%: the first limb (a cut below 38.0%) did not fire. The second did. In September the deck read 'Reaffirming 40%+ FY'28 Adj. Free Cash Flow Margin' and the CFO spoke of 'achieving our 40% free cash flow margin target in fiscal 2028'. This quarter the deck reads 'Targeting 38%+ Adjusted Free Cash Flow Margin, Excluding Data Center Capex, for FY'28', and the CFO said the company expects margins of 38% or more, excluding data-center capex, in fiscal 2028 and beyond. The FY28 target fell two points and moved to a basis that excludes the compute build (up to $3bn FY27-30). No bridge to 40% was given; the condition 'FY28 40%+ target withdrawn or deferred' is met. The model does not use the company's margin target: its FY28 base cash flow after SBC and acquisitions is 18.6% of revenue, consistent with 38% before SBC, interest income and the acquisition line.

NOT CROSSED ON THE RULE AS WRITTEN; CROSSED ONCE APPLIED COMPUTE CLOSES

Diluted share guide above 850 million (September)

Rule: diluted non-GAAP share guide midpoint > 850M. FY27 guide unchanged at 844-847M (midpoint 845.5M); FQ2 837-842M. Not crossed. The guide is for the company without Applied Compute (CFO: 'Our guidance is for standalone Palo Alto Networks'). The deal pays $4.5bn in stock at the $337.16 15-day VWAP: 13.35M shares, 1.6% of the ~821M outstanding, from the close in FQ3. On the guide's basis that is ~859M, over the line. The model already carries 858.8M. Forward thread: pq1-sharecount.

TRIPPED TOWARD THE PRICE, TWO PRINTS EARLY

NGS ARR guide raised by the May 2027 print (September)

FY27 NGS ARR guide raised to $11.475-11.525bn, midpoint $11.50bn against the $11.125bn bar (September $11.075-11.175bn). The rule allowed until the FQ3 print (May 2027); it fired at FQ1. Because the base at the end of FY26 already includes CyberArk and Chronosphere, the +26-27% is the like-for-like rate. Model consequence: the base case's FY28-FY29 growth (+19% / +17%) is set from this rate's conversion into revenue; the weights moved 25/50/25 → 20/50/30 (argued in the verdict).

NOT DUE (CITE ONLY) **Identity growth after the lap (September)**

Idira revenue $353m in Q1, +23% pro forma (deck; prior-year Q1 is CyberArk's pre-close revenue aligned to Palo Alto Networks' fiscal year). Between the 15% and 25% bands, but the rule reads on the two quarters after the February 2027 lap (FQ3-FQ4). Identity ARR is still not disclosed.

NOT TRIPPED **Non-GAAP gross margin back above 75.5% (September)**

Non-GAAP gross margin 75.2% (supplemental and deck), below 75.5%, while observability ARR grew about fourfold. The CFO tied the 170bp fall to hardware component costs (hardware ~10% of revenue) and the SaaS mix; Cortex gross margin stays below the company average 'over the medium term'.

NOT TRIPPED (MOVED THE OTHER WAY) **A durable 150bp fall in the 10-year yield (September)**

FRED DGS10 5.07% on 2026-11-18 against a bar near 3.29%: the 10-year rose about 28bp from 4.79% (1-2 Sep). The rate moved against the price, and the model's risk-free input with it.

NOT TRIPPED **Cash margin after SBC above 30% (August)**

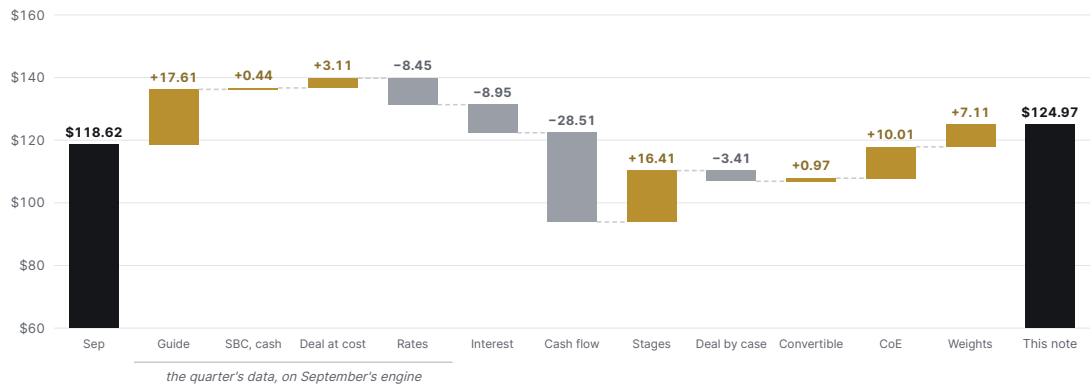
Trailing four quarters to Oct 2026: adjusted FCF $4,638m less SBC-related charges $1,947m, on revenue $12,451m: 21.6%, against 30%. SBC-related charges were 18.1% of revenue in Q1 (CyberArk replacement awards).

NOT TRIPPED; LIMB 2 RESOLVED **Platformization stalls (The Survivor Premium)**

Limb 1 (ex-acquisition platform ARR growth below 20%): the FY27 NGS ARR guide is +26-27% on a base that already includes the acquired businesses, up from +22-23% in September: further above the bar. Limb 2 (identity de-emphasized on two consecutive calls): this was the second read. Identity was quantified in the prepared remarks (Idira revenue +23% pro forma; more than 100 net new Idira logos from the installed base, 'our largest number of cross-sell wins since the acquisition closed'; agentic identity provider generally available) and in the deck. No analyst asked about identity. Not de-emphasized on either call: limb 2 resolves as not tripped. Limb 1 stays armed.

What moved the number. One change at a time, from September's $119 (the model reproduced: $118.62): the quarter's data on September's own model first, then each change of method with its own effect.

EXHIBIT 7 · FAIR-VALUE BRIDGE FROM SEPTEMBER



How to read it. Each bar applies one more change to the running value, in dollars a share, in the order shown. The first four changes are the quarter's data on September's model: the raised guide, SBC and cash, Applied Compute counted at its price, and the higher Treasury yield. The rest are changes of method in the new model, then the cost of equity and the weights. Gold bars raise the value, grey bars lower it. The point: the data alone would have taken September's number to $131.33; the rebuilt cash flow takes most of that back.

CHANGE	KIND	$ A SHARE	FAIR VALUE AFTER
Data: FY27 revenue guide raised to $14.52-14.57bn: year-1 growth 18.0% base (was 14.8%), bull and bear moved with the guide's high and low	data	+17.61	136.23
Data: SBC-related charges 15.6% of revenue (trailing twelve months, was 14.9%); net cash $7.21bn at 31 Oct (was $6.13bn)	data	+0.44	136.67
Data: Applied Compute counted at its $4.5bn price, paid with 13.35M new shares (845.5M → 858.8M)	data	+3.11	139.78
Data: 10-year Treasury 4.67% (27 Aug) → 5.07% (18 Nov) at August's beta: cost of equity 9.84% → 10.24%	data	-8.45	131.33
Method: interest income out of the adjusted-FCF margin (-2.2% of revenue after tax; the cash that earns it is already added in the equity bridge)	method	-8.95	122.38
Method: cash flow built from its parts (margin less SBC, tax, deferred-revenue working capital that shrinks as growth slows, capex, an acquisition line); terminal reinvests g / RONIC (same growth, flat rate, Applied Compute at cost, September weights)	method	-28.51	93.87
Method: revenue built by stage (FY27 at the guide, FY28-29 from NGS ARR conversion, fade to 4% argued from base rates)	method	+16.41	110.29
Method: Applied Compute valued by case (revenue, losses, compute capex) instead of at its price	method	-3.41	106.88
Method: convertible notes settled case by case: below the $211.24 conversion price they are repaid at the $1.1bn principal (September deducted $1.93bn fair value); above it the excess is netted against the capped calls	method	+0.97	107.85
Cost of equity: 10.2% flat → 10.0% explicit (beta 1.10), converging to 9.6% (beta 1.00) in the bull and base; the bear stays at 10.0%	rate	+10.01	117.86
Weights: bear/base/bull 25/50/25 → 20/50/30	weights	+7.11	124.97
Fair value 118.62 → 124.97		**+6.34**	**124.97**

How to read it. Each row applies one more change to the running value, in the order shown, starting from September's $118.62 as its engine computes it (published as $119). Kind says whether the change is data, method, rate or weights. The third column is its effect in dollars a share, the fourth the value after it. The first four rows are the quarter's data run through September's model; a different order would change the split, not the total.

Two method lines dominate, in opposite directions. Building the cash flow from its parts costs $28.51 a share, most of it in the terminal value, where September's 40% margin no longer carries growth-phase prepayments into the perpetuity; building revenue by stage adds $16.41, because the like-for-like ARR rate supports 19% and 17% in fiscal 2028–29 where September's single fade gave less. Taking interest income out costs $8.95. Settling the convertible notes case by case, at their principal where each case's value is below the conversion price, rather than at the market's fair value, adds $0.97. The cost of equity adds $10.01: our explicit-year rate is close to September's once its beta meets today's Treasury yield, and the terminal rate converges lower. The weights add $7.11.

The September claims, re-tested. "Contracted backlog stopped outgrowing revenue": as reported, it got worse; like-for-like, it is close to level and still ahead in the guide (§2). "The Backlog Blinked": the blink widened as reported; the recurring-revenue book, measured by ARR, did not blink. "Fair value $119": now $124.97 on a rebuilt model. "At $362.09 the market paid 205% above fair value": at $361.73 it pays 189% above $124.97.

THE TRIPWIRES

What would change our view

> **What would move us toward the price.** NGS ARR growth holding above 25% like-for-like through fiscal 2028, after the CyberArk lap, with revenue converging on it: the bull case's path, and two years of it would move weight to the bull case. Backlog guided ahead of revenue by four points or more, which would lengthen our duration assumption. The acquisitions earning their cost of capital by the fiscal 2027 10-K. A durable fall of about 150 basis points in the 10-year Treasury yield.
>
> **What would take us to the price.** The steelman-max, stated as things we can observe: like-for-like revenue growth of 26–27% in fiscal 2028 and 2029, SBC-related charges falling toward 5% of revenue from 15.6%, the acquisition line going quiet, the return on capital including acquisitions rising above the 10% WACC by the fiscal 2027 10-K (pq1-

new-capital-return), and a cost of equity at the stock's own 60-month beta (pq1-beta below 0.95). Together they are worth $426.00 on today's model. Each tripwire below prices one step; no single step moves our value far.

What would move us further from the price. The fiscal 2027 revenue guide cut below 17% pro forma, product revenue falling as the hardware pull-forward reverses, the backlog guided behind revenue like-for-like, or Applied Compute's revenue stalling below $250 million at the end of fiscal 2028.

Each tripwire below has a reading rule priced on today's model, and each has its mirror. They are checked daily where a feed exists and at each filing otherwise.

1. **FY27 revenue guide midpoint on the $12.327bn pro forma base at the FQ2 print.** At or above 19.5% (a further ~$185m raise): base FY28 +19% → +21% ($125.89). Between 17% and 19.5%: no change. Below 17% (a cut, or Q2 below the $3.53bn guide floor): base FY28 +19% → +16% ($123.58). The frozen pq4s-organic-18-on-lap reads on the same print and is graded on its own rule. *Reading: PANW FQ2 FY27 release (8-K Ex-99.1): FY27 revenue outlook midpoint / 12.327e9 - 1.*
2. **FY27 RPO guide against the FY27 revenue guide, like-for-like, at FQ2 or FQ3.** Today: RPO +19.8% vs revenue +18.0% (+1.8pp). Lead at or below 0pp (revenue guided to outgrow backlog like-for-like): base working capital -0.70 -> -0.55 per $ of revenue growth ($122.41). Lead at or above +4pp (backlog raised with revenue): -0.70 → -0.80 ($126.67). Between: no change. *Reading: PANW releases: FY27 RPO guide midpoint / $21.2bn - 1 minus FY27 revenue guide midpoint / $12.327bn - 1.*
3. **FY28 adjusted FCF margin guide (ex data-center capex) at the FY27 Q4 print.** At or above 40% ex data-center capex (September's target restored): base working capital -0.70 → -0.80 ($126.67). 36-40%: no change. Below 36%, or the ex-capex basis widened to more items: base terminal non-GAAP operating margin 37% → 35% ($122.36). *Reading: PANW Q4 FY27 release / investor materials: FY28 adjusted FCF margin outlook.*
4. **Applied Compute's ARR or revenue disclosed against the company's $1bn-by-FY29 target.** $0.6bn or more of ARR by the end of FY28 (on the path to $1bn in FY29): the base case takes the bull's Applied Compute assumptions ($128.03). Below $0.25bn at the end of FY28: the base case takes the bear's ($124.2). Deal terminated before closing: the leg and its 13.35M shares leave every case ($124.32). *Reading: PANW releases / investor materials / 10-K: Applied Compute (or its successor line) ARR or revenue.*
5. **Diluted share count after Applied Compute closes, against 862M.** Above 862M (13.35M deal shares plus more than 3M of further dilution, or a larger deal count after adjustments): shares 858.8M → 862M in every case ($124.51). Separately, $1bn or more of repurchases by the end of FY27 at about the anchor price cuts the share count by ~2.8M but, bought at about three times the house value, lowers it to $124.2: the share count changes, no other input. Otherwise no change. *Reading: PANW FQ3 FY27 release: diluted non-GAAP share guide (FQ4 / FY27) and actual weighted average.*
6. **Non-GAAP gross margin for two consecutive quarters, below 74% or above 76%.** Below 74% for two consecutive quarters (component costs and the observability mix compounding): base terminal non-GAAP operating margin 37% → 35% ($122.36). Above 76% for two consecutive quarters with observability still growing: 37% → 39% ($127.57). The frozen pq4s-adj-gm-755 reads the 75.5% line on its own rule. *Reading: PANW supplemental / deck: non-GAAP gross margin.*
7. **Product revenue growth y/y at FQ3 or FQ4 FY27, below 0% or above 15%.** Product revenue +37% in Q1; the CEO tied part of it to customers 'accelerating purchases because prices are going up' as component costs rise. Product revenue down y/y at FQ3 or FQ4 (the pull-forward reversing): bear 20% → 25%, bull 30% → 25% ($117.86). Up 15% or more in both quarters (structural, as the CEO expects for 'at least the next 12 months'): bull 30% → 35%, bear 20% → 15% ($132.08). Between: no change. *Reading: PANW release: product revenue y/y.*
8. **TTM ROIC on capital including acquisitions at the FY27 10-K, against 7% and the 10% WACC.** Today 15% is the base terminal return on new capital; the deal year earned about 0%. TTM ROIC still below 7% at the FY27 10-K (the acquired businesses not yet earning half the WACC on their cost): base terminal RONIC 15% → 10% ($117.72). Above 10% (the acquisitions earning their cost of capital within 18 months of the CyberArk close): 15% → 20% ($128.59). Between: no change. *Reading: research/scripts/roic_wacc.py on this note's capital definition (data/roic.py), at the FY27 10-K.*

9. **Whether growth outlasts the vulnerability wave: serious-flaw disclosures against the FY28 NGS ARR guide.** Disclosures in July 2026 ran at about 6.9x the 2025 monthly average (our count from Epoch AI's table). If they fall below 3x by mid-2027 while the FY28 NGS ARR guide is +25% or more like-for-like, growth outlasted the wave: base fade 7 → 9 years ($129.2). If they stay above 5x but the FY28 NGS ARR guide is below +20%, the wave is not converting into lasting growth: base fade 7 → 5 years ($120.54). If disclosures stay above 5x and the guide is +25% or more, the wave is still the driver and cannot show whether growth outlasts it: no change until the disclosure rate falls. Otherwise no change. *Reading: Epoch AI monthly count of high- and critical-severity CVEs at 21 major vendors (CISA KEV additions as the cross-check) against the FY28 NGS ARR guide at the FY27 Q4 print.*
10. **Palo Alto Networks' own 36-month beta, re-measured at the FQ2 update (capm.py).** 36-month beta 1.0-1.3: no change. Above 1.3 (the AI-infrastructure move showing up in the stock's market risk): explicit cost of equity 10.0% → 10.9% ($121.34). Below 0.95: flat 9.3% in every case and year ($134.36). *Reading: PANW monthly returns against SPY over the latest 36 months.*
11. **Settled close above $430, over the steelman-max.** The steelman-max (FY27 revenue $14.70bn, FY28-29 at the like-for-like ARR rate, 27% and 26%, a twelve-year fade, 45% terminal operating margin, 5% SBC, 0.85 of growth funded by prepayments, no acquisitions, a 50% return on new capital, 9.2% flat cost of equity) is worth $426.00. A settled close above it is a price no defensible input set in this model reaches: re-underwrite the cases before the next print. The price itself is not an input. *Reading: PANW settled close (Schwab closePrice / Robinhood close.price).*
12. **Settled close below $190, inside the case range.** The bull case is worth $194.97. A settled close below it puts the price inside the house's own case range for the first time since the August note: re-underwrite the cases and weights before the next print. The price itself is not an input. *Reading: PANW settled close (Schwab closePrice / Robinhood close.price).*

SOURCES

Sources & Method

Primary. Form 8-K of 18 November 2026 (acc. 0001327567-26-000030): Exhibit 99.1 (results release), Exhibit 99.2 (Applied Compute), Items 3.02 and 8.01. Form 10-Q for the quarter ended 31 October 2026 (acc. 0001327567-26-000033), every note to the financial statements and Item 1A, read against Item 1A of the Form 10-K of 10 September 2026 (acc. 0001327567-26-000023). Proxy statement (DEF 14A) of 27 October 2026, executive pay metrics. The September release (8-K of 1 September 2026) for the prior guide. The company's first-quarter earnings presentation, supplemental financial information and corrected call transcript from its investor-relations site. Two independent transcriptions of the call (Equibles; Quartr, carried by stockanalysis.com); every quote in this note appears word for word in both. SEC XBRL company facts for the twelve-quarter return-on-capital history. For the vulnerability wave: CISA's alerts, Epoch AI's disclosure series, the company's security advisories, and news reports, each incident checked against two independent reports or the issuer's own statement.

Market and macro. The anchor is the 19 November settled close, $361.73 (Robinhood close.price, matching the Nasdaq closing cross); other closes from Robinhood (close.price); monthly closes for the betas of the company and five security peers. FRED 10-year Treasury yield. Federal Reserve Summary of Economic Projections, 16 September 2026, for terminal growth (longer-run real growth 2.0% plus 2.0% inflation).

Method. Free cash flow to the firm, three cases, mid-year discounting from 19 November 2026, explicit years through fiscal 2038 and a terminal value from fiscal 2039 at 4.0%, timed mid-year like the explicit years. SBC is expensed (non-GAAP operating margin less SBC-related charges); the share count is the fiscal 2027 guide (845.5 million) plus the Applied Compute shares, not diluted further. Cash and investments ($9.1 billion) are added once; the IBM contingent consideration ($144 million) and the Centripetal judgment accrual ($153 million) are deducted; the federal tax asset ($369 million) is added. The convertible notes are settled case by case. Every case's value is below their $211.24 conversion price, so in each case they are repaid at the $1.1 billion of principal outstanding and the capped calls bought against them (strike $211.24, caps of $287–291) pay nothing; at a value above $211.24 the excess would be deducted, net of the capped calls, as it is in the steelman-max. Holders may convert in the quarter to 31 December: the principal is paid in cash, the excess in cash, or cash and shares, at the company's election. At the market's marks (notes $1.93 billion, capped calls $169 million) our fair value would be $124.20. Purchase commitments ($8.0 billion, mostly cloud hosting through fiscal 2032) are operating costs inside the margin, not a separate charge. The model, its inputs and every one-at-a-time sensitivity we tested are in the downloadable workbook.

Risk factors and the call. Item 1A of the 10-Q adds no new risk factor against the 10-K of 10 September: the changes are period updates (two distributors were 25% of the quarter's revenue, against 30% in fiscal 2026), the CyberArk notes becoming convertible (holders may convert in the quarter to 31 December), component-cost inflation now described as recent, and foreign-currency forwards of $1.8 billion against $2.2 billion in July. The three items the release added to its cautionary list (AI agents as a new class of identity, the evolving definition of the identity security market, and competition from cloud providers' native security) were already in the 10-K.

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