

From: [Randy Eckel](#)
To: [Randy Eckel](#)
Subject: PANW FyQ416 - Marker News Summary
Date: Wednesday, August 24, 2016 7:02:16 AM

Company: PANW **Company Bias:** Neutral **Sector Bias:** Neutral

Quarter: 4 fy2016 **Sector:** DC Perimeter Security

Current Qtr: In-line **Guide Next Qtr:** In Line

Summary: PANW FyQ416 - Marker News Summary

Marker Thoughts

This quarter we posted partner commentary from the U.S., UK, EU, ANZAC, APJ and the Middle East. In general, partners reported an "on plan" quarter with plateauing appliance sales positively complemented by strong Subscription attach rates. Partner are also having success selling new attached Subscriptions into their PANW installed base.

We specifically call out *attached* Subscription strength (Threat, URL, WildFire) in contrast to very little partner activity in the "unattached" Subscriptions (Traps, AutoFocus, Aperture and Mobile). However, we reported several favorable (and hopeful) comments on the new Traps enhancements, although it is mostly "slide-ware" to the partners ... as in, let's see it work to scale before we get too excited.

As always, the details are of interest:

- NGFW continues to be the core driver
 - WildFire continues its impressive penetration/attach rate, with runway still available
 - 7050/80 (high-end) demand remains surprisingly strong, particularly given its expense
 - At least in part due to the overhead of fully attached Subscriptions
- New "unattached" Subscription commentary not as positive
 - AutoFocus has some SOC interest, but it's very expensive and not very feature rich yet
 - Aperture is new and incomplete (and up against tough competition)
 - Outside of a new release announcement, nothing much has changed for Traps
 - Although we did get one partner showing positive momentum
 - The majority of partners are in a wait-and-see mode after difficult early deployments
- A number of partners commented on the reduced lead flow from PANW
 - It is difficult to determine if this is a function of slowing perimeter Security spend or that PANW now has more partners to split the leads among; of course, it could be a combination of both
- Based on a number of comments, there is little doubt that PANW was pushing hard all quarter to have a good quarter
- We heard that PANW is ramping its Service Provider sales effort with new recruits from FFIV SP sales
- PANW is also ramping up its own Professional Services group
- Most partners are wary of Fy2017 and hope that PANW will be more reasonable when setting partner goals and spiffs

5000 Series Performance Issues

We continue to track feedback around performance issues with the 5000 series appliance. When customers turn on all the Subscriptions, throughput decreases materially. When they turn on SSL Decryption, there is an even further performance drop - *all in contrast with the product's stated performance capabilities*.

The customer's choices are:

- Upgrade to a 7000 series box for \$\$\$\$
- Buy more 5000 series and put a load balancer in front of them ... \$\$\$
- Put a high-performance Network Intelligence platform in (like GIMO's GigaSMART) ... again, \$\$\$
- Turn off SSL and/or some Subscriptions ... and this last one is not a real option for most customers once they've experienced the value of the Subscriptions

Fy17

Almost all NA partners we spoke with acknowledged that the perimeter NGFW refresh has peaked, including now many EMEA partners as well. They commented about the reduced flow of leads from both PANW and their own efforts. Gaining market share has also gotten tougher, as CSCO is putting up more of a fight in its existing accounts. The CHKP installed base has always been sticky.

All this leads us to believe that even PANW, the leader in Network Security, will see more modest appliance growth in 2017. The question of course is, "How modest?" Will Product growth be 15%, 20%, 25%, 30%? Given the feedback we have tracked, our guess is ~20%. If the 5000 series performance issues continue to result in upgrades to 7000 series, or just more 5000s being purchased, it could be a little better.

Attached Subscriptions will continue to be strong for FY17. WildFire will eventually get to 85-90% of the installed base, though not before the end of FY17.

The newer unattached Subscriptions will need to mature and expand feature / function in order to reach the point where they can pick up the slack after WildFire reaches saturation. PANW has some time to get one or more of them right, thanks to WildFire's continued success.

Too many salespeople?

Another nuanced point to take into account for (FY17) is that PANW has hired a material number of new salespeople over the last 18 months. The network security market was cooking, and PANW hired salespeople to fulfill the demand. Its partner base expanded as well. But now the market is slowing ... we may have a bunch of salespeople that thought they were going to make a fortune, wondering where all the new customers have gone ... and grumbling about it to partners.

CONFIDENTIALITY AND DISCLOSURE NOTICES: Unless otherwise indicated, this message (and/or documents accompanying it) is intended only for the personal and confidential use of Marker customers. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. If you have received this transmission in error, please notify the sender. As part of its business, Marker Advisors, LLC provides clients reports concerning private and publicly traded companies. To ensure compliance with federal securities laws and Marker Advisors, LLC's policy, nothing in this communication or any of its attachments is intended to request or solicit the disclosure or communication of any material non-public information, any proprietary data or information, nor any information subject to any duty of confidentiality or non-disclosure, concerning any business or entity.

8/24/2016 Distributed Status Opinion