



Q3 Fiscal Year 2022 Earnings Call



May 19, 2022

Safe Harbor

This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management, including statements regarding our expectations regarding our view as to the security threat landscape, growth drivers for fiscal 2022 and beyond, our product and service offerings, our financial guidance for the fourth quarter of fiscal 2022 and fiscal year 2022 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS and non-GAAP adjusted free cash flow margin, our modeling points, our expectations regarding balancing future revenue growth with profitability and growing cash flow ahead of EPS, our expectations regarding use of cash for share repurchases, our expectations regarding managing stock-based compensation expense, and our expectations regarding product launches and adoption. Many of these assumptions relate to matters that are beyond our control and changing rapidly.

There are a significant number of factors that could cause actual results to differ materially from forward-looking statements made in this presentation, including: developments and changes in general market, political, economic, and business conditions; the duration and global impact of COVID-19; risks associated with managing our growth; risks associated with new products and subscription and support offerings, including the discovery of software bugs; shifts in priorities or delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for security products and subscription and support offerings; our customers’ purchasing decisions and the length of sales cycles; our competition; our ability to attract and retain new customers; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; the effects of supply chain constraints and the global chip and component shortages and other factors affecting the manufacture, delivery and cost of certain of our products; our ability to obtain adequate supply of our products from our third-party manufacturing partners; our debt repayment obligations; and our share repurchase program, which may not be fully consummated or enhance shareholder value, and any share repurchases which could affect the price of our common stock. Further information on these and other factors that could affect the forward-looking statements we make in this presentation can be found in the documents that we file with or furnish to the U.S. Securities and Exchange Commission, including Palo Alto Networks’ most recent Quarterly Report on Form 10-Q filed for the quarter ended January 31, 2022, which is available on our website at investors.paloaltonetworks.com and on the SEC’s website at www.sec.gov. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this presentation are based on our current beliefs and on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made or to update the reasons why actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future.

All information in this presentation is as of May 19, 2022. This presentation contains non-GAAP financial measures and key metrics relating to the company’s past and expected future performance. We have not reconciled diluted non-GAAP net income per share guidance to GAAP net loss per diluted share, non-GAAP operating margin to GAAP operating margin or adjusted free cash flow margin guidance to GAAP net cash from operating activities because we do not provide guidance on GAAP net income (loss) or net cash from operating activities and would not be able to present the various reconciling cash and non-cash items between GAAP and non-GAAP financial measures, including share-based compensation expense, without unreasonable effort.

NIKESH ARORA

CEO & CHAIRMAN



Continued strong performance highlighted our Q3 results

Accelerated growth continued

Total Billings¹

\$1.80B

+40% y/y

Remaining Performance Obligation

\$6.9B

+40% y/y

Total Revenue

\$1.39B

+29% y/y

With our NGS and software portfolio leading

NGS ARR²

\$1.61B

+65% y/y

FWaap³ Billings growth and transformation

+25% y/y

including 39% from software form factors

Balanced with strong profitability

Operating Income (non-GAAP)

\$253M

+39% y/y

EPS (non-GAAP)

\$1.79

+\$0.12 vs. Q3 Guidance⁴

Adjusted Free Cash Flow (non-GAAP)

\$351M

+40% y/y

¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

³Software % of Total FWaap billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings. Firewall as a Platform billings is a key financial and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and the ratable portion of VM-Series and CloudGenix offerings, during the period stated.

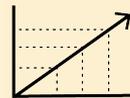
⁴Refers to EPS (non-GAAP) of \$1.665, the midpoint of Q3'FY22 guidance provided on February 22, 2022.

Reconciliations of historical non-GAAP measures can be found in the Appendix.

Fiscal year ending on July 31.

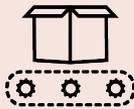
Expect robust cybersecurity demand through unsettled landscape

Increasing prevalence of
Nation-state attacks



Rising **interest rates**
and **inflation**

Supply chain
disruptions impacting
economies

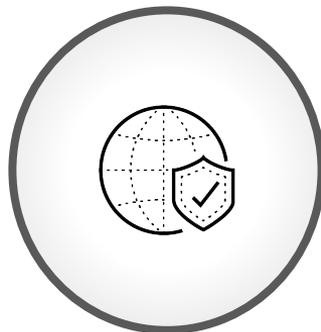


Geopolitical conflict

SEC-proposed
cybersecurity
disclosure guidelines

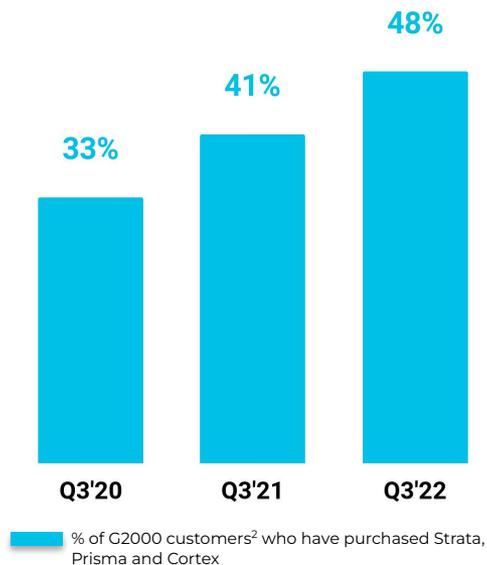


Persistent **software**
supply chain attacks



Executing well on larger and cross-platform strategy

Continued growth in G2K cross platform adoption

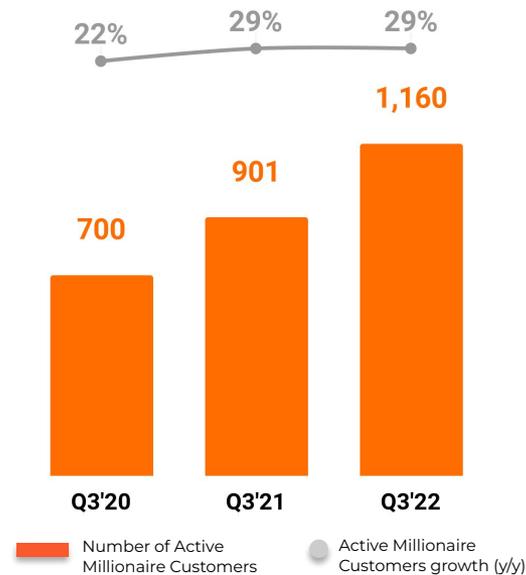


Large Deal Momentum

73%
growth y/y in deals over \$5M

286
7+ figure deals

Strength in Active Millionaire customers¹



¹ Active Millionaire customer defined as customers who have spent \$1M or more in bookings value over the last 4 quarters. A booking is defined as committed customer obligation with a contract in place.

² G2K Customers represent Global 2000 customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services. Fiscal year ending on July 31.

Growing suite of best of breed capabilities integrated into our platforms

Palo Alto Networks

14

Total Recognitions

Zero Trust

A **Leader** in Forrester Zero Trust eXtended Ecosystem Platform Providers Wave

4

New recognitions
in Q3'22

Network Security

NGFW (10th time!)

A **Leader** in Gartner Magic Quadrant Network Firewalls

SD-WAN

A **Leader** in Gartner Magic Quadrant WAN Edge Infrastructure

Secure Web Gateway

A **Leader** in Frost & Sullivan Secure Web Gateways Radar

ZTNA

A **Leader** in Forrester Zero Trust Network Access New Wave

****Represents new recognitions awarded in Q3'22**

Cloud Security

DevSecOps

A **Leader** in GigaOm Radar for Developer Security Tools

Vulnerability Management

An **Outperformer Leader** in GigaOm's Vulnerability Management Radar

Cloud Workload Security**

A **Leader** in Forrester Cloud Workload Security Wave

SoC Security

Endpoint Security

A **Leader** in Forrester Endpoint Security Software As A Service Wave

SOAR

A **Leader** in KuppingerCole Security Orchestration Automation & Response Leadership Compass

XDR

A **Strong Performer** in Forrester XDR New Wave

Attack Surface Management (ASM)**

An **Outperformer Leader** in GigaOm Attack Surface Management ASM Radar

Incident Response**

A **Strong Performer** in Forrester Cybersecurity Incident Response Services Wave

EDR**

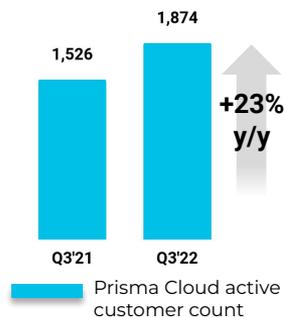
A **Strong Performer** in Forrester Endpoint Detection & Response Wave

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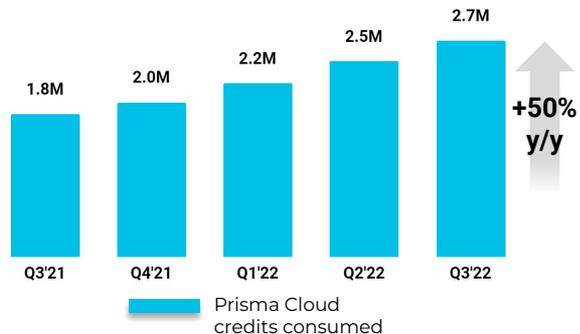
Prisma Cloud momentum driven by customer growth and credit consumption



Prisma Cloud customers¹



Credits consumed show expansion within customers



Q3'22 highlights:

- A **Leader** in Forrester Cloud Workload Security Wave
- **\$1M transactions** more than **doubled y/y**

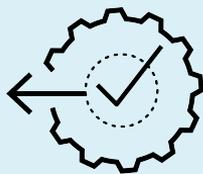
¹Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma Cloud customers exclude customers from Bridgecrew acquisition. Fiscal year ending on July 31

Fast start with 'Cloud Code' traction as we broaden our cloud native security lead



Prisma®
Cloud

5th Pillar



Cloud Code
Security

Supply Chain
Security launched

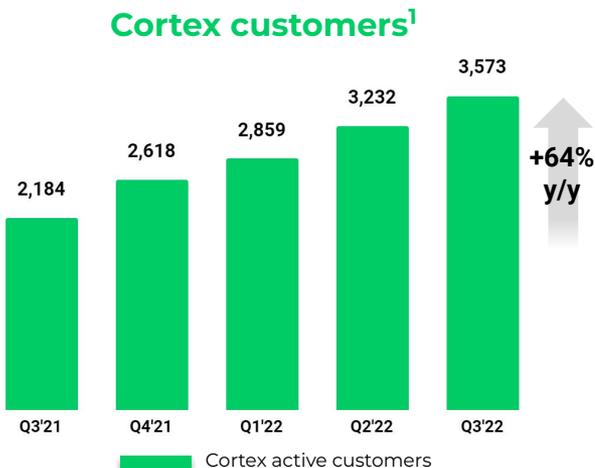


Strong 6-figure
commitments

Among the **fastest
credit consumption** of
newly introduced
module

Chekov **downloads up
3.5x** y/y

Significant Cortex growth driven by customer additions



Q3'22 highlights:

- **Strong 7-figure** performance in **multi-product** “better together” Cortex wins
- Over **100% growth Y/Y** in **Xpanse transactions**
- Cortex **growth lead** by **EMEA and Americas** regions

¹Cortex customers represents all customers who have purchased Cortex XDR Pro and/or Cortex XSOAR. Customer defined as any customer with a binding contract as of the final date of the reported period. Fiscal year ending on July 31.

Translating point product traction to platform momentum



Cortex®

XDR

100% threat detection and protection
in recent MITRE ATT&CK Evaluations

Forrester **Strong Performer** in 2022 EDR
Wave

Record number of XDR Pro transactions
closed in Q3

Xpanse

Attack Surface Expansion highlighted as
the **#1 Trend by Gartner**¹

XSOAR

Strong driver of **multi-product wins**

XSIAM

On track for **XSIAM broader release** in the **second half of calendar 2022**

¹ Gartner report entitled "Top Trends in Cybersecurity 2022" published on 2/18/2022.
Fiscal year ending on July 31.

Calling on the industry to adopt ZTNA 2.0



ZTNA 2.0: Zero Trust with Zero Exceptions

Least privilege access

Continuous trust verification

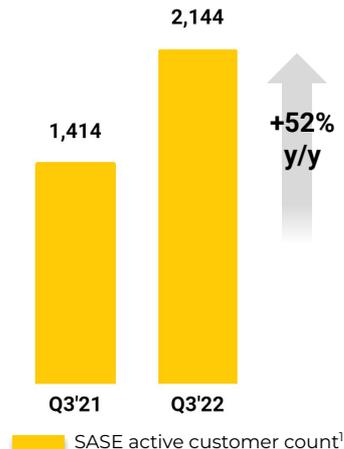
Continuous security inspection

Security for all apps and data

Q3'22 highlights:

- Released SD-WAN **on-demand bandwidth** licensing, enabling **significant reductions in costs**
- >30%** of new and expansion **customers attaching ADEM**

Continued rapid SASE customer adoption



¹ Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE includes unique customers for Prisma Access and Prisma SD-WAN and excludes customers from Sinefa acquisition. Including PANOS SD-WAN and SaaS Security subscriptions in addition to Prisma Access and Prisma SD-WAN, total customer count for Q3'22 is 3,160, which increased 55% from Q3'21 customer count of 2,040. Fiscal year ending on July 31.

Market share gains and initial refresh driving performance



Gaining share across next-generation firewall

#1 in Appliance Market Share¹

27.1%
Q4 CY'21 Market Share

5.4%

21.7%

Market Share - Q4'CY20

Market Share Gain y/y
(Q4 CY'21 vs Q4 CY'20)

#1 in VM Market Share²

34.5%
Q4 CY'21 Market Share

6.1%

28.4%

Market Share - Q4'CY20

Market Share Gain y/y
(Q4 CY'21 vs Q4 CY'20)

Refresh and innovation

Gen-4 hardware substantially released

Strong NGFW net new logo growth

**2nd hyperscale cloud supported with
AWS Cloud NGFW launch**

¹Source: Omdia Network Security Appliances and Software Market Share Tracker - 4Q21.

²Source: Dell'Oro 4Q21 Network Security report.

Fiscal year ending on July 31

Driving top-line growth while balancing profitability commitments

Top-line strength

Strength across NGS, hardware, subs & support, notably in ARR, billings and RPO

Confidence in outlook

Raising revenue and billings guidance for FY22

Consistent NGS ARR performance

Raising FY22 NGS ARR guidance on the back of cross-portfolio strength

Balance of profitability

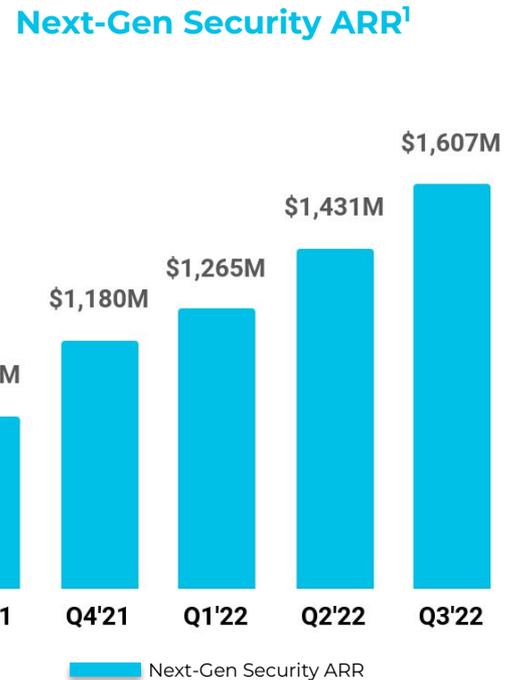
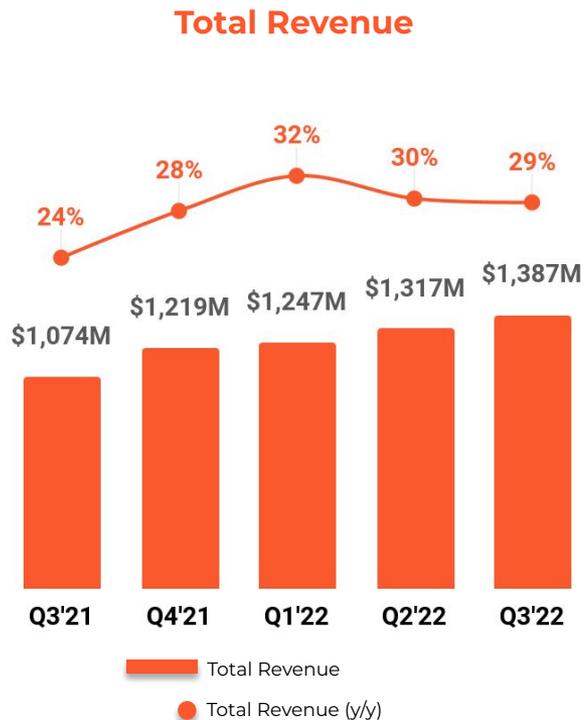
Raising our FY22 EPS guidance

DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

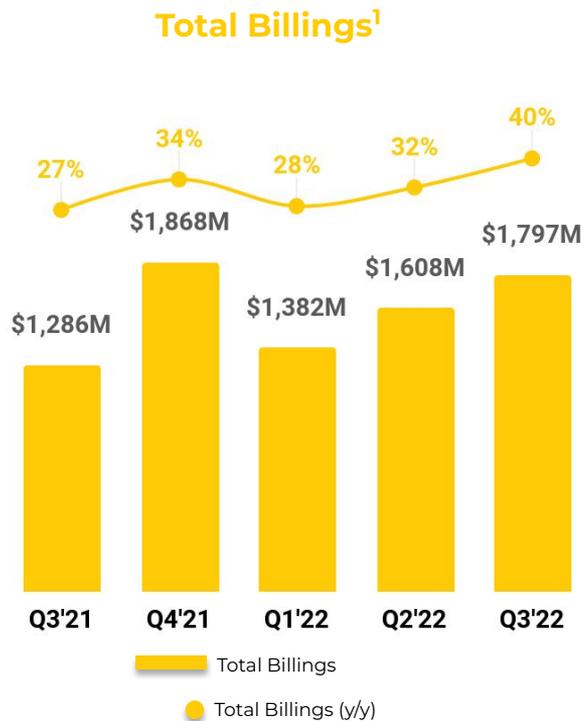


Portfolio strength again drove our top-line



¹ ARR = Annualized Recurring Revenue. Next-Gen Security ARR is the annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services. Fiscal year ending on July 31.

Q3 strength in Billings and RPO



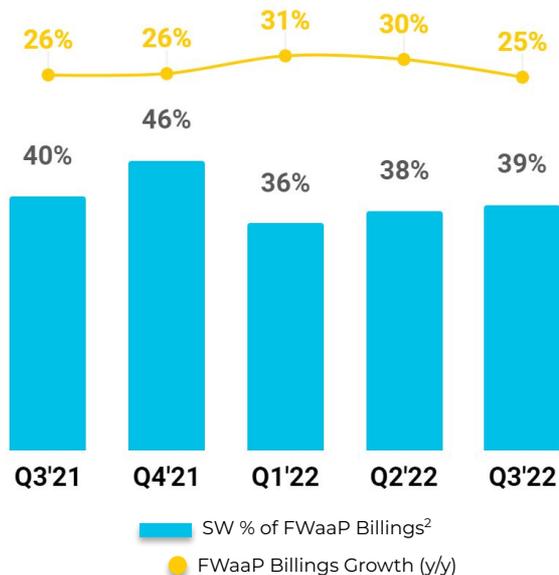
Remaining Performance Obligation



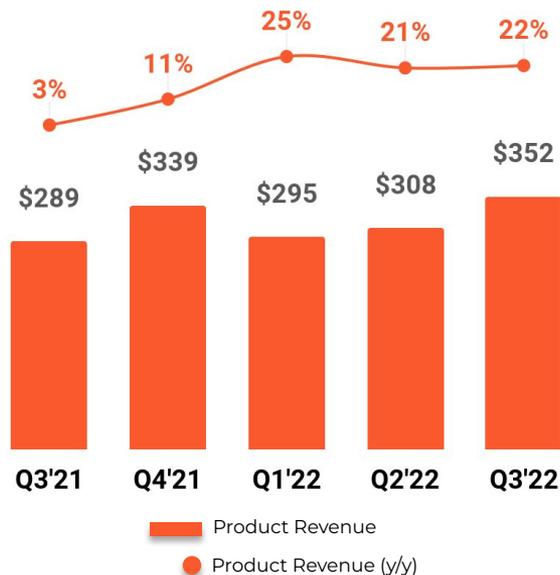
¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue. Fiscal year ending on July 31.

FWaaP¹ strength across all form factors

Sustained software mix on top of overall hardware strength



Sustained strength in product revenue growth



¹ Firewall as a Platform billings is a key financial and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and the ratable portion of VM-Series and CloudGenix offerings, during the period stated.
² SW % of Total FWaaP billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings. Reflects revised Q1'22 and Q2'22 FWaaP billings growth and software as a % of FWaaP billings to include certain software products to be consistent with prior periods. Fiscal year ended July 31.

Strength across Q3 metrics

	Q3'22 Guidance (as of 2/22/22)	Q3'22 Actual	
Total Billings ¹	\$1.59B-\$1.61B 24%-25% yr/yr	\$1.80B 40% yr/yr	
Total Revenue	\$1.345B-\$1.365B 25%-27% yr/yr	\$1.39B 29% yr/yr	
Product Revenue		\$352M 22% yr/yr	
Remaining Performance Obligation		\$6.9B 40% yr/yr	
Next-Gen Security ARR ²		\$1.61B 65% yr/yr	
Gross Margin (Non-GAAP)		72.9%	
Operating Income (Non-GAAP)		\$253M +39% yr/yr	
Operating Margin (Non-GAAP)		18.2%	
EPS (Non-GAAP)	\$1.65-\$1.68	\$1.79	
Adj. FCF Margin (Non-GAAP)		25.3%	

¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

Reconciliations of historical non-GAAP measures can be found in the Appendix.

Fiscal year ending on July 31.

Q4 Fiscal 2022 guidance

	Q4'22
Total Billings	\$2.32B - \$2.35B <i>24%-26% yr/yr</i>
Total Revenue	\$1.53B - \$1.55B <i>25%-27% yr/yr</i>
EPS (Non-GAAP) ¹	\$2.26 - \$2.29 <i>using 106 to 108 million shares</i>

¹A reconciliation of forward-looking non-GAAP earnings per share to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort. Fiscal year ending on July 31.

Raising guidance for Fiscal Year 2022

	FY 2022 Guidance as of 2/22/22	FY 2022 Guidance as of 5/19/22
Total Billings ¹	\$6.80B - \$6.85B 25%-26% yr/yr	\$7.106B - \$7.136B 30%-31% yr/yr
Next-Gen Security ARR ²	\$1.725B - \$1.775B 46%-50% yr/yr	\$1.775B - \$1.825B 50%-55% yr/yr
Total Revenue	\$5.425B - \$5.475B 27%-29% yr/yr	\$5.481B - \$5.501B 29% yr/yr
Product Revenue	+High-teens yr/yr	+20% yr/yr
Op Margin (Non-GAAP)	18.5-19.0%	18.5-19.0%
EPS (Non-GAAP)	\$7.23 - \$7.30 +18%-19% yr/yr	\$7.43 - \$7.46 21% yr/yr
Adj. FCF Margin (Non-GAAP)	32-33%	32-33%

¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort. Fiscal year ending on July 31.

Modeling points

- Q4'22 and FY'22 non-GAAP effective tax rate: 22%
- Q4'22 net interest and other expense of \$1M – \$2M
- FY22 diluted shares outstanding 106 – 107 million
- Q4'22 capital expenditures of \$36M – \$41M
- FY'22 capital expenditures of \$190M – \$195M (includes \$39M outlaid in 2Q22 related to our Santa Clara headquarters)

¹A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort.
Fiscal year ending on July 31.

Top-line growth while balancing profitability and optimizing capital structure to drive total shareholder return

Revenue growth



Investing for growth
Executing on strong market demand

Profitability



Balancing profitability
Focusing on highest return priorities

Cash conversion



Driving strong cash conversion
Growing FCF ahead of EPS

Capital structure



Managing SBC lower as % of rev

Forecasting to achieve our aspirational 'rule of 60' goal based on updated FY22 guidance

Q&A

Appendix

Investor Links and Resources

Analyst Day Videos | Sept 2021 *(single click access to each executives presentation)*

Presenter Video replay link	Duration
Nikesh Arora, CEO & Chairman Where We Are & Looking Ahead	18:34
Lee Klarich, Chief Product Officer Market Needs & Our Platforms	40:42
Anand Oswal, SVP Products Network Security (starts @ 6:26)	9:41
Ankur Shah, SVP Products Cloud Security (starts @ 16:07)	8:24
Lee Klarich, Chief Product Officer & Tim Junio, SVP Products Security Operations (starts @ 24:31)	14:23
Nir Zuk, Founder and Chief Technology Officer What does Zero Trust Really Mean?	15:00
BJ Jenkins, President Driving Sustainable Growth & Securing Our Customers	6:38
Liane Hornsey, Chief People Officer Drivers of Change - Our People. ESG for Palo Alto Networks	9:23
Dipak Golechha, Chief Financial Officer Managing for Scale and Efficiency & Bringing it All Together	15:00

Additional Resources

[2021 Analyst Day Presentation](#)

[Palo Alto Networks CSR](#)

[Recent Events & Presentations](#)

Calculation of Billings

\$ In millions

Billings:	Q321	Q421	Q122	Q222	Q322
Total revenue	\$1,073.9	\$1,219.3	\$1,247.4	\$1,316.9	\$1,386.7
Add: change in total deferred revenue, net of acquired deferred revenue	212.5	649.0	134.2	291.0	410.2
Total billings	\$1,286.4	\$1,868.3	\$1,381.6	\$1,607.9	\$1,796.9

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q322	
	\$	%
GAAP gross profit and gross margin	\$946.2	68.2%
Share-based compensation-related charges	36.3	2.7%
Amortization expense of acquired intangible assets	26.0	1.9%
Litigation-related charges ⁽¹⁾	1.8	0.1%
Non-GAAP total gross profit and gross margin	<u>\$1,010.3</u>	<u>72.9%</u>

⁽¹⁾ Consists of the amortization of intellectual property licenses and covenant not to sue. Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	Q321		Q322	
	\$	%	\$	%
GAAP operating loss	(\$110.4)	-10.3%	(\$47.6)	-3.4%
Share-based compensation-related charges	247.2	23.0%	267.2	19.2%
Acquisition-related costs ⁽¹⁾	11.7	1.1%	-	0.0%
Amortization expense of acquired intangible assets	32.0	3.0%	31.5	2.3%
Litigation-related charges ⁽²⁾	1.8	0.2%	1.8	0.1%
Non-GAAP operating income and operating margin	\$182.3	17.0%	\$252.9	18.2%

⁽¹⁾ Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

⁽²⁾ Consists of the amortization of intellectual property licenses and covenant not to sue.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q322
GAAP net loss per share, diluted	(\$0.74)
Share-based compensation-related charges	2.53
Amortization expense of acquired intangibles assets	0.32
Litigation-related charges ⁽¹⁾	0.02
Non-cash charges related to convertible notes ⁽²⁾	0.02
Foreign currency gain associated with non-GAAP adjustments	(0.02)
Income tax and other tax adjustments related to the above	(0.34)
Non-GAAP net income per share, diluted	\$1.79

⁽¹⁾ Consists of the amortization of intellectual property licenses and covenant not to sue.

⁽²⁾ Consists primarily of non-cash interest expense for amortization of debt discount and issuance costs related to the company's convertible senior notes. Effective Q1'22, the company no longer recognizes interest expense for amortization of debt discount as a result of the adoption of new debt guidance.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Adjusted Free Cash Flow

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	Q322
Net cash provided by operating activities	\$389.5
Less: purchases of property, equipment, and other assets	38.3
Free cash flow (non-GAAP)	<u>\$351.2</u>
Adjusted free cash flow (non-GAAP)	<u>\$351.2</u>
<i>Free cash flow margin (non-GAAP)</i>	<u>25.3 %</u>
<i>Adjusted free cash flow margin (non-GAAP)</i>	<u>25.3 %</u>

Fiscal year ends on July 31.



Thank you

