



# Q2 Fiscal Year 2023 Earnings Call



February 21, 2023

# 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 related to our financial guidance for the third quarter of fiscal 2023 and fiscal year 2023 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS, GAAP net income, GAAP profitability and non-GAAP adjusted free cash flow margin, our modeling points, and our expectations regarding supply chain conditions, product growth, free cash flow margins, improvements in our operational efficiency, use of cash for share repurchases, and managing stock-based compensation expense. 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 October 31, 2022, which is available on our website at [investors.paloaltonetworks.com](https://investors.paloaltonetworks.com) and on the SEC’s website at [www.sec.gov](https://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 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 February 21, 2023. 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 income 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



# Q2 Results

Balanced  
Top Line  
Performance

Total Billings<sup>1</sup>

**\$2.03B**

+26% y/y

Remaining Performance Obligation

**\$8.8B**

+39% y/y

NGS ARR<sup>2</sup>

**\$2.33B**

+63% y/y

Total Revenue

**\$1.66B**

+26% y/y

Operating Income (non-GAAP)

**\$377M**

+55% y/y

EPS (non-GAAP)

**\$1.05**

+\$0.28 vs. Q2 Guidance<sup>3</sup>

Delivered  
Accelerated  
Profitability

Adj. Free Cash Flow (non-GAAP)

**\$685M**

+55% y/y

GAAP Net Income

**GAAP Profitable**

GAAP Net Income is positive for trailing 12 months

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

<sup>2</sup>ARR = 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.

<sup>3</sup>Refers to EPS (non-GAAP) of \$0.77, the midpoint of Q2 FY23 guidance provided on November 17, 2022.

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

Fiscal year ending on July 31.

# Heads down execution in a tough macro environment

## Macro Factors

Sustained  
Cybersecurity Demand

Increased Deal  
Scrutiny

Trends fueling shift to  
software

Some inflationary  
pressures easing

## Our Execution Focus

Investing for  
profitable growth

Staying ahead of  
longer sales cycles

Positioning for  
consolidation

Maintaining focus on  
efficiency

## FY23 guidance updates

Billings

**\$9.10B-\$9.20B**  
was \$8.95B - \$9.10B

NGS ARR

**\$2.75B-\$2.80B**  
was \$2.65B - \$2.70B

Revenue

**\$6.85B - \$6.91B**

Op Margin (non-GAAP)

**21.5%-22.0%**  
was 19.5%-20.0%

Raising Adj. FCF  
Margin (non-GAAP)

**36.5%-37.5%**  
was 34.5%-35.5%

Fiscal year ending on July 31.

# Early days of consolidation in Cybersecurity

>\$1M deals in Q2'23

**+19%**<sub>OY/Y</sub>

Number of >\$1M deals in Q2'23

**+59%**<sub>OY/Y</sub>

Total Value of >\$1M deals in Q2'23

>\$5M deals in Q2'23

**+84%**<sub>OY/Y</sub>

Number of >\$5M deals in Q2'23

**+132%**<sub>OY/Y</sub>

Total Value of >\$5M deals in Q2'23

>\$10M deals in Q2'23

**+144%**<sub>OY/Y</sub>

Number of >\$10M deals in Q2'23

**+196%**<sub>OY/Y</sub>

Total Value of >\$10M deals in Q2'23

Fiscal year ending on July 31.

# Themes driving consolidation



## Zero Trust Transformation

8 figure deal | Financial Services Firm

8 figure deal | Life Sciences Firm



## Cloud Transformation

High 8 figure deal | Financial Services Firm



## SOC Transformation

High 7 figure deal | Retail Firm



# Constant Innovation Flywheel

## R&D Investment

**\$1.0B**

Trailing 12-months R&D Spending<sup>1</sup>

**2x - 5x**

The spend of pure-play cybersecurity peers

**\$2.3B**

Q2'23 NGS ARR

**+63%**

Q2'23 NGS ARR (y/y)

## Drive NGS ARR Growth

## Innovation

**35**

Major Product Releases<sup>2</sup> in 1H'23

**+59%**

vs. Major Product Releases in 1H'22

### Key 1H'23 Product Launches

AI-Ops & Adv. Wildfire  
PAN-OS 11.0  
Prisma Access 3.2  
Prisma Cloud SCA  
XDR 3.5  
Xpanse 2.0  
XSIAM

**13**

Cybersecurity technology category third party leadership recognitions as of Q2'23

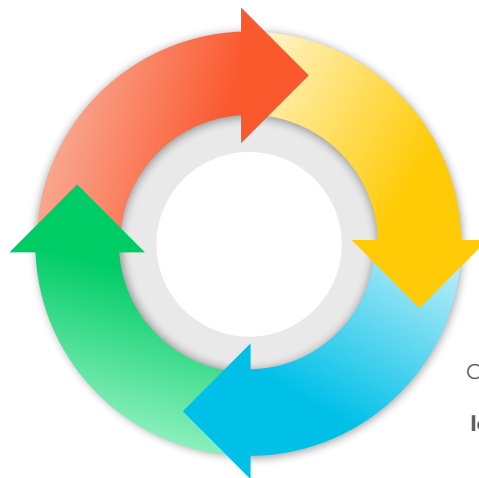
**vs 9**

in Q2'22

### New Leadership in Q2'23

A **Leader** in Frost & Sullivan CNAPP Radar

## Product Leadership



<sup>1</sup> Represents latest disclosed trailing 12 months Non-GAAP R&D spending for Palo Alto Networks and pure-play cybersecurity peers, as of February 21, 2023.

<sup>2</sup> Major product release is defined as full or dot release with significant new capability, new or add-on modules, or subscription services, new software or hardware appliance models, significant PAN-OS, acquired capabilities and significant new platform support.



# NGS: High Growth Area - SASE



Prisma®  
SASE

~\$1B

in bookings last 6  
quarters

\$40M

First \$40M SASE deal

~50%

ARR growth<sup>1</sup> as we  
scale

4K+

Active customers<sup>2</sup>

## Five-year revenue stream

NGFW  
Appliance

1x

SASE  
(FY'21)

~2x

Drivers of additional value:

ADEM | AI Ops | SSPM

SASE  
(FY'23)

>2.5x

Gross margin  
up vs. FY'21

<sup>1</sup>~50% Prisma SASE ARR growth in Q2 FY'23. Prisma SASE includes Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.

<sup>2</sup> 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, PANOS SD-WAN and SaaS Security subscriptions and excludes customers from Sinefa acquisition.

Fiscal year ending on July 31

# NGS: Software Firewalls Inflection

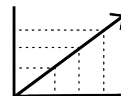


## Software Firewalls



Macro environment is driving preference for

**OpEx vs.  
CAPEX**



**>\$1M deals  
nearly doubled**  
Y/Y in Q2'23

**VM Market  
Share Leader**

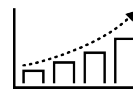
**>3x**

share of #2 player<sup>1</sup>



**Large deals  
include SW FW**

6 of the 8 largest deals in Q2  
included VM Firewalls



**Bookings  
acceleration**  
through 1H'FY23

<sup>1</sup>Source: Dell'Oro 3Q22 Network Security Report.  
Fiscal year ending on July 31

# NGS: More modules, more consumption -- steady Prisma Cloud growth



## New modules and enhancements to broaden our platform

| Code & Build                | Deploy                         | Run                                  |
|-----------------------------|--------------------------------|--------------------------------------|
|                             |                                |                                      |
| Open Source Scanning (SCA)  | Infrastructure as Code (IaC)   | Cloud Security Posture Mgmt (CSPM)   |
| Secrets Scanning <b>New</b> | Software Supply Chain Security | Cloud Identity (CIEM)                |
|                             |                                | Cloud Workload Protection (CWP)      |
|                             |                                | Web App & API (WAAS) <b>Enhanced</b> |
|                             |                                | Cloud Data Security (CDS)            |

## Strong credit growth and module adoption

|            |   |                     |
|------------|---|---------------------|
| 4+ modules | ↑ | +114% Customers y/y |
| 3+ modules | ↑ | +61% Customers y/y  |
| 2+ modules | ↑ | +42% Customers y/y  |

**3.7M**  
+48% y/y

Prisma Cloud credits consumed

# Well positioned to transform cybersecurity with AI

## AI-based outcomes

### Zero day protections<sup>2</sup>

**2.5M** new malicious websites  
**3.8M** new malicious domains  
**158K** new malware

### Real time response

**10 second** mean time to detect<sup>1</sup>  
**1 minute** mean time to remediate<sup>1</sup>  
**1,000+** AI-detection algorithms applied to 4PB+ data/day

## Normalized data streams (daily)

**3.4T** sessions  
**3.8B** web sessions & **365M** unique URLs  
**3.65B** DNS sessions & **686M** unique domains  
**44M** unique files

**10M+** endpoints  
**3PB** endpoint data

**7B** cloud assets  
**1T** cloud events

## Data Sources

**Network**

**Endpoint**

**Cloud**

## Cumulative Data

**~35-40% Customer Data<sup>3</sup>**  
61k+ customers

**75-80% Customer Data<sup>3</sup>**  
4.5k+ customers

**90%+ Customer Data<sup>3</sup>**  
~2k customers

<sup>1</sup> Based on Palo Alto Networks SOC

<sup>2</sup> Daily

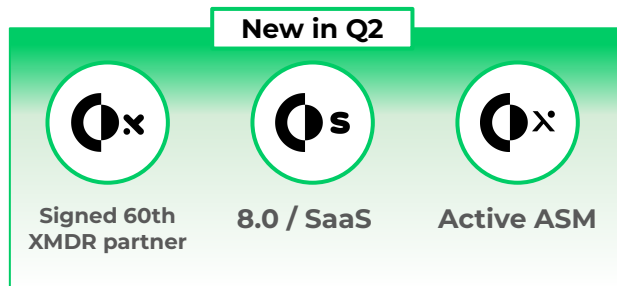
<sup>3</sup> Internal Estimate

# NGS: XDR, Xpanse, XSOAR perform, Encouraging XSIAM traction



Cortex®

## Competitive best of breed capabilities...

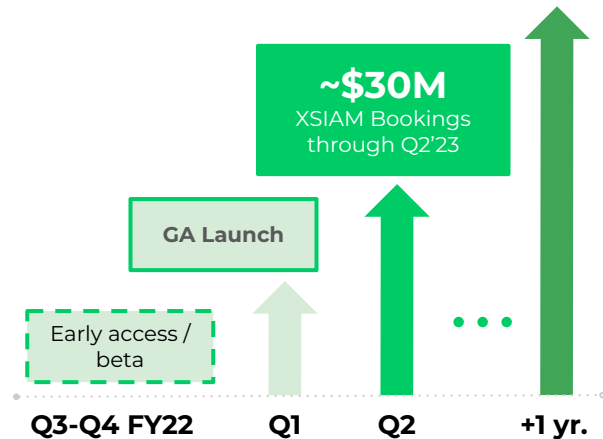


## ...and strong cross-sell traction

Financial services firm  
\$5M+ transaction  
standardizing on  
XDR, cross-sell from  
XSOAR

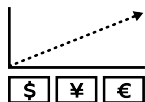
Public sector entity  
\$3M expansion of  
XDR footprint and  
addition of XSOAR

## Enabling us to transform security operations with XSIAM

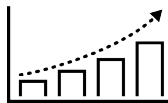


Expect **fastest bookings ramp** of any new offering

# Our operating model focused on: AI, better operations, scale and profitable growth



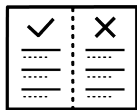
Sustaining **revenue growth** for longer with strength in **Next Generation Security** offerings



Driving **Operating leverage** on a new base having achieved our 2021 Analyst Day Plan



Sustaining **free cash flow margins** driven by operating margin expansion



Actively managing SBC to further **drive GAAP profitability**

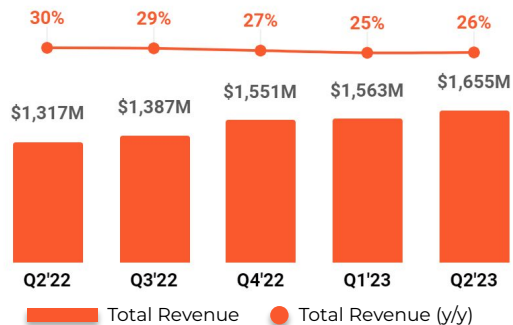
# DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

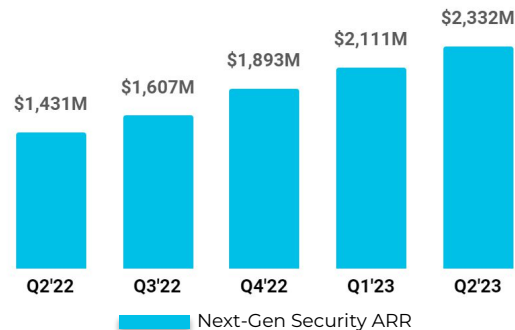


# Strong top-line trends in Q2'23

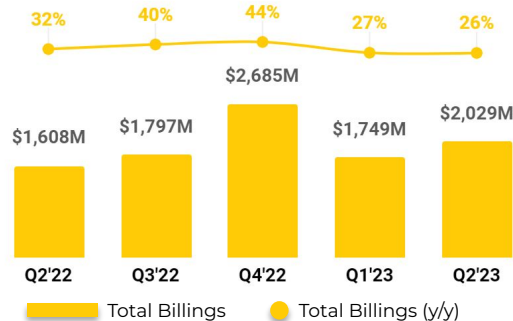
## Total Revenue



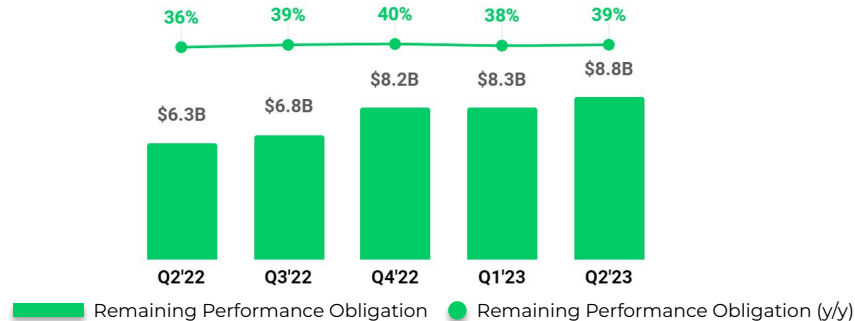
## Next-Gen Security ARR



## Total Billings



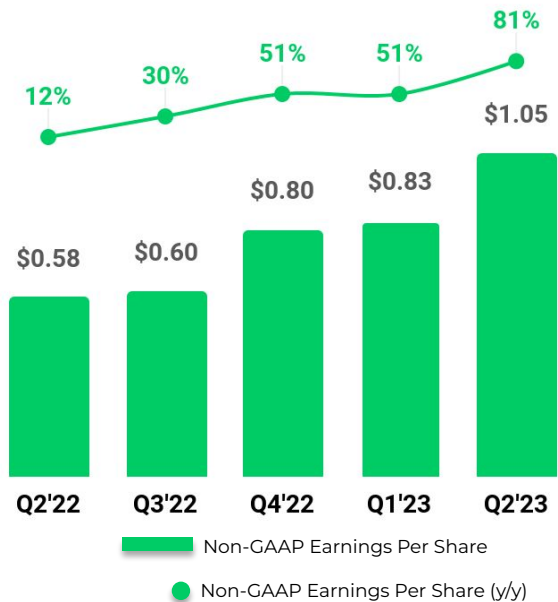
## Remaining Performance Obligation



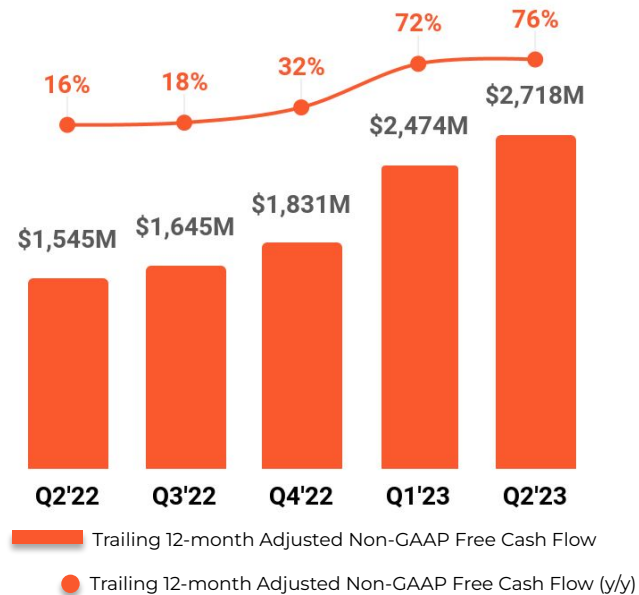


# Focused on profitable growth

## Non-GAAP Earnings Per Share<sup>1</sup>






## Trailing 12 Month Adjusted Non-GAAP Free Cash Flow



<sup>1</sup> Non-GAAP Earnings Per Share for periods Q2'22, Q3'22, and Q4'22 adjusted to reflect the effect of the stock split executed on September 13, 2022. Fiscal year ending on July 31.

## Q2 metrics

|                                  | Q2'23<br>Guidance (as of 11/17/22) | Q2'23<br>Actual         |   |
|----------------------------------|------------------------------------|-------------------------|---|
| Total Billings                   | \$1.94B-\$1.99B<br>21%-24% yr/yr   | \$2.03B<br>26% yr/yr    |  |
| Total Revenue                    | \$1.63B-\$1.66B<br>24%-26% yr/yr   | \$1.66B<br>26% yr/yr    |  |
| Product Revenue                  |                                    | \$353M<br>15% yr/yr     |   |
| Remaining Performance Obligation |                                    | \$8.8B<br>39% yr/yr     |   |
| Next-Gen Security ARR            |                                    | \$2.33B<br>63% yr/yr    |   |
| Gross Margin (Non-GAAP)          |                                    | 75.5%<br>+150 bps yr/yr |   |
| Operating Income (Non-GAAP)      |                                    | \$377M<br>55% yr/yr     |   |
| Operating Margin (Non-GAAP)      |                                    | 22.8%<br>+440 bps yr/yr |   |
| EPS (Non-GAAP)                   | \$0.76-\$0.78                      | \$1.05                  |  |
| Adj. Free Cash Flow (Non-GAAP)   |                                    | \$0.69B<br>55% yr/yr    |   |

Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

# Operating Margin Resilience: Balanced Growth/OM

Scale in our  
fastest-growing  
businesses

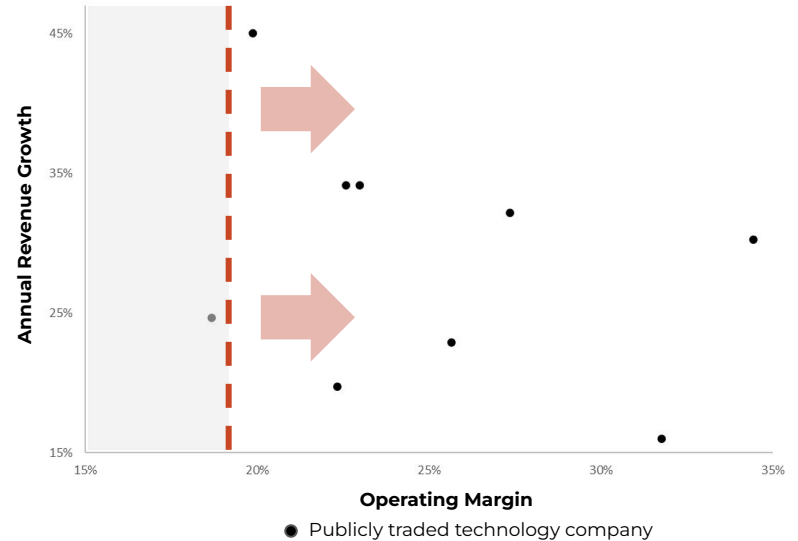
Raising the bar  
on ROI  
requirements for  
investments

Analyzing  
external  
benchmarks

Remaining  
prudent with  
hiring

Driving EPS growth ahead of revenue  
growth

Peers demonstrate we have room in OM  
as we scale










## Q3 and Q4 fiscal 2023 guidance

|                             | Q3'23                                       | Q4'23                                       |
|-----------------------------|---|---|
| Total Billings              | <b>\$2.20B - \$2.25B</b><br>22%-25% yr/yr   | <b>\$3.12B - \$3.17B</b><br>16%-18% yr/yr   |
| Total Revenue               | <b>\$1.695B - \$1.725B</b><br>22%-24% yr/yr | <b>\$1.937B - \$1.967B</b><br>25%-27% yr/yr |
| EPS (Non-GAAP) <sup>1</sup> | <b>\$0.90 - \$0.94</b><br>50%-57% yr/yr     | <b>\$1.18 - \$1.22</b><br>48%-53% yr/yr     |

**Maintaining our annual revenue guidance**

<sup>1</sup>A 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.

# Fiscal year 2023 guidance

|                            | FY 2023<br>Guidance as of 11/17/22  | FY 2023<br>Guidance as of 2/21/23   |
|----------------------------|-------------------------------------|---|
| Total Billings             | \$8.95B - \$9.10B<br>+20%-22% yr/yr | \$9.10B - \$9.20B<br>+22%-23% yr/yr  |
| Next-Gen Security ARR      | \$2.65B - \$2.70B<br>+40%-43% yr/yr | \$2.75B - \$2.80B<br>+45%-48% yr/yr  |
| Total Revenue              | \$6.85B - \$6.91B<br>+25%-26% yr/yr | \$6.85B - \$6.91B<br>+25%-26% yr/yr  |
| Product Revenue            | ~10% yr/yr                          | ~10% yr/yr                           |
| Op Margin (Non-GAAP)       | 19.5-20.0%                          | 21.5-22.0%<br>+200 bps               |
| EPS (Non-GAAP)             | \$3.37 - \$3.44<br>+34%-37% yr/yr   | \$3.97 - \$4.03<br>+57%-59% yr/yr    |
| Adj. FCF Margin (Non-GAAP) | 34.5-35.5%                          | 36.5-37.5%<br>+200 bps               |
| GAAP Net Income            | Positive                            | Positive each quarter   |

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

- Q3'23 and FY'23 non-GAAP effective tax rate: 22%
- Q3'23 and Q4'23 net interest and other income of \$45M – \$49M
- Q3'23 diluted shares outstanding 321 – 327 million
- Q4'23 diluted shares outstanding 326 – 332 million
- FY23 diluted shares outstanding 320 – 326 million
- Q3'23 capital expenditures of \$35M – \$40M
- FY'23 capital expenditures of \$165M – \$170M

<sup>1</sup>A 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.

# Q&A

# Appendix



# Investor Links and Resources

## Analyst Day Videos | Sept 2021 *(single click access to each executive's presentation)*

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

## Additional Resources

[2021 Analyst Day Presentation](#)

[Palo Alto Networks CSR](#)

[Recent Events & Presentations](#)

# Calculation of Billings

\$ In millions

| Billings:   | Q222             | Q322             | Q422             | Q123             | Q223             |
|---|------------------|------------------|------------------|------------------|------------------|
| Total revenue   | \$1,316.9        | \$1,386.7        | \$1,550.5        | \$1,563.4        | \$1,655.1        |
| Add: change in total deferred revenue, net of acquired deferred revenue | 291.0            | 410.2            | 1,134.6          | 185.6            | 374.0            |
| Total billings  | <u>\$1,607.9</u> | <u>\$1,796.9</u> | <u>\$2,685.1</u> | <u>\$1,749.0</u> | <u>\$2,029.1</u> |

Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – Gross Margin

| Non-GAAP gross profit and gross margin:            | Q222    |       | Q223      |       |
|--|---------|-------|-----------|-------|
|  | \$      | %     | \$        | %     |
| GAAP gross profit and gross margin                 | \$911.6 | 69.2% | \$1,188.9 | 71.8% |
| Share-based compensation-related charges           | 35.5    | 2.7%  | 39.4      | 2.5%  |
| Amortization expense of acquired intangible assets | 26.1    | 2.0%  | 19.0      | 1.1%  |
| Litigation-related charges <sup>(1)</sup>          | 1.8     | 0.1%  | 1.8       | 0.1%  |
| Non-GAAP total gross profit and gross margin       | \$975.0 | 74.0% | \$1,249.1 | 75.5% |

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

# GAAP to Non-GAAP Reconciliations – Research and Development Expense

\$ In millions

| Non-GAAP research and development expense:   | TTM Q223         |
|--|------------------|
| GAAP research and development expense        | \$1,495.1        |
| Share-based compensation-related charges     | (485.4)          |
| Restructuring and other costs <sup>(1)</sup> | (1.8)            |
| Non-GAAP research and development expense    | <u>\$1,007.9</u> |

<sup>(1)</sup> Consists of manufacturing related charges and other costs.  
Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – Operating Margin

\$ In millions

| Non-GAAP operating income and operating margin:    | Q222     |       | Q223    |       |
|--|----------|-------|---------|-------|
|  | \$       | %     | \$      | %     |
| GAAP operating income (loss) and operating margin  | (\$73.9) | -5.6% | \$39.9  | 2.4%  |
| Share-based compensation-related charges           | 283.3    | 21.5% | 298.6   | 18.1% |
| Acquisition-related costs <sup>(1)</sup>           | -        | 0.0%  | 12.1    | 0.7%  |
| Amortization expense of acquired intangible assets | 31.5     | 2.4%  | 24.4    | 1.5%  |
| Litigation-related charges <sup>(2)</sup>          | 1.8      | 0.1%  | 1.8     | 0.1%  |
| Non-GAAP operating income and operating margin     | \$242.7  | 18.4% | \$376.8 | 22.8% |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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:                           | Q221     | Q321     | Q421     | Q122     | Q222     | Q322     | Q422   | Q123   | Q223   |
|---|----------|----------|----------|----------|----------|----------|--------|--------|--------|
| GAAP net income (loss) per share, diluted                         | (\$0.49) | (\$0.50) | (\$0.41) | (\$0.35) | (\$0.32) | (\$0.25) | \$0.01 | \$0.06 | \$0.25 |
| Share-based compensation-related charges                          | 0.81     | 0.83     | 0.80     | 0.88     | 0.90     | 0.84     | 0.78   | 0.87   | 0.94   |
| Acquisition-related cost <sup>(1)</sup>                           | 0.07     | 0.04     | 0.00     | 0.01     | 0.00     | 0.00     | 0.01   | 0.00   | 0.04   |
| Amortization expense of acquired intangibles assets               | 0.10     | 0.11     | 0.11     | 0.11     | 0.11     | 0.11     | 0.09   | 0.08   | 0.07   |
| Litigation-related charges <sup>(2)</sup>                         | 0.01     | 0.01     | 0.01     | 0.01     | 0.01     | 0.01     | 0.01   | 0.01   | 0.01   |
| Restructuring and other costs <sup>(3)</sup>                      | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.06   | (0.01) | 0.00   |
| Non-cash charges related to convertible notes <sup>(4)</sup>      | 0.12     | 0.12     | 0.12     | 0.01     | 0.01     | 0.01     | 0.01   | 0.01   | 0.01   |
| Foreign currency gain (loss) associated with non-GAAP adjustments | 0.01     | 0.00     | 0.00     | 0.00     | 0.00     | (0.01)   | 0.00   | (0.01) | 0.01   |
| Income tax and other tax adjustments <sup>(5)</sup>               | (0.11)   | (0.15)   | (0.10)   | (0.12)   | (0.13)   | (0.11)   | (0.17) | (0.18) | (0.28) |
| Non-GAAP net income per share, diluted                            | \$0.52   | \$0.46   | \$0.53   | \$0.55   | \$0.58   | \$0.60   | \$0.80 | \$0.83 | \$1.05 |

<sup>(1)</sup> 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.

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

<sup>(3)</sup> Consists of manufacturing related charges, loss on the closure of an office facility, other costs, and related adjustments.

<sup>(4)</sup> Consists primarily of non-cash interest expense for amortization of debt discount and issuance costs related to the company's convertible senior notes.

<sup>(5)</sup> Consist of the income tax adjustments related to our long-term non-GAAP effective tax rate. In Q2'23, it included a tax benefit from a release of tax reserves related to uncertain tax positions resulting from a tax settlement.

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):                    | Q222    | Q223    | TTM Q221  | TTM Q321  | TTM Q421  | TTM Q122  | TTM Q222  | TTM Q322  | TTM Q422  | TTM Q123  | TTM Q223  |
|---|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net cash provided by operating activities                                 | \$482.6 | \$694.6 | \$1,403.0 | \$1,510.9 | \$1,503.0 | \$1,557.0 | \$1,675.1 | \$1,786.8 | \$1,984.7 | \$2,632.5 | \$2,844.5 |
| Less: purchases of property, equipment, and other assets                  | 80.7    | 38.3    | 179.8     | 120.4     | 116.0     | 121.0     | 169.6     | 181.0     | 192.8     | 197.8     | 155.4     |
| Free cash flow (non-GAAP)   | \$401.9 | \$656.3 | \$1,223.2 | \$1,390.5 | \$1,387.0 | \$1,436.0 | \$1,505.5 | \$1,605.8 | \$1,791.9 | \$2,434.7 | \$2,689.1 |
| Add: capital expenditures for headquarters <sup>(1)</sup>                 | 38.9    | -       | 53.8      | -         | -         | -         | 38.9      | 38.9      | 38.9      | 38.9      | -         |
| Add: cash payment related to tax settlement                               | -       | 28.9    | -         | -         | -         | -         | -         | -         | -         | -         | 28.9      |
| Add: repayments of convertible senior notes attributable to debt discount | -       | -       | -         | -         | 0.1       | 0.1       | 0.1       | 0.1       | -         | -         | -         |
| Add: litigation related payment <sup>(2)</sup>                            | -       | -       | 50.0      | -         | -         | -         | -         | -         | -         | -         | -         |
| Adjusted free cash flow (non-GAAP)  | \$440.8 | \$685.2 | \$1,327.0 | \$1,390.5 | \$1,387.1 | \$1,436.1 | \$1,544.5 | \$1,644.8 | \$1,830.8 | \$2,473.6 | \$2,718.0 |

<sup>(1)</sup> Consists of capital expenditures for our headquarters including a land purchase of \$51.7 million in Q3'20 and \$38.9 million in Q2'22.

<sup>(2)</sup> Consists of a one-time payment in Q3'20 related to covenant not to sue. Fiscal year ends on July 31.

# Thank you

