



Q4 Fiscal Year 2020 Earnings Call



August 24, 2020

Safe Harbor

This presentation may contain “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 Palo Alto Networks’ expectations regarding the introduction of new modules, our intention to continue investing in Next-Gen Security in a financially prudent manner and to transition customers to software models, our financial guidance for the first quarter of fiscal 2021 and our expectations for fiscal year 2021 regarding total billings, operating margins, EPS and adjusted free cash flow margins, and the length of the transition and changes caused by COVID-19, including the acceleration of certain trends. Many of these assumptions relate to matters that are beyond our control and changing rapidly, including, but not limited to, the timeframes for and severity of social distancing and other mitigation requirements, the impact of COVID-19 on our customers’ purchasing decisions and the length of our sales cycles, particularly for customers in certain industries highly affected by COVID-19.

There are a significant number of factors that could cause actual results to differ materially from 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; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; delays in the development or release of new subscription offerings; our competition; rapidly evolving technological developments in the market for network security products and subscription and support offerings; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; length of sales cycles; 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 fiscal quarter ended April 30, 2020, 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 August 24, 2020. 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 (loss) per diluted share because we do not provide guidance on GAAP net income (loss) and would not be able to present the various reconciling cash and non-cash items between GAAP net income (loss) and non-GAAP net income, including share-based compensation expense, without unreasonable effort. You can also find information regarding our use of non-GAAP financial measures in our earnings release dated August 24, 2020.

Welcome

Strategic Assessment of Cybersecurity Industry Two Years Ago

...mobility, the movement of data to the cloud, data analytics and machine learnings are some of the trends that we believe are forcing companies to reevaluate their security posture in a more **comprehensive** manner, looking for **high levels of integration and automation**...

...the **transition to the cloud** is gathering steam. Every customer I've talked to is working on a version of a cloud strategy....

...there's a broad understanding of the value of data and the need for good usable data as a basis for applying **AI and machine learning** in the future....

Source: Nikesh Arora, CEO and chairman of Palo Alto Networks, in Q4'18 and Q1'19 earnings calls on September 6, 2018, and November 29, 2018, respectively.

Creating a Three Platform Company



Secure the Enterprise
from the network to the edge

An **8-Time Gartner Magic Quadrant Leader** for Network Firewalls¹

~69,000 Next-Gen Firewall customers²

Large and growing support and cloud-delivered security subscription business



Secure the Cloud
and applications across the development lifecycle

Prisma Access is the **most comprehensive SASE platform**

1,800+ customers² of Prisma Cloud and monitoring **1.5B+** cloud resources³



Secure the Future
with AI and Analytics

1,000+ customers² of Cortex XDR, a new category defined with **cross-data analytics**

~600 customers² of Cortex XSOAR, a new category defined with integrated **threat intel management**

¹ Gartner Magic Quadrant for Network Firewalls, Rajpreet Kaur, Adam Hills, Jeremy D'Hoinne, John Watts, 17 September 2019.

² Total customers represent all customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services.

³ Cloud resources include primarily hosts, containers, S3 buckets, security groups, and virtual private clouds.

Fiscal year ending on July 31.

Proven Ability to Create Value Through M&A

1

Disciplined and Strategic Approach

2

Activating GTM/CS¹ Capabilities

3

Integrating Technologies and Retaining Key Talent

4X

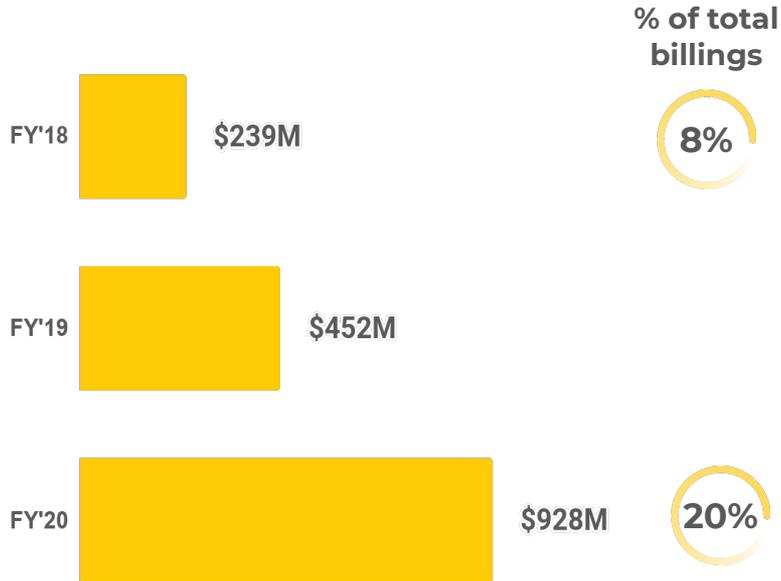
Run-rate billings vs.
prior to acquisition²

¹ GTM = Go-to-market, CS = Customer Success

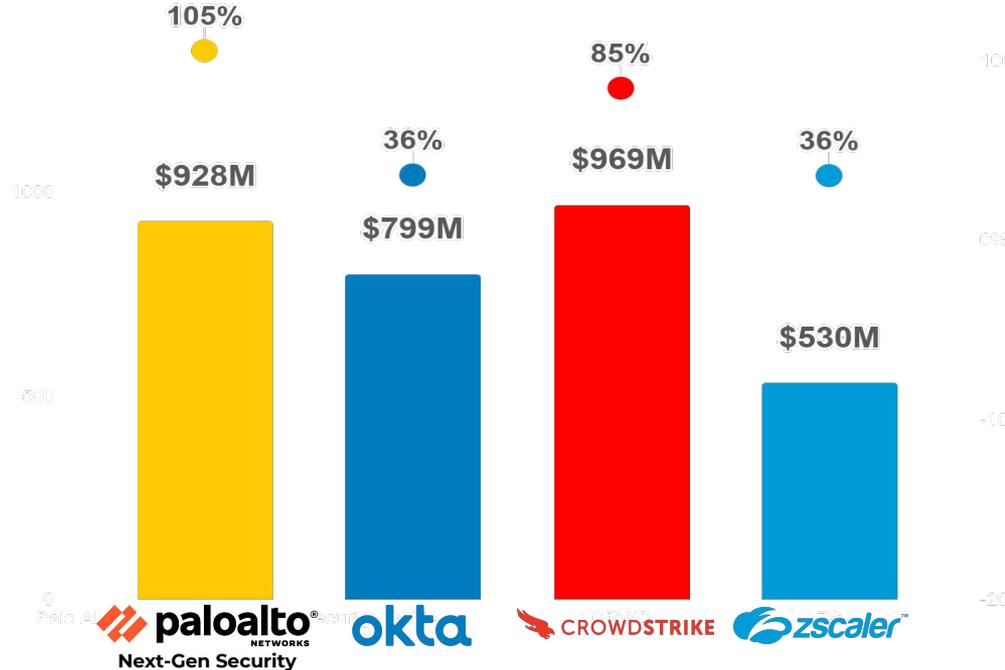
² 4x multiple is calculated using run-rate billings from M&A, which include contributions from Prisma SaaS, Prisma Cloud, CloudGenix, ZingBox, Cortex XSOAR, and Cortex XDR (calculated as 2H FY20 billings multiplied by 2), as compared to bookings in the full quarter of the acquired company (Apareto, CirroSecure, CloudGenix, Cyvera, Demisto, Evident.io, LightCyber, PureSec, RedLock, Secdo, Twistlock, and ZingBox) prior to the close of the acquisition, multiplied by 4. Fiscal year ending on July 31.

Next-Gen Security Billings¹

FY'18-FY'20 CAGR of 97%



LTM Billings² Growth



¹ Next-Gen Security billings is a key financial metric and operating metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of the VM-Series and related services.

² LTM billings presented reflects the LTM period ending 7/31/20. Okta and Zscaler LTM billings and billings growth are based on publicly reported results for the quarters ended 10/31/19, 1/31/20, and 4/30/20 and Factset Consensus as of 8/21/20 for the quarter ended 7/31/20 (not yet reported). CrowdStrike billings is calculated as total revenue plus the change in total deferred revenue. CrowdStrike LTM billings and billings growth are based on publicly reported results, estimates from analyst research, and Factset Consensus as of 8/21/20.

Source: Company public filings per www.sec.gov, estimates from analyst research, and estimates per Factset. Fiscal year ending on July 31.

Cortex XDR

Prevention, Detection and Response Across Endpoint, Network and Cloud Data

- Delivers detection and response across endpoints, network and cloud assets, offering **unmatched threat detection and reduces alerts by 50x**
- Fastest growth to **1,000 customers¹** than any other NGS product
- Hands-on testing by **NSS Labs** and **MITRE** have seen Cortex XDR regularly outperform the industry heavyweights
- Gartner named XDR as a **Top Security and Risk Management trend** of 2020²



A fast-growing cyber consulting and incident response company, helping customers defend against and respond to cybersecurity threats

¹ Total customers represent all customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services.

² 2020 Gartner Top Security and Risk Management Trends, Peter Firstbrook, Neil MacDonald, Lawrence Orans, Mario de Boer, Katell Thielemann, Bart Willemsen, Akif Khan, Michael Kranawetter, 27 February 2020
Fiscal year ending on July 31.

Cortex XSOAR

Security operations and analytics platform for analyzing and operationalizing cyberthreat intelligence

- **Simplifies security orchestration for SOC¹ customers** by unifying security orchestration, automation and response with threat intelligence management
- Cortex XSOAR has **more than doubled billings and customers²** in the last year
- **New Launch: Cortex XSOAR Marketplace** enables organizations to discover and share orchestration innovations contributed by experts, amplifying the value of the SOAR platform community by making it more effective for all

¹ SOC = Security Operations Center

² Total customers represent all 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.

Prisma Cloud

Comprehensive cloud native security across the entire application lifecycle

- **Broadest cloud security offering in the market**, having integrated best-in-class capabilities from RedLock, PureSec and Twistlock
- COVID-19 has **accelerated the move to the cloud**
- Since inception, Prisma Cloud has acquired **over 1,800 customers**,¹ 14% of the G2000
- **1/3** of Prisma Cloud customers are using Compute (formerly Twistlock and PureSec)
- **Coming Soon: New integrated modules** on data security, network security and IAM security

¹Total customers represent all 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.

Prisma Access + CloudGenix = SASE

Best-in-class security meets industry-leading SD-WAN, delivered from the cloud

- **Most comprehensive SASE platform** and **leader in cloud-delivered SD-WAN**
- **Substantially enhanced** in FY'20 with a **true cloud backend** and **global network footprint**
- **Accelerated acquisition of customers**, nearly doubling in the last 2 quarters
- Together, Prisma Access and CloudGenix achieved **~\$90M in billings** in fiscal Q4'20

¹Total customers represent all 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.

Winning Across Form Factors with Firewall as a Platform

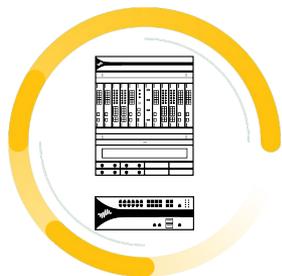
Cloud-Delivered Security Services



Hardware
PA-Series

Software
VM-Series / CN-Series

Cloud Service
Prisma Access



High-Performance
Physical Appliances
& Chassis



Virtual Software
VM & CN Series



Cloud-Delivered
Security

4 to 8

Expanded attached
subscriptions

19%

Q4'20 Firewall as a
Platform billings¹ yr/yr
growth



Evolved from VM-Series,
with future integration
with Prisma

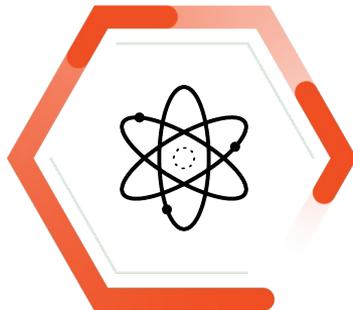
¹Firewall as a platform billings is a key financial metric and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and support and subscriptions related to VM-Series and CloudGenix offerings, during the period stated. Fiscal year ending on July 31.

Navigating COVID-19



Customers

Customers are becoming more cost conscious



Digital Transformation

Enterprises are moving faster toward investing in technology to the cloud, and to security



People First

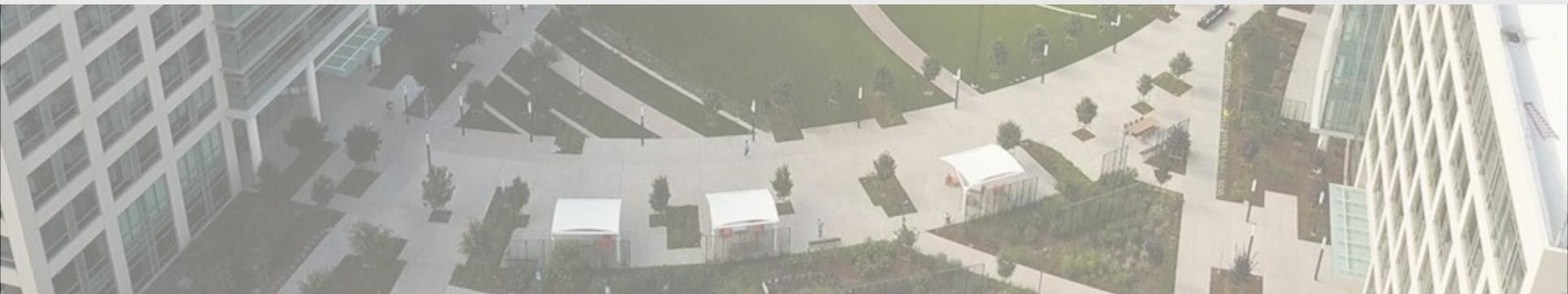
Navigated COVID with our People First approach



Official Launch of **FLEXWORK**

FLEXbenefits

FLEXlearn



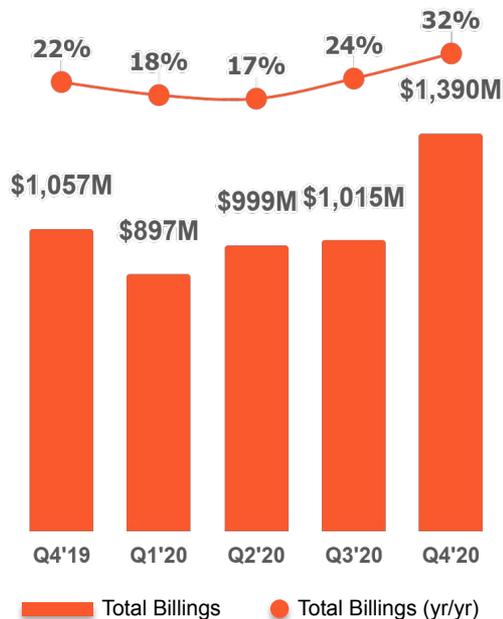
The Year Ahead

1. We will invest to sustain our momentum in Next-Gen Security and security subscriptions – both organically and inorganically – in a financially prudent manner
2. We will continue to shift our customers to software models – in line with the secular trend and accelerated by the work-from-home dynamic
3. We will help our employees maintain health, well-being and productivity through our enhanced FLEXWORK program

Financial Overview

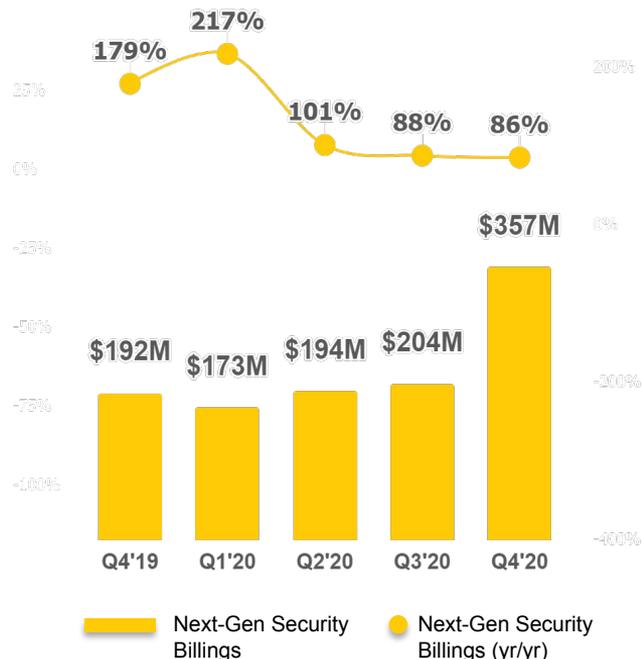
Q4 Fiscal 2020 Billings

Total Billings¹

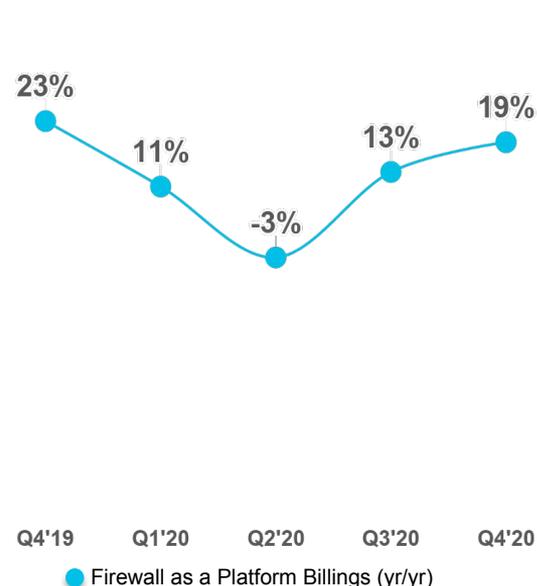


Next-Gen Security Billings²

Q4'20 ARR³:~\$650M



Firewall as a Platform⁴ Billings Growth



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

²Next-Gen Security billings is a key financial metric and operating metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of the VM-Series and related services.

³ARR = Annual Recurring Revenue; ARR is annualized revenue of all active contracts as of the final day of the reporting period.

⁴Firewall as a Platform billings is a key financial 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.

Fiscal year ending on July 31.

Q4 Fiscal Year 2020 and Fiscal Year 2020 Financial Summary

	Q4'20 Guidance (as of 5/21)	Q4'20 Actual	FY'20 Guidance (as of 5/21)	FY'20 Actual
Total Billings	\$1,190M-\$1,210M 13%-14% yr/yr	\$1,390M 32% yr/yr 	\$4,102M-\$4,122M 18% yr/yr	\$4,302M 23% yr/yr 
Next-Gen Security Billings		\$357M 86% yr/yr	\$810M-\$820M 79%-82% yr/yr	\$928M 105% yr/yr 
Total Revenue	\$915M-\$925M 14%-15% yr/yr	\$950M 18% yr/yr 	\$3,373M-\$3,383M 16%-17% yr/yr	\$3,408M 18% yr/yr 
Deferred Revenue		\$3,810M 32% yr/yr		\$3,810M 32% yr/yr
Gross Margin (Non-GAAP)		74.3%		75.6%
Op Margin (Non-GAAP)		19.8%		17.6%
EPS (Non-GAAP)	\$1.37-\$1.40	\$1.48 	\$4.78-\$4.81	\$4.88 
Adj. FCF Margin (Non-GAAP)		31.8%	27%-28%	28.4% 

See appendix for reconciliation to most comparable GAAP financial measure. Fiscal year ending on July 31.

Q1 Fiscal 2021 Guidance

\$ in millions

	Q1'21
Total Billings	\$1.03B - \$1.05B <i>15%-17% yr/yr</i>
Total Revenue	\$915M - \$925M <i>19%-20% yr/yr</i>
EPS (Non-GAAP) ¹	\$1.32 - \$1.35 <i>using 99 to 101 million shares</i>

Modeling Points

- Q1'21 non-GAAP¹ effective tax rate: 22%
- Q1'21 capital expenditures of \$35M – \$40M

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.

Expectations for Fiscal Year 2021

1. We expect total billings growth in the mid teens and total revenue growth in the high teens, with product revenue flat to slightly down year over year
2. We will manage our spend to flat organic operating margin as we continue to invest in Next-Gen Security and our people during COVID
3. We expect EPS growth in the low to mid teens as we face headwinds from lower interest income
4. We expect annual adjusted free cash flow margins to be consistent with fiscal year 2020

Q&A

Appendix

Calculation of Billings

\$ In millions

Billings:	Q419	Q120	Q220	Q320	Q420	FY19	FY20
Total revenue	\$805.8	\$771.9	\$816.7	\$869.4	\$950.4	\$2,899.6	\$3,408.4
Add: change in total deferred revenue, net of acquired deferred revenue	251.1	125.5	182.2	146.0	439.6	590.2	893.3
Total billings	\$1,056.9	\$897.4	\$998.9	\$1,015.4	\$1,390.0	\$3,489.8	\$4,301.7

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q419		Q420		FY19		FY20	
	\$	%	\$	%	\$	%	\$	%
GAAP gross profit and gross margin	\$588.4	73.0%	\$660.0	69.4%	\$2,091.2	72.1%	\$2,408.9	70.7%
Share-based compensation-related charges	21.6	2.7%	24.7	2.6%	84.2	2.9%	93.9	2.8%
Amortization expense of acquired intangible assets	13.5	1.7%	20.0	2.1%	40.4	1.4%	68.7	2.0%
Litigation-related charges ⁽¹⁾	1.0	0.1%	1.8	0.2%	10.2	0.4%	3.6	0.1%
Non-GAAP total gross profit and gross margin	\$624.5	77.5%	\$706.5	74.3%	\$2,226.0	76.8%	\$2,575.1	75.6%

⁽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:	Q419		Q420		FY19		FY20	
	\$	%	\$	%	\$	%	\$	%
GAAP operating loss	(\$9.9)	-1.2%	(\$17.8)	-1.9%	(\$54.1)	-1.9%	(\$179.0)	-5.3%
Share-based compensation-related charges	155.3	19.3%	181.3	19.1%	591.3	20.4%	685.5	20.1%
Acquisition-related costs ⁽¹⁾	9.8	1.2%	0.4	0.0%	29.8	1.0%	15.7	0.5%
Amortization expense of acquired intangible assets	15.0	1.9%	22.7	2.4%	53.0	1.8%	76.4	2.2%
Litigation-related charges ⁽²⁾	1.0	0.1%	1.8	0.2%	10.2	0.4%	3.6	0.1%
(Gain) loss related to facility exit ⁽³⁾	2.9	0.4%	-	0.0%	7.0	0.2%	(3.1)	-0.1%
Non-GAAP operating income and operating margin	<u>\$174.1</u>	<u>21.6%</u>	<u>\$188.4</u>	<u>19.8%</u>	<u>\$637.2</u>	<u>22.0%</u>	<u>\$599.1</u>	<u>17.6%</u>

⁽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.

⁽³⁾ Consists of charges related to the relocation of our corporate headquarters (cease-use losses of \$4.1 million in Q3'19 and \$2.9 million in Q4'19) and a gain of \$3.1 million related to the early termination of our previous headquarters leases in Q2'20.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

\$ In millions

Non-GAAP net income per share, diluted:	Q4'19	Q4'20	FY'19	FY'20
GAAP net loss per share, diluted	(\$0.22)	(\$0.61)	(\$0.87)	(\$2.76)
Share-based compensation-related charges	1.56	1.86	6.00	6.96
Acquisition-related cost ⁽¹⁾	0.10	0.00	0.32	0.16
Amortization expense of acquired intangibles assets	0.16	0.24	0.56	0.79
Litigation-related charges ⁽²⁾	0.01	0.02	0.11	0.04
(Gain) loss related to facility exit ⁽³⁾	0.03	0.00	0.07	(0.03)
Non-cash charges related to convertible notes ⁽⁴⁾	0.17	0.28	0.77	0.76
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.01	0.02	0.01
Income tax and other tax adjustments related to the above	(0.36)	(0.32)	(1.53)	(1.05)
Non-GAAP net income per share, diluted	<u>\$1.47</u>	<u>\$1.48</u>	<u>\$5.45</u>	<u>\$4.88</u>

⁽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.

⁽³⁾ Consists of charges related to the relocation of our corporate headquarters (cease-use losses of \$4.1 million in Q3'19 and \$2.9 million in Q4'19) and a gain of \$3.1 million related to the early termination of our previous headquarters leases in Q2'20.

⁽⁴⁾ Consists primarily of non-cash interest expense related to our convertible senior notes. Also includes non-cash losses of \$2.2 million and \$0.4 million in Q1'19 and Q2'19, respectively, related to early conversions of our convertible notes during those periods.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliation – Adjusted Free Cash Flow

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	Q419	Q420	FY19	FY20
Net cash provided by operating activities	\$231.5	\$333.7	\$1,055.6	\$1,035.7
Less: purchases of property, equipment, and other assets	53.1	31.8	131.2	214.4
Free cash flow (non-GAAP)	\$178.4	\$301.9	\$924.4	\$821.3
Add: capital expenditures for new headquarters ⁽¹⁾	26.8	-	28.4	94.3
Add: repayments of convertible senior notes attributable to debt discount	30.5	-	97.6	-
Add: litigation related payment ⁽²⁾	-	-	-	50.0
Less: cash reimbursement (payments), net related to landlord lease amendment ⁽³⁾	(2.9)	-	(14.8)	(2.0)
Adjusted free cash flow (non-GAAP)	\$238.6	\$301.9	\$1,065.2	\$967.6
Free cash flow margin (non-GAAP)	22.1 %	31.8 %	31.9 %	24.1 %
Adjusted free cash flow margin (non-GAAP)	29.6 %	31.8 %	36.7 %	28.4 %

⁽¹⁾ Consists of capital expenditures for new headquarters including a land purchase of \$51.7 million in Q3'20.

⁽²⁾ Consists of a one-time payment in Q3'20 related to covenant not to sue.

⁽³⁾ During Q1'18, we received an upfront cash reimbursement of \$38.2 million from our landlords in connection with the exercise of their option to amend the lease payment schedules and eliminate the rent holiday periods under certain of our lease agreements. The upfront cash reimbursement was applied against increased rental payments totaling \$38.2 million due in FY'18 through Q1'20 under the amended lease agreements. Adjusted free cash flow for the periods presented reflects adjustments for these increased rental payments made during the respective periods.

Fiscal year ends on July 31.

Thank you

