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Palo Alto Networks, Inc. (PANW)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Clayton Bilby

Head-Investor Relations, Palo Alto Networks, Inc.

Good day, everyone, and welcome to Palo Alto Networks' Fiscal First Quarter 2023 Earnings Conference Call. I am Clay Bilby, Head of Palo Alto Networks' Investor Relations. Please note that this call is being recorded today, Thursday, November 17, 2022, at 1:30 PM Pacific Time.

With me on today's call are Nikesh Arora, our Chairman and Chief Executive Officer; and Dipak Golechha, our Chief Financial Officer. Our Chief Product Officer, Lee Klarich, will join us in the Q&A session, following the prepared remarks.

You can find the press release and information to supplement today's discussion on our website at investors.paloaltonetworks.com. While there, please click on the link for Events & Presentations, where you'll find the investor presentation and supplemental information.

During the course of today's call, we will make forward-looking statements and projections regarding the company's business operations and financial performance. These statements are subject to risks and uncertainties that are made as of today. We assume no obligation to update them. Please review the press release and our recent SEC filings for a discussion of these risks and uncertainties. We'll also refer to non-GAAP financial measures. These measures should not be considered as a substitute for financial measures prepared in accordance with GAAP. The most directly comparable GAAP financial measures and reconciliations are included in the press release and the appendix of this investor presentation. All comparisons are on a year-over-year basis unless specifically noted otherwise. Please also note that the three-for-one stock split announced during our Q4 was completed with share and per share numbers now reflecting this.

I will now turn the call over to Nikesh.

Nikesh Arora

Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

Thank you, Clay. Good afternoon and thank you, everyone, for joining us for our earnings call. As you can see, we had a solid first quarter where we showed balanced top line growth and a demonstrable focus on profitability. Early in the quarter, we saw some customer behavior changes and have adapted our operations to align with the changing market conditions. On the top line, billings grew 27% year-over-year, while RPO grew 38%. We have consistently maintained that cybersecurity is the most innovative sector of the technology industry. Demonstrate progress on our transformation, we have shared how our new cloud-delivered and cloud-enabled offerings are contributing to our business via our NGS ARR. In that context, this quarter our NGS ARR hit a key milestone. It crossed the $2 billion mark and grew 67% year-over-year.

As the macroeconomic environment changes, we are accelerating our efforts to drive incremental operating leverage in our business. Given that we're the largest independent cybersecurity business, we can meaningfully improve our margins over the next phase of our company's life cycle. Our focus on profitability in the quarter drove operating income growth of 44% year-over-year with operating margins up 260 basis points during the same period. We also generated over $1 billion in free cash flow in the quarter. For the second quarter in a row, we generated net income on a GAAP basis as we focus on GAAP profitability for the fiscal year.

At the center of our strategy is a need to drive more consolidation to get customers to a better security posture. Towards that end, we continue to see large cross-platform buys and grew our millionaire customers at a steady clip. Our customers have been on a journey with us. Initial deals that give them comfort with our products and help us distinguish our abilities from our competition over time lead to customers seeing an opportunity to consolidate into one of our platforms. As they get comfortable with either Strata, Prisma, or Cortex, we see them looking at further consolidation across multiple platforms from us. This strategy has allowed us to continue to transition our deal sizes with satisfied customers, and we expect this to continue.

Consistent with that approach, we've had some marquee deals this quarter. A US Federal Government agency chose our Cortex technology. This transaction allows the total spend to grow into nine figures with additional years and customer options. This selection highlights unique capabilities and market leadership of our Xpanse technology, which was at the center of this transaction. We received a purchase order for the first three years of the deal for over $60 million in Q1. A large US utility signed a seven-figure deal for software firewalls, security subscription and Prisma Cloud. The customer has hundreds of appliance-based firewalls and chose our software firewalls because of our consistent architecture, and chose Prisma Cloud as standardized security across four public clouds.

A major European media company signed an eight-figure multiproduct deal replacing several incumbent network security vendors and consolidating on Palo Alto Networks, including our full line of cloud-delivered security subscriptions. We closed a seven-figure deal with a US technology company spanning all three platforms. The customer did not have our physical firewalls in their environment, but valued our consistency of software firewall deployment across on-premises and cloud, our unique Xpanse offering and the total cost of ownership benefits of consolidating on our platforms. You can see evidence of our broader success with large customer commitments in our active millionaire customer count where we added over 230 year-over-year in the first quarter.

We continue to innovate across our platforms and get recognized by the market for our abilities. This quarter saw us launch software composition analysis in Prisma Cloud, SaaS Security Posture Management in SASE, and just this week across our next generation firewalls. Lastly, we announced general availability of XSIAM in Cortex.

External recognition of our innovation is important to us as many customers rely on this third-party validation as a part of their evaluation process. This quarter, we received leadership recognition in two new categories, adding Cloud Security Posture Management, or CSPM, and Cloud-Native Application Protection platform, or CNAP, to our list.

Let's take a deeper look at our three platforms. We have continued to see solid growth in our network security business. Our innovations in the appliance firewall form factor, including our Gen 4 refresh and our investments in the virtual form factor, have continued to drive our share gains. On a year-over-year basis, we have gained approximately 3 percentage points of market share in the appliance market and 7 percentage points in the VM market. Our customers see an opportunity to drive standardization and make decisions to move away from competitors that have not kept up with our pace of innovation. We also see many customers extending the standardization to SASE. Many are in the relatively early stages of executing SASE, given it involves changes to their security network architectures.

Our Prisma SASE offering has gained industry recognition, and we've seen an increasing number of wins within our installed base as well as with new customers. To put this into perspective, our firewall customer base is over 15 times larger than our SASE customer base. With our core sellers now enabled and executing and driving SASE into the installed base, SASE continues to represent our largest pipeline.

Consolidation of network security capabilities of our customers is driving attached subscriptions into our installed base across all firewall form factors. Our constant innovation and capability expansion to network security has been a hallmark of our platform since we entered the market over 15 years ago.

While we have highlighted the number of new subscriptions we offer, we have also re-imagined our existing capabilities. Our advanced URL filtering and threat prevention versions leverage deep learning to block evasive zero-day unknown attacks in real-time. Yesterday, we introduced the advanced version of WildFire to stop more zero-day cloud attacks as part of our PAN-OS 11.0 Nova release. The new subscriptions provide significant additional value to our installed base and have already seen promising adoption.

Moving on to Prisma Cloud. Prisma Cloud continues to be the industry's leading CNAP platform built from best-in-class acquisition of organic innovation. We acquired Bridgecrew 18 months ago to shift left and introduced a Cloud Code Security module with Infrastructure as Code scanning. Building on this, we released our SCA, or Software Compensation Analysis, solution in Q1. The integration of SCA with the Prisma Cloud platform enables developers and security teams to prioritize known vulnerabilities that impact the application lifecycle proactively.

We have seen hundreds of Prisma Cloud customers use our IaC and SCA capabilities as part of our Cloud Code Security module. We continue to see Prisma Cloud customers increase their credit consumption as they expand their hyperscaler footprint and adopt more of our nine modules such as Cloud Code. Half of our Prisma Cloud customers are using two or more modules and nearly 20% are using four or more modules. In Q1, our credit consumption grew 55% year-over-year.

Building further upon our success, shifting left with IaC security and SCA adoption, we're doubling down on investing in software supply chain security. Today, we announced our intent to acquire Cider Security, which is key to this strategy. Cider brings the ability to visualize customers' application development and deployment environment, analyze the tools, identify risks and how to remediate them. This ability to secure the software supply chain is backed up by Cider's leading CI/CD security research team. With the integration of Cider's capabilities into Prisma Cloud after the closing of the acquisition, we will further our leadership in cloud security, helping enterprises secure applications from code to cloud.

Across Cortex, we are focused on driving momentum in a number of areas. The first key is ensuring we are winning customers with our best-of-breed product capability. In Q1, we saw strong Cortex large deal performance. We had success not only with XDR, XSOAR and Xpanse on a stand-alone basis, but a number of notable examples of multiproduct deals. This included a multimillion-dollar transaction with a European construction company, which replaced their existing SIEM and SOAR with XDR Pro and XSOAR. Another government customer adopted XDR Pro and XSOAR in a seven-figure deal as it formulized a new SOC for multiple agencies. These are in addition to the Federal customer we already talked about.

We continued to innovate across Cortex during Q1, delivering a new managed detection response service built on our XDR capability and enriched by our Unit 42 world-class threat intelligence. I'm most excited about the general availability of XSIAM, our breakthrough autonomous security operations platform. Our launch events for XSIAM were oversubscribed and we see a lot of resonance with our product and its future roadmap as customers re-imagine the world of SOC management.

Just a few months ago, we had launched the design partner program. Most recently, we've had two multimillion-dollar commitments from XSIAM design partners as they expanded into production deployments. At this point, the majority of our design customers have transitioned to paying customers. In fact, we're carefully managing how we onboard future XSIAM customers because we want to ensure fast customer time to value. Our interest list is north of 50 customers who would like us to deploy XSIAM. We're qualifying them and carefully onboarding them so that we can scale the business appropriately and give them value.

In summary, I feel our teams did a good job in a seasonally tough quarter, where also the macroeconomic climate is fast changing. I'm sure all of you are trying to figure out what all of this means for us over the next three quarters.

As we all know, the Fed is working to tame inflation impacting growth. While cybersecurity is somewhat resilient, we do see some marginal signs of impact. Cybersecurity deals are getting more scrutiny, suggesting deeper and longer reviews of transformational projects. New conversations that include payment terms and discounts are causing deal cycles to elongate. On a positive front, while some deals have been sized down or broken into phases, we are experiencing few deal cancelations. We do expect this behavior to become the norm over the next year.

The impact is not uniform across all sectors, but those feeling the impact of interest rate increases are more likely to scrutinize their budgets than those prospering in the high interest rate environment. Technology, CPG, and some parts of retail are feeling an impact, while utilities, oil and gas, defense and public sector verticals continue to be on course with their plans.

Coming off Q4, Q1 tends to be a seasonally more challenging quarter, but we were able to tame some of these early trends by doubling down on execution. FY 2023 will require continued excellent execution to overcome some of these macro impacts. Towards that end, we have already taken concrete action. We have front-loaded hiring of our field teams to increase coverage across our customer base. We have also expanded our level of activity around both new accounts and existing customers to ensure faster time to value with our products.

As we discussed last quarter, we have seen some customers delay hardware refresh plans. While they will ultimately need to refresh, some are choosing to defer and reassess at a later date. I continue to believe that hardware will have a long-term industry growth rate in the 5% to 8% range, and we might trend to the lower end of the range. However, coupled with an easing supply chain, I expect that near term we'll continue to report a low-double digit growth rate for product revenue.

Too many vendors leads to complexity and increased risk. Given the increased scrutiny and return requirements, the silver lining for Palo Alto Networks says that we're having more conversations around consolidating platforms than we've ever had before. We think customers are less likely to purchase newer security products. Instead, they will continue to consolidate towards like-for-like capabilities from fewer vendors.

Cybersecurity is critical to IT transformation and hyperscaler adoption. We believe that whilst there may be short-term bumps to the pace of investment by some of the customers, these projects will continue for the medium and long term. We see cybersecurity spending as resilient, but not immune to customers adjusting for the current environment. Having said that, I continue to believe that we can overcome these macroeconomic impacts with strong and focused execution, which is what we plan to do.

It was just six to nine months ago that we were talking about the challenges we face in the competition for talent. We're now finding it easier to recruit and hire top talent. We're also seeing lower attrition rates, which necessitates fewer overall new hires. We'll closely monitor our hiring as well, as our overall spending to further sharpen our focus on efficiency. As we proceed through the year and focus internally how we respond to the external landscape, sharp execution from our teams will be paramount.

Before I turn the call over to Dipak, I want to provide some perspectives on how we're thinking about the forecast. We are adjusting the high end of our guidance ranges for revenue and billings for the year for the upside we saw in Q1. Within our revenue, we do expect slightly higher product revenue growth in the range of 10-plus percent as we're able to ship some orders that were previously held back by the more challenging supply chain situation I mentioned earlier. We're also reflecting the strength we saw in NGS ARR during Q1 with higher NGS ARR guidance range for the year. This reflects not only the performance of our Cortex Prisma Cloud SASE and software firewalls, but also the success we have seen in advanced Cloud-delivered subscriptions that I noted.

On a positive note, we're focusing more and more in execution and how our teams focus on driving incremental operating leverage. Towards that end, we were able to take steps to accelerate the profitability we previously outlined at our Analyst Day, which was reflected in our Q1 operating margin and EPS performance. We will remain focused here. And as a result, we're raising our operating margin guidance for the year by 50 basis points. This as well as higher interest income is driving the increase to our EPS and cash flow guidance, as Dipak will cover.

Over the last few years, on a compounded basis, our EPS and adjusted free cash flow have grown below our revenue growth rate as we made significant investments. We're now targeting EPS and adjusted free cash flow to both grow north of 30% at our guidance midpoint, which is ahead of our revenue growth. We're confident in our strategy and wouldn't trade our position with any other cybersecurity company. We believe our broad portfolio focus is an advantage as we focus on emerging areas where customers are allocating new budget dollars while also capturing increased portion of the customers' broader cybersecurity budget as they look to consolidate spending.

We will continue to invest for the long term with our commitment to fund innovation, while we also pursue near-term opportunity to drive efficiencies in our business.

With that, I will turn the call over to Dipak.

Dipak Golechha

Chief Financial Officer, Palo Alto Networks, Inc.

Thank you, Nikesh, and good afternoon, everyone. For Q1, revenue of $1.56 billion grew 25% and was above the high end of our guidance range. Product grew 12% and total services grew by 30%. By geography, we saw growth across all theaters with EMEA up 32%, the Americas growing 24% and JPAC growing 26%. Our Next-Generation Security capabilities are increasingly driving our results and our NGS ARR grew 67% and at $2.11 billion exceeded $2 billion for the first time. We continue to see strength driven by our broad portfolio within Next-Generation Security. This includes Cortex, Prisma Cloud, Prisma SASE, software firewalls and the advanced versions of Cloud-delivered subscriptions. We remain optimistic about the prospects of this broad and diverse portfolio.

We delivered total billings of $1.75 billion, up 27%, which was above the high end of our guidance range. Total deferred revenue in Q1 was $7.2 billion, an increase of 39%. Remaining performance obligation or RPO was $8.3 billion, increasing 38% with current RPO representing about half of our RPO, similar to previous quarters.

Moving beyond the top line metrics I already highlighted, non-GAAP gross margin of 74.3% was down 10 basis points year-over-year with some incremental supply chain-related expenses being incurred for components and shipping. Operating margin was 20.6%, an increase of 260 basis points year-over-year. This strength in operating margin was the result of lower expenses as a percent of revenue across all three expense lines, R&D, sales and marketing and G&A. We have already focused on aligning our investment plans to the areas of highest return and, thus, as we proceed through this environment, it is sharpening of these efforts.

Non-GAAP net income for the first quarter grew 56% to $266 million or $0.83 per diluted share. Our non-GAAP effective tax rate was 22%, GAAP net income was $20 million or $0.07 per basic share and $0.06 per diluted share.

Now, turning to the balance sheet and cash flow statement. Our balance sheet is strong, closing Q1 with our highest cash and investable balance ever with cash equivalents and investments of $5.9 billion. We have ample flexibility to repay debt coming due, invest in the business, do tuck-in acquisitions and return capital to shareholders. We're in the enviable position to be able to do all of these at the same time.

Q1 cash flow from operations was $1.24 billion. We generated more than $1 billion in free cash flow for the first time in our history with total free cash flow of $1.2 billion this quarter. This puts us well on track to hit our annual guidance, which we are raising today. This cash flow performance was largely driven by strong collections in the quarter that we expected based on the strength of our business in Q4.

During Q1, we did not repurchase any of our shares. As a reminder, our share repurchase program is opportunistic, and we're committed to this method of returning cash to shareholders over the medium term. As Nikesh discussed on the M&A front, we entered into a definitive agreement to purchase Cider Security for approximately $195 million in cash, excluding the value of replacement equity awards subject to adjustments. We expect this deal to close in the fiscal second quarter. We expect the financial impact of the transaction to be immaterial to our fiscal 2023 guidance.

Stock-based compensation ticked up slightly as a percentage of revenue quarter-over-quarter as expected, with the issuance of a portion of our fiscal year 2023 grants. On a year-over-year basis, we continue to manage our SBC down as a percent of revenue, in line with our long-term plans. As we've had a number of questions about the impact of foreign exchange volatility on our business, I wanted to remind investors that we price our products in dollars around the world and, therefore, are not exposed to the direct translation impact to revenue that you may be hearing about from other companies.

Now, moving on to our guidance for Q2 and for the year, for the second fiscal quarter of 2023, we expect billings to be in the range of $1.94 billion to $1.99 billion, an increase of 21% to 24%. We expect revenue to be in the range of $1.63 billion to $1.66 billion, an increase of 24% to 26%. We expect non-GAAP EPS to be in the range of $0.76 to $0.78, an increase of 31% to 35%. For the fiscal year, we expect billings to be in the range of $8.95 billion to $9.1 billion, an increase of 20% to 22%. We expect NGS ARR to be in the range of $2.65 billion to $2.7 billion, an increase of 40% to 43%.

We expect revenue to be in the range of $6.85 billion to $6.91 billion, an increase of 25% to 26%. We expect product revenue growth in the range of 10%, up slightly, as Nikesh outlined in his remarks. We expect fiscal 2023 operating margins to be in the range of 19.5% to 20%, up 50 basis points versus the range we outlined coming into the year. We expect non-GAAP EPS to be in the range of $3.37 to $3.4, an increase of 34% to 37%. We expect adjusted free cash flow margin to be 34.5% to 35.5%. And we continue to expect to be GAAP profitable for fiscal year 2023.

Additionally, please consider the following modeling points. We expect our non-GAAP tax rate to remain at 22% for Q2 and fiscal 2023 subject to the outcome of future tax legislation. For Q2 2023, we expect net interest and other income of $18 million to $20 million. We expect Q2 2023 diluted shares outstanding of 320 million to 326 million shares. We expect fiscal year 2023 diluted shares outstanding of 325 million to 331 million. We expect Q2 capital expenditures of $40 million to $45 million. And we expect fiscal year capital expenditures of $190 million to $200 million.

As an additional modeling support, based on our prior seasonality, we expect the quarter-over-quarter revenue and billings growth for Q3 2023 to be in line with last year. Also, we expect operating income in Q3 to be roughly flat with our Q2 levels. To wrap up, we are confident in our strategy and wouldn't trade our position with any other cybersecurity company. We're focused on sharp execution and sales intensity to stay ahead of the changing macroeconomic environment. At the same time, we're focused on taking steps to accelerate our profitability, as I guided.

With that, I will turn the call back over to Clay for the Q&A portion of the call.

QUESTION AND ANSWER SECTION

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.
A

Great. Thank you, Dipak. To allow for broad participation, I'd like to ask that each person only ask one question. Our first question of the evening comes from Saket Kalia of Barclays, with Hamza Fodderwala to follow. Saket, you may ask your question.

Saket Kalia
Analyst, Barclays Capital, Inc.
Q

Okay. Great. Hey, everyone. Thanks for taking my questions here and nice set of results. Nikesh, maybe for you. You mentioned some early customer behavior changes. I was wondering if you could just expand on that a little bit and how that manifested in the business. It doesn't seem like there was much of an impact in the NGS business. In fact, that accelerated growth year-over-year. I wonder if you could just expand on where that customer behavior changed and how you've incorporated that into the full-year guidance.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

Look, Saket, as I mentioned, we are seeing customers spend more time trying to understand what they're spending money on. There's more questions. The CFOs are getting involved, so larger deals are getting more scrutiny. But we noticed that early in the quarter, so we accelerated our efforts in trying to get those deals in front of those CFOs much faster and earlier in the quarter as opposed to waiting towards the end. In certain cases, customers came back and said I'd like this now, I'd like to hold off on this and buy it next quarter.

That just means we have to go farm our pipeline much faster and much harder to make sure we can make up for those deals with other deals in our pipeline. At any point in time, our pipeline, as you'd expect, is larger than what we expect to deliver in that quarter. So, we have deals in the pipeline. We just have to work with our customers to solidify them.

And what we have done is, because of that behavior, we have increased scrutiny internally. We've increased efforts with our sales teams to get ahead of this. And we're just increasing the activity of execution. We front-loaded our hires. We hired 550 direct sales reps as quickly as we could in the quarter because we think this environment is going to continue. And the only way to fight this is to get more coverage out in the field. Get more coverage, get more focus on getting deals done, get them across the line.

There is not a demand problem, right? All that is happening is that people are pushing out some of their purchases. It just means we just need to get more active with our customer base to make sure we get more business into our pipeline, which is what we're doing.

Saket Kalia
Analyst, Barclays Capital, Inc.
Q

Makes sense. Thanks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

Pleasure.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.
A

Okay. Next question from Hamza Fodderwala with Morgan Stanley, with Brad to follow. Go ahead, Hamza.

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC
Q

Hey, guys. Good evening. Thank you for taking my question. And a lot of great clarity in the prepared remarks. Nikesh, I want to talk a little bit about supply chain security and Cider. I think a few months ago, there was an executive order from the Biden Administration around securing software supply chains. I know it's early days in the acquisition, the ink's not even dry yet. But what do you feel about sort of the pipeline, the opportunity of Palo Alto Networks being now the largest cybersecurity vendor for the US Federal Government? What are you seeing there and is there interest already from that front?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

Let me comment, and then I'm going to let our birthday boy, Lee Klarich, speak to this because we've got to give him work to do. It's his birthday, he came to work. As you know, Prisma Cloud continues to go from strength to strength. We see very large deals in the hopper, in our pipeline and we're beginning to see more and more seriousness on cloud security from our customers. I highlighted a customer, which has four public clouds deployed. They can't do that. They can't secure it with four different native cloud CSP platform security, so we are seeing more interest. We're seeing more engagement.

As I've always maintained, I don't believe all the cloud security products have been created. And as you start to see the customers move, so we saw the shift-left movement, we went ahead and did Bridgecrew. It's fully integrated. We've seen a significant percent of our customers begin to use that. As we're talking to them, we're realizing they have some legacy, some new AppSec vendors in place which they're deploying, and they're trying to use that to take care of supply chain security. Some of that is older architectures, older ways of doing things. But we decided we want to do it differently.

If I answer the question, then Lee won't have anything to say. So, Lee, answer the rest of his question.

Lee Klarich
Chief Product Officer, Palo Alto Networks, Inc.

A

Thank you, Nikesh. Good question, Hamza. So, let me make one thing very clear. It's not just a US Federal Government challenge. Anyone who is developing and deploying applications into public cloud, which today is basically everybody, has a supply chain risk that they're dealing with. That supply chain risk can come in the form of software, in the form of open-source software that they are building into their applications, which brings a certain type of supply chain risk.

And the second type is through all of the tools and applications that they need to use in order to actually build an application. And we've seen that this can easily be hundreds of different third-party tools that they incorporate into their development process that have access to their source code. That is the second form of supply chain risk and sometimes referred to as CI/CD pipeline risk, and that is a key component of what Cider will add to the broader capabilities we have with Prisma Cloud.

Hamza Fodderwala
Analyst, Morgan Stanley & Co. LLC

Q

All right. Thank you. Clay, you're on mute.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

That is not good to be on mute. Okay. Brad Zelnick from Deutsche Bank, with Andy to follow. Go ahead, Brad.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thank you so much for taking my question, and congrats on the strong execution. Nikesh, I wanted to circle back on your comments about the easing supply chain and expectations for hardware growth to be above long-term trend this year. I believe you said low-double digit. Just making sure the uptick is solely your view on supply. And just relatedly, when we look at product gross margin, it still seems to be under pressure. Can you help us just reconcile how much of this is mix versus COGS and any other factors, just to appreciate – and what to expect of hardware gross margin? Thank you.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

First of all, Brad, remind me to send you a painting for your office. It looks a bit sparse. But that notwithstanding, Brad, look, I've always maintained the underlying hardware growth in the industry is about 5% to 8%, and I've not deviated. We've seen changed behavior where people have tried to order ahead because of supply chain constraints. We've seen pricing impacts to drive some of the growth. But I think the underlying growth continues to be the same.

What has happened over the last, I'd say, four to six months, slowly and steadily, we're seeing easing of some elements of supply chain, there are some components have become easier to get, as you've seen. Some semiconductor companies are talking about cutting supply or cutting production in memory and in NAND and DRAMs.

So, you are beginning to see easing in various – some – certain amount of components, which is allowing us to ship product faster. At the same time, some, I'd say, real and perhaps some artificial supply chain constraints are being maintained in the industry. I expect them to ease over time, which would also ease up some of the pressure on gross margin.

The gross margin impact is purely us having paid expedite fees for certain parts. It's really not an underlying component cost issues. So, we think those will ease over the next – really depends on the suppliers. I think the supply chain easing is happening as we speak, and we should be out of it in the six- to nine-month timeframe, at the far end 12. It all depends on when the suppliers stop extracting more from us to try and get us those parts. Hope that helps.

Brad Zelnick
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks for taking the question.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Great. Next is Andy Nowinski with Wells Fargo, with Phil Winslow to follow. Go ahead, Andy.

Andrew James Nowinski
Analyst, Wells Fargo Securities LLC

Q

Thank you. Congrats on the great quarter. One of the key metrics that stood out to us, I guess, was the Next-Gen ARR growth, particularly your net new ARR growth. I think you mentioned you saw strength across all [indiscernible] (00:32:06). I was just wondering if you could put a finer point on that and maybe let us know the largest components of Next-Gen Security and whether that big Fed deal was included in that ARR this quarter. Thanks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

So, go ahead, Dipak.

Dipak Golechha
Chief Financial Officer, Palo Alto Networks, Inc.

A

Yeah. So, I would say, look, we feel very good about all the elements of our NGS ARR. Like, just to repeat, we've got SASE. We've got Cortex. We've got Cloud, and we have some of the new cloud-delivered services. The majority of the growth continues to be the SASE, Cloud, Cortex side of the house. So, I think all of that is good. There are portions of deals. We don't comment on deals like specifically, but if they have the appropriate products, then we contribute the appropriate amount of ARR in them. Yes.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Sorry. Yes, to your direct question, yes, the Xpanse deal is in the net new ARR that you've seen.

Andrew James Nowinski
Analyst, Wells Fargo Securities LLC

Q

Thanks.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.
A

All right. Great. Next up is Phil Winslow with Credit Suisse, with Fatima Boolani to follow. Go ahead, Phil.

Philip Winslow
Analyst, Credit Suisse Securities (USA) LLC
Q

Great. Thanks for taking my question, and congrats on another phenomenal quarter. Want to focus in on Prisma SASE, Prisma Access. You gave some interesting stats there in terms of penetration into your existing firewall base, but also wins in the cloud with customers that are not current on-premises firewall customers of yours. When you look at the momentum you're seeing, are you getting better at penetrating that existing base? And are customers starting to understand the value of on-premise/off-premise one policy? Or are you seeing more momentum even in, call it, displacing competing vendors in the cloud, though?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

So, Phil, first of all, thanks for the complement. Thanks for the great question. As Saket asked, and I think I've maintained that, I have seen, again, more activity this past quarter in C-level executives from our customers engaging on consolidation plays or getting cloud transformation plays going. And what is interesting is not only our customers are beginning to see increased engagement with GSIs, or global system integrators, where the system integrators are being brought in to try and keep costs down and create a transformation. So, I'm not going to name any of them, but I'd say more engagement [ph] gains (00:34:22) across the board with the SI community as well as our direct customers.

In terms of your question, are we seeing engagement from existing customers and net new customers? It's both, there are existing customers who are stepping up, and they are on a path to do their transformation whether they are adopting the Cloud. The big [ph] aha (00:34:41) is, Phil, we used to be a firewall company. We used to sell firewalls. I've got a dirty secret for you. CIOs and CSOs don't buy firewalls. Network architects do and they live in one corner of the enterprise. CIOs and CSOs do transformation projects. They'll do cloud transformations. They'll do network transformations. They'll do SOC transformations. And to be honest, we never had a portfolio until about two-and-a-half years [ph] ago, that (00:35:05) actually had those conversations.

So, what's beginning to happen is we are really building a new muscle as a company where we are able to engage with CIOs and CSOs. We've got Amit flying in one direction, Helmut from Europe flying in the other direction. We've got BJ Jenkins flying in the third direction, and we let Lee out as well once in a while. So across all these people, we're having a lot more engagement across customers and these are long-term plays. But the good news is we show you that a few of these always land in the quarter, so we get large eight-figure deals in a quarter. These are consequence of these large transformation conversations. It'd take between 3 to 10 months to germinate into real big deals. So, I think the activity is still high, as I've said. On the margin, there is scrutiny because people are saying, wait, this is a big deal, can we parse it out and adapt it to our budget? But we're not seeing a reduction in conversation or activity.

Philip Winslow
Analyst, Credit Suisse Securities (USA) LLC
Q

Awesome. Keep up the great work.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Thanks, Phil.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

All right. Next is Fatima Boolani from Citigroup, with Mike Turits next. Go ahead, Fatima.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good afternoon. Thank you for taking my questions, and happy birthday, Lee. My gift to you is I won't be asking you a question. Nikesh and Dipak, for you, the commentary on the payment concessions and flexibility in light of a more challenged macro, I want to get a better sense of how pervasive these conversations have been for you in the installed base. And maybe more directly, what are some of the impacts, Dipak, that maybe you're seeing from a deferred revenue mix standpoint? And how we should think about invoicing duration and billings duration when we think about our cash flow trajectory in the context of some of those comments?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

So, Fatima, let me give you context. I want to make sure I'm clear. So far, these are on the margin. Okay? This is not mainstream. We do expect the activity to get more in that direction, because you can see the Fed continuing to be on this mission to go tame growth and we expect that's going to cause more customers to pay attention. But let's not – and as I said in my remarks, there's some industries which are making money hand over fist. Talk to oil and gas, they've never made so much money. So, the public sector continues to spend with all the geopolitical issues that are out there. And the financials, they're making more money, believe or not. They're fine. So, there are certain segments of the market where these conversations are happening. It's not across the board. We don't expect – I think 50% of market is not feeling any pain with the interest rate increases. So, take that aside. If you take the rest of it, some of them have budgets in place. They have transformation plans in place. So on the margin, yes, those conversations would increase.

As you know, in anticipation of this, we built PANFS. We have a very good motion around providing financing. We're sitting on $5.9 billion of cash, so we are able to finance our customers if they so need to be able to facilitate their transformation project. So, the conversation happens between us or our third-party vendors. They are able to go make this happen. I don't know, Dipak, if you want to comment on the deferred billing and deferred revenue comment...

Dipak Golechha
Chief Financial Officer, Palo Alto Networks, Inc.

A

No. I think all I would say, Fatima, I think Nikesh explained it excellently and I would just say everything is included in our guidance in terms of what we think.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Remember, on the flip side, as we've said, we have $5.9 billion in cash. Our entire interest income last year was $19 million – was it $19 million – $19 million. I think, our Q1 interest income was twice that. So, there is the flip side of that, yeah.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Appreciate that. Thank you.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Okay. Next is Michael Turits of KeyBanc, and followed by Jonathan Ho. Michael, please proceed.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks, everybody, and congrats on a solid quarter in a tough environment. Last quarter, Nikesh, I believe that when you talked about your billings guide, you also commented that you could achieve that billings guide with no reduction in product backlog. Maybe you can talk a little bit, if you could, about backlog in any way to the extent you can in terms of what happened with it this quarter, up, down, flat, and whether you still assume backlog – product backlog, I think is what you said, flat into the end of the year in order to make the numbers that you've got.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Michael, we don't comment on backlog, as I have said and as Dipak have said, because of supply chain constraints having eased a bit, we have been able to ship product to customers much faster, which has a positive impact on attached services that we're able to ship them. But remember, our billings grew at 27%. And as we've said in the past, backlog in the overall scheme of things is not as substantial as you might think.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. So, no change to that comment from last quarter about holding backlog to make the billings number.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

No, we don't hold backlog to make billings numbers. We try and ship our products to our customers as soon as we can to ensure that they get their products as quickly as they would like. And we report the quarter based on what we've been able to ship.

Michael Turits
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks, and congrats.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

Thank you.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.
A

All right. Great. Next is Jonathan Ho with William Blair, with Roger Boyd to follow. Go ahead, Jonathan.

Jonathan Ho
Analyst, William Blair & Co. LLC
Q

Great. Let me echo my congratulations as well and happy birthday, Lee. Can you talk a little bit about the XSIAM traction that you're seeing and maybe help us understand what this means from an upsell potential standpoint when customers start to move in this direction? Thank you.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.
A

Jonathan, that's a great question because, I'll tell you what, I was positively surprised by the reaction of our customers wanting to engage in our XSIAM conversation, both directly as well as many of the system integration partners who are there. So, clearly, there seems to be a pent-up desire to re-imagine their SOC. People are relying on old data ingestion platforms, people are relying on old alert-based optimization or prioritization things. And they all understand that it's physically and humanly impossible to intercept cyber threats by doing it manually. And that seems to be a common realization. Yet, none of them actually had a solution [ph] rather (00:41:08) presented to them for a long period of time.

So, what we thought we were doing design partners, we signed up eight, nine design partners. Guess what? In three months, all of them said we don't want to be a design partner, we'd like to start using the product on a commercial basis. So, we accelerated our general availability of the product because we had to make sure it's available for those nine customers and all of them turned into customers. Now, our sales teams are aggressively trying to go out there and pitch it and we actually have to maintain a waitlist to make sure we won't need implementation resources to be able to implement, because this is a lift. You're ripping out a data ingestion lake, you're ripping out their existing SIEM, yet they have to keep running their SOC in a way that we can transform that.

So, we're working with GSIs, we're working with third-party partners for them to build the capabilities so you can get this done with a variety of customers. I've said this before and I still maintain this. Four years ago, when we embarked on this journey, we decided we're going to build a Cloud Security business, we're going to build a Cortex business, we're going to build a SASE business. And I've said, all three businesses are on track to be billion-dollar businesses. I think XSIAM has a similar potential in a similar timeframe to be our fourth business that's going to be in the same category.

Jonathan Ho
Analyst, William Blair & Co. LLC
Q

Excellent. Thank you.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.
A

Great. Next up is Roger Boyd of UBS, with John DiFucci to follow. Go ahead, Roger.

Roger Boyd
Analyst, UBS Securities LLC

Q

Awesome. Well, thanks for taking the question and congrats on the nice results. Nikesh, you talked last quarter about extending Prisma Access, Prisma SASE to the entire sales force and really becoming a SASE-first sales organization. I'm just wondering, relative to your expectations, any comments you can provide on what you're seeing from a sales productivity efficiency standpoint?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Well, we said that and we are in the midst of that transition, we have trained all of our salespeople to become SASE-first. We have hired a bunch of people from SASE competitors to lead some of these areas for us. So, we continue that field force transformation. At the same time, and as I said, we've hired 550 direct salespeople in the first quarter because we want to increase the coverage. At the same time, we've been able to do that without having to create a specialist sales force on top of that. So, you can see, we also said in our prepared remarks, we are accelerating our path to more profitability because we believe we are going to get those efficiencies we anticipated by making a SASE-first field force, but also doing some other things to drive more and more efficiency across the organization, not just in sales.

So, we feel pretty comfortable that not only will we get sales productivity, but we also believe we'll get overall productivity in the organization so we can accelerate our operating margin aspirations ahead of our three-year plan we'd shared about near than a quarter ago.

Roger Boyd
Analyst, UBS Securities LLC

Q

Very good. Thanks a lot.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Okay. Great. Next, John DiFucci from Guggenheim, with Joshua Tilton to follow. Go ahead, John.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Thanks, Clay. So, really strong NGS ARR quarter, guys. My question is more on the product line. We heard, and just in our checks into the quarter, of any product refresh that might be happening, perhaps, is getting extended, and perhaps, I think it sounds like maybe because of the macro backdrop, some of the stuff you talked about, Nikesh. I guess, first of all, is this accurate? And if so, should we be thinking about, perhaps, like in this quarter, a little bit lower product growth than we saw over the last several quarters, but decent product growth, nevertheless, for perhaps a longer period of time?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

I'm trying to interpret your question.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Okay. So, I'm talking about – of what, I think, is a product refresh and...

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Okay. I'm going to let Lee answer it.

Lee Klarich
Chief Product Officer, Palo Alto Networks, Inc.

A

[indiscernible] (00:44:48).

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

I promised him he'd get more than one question. So, go ahead, Lee.

Lee Klarich
Chief Product Officer, Palo Alto Networks, Inc.

A

So, John, one of the things I've said in the past in talking about product refresh as it pertains to the new models that we release is these refreshes typically play out over a fairly long period of time. And so, I would suggest like not looking at it as a singular quarter when you think about the trend and how this evolves. Most of our customers are large enterprise customers. They make long-term decisions. These decisions take place over one, two, three-plus years of time. And so, these harder refreshes play out over cycles like that as opposed to on specific quarters.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Well, it actually affected your results the last time you did it in 2017 for about two years. And it looks like you're about a year into it. And I was just wondering if, perhaps, it could last longer than two years this time. That's really the question.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

The only thing I would say is this time we've seen a lot of extraneous factors which have muddied the outcomes for the industry with the supply chain crisis, with the pandemic, with the pull-in because of the supply chain, now with the Fed increasing interest rates. I'll tell you one of the easiest decisions for our customers to make is to sweat their assets a little longer, because it's not like these firewalls suddenly blow up at the end of life. They can be extended. So, listen, I'd [ph] much (00:46:14) rather put the money in my cloud transformation and sweat the asset a little longer. And if you add it all to the mix, that's why we went to this whole cybersecurity transformation as a company. We wanted to take away the impact of any one product line.

John DiFucci
Analyst, Guggenheim Securities LLC

Q

Perfect. Thank you very much. That's really helpful.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Okay. Next is Joshua Tilton of Wolfe Research, with Adam Borg to follow. Go ahead, Josh.

Patrick O'Neill
Analyst, Wolfe Research, LLC

Q

Hey, it's Patrick on for Josh. Over the last several second quarters, the sequential billings guides have been in the 9% to 10% range. But the guide for next quarter implies a 12% sequential growth. So, how do we interpret that? Is it a little more aggressive than usual? Thanks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

I'm sorry.

Dipak Golechha
Chief Financial Officer, Palo Alto Networks, Inc.

A

I think probably the way that I would – I wouldn't interpret too much in it. At the end of the day, we have a pipeline. We have lots of large deals. It really depends on when deals come in. They can have a significant impact on your billings. And so, we're just trying to be as transparent as we can in terms of the information that we have on hand. There is no magical math behind this guide.

Patrick O'Neill
Analyst, Wolfe Research, LLC

Q

Thanks.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Super. Thanks. Next is Adam Borg of Stifel, with Rob Owens to follow. Go ahead, Adam.

Adam Charles Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Awesome. Thanks so much for taking the question. I really appreciate it. Maybe just on a topic we haven't heard today, on OT cybersecurity. That's an area that we're just picking up more on our checks and just seeing some more focus. And love to think about – hear a little bit from Nikesh how you're thinking about the opportunity and role Palo plays. Thanks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

Yeah. We've been very focused on making sure that we make IoT available as part of our integrated portfolio, so you don't have to put yet one more sensor and yet one more cybersecurity vendor. Surprisingly – Lee, the OT stuff, can you talk about it? Well, we'll let Lee talk about it.

Lee Klarich
Chief Product Officer, Palo Alto Networks, Inc.

A

Sure. Look, OT environments have long been secured by keeping them disconnected from everything else. And there is OT environments that are still running Windows 95, Windows NT for those who've been around for a while. And that, obviously, has significant risk, and so the way to control that is simply segment it and wall it off from the rest of the world. But what's been happening over the last couple years is OT networks are increasingly being digitized. Specific parts of them are having to be connected to the cloud, which also means the OT and the IoT are starting to merge together a little bit more. And so, as that happens, there is a greater interest in thinking about what the next generation of security for an OT environment looks like.

And so, this is where our ability to come in with a next-gen firewall infrastructure that can provide the segmentation where it's needed, but layer on top of that, the IoT/OT security capabilities designed to secure that transformation is starting to pay dividends. I still think this is early days in transformation, but there definitely is a strong interest in these types of organizations. And as Nikesh mentioned earlier, many of these are oil and gas, utilities and others that actually are seeing some of the benefits of some of the recent macro environments. And so, that's also part of an opportunity to leverage and make investments now.

Adam Charles Borg
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Incredibly helpful. Thanks again.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Next, we've got Rob Owens of Piper Sandler, with Matt Hedberg to follow. Go ahead, Rob.

Rob D. Owens
Analyst, Piper Sandler & Co.

Q

Thanks, Clay, and thanks for taking my question. Could you drill down a little bit in terms of Fed and what you saw in period? Obviously, calling out a couple large deals. But if I rewind, the thought process was that Fed was going to get more linear and less budget-flush typical to the September quarter. So, are you seeing those trends play out or was this more a budget-flush type of quarter? And was it in line with your expectations? Thanks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

No, it wasn't a budget flush quarter. We've been working the deal, which we announced, for a very long time, as you can imagine. Those size deals don't happen overnight. It just happened to converge at the right time for us from a timing perspective. But we're beginning to see the Fed activity get stronger because we're at that point in time with this administration where they've gotten their stuff together across the various agencies and they've actually started executing against the strategy.

So we think, yes, the Fed spend will continue to stay strong and continue to get linear as time passes, as we get through the rest of this administration's term. It's always dicey in the first year or first year-and-a-half, because it's a whole new set of characters, especially if you change administrations, where they're still trying to figure out what they want to endorse and what they don't want to. So, I think things are more stable and things are going to continue to stay strong in that space.

Rob D. Owens
Analyst, Piper Sandler & Co.

Q

Thanks for the color.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

Great. Next is Matt Hedberg from RBC, with Gray Powell to follow. Go ahead, Matt.

Matthew Hedberg
Analyst, RBC Capital Markets LLC

Q

Thanks, Clay. Hey. Congrats from me as well on the quarter. Dipak, question for you. Obviously, you price in US dollars, but I'm wondering, in international markets, obviously, there has been a huge currency movement. I know, historically, partners would absorb a lot of that price movement. I'm just kind of sort of curious how that's happening in some of these customer conversation where the dollar's appreciated pretty materially.

Dipak Golechha
Chief Financial Officer, Palo Alto Networks, Inc.

A

Yeah. So, I think, look, there's always going to be the isolated instances where it comes up in discussion, but for the most part, our sales reps will try to manage that through different tools that they have available to them. And then, that's pretty much it.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

I think, Matt, that's a fair question, in addition to what Dipak said, there have been customers who come back and said, look, the currency has moved a lot, our price has gone up in the last two weeks, what can we do about it? In that case, it becomes a conversation. In some cases, we've had to adjust prices. But at the same time, like you said, some of them get absorbed by the channel. Some of them get absorbed by the customer. Some of them get absorbed by us.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

A

All right. Our last question for the evening will be from Gray Powell of BTIG. Go ahead, Gray.

Gray Powell
Analyst, BTIG LLC

Q

Okay. Great. Thanks for taking the questions and congratulations on the strong results. So, yeah, the NGS ARR really stood out to me. Within that, can you remind us on the economics of selling SASE to that of the traditional firewall? Is there any sort of like one-year trade-off, or just like how should we think about that playing out as SASE becomes a bigger piece of the mix?

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

A

I think it's kind of interesting, Gray, all of our SASE deals, I think, like-for-like, are much larger than our firewalls deals even with the same customer. And they can range from 2x to 3x and sometimes even up to 5x, depending on the comprehensiveness of the requirement and the customer's desire to deploy. So, we have lots and lots of eight-figure deals out there that are being competed for in the SASE space, and I think there's 2.5 vendors fighting for those deals. We were not a player, as you know, two-and-a-half years ago in that space. Now, we're almost in every one of the deals out there head to head. So, either the deal gets won or lost, but we're in every one of them, and they're typically large sizes.

And the economics are better and the security posture is better for the customer, because imagine if I sell 500 firewalls, it takes customers a serious amount of time to go deploy them. And every time I give a software upgrade, the customer has to go drive a truck and upgrade all those firewalls because they want to sandbox the upgrade, which leaves them exposed from a security perspective. With SASE, we actually do the upgrades and we can get the entire customer base upgraded in a span of two weeks. In some cases, we just announced PAN-OS 11.0, we still have a lot of customers who have not upgraded to 10.2, right?

So, this does improve the security posture, improves the total cost of ownership, and that shows up in a larger deal size, because we're shifting cost from the customer to having it be software managed by us and our partners. So, hey, look, the economics of SASE are phenomenal from a deal-size perspective as well as they're pretty consistent from a margin perspective. So, I think there's still – as I've said in the past, there's an $8 billion to $10 billion SASE market out there and that space is growing in double digits as an opportunity.

Gray Powell
Analyst, BTIG LLC

Q

Okay. Got it. Thank you very much.

Clayton Bilby
Head-Investor Relations, Palo Alto Networks, Inc.

All right. And with that, we'll conclude the Q&A portion of our call, and I'll turn it back over to Nikesh for his closing remarks.

Nikesh Arora
Chairman & Chief Executive Officer, Palo Alto Networks, Inc.

Thank you, Clay. Thank you, everyone, again, for joining us. We look forward to seeing many of you at upcoming investor events. I also want to thank our customers, partners and employees around the world for helping us deliver these great results in such a tough environment.

With that, have a great day.