

FISCAL FIRST QUARTER 2020 EARNINGS CONFERENCE CALL



November 2019

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, particularly the financial targets for fiscal year 2020.

There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including: our limited operating history; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; risks associated with managing our rapid growth; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our competitive position; our ability to attract and retain new customers; 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 network security products and subscription and support offerings; length of sales cycles; and general market, political, economic and business conditions. 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 Annual Report on Form 10-K filed for the fiscal year ended July 31, 2019, 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 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 November 25, 2019. 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 November 25, 2019.

Q1'20 Financial Results – On Track

Analyst Meeting Guidance as of 9/4/19

Updated Guidance as of 11/25/19

As of 11/25/19

| | Q1'20 | FY'20 | FY'20 | Status |
|---------------------------------|----------------------|--------------------------------------|---|---|
| Total Billings | \$897M 18% yr/yr | \$4,095M–\$4,155M 17% – 19% yr/yr | \$4,105M–\$4,165M 18% – 19% yr/yr |  Raised |
| Next-Gen Security Billings | \$173M 217% yr/yr | \$800M–\$810M 77% – 79% yr/yr | \$810M–\$820M 79% – 82% yr/yr |  Raised |
| Firewall as a Platform Billings | 11% yr/yr | | |  Slow start, but confident |
| Total Revenue | \$772M 18% yr/yr | \$3,440M–\$3,480M 19% – 20% yr/yr | \$3,440M–\$3,480M 19% – 20% yr/yr |  Holding steady with more confidence |
| EPS (Non-GAAP) | \$1.05 | \$5.00–\$5.10 | \$4.90–\$5.00 \$5.00-\$5.10, excluding Aporeto |  Tracking to Plan |
| Adj. FCF Margin (Non-GAAP) | 26.3% | ~30.0% | ~29.0% ~30%, excluding Aporeto |  Tracking to Plan |

Note: Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue, during the stated period. Next-Gen Security billings is a key financial and operational metric defined as the total amount invoiced and billed during the period for Prisma and Cortex, inclusive of VM series and related services. Firewall as a platform billings is a key financial and operational metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and ratable portion of VM-Series offering, during the period stated. Product billings is a key financial and operational metric calculated as total product revenue plus the change in total product deferred revenue, net of acquired product deferred revenue, during the stated period. Earnings per share and Adjusted free cash flow margin are non-GAAP financial measures, during the period stated.

See appendix for reconciliation to most comparable GAAP financial measure for Q1'20.

APPENDIX



Calculation of Billings and GAAP to Non-GAAP Reconciliations

\$Millions

| Billings: | Q1'20 |
|---|-----------------|
| Total revenue | \$ 771.9 |
| Add: change in total deferred revenue, net of acquired deferred revenue | 125.5 |
| Total billings | <u>\$ 897.4</u> |

\$Millions, except per share data

| Non-GAAP net income per share, diluted: | Q1'20 |
|--|----------------|
| GAAP net loss per share, diluted | \$ (0.62) |
| Share-based compensation-related charges | 1.56 |
| Acquisition-related costs ⁽¹⁾ | 0.04 |
| Amortization expense of acquired intangible assets | 0.17 |
| Non-cash charges related to convertible notes ⁽²⁾ | 0.16 |
| Foreign currency gain associated with non-GAAP adjustments | (0.01) |
| Income tax and other tax adjustments related to the above | (0.25) |
| Non-GAAP net income per share, diluted | <u>\$ 1.05</u> |

| Free cash flow and adjusted free cash flow (non-GAAP): | Q1'20 |
|--|-------------------|
| Net cash provided by operating activities | \$ 225.2 |
| Less: purchases of property, equipment, and other assets | 47.2 |
| Free cash flow (non-GAAP) | <u>178.0</u> |
| Add: capital expenditures for new headquarters | 22.7 |
| Less: cash reimbursement (payments), net related to landlord lease amendment | (2.0) |
| Adjusted free cash flow (non-GAAP) | <u>\$ 202.7</u> |
| Net cash provided by (used in) investing activities | \$ 244.5 |
| Net cash provided by (used in) financing activities | <u>\$ (167.1)</u> |
| Free cash flow margin (non-GAAP) | <u>23.1%</u> |
| Adjusted free cash flow margin (non-GAAP) | <u>26.3%</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 primarily of non-cash interest expense related to our convertible senior notes.

Note: Fiscal year ends July 31.