

Non-GAAP Financial Measures and Other Key Metrics

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). We use these non-GAAP financial measures and key metrics internally in analyzing our financial results and believe that the disclosure of these non-GAAP financial measures and key metrics will be useful to investors as an additional tool to evaluate our ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures or key metrics.

Non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our non-GAAP financial measures and key metrics to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations. We have not provided a reconciliation of forward-looking non-GAAP measures to the corresponding GAAP measures as they are not available without unreasonable effort.

Palo Alto Networks, Inc.
Condensed Consolidated Statements of Operations - Fiscal Quarters
(In millions, except percentages)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
Revenue:								
Product	\$ 278.4	\$ 305.7	\$ 231.2	\$ 246.5	\$ 280.9	\$ 305.6	\$ 237.3	\$ 254.7
Subscription and support	448.2	500.1	540.7	570.2	588.5	644.8	708.7	762.2
Total revenue	726.6	805.8	771.9	816.7	869.4	950.4	946.0	1,016.9
Cost of revenue:								
Product	78.0	82.2	65.1	68.7	73.3	87.3	62.2	75.6
Subscription and support	126.9	135.2	152.6	164.4	185.0	203.1	215.6	232.0
Total cost of revenue	204.9	217.4	217.7	233.1	258.3	290.4	277.8	307.6
Total gross profit	521.7	588.4	554.2	583.6	611.1	660.0	668.2	709.3
<i>Product gross margin</i>	72.0 %	73.1 %	71.8 %	72.1 %	73.9 %	71.4 %	73.8 %	70.3 %
<i>Subscription and support gross margin</i>	71.7 %	73.0 %	71.8 %	71.2 %	68.6 %	68.5 %	69.6 %	69.6 %
<i>Total gross margin</i>	71.8 %	73.0 %	71.8 %	71.5 %	70.3 %	69.4 %	70.6 %	69.8 %
Operating expenses:								
Research and development	139.1	158.7	170.5	185.4	196.3	215.9	237.4	266.7
Sales and marketing	339.0	370.4	365.7	374.9	388.4	391.2	388.6	427.4
General and administrative	62.3	69.2	69.8	76.2	82.9	70.7	86.7	104.0
Total operating expenses	540.4	598.3	606.0	636.5	667.6	677.8	712.7	798.1
Operating loss	(18.7)	(9.9)	(51.8)	(52.9)	(56.5)	(17.8)	(44.5)	(88.8)
Interest expense	(20.6)	(20.0)	(18.9)	(19.0)	(19.4)	(31.4)	(40.2)	(40.7)
Other income (expense), net	18.2	16.2	16.2	10.8	8.1	0.8	2.4	(0.5)
Loss before income taxes	(21.1)	(13.7)	(54.5)	(61.1)	(67.8)	(48.4)	(82.3)	(130.0)
Provision for (benefit from) income taxes	(0.9)	7.1	5.1	12.6	7.0	10.5	9.9	12.3
Net loss	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)	\$ (92.2)	\$ (142.3)

Palo Alto Networks, Inc.
Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters
(In millions, except percentages)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
Revenue:								
Product	\$ 278.4	\$ 305.7	\$ 231.2	\$ 246.5	\$ 280.9	\$ 305.6	\$ 237.3	\$ 254.7
Subscription and support	448.2	500.1	540.7	570.2	588.5	644.8	708.7	762.2
Total revenue	726.6	805.8	771.9	816.7	869.4	950.4	946.0	1,016.9
Cost of revenue:								
Product	73.6	79.8	63.7	67.2	70.0	83.9	58.9	72.1
Subscription and support	96.8	101.5	117.0	125.8	145.7	160.0	170.3	179.5
Total cost of revenue	170.4	181.3	180.7	193.0	215.7	243.9	229.2	251.6
Total gross profit	556.2	624.5	591.2	623.7	653.7	706.5	716.8	765.3
<i>Product gross margin</i>	73.6 %	73.9 %	72.4 %	72.7 %	75.1 %	72.5 %	75.2 %	71.7 %
<i>Subscription and support gross margin</i>	78.4 %	79.7 %	78.4 %	77.9 %	75.2 %	75.2 %	76.0 %	76.4 %
<i>Total gross margin</i>	76.5 %	77.5 %	76.6 %	76.4 %	75.2 %	74.3 %	75.8 %	75.3 %
Operating expenses:								
Research and development	92.4	100.6	107.5	116.0	127.0	137.4	141.1	159.5
Sales and marketing	277.7	314.7	319.4	314.7	329.0	326.9	318.9	348.3
General and administrative	34.3	35.1	42.3	47.2	54.8	53.8	51.4	55.7
Total operating expenses	404.4	450.4	469.2	477.9	510.8	518.1	511.4	563.5
Operating income	151.8	174.1	122.0	145.8	142.9	188.4	205.4	201.8
Interest expense	(3.4)	(3.5)	(3.4)	(3.3)	(3.6)	(4.5)	(5.1)	(5.2)
Other income, net	18.7	17.7	15.7	11.8	7.5	2.0	2.3	1.2
Income before income taxes	167.1	188.3	134.3	154.3	146.8	185.9	202.6	197.8
Provision for income taxes	37.0	41.4	29.5	34.0	32.2	41.0	44.5	43.6
Net income	\$ 130.1	\$ 146.9	\$ 104.8	\$ 120.3	\$ 114.6	\$ 144.9	\$ 158.1	\$ 154.2

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters

(In millions, except percentages and per share amounts)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
GAAP to Non-GAAP Reconciliations								
GAAP product gross profit	\$ 200.4	\$ 223.5	\$ 166.1	\$ 177.8	\$ 207.6	\$ 218.3	\$ 175.1	\$ 179.1
Share-based compensation-related charges	1.3	1.4	1.4	1.5	1.5	1.6	1.5	1.7
Litigation-related charges ⁽¹⁾	3.1	1.0	—	—	1.8	1.8	1.8	1.8
Non-GAAP product gross profit	\$ 204.8	\$ 225.9	\$ 167.5	\$ 179.3	\$ 210.9	\$ 221.7	\$ 178.4	\$ 182.6
Non-GAAP product gross margin	73.6 %	73.9 %	72.4 %	72.7 %	75.1 %	72.5 %	75.2 %	71.7 %
GAAP subscription and support gross profit	\$ 321.3	\$ 364.9	\$ 388.1	\$ 405.8	\$ 403.5	\$ 441.7	\$ 493.1	\$ 530.2
Share-based compensation-related charges	19.4	20.2	20.4	22.5	21.9	23.1	25.1	28.0
Amortization expense of acquired intangible assets	10.7	13.5	15.2	16.1	17.4	20.0	20.2	24.5
Non-GAAP subscription and support gross profit	\$ 351.4	\$ 398.6	\$ 423.7	\$ 444.4	\$ 442.8	\$ 484.8	\$ 538.4	\$ 582.7
Non-GAAP subscription and support gross margin	78.4 %	79.7 %	78.4 %	77.9 %	75.2 %	75.2 %	76.0 %	76.4 %
GAAP total gross profit	\$ 521.7	\$ 588.4	\$ 554.2	\$ 583.6	\$ 611.1	\$ 660.0	\$ 668.2	\$ 709.3
Share-based compensation-related charges	20.7	21.6	21.8	24.0	23.4	24.7	26.6	29.7
Amortization expense of acquired intangible assets	10.7	13.5	15.2	16.1	17.4	20.0	20.2	24.5
Litigation-related charges ⁽¹⁾	3.1	1.0	—	—	1.8	1.8	1.8	1.8
Non-GAAP total gross profit	\$ 556.2	\$ 624.5	\$ 591.2	\$ 623.7	\$ 653.7	\$ 706.5	\$ 716.8	\$ 765.3
Non-GAAP gross margin	76.5 %	77.5 %	76.6 %	76.4 %	75.2 %	74.3 %	75.8 %	75.3 %
GAAP research and development expense	\$ 139.1	\$ 158.7	\$ 170.5	\$ 185.4	\$ 196.3	\$ 215.9	\$ 237.4	\$ 266.7
Share-based compensation-related charges	46.7	58.1	63.0	69.4	69.3	78.5	96.3	107.2
Non-GAAP research and development expense	\$ 92.4	\$ 100.6	\$ 107.5	\$ 116.0	\$ 127.0	\$ 137.4	\$ 141.1	\$ 159.5
Non-GAAP research and development expense as a percentage of revenue	12.7 %	12.5 %	13.9 %	14.2 %	14.6 %	14.5 %	14.9 %	15.7 %
GAAP sales and marketing expense	\$ 339.0	\$ 370.4	\$ 365.7	\$ 374.9	\$ 388.4	\$ 391.2	\$ 388.6	\$ 427.4
Share-based compensation-related charges	57.4	54.2	44.8	58.5	57.6	61.6	66.4	74.0
Amortization expense of acquired intangible assets	3.9	1.5	1.5	1.7	1.8	2.7	3.3	5.1
Non-GAAP sales and marketing expense	\$ 277.7	\$ 314.7	\$ 319.4	\$ 314.7	\$ 329.0	\$ 326.9	\$ 318.9	\$ 348.3
Non-GAAP sales and marketing expense as a percentage of revenue	38.2 %	39.0 %	41.4 %	38.5 %	37.9 %	34.3 %	33.8 %	34.3 %
GAAP general and administrative expense	\$ 62.3	\$ 69.2	\$ 69.8	\$ 76.2	\$ 82.9	\$ 70.7	\$ 86.7	\$ 104.0
Share-based compensation-related charges	21.0	21.4	24.1	25.1	23.2	16.5	22.2	27.7
Acquisition-related costs ⁽²⁾	2.9	9.8	3.4	7.0	4.9	0.4	13.1	20.6
(Gain) loss related to facility exit ⁽³⁾	4.1	2.9	—	(3.1)	—	—	—	—
Non-GAAP general and administrative expense	\$ 34.3	\$ 35.1	\$ 42.3	\$ 47.2	\$ 54.8	\$ 53.8	\$ 51.4	\$ 55.7
Non-GAAP general and administrative expense as a percentage of revenue	4.7 %	4.4 %	5.5 %	5.8 %	6.3 %	5.7 %	5.4 %	5.5 %

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

(2) 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.

(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.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters

(In millions, except percentages and per share amounts)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
GAAP total operating expense	\$ 540.4	\$ 598.3	\$ 606.0	\$ 636.5	\$ 667.6	\$ 677.8	\$ 712.7	\$ 798.1
Share-based compensation-related charges	125.1	133.7	131.9	153.0	150.1	156.6	184.9	208.9
Acquisition-related costs ⁽¹⁾	2.9	9.8	3.4	7.0	4.9	0.4	13.1	20.6
Amortization expense of acquired intangible assets	3.9	1.5	1.5	1.7	1.8	2.7	3.3	5.1
(Gain) loss related to facility exit ⁽²⁾	4.1	2.9	—	(3.1)	—	—	—	—
Non-GAAP total operating expense	\$ 404.4	\$ 450.4	\$ 469.2	\$ 477.9	\$ 510.8	\$ 518.1	\$ 511.4	\$ 563.5
Non-GAAP total operating expense as a percentage of revenue	55.6 %	55.9 %	60.8 %	58.5 %	58.8 %	54.5 %	54.1 %	55.5 %
GAAP operating loss	\$ (18.7)	\$ (9.9)	\$ (51.8)	\$ (52.9)	\$ (56.5)	\$ (17.8)	\$ (44.5)	\$ (88.8)
Share-based compensation-related charges	145.8	155.3	153.7	177.0	173.5	181.3	211.5	238.6
Acquisition-related costs ⁽¹⁾	2.9	9.8	3.4	7.0	4.9	0.4	13.1	20.6
Amortization expense of acquired intangible assets	14.6	15.0	16.7	17.8	19.2	22.7	23.5	29.6
Litigation-related charges ⁽³⁾	3.1	1.0	—	—	1.8	1.8	1.8	1.8
(Gain) loss related to facility exit ⁽²⁾	4.1	2.9	—	(3.1)	—	—	—	—
Non-GAAP operating income	\$ 151.8	\$ 174.1	\$ 122.0	\$ 145.8	\$ 142.9	\$ 188.4	\$ 205.4	\$ 201.8
Non-GAAP operating margin	20.9 %	21.6 %	15.8 %	17.9 %	16.4 %	19.8 %	21.7 %	19.8 %
GAAP interest expense	\$ (20.6)	\$ (20.0)	\$ (18.9)	\$ (19.0)	\$ (19.4)	\$ (31.4)	\$ (40.2)	\$ (40.7)
Non-cash charges related to convertible notes ⁽⁴⁾	17.2	16.5	15.5	15.7	15.8	26.9	35.1	35.5
Non-GAAP interest expense	\$ (3.4)	\$ (3.5)	\$ (3.4)	\$ (3.3)	\$ (3.6)	\$ (4.5)	\$ (5.1)	\$ (5.2)
Non-GAAP interest expense as a percentage of revenue	(0.5)%	(0.4)%	(0.4)%	(0.4)%	(0.4)%	(0.5)%	(0.5)%	(0.5)%
GAAP other income (expense), net	\$ 18.2	\$ 16.2	\$ 16.2	\$ 10.8	\$ 8.1	\$ 0.8	\$ 2.4	\$ (0.5)
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.5	(0.5)	1.0	(0.6)	1.2	(0.1)	1.7
Non-GAAP other income, net	\$ 18.7	\$ 17.7	\$ 15.7	\$ 11.8	\$ 7.5	\$ 2.0	\$ 2.3	\$ 1.2
Non-GAAP other income, net as a percentage of revenue	2.6 %	2.2 %	2.0 %	1.4 %	0.9 %	0.2 %	0.2 %	0.1 %
GAAP loss before income taxes	\$ (21.1)	\$ (13.7)	\$ (54.5)	\$ (61.1)	\$ (67.8)	\$ (48.4)	\$ (82.3)	\$ (130.0)
Share-based compensation-related charges	145.8	155.3	153.7	177.0	173.5	181.3	211.5	238.6
Acquisition-related costs ⁽¹⁾	2.9	9.8	3.4	7.0	4.9	0.4	13.1	20.6
Amortization expense of acquired intangible assets	14.6	15.0	16.7	17.8	19.2	22.7	23.5	29.6
Litigation-related charges ⁽³⁾	3.1	1.0	—	—	1.8	1.8	1.8	1.8
(Gain) loss related to facility exit ⁽²⁾	4.1	2.9	—	(3.1)	—	—	—	—
Non-cash charges related to convertible notes ⁽⁴⁾	17.2	16.5	15.5	15.7	15.8	26.9	35.1	35.5
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.5	(0.5)	1.0	(0.6)	1.2	(0.1)	1.7
Non-GAAP income before income taxes	\$ 167.1	\$ 188.3	\$ 134.3	\$ 154.3	\$ 146.8	\$ 185.9	\$ 202.6	\$ 197.8

(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 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.

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

(4) Consists primarily of non-cash interest expense related to our convertible senior notes.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters

(In millions, except percentages and per share amounts)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
GAAP provision for (benefit from) income taxes	\$ (0.9)	\$ 7.1	\$ 5.1	\$ 12.6	\$ 7.0	\$ 10.5	\$ 9.9	\$ 12.3
Income tax and other tax adjustments related to the above	37.9	34.3	24.4	21.4	25.2	30.5	34.6	31.3
Non-GAAP provision for income taxes	<u>\$ 37.0</u>	<u>\$ 41.4</u>	<u>\$ 29.5</u>	<u>\$ 34.0</u>	<u>\$ 32.2</u>	<u>\$ 41.0</u>	<u>\$ 44.5</u>	<u>\$ 43.6</u>
Non-GAAP effective tax rate	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>	<u>22.0 %</u>
GAAP net loss	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)	\$ (92.2)	\$ (142.3)
Share-based compensation-related charges	145.8	155.3	153.7	177.0	173.5	181.3	211.5	238.6
Acquisition-related costs ⁽¹⁾	2.9	9.8	3.4	7.0	4.9	0.4	13.1	20.6
Amortization expense of acquired intangible assets	14.6	15.0	16.7	17.8	19.2	22.7	23.5	29.6
Litigation-related charges ⁽²⁾	3.1	1.0	—	—	1.8	1.8	1.8	1.8
(Gain) loss related to facility exit ⁽³⁾	4.1	2.9	—	(3.1)	—	—	—	—
Non-cash charges related to convertible notes ⁽⁴⁾	17.2	16.5	15.5	15.7	15.8	26.9	35.1	35.5
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.5	(0.5)	1.0	(0.6)	1.2	(0.1)	1.7
Income tax and other tax adjustments related to the above	(37.9)	(34.3)	(24.4)	(21.4)	(25.2)	(30.5)	(34.6)	(31.3)
Non-GAAP net income	<u>\$ 130.1</u>	<u>\$ 146.9</u>	<u>\$ 104.8</u>	<u>\$ 120.3</u>	<u>\$ 114.6</u>	<u>\$ 144.9</u>	<u>\$ 158.1</u>	<u>\$ 154.2</u>
GAAP net loss per share, diluted	\$ (0.21)	\$ (0.22)	\$ (0.62)	\$ (0.75)	\$ (0.77)	\$ (0.61)	\$ (0.97)	\$ (1.48)
Share-based compensation-related charges	1.48	1.56	1.56	1.77	1.78	1.86	2.17	2.43
Acquisition-related costs ⁽¹⁾	0.03	0.10	0.04	0.07	0.05	0.00	0.14	0.21
Amortization expense of acquired intangible assets	0.15	0.16	0.17	0.18	0.20	0.24	0.25	0.31
Litigation-related charges ⁽²⁾	0.03	0.01	0.00	0.00	0.02	0.02	0.02	0.02
(Gain) loss related to facility exit ⁽³⁾	0.04	0.03	0.00	(0.03)	0.00	0.00	0.00	0.00
Non-cash charges related to convertible notes ⁽⁴⁾	0.18	0.17	0.16	0.16	0.16	0.28	0.37	0.37
Foreign currency (gain) loss associated with non-GAAP adjustments	0.01	0.02	(0.01)	0.01	(0.01)	0.01	0.00	0.02
Income tax and other tax adjustments related to the above	(0.40)	(0.36)	(0.25)	(0.22)	(0.26)	(0.32)	(0.36)	(0.33)
Non-GAAP net income per share, diluted	<u>\$ 1.31</u>	<u>\$ 1.47</u>	<u>\$ 1.05</u>	<u>\$ 1.19</u>	<u>\$ 1.17</u>	<u>\$ 1.48</u>	<u>\$ 1.62</u>	<u>\$ 1.55</u>
GAAP weighted-average shares used to compute net loss per share, diluted	94.4	95.8	96.6	98.3	96.7	96.0	95.5	95.9
Weighted-average effect of potentially dilutive securities ⁽⁵⁾	5.2	4.2	3.5	2.8	1.1	2.2	2.2	3.7
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>99.6</u>	<u>100.0</u>	<u>100.1</u>	<u>101.1</u>	<u>97.8</u>	<u>98.2</u>	<u>97.7</u>	<u>99.6</u>

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(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.

(5) Our potentially dilutive securities include the potentially dilutive effect of employee equity incentive plan awards and our convertible senior notes outstanding and related warrant agreements, partially offset by the anti-dilutive impact of our note hedge agreements.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters

(In millions, except percentages and per share amounts)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
Net cash provided by operating activities	\$ 296.4	\$ 231.5	\$ 225.2	\$ 306.9	\$ 169.9	\$ 333.7	\$ 534.9	\$ 364.5
Less: purchases of property, equipment, and other assets	20.3	53.1	47.2	49.1	86.3	31.8	29.6	32.1
Free cash flow (non-GAAP)	\$ 276.1	\$ 178.4	\$ 178.0	\$ 257.8	\$ 83.6	\$ 301.9	\$ 505.3	\$ 332.4
Add: capital expenditures for new headquarters ⁽¹⁾	0.7	26.8	22.7	17.8	53.8	—	—	—
Add: repayments of convertible senior notes attributable to debt discount	—	30.5	—	—	—	—	—	—
Add: litigation-related payment ⁽²⁾	—	—	—	—	50.0	—	—	—
Less: cash payment related to landlord lease amendment ⁽³⁾	(3.0)	(2.9)	(2.0)	—	—	—	—	—
Adjusted free cash flow (non-GAAP)	\$ 279.8	\$ 238.6	\$ 202.7	\$ 275.6	\$ 187.4	\$ 301.9	\$ 505.3	\$ 332.4
Net cash provided by (used in) investing activities	\$ (140.3)	\$ (448.7)	\$ 244.5	\$ 436.4	\$ 274.7	\$ (667.6)	\$ (886.2)	\$ (384.4)
Net cash provided by (used in) financing activities	\$ 31.8	\$ (136.1)	\$ (167.1)	\$ (6.1)	\$ (959.3)	\$ 1,805.5	\$ (464.5)	\$ (5.4)
Free cash flow margin (non-GAAP)	38.0 %	22.1 %	23.1 %	31.6 %	9.6 %	31.8 %	53.4 %	32.7 %
Adjusted free cash flow margin (non-GAAP)	38.5 %	29.6 %	26.3 %	33.7 %	21.6 %	31.8 %	53.4 %	32.7 %

Other Key Metrics - Calculation of Billings

Total revenue	\$ 726.6	\$ 805.8	\$ 771.9	\$ 816.7	\$ 869.4	\$ 950.4	\$ 946.0	\$1,016.9
Add: change in total deferred revenue, net of acquired deferred revenue	95.3	251.1	125.5	182.2	146.0	439.6	136.8	197.8
Total billings	\$ 821.9	\$1,056.9	\$ 897.4	\$ 998.9	\$1,015.4	\$ 1,390.0	\$1,082.8	\$1,214.7

(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.

Palo Alto Networks, Inc.
Calculation of Other Key Metrics - First Half Fiscal Year
(In millions)

	<u>1H FY20</u>	<u>1H FY21</u>
Total revenue	\$ 1,588.6	\$ 1,962.9
Add: change in total deferred revenue, net of acquired deferred revenue	<u>307.7</u>	<u>334.6</u>
Total billings	<u>\$ 1,896.3</u>	<u>\$ 2,297.5</u>
Product revenue	\$ 477.7	\$ 492.0
Add: change in product deferred revenue	<u>2.1</u>	<u>2.6</u>
Product billings	<u>\$ 479.8</u>	<u>\$ 494.6</u>
Subscription revenue	\$ 661.2	\$ 889.7
Add: change in subscription deferred revenue, net of acquired subscription deferred revenue	<u>207.7</u>	<u>179.8</u>
Subscription billings	<u>\$ 868.9</u>	<u>\$ 1,069.5</u>
Support revenue	\$ 449.7	\$ 581.2
Add: change in support deferred revenue, net of acquired support deferred revenue	<u>97.9</u>	<u>152.2</u>
Support billings	<u>\$ 547.6</u>	<u>\$ 733.4</u>

Palo Alto Networks, Inc.
Condensed Consolidated Balance Sheets - Fiscal Quarters
(In millions)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,314.9	\$ 961.4	\$ 1,263.7	\$ 2,000.0	\$ 1,484.7	\$ 2,958.0	\$ 2,142.0	\$ 2,113.2
Short-term investments	1,733.2	1,841.7	1,597.5	1,133.9	554.1	789.8	1,075.6	1,058.0
Accounts receivable, net	407.5	582.4	499.2	540.3	668.8	1,037.1	675.5	669.2
Prepaid expenses and other current assets	261.9	279.3	289.4	304.0	306.4	344.3	407.8	435.4
Total current assets	3,717.5	3,664.8	3,649.8	3,978.2	3,014.0	5,129.2	4,300.9	4,275.8
Property and equipment, net	275.0	296.0	316.4	311.4	357.2	348.1	337.9	330.7
Operating lease right-of-use assets	—	—	282.6	270.0	263.8	258.7	251.2	252.1
Long-term investments	669.9	575.4	467.6	317.9	151.2	554.4	873.2	857.1
Goodwill	1,027.3	1,352.3	1,400.4	1,511.7	1,812.9	1,812.9	1,968.6	2,583.5
Intangible assets, net	234.2	280.6	284.1	290.0	380.6	358.2	388.8	541.1
Other assets	337.9	423.1	423.9	504.9	522.1	603.9	605.9	648.1
Total assets	\$ 6,261.8	\$ 6,592.2	\$ 6,824.8	\$ 7,184.1	\$ 6,501.8	\$ 9,065.4	\$ 8,726.5	\$ 9,488.4
Liabilities, temporary equity, and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 68.6	\$ 73.3	\$ 74.7	\$ 55.4	\$ 52.3	\$ 63.6	\$ 48.5	\$ 44.7
Accrued compensation	144.0	235.5	125.7	175.2	174.9	322.2	188.4	261.0
Accrued and other liabilities	178.5	162.4	192.3	251.2	253.9	256.8	260.7	255.3
Deferred revenue	1,449.6	1,582.1	1,658.9	1,757.7	1,854.6	2,049.1	2,137.5	2,289.7
Convertible senior notes, net	158.1	—	—	—	—	—	—	1,525.6
Total current liabilities	1,998.8	2,053.3	2,051.6	2,239.5	2,335.7	2,691.7	2,635.1	4,376.3
Convertible senior notes, net	1,414.7	1,430.0	1,445.5	1,461.2	1,477.0	3,084.1	3,119.2	1,629.1
Long-term deferred revenue	1,182.6	1,306.6	1,357.1	1,440.8	1,516.0	1,761.1	1,809.3	1,872.7
Long-term operating lease liabilities	—	—	371.6	353.5	344.6	336.6	323.9	317.9
Other long-term liabilities	211.1	216.0	82.6	80.6	83.8	90.1	92.0	93.9
Temporary equity	1.1	—	—	—	—	—	—	161.2
Stockholders' equity:								
Preferred stock	—	—	—	—	—	—	—	—
Common stock and additional paid-in capital	2,340.8	2,490.9	2,477.5	2,644.5	1,855.7	2,259.2	2,003.9	2,429.8
Accumulated other comprehensive income (loss)	(7.2)	(3.7)	(0.6)	(1.8)	(2.0)	10.5	3.2	9.9
Accumulated deficit	(880.1)	(900.9)	(960.5)	(1,034.2)	(1,109.0)	(1,167.9)	(1,260.1)	(1,402.4)
Total stockholders' equity	1,453.5	1,586.3	1,516.4	1,608.5	744.7	1,101.8	747.0	1,037.3
Total liabilities, temporary equity, and stockholders' equity	\$ 6,261.8	\$ 6,592.2	\$ 6,824.8	\$ 7,184.1	\$ 6,501.8	\$ 9,065.4	\$ 8,726.5	\$ 9,488.4

Palo Alto Networks, Inc.
Condensed Consolidated Statements of Cash Flows - Fiscal Quarters
(In millions)

	Q319	Q419	Q120	Q220	Q320	Q420	Q121	Q221
Cash flows from operating activities								
Net loss	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)	\$ (92.2)	\$ (142.3)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Share-based compensation for equity-based awards	138.2	150.2	149.9	168.5	165.8	174.2	205.8	225.6
Depreciation and amortization	40.3	42.2	44.0	48.4	53.2	60.5	58.0	64.9
(Gain) loss related to facility exit	4.1	2.9	—	(3.1)	—	—	—	—
Amortization of deferred contract costs	57.2	76.2	55.6	55.3	60.5	83.0	65.8	68.6
Amortization of debt discount and debt issuance costs	17.1	16.6	15.5	15.7	15.8	26.9	35.1	35.5
Amortization of operating lease right-of-use assets	—	—	10.4	10.7	13.1	13.2	10.0	10.7
Amortization of investment premiums, net of accretion of purchase discounts	(5.3)	(4.5)	(3.2)	(1.4)	(1.6)	—	2.7	3.2
Repayments of convertible senior notes attributable to debt discount	—	(30.5)	—	—	—	—	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable, net	9.9	(172.5)	83.9	(40.8)	(110.3)	(368.4)	382.3	16.4
Prepaid expenses and other assets	(73.8)	(168.1)	(59.2)	(82.3)	(66.5)	(201.0)	(96.9)	(143.5)
Accounts payable	34.4	9.1	(2.5)	(14.8)	(5.5)	10.0	(17.7)	(5.9)
Accrued compensation	(1.7)	89.5	(109.9)	48.8	(10.5)	147.3	(134.8)	70.6
Accrued and other liabilities	0.9	(9.9)	(25.2)	(6.6)	(15.3)	7.3	(20.0)	(37.1)
Deferred revenue	95.3	251.1	125.5	182.2	146.0	439.6	136.8	197.8
Net cash provided by operating activities	296.4	231.5	225.2	306.9	169.9	333.7	534.9	364.5
Cash flows from investing activities								
Purchases of investments	(394.7)	(558.0)	(274.3)	(9.0)	(12.2)	(885.3)	(829.7)	(282.8)
Proceeds from sales of investments	—	3.0	—	1.1	309.7	3.2	—	—
Proceeds from maturities of investments	502.6	550.3	632.4	622.7	451.3	246.3	198.2	335.9
Business acquisitions, net of cash acquired	(227.9)	(390.9)	(66.4)	(129.3)	(387.8)	—	(225.1)	(405.4)
Purchases of property, equipment, and other assets	(20.3)	(53.1)	(47.2)	(49.1)	(86.3)	(31.8)	(29.6)	(32.1)
Net cash provided by (used in) investing activities	(140.3)	(448.7)	244.5	436.4	274.7	(667.6)	(886.2)	(384.4)
Cash flows from financing activities								
Repayments of convertible senior notes attributable to principal and equity component	—	(128.9)	—	—	—	—	—	—
Payments for debt issuance costs	—	—	—	—	—	—	(0.2)	—
Proceeds from borrowings on convertible senior notes, net	—	—	—	—	—	1,979.1	—	—
Proceeds from issuance of warrants	—	—	—	—	—	202.8	—	—
Purchase of note hedges	—	—	—	—	—	(370.8)	—	—
Repurchases of common stock	—	—	(198.1)	—	(1,000.0)	—	(500.0)	—
Proceeds from sales of shares through employee equity incentive plans	36.7	1.4	36.3	0.6	46.8	0.3	45.4	0.3
Payments for taxes related to net share settlement of equity awards	(3.6)	(8.6)	(5.3)	(6.7)	(4.8)	(5.9)	(9.7)	(5.7)
Payment of deferred consideration related to prior year business acquisition	(1.3)	—	—	—	(1.3)	—	—	—
Net cash provided by (used in) financing activities	31.8	(136.1)	(167.1)	(6.1)	(959.3)	1,805.5	(464.5)	(5.4)
Net increase (decrease) in cash, cash equivalents, and restricted cash	187.9	(353.3)	302.6	737.2	(514.7)	1,471.6	(815.8)	(25.3)
Cash, cash equivalents, and restricted cash - beginning of period	1,130.4	1,318.3	965.0	1,267.6	2,004.8	1,490.1	2,961.7	2,145.9
Cash, cash equivalents, and restricted cash - end of period	\$1,318.3	\$ 965.0	\$1,267.6	\$2,004.8	\$1,490.1	\$2,961.7	\$2,145.9	\$2,120.6
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets								
Cash and cash equivalents	\$1,314.9	\$ 961.4	\$1,263.7	\$2,000.0	\$1,484.7	\$2,958.0	\$2,142.0	\$2,113.2
Restricted cash included in prepaid expenses and other current assets	2.2	1.9	1.9	2.5	2.7	2.8	2.9	3.8
Restricted cash included in other assets	1.2	1.7	2.0	2.3	2.7	0.9	1.0	3.6
Total cash, cash equivalents, and restricted cash	\$1,318.3	\$ 965.0	\$1,267.6	\$2,004.8	\$1,490.1	\$2,961.7	\$2,145.9	\$2,120.6