



Q3 Fiscal Year 2023 Earnings Call



May 23, 2023

Safe Harbor

This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act, including statements related to our financial guidance for the fourth quarter of fiscal 2023 and fiscal year 2023 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS, GAAP net income, GAAP profitability and non-GAAP adjusted free cash flow margin, our modeling points, and our expectations regarding our ability to execute, free cash flow and free cash flow margins, and improvements in our operational efficiency. Many of these assumptions relate to matters that are beyond our control and changing rapidly.

There are a significant number of factors that could cause actual results to differ materially from forward-looking statements made in this presentation, including: developments and changes in general market, political, economic, and business conditions;; risks associated with managing our growth; risks associated with new products and subscription and support offerings, including the discovery of software bugs; shifts in priorities or delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for security products and subscription and support offerings; our customers’ purchasing decisions and the length of sales cycles; our competition; our ability to attract and retain new customers; our ability as an organization to acquire and integrate other companies, products, or technologies in a successful manner; challenges associated with the global chip and component supply and other factors affecting the manufacture, delivery, and cost of certain of our products; the global impact of COVID-19; our debt repayment obligations; and our share repurchase program, which may not be fully consummated or enhance shareholder value, and any share repurchases which could affect the price of our common stock. Further information on these and other factors that could affect the forward-looking statements we make in this presentation can be found in the documents that we file with or furnish to the U.S. Securities and Exchange Commission, including Palo Alto Networks’ most recent Quarterly Report on Form 10-Q filed for the quarter ended January 31, 2023, which is available on our website at investors.paloaltonetworks.com and on the SEC’s website at www.sec.gov. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this presentation are based on our current beliefs and on information available to management 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.

All information in this presentation is as of May 23, 2023. This presentation contains non-GAAP financial measures and key metrics relating to the company’s past and expected future performance. We have not reconciled diluted non-GAAP earnings per share guidance to GAAP earnings per diluted share, non-GAAP operating margin to GAAP operating margin or adjusted free cash flow margin guidance to GAAP net cash from operating activities because we do not provide guidance on GAAP net income (loss) or net cash from operating activities and would not be able to present the various reconciling cash and non-cash items between GAAP and non-GAAP financial measures, including share-based compensation expense, without unreasonable effort.

NIKESH ARORA

CEO & CHAIRMAN



Q3 Results

Balanced Top Line Performance

Total Billings¹

\$2.26B

+26% y/y

Remaining Performance Obligation

\$9.2B

+35% y/y

NGS ARR²

\$2.57B

+60% y/y

Total Revenue

\$1.72B

+24% y/y

Significant Incremental Profitability

Operating Income (non-GAAP)

\$407M

+61% y/y

EPS (non-GAAP)

\$1.10

+83% y/y

Adj. Free Cash Flow (non-GAAP)

\$401M

+68% y/y on trailing 12-month basis

GAAP Profitability

\$108M

+\$181M y/y

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

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

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

Fiscal year ending on July 31.

We Continue to See PLATFORMIZATION in Cybersecurity

>\$1M accounts in Q3'23

325

Number of accounts >\$1M

+29% Y/Y

Total Bookings from
accounts >\$1M

>\$5M accounts in Q3'23

72

Number of accounts >\$5M

+62% Y/Y

Total Bookings from
accounts >\$5M

>\$10M accounts in Q3'23

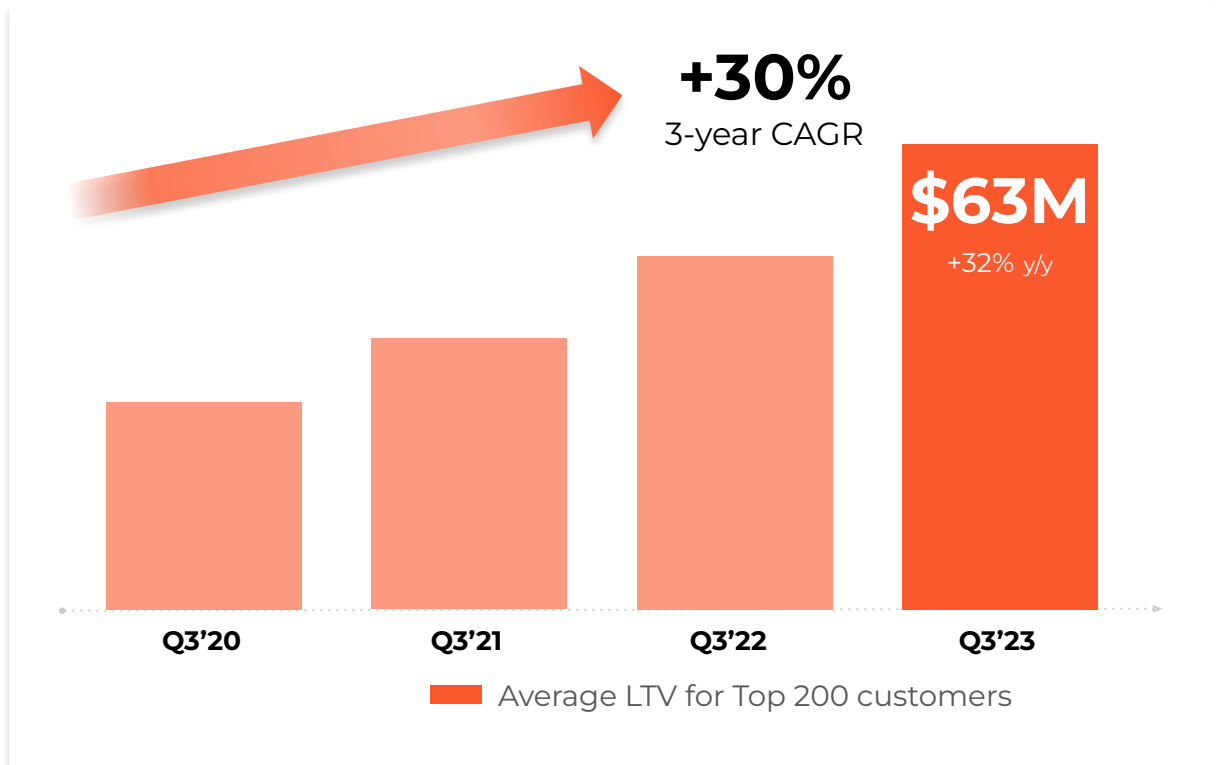
25

Number of accounts >\$10M

+136% Y/Y

Total Bookings from
accounts >\$10M

Sustained Growth in Lifetime Value for our Largest Customers



53%

of G2000 customers¹ who have **purchased Strata, Prisma and Cortex**



+20 pts

vs 33% of G2000 customers who have **purchased Strata, Prisma and Cortex** as of Q3'20

¹ LTV (Lifetime Value) Bookings represents cumulative orders since a customer's initial purchase with Palo Alto Networks.

² G2K Customers represent Global 2000 customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services.

We are THE Comprehensive Zero Trust Network Security Company

SASE

Security Service Edge (SSE)

NEW

A LEADER

Gartner Magic Quadrant for Security Service Edge™



SD-WAN

A LEADER

Gartner Magic Quadrant for SD-WAN™



FIREWALL

Network Firewall

A LEADER

Gartner Magic Quadrant for Network Firewalls™



VM Firewall

#1 MARKET SHARE

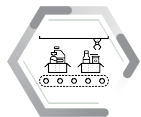
Dell'Oro 4Q22 Network Security Report



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SASE Continues its Steady Growth

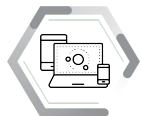
Success with large transactions was global in Q3



8-figure SASE deal with a US beverage company



8-figure SASE deal with a US technology company



8-figure SASE deal with a JPAC electronics company



8-figure deal with a European technology company
Including a high 7-figure SASE purchase



8-figure deal with European Pharmaceutical company
Including a high 7-figure SASE purchase



~50% y/y

Sustaining SASE¹ ARR growth at scale



>4,200

Active SASE customers², growing

33% y/y



>80%

Core Rep participation on Prisma SASE

¹Prisma SASE includes Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.

²Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE includes unique customers for Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.



Software is Driving our Network Security Business



Pandemic & supply chain constraints

**Fueled eval activity for
VM-Series**



YTD VM-Series growing

>40% y/y¹



VM-Series \$1M+ deals up

More than 2x
a year ago



Software is now

30% of product revenue
driven by VMs and SASE

¹Based bookings from VM-series, excluding Marketplace VMs.

Significant Acceleration in AI-based Innovation in FY'22 & FY'23

Subscriptions			FY'22 & FY'23 Acceleration	
WildFire	+ inline ML	+ Additional file formats	+ ML-based shell script analysis	Adv. WildFire
DNS Security	+ Advanced signatures	+ Additional attack coverage	+ 40% more threat coverage	+ coverage of encrypted requests
	IoT Security		IoT 2.0	Medical IoT and OT Security
		Adv. URL Filtering	+ increased phishing detection	AI-based Phishing Detection
			AI Ops for NGFW	AIOps powered ADEM
			Adv. Threat Prevention	+ AI-detection of injection attacks
NGFW & SASE			FY'22 & FY'23 Acceleration	
	ML-Powered NGFW	Prisma Access	NG CASB PAN-OS 10.2	SD-WAN
FY'16-'19	FY'20	FY'21	FY'22	FY'23 YTD



AI Drives Tangible Customer Outcomes at Scale

Good Data Drives Great AI

Each day we analyze

750 million

new and unique objects

AI + ML Deliver Zero-Day Detection

Each day we detect

1.5 million

new and unique attacks that
weren't there the day before

Attack Prevention Happens Inline

Each day we block

8.6 billion

attacks¹

¹ Internal Estimate

We are Differentiating as a Platform and Staying Ahead with Innovation

Customers are deploying Prisma Cloud as a platform

49%

of active customers¹ use both



CWPP

&



CSPM

Addressing unique vertical requirements



FedRAMP™

FedRAMP High Impact Level - Ready status

Our platform is Innovating ahead of the industry



on track to launch

11th module

based on Cider technology

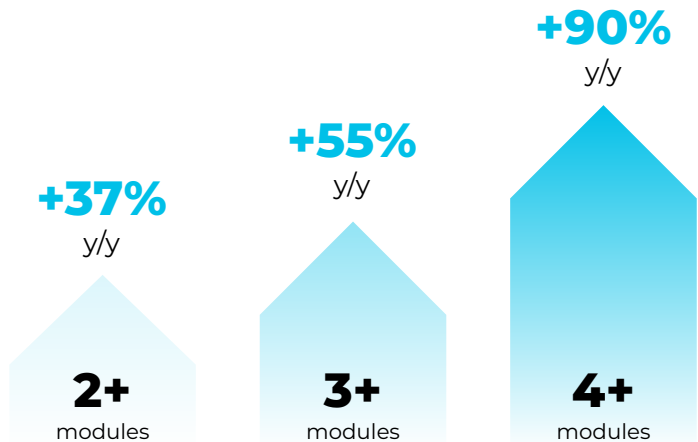
Leveraging our research capabilities



¹ Customers is based on Prisma Cloud customers with module adoption over the 90 day period ending 4/30/2023, and excludes any Prisma Cloud Compute only self-hosted customers.

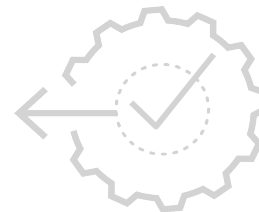
Consistent Growth for Prisma Cloud³

Growth in multi-module adoption customers¹



'Shift left' is accelerating

1 in 5



Prisma Cloud active customers² are using
Cloud Code Security Capabilities

¹ Multi-module adoption customers is based on customers with module adoption over the 90 day period ending 4/30/2023, and excludes any Prisma Cloud Compute only self-hosted customers.

² Customers are licensed Prisma Cloud Enterprise Edition customers and exclude Prisma Cloud Compute only self-hosted customers

³ Following the publication of this presentation, an error was discovered such that the Prisma Cloud credit consumption data for the reported period was overstated. The credit consumption growth for the reported period was nonetheless substantial, but because we cannot define the error with exact precision, the data has been removed from this presentation

Cortex Achieves \$1B Bookings Milestone



XDR

**Highest Quality
Detections**

MITRE ATT&CK Round 4



XSOAR

LEADER

KuppingerCole Security Orchestration
Automation & Response Leadership
Compass



XPANSE

LEADER

GigaOM Attack Surface
Management Radar



XSIAM

Defining a new category
The autonomous security platform
for the modern SOC

\$150M



FY'19 Cortex Bookings



\$500M

FY'21 Cortex
Bookings



\$1B

TTM Cortex
Bookings

Our Next-Gen SOC Platform, XSIAM is on Track to Be Our Fastest Growing New Offering

Q1'23

Launch

GA after design partner program

Q2'23

Early Success

\$30M
In cumulative bookings since launch

Broadening
Of go to market

Q3'23

Establishing Momentum

Success in all **3** geos

\$25M+ transaction booked

100%+ Q/Q Bookings growth

Q4'23 and beyond

Mainstream Growth

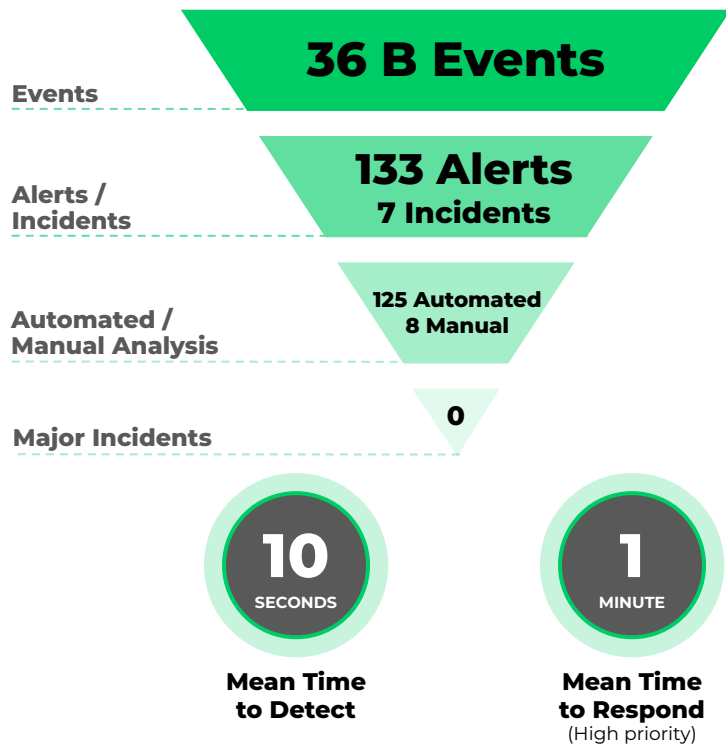
Putting Cortex at the center of our customer's SOC transformation

Accelerating towards \$100M in bookings

Full Access to SIEM budget

XSIAM is Bringing AI-Driven Outcomes to its Early Customers

The Palo Alto Networks Automated SOC



Early Customer Results

>3.5 PB/day of data ingested¹

1,000+ AI models applied to detect attacks

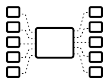
AI smart scoring and automation to accelerate investigation and response

Early mean time to respond reduction from weeks/days to hours/minutes²

¹ Data ingested across XDR and XSIAM customers which benefits customers that have deployed both products

² Based on preliminary data with early XSIAM customers.

Positioned to Continue to Deliver Profitable Growth



Diverse
portfolio
enables us to
address broad
opportunity



Focused
on executing
through a
challenging
backdrop



Making
strategic
investments while
delivering
profitability ahead
of schedule

We are THE largest data and AI-based pure-play cybersecurity company

We are working on Embedding Generative AI pervasively across PANW

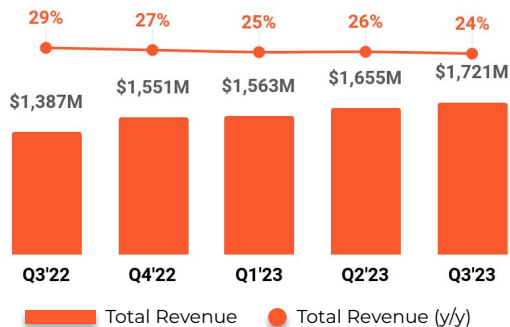
DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

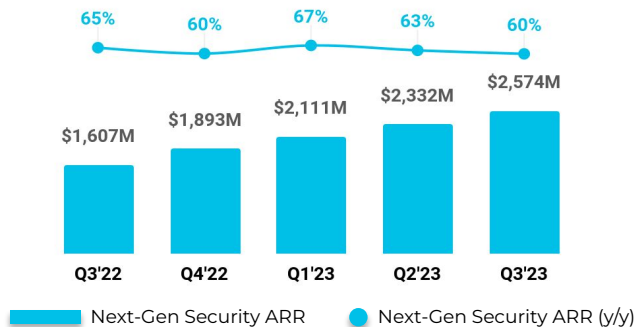


Q3'23 Top-line Trends

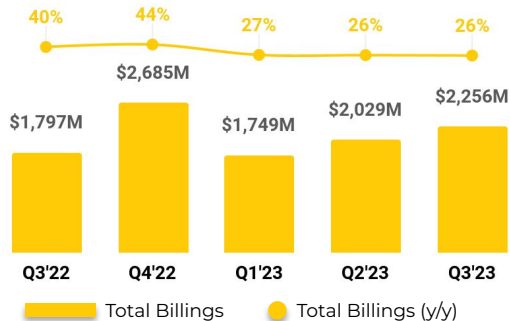
Total Revenue



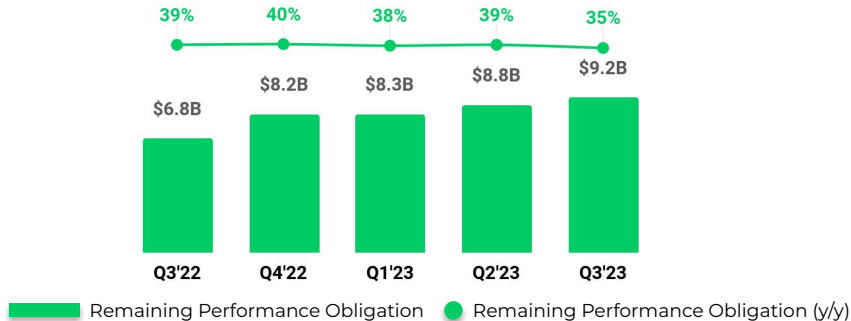
Next-Gen Security ARR



Total Billings



Remaining Performance Obligation



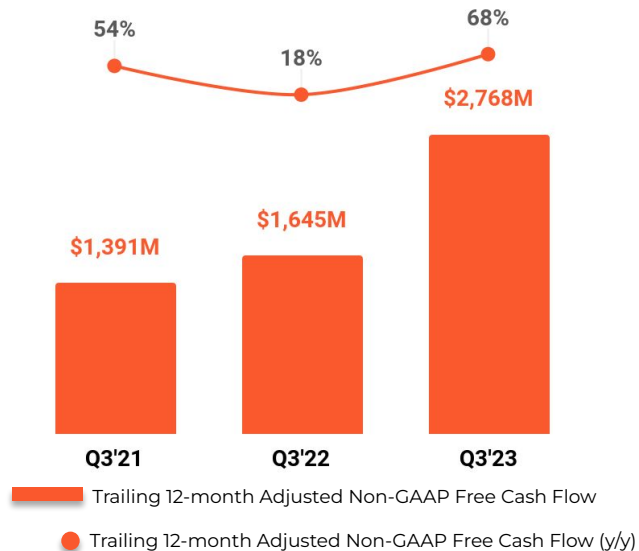
Fiscal year ending on July 31.

Continuing our Focus on Delivering Profitable Growth

Non-GAAP Earnings Per Share¹






Trailing 12 Month Adjusted Non-GAAP Free Cash Flow



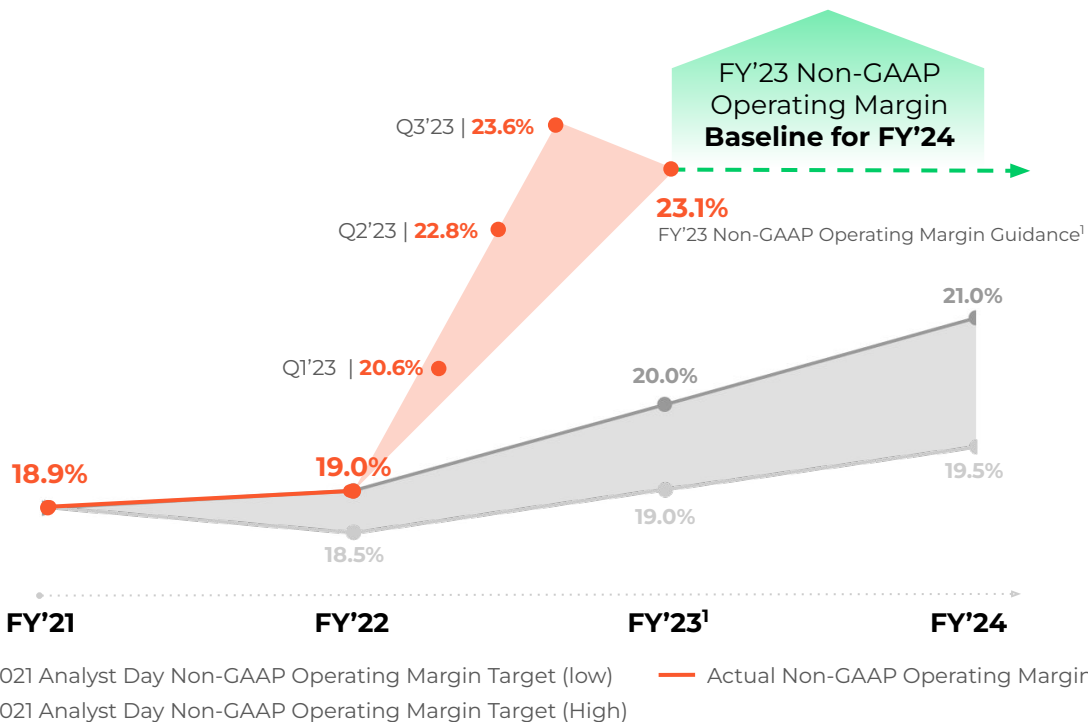
¹ Non-GAAP Earnings Per Share for periods Q3'22 and Q4'22 adjusted to reflect the effect of the stock split executed on September 13, 2022. Fiscal year ending on July 31.

Q3 Metrics

	Q3'23 Guidance (as of 2/21/23)	Q3'23 Actual	
Total Billings	\$2.20B-\$2.25B 22%-25% yr/yr	\$2.26B 26% yr/yr	
Total Revenue	\$1.695B-\$1.725B 22%-24% yr/yr	\$1.72B 24% yr/yr	
Product Revenue		\$388M 10% yr/yr	
Remaining Performance Obligation		\$9.2B 35% yr/yr	
Next-Gen Security ARR		\$2.57B 60% yr/yr	
Gross Margin (Non-GAAP)		76.1% +320 bps yr/yr	
Operating Income (Non-GAAP)		\$407M 61% yr/yr	
Operating Margin (Non-GAAP)		23.6% +540 bps yr/yr	
EPS (Non-GAAP)	\$0.90-\$0.94	\$1.10	
Adj. Free Cash Flow (Non-GAAP)		\$401M 14% yr/yr	

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

We Have Accelerated Our Delivery of Profitable Growth in FY23



¹Mid-point of FY'23 non-GAAP operating margin guidance as of 5/23/2023.



FY'23 Non-GAAP Operating Margin Guidance has **improved by 400 bps** since the beginning of the year



FY'23 Non-GAAP Operating Margins are **our future baseline**

Q4 Fiscal 2023 Guidance

	Q4'23
Total Billings	\$3.15B - \$3.20B 17%-19% yr/yr
Total Revenue	\$1.937B - \$1.967B 25%-27% yr/yr
EPS (Non-GAAP) ¹	\$1.26 - \$1.30 58%-63% yr/yr

¹A reconciliation of forward-looking non-GAAP earnings per share to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort. Fiscal year ending on July 31.

Fiscal Year 2023 Guidance

	Initial FY 2023 Guidance (8/22/22)	FY 2023 Guidance as of 2/21/23	FY 2023 Guidance as of 5/23/23
Total Billings	\$8.95B - \$9.05B +20%-21% yr/yr	\$9.10B - \$9.20B +22%-23% yr/yr	\$9.18B - \$9.23B +23%-24% yr/yr
Next-Gen Security ARR	\$2.60B - \$2.65B +37%-40% yr/yr	\$2.75B - \$2.80B +45%-48% yr/yr	\$2.80B - \$2.85B +48%-51% yr/yr
Total Revenue	\$6.85B - \$6.90B +25% yr/yr	\$6.85B - \$6.91B +25%-26% yr/yr	\$6.88B - \$6.91B +25%-26% yr/yr
Product Revenue	+mid- to high-single digits	~10% yr/yr	15-16% yr/yr
Op Margin (Non-GAAP)	19.0-19.5%	21.5-22.0%	23.0-23.25% +125-150 bps
EPS (Non-GAAP)	\$3.13 - \$3.17 +24%-26% yr/yr	\$3.97 - \$4.03 +57%-59% yr/yr	\$4.25 - \$4.29 +69%-70% yr/yr
Adj. FCF Margin (Non-GAAP)	33.5-34.5%	36.5-37.5%	37.5-38.5% +100 bps
GAAP Net Income	Positive	Positive each quarter	Positive each quarter

A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort.
Fiscal year ending on July 31.

Modeling Points

- Q4'23 and FY'23 non-GAAP effective tax rate: 22%
- Q4'23 net interest and other income of \$50M – \$55M
- Q4'23 diluted shares outstanding 326 – 332 million
- FY23 diluted shares outstanding 322 – 324 million
- Q4'23 capital expenditures of \$35M – \$40M

¹A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort. Fiscal year ending on July 31.

Q&A

Appendix

Investor Links and Resources

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

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

Additional Resources

[2021 Analyst Day Presentation](#)

[Palo Alto Networks CSR](#)

[Recent Events & Presentations](#)

Calculation of Billings

\$ In millions

Billings:	Q322	Q422	Q123	Q223	Q323
Total revenue	\$1,386.7	\$1,550.5	\$1,563.4	\$1,655.1	\$1,720.9
Add: change in total deferred revenue, net of acquired deferred revenue	410.2	1,134.6	185.6	374.0	535.3
Total billings	<u>\$1,796.9</u>	<u>\$2,685.1</u>	<u>\$1,749.0</u>	<u>\$2,029.1</u>	<u>\$2,256.2</u>

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q322		Q323	
	\$	%	\$	%
GAAP gross profit and gross margin	\$946.2	68.2%	\$1,246.1	72.4%
Share-based compensation-related charges	36.3	2.7%	42.4	2.4%
Amortization expense of acquired intangible assets	26.0	1.9%	19.9	1.2%
Litigation-related charges ⁽¹⁾	1.8	0.1%	1.8	0.1%
Non-GAAP total gross profit and gross margin	\$1,010.3	72.9%	\$1,310.2	76.1%

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

GAAP to Non-GAAP Reconciliations – Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	Q322		Q123		Q223		Q323	
	\$	%	\$	%	\$	%	\$	%
GAAP operating income (loss) and operating margin	(\$47.6)	-3.4%	\$15.2	1.0%	\$39.9	2.4%	\$78.7	4.6%
Share-based compensation-related charges	267.2	19.2%	278.9	17.8%	298.6	18.1%	293.5	17.0%
Acquisition-related costs ⁽¹⁾	-	0.0%	-	0.0%	12.1	0.7%	7.4	0.4%
Amortization expense of acquired intangible assets	31.5	2.3%	28.7	1.8%	24.4	1.5%	25.3	1.5%
Litigation-related charges ⁽²⁾	1.8	0.1%	1.8	0.1%	1.8	0.1%	1.8	0.1%
Restructuring and other costs ⁽³⁾	-	0.0%	(2.2)	-0.1%	-	0.0%	-	0.0%
Non-GAAP operating income and operating margin	\$252.9	18.2%	\$322.4	20.6%	\$376.8	22.8%	\$406.7	23.6%

⁽¹⁾ Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

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

⁽³⁾ Consists of adjustments to restructuring and other costs.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	FY'21		FY'22	
	\$	%	\$	%
GAAP operating loss and operating margin	(\$304.1)	-7.1%	(\$188.8)	-3.4%
Share-based compensation-related charges	936.5	22.0%	1,072.0	19.5%
Acquisition-related costs ⁽¹⁾	46.1	1.1%	5.5	0.1%
Amortization expense of acquired intangible assets	116.7	2.7%	125.8	2.3%
Litigation-related charges ⁽²⁾	7.1	0.2%	7.1	0.1%
Restructuring and other costs ⁽³⁾	-	0.0%	21.2	0.4%
Non-GAAP operating income and operating margin	<u>\$802.3</u>	<u>18.9%</u>	<u>\$1,042.8</u>	<u>19.0%</u>

⁽¹⁾ Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

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

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

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q322	Q422	Q123	Q223	Q323
GAAP net income (loss) per share, diluted	(\$0.25)	\$0.01	\$0.06	\$0.25	\$0.31
Share-based compensation-related charges	0.84	0.78	0.87	0.94	0.91
Acquisition-related cost ⁽¹⁾	0.00	0.01	0.00	0.04	0.02
Amortization expense of acquired intangibles assets	0.11	0.09	0.08	0.07	0.07
Litigation-related charges ⁽²⁾	0.01	0.01	0.01	0.01	0.01
Restructuring and other costs ⁽³⁾	0.00	0.06	(0.01)	0.00	0.00
Non-cash charges related to convertible notes ⁽⁴⁾	0.01	0.01	0.01	0.01	0.01
Foreign currency gain (loss) associated with non-GAAP adjustments	(0.01)	0.00	(0.01)	0.01	0.00
Income tax and other tax adjustments ⁽⁵⁾	(0.11)	(0.17)	(0.18)	(0.28)	(0.23)
Non-GAAP net income per share, diluted	\$0.60	\$0.80	\$0.83	\$1.05	\$1.10

⁽¹⁾ Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

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

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

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

⁽⁵⁾ Consist of income tax adjustments related to our long-term non-GAAP effective tax rate. In Q2'23, it included a tax benefit from a release of tax reserves related to uncertain tax positions resulting from a tax settlement. Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Adjusted Free Cash Flow

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	Q322	Q323	TTM Q321	TTM Q322	TTM Q323
Net cash provided by operating activities	\$389.5	\$432.1	\$1,510.9	\$1,786.8	\$2,887.1
Less: purchases of property, equipment, and other assets	38.3	31.2	120.4	181.0	148.3
Free cash flow (non-GAAP)	<u>\$351.2</u>	<u>\$400.9</u>	<u>\$1,390.5</u>	<u>\$1,605.8</u>	<u>\$2,738.8</u>
Add: capital expenditures for headquarters ⁽¹⁾	-	-	-	38.9	-
Add: cash payment related to tax settlement	-	-	-	-	28.9
Add: repayments of convertible senior notes attributable to debt discount	-	-	-	0.1	-
Adjusted free cash flow (non-GAAP)	<u><u>\$351.2</u></u>	<u><u>\$400.9</u></u>	<u><u>\$1,390.5</u></u>	<u><u>\$1,644.8</u></u>	<u><u>\$2,767.7</u></u>

⁽¹⁾ Consists of a land purchase of \$38.9 million in Q2'22.
Fiscal year ends on July 31.

Thank you

