



Q2 Fiscal Year 2022 Earnings Call



February 22, 2022

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 that are based on our management’s beliefs and assumptions and on information currently available to management, including statements regarding our expectations regarding our view as to the security threat landscape, growth drivers for fiscal 2022 and beyond, our product and service offerings, our “rule of 60” goal, our financial guidance for the second quarter of fiscal 2022 and fiscal year 2022 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS and non-GAAP adjusted free cash flow margin, our modeling points, our expectations regarding gross margins and operating margins, our expectations regarding use of cash for share repurchases, our expectations regarding stock-based compensation expense, and our expectations regarding product launches and adoption. 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; the duration and global impact of COVID-19; 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; the effects of supply chain constraints and the global chip and component shortages and other factors affecting the manufacture, delivery and cost of certain of our products; our ability to obtain adequate supply of our products from our third-party manufacturing partners; 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 October 31, 2021, which is available on our website at investors.paloaltonetworks.com and on the SEC’s website at www.sec.gov. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this presentation are based on our current beliefs and on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made or to update the reasons why actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future.

All information in this presentation is as of February 22, 2022. 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 loss 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



Focused on executing and innovating on a backdrop of strong demand



Strong IT demand
driven by powerful
secular trends



Ever evolving and
complicating **threat**
landscape



Focus on **execution**
at scale

Q2 performance continues to demonstrate superior execution

**Accelerated
Growth Continued**

Total Billings¹

\$1.61B

+32% y/y

Total Revenue

\$1.32B

+30% y/y

Remaining Performance Obligation

\$6.3B

+36% y/y

**With our NGS and
software portfolio
leading**

NGS ARR²

\$1.43B

+\$166M Sequential Net New ARR

Software % of FWaAP billings³

40%

+5pts y/y

**Balanced with
strong profitability**

Operating Income (non-GAAP)

\$243M

+20% y/y

EPS (non-GAAP)

\$1.74

+\$0.09 vs. Q2 Guidance⁴

Adjusted Free Cash Flow (non-GAAP)

\$441M

+33% 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.

³Software % of Total FWaAP billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings. Firewall as a Platform billings is a key financial and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and the ratable portion of VM-Series and CloudGenix offerings, during the period stated.

⁴Refers to EPS (non-GAAP) of \$1.645, the midpoint of Q2'FY22 guidance provided on November 18, 2021.

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

Fiscal year ending on July 31.

Large deal success is key to our accelerated growth rates

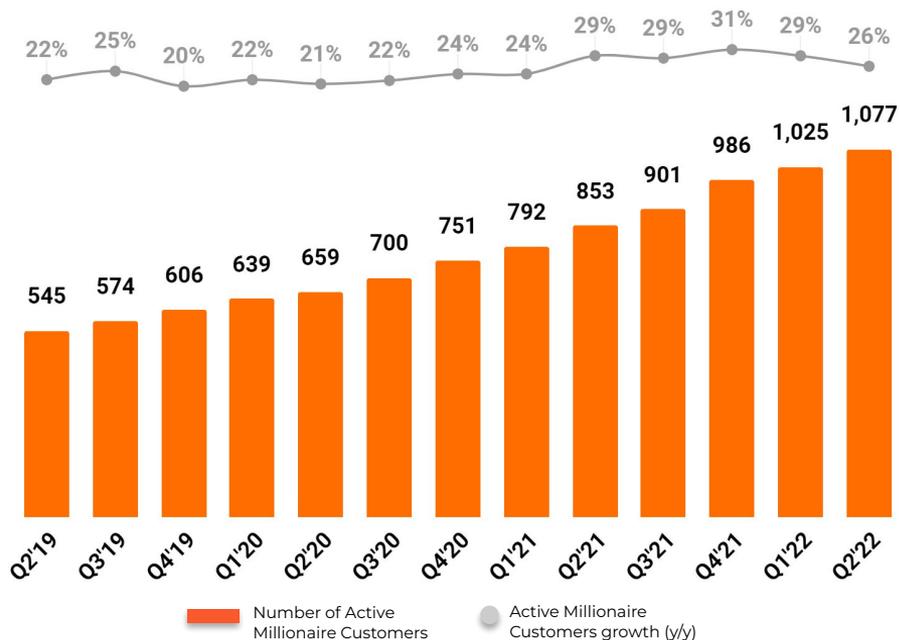
221

7 figure deals in Q2'22

47%

of G2K customers² have purchased Strata, Prisma and Cortex

Strength in Active Millionaire customers¹



¹ Active Millionaire customer defined as customers who have spent \$1M or more in bookings value over the last 4 quarters. A booking is defined as committed customer obligation with a contract in place.

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. Fiscal year ending on July 31.

Our three platform strategy is working

Network Transformation



Strata™



Prisma™
SASE

Cloud Native Security



Prisma™
Cloud

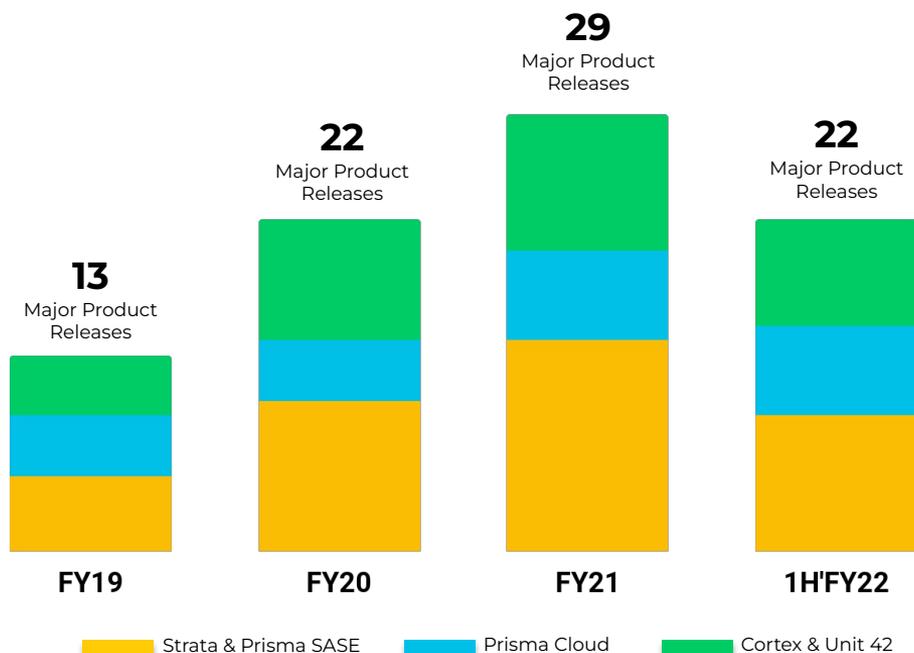
Security Operation Center Automation



Cortex®

The key to Cybersecurity Leadership - Innovation

Major product releases¹



New leadership positions awarded in Q2'22

DevSecOps

A **Leader** in GigaOm Radar for Developer Security Tools²

Secure Web Gateway

A **Leader** in Frost & Sullivan Secure Web Gateways Radar³

¹Major product release is defined as full or dot release with significant new capability, new or add-on modules, or subscription services, new software or hardware appliance models, significant PAN-OS, acquired capabilities and significant new platform support.

²Source: GigaOm Report, GigaOm Radar for Developer Security Tools v2.0, December 2021.

³Frost & Sullivan Report, Frost Radar™: Secure Web Gateways 2021, December 2021.

Fiscal year ending on July 31.

Driving durable growth with continued network security platform refresh



PAN-OS 10.2 software enhancements

Stop zero-day threats in zero time with inline deep learning

Prevents evasive zero-day threats



First AIOps for NGFWs

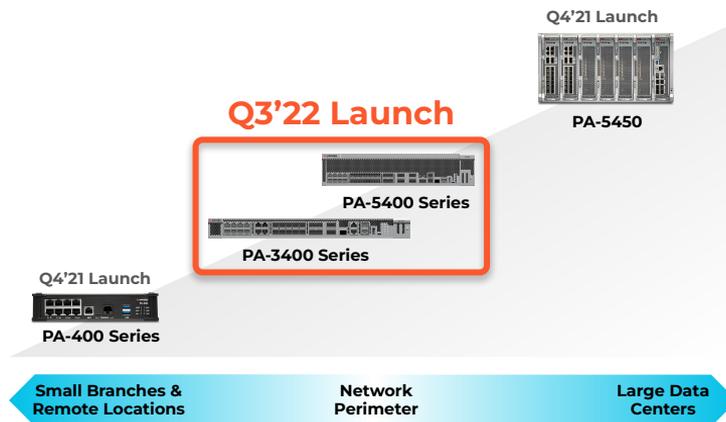


IoT enhancements



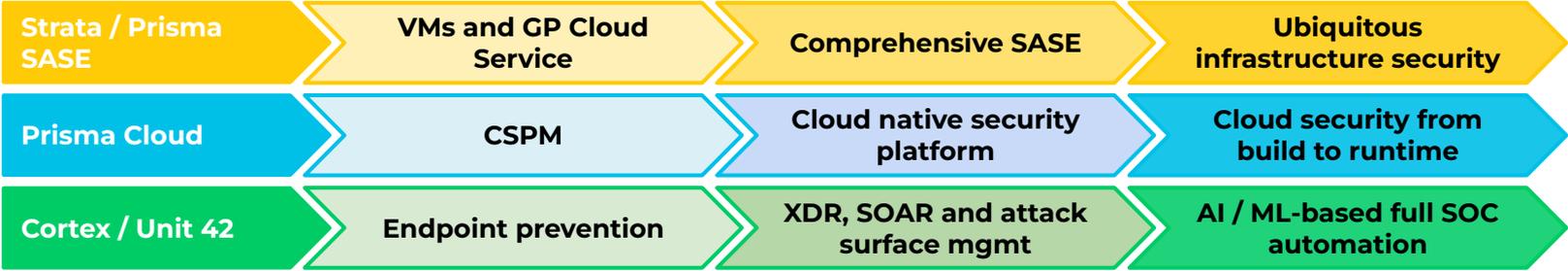
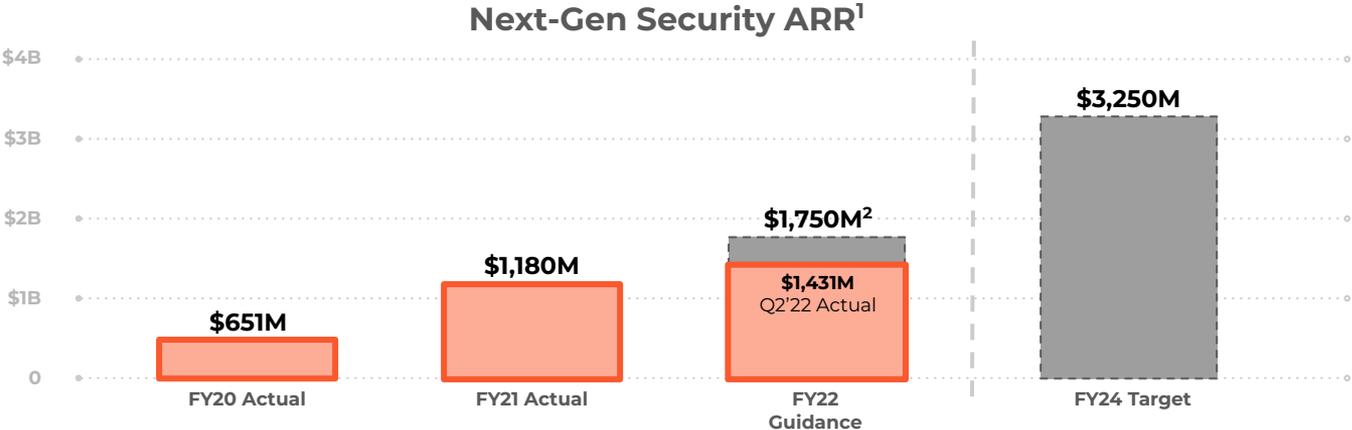
Continuation of Gen-4 hardware refresh

Up to 3x performance vs. prior generation¹



¹Up to 3x performance for the PA-5400 Series and the PA-3400 Series compared to the PA-5200 Series and PA-3200 Series, respectively Fiscal year ending on July 31

PANW positioned to deliver comprehensive - Next Gen Security

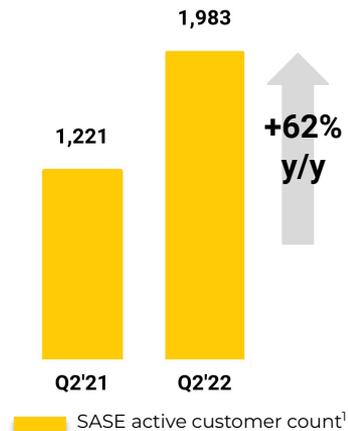


¹ARR = Annualized Recurring Revenue. Next-Gen Security ARR is the annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services

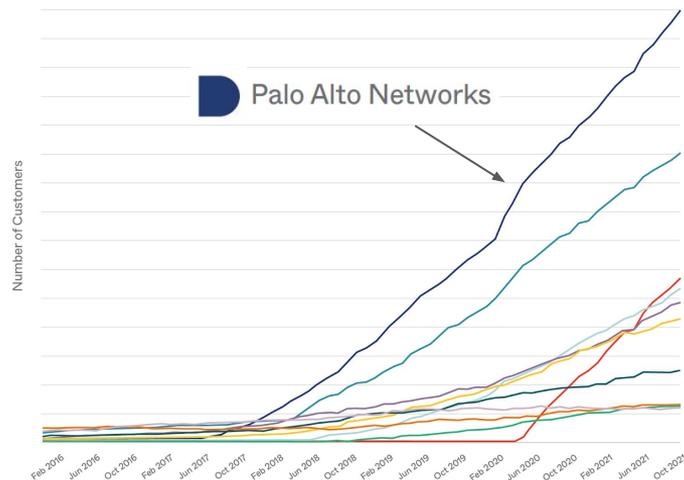
²Represents Nex-Gen Security ARR updated FY22 guidance midpoint, as of 2/22/2022.
Fiscal year ending on July 31.

Transforming network security to enable hybrid work and cloud delivered security

Continued rapid SASE customer adoption



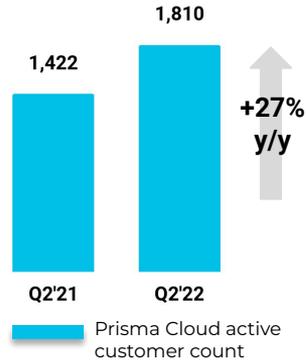
Most popular remote access solution in Okta's Business at Work 2022 report



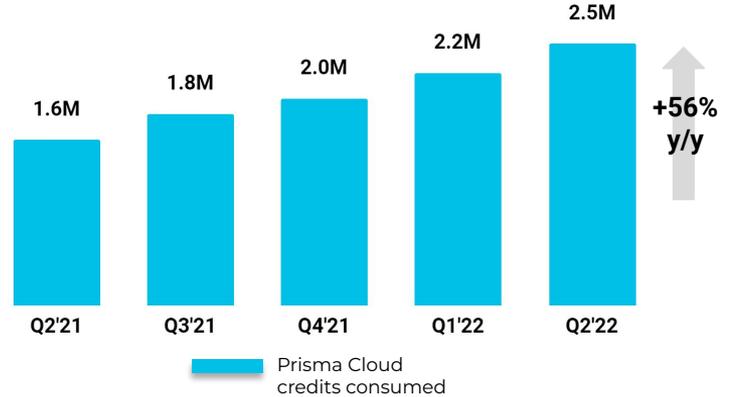
¹ Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE includes unique customers for Prisma Access and Prisma SD-WAN and excludes customers from Sinefa acquisition. Including PANOS SD-WAN and SaaS Security subscriptions in addition to Prisma Access and Prisma SD-WAN, total customer count for Q2'22 is 2,915, which increased 66% from Q2'21 customer count of 1,759. Fiscal year ending on July 31.

Early leadership in cloud-native security with significant momentum

Prisma Cloud customers¹



Credits consumed growing well in excess of customers



First Mover

+

Customer Scale

+

Product Breadth

+

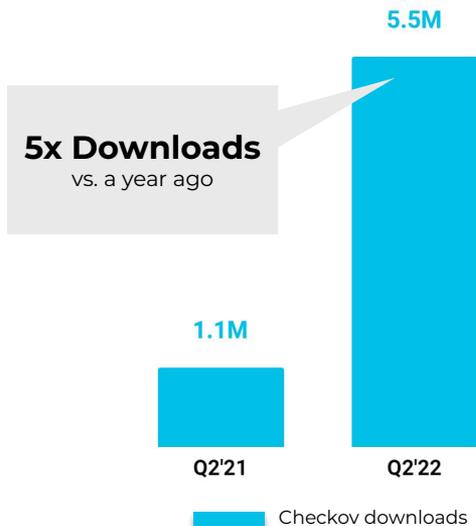
Recurring Revenue Scale

¹Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma Cloud customers exclude customers from Bridgecrew acquisition. Fiscal year ending on July 31

Investing for continued momentum with 3.0 and integrated DevSecOps



Driving bottom-up developer mindshare with 'Checkov'



New in Prisma Cloud 3.0

Cloud Code Security

5th Pillar

Agent-based & Agentless

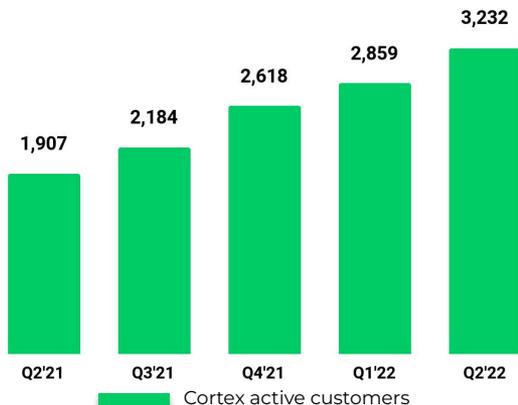
An industry-first

Fiscal year ending on July 31

Strong performance into rapidly growing SOC automation opportunity



Cortex customers¹



Strongest Cortex growth in 6-quarters

Outperformance in all geos

Strength in new customers

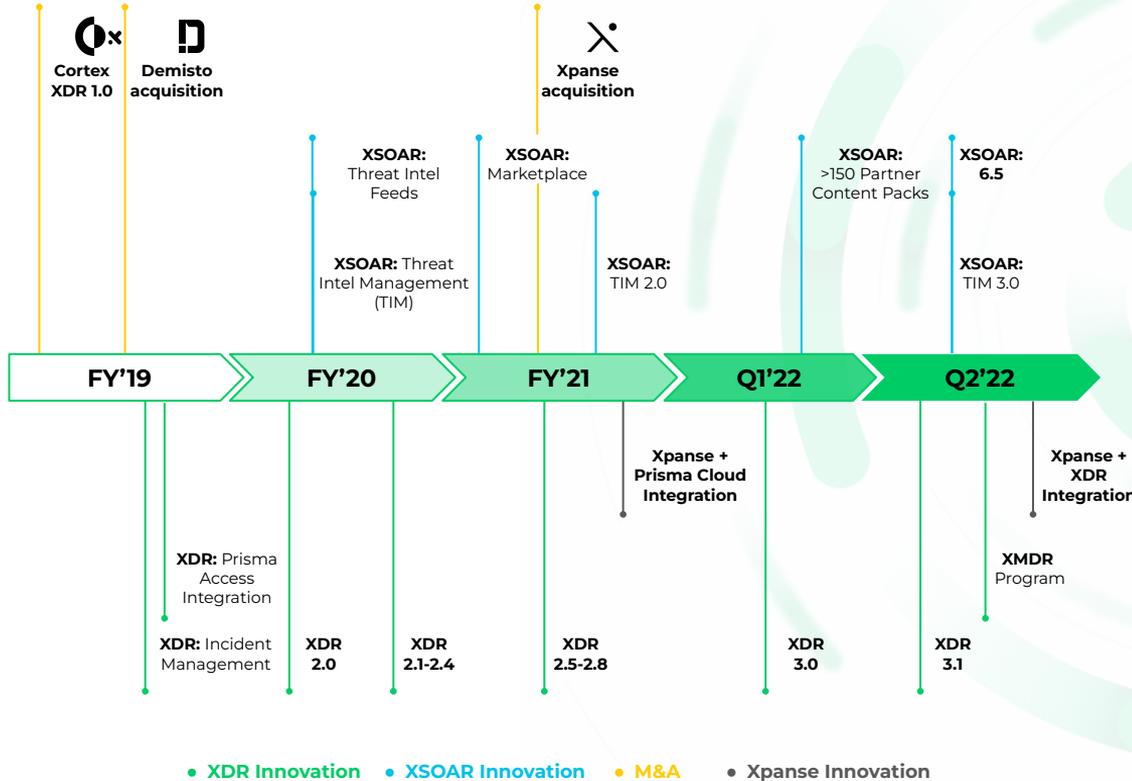
Growing partner success

Q2'22 highlights:

- **27 partners for XMDR** specialization, including KPMG, Expel and Telefonica
- **26 transactions over \$1 million**, including an **\$18M multi-product deal**

¹Cortex customers represents all customers who have purchased Cortex XDR Pro and/or Cortex XSOAR. Customer defined as any customer with a binding contract as of the final date of the reported period. Fiscal year ending on July 31.

Extending our rapid pace of innovation with XSIAM



Autonomous
Cybersecurity for the
Modern SOC

Cortex XSIAM

EXTENDED SECURITY
INTELLIGENCE &
AUTOMATION MANAGEMENT

The AI-driven SOC platform
that builds an intelligent
data foundation to
accelerate response and
outpace threats

Fiscal year ending on July 31.

Raising outlook, driven by strength and confidence in NGS portfolio

Balanced portfolio contributions

Strength across NGS, hardware, subs & support

Broad top-line strength

Raising revenue and billings guidance for FY22

Cloud and Software demand fueling NGS ARR

Raising FY22 NGS ARR guidance on the back of cross-portfolio demand

Balance of profitability

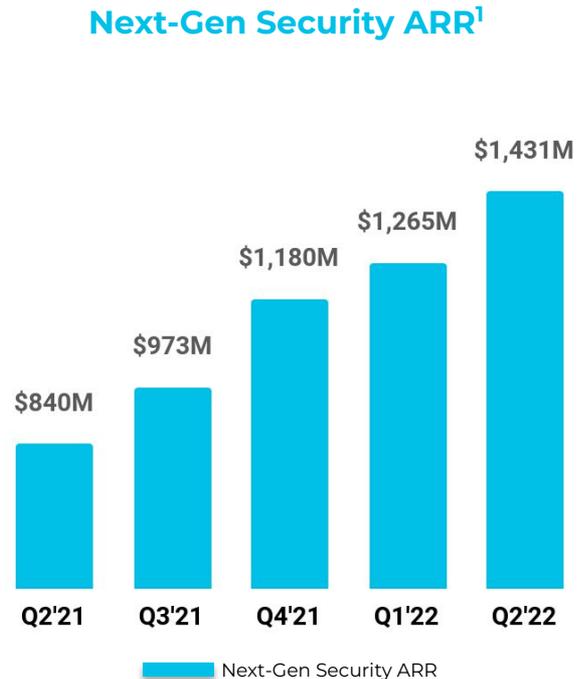
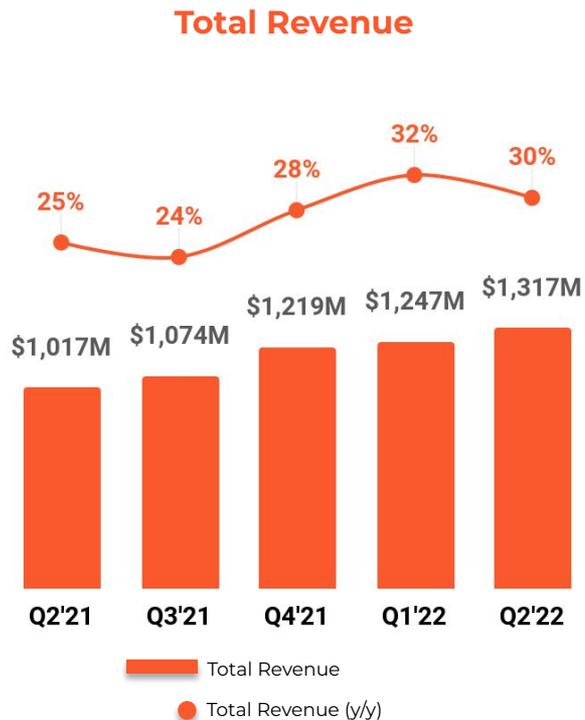
Raising our FY22 EPS guidance to reflect 1H strength

DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

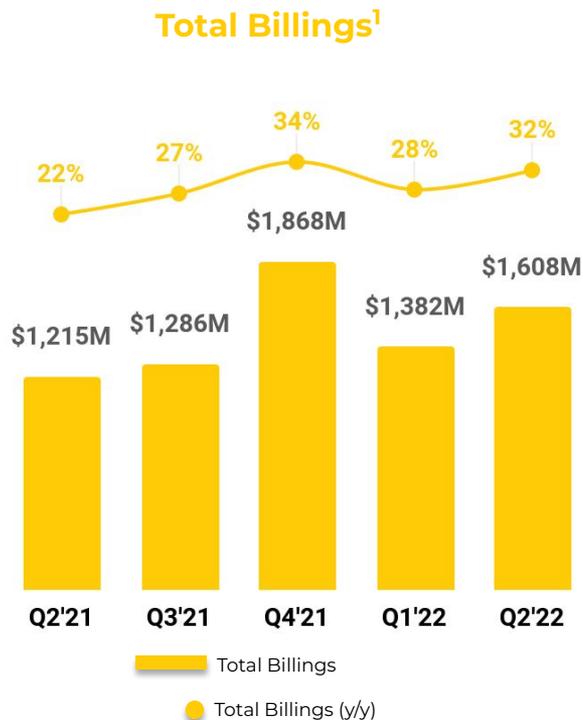


Delivering 30% growth with balanced portfolio performance in Q2



¹ ARR = Annualized Recurring Revenue. Next-Gen Security ARR is the 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. Fiscal year ending on July 31.

Strength in Q2 forward-looking top-line metrics



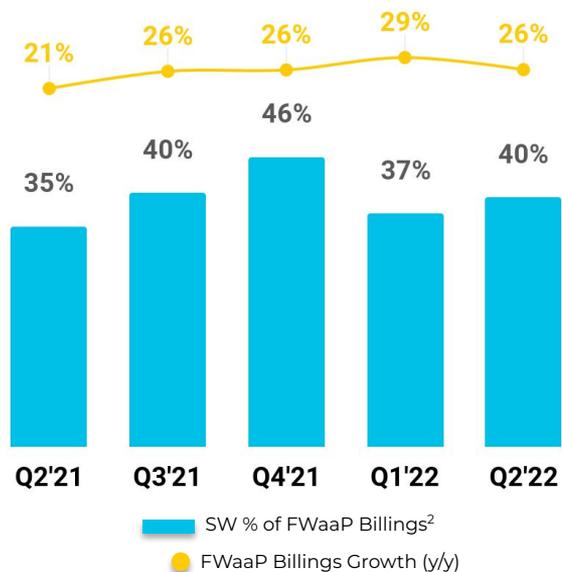
¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

²Remaining Performance Obligation is a GAAP metric

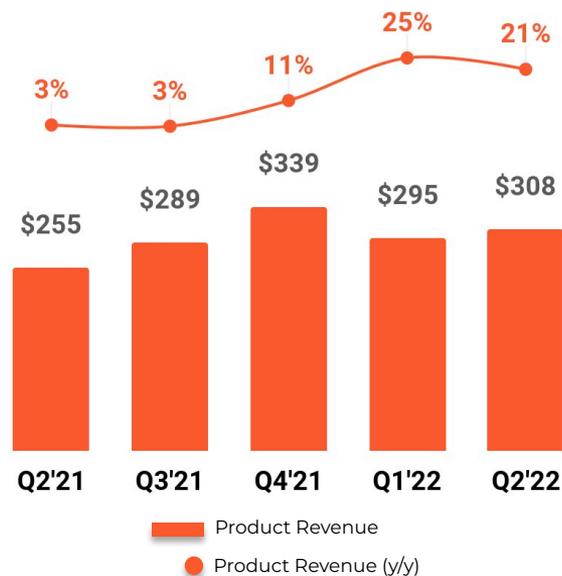
Fiscal year ending on July 31.

Software transition continues, with sustained product revenue growth

Software mix increasing y/y as we drive growth across form factors



Sustained strength in product revenue growth



¹ Firewall as a Platform billings is a key financial and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and the ratable portion of VM-Series and CloudGenix offerings, during the period stated.

² SW % of Total FWaaP billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings. Fiscal year ended July 31.

Strength across Q2 metrics

	Q2'22 Guidance (as of 11/18/21)	Q2'22 Actual	
Total Billings ¹	\$1.51B-\$1.53B 24%-26% yr/yr	\$1.61B 32% yr/yr	
Total Revenue	\$1.265B-\$1.285B 24%-26% yr/yr	\$1.32B 30% yr/yr	
Product Revenue		\$308M 21% yr/yr	
Remaining Performance Obligation		\$6.3B 36% yr/yr	
Next-Gen Security ARR ²		\$1.43B	
Gross Margin (Non-GAAP)		74.0%	
Operating Income (Non-GAAP)		\$243M +20% yr/yr	
Operating Margin (Non-GAAP)		18.4%	
EPS (Non-GAAP)	\$1.63-\$1.66	\$1.74	
Adj. FCF Margin (Non-GAAP)		33.5%	

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

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

Showcasing the balance of financial goals in action in Q2

Revenue growth



Maintained accelerated growth
Strength in leading metrics

Profitability



Tracking to FY goals
Remain focused on customer fulfillment

Cash conversion



Continued strength in free cash flow
Growing FCF ahead of EPS

Capital structure



\$550M Q2 stock repurchase
Managing SBC lower as % of rev

Pushing towards our aspirational 'rule of 60' goal in FY22

Q3 Fiscal 2022 guidance

	Q3'22
Total Billings	\$1.59B - \$1.61B <i>24%-25% yr/yr</i>
Total Revenue	\$1.345B - \$1.365B <i>25%-27% yr/yr</i>
EPS (Non-GAAP) ¹	\$1.65 - \$1.68 <i>using 106 to 108 million shares</i>

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.

Raising guidance for fiscal year 2022

	FY 2022 Guidance as of 11/18/21	FY 2022 Guidance as of 2/22/22
Total Billings ¹	\$6.675B - \$6.725B 22%-23% yr/yr	\$6.80B - \$6.85B 25%-26% yr/yr
Next-Gen Security ARR ²	\$1.65B - \$1.70B 40%-44% yr/yr	\$1.725B - \$1.775B 46%-50% yr/yr
Total Revenue	\$5.35B - \$5.40B 26%-27% yr/yr	\$5.425B - \$5.475B 27%-29% yr/yr
Product Revenue	+Mid-teens yr/yr	+High-teens yr/yr
Op Margin (Non-GAAP)	18.5-19.0%	18.5-19.0%
EPS (Non-GAAP)	\$7.15 - \$7.25 +16%-18% yr/yr	\$7.23 - \$7.30 +18%-19% yr/yr
Adj. FCF Margin (Non-GAAP)	32-33%	32-33%

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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

- Q3'22 and FY'22 non-GAAP effective tax rate: 22%
- Net interest and other expense of \$5M – \$6M per quarter
- FY22 diluted shares outstanding 106 – 108 million
- Q3'22 capital expenditures of \$40M – \$45M
- FY'22 capital expenditures of \$185M – \$195M (includes \$39M outlaid in 2Q22 related to our Santa Clara headquarters)

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 executives 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:	Q221	Q321	Q421	Q122	Q222
Total revenue	\$1,016.9	\$1,073.9	\$1,219.3	\$1,247.4	\$1,316.9
Add: change in total deferred revenue, net of acquired deferred revenue	197.8	212.5	649.0	134.2	291.0
Total billings	\$1,214.7	\$1,286.4	\$1,868.3	\$1,381.6	\$1,607.9

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q222	
	\$	%
GAAP gross profit and gross margin	\$911.6	69.2%
Share-based compensation-related charges	35.5	2.7%
Amortization expense of acquired intangible assets	26.1	2.0%
Litigation-related charges ⁽¹⁾	1.8	0.1%
Non-GAAP total gross profit and gross margin	<u>\$975.0</u>	<u>74.0%</u>

⁽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:	Q221		Q222	
	\$	%	\$	%
GAAP operating loss	(\$88.8)	-8.7%	(\$73.9)	-5.6%
Share-based compensation-related charges	238.6	23.4%	283.3	21.5%
Acquisition-related costs ⁽¹⁾	20.6	2.0%	-	0.0%
Amortization expense of acquired intangible assets	29.6	2.9%	31.5	2.4%
Litigation-related charges ⁽²⁾	1.8	0.2%	1.8	0.1%
Non-GAAP operating income and operating margin	\$201.8	19.8%	\$242.7	18.4%

⁽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.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q222
GAAP net loss per share, diluted	(\$0.95)
Share-based compensation-related charges	2.74
Amortization expense of acquired intangibles assets	0.32
Litigation-related charges ⁽¹⁾	0.02
Non-cash charges related to convertible notes ⁽²⁾	0.02
Foreign currency gain associated with non-GAAP adjustments	(0.01)
Income tax and other tax adjustments related to the above	(0.40)
Non-GAAP net income per share, diluted	<u>\$1.74</u>

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

⁽²⁾ Consists primarily of non-cash interest expense for amortization of debt discount and issuance costs related to the company's convertible senior notes. Effective Q1'22, the company no longer recognizes interest expense for amortization of debt discount as a result of the adoption of new debt guidance.

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):	Q222
Net cash provided by operating activities	\$482.6
Less: purchases of property, equipment, and other assets	80.7
Free cash flow (non-GAAP)	<u>\$401.9</u>
Add: capital expenditures for headquarters ⁽¹⁾	<u>\$38.9</u>
Adjusted free cash flow (non-GAAP)	<u>\$440.8</u>
<i>Free cash flow margin (non-GAAP)</i>	<u>30.5 %</u>
<i>Adjusted free cash flow margin (non-GAAP)</i>	<u>33.5 %</u>

⁽¹⁾ Consists of a land purchase.
Fiscal year ends on July 31.

Thank you

