



Q3 FY'20 Investor Presentation



May 2020

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, including statements regarding Palo Alto Networks’ expectations regarding the expansion of its total addressable market, our financial outlook for the fiscal fourth quarter and full year fiscal 2020, and the length of the transition and changes caused by COVID-19, including the acceleration of certain trends, and our ability to leverage this acceleration and emerge from this transition in a position of strength. Many of these assumptions relate to matters that are beyond our control and changing rapidly, including, but not limited to, the timeframes for and severity of social distancing and other mitigation requirements, the impact of COVID-19 on our customers’ purchasing decisions and the length of our sales cycles, particularly for customers in certain industries highly affected by COVID-19.

There are a significant number of factors that could cause actual results to differ materially from 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; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; delays in the development or release of new subscription offerings; our competition; rapidly evolving technological developments in the market for network security products and subscription and support offerings; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; length of sales cycles; our share repurchase program and accelerated share repurchase transaction, 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 fiscal quarter ended January 31, 2020, 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 May 21, 2020. 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 May 21, 2020.

Business Overview

Our Vision



**A world where each day is safer and
more secure than the one before**



Our Mission

“

**Cybersecurity partner of choice,
protecting our digital way of life**

”

Palo Alto Networks offers a
**comprehensive security
solution** in a world where
every entity must establish trust.

Our holistic approach is...



Integrated

Best-in-breed capabilities connected where needed for the greatest visibility, control, and efficiency

+



Automated

Responds quickly and at scale to reduce security operations tasks and eliminate threats

+

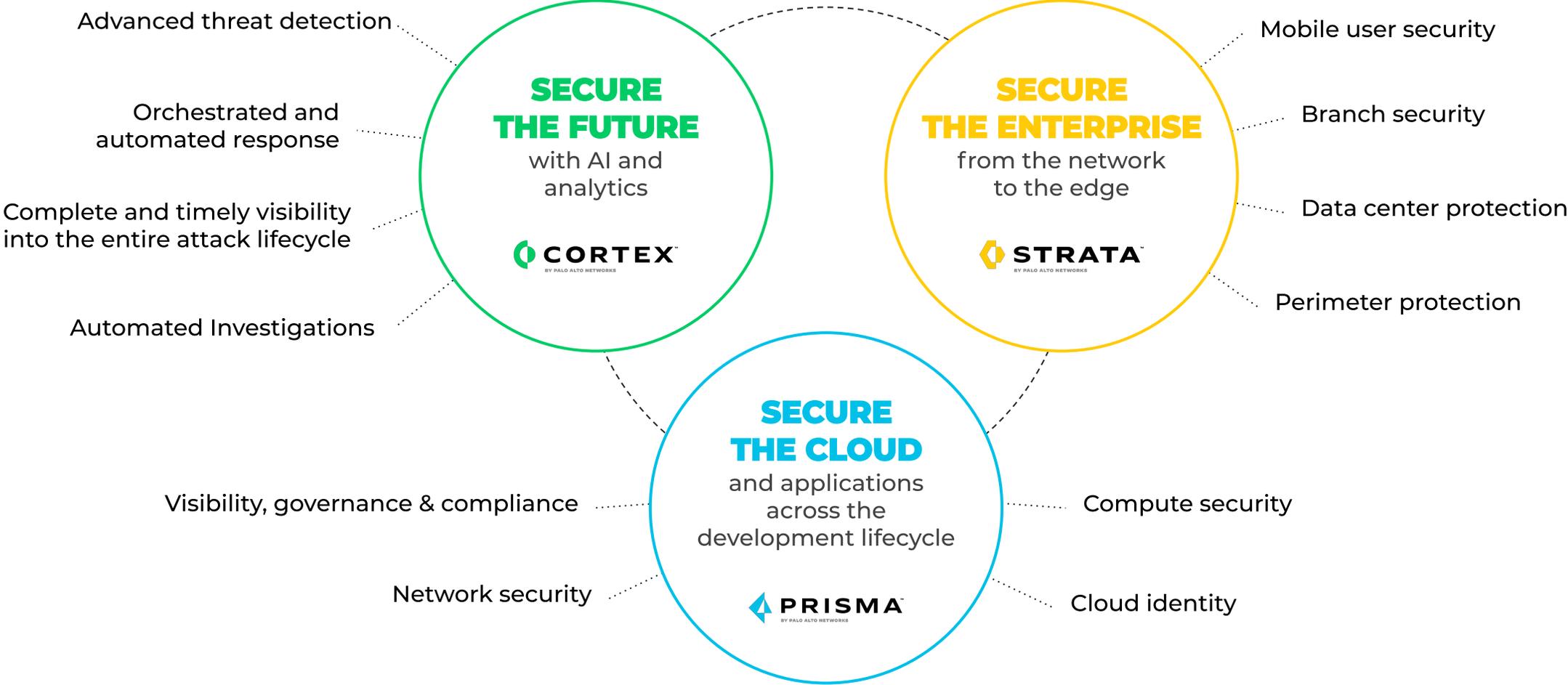


Simple

Frees you to operate and innovate with speed and safety—easing your secure transformation

To deliver cybersecurity that stays ahead of threats rather than just reacts to them.

The Palo Alto Networks comprehensive security solution



Enables you to secure every step of your digital transformation



Our capabilities

SD-WAN
Mobile User Security
Firewall as a Service (FWaaS)
Secure Web Gateway (SWG)
Data Loss Prevention (DLP)
SaaS Security (CASB)
Threat and malware prevention
DNS Security
App and identity-based security policy

Asset Inventory Configuration
Assessment Compliance
Management Network Security
IAM Security
Data Security Vulnerability
Management Workload Security
Automated Investigation and Response

Endpoint Protection
Endpoint Analytics
Network Analytics
Investigation and Response
Managed Threat Hunting
Playbook Orchestration
Case Management
Real Time Collaboration
Threat Intelligence Management

Addressing a Large TAM Through Expanded Offerings

Network



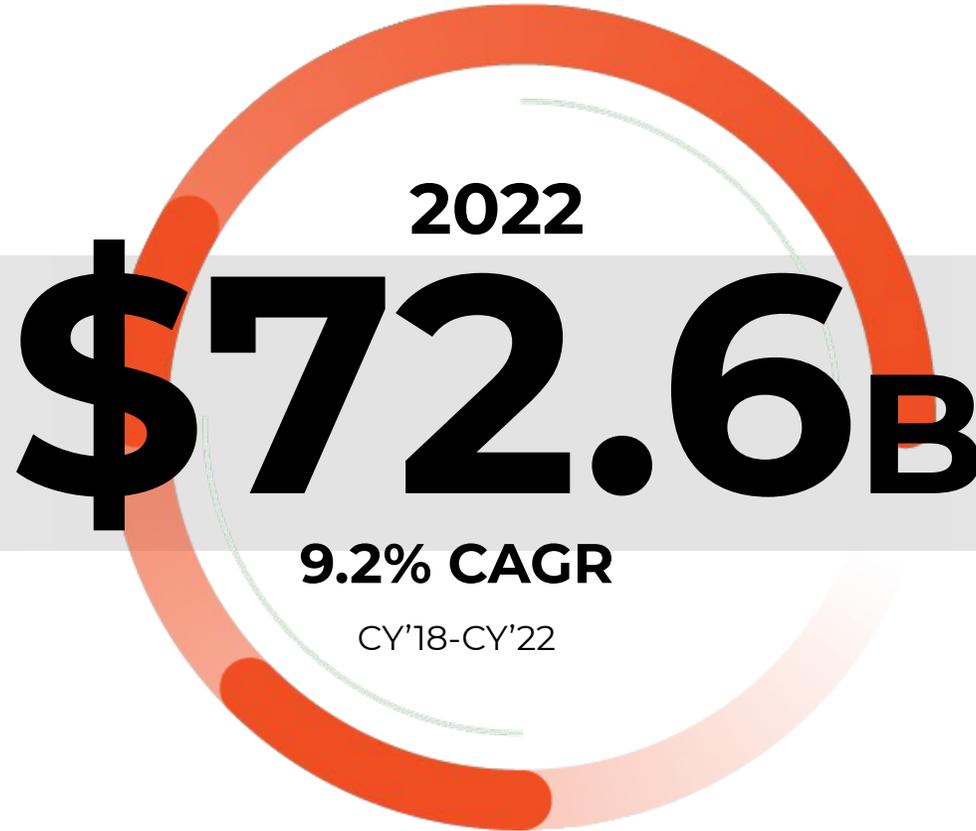
Cloud



Endpoint Protection, Analytics & Automation



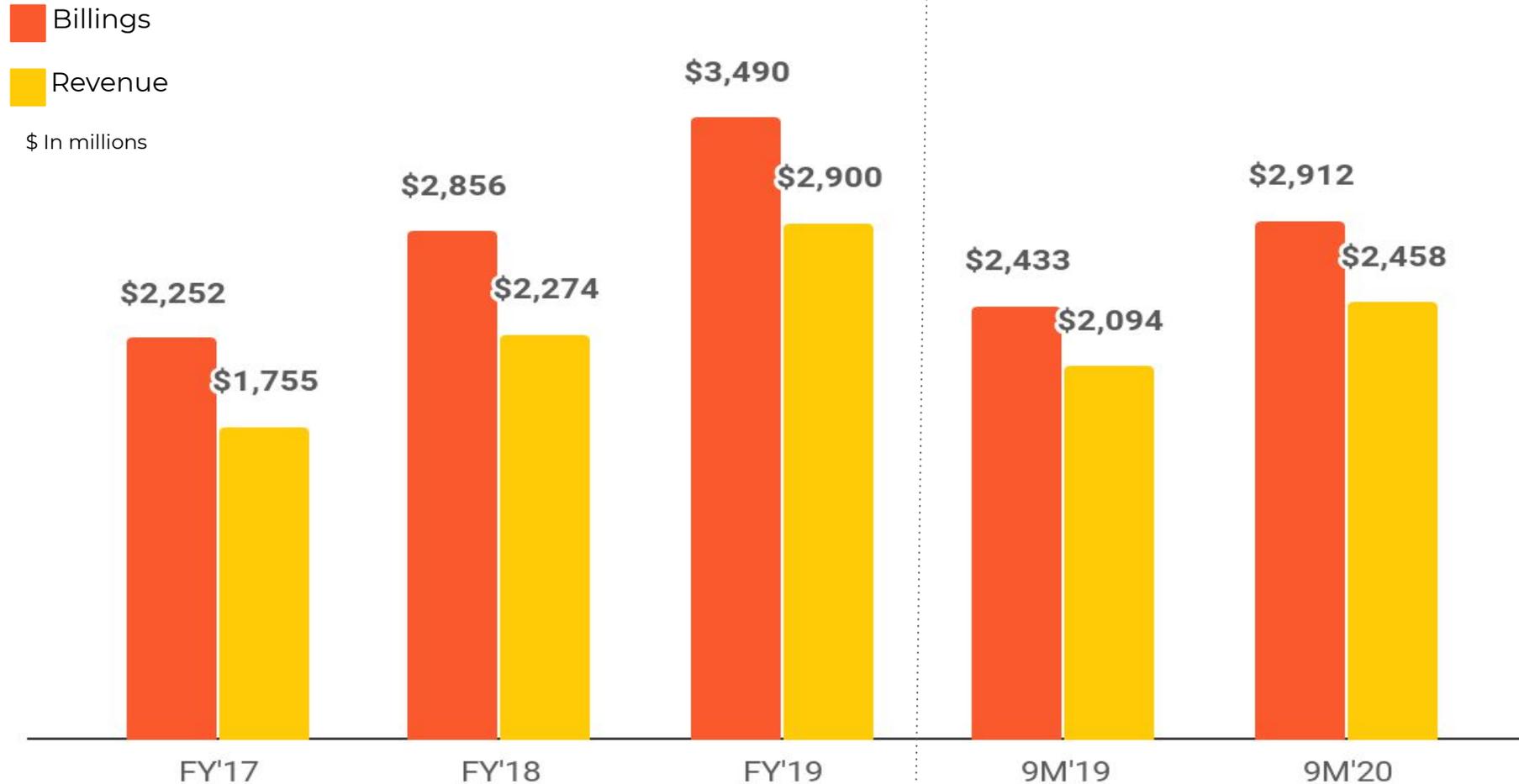
Future Security Automation



Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019. TAM does not currently include SD-WAN.

Financial Overview

Track Record of Market Leading Growth

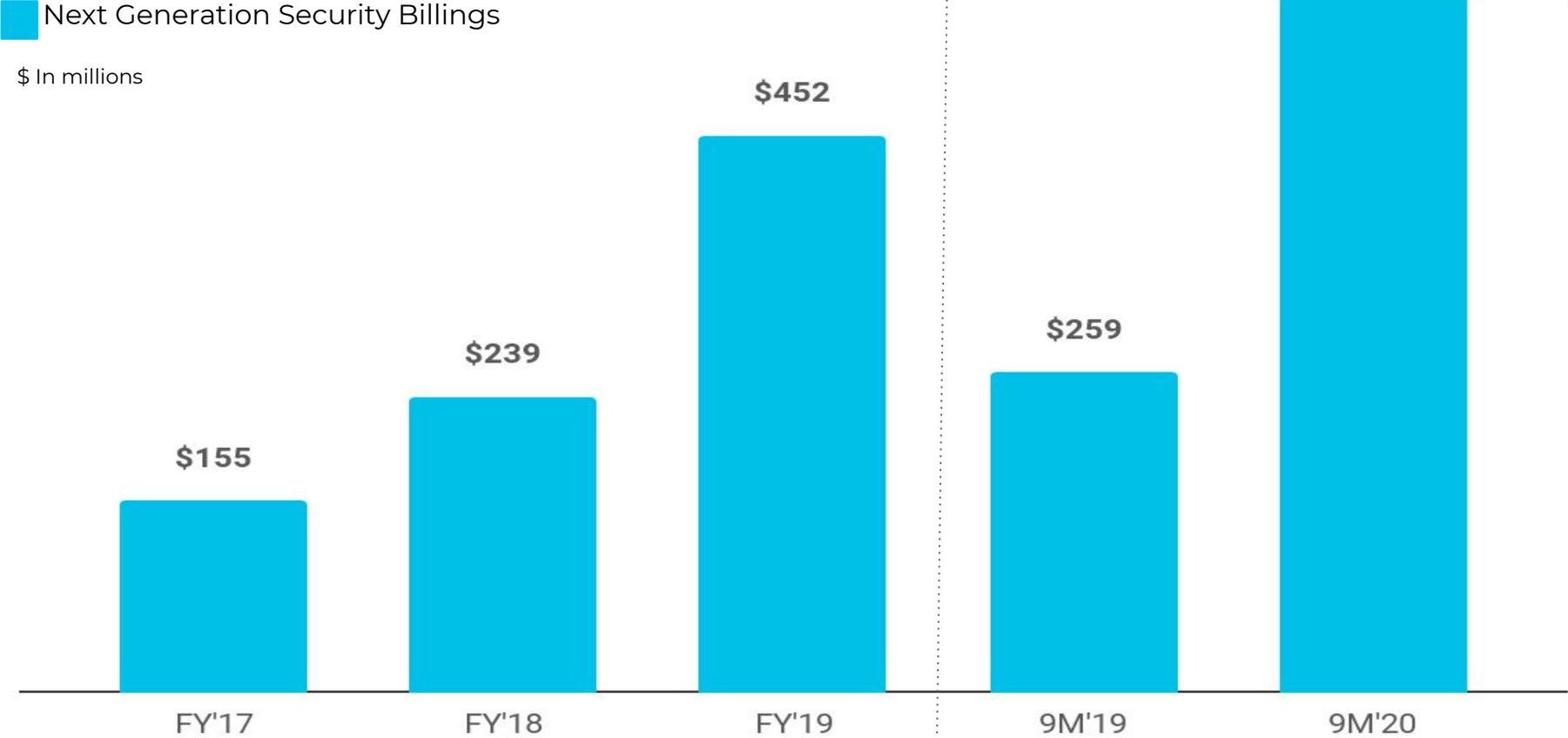


FY17 - FY19 CAGR



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. See appendix for calculation. All periods reflect the adoption of ASC606. Fiscal year ending on July 31.

Next Generation Security Billings



FY17 - FY19 CAGR

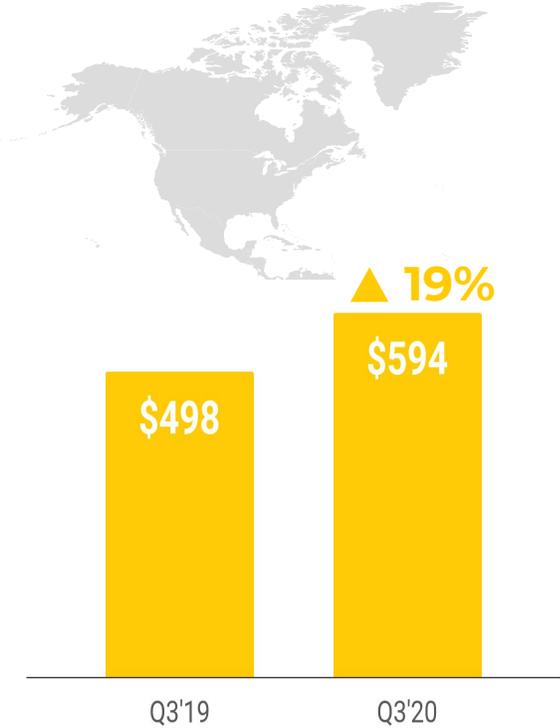
NGS Billings CAGR
70%

Next-Gen Security billings is a key financial and operational metric defined as the total amount invoiced and billed during the period for Prisma, Cortex, inclusive of VM series and related services. All periods reflect the adoption of ASC606. Fiscal year ending on July 31.

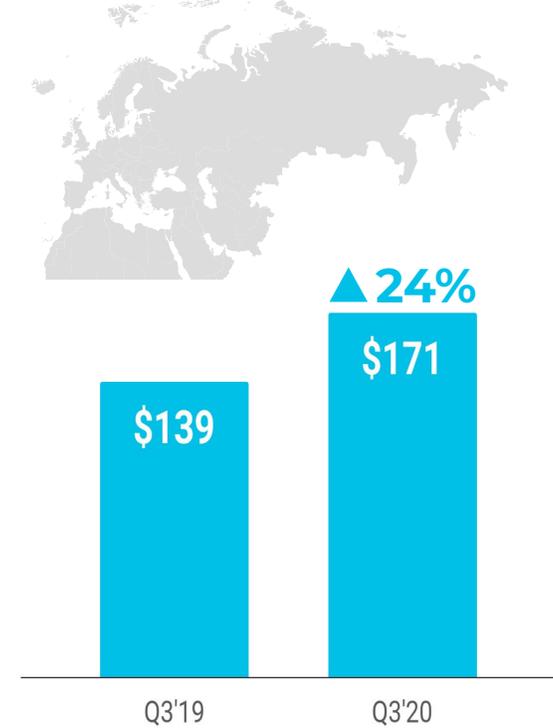
Revenue Across Geographies

\$ In millions
yr/yr % growth

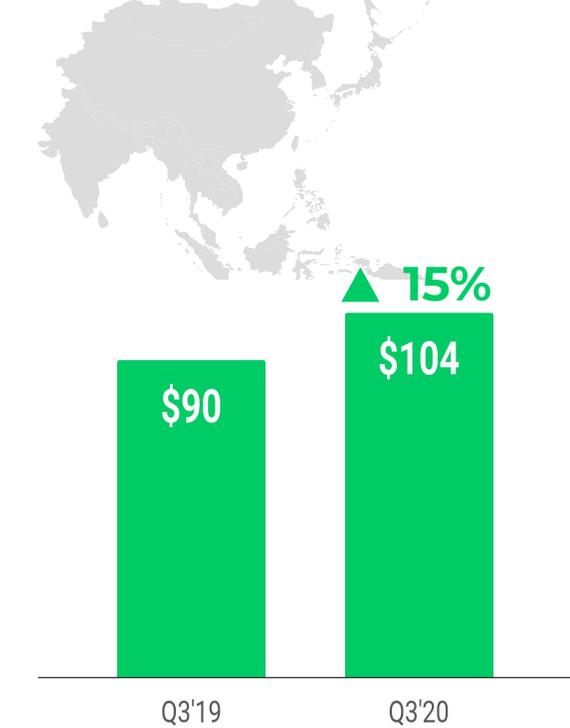
Americas



EMEA



APAC

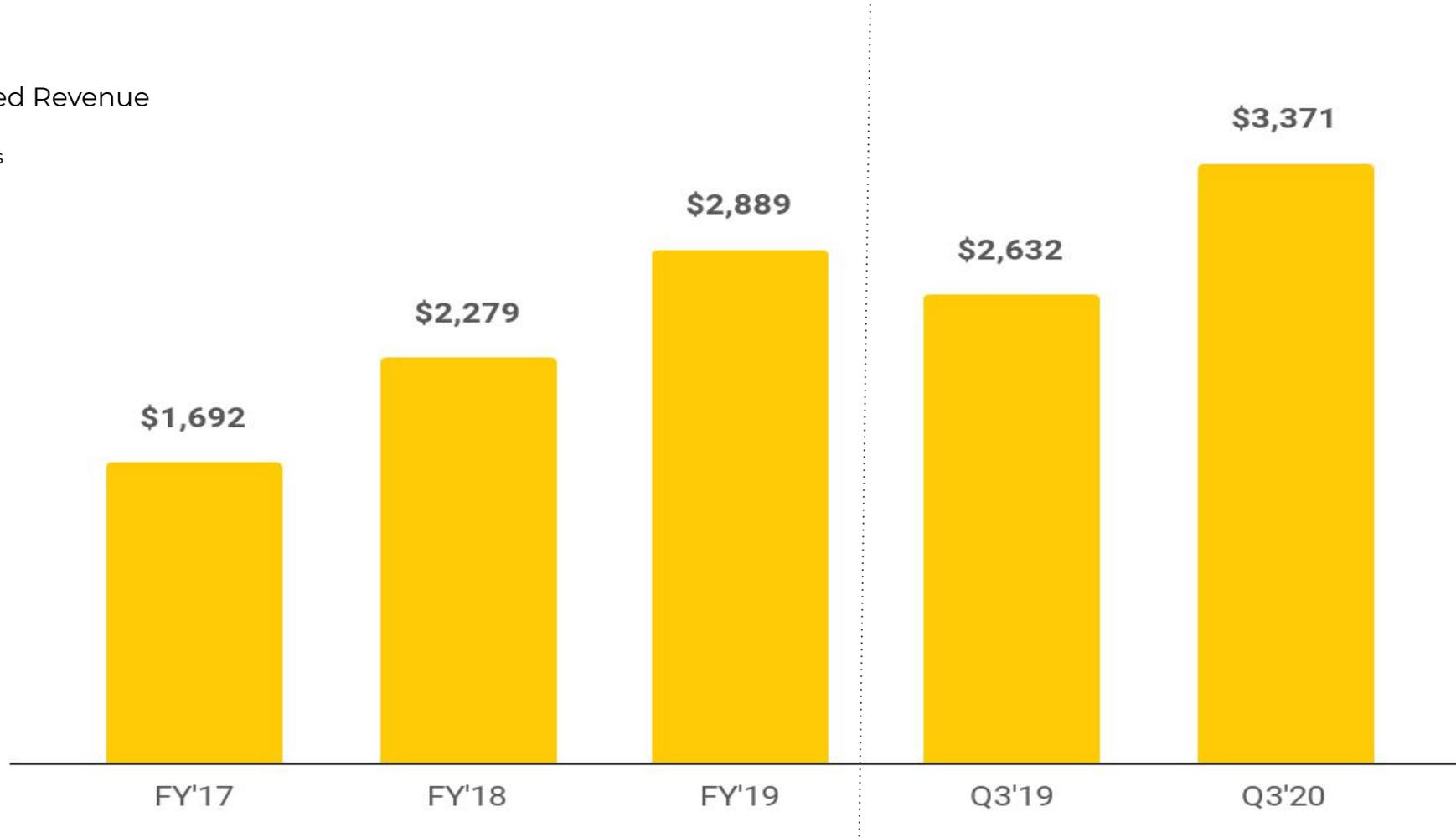


Fiscal year ending on July 31.

Strength in Services Growth Drives Deferred Revenue Higher

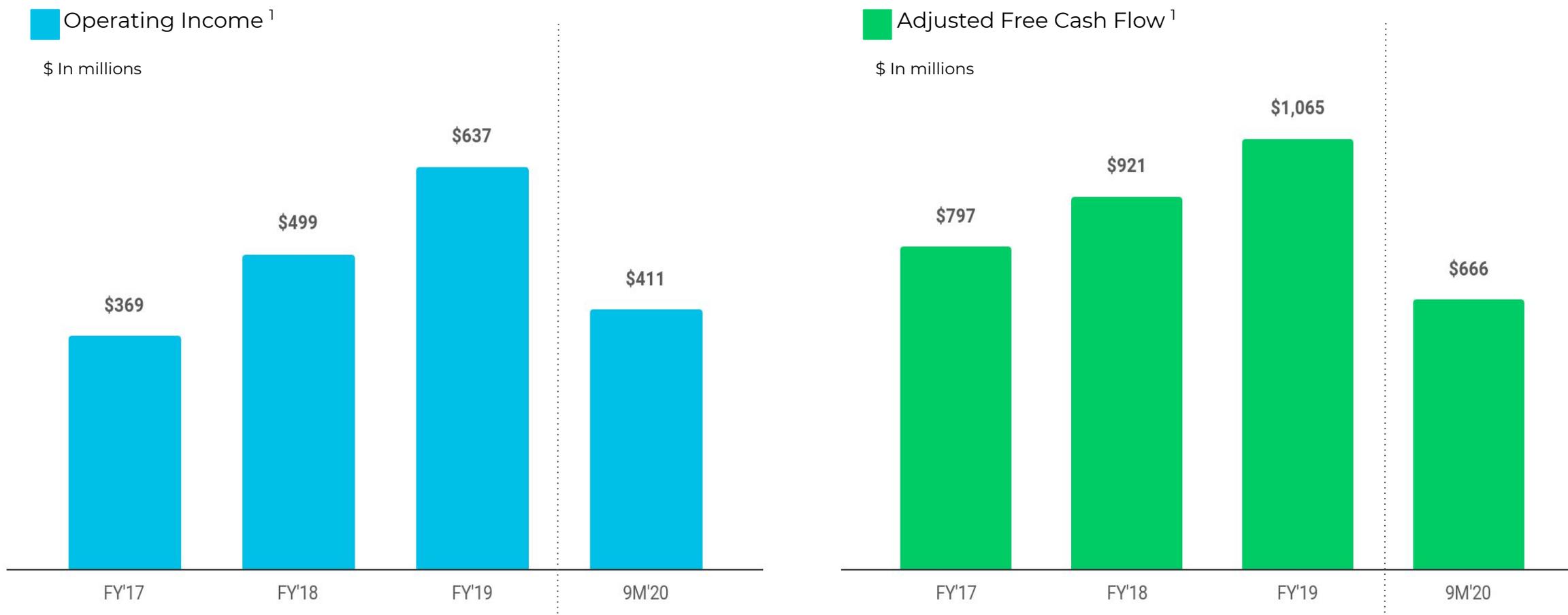
Deferred Revenue

\$ In millions



All periods reflect the adoption of ASC606.
Fiscal year ending on July 31.

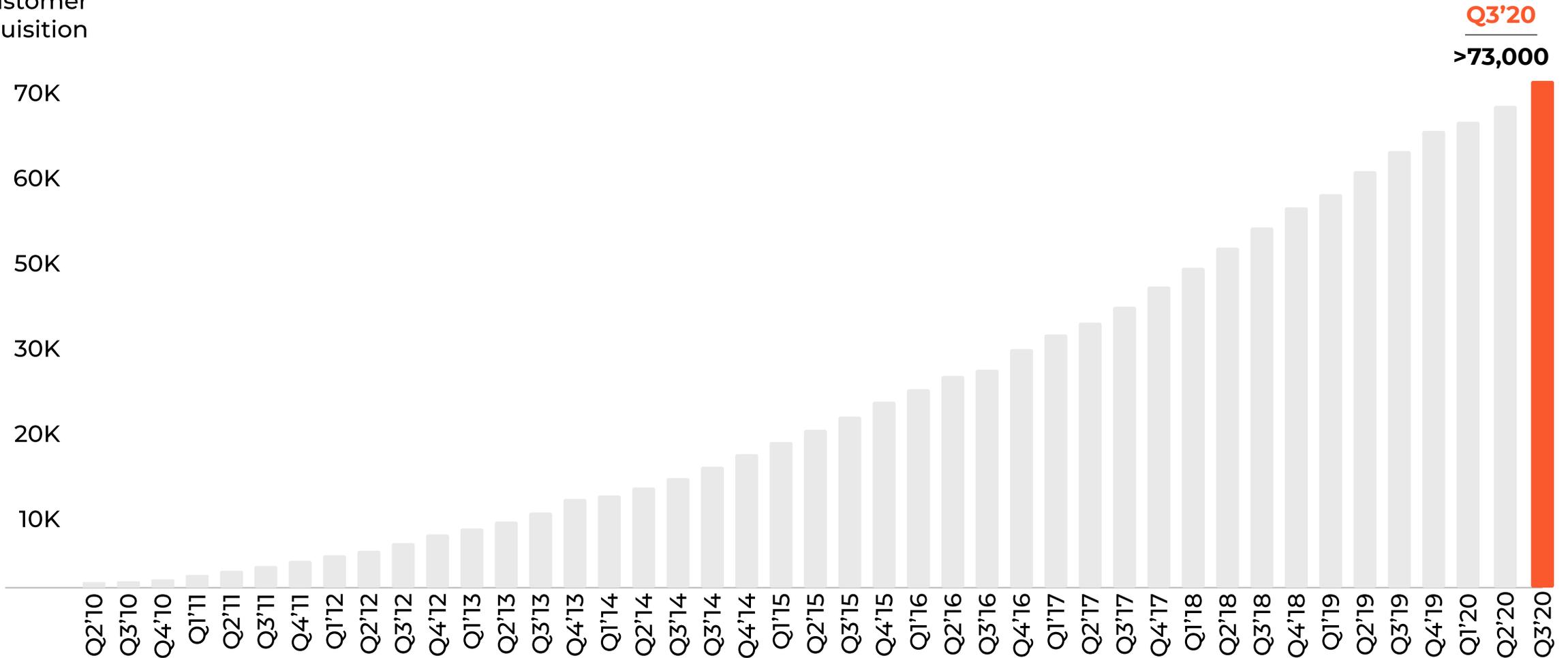
Historical Operating Income & Adjusted Free Cash Flow



¹ Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure. All periods reflect the adoption of ASC606. Fiscal year ending on July 31.

Continued Strength of Customer Acquisition

Customer Acquisition



Customers represent all customers acquired since inception. A customer is defined as accounts that have purchased products and services excluding not-for-resale services.

Appendix

Calculation of Billings

\$ In millions

Billings:	FY'17 ⁽¹⁾	FY'18 ⁽¹⁾	FY'19	9M'19	9M'20
Total revenue	\$1,755.1	\$2,273.6	\$2,899.6	\$2,093.8	\$2,458.0
Add: change in total deferred revenue, net of acquired deferred revenue	496.6	582.6	590.2	339.1	453.7
Total billings	<u>\$2,251.7</u>	<u>\$2,856.2</u>	<u>\$3,489.8</u>	<u>\$2,432.9</u>	<u>\$2,911.7</u>

⁽¹⁾ In Q1'19, we adopted new accounting guidance related to revenue recognition (ASC 606). As a result, amounts for FY'17 and FY'18 have been adjusted. Fiscal year ends July 31.

GAAP to Non-GAAP Reconciliations

\$ In millions

Non-GAAP operating income:	FY'17 ⁽¹⁾	FY'18 ⁽¹⁾	FY'19	9M'20
GAAP operating income (loss)	(\$165.8)	(\$104.2)	(\$54.1)	(\$161.2)
Share-based compensation-related charges	488.9	516.4	591.3	504.2
Acquisition-related costs ⁽²⁾	3.1	17.9	29.8	15.3
Amortization expense of acquired intangible assets	8.9	15.6	53.0	53.7
Litigation-related charges ⁽³⁾	12.3	12.3	10.2	1.8
(Gain) loss related to facility exit ⁽⁴⁾	21.3	40.8	7.0	(3.1)
Non-GAAP operating income	\$368.7	\$498.8	\$637.2	\$410.7

⁽¹⁾ In Q1'19, we adopted new accounting guidance related to revenue recognition (ASC 606). As a result, certain amounts for periods prior to FY'19 have been adjusted.

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

⁽⁴⁾ Consists of charges related to the relocation of our corporate headquarters (impairment loss of \$20.9 million and accelerated depreciation in FY'17, cease-use loss of \$39.2 million and accelerated depreciation in FY'18, cease-use loss of \$7.0 million in FY'19), charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation in FY'18) and a gain of \$3.1 million related to the early termination of our previous headquarters leases in Q2'20.

Fiscal year ending on July 31.

GAAP to Non-GAAP Reconciliations (cont'd)

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	FY'17 ⁽¹⁾	FY'18 ⁽¹⁾	FY'19	9M'20
Net cash provided by operating activities	\$868.8	\$1,038.1	\$1,055.6	\$702.0
Less: purchases of property, equipment, and other assets	163.4	112.0	131.2	182.6
Free cash flow (non-GAAP)	\$705.4	\$926.1	\$924.4	\$519.4
Add: capital expenditures for new headquarters ⁽²⁾	92.0	11.2	28.4	94.3
Add: repayments of convertible senior notes attributable to debt discount	-	-	97.6	-
Add: litigation related payment ⁽³⁾	-	-	-	50.0
Less: cash reimbursement (payments), net related to landlord lease amendment ⁽⁴⁾	-	16.8	(14.8)	(2.0)
Adjusted free cash flow (non-GAAP)	\$797.4	\$920.5	\$1,065.2	\$665.7
Net cash used in investing activities	(\$472.6)	(\$520.0)	(\$1,825.9)	\$955.6
Net cash provided by (used in) financing activities	(\$386.0)	\$1,245.6	(\$773.9)	(\$1,132.5)
Free cash flow margin (non-GAAP)	40.2 %	40.7 %	31.9 %	21.1 %
Adjusted free cash flow margin (non-GAAP)	45.4 %	40.5 %	36.7 %	27.1 %

⁽¹⁾ In Q1'19, we adopted new accounting guidance related to revenue recognition (ASC 606) and new accounting guidance related to the presentation of restricted cash in the statement of cash flows. As a result, certain amounts for periods prior to FY'19 have been adjusted.

⁽²⁾ Consists of capital expenditures for new headquarters including a land purchase of \$51.7 million in Q3'20.

⁽³⁾ Consists of a one-time payment in Q3'20 related to covenant not to sue.

⁽⁴⁾ 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 FY'18 reflects an adjustment for the \$38.2 million received from our landlords, less related rental payments made during the period of \$21.4 million. Adjusted free cash flow for subsequent periods reflects adjustments for related rental payments made during the respective periods. Fiscal year ending on July 31.