

Fiscal Fourth Quarter & Full Year 2018 Investor Presentation

September 2018



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 its expected effective tax rate, its expected weighted average non-GAAP effective tax rate, and the effects of such rates, as well as expectations regarding its revenue and non-GAAP earnings per share, the related components of non-GAAP earnings per share, weighted average basic and diluted outstanding share count expectations for its fiscal first quarter 2019, its competitive position and the demand and market opportunity for its products, subscription and support offerings, the benefits to its customers of newly acquired offerings and capabilities and the effectiveness of these offerings to perform as intended, the expected efficacy of its product, subscription and support offerings and timing of new subscription offerings, the expansion of its total addressable market, its ability to drive outsized growth rates, the expected impact of the adoption of certain recent accounting pronouncements and the anticipated timing of adopting such standards, trends in certain financial results, operating metrics, mix shift and seasonality, and continued momentum in its business.

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; 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 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; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; 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, 2018, 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.

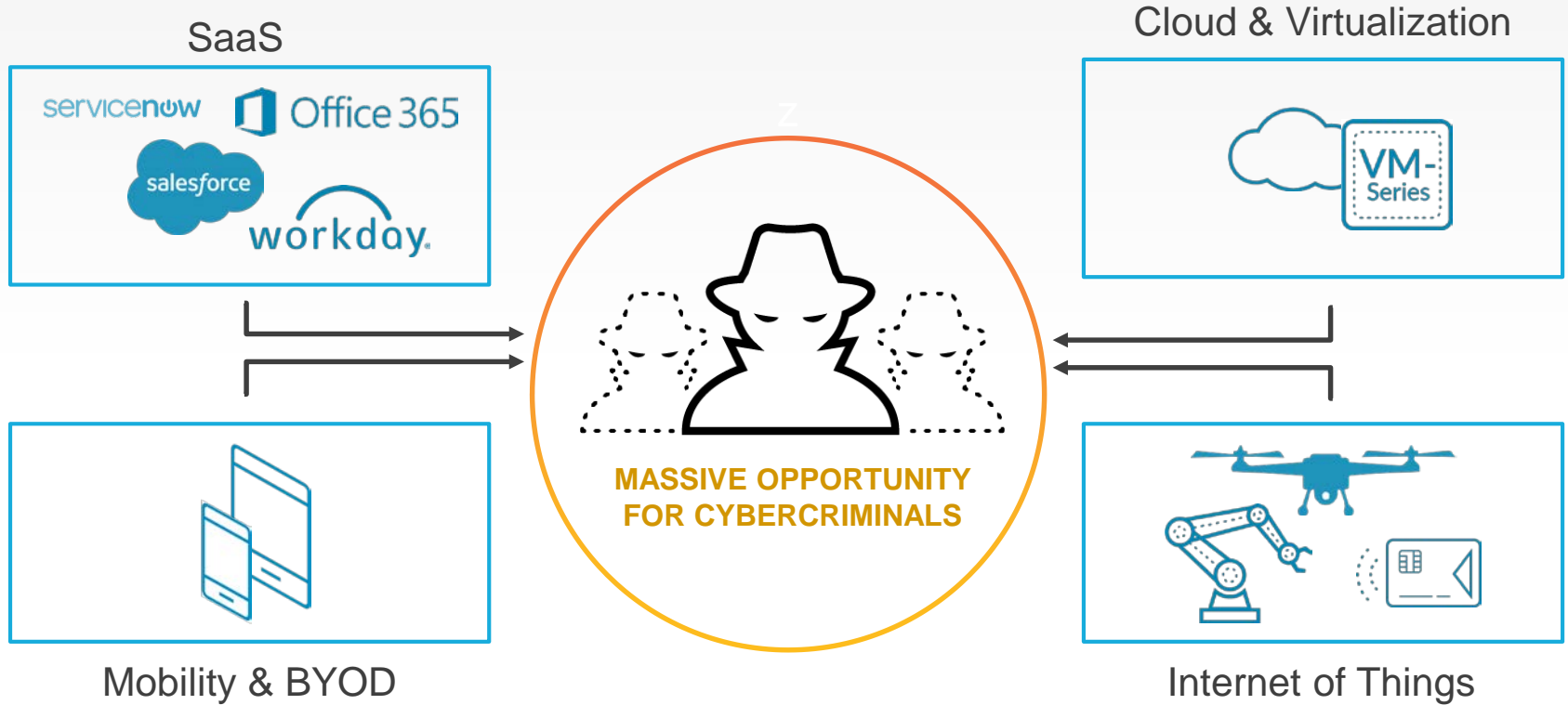
All information in this presentation is as of September 13, 2018. This presentation contains non-GAAP financial measures and key metrics relating to the company’s past and expected future performance. We have not reconciled diluted non-GAAP net income per share guidance to GAAP net income (loss) per 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 September 6, 2018.



OUR MISSION:
**TO PROTECT OUR WAY
OF LIFE IN THE DIGITAL
AGE BY PREVENTING
SUCCESSFUL
CYBERATTACKS**



Continuous evolution



The challenge



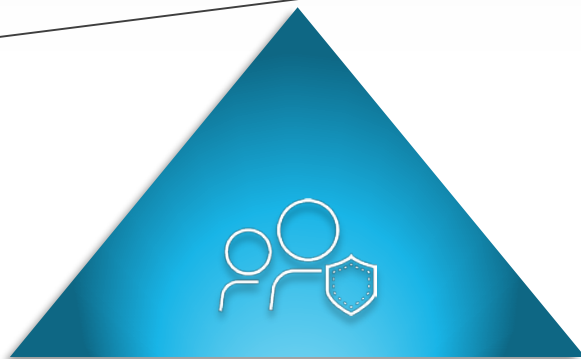
RISK

Disjointed tools
limit insights

Z

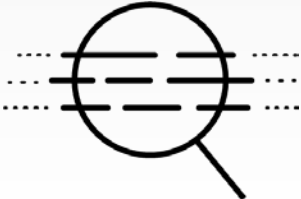
SPEED

Keep pace with
business needs



**BALANCING DISJOINTED TOOLS
AND MANUAL EFFORTS**

Security in the digital age



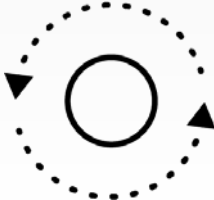
ANALYTICS



AI



IoT



AUTOMATION

DATA DRIVEN

AUTOMATED

CLOUD DELIVERED



The Palo Alto Networks Security Operating Platform



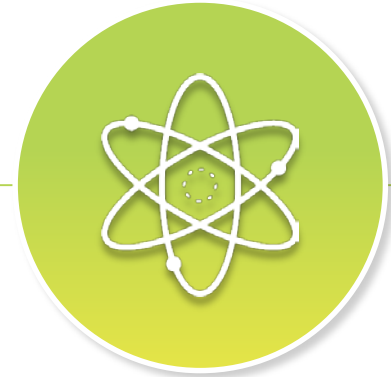
PREVENT SUCCESSFUL CYBERATTACKS

Operate with ease using
best practices



FOCUS ON WHAT MATTERS

Automate tasks using
context and analytics

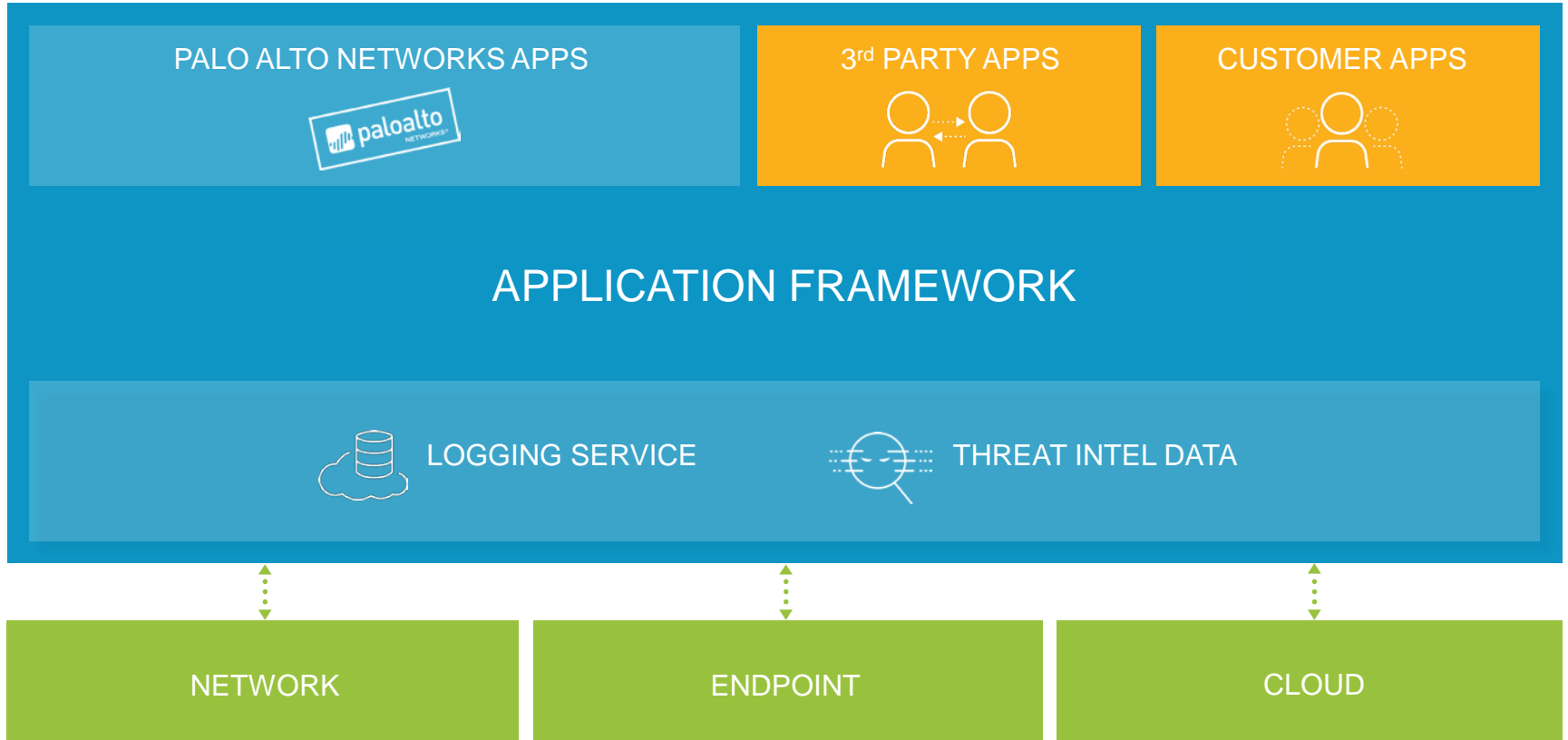


CONSUME INNOVATIONS QUICKLY

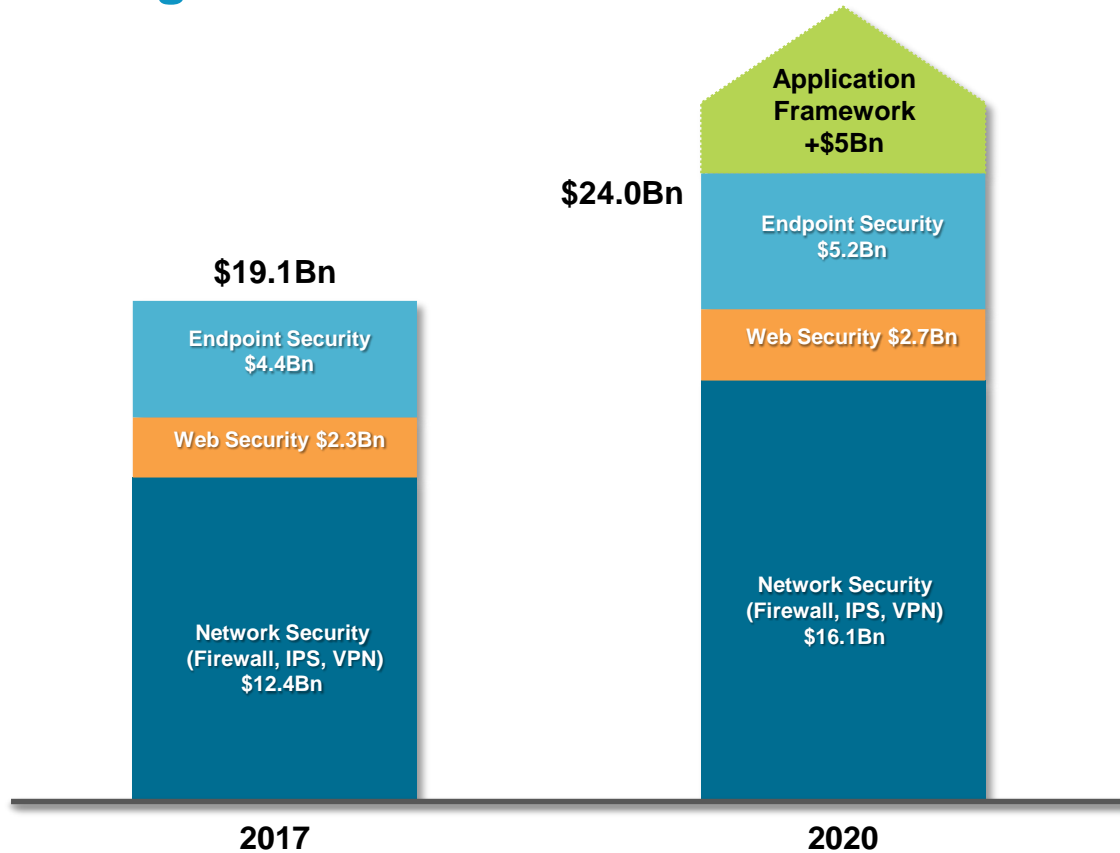
From our technologies
and 3rd parties.

BUILT FOR AUTOMATION

The Palo Alto Networks Security Operating Platform



Large and expanding addressable market



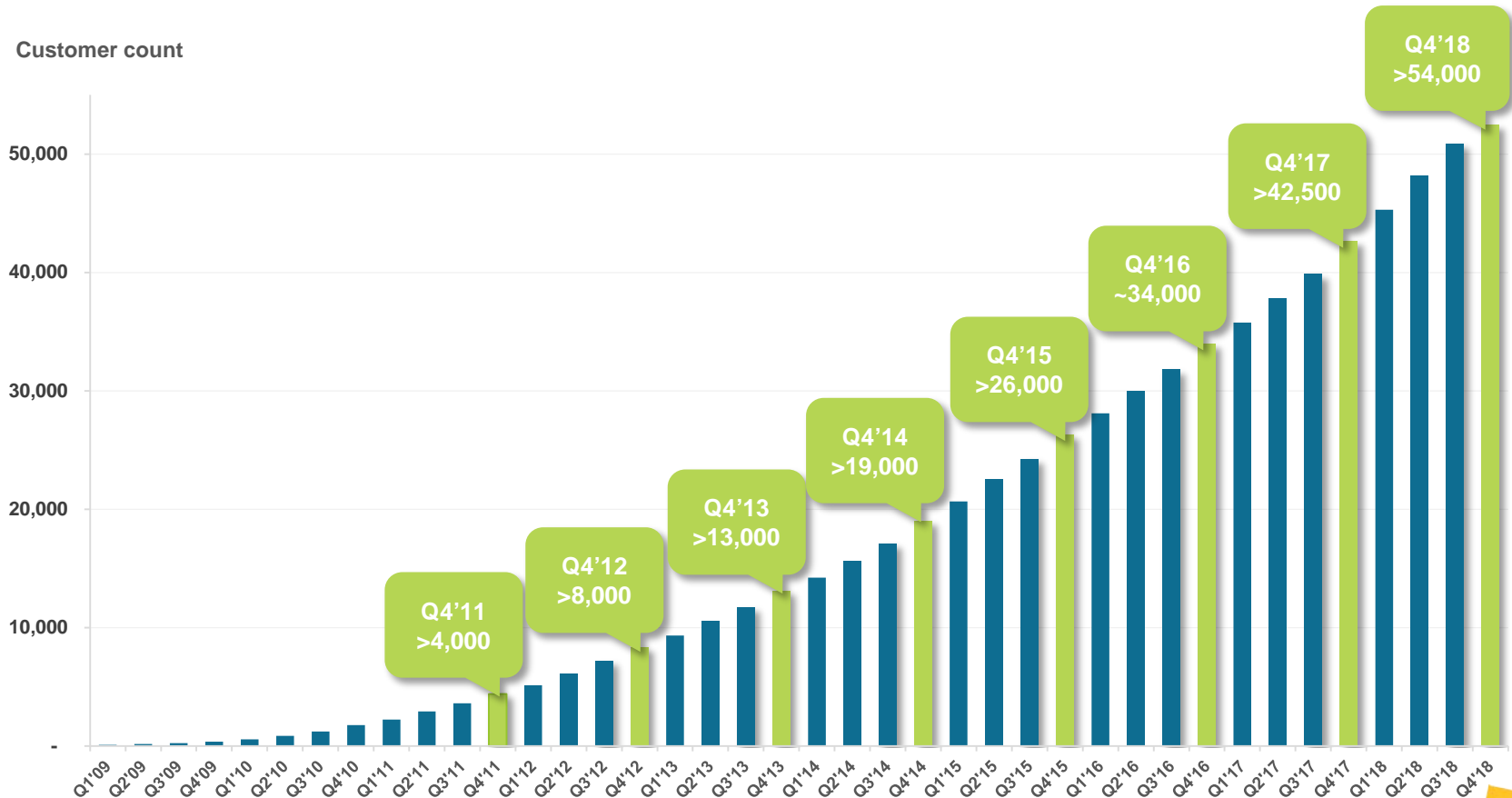
Sources: IDC, Worldwide Network Security 2016–2020 Forecast, September 2016.
IDC, Worldwide Web Security 2016–2020 Forecast, December 2016.
IDC, Worldwide Enterprise Endpoint Security 2016–2020 Forecast, October 2016.

The power of the hybrid-SaaS model

Product		Recurring subscription and support revenue		
Hardware	Perpetual	Attached subscriptions	Non-attached subscriptions	Support
<p><i>Appliances</i> <i>Accessories</i></p>	<p><i>Panorama</i> <i>VM-Series</i></p>	<p><i>Threat Prevention</i> <i>URL Filtering</i> <i>GlobalProtect</i> <i>WildFire</i></p>	<p><i>Traps</i> <i>VM-Series</i> <i>AutoFocus</i> <i>Aperture</i> <i>Logging Service</i> <i>GlobalProtect cloud service</i> <i>Magnifier</i> <i>Evident</i></p>	<p><i>Support</i> <i>Professional services</i></p>
<p>Renewals</p>				

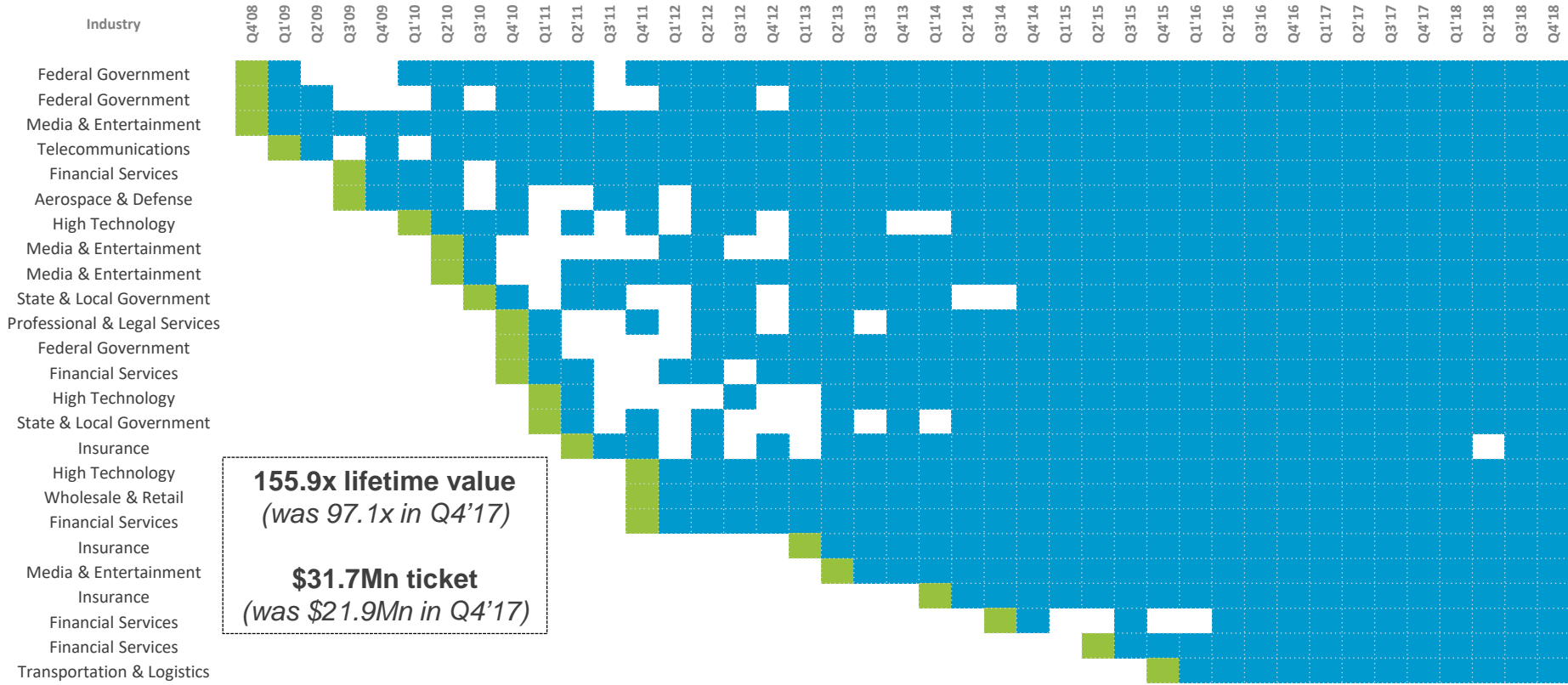
Continued strength of customer acquisition

Customer count



Note: Fiscal year ends July 31.

Top-25 customer buying behavior



155.9x lifetime value
(was 97.1x in Q4'17)

\$31.7Mn ticket
(was \$21.9Mn in Q4'17)

The green cell indicates the quarter of initial purchase. The blue cell indicates each quarter a customer transacted with Palo Alto Networks.
 Note: Fiscal year ends July 31.



Q4'18 Financial highlights

	Q4 FY'18	Q4 FY'17	Y/Y Change
Billings ⁽¹⁾	\$868.1Mn	\$670.8Mn	29.4%
Revenue	\$658.1Mn	\$509.1Mn	29.3%
Gross margin % ⁽²⁾	76.2%	77.3%	(110) bps
Operating margin % ⁽²⁾	23.0%	23.7%	(70) bps
EPS ⁽²⁾	\$1.28	\$0.92	39.1%
Deferred revenue	\$2.4Bn	\$1.8Bn	33.3%
Adj. free cash flow margin % ⁽²⁾	39.3%	42.4%	(310) bps

(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.

(2) Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure.

Note: Fiscal year ends July 31. All metrics are under ASC 605.



FY'18 Financial highlights

	FY'18	FY'17	Y/Y Change
Billings ⁽¹⁾	\$2.9Bn	\$2.3Bn	24.7%
Revenue	\$2.3Bn	\$1.8Bn	29.0%
Gross margin % ⁽²⁾	76.2%	77.9%	(170) bps
Operating margin % ⁽²⁾	20.8%	20.1%	70 bps
EPS ⁽²⁾	\$3.99	\$2.71	47.2%
Deferred revenue	\$2.4Bn	\$1.8Bn	33.3%
Adj. free cash flow margin % ⁽²⁾	40.4%	45.2%	(480) bps

(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.

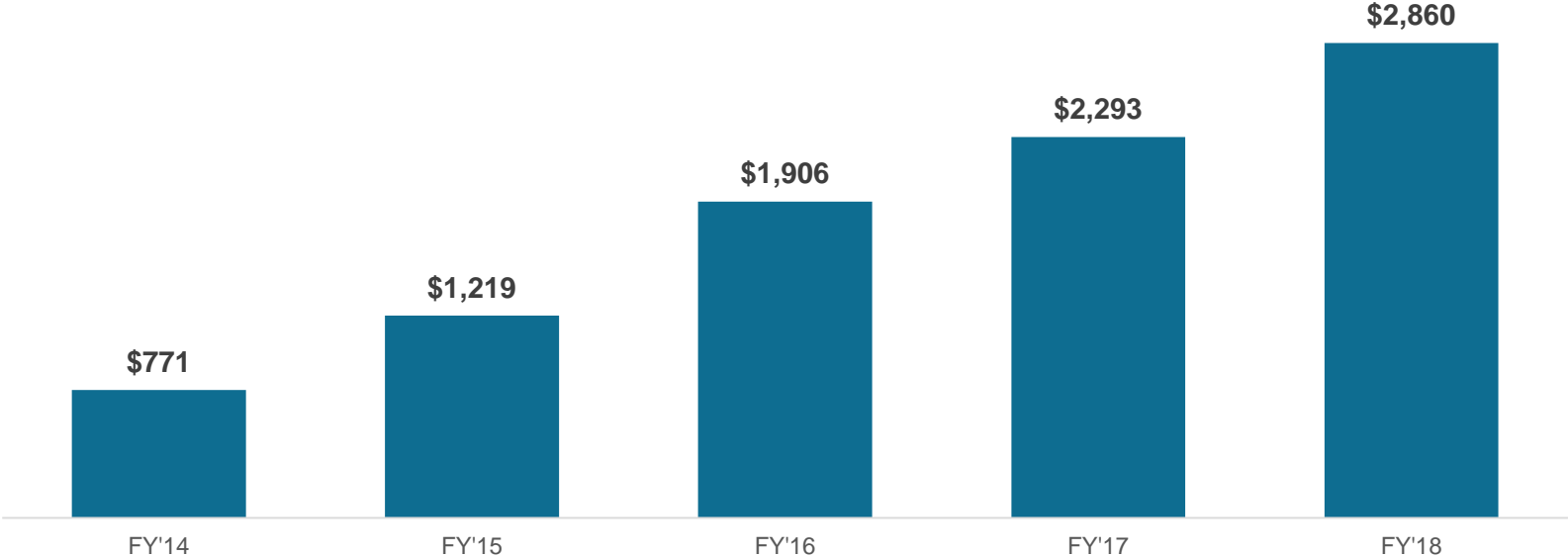
(2) Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure.

Note: Fiscal year ends July 31. All metrics are under ASC 605.



Annual billings momentum

\$Millions



Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.
Note: Fiscal year ends July 31. All periods are under ASC 605.



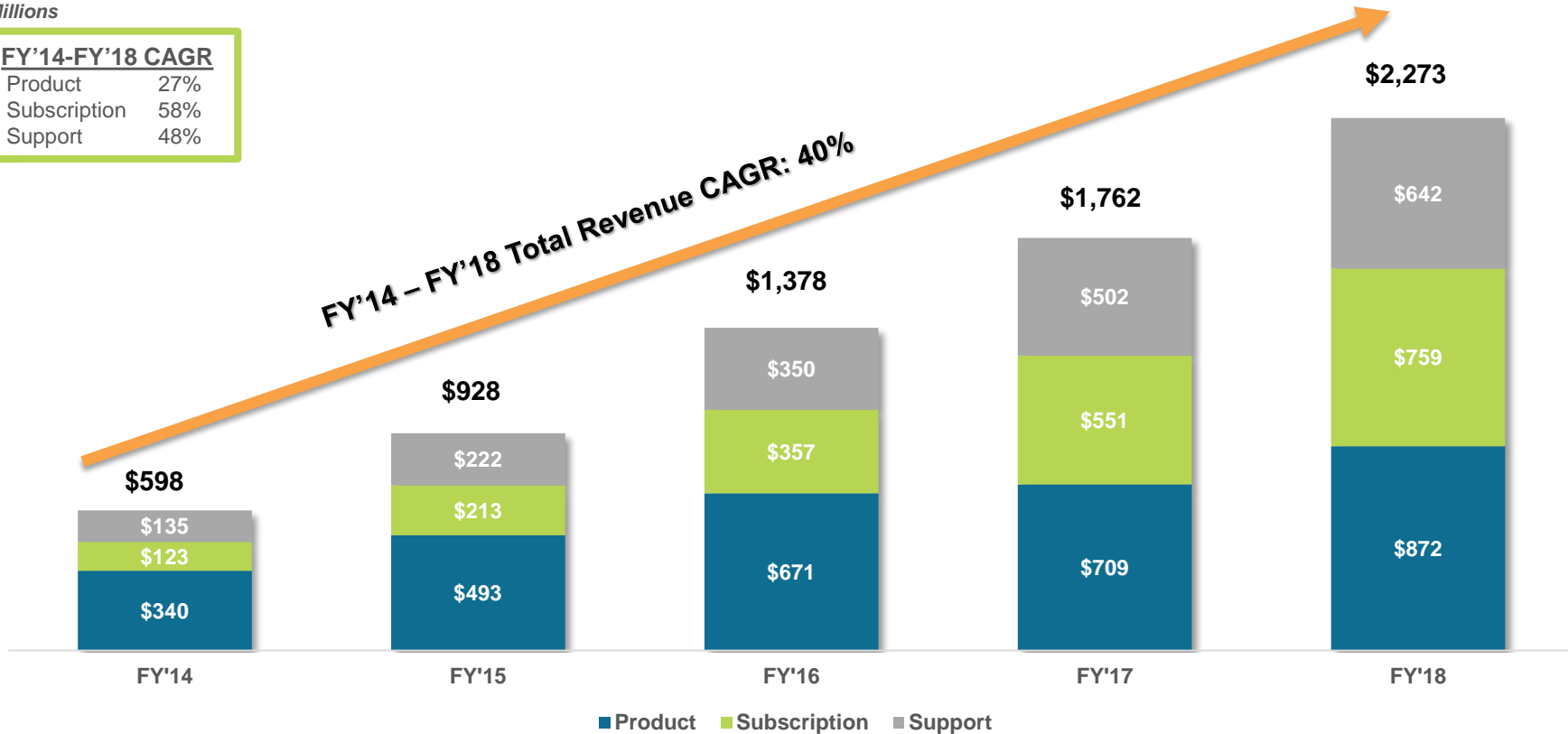
Revenue by type

\$Millions

FY'14-FY'18 CAGR

Product	27%
Subscription	58%
Support	48%

FY'14 – FY'18 Total Revenue CAGR: 40%

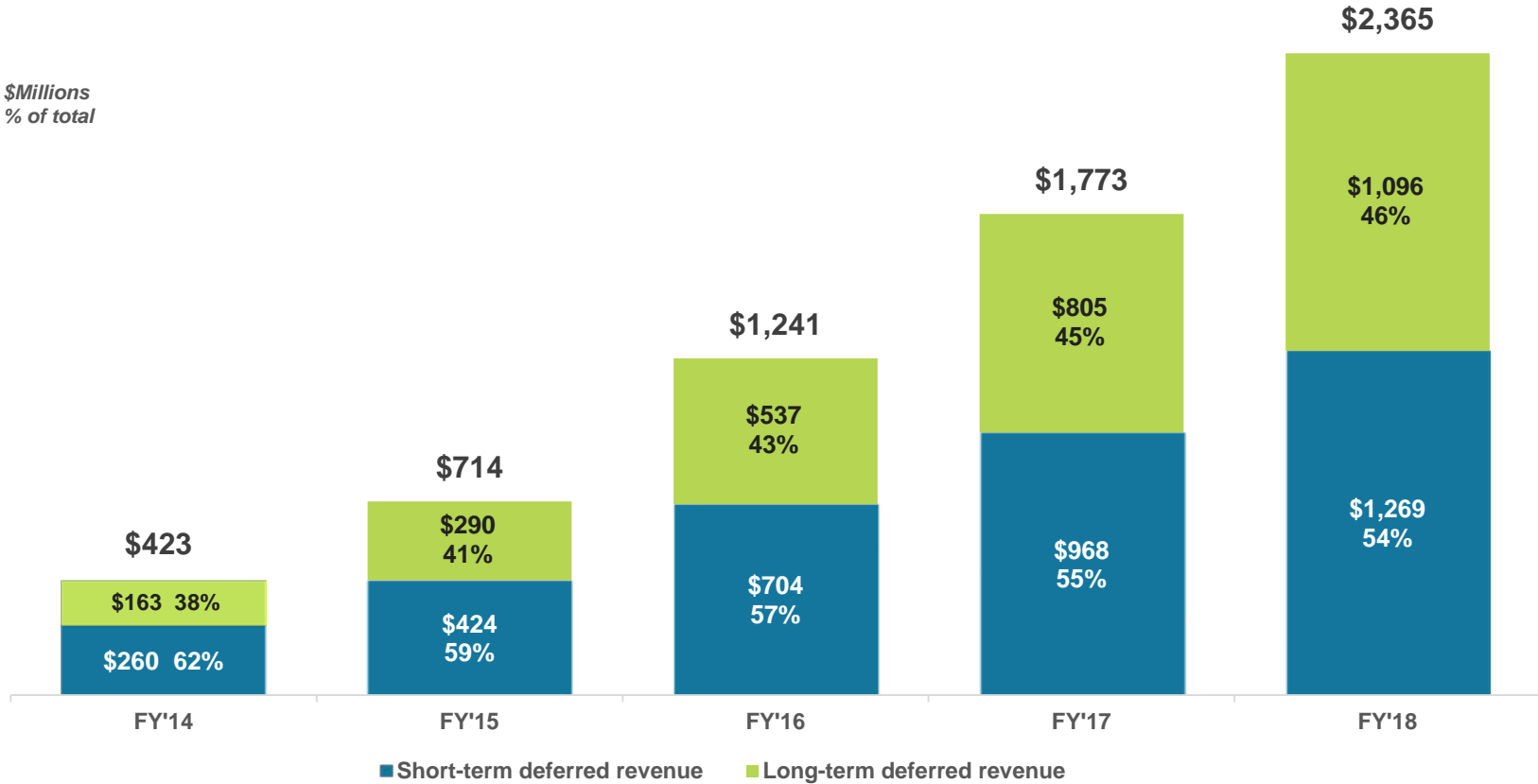


Note: Fiscal year ends July 31. All periods are under ASC 605.



Deferred revenue

*\$Millions
% of total*

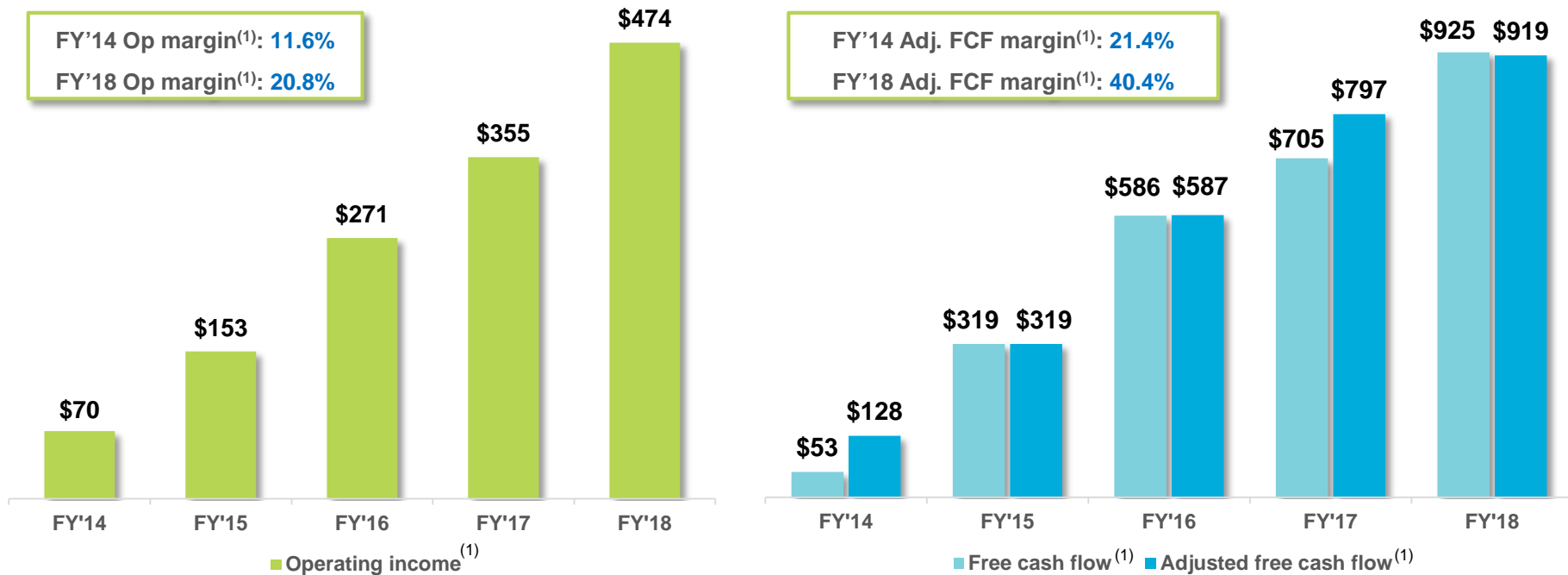


Note: Fiscal year ends July 31. All periods are under ASC 605.



Leverage at scale

\$Millions



(1) Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure
Note: Fiscal year ends July 31. All metrics and periods are under ASC 605.

New revenue recognition standard: ASC 606

We will adopt the new standard using the full retrospective approach at the beginning of Q1 FY19

	Current standard (ASC 605)	New standard (ASC 606)
Hardware / perpetual software ⁽¹⁾	Upfront	Upfront
Term licenses	Ratable	Upfront
Subscription / SaaS	Ratable	Ratable
Professional services	Upon completion of project or over time as hours incurred	Over time as hours incurred
Allocation of revenue for software products	Residual method	Relative selling price
Commission expense	Partially deferred and recognized over contract term	Partially deferred and recognized over the period of benefits

(1) Expected change due to removal of contingent revenue

Appendix



Calculation of billings

\$Millions

Billings:	FY'14	FY'15	FY'16	FY'17	FY'18	Q4'17	Q4'18
Total revenue	\$ 598.2	\$ 928.1	\$ 1,378.5	\$ 1,761.6	\$ 2,273.1	\$ 509.1	\$ 658.1
Add: change in total deferred revenue, net of acquired deferred revenue	173.2	291.0	527.1	531.8	587.1	161.7	210.0
Billings	<u>\$ 771.4</u>	<u>\$ 1,219.1</u>	<u>\$ 1,905.6</u>	<u>\$ 2,293.4</u>	<u>\$ 2,860.2</u>	<u>\$ 670.8</u>	<u>\$ 868.1</u>

Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations

\$Millions

Non-GAAP gross profit and gross margin:	FY'17		FY'18		Q4'17		Q4'18	
	\$	%	\$	%	\$	%	\$	%
GAAP gross profit and gross margin	\$ 1,285.0	72.9%	\$ 1,627.8	71.6%	\$ 370.6	72.8%	\$ 473.4	71.9%
Share-based compensation related charges	66.2	3.8%	78.4	3.5%	17.4	3.4%	18.6	2.9%
Amortization expense of acquired intangible assets	8.4	0.5%	14.4	0.6%	2.4	0.5%	6.2	0.9%
Litigation related charges ⁽¹⁾	12.3	0.7%	12.3	0.5%	3.1	0.6%	3.1	0.5%
Non-GAAP gross profit and gross margin	<u>\$ 1,371.9</u>	<u>77.9%</u>	<u>\$ 1,732.9</u>	<u>76.2%</u>	<u>\$ 393.5</u>	<u>77.3%</u>	<u>\$ 501.3</u>	<u>76.2%</u>

(1) Consists of the amortization of intellectual property licenses.
Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations (cont'd)

\$Millions

Non-GAAP operating income and operating margin:	FY'14		FY'15		FY'16		FY'17		FY'18	
	\$	%	\$	%	\$	%	\$	%	\$	%
GAAP operating loss and operating margin	\$ (196.2)	(32.8%)	\$ (99.8)	(10.8%)	\$ (157.3)	(11.4%)	\$ (179.8)	(10.2%)	\$ (129.1)	(5.7%)
Share-based compensation related charges	101.3	16.9%	233.2	25.1%	407.5	29.6%	488.9	27.7%	516.4	22.7%
Acquisition related costs ⁽¹⁾	7.8	1.3%	0.7	0.1%	-	-	3.1	0.2%	17.9	0.8%
Amortization expense of acquired intangible assets	2.1	0.4%	7.0	0.8%	8.3	0.6%	8.9	0.5%	15.6	0.7%
Litigation related charges ⁽²⁾	154.5	25.8%	12.3	1.3%	12.3	0.9%	12.3	0.7%	12.3	0.5%
Facility exit costs ⁽³⁾	-	-	-	-	-	-	21.3	1.2%	40.8	1.8%
Non-GAAP operating income and operating margin	\$ 69.5	11.6%	\$ 153.4	16.5%	\$ 270.8	19.7%	\$ 354.7	20.1%	\$ 473.9	20.8%

Non-GAAP operating income and operating margin:	Q4'17		Q4'18	
	\$	%	\$	%
GAAP operating income (loss) and operating margin	\$ (27.3)	(5.4%)	\$ 8.6	1.3%
Share-based compensation related charges	120.9	23.8%	128.1	19.4%
Acquisition related costs ⁽¹⁾	-	-	4.6	0.7%
Amortization expense of acquired intangible assets	2.5	0.5%	7.0	1.1%
Litigation related charges ⁽²⁾	3.1	0.6%	3.1	0.5%
Facility exit costs ⁽³⁾	21.3	4.2%	-	-
Non-GAAP operating income and operating margin	\$ 120.5	23.7%	\$ 151.4	23.0%

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

(2) Includes expenses for legal services and settlements, including the legal settlement with Fortinet, Inc. of \$20.0M in Q2'14, the legal settlement with Juniper Networks, Inc. ("Juniper") of \$121.2M in Q3'14, the mark-to-market for the warrants issued as part of the settlement with Juniper of \$5.9M in Q4'14, and the amortization of intellectual property licenses entered into as part of the settlement with Juniper of \$2.0M in Q4'14 and approximately \$3.1M each quarter thereafter.

(3) For FY'17, consists of charges related to the relocation of our corporate headquarters (impairment loss of \$20.9 million and accelerated depreciation). For FY'18, consists of charges related to the relocation of our corporate headquarters (cease-use loss of \$39.2 million and accelerated depreciation) and charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation).

Note: Fiscal year ends July 31.



GAAP to non-GAAP reconciliations (cont'd)

Non-GAAP net income per share, diluted:	FY'17	FY'18	Q4'17	Q4'18
GAAP net loss per share, diluted	\$ (2.39)	\$ (1.61)	\$ (0.42)	\$ (0.02)
Share-based compensation related charges	5.30	5.47	1.31	1.32
Acquisition related costs ⁽¹⁾	0.03	0.20	-	0.05
Amortization expense of acquired intangible assets	0.10	0.17	0.03	0.08
Litigation related charges ⁽²⁾	0.14	0.13	0.03	0.03
Facility exit costs ⁽³⁾	0.24	0.44	0.23	-
Non-cash interest expense related to convertible notes	0.27	0.31	0.07	0.10
Foreign currency (gain) loss associated with non-GAAP adjustments	0.03	(0.01)	0.01	(0.01)
Income tax and other tax adjustments related to the above ⁽⁴⁾	(1.01)	(1.11)	(0.34)	(0.27)
Non-GAAP net income per share, diluted	<u>\$ 2.71</u>	<u>\$ 3.99</u>	<u>\$ 0.92</u>	<u>\$ 1.28</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.

(3) For FY'17, consists of charges related to the relocation of our corporate headquarters (impairment loss of \$20.9 million and accelerated depreciation). For FY'18, consists of charges related to the relocation of our corporate headquarters (cease-use loss of \$39.2 million and accelerated depreciation) and charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation).

(4) Effective Q2'18, our non-GAAP effective tax rate changed from 31% to 22% due to the reduction of the U.S. federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017.

Note: Fiscal year ends July 31.



GAAP to non-GAAP reconciliations (cont'd)

\$Millions

Free cash flow (non-GAAP):	FY'14	FY'15	FY'16	FY'17	FY'18	Q4'17	Q4'18
Net cash provided by operating activities ⁽¹⁾	\$ 89.4	\$ 352.8	\$ 658.6	\$ 868.5	\$ 1,037.0	\$ 239.5	\$ 277.9
Less: purchases of property, equipment, and other assets	36.1	33.8	72.5	163.4	112.0	49.2	25.4
Free cash flow (non-GAAP)	\$ 53.3	\$ 319.0	\$ 586.1	\$ 705.1	\$ 925.0	\$ 190.3	\$ 252.5
<i>Free cash flow margin (non-GAAP)</i>	<i>8.9%</i>	<i>34.4%</i>	<i>42.5%</i>	<i>40.0%</i>	<i>40.7%</i>	<i>37.4%</i>	<i>38.4%</i>
Net cash used in investing activities	\$ (320.3)	\$ (679.0)	\$ (338.9)	\$ (472.6)	\$ (520.0)	\$ (61.5)	\$ (206.4)
Net cash provided by (used in) financing activities	\$ 574.1	\$ 48.2	\$ 38.9	\$ (386.0)	\$ 1,245.6	\$ (125.7)	\$ 1,486.4

Adjusted free cash flow (non-GAAP):	FY'14	FY'15	FY'16	FY'17	FY'18	Q4'17	Q4'18
Net cash provided by operating activities ⁽¹⁾	\$ 89.4	\$ 352.8	\$ 658.6	\$ 868.5	\$ 1,037.0	\$ 239.5	\$ 277.9
Less: purchases of property, equipment, and other assets	36.1	33.8	72.5	163.4	112.0	49.2	25.4
Free cash flow (non-GAAP)	53.3	319.0	586.1	705.1	925.0	190.3	252.5
Add: cash paid for legal settlement	75.0	-	-	-	-	-	-
Add: capital expenditures for new headquarters	-	-	1.1	92.0	11.2	25.5	-
Less: cash reimbursement (payments), net related to landlord lease amendment ⁽¹⁾	-	-	-	-	16.8	-	(5.9)
Adjusted free cash flow (non-GAAP)	\$ 128.3	\$ 319.0	\$ 587.2	\$ 797.1	\$ 919.4	\$ 215.8	\$ 258.4
<i>Adjusted free cash flow margin (non-GAAP)</i>	<i>21.4%</i>	<i>34.4%</i>	<i>42.6%</i>	<i>45.2%</i>	<i>40.4%</i>	<i>42.4%</i>	<i>39.3%</i>

(1) Cash provided by operating activities during FY'18 includes the receipt of an upfront cash reimbursement of \$38.2 million from our landlords in Q1'18 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 will be applied against increased rental payments totaling \$38.2 million due in fiscal years 2018, 2019, and 2020 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 \$21.4 million in related rental payments made during the period. Adjusted free cash flow for Q4'18 reflects an adjustment for \$5.9 million in related rental payments made during the period.

Note: Fiscal year ends July 31.