Q2 Fiscal Year 2024 Earnings Call

February 20, 2024

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 expectations regarding our platformization strategy and programs, financial guidance for the third quarter of fiscal 2024 and fiscal year 2024, medium and long-term expectations regarding billings, revenue, operating margin, free cash flow and recurring revenue, modeling points, plans regarding recent acquisitions and acquired products, product development expectations, business and economic conditions and challenges, and other financial, operational and business expectations. 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; failure of our platformization product offerings; risks associated with managing our growth; risks associated with new product, subscription and support offerings; shifts in priorities or delays in the development or release of new product or subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products, subscription and support offerings; rapidly evolving technological developments in the market for security products, 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 to acquire and integrate other companies, products, or technologies in a successful manner; 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, 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 February 20, 2024. 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

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8th Consecutive quarter of Operating Margin Expansion

Focused Execution Against Top-Line Targets

Total Revenue	Remaining Performance Obligation
$1.98B +19% y/y	**$10.8B** +22% y/y

NGS ARR[1]	Total Billings[2]
$3.49B +50% y/y	**$2.35B** +16% y/y

Continued Operating Leverage in Q2’24

Operating Income (non-GAAP)	Operating Margin (non-GAAP)
$564M +50% y/y	**28.6%** +580 bps y/y

Adj. Free Cash Flow (non-GAAP)	EPS (non-GAAP)
$655M +$215M y/y on trailing 12-month basis	**$1.46** +39% y/y

[1] ARR = 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.
[2] Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.
Reconciliations of historical non-GAAP measures can be found in the Appendix.
Fiscal year ending on July 31.

Q2 business highlights - continued consolidation & innovation

Palo Alto Networks

368
>$1M Accounts

10
>$20M Accounts

+36%
Top 10 Q2 customers increased their PANW LTV[2] by 36% in Q2

Network Security

+50%
SASE ARR[1] y/y

5th consecutive quarter ~50%+ y/y growth

>30% of New SASE customers were **new to Palo Alto Networks**

A Leader ABI Research Industrial on OT Security

Cloud Security

Highest new **ACV[3] growth** in 5 quarters

~1/4 Of Prisma Cloud customers are using **5+ modules**

A Leader Forrester Wave: Cloud Workload Security

Security Operations

>5x ARR with XSIAM

Cortex ARR for customers with XSIAM is >5x more than those without XSIAM

>$90M XSIAM Q2 bookings

A Leader Gartner EPP Magic Quadrant

[1] Prisma SASE includes Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.
[2] LTV (Lifetime Value) represents cumulative order bookings since customers' initial purchase.
[3]ACV (Annual Contract Value) represents average annual contract value for new Prisma Cloud customers.

PANW has validated "Platformization" in the Cybersecurity Industry

Network Security Platform
Best-in-class Zero Trust Platform across Hardware, Software & SaaS

9
Product Category Leaderships

NGFW
Gartner Magic Quadrant for Network Firewalls

SASE
Gartner Magic Quadrant for Single Vendor SASE

SSE
Gartner Magic Quadrant for Security Services Edge

SD-WAN
Gartner Magic Quadrant for SD-WAN

ZTNA
Forrester ZTNA New Wave

Zero Trust Platform
Forrester Zero Trust Platform Wave

Browser Security
Frost Radar for Zero Trust Browser Security

OT Security
ABI Research Industrial FW Competitive Assessment

Internet of Medical Things
Frost & Sullivan Healthcare IoMT Radar

Cloud Security Platform
Comprehensive, cloud-native platform to secure everything in the cloud

7
Product Category Leaderships

DevSecOps
GigaOm Radar for Developer Security Tools

CNAPP
Frost & Sullivan CNAPP Radar

CSPM
GigaOm CSPM Radar

Policy as Code
GigaOm Radar for Policy as Code

Cloud Workload Security
Forrester Wave: Cloud Workload Security

Container Security
GigaOm Radar for Container Security

CIEM
Kuppingercole Cloud Infrastructure Entitlement Management

Security Operations Platform
Breakthrough outcomes for SOC by unifying data, analytics & automation

5
Product Category Leaderships

EPP
Gartner Magic Quadrant for Endpoint Protection Platforms

XDR
Frost & Sullivan XDR Radar

SOAR
GigaOm Radar for SOAR

Attack Surface Management
GigaOm Radar for Attack Surface Management

Autonomous SOC
GigaOm Autonomous SOC Radar

We will continue innovating to extend our industry leadership position

Success of our "Platformization" approach is evident by growing adoption

2 Platform G2K customers[1]

79% % of G2K customers with 2+ platforms

>$2M Average LTV per G2K customer with 2 platforms

>5x Single-Platform G2K Customer LTV[2]

3 Platform G2K customers[1]

57% % of G2K customers with 3 platforms

>$18M Average LTV per G2K customer with 3 platforms

>40x Single-Platform G2K Customer LTV[2]

[1] 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.
[2] LTV (Lifetime Value) Bookings represents cumulative orders since a customers' initial purchase with Palo Alto Networks.
3 platforms are Strata, Prisma, and Cortex

Platformization is leading to vendor "Consolidation"

Network Security

Capability to consolidate

4 - 7

vendors

ADV TP | ADV URL | DNS | ADV WF | IOT | DLP | CASB | GP | AIOps | ADEM

Cloud-Delivered Security Services

HW Firewalls | SW Firewalls | SD-WAN | SSE

Zero Trust Platform

- 8-figure deal with a Manufacturing firm
- 7-figure deal with a Global Law Firm

Prisma Cloud

Capability to consolidate

3 - 8

vendors

SCA | IaC | Secrets Scanning | CDS | CI/CD | API

CSPM | CWP | CIEM | WAAS | Vuln. Mgmt | CDR

Code-to-Cloud Platform

- 7-figure deal with a Fin. Services company
- 7-figure deal with a Technology company

Security Operations

Capability to consolidate

3 - 7

vendors

EDR | NTA | ITDR | TIP

ASM | SOAR | SIEM

Autonomous SecOps Platform

- 8-figure deal with a Fin. Services company
- 7-figure deal with a Manufacturing company

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Taking Stock & Looking Forward:

- → Activating our Accelerated Platformization & Consolidation Strategy
- → Activating our AI Leadership Strategy

Marching to $15Bn in ARR by 2030

State of the Cybersecurity Market - Q2'24 update

Cybersecurity demand is strong

Overwhelming scale and **sophistication** of attacks

Nation state attacks targeting national infrastructure

New SEC mandates require expedited action

Industry Dynamics

Share shifts are happening in **in Hardware Firewall** with consolidation to **Zero Trust**

Single-category vendors are being forced to provide **Platformization**

Spending fatigue driven by point products is forcing **ROI and TCO conversations**

AI demand in cybersecurity **is inflecting**

Demand drivers and cybersecurity dynamics favor leaders to drive consolidation

2-3 yr Platformization advantage - we need to accelerate consolidation!

Points of Customer Friction

Execution risk

Dependencies of various products when replaced in asynchronous fashion

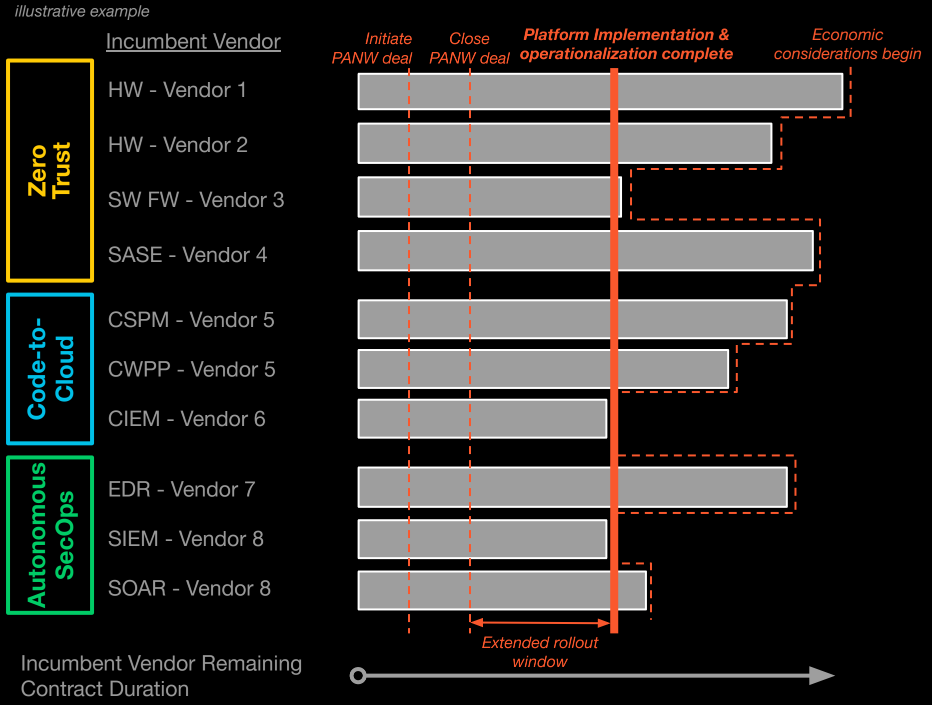
Risk associated with the **magnitude of change when doing platformization**

Economic Exposures

Aversion to 'paying double' while transitioning

Complex contract terms to harmonize

Accelerated Platformization & Consolidation Program



Minimize execution risk and remove economic risk for customers

Q3'24 - Launching "Accelerated Platformization and Consolidation"

Network Security

- Drive **Zero Trust consolidation** by offering ZT Architecture services
- Harmonize **firewall estate to PANW** to drive beter TCO & superior security outcomes
- Harmonize **SD-WAN & SSE** to drive vendor consolidation in **SASE**
- **Free Enterprise Browser** to qualifying SASE customers for unmanaged devices

Cloud Security

- Drive **further 'shift left' adoption into AppSec** with targeted partnerships
- **Platform adoption** through multi-module deployment
- **Price match** point-product competitors to **reduce initial friction**

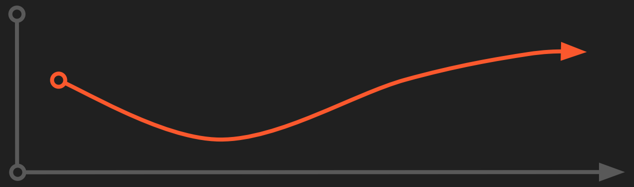
Security Operations

- Incentivizing customer **migration from legacy EDR** to Cortex
- **Consolidating SOC** to XSIAM by harmonizing vendor end-of-life
- Free **access to new modules** to drive adoption and consolidation
- **No-cost** Unit42 incident response **retainers**

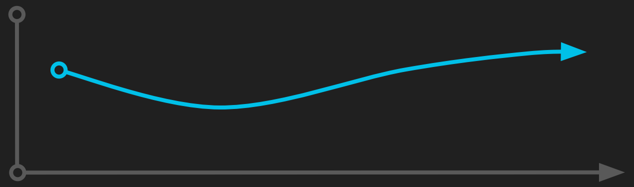
Short-term impact will drive superior longer-term financial outcomes

Short term investments[1]...

Billings Growth[1]



Revenue Growth[1]



Superior long term financial outcomes

$15B

NGS ARR in FY'30

>90%

Recurring Revenue[2] in 2030

Further upside potential from AI

[1] *Illustrative (not to scale)*
[2] *Recurring Revenue represents Total Revenue less hardware and professional services revenue.*

Activating our AI Leadership Strategy

AI: Most significant inflection point in cybersecurity - the next new TAM

$300B

will be spent on AI software by 2027[1]

Impact of AI on cybersecurity

- Phishing emails have increased 10 fold in 12 months, driven by AI
- Nation-states observed attempting to use AI for attacks
- AI-driven malware created in a fraction of time as humans
- Deployment of dozens of enterprise co-pilots to our customers' employees

[1] *Source: Gartner Forecast Analysis: Artificial Intelligence Software, 2023-2027, Worldwide.*

Our proprietary data and large footprint position us well to capture this AI TAM

Large enterprises will struggle with **employees accessing AI** in an insecure manner

$3-5B
FY'30 TAM[1]

The majority enterprises will need to **secure the deployment of AI model**

$5-6B
FY'30 TAM[1]

Enterprises will need to **secure AI apps** from attack in real time

$5-6B
FY'30 TAM[1]

Our data and footprint is an advantage

>6.1 PB
of data ingested daily XSIAM & XDR

1 trillion
cloud events

100M+ users & 500k+ FWs
with access to corporate & public networks

~$13-17B opportunity for us as our user base doubles in the next 5 years

[1] *Internal estimate for FY'30 total addressable market.*

We surpassed $100M in AI-First ARR with more offerings on the way by Q4

Our AI offerings are ramping quickly

>$100M AI ARR from:

AIOps

Cortex XSIAM

ADEM

AI Embedded across our platforms

Network Security

Cloud Security

Security Operations

Co-pilots across three platforms

With new offerings to address AI TAMs on the horizon

AI Access

AI SPM

AI FW

Employee Access	AI Supply Chain	AI App Runtime
$3-5B	**$5-6B**	**$5-6B**
2030 TAM[1]	2030 TAM[1]	2030 TAM[1]

[1] *Internal estimate for FY'30 total addressable market.*

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March to $15B NGS ARR in 2030 - The way forward

- **Platformization is established -- It's time to maximize our advantage by driving vendor consolidation in our customers**
- **Accelerated consolidation -- Requires us to invest in our customers to drive improved ROI and TCO**
- **AI is a brand new opportunity and we believe we are best positioned in the industry to deliver**
- **We are confident we can drive our top-line 'higher for longer' ahead of our prior targets**
- **We intend to do this within our original profitability targets and continue our financial prudence**

Dipak Golechha

CHIEF FINANCIAL OFFICER

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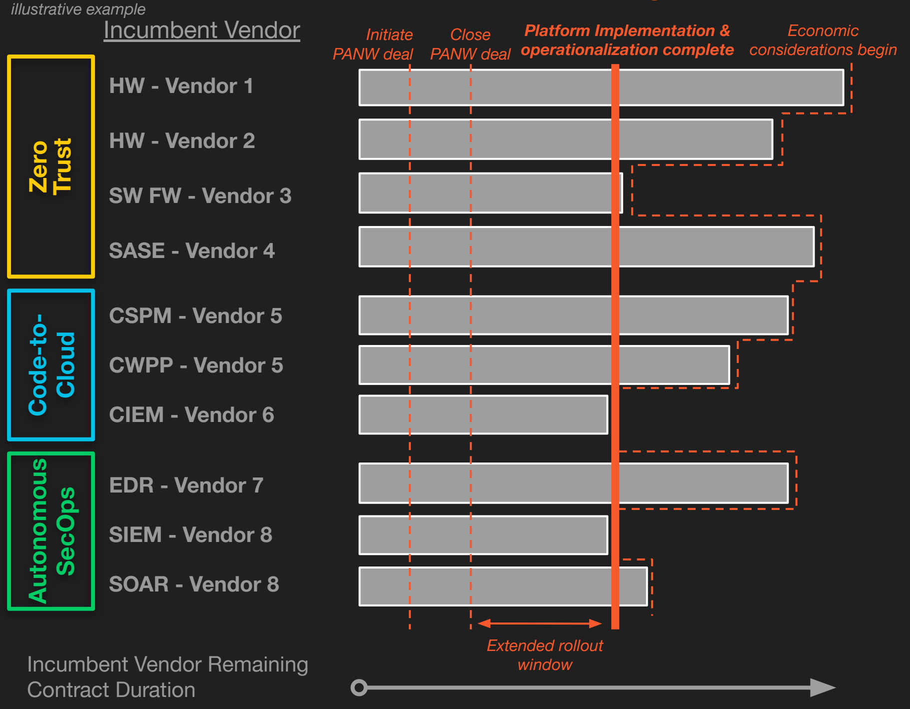
Q2'24 Metrics

	Q2'24 Guidance (as of 11/15/23)	Q2'24 Actual
Total Billings	$2.335B-$2.385B *15%-18% yr/yr*	$2.35B *16% yr/yr*
Total Revenue	$1.955B-$1.985B *18%-20% yr/yr*	$1.98B *19% yr/yr*
Product Revenue		$391M *11% yr/yr*
Remaining Performance Obligation		$10.8B *22% yr/yr*
Next-Gen Security ARR		$3.49B *50% yr/yr*
Gross Margin (Non-GAAP)		78.0% *+250 bps yr/yr*
Operating Income (Non-GAAP)		$564M *50% yr/yr*
Operating Margin (Non-GAAP)		28.6% *+580 bps yr/yr*
EPS (Non-GAAP)	$1.29-$1.31	$1.46
EPS (GAAP)		$4.89
Adj. Free Cash Flow (Non-GAAP)		$655M

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

Illustrating the top-line benefits of accelerated PLATFORMIZATION & Consolidation

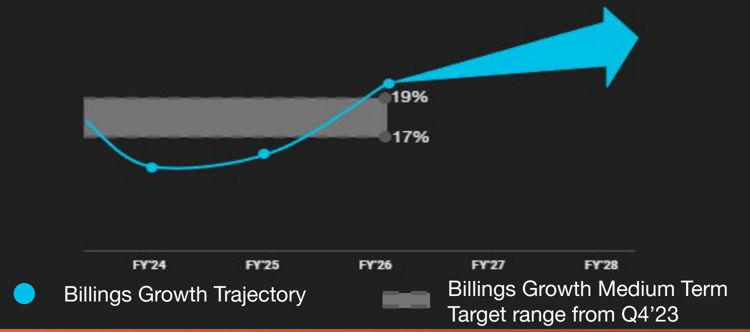
Our Accelerated Platformization Program[1]…



…Drives business objectives

Faster estate capture	Larger platform commitment
Higher renewal and expansion rates	Drive faster adoption of our new innovations

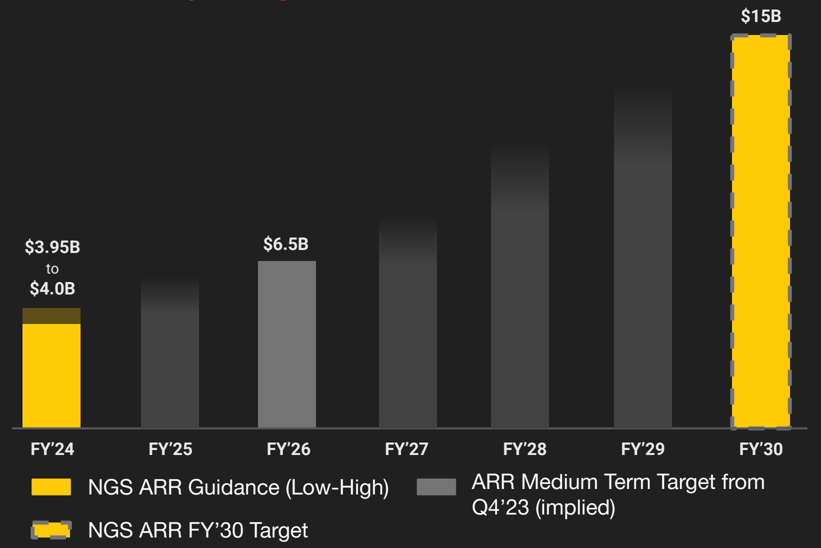
And a higher long-term billings trajectory[2]



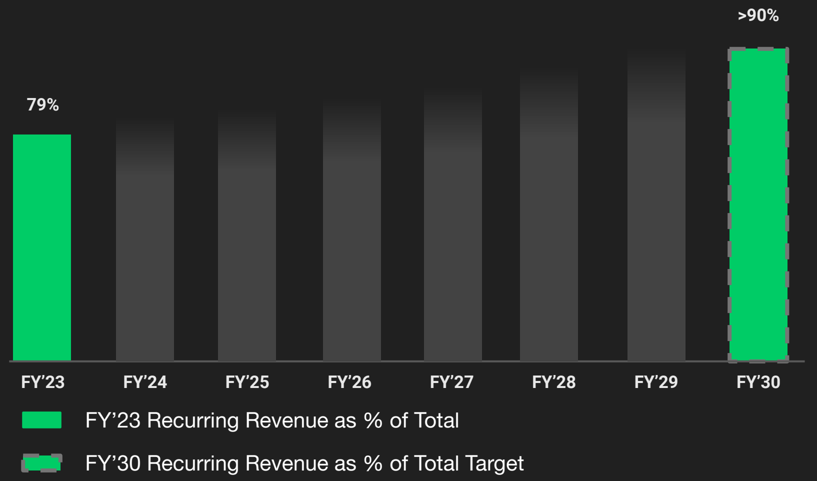
[1] Illustrative Example.
[2] Illustrative (not to scale).

Accelerated PLATFORMIZATION drives long term growth, and a stable & recurring business

NGS ARR Trajectory[1]



Recurring Revenue Trajectory[1,2]

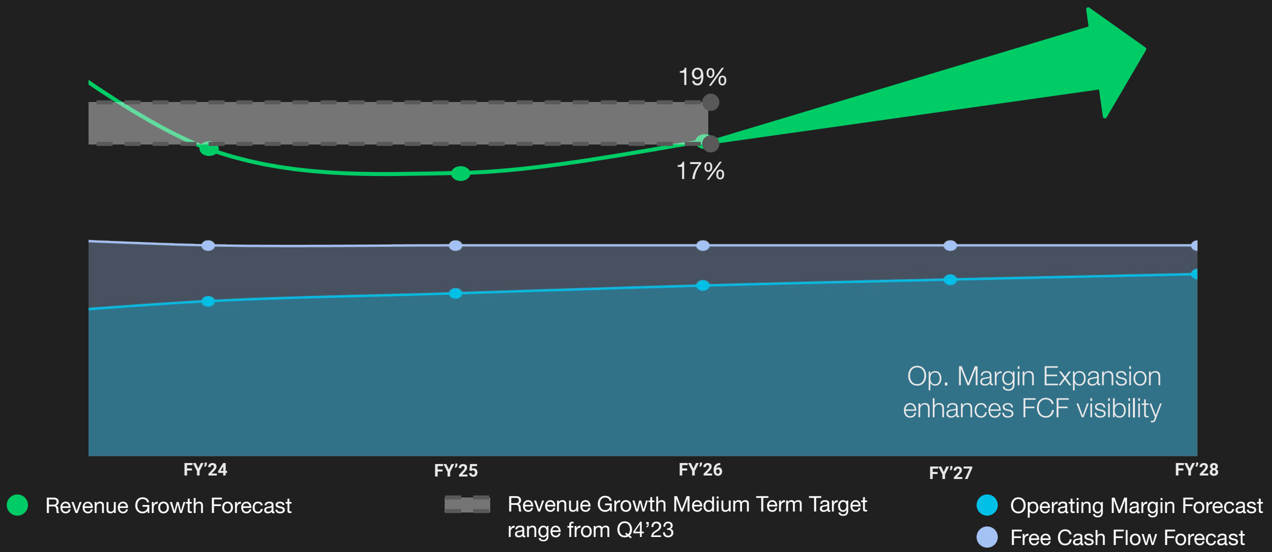


Further growth potential related to incremental AI opportunities

[1] *Illustrative (not to scale)*
[2] *Recurring Revenue represents Total Revenue less hardware and professional services revenue.*

Executing in a financially prudent way to our original profitability targets

Operating Margin & Free Cash Flow margin at or above Q4'23 medium term update[1]



[1] Illustrative (not to scale).

Q3 & Fiscal Year 2024 Guidance - Maintaining EPS & Free Cash Flow

	Q3 FY'24 Guidance (as of 2/20/24)	FY 2024 Guidance (as of 2/20/24)
Total Billings	$2.30B - $2.35B *2% - 4% yr/yr*	$10.10B - $10.20B *10% - 11% yr/yr*
Next-Gen Security ARR		$3.95B - $4.00B *34% - 35% yr/yr*
Total Revenue	$1.95B - $1.98B *13% - 15% yr/yr*	$7.95B - $8.00B *15% - 16% yr/yr*
Operating Margin (Non-GAAP)		26.5% - 27.0% *+240 bps - 290 bps yr/yr*
EPS (Non-GAAP)	$1.24 - $1.26 *13% - 15% yr/yr*	$5.45 - $5.55 *23% - 25% yr/yr*
Adj. Free Cash Flow Margin (Non-GAAP)		38.0% - 39.0%

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

Q&A

Appendix

Modeling Points

- Q3’24 and FY’24 non-GAAP effective tax rate: 22%
- FY’24 Cash taxes of $230M - $280M
- Q3’24 net interest and other income of ~$70M
- Q3’24 diluted shares outstanding 347 – 351 million
- FY’24 diluted shares outstanding 345 – 347 million
- Q3’24 capital expenditures of $50M – $55M
- FY’24 capital expenditures of $175M – $185M

Calculation of Billings

$ In millions

Billings:	Q223	Q224
Total revenue	$1,655.1	$1,975.1
Add: change in total deferred revenue, net of acquired deferred revenue	374.0	372.1
Total billings	$2,029.1	$2,347.2

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

$ In millions

Non-GAAP gross profit and gross margin:	Q223		Q224	
	$	%	$	%
GAAP gross profit and gross margin	$1,188.9	71.8%	$1,476.0	74.7%
Share-based compensation-related charges	39.4	2.5%	40.2	2.1%
Amortization expense of acquired intangible assets	19.0	1.1%	22.5	1.1%
Litigation-related charges[1]	1.8	0.1%	1.8	0.1%
Non-GAAP gross profit and gross margin	$1,249.1	75.5%	$1,540.5	78.0%

[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:	Q223		Q224	
	$	%	$	%
GAAP operating income and operating margin	$39.9	2.4%	$53.6	2.7%
Share-based compensation-related charges	298.6	18.1%	296.8	15.1%
Acquisition-related costs[1]	12.1	0.7%	7.3	0.4%
Amortization expense of acquired intangible assets	24.4	1.5%	27.9	1.4%
Litigation-related charges[2]	1.8	0.1%	178.6	9.0%
Non-GAAP operating income and operating margin	$376.8	22.8%	$564.2	28.6%

[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, and a legal contingency charge in Q2'24.
Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q223	Q224
GAAP net income per share, diluted	$0.25	$4.89
Share-based compensation-related charges	0.94	0.88
Acquisition-related cost[(1)]	0.04	0.02
Amortization expense of acquired intangibles assets	0.07	0.08
Litigation-related charges[(2)]	0.01	0.50
Non-cash charges related to convertible notes[(3)]	0.01	0.00
Foreign currency loss associated with non-GAAP adjustments	0.01	0.00
Income tax and other tax adjustments[(4)]	(0.28)	(4.91)
Non-GAAP net income per share, diluted	$1.05	$1.46

[(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, and a legal contingency charge in Q2'24.
[(3)] Consists of non-cash interest expense for amortization of debt issuance costs related to our convertible senior notes.
[(4)] Consists 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. In Q2'24, it included a tax benefit from a release of our valuation allowance on U.S. federal, U.S. states other than California, and United Kingdom deferred tax assets.
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):	Q224	TTM Q223	TTM Q224
Net cash provided by operating activities	$690.0	$2,844.5	$3,062.2
Less: purchases of property, equipment, and other assets	35.2	155.4	140.4
Free cash flow (non-GAAP)	$654.8	$2,689.1	$2,921.8
Add: cash payment related to tax settlement	-	28.9	10.9
Adjusted free cash flow (non-GAAP)	$654.8	$2,718.0	$2,932.7

Fiscal year ends on July 31.

Thank You

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