

Q3 Fiscal Year 2024 Earnings Call

May 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 the cybersecurity threat landscape, expectations regarding our platformization strategy and related progress and opportunities, long-term expectations regarding annual recurring revenue, product development strategy and expectations regarding artificial intelligence (AI), expectations regarding our strategic partnerships, financial guidance for the fourth quarter of fiscal 2024 and fiscal year 2024, mid and long-term financial expectations, modeling points, 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; failure to achieve the expected benefits of our strategic partnerships and acquisitions; risks associated with managing our growth; risks associated with new product, subscription and support offerings, including our efforts to leverage AI; 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; defects, errors, or vulnerabilities in our products, subscriptions, or 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 January 31, 2024, 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 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



Attack activity, compounded by AI, kept cybersecurity in focus in Q3



High profile attacks continuing to escalate



AI adoption is creating a **new attack surface**, and **increasing cloud demand**



Stable spending backdrop with Cybersecurity priorities **well-funded**



'Green shoots' from our **accelerated consolidation and platformization strategy**

We delivered great Q3 results

Focused Execution Against Top-Line Targets

NGS ARR¹

\$3.79B

+47% y/y

Remaining Performance Obligation

\$11.3B

+23% y/y

Total Revenue

\$1.98B

+15% y/y

Total Billings²

\$2.33B

+3% y/y

9th consecutive quarter of operating margin expansion

Operating Income (non-GAAP)

\$508M

+25% y/y

Operating Margin (non-GAAP)

25.6%

+200 bps y/y

Adj. Free Cash Flow (non-GAAP)

\$492M

+\$256M y/y on trailing
12-month basis

EPS (non-GAAP)

\$1.32

+20% 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.

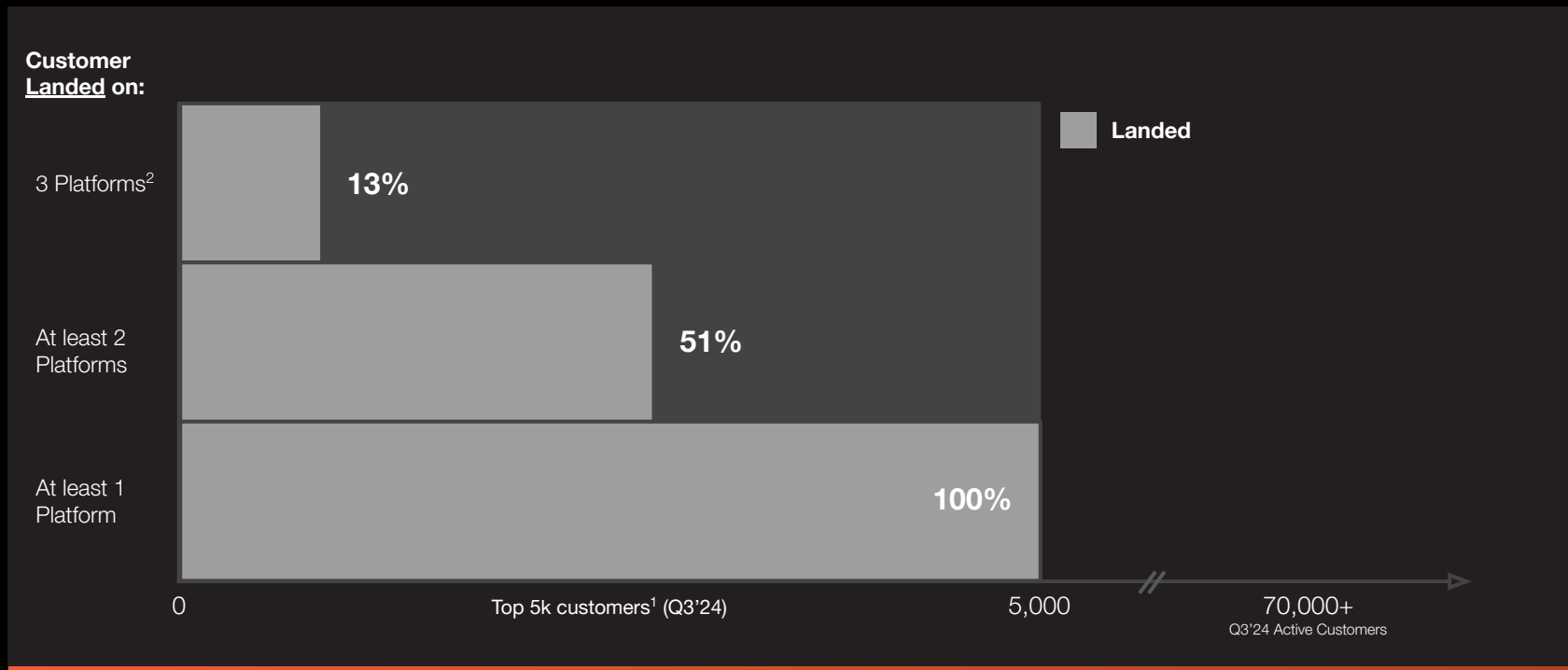
² Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

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

Fiscal year ending on July 31.

Our platformization framework

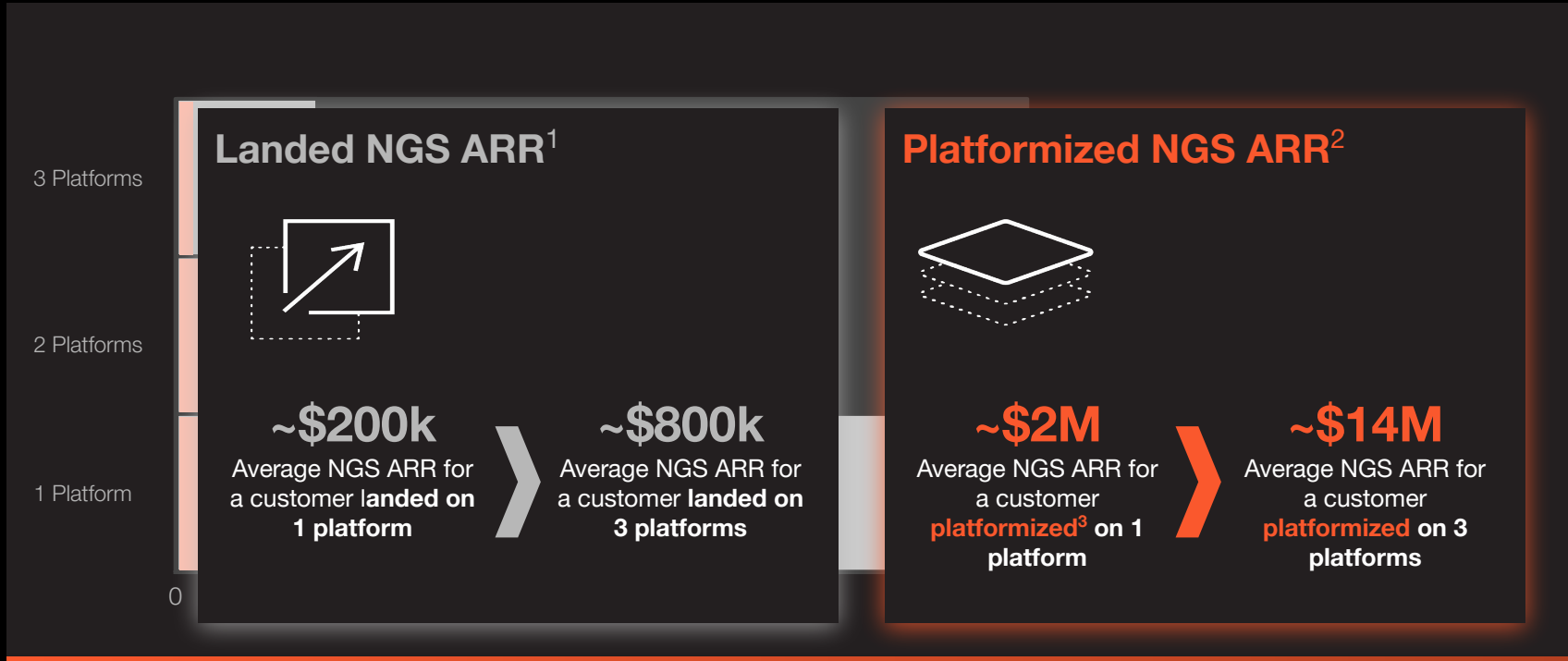
We measured our success in 'landing' platforms over the last several years



¹ Top 5k customers represents 5,000 largest Palo Alto Networks customers based on lifetime value.

² Platforms are Network Security, Cloud Security, and Security Operations.

It became clear to us that platformization drove significant ARR expansion

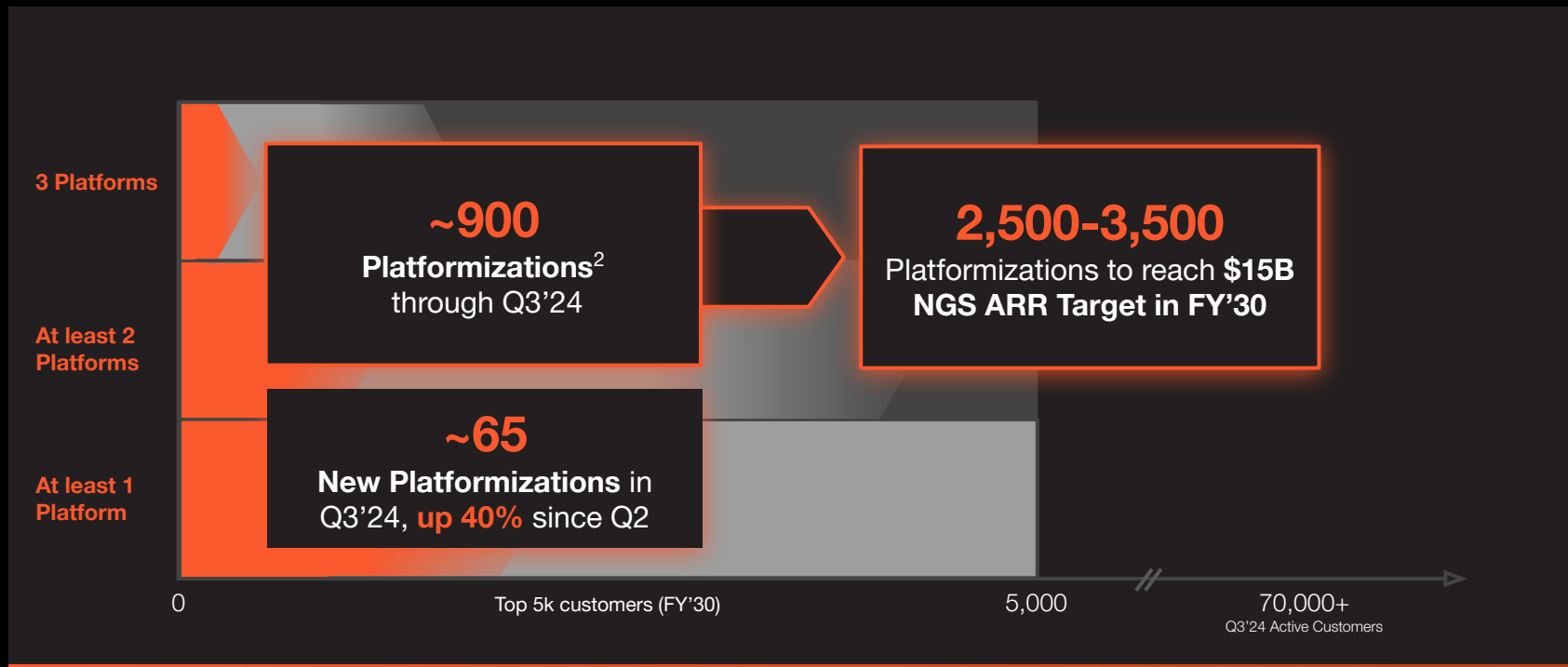


¹ Out of our top 5,000 customers, the average NGS ARR ranges from \$178k for customers landed on one platform to \$782k for customers landed on 3 platforms.

² Out of our top 5,000 customers, the average NGS ARR ranges from \$1.8M for customers platformized on one platform to \$14.3M for customers platformized on 3 platforms.

³ Platformized defined as: Active ELA contract or >\$1M SASE ARR for Network Security; >\$1M ARR for Cloud Security, active XSIAM contract for Security Operations.

Platformization progress toward our \$15B NGS ARR forecast in FY30¹



¹ Modeling of platformization assumes 5% annual growth in average NGS ARR per customer.

² Platformizations defined as a count of all platformized platforms. A customer platformized on all three platforms would count as 3 platformizations, a customer platformized on two platforms, would count as 2 platformizations, and a customer platformized on one platform would count as 1 platformization.

Platformization is benefitting our customers with higher productivity and better security effectiveness

“The point product cybersecurity tool approach is ineffective given the new reality”



Higher productivity¹



10%

lower annualized **security**
related platform **costs**



34%

More efficient
security teams

Better security effectiveness



1.4x

Faster detection of
security events



1.6x

Faster remediation
of security events

Our largest deals in Q3 showcase the broad drivers of our momentum

New logo deal



7-figure deal first sale to a U.S. local government displacing competitor's firewalls and purchasing Cortex XDR

Platformization deal



8-figure deal with a data services company, platforming on SASE.

New platform adoption deal



8-figure deal with a financial services company that had NetSec expanding to Cortex

Fully Platformized



9-figure deal with Healthcare provider consolidating NetSec & SecOps, and winning against 10+ cybersecurity vendors

>**\$1M** accounts¹ in Q3

397 **+22% Y/Y**

>**\$5M** accounts¹ in Q3

84 **+17% Y/Y**

>**\$10M** accounts¹ in Q3

32 **+28% Y/Y**

¹Number of accounts that had transactions in the period totalling >\$1M, >\$5M, and >\$10M.

Driving platformization together with IBM



Expansion of partnership to drive platformization in joint customers with initial **focus on security operations**

We delivered a milestone moment around AI Security, addressing a ~\$15B TAM¹

Announced solutions to **secure AI by design**



Enable **Safe AI Adoption** to Employees

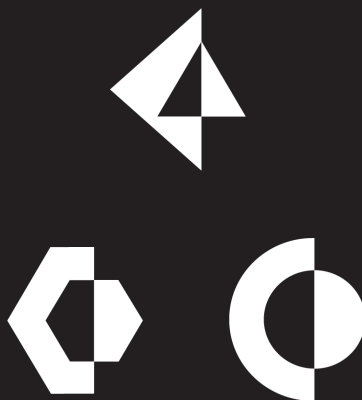


Ensure **secure configuration** and **deployment** of **AI Apps**



Security to **Protect Apps, Models, and Data**

Delivered **co-pilots**² across all three platforms



Announced the **Precision AITM Security Bundle**

Leverage **inline AI** to counter AI attacks with **AI Defense**

New Adv Sub



Advanced DNS Security



Advanced URL Filtering



Advanced Threat Prevention



Advanced Wildfire

¹ Internal Estimates.

² Private view available to customers.

We continue to deliver innovation across our three platforms

SASE 3.0 AI-based Innovations



Industry's only SASE-integrated **Enterprise Browser**, an important AI security control



AI-powered data security with **market-first** LLM-powered data classification



App performance up to **5x faster** than the internet

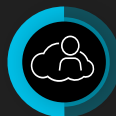
New modules showcase our innovation



Cloud Detection and Response (CDR) release with **Cortex XSIAM**



First phase of **DSPM** (Dig Security) **integration complete**



Added 100+ cloud services API ingestions across major hyperscalers

XSIAM momentum is spurring Cortex growth



Surpassed **\$400M** in cumulative **XSIAM Bookings**



Cortex **ARR Acceleration**

And cement our broad market leadership across all three platforms

Product leadership in 23 different cybersecurity markets

Network Security Platform

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

9

Product Category
Leaderships

2nd Consecutive



Security Service Edge

Leader in Gartner Magic
Quadrant for SSE

Cloud Security Platform

Comprehensive, cloud-native platform to secure everything in the cloud

8

Product Category
Leaderships

NEW



**Data Security Posture
Management**

Leader in GigaOm Radar for
DSPM

Security Operations Platform

Breakthrough outcomes for SOC by unifying data, analytics & automation

6

Product Category
Leaderships

NEW



**Managed Detection &
Response**

Leader in Frost Radar: Managed
Detection & Response, 2024

We are pleased with our Q3 execution and are focused on closing out a strong FY'24



Strong Q3 results, on the back of stable spending environment



New threat vectors, such as AI, fueling breach activity



Strong initial traction of our accelerated consolidation and platformization strategy, with endorsements from key ecosystem partners



Continued focus on innovation, notably securing AI




Significant pipeline heading into Q4, with a focus on driving profitable growth towards \$15B in FY'30 NGS ARR

Dipak Golechha

CHIEF FINANCIAL OFFICER

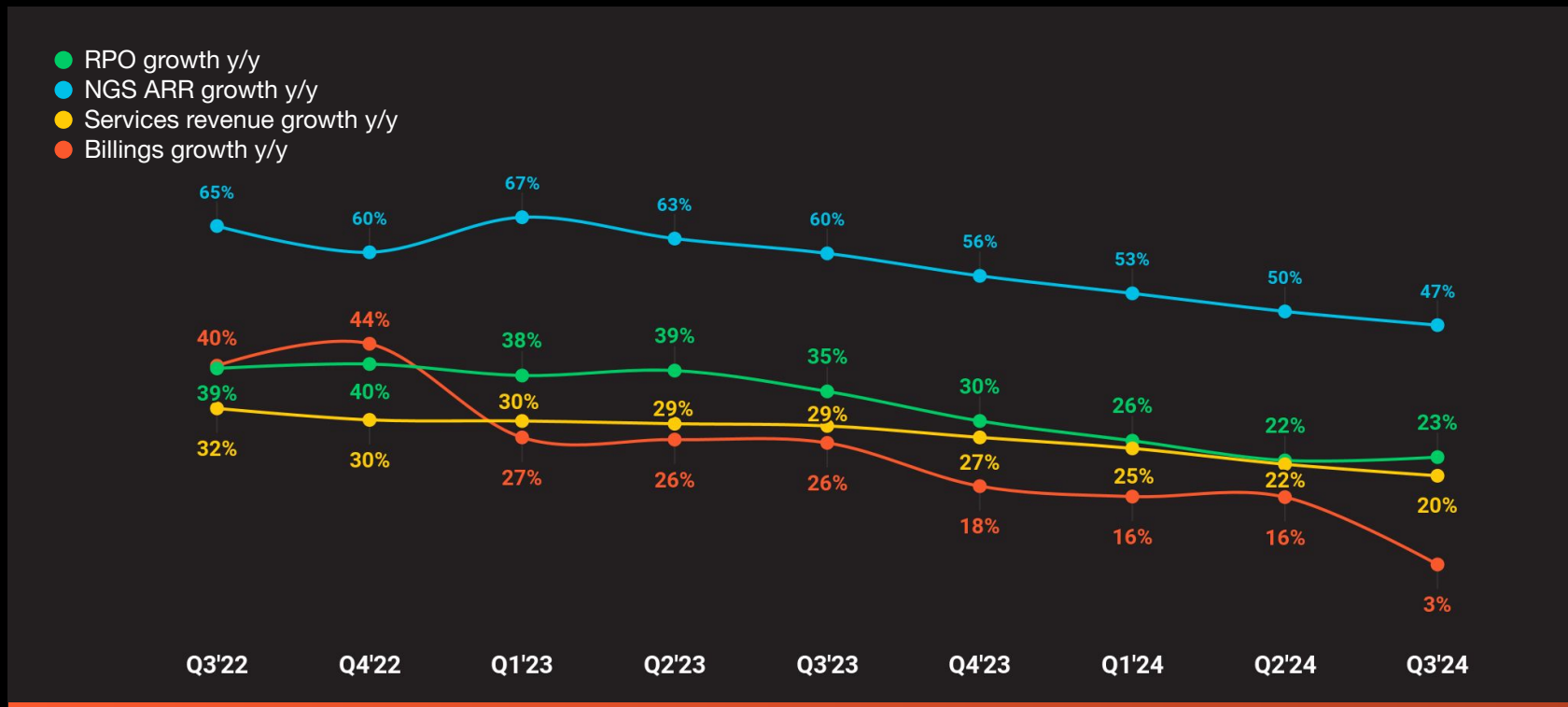


Q3'24 Metrics

	Q3'24 Guidance (as of 2/20/24)	Q3'24 Actual	
Total Billings	\$2.30B-\$2.35B 2%-4% yr/yr	\$2.33B 3% yr/yr	
Total Revenue	\$1.95B-\$1.98B 13%-15% yr/yr	\$1.98B 15% yr/yr	
Product Revenue		\$391M 1% yr/yr	
Remaining Performance Obligation		\$11.3B 23% yr/yr	
Next-Gen Security ARR		\$3.79B 47% yr/yr	
Gross Margin (Non-GAAP)		77.6% +150 bps yr/yr	
Operating Income (Non-GAAP)		\$508M 25% yr/yr	
Operating Margin (Non-GAAP)		25.6% +200 bps yr/yr	
EPS (Non-GAAP)	\$1.24-\$1.26 13% - 15% yr/yr	\$1.32	
EPS (GAAP)		\$0.79	
Adj. Free Cash Flow (Non-GAAP)		\$492M	

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

Continued consistency in RPO growth with an uptick in Q3



Selected financial details of our IBM partnership



\$500M in upfront cash consideration at close to purchase IBM's QRadar SaaS assets including QRadar intellectual property rights



'Earn-out' over multiple years based on successful migration of QRadar on-premise customers to XSIAM



We anticipate closing by the end of Sept 2024 subject to regulatory approvals and customary closing conditions



We will provide more information on the financial impact closer to the close of the transaction



We expect contribution will remain inline with our prior profitability framework

Q4 & Fiscal Year 2024 Guidance

	Q4 FY'24 Guidance (as of 5/20/24)	FY 2024 Guidance (as of 5/20/24)
Total Billings	\$3.43B - \$3.48B 9% - 10% <i>yr/yr</i>	\$10.13B - \$10.18B 10% - 11% <i>yr/yr</i>
Next-Gen Security ARR		\$4.05B - \$4.10B 37% - 39% <i>yr/yr</i>
Total Revenue	\$2.15B - \$2.17B 10% - 11% <i>yr/yr</i>	\$7.99B - \$8.01B 16% <i>yr/yr</i>
Operating Margin (Non-GAAP)		26.8% - 27.0% +270 bps - 290 bps <i>yr/yr</i>
EPS (Non-GAAP)	\$1.40 - \$1.42 (3%) - (1%) <i>yr/yr</i>	\$5.56 - \$5.58 25% - 26% <i>yr/yr</i>
Adj. Free Cash Flow Margin (Non-GAAP)		38.5% - 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

- Q4'24 and FY'24 non-GAAP effective tax rate: 22%
- FY'24 Cash taxes of \$230M - \$280M
- Q4'24 net interest and other income of ~\$70M
- Q4'24 diluted shares outstanding 345 – 347 million
- FY'24 diluted shares outstanding 343 – 344 million
- Q4'24 capital expenditures of \$50M – \$55M
- FY'24 capital expenditures of \$166M – \$171M

Calculation of Billings

\$ In millions

Billings:	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223	Q323	Q423	Q124	Q224	Q324
Total revenue	\$1,073.9	\$1,219.3	\$1,247.4	\$1,316.9	\$1,386.7	\$1,550.5	\$1,563.4	\$1,655.1	\$1,720.9	\$1,953.3	\$1,878.1	\$1,975.1	\$1,984.8
Add: change in total deferred revenue, net of acquired deferred revenue	212.5	649.0	134.2	291.0	410.2	1,134.6	185.6	374.0	535.3	1,206.8	146.4	372.1	349.2
Total billings	\$1,286.4	\$1,868.3	\$1,381.6	\$1,607.9	\$1,796.9	\$2,685.1	\$1,749.0	\$2,029.1	\$2,256.2	\$3,160.1	\$2,024.5	\$2,347.2	\$2,334.0

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q323		Q324	
	\$	%	\$	%
GAAP gross profit and gross margin	\$1,246.1	72.4%	\$1,471.2	74.1%
Share-based compensation-related charges	42.4	2.4%	39.7	2.0%
Amortization expense of acquired intangible assets	19.9	1.2%	27.7	1.4%
Litigation-related charges ⁽¹⁾	1.8	0.1%	1.8	0.1%
Non-GAAP gross profit and gross margin	\$1,310.2	76.1%	\$1,540.4	77.6%

⁽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 Income & Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	Q323		Q324	
	\$	%	\$	%
GAAP operating income and operating margin	\$78.7	4.6%	\$176.7	8.9%
Share-based compensation-related charges	293.5	17.0%	290.0	14.6%
Acquisition-related costs ⁽¹⁾	7.4	0.4%	2.8	0.1%
Amortization expense of acquired intangible assets	25.3	1.5%	32.9	1.7%
Litigation-related charges ⁽²⁾	1.8	0.1%	5.5	0.3%
Non-GAAP operating income and operating margin	\$406.7	23.6%	\$507.9	25.6%

⁽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.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q323	Q324
GAAP net income per share, diluted	\$0.31	\$0.79
Share-based compensation-related charges	0.91	0.85
Acquisition-related cost ⁽¹⁾	0.02	0.01
Amortization expense of acquired intangibles assets	0.07	0.09
Litigation-related charges ⁽²⁾	0.01	0.02
Non-cash charges related to convertible notes ⁽³⁾	0.01	0.00
Income tax and other tax adjustments ⁽⁴⁾	(0.23)	(0.44)
Non-GAAP net income per share, diluted	\$1.10	\$1.32

⁽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.

⁽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 Q3'24, 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):	Q324	TTM Q323	TTM Q324
Net cash provided by operating activities	\$528.9	\$2,887.1	\$3,159.0
Less: purchases of property, equipment, and other assets	37.4	148.3	146.6
Free cash flow (non-GAAP)	\$491.5	\$2,738.8	\$3,012.4
Add: cash payment related to tax settlement	-	28.9	10.9
Adjusted free cash flow (non-GAAP)	\$491.5	\$2,767.7	\$3,023.3

Fiscal year ends on July 31.

Thank You

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