



# Q1 Fiscal Year 2023 Earnings Call



November 17, 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 supply chain conditions, inflation and customer demand, our expectations regarding IT spending and initiatives, and slightly higher product revenue growth within our revenue growth, our financial guidance for the first quarter of fiscal 2023 and fiscal year 2023 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS, GAAP net income, GAAP profitability and non-GAAP adjusted free cash flow margin, our modeling points, our expectations regarding continuing to deliver strong results, future revenue growth, market share gains and balancing future revenue growth with profitability, relief from supply chain headwinds late in our FY23, our expectations regarding use of cash for share repurchases, our expectations regarding managing stock-based compensation expense, our expectations regarding investing in opportunities, our expectations to optimize our balance sheet for the higher rate environment, 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 Annual Report on Form 10-K filed for the year ended July 31, 2022, which is available on our website at [investors.paloaltonetworks.com](https://investors.paloaltonetworks.com) and on the SEC’s website at [www.sec.gov](http://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 November 17, 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 income 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



# Strong and balanced results in Q1'23

Balanced  
Top Line  
Performance

Total Billings<sup>1</sup>

**\$1.75B**

+27% y/y

Remaining Performance Obligation

**\$8.3B**

+38% y/y

NGS ARR<sup>2</sup>

**\$2.11B**

+67% y/y

Total Revenue

**\$1.56B**

+25% y/y

Operating Income (non-GAAP)

**\$322M**

+44% y/y

EPS (non-GAAP)

**\$0.83**

+\$0.15 vs. Q1 Guidance<sup>3</sup>

Sharp Focus on  
Profitability

Adj. Free Cash FLOW (non-GAAP)

**\$1.20B**

>2x prior high

2nd Consecutive Quarter

**GAAP Profitable**

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

<sup>2</sup>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.

<sup>3</sup>Refers to split-adjusted EPS (non-GAAP) of \$0.682, the midpoint of Q1'FY23 guidance provided on August 22, 2022.

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

Fiscal year ending on July 31.

# Continuing to move our customers to more comprehensive deals

## Q1'23 deal highlights



### High 8-figure contract with U.S. Federal Agency

*Multi-year transaction for Cortex technology with a partner*



### 7-figure deal with US Utility

*Software firewalls and Prisma Cloud deployment across multiple clouds*



### 8-figure deal with European media firm

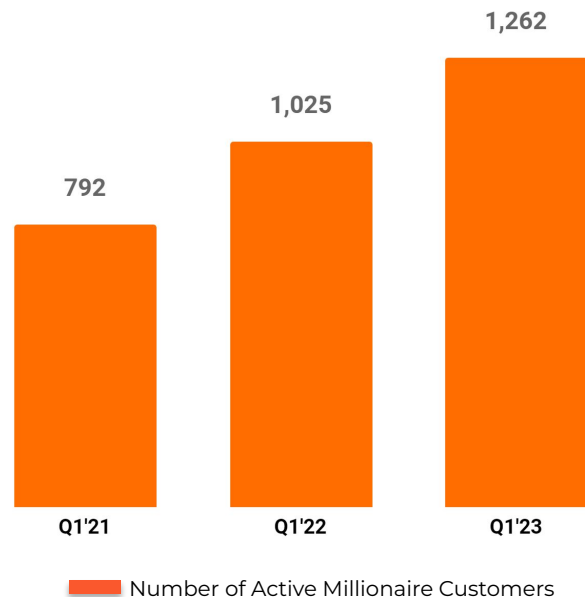
*Multi-product deal replacing multiple incumbent vendors, consolidating on Palo Alto Networks*



### 7-figure deal with U.S. technology company

*100% Software, All three platforms driven by lower total cost of ownership*

## Strength in Active Millionaire customers<sup>1</sup>

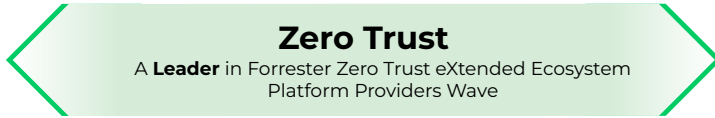


<sup>1</sup> Active Millionaire customer defined as customers who have spent \$1M or more in bookings value over the last 4 quarters. A booking is defined as committed customer obligation with a contract in place. Fiscal year ending on July 31.

# Maintaining our cadence of continuous innovation

## Palo Alto Networks Industry Recognitions

**17**  
Total  
Recognitions



**13**  
Leadership  
Recognitions

### Network Security

#### NGFW (10<sup>th</sup> time!)

A **Leader** in Gartner Magic Quadrant Network Firewalls

#### SD-WAN

A **Leader** in Gartner Magic Quadrant WAN Edge Infrastructure

#### Secure Web Gateway

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

#### ZTNA

A **Leader** in Forrester Zero Trust Network Access New Wave

#### SASE\*\*

2022 Frost & Sullivan **Company of the Year** award for SASE

### Cloud Security

#### DevSecOps

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

#### Vulnerability Management

An **Outperformer Leader** in GigaOm's Vulnerability Management Radar

#### Cloud Workload Security

A **Leader** in Forrester Cloud Workload Security Wave

#### Cloud Security Posture Management\*\*

A **Leader** GigaOm CSPM Radar

#### CNAPP\*\*

A **Leader** in Frost & Sullivan CNAPP Radar

### SoC Security

#### Endpoint Security

A **Leader** in Forrester Endpoint Security Software As A Service Wave

#### SOAR

A **Leader** in KuppingerCole Security Orchestration Automation & Response Leadership Compass

#### Attack Surface Management (ASM)

An **Outperformer Leader** in GigaOm Attack Surface Management ASM Radar

#### XDR

A **Strong Performer** in Forrester XDR New Wave

#### Incident Response

A **Strong Performer** in Forrester Cybersecurity Incident Response Services Wave

#### EDR

A **Strong Performer** in Forrester Endpoint Detection & Response Wave

\*\*Represents new recognitions in Q1'23

## Q1'23 Innovation Highlights



Software Composition Analysis

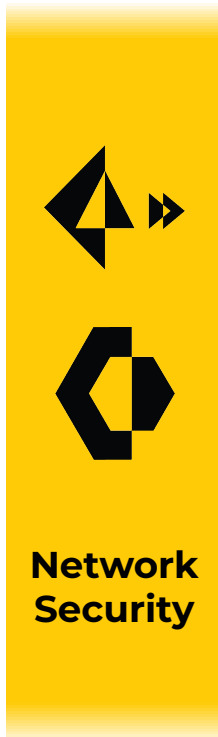


SaaS Security Posture Management

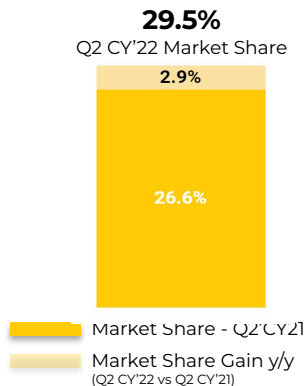


XSIAM General Availability

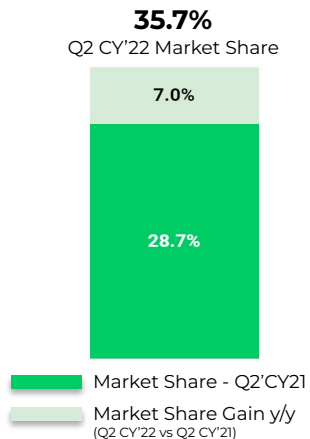
# Continued above market growth in Network Security leading to share gains



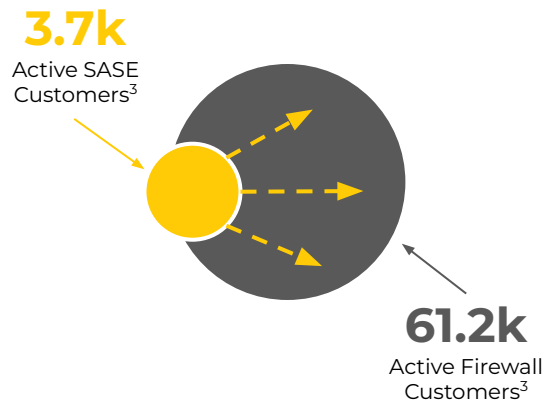
## Increasing appliance market share<sup>1</sup>



## Increasing VM market share<sup>2</sup>



## Large SASE opportunity within installed firewall base



**Strong initial uptake of advanced subscriptions, available across all form factors**

**Advanced URL Filtering**

**Advanced Threat Prevention**

**New Advanced WildFire**

<sup>1</sup>Source: Omdia Network Security Appliances and Software Market Share Tracker - 2Q22.

<sup>2</sup>Source: Dell'Oro 2Q22 Network Security Report.

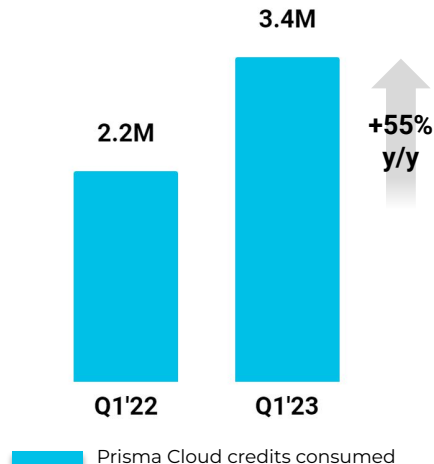
<sup>3</sup>Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE includes unique customers for Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions and excludes customers from Sinefa acquisition.

Fiscal year ending on July 31

# Growing module adoption in Cloud Security continues to drive consumption



## Strong credit growth is a proxy for customer value



## Strong multi-module customer<sup>1</sup> demand

2+ Modules

>50%

3+ Modules

>33%

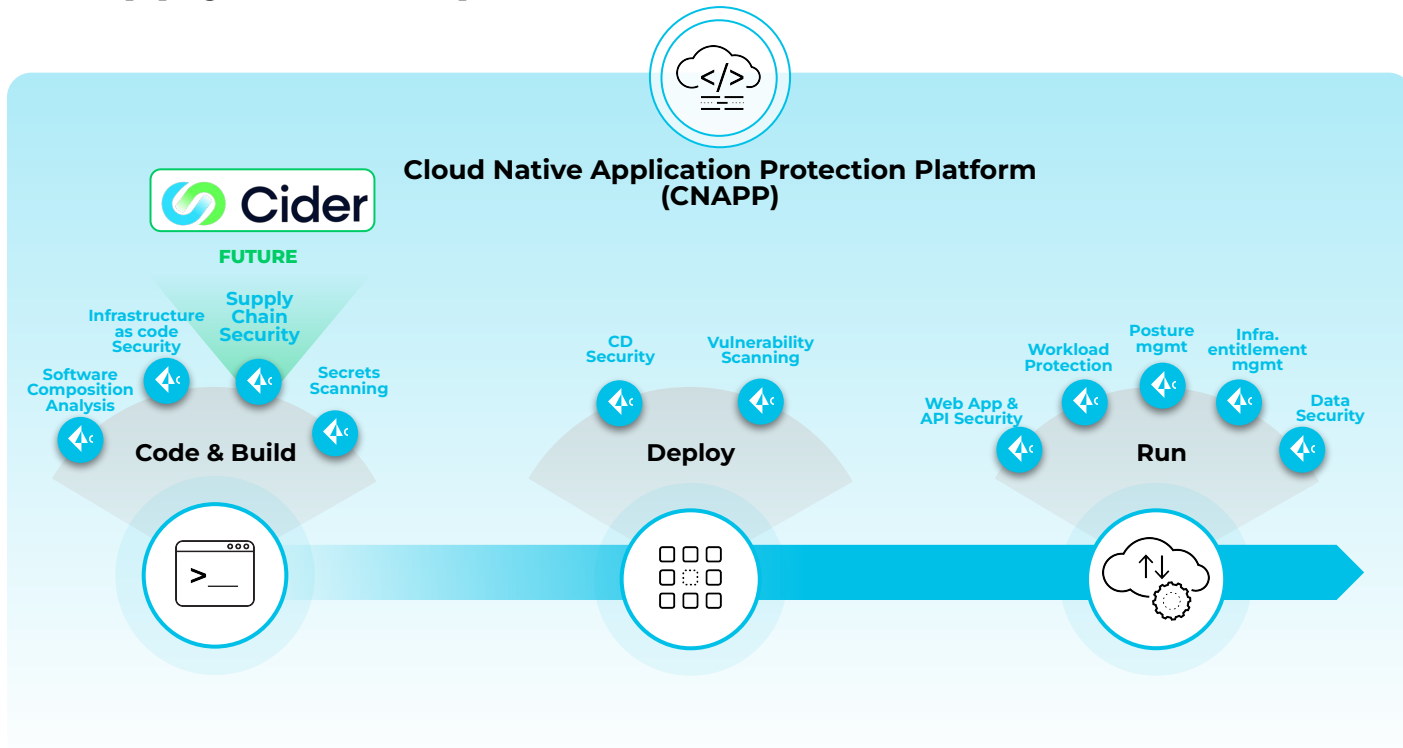
4+ Modules

~20%

<sup>1</sup> Customers is based on average customers module adoption over the 90 day period ending 7/31/2022, and excludes any Prisma Cloud Compute only self-hosted customers. Fiscal year ending on July 31



# Announcing Cider - Following “shift left” success, we are expanding our software supply chain capabilities



# Steady execution continues to drive momentum



Cortex®

## Platform momentum and innovation

**150%**  
growth in  
**\$1M+**  
transactions



**XDR**

**Managed Detection and Response**  
Service delivered by Unit42

**XSOAR**



**XSOAR SaaS** (beta)  
SaaS version of XSOAR further expands Cortex market opportunity

## Encouraging response to XSIAM



Strong conversion of design partners

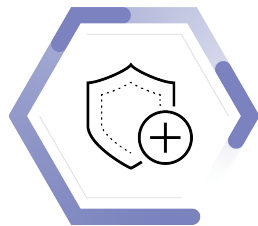


General availability in Q1



Healthy pipeline of customers

# We are focused on high-intensity execution in the shifting macro environment



**Security is a customer priority**



**Customers targeting vendor consolidation**



**Competition for talent is easing**



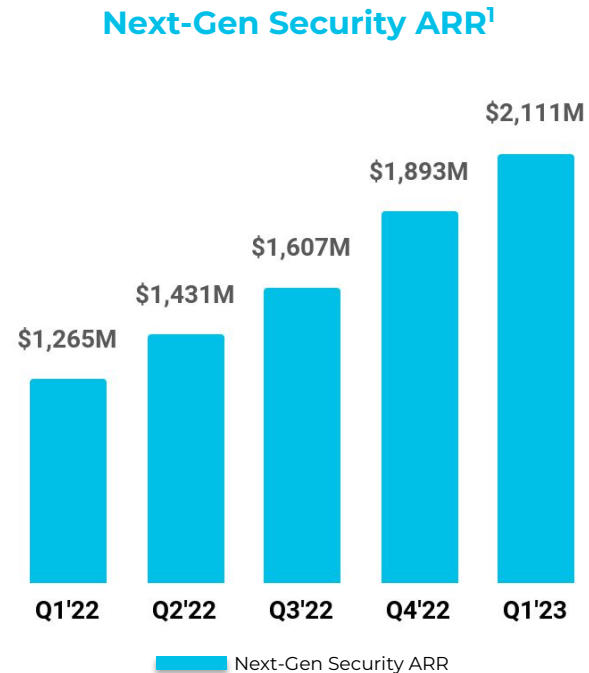
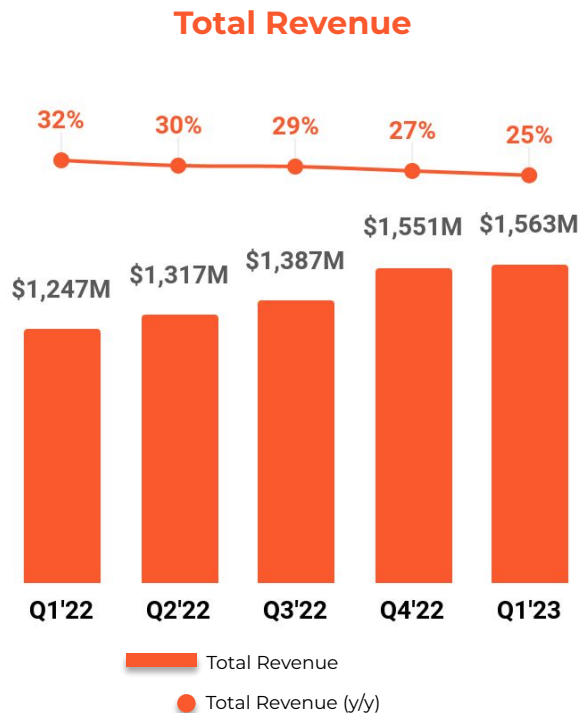
**No spend impact in certain industries**

# DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

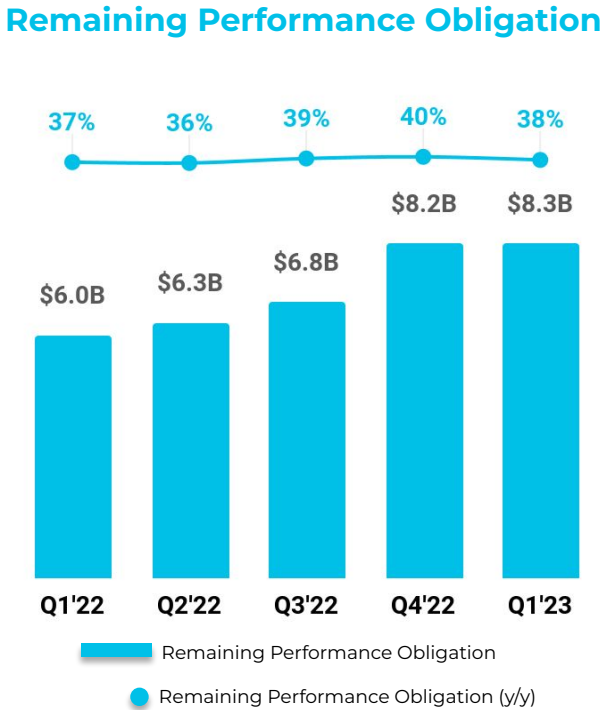
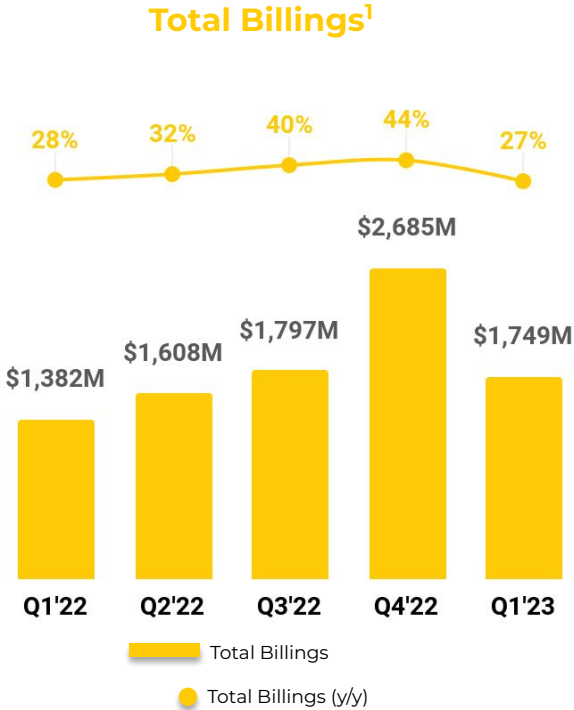


# Revenue ahead of guidance. NGS ARR surpasses \$2 billion.






<sup>1</sup> 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.

# Billings ahead of guidance. RPO strength.



<sup>1</sup>Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue. Fiscal year ending on July 31.

# Strength across Q1 metrics

	Q1'23 Guidance (as of 8/22/22)	Q1'23 Actual	
Total Billings <sup>1</sup>	\$1.68B-\$1.70B 22%-23% yr/yr	\$1.75B 27% yr/yr	
Total Revenue	\$1.535B-\$1.555B 23%-25% yr/yr	\$1.56B 25% yr/yr	
Product Revenue		\$330M 12% yr/yr	
Remaining Performance Obligation		\$8.3B 38% yr/yr	
Next-Gen Security ARR <sup>2</sup>		\$2.11B 67% yr/yr	
Gross Margin (Non-GAAP)		74.3%	
Operating Income (Non-GAAP)		\$322M 44% yr/yr	
Operating Margin (Non-GAAP)		20.6% +260 bps yr/yr	
EPS (Non-GAAP)	\$0.68-\$0.69 <sup>3</sup>	\$0.83	
Adj. Free Cash Flow (Non-GAAP)		\$1.20B	

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<sup>2</sup>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.

<sup>3</sup>Q1'23 EPS (Non-GAAP) guidance (as of 8/22/22), adjusted for three-for-one stock split completed on 9/13/2022.

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

Fiscal year ending on July 31.

## Q2 fiscal 2023 guidance

	Q2'23
Total Billings	<b>\$1.94B - \$1.99B</b> <i>21%-24% yr/yr</i>
Total Revenue	<b>\$1.63B - \$1.66B</b> <i>24%-26% yr/yr</i>
EPS (Non-GAAP) <sup>1</sup>	<b>\$0.76 - \$0.78</b> <i>using 320 to 326 million shares</i>

<sup>1</sup>A 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.



# Fiscal year 2023 guidance

	FY 2023 Guidance as of 8/22/22	FY 2023 Guidance as of 11/17/22
Total Billings <sup>1</sup>	\$8.95B - \$9.05B <i>+20%-21% yr/yr</i>	\$8.95B - \$9.10B <i>+20%-22% yr/yr</i>
Next-Gen Security ARR <sup>2</sup>	\$2.60B - \$2.65B <i>+37%-40% yr/yr</i>	\$2.65B - \$2.70B <i>+40%-43% yr/yr</i>
Total Revenue	\$6.85B - \$6.90B <i>+25% yr/yr</i>	\$6.85B - \$6.91B <i>+25%-26% yr/yr</i>
Product Revenue	<i>+mid- to high-single digits</i>	<i>~10%</i>
Op Margin (Non-GAAP)	19.0-19.5%	19.5-20.0%
EPS (Non-GAAP)	\$3.13 - \$3.17 <sup>3</sup> <i>+24%-26% yr/yr</i>	\$3.37 - \$3.44 <i>+34%-37% yr/yr</i>
Adj. FCF Margin (Non-GAAP)	33.5-34.5%	34.5-35.5%
GAAP Net Income (Loss)	Positive	Positive

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

<sup>2</sup>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.

<sup>3</sup>FY'23 EPS (Non-GAAP) guidance (as of 8/22/22), adjusted for three-for-one stock split completed on 9/13/2022.

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

- Q2'23 and FY'23 non-GAAP effective tax rate: 22%
- Q2'23 net interest and other income of \$18M – \$20M
- FY23 diluted shares outstanding 325 – 331 million
- Q2'23 capital expenditures of \$40M – \$45M
- FY'23 capital expenditures of \$190M – \$200M
- Based on typical seasonality, we expect quarter to quarter revenue and billings growth in Q3'23 inline with last year
- We expect operating income in Q3 to be ~flat with Q2

<sup>1</sup>A 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 executive's presentation)*

Presenter   Video replay link	Duration
<b>Nikesh Arora, CEO &amp; Chairman</b>   <a href="#">Where We Are &amp; Looking Ahead</a>	<b>18:34</b>
<b>Lee Klarich, Chief Product Officer</b>   <a href="#">Market Needs &amp; Our Platforms</a>	<b>40:42</b>
Anand Oswal, SVP Products   Network Security (starts @ 6:26)	<b>9:41</b>
Ankur Shah, SVP Products   Cloud Security (starts @ 16:07)	<b>8:24</b>
Lee Klarich, Chief Product Officer & Tim Junio, SVP Products   Security Operations (starts @ 24:31)	<b>14:23</b>
<b>Nir Zuk, Founder and Chief Technology Officer</b>   <a href="#">What does Zero Trust Really Mean?</a>	<b>15:00</b>
<b>BJ Jenkins, President</b>   <a href="#">Driving Sustainable Growth &amp; Securing Our Customers</a>	<b>6:38</b>
<b>Liane Hornsey, Chief People Officer</b>   <a href="#">Drivers of Change - Our People. ESG for Palo Alto Networks</a>	<b>9:23</b>
<b>Dipak Golechha, Chief Financial Officer</b>   <a href="#">Managing for Scale and Efficiency &amp; Bringing it All Together</a>	<b>15:00</b>

## Additional Resources

[2021 Analyst Day Presentation](#)

[Palo Alto Networks CSR](#)

[Recent Events & Presentations](#)

# Calculation of Billings

\$ In millions

Billings:	Q122	Q222	Q322	Q422	Q123
Total revenue	\$1,247.4	\$1,316.9	\$1,386.7	\$1,550.5	\$1,563.4
Add: change in total deferred revenue, net of acquired deferred revenue	134.2	291.0	410.2	1,134.6	185.6
Total billings	<u>\$1,381.6</u>	<u>\$1,607.9</u>	<u>\$1,796.9</u>	<u>\$2,685.1</u>	<u>\$1,749.0</u>

Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q123	
	\$	%
GAAP gross profit and gross margin	\$1,101.5	70.5%
Share-based compensation-related charges	36.8	2.3%
Amortization expense of acquired intangible assets	23.3	1.5%
Litigation-related charges <sup>(1)</sup>	1.8	0.1%
Restructuring and other costs <sup>(2)</sup>	(1.7)	-0.1%
Non-GAAP total gross profit and gross margin	<u>\$1,161.7</u>	<u>74.3%</u>

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

<sup>(2)</sup> Consists of adjustments to restructuring and other costs.

Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	Q122		Q123	
	\$	%	\$	%
GAAP operating income (loss) and operating margin	(\$82.7)	-6.6%	\$15.2	1.0%
Share-based compensation-related charges	270.2	21.8%	278.9	17.8%
Acquisition-related costs <sup>(1)</sup>	3.1	0.2%	-	0.0%
Amortization expense of acquired intangible assets	31.6	2.5%	28.7	1.8%
Litigation-related charges <sup>(2)</sup>	1.8	0.1%	1.8	0.1%
Restructuring and other costs <sup>(3)</sup>	-	0.0%	(2.2)	-0.1%
Non-GAAP operating income and operating margin	\$224.0	18.0%	\$322.4	20.6%

<sup>(1)</sup> 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.

<sup>(2)</sup> Consists of the amortization of intellectual property licenses and covenant not to sue.

<sup>(3)</sup> Consists of adjustments to restructuring and other costs.

Fiscal year ends on July 31.



# GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q123
GAAP net income per share, diluted	\$0.06
Share-based compensation-related charges	0.87
Acquisition-related cost <sup>(1)</sup>	0.00
Amortization expense of acquired intangibles assets	0.08
Litigation-related charges <sup>(2)</sup>	0.01
Restructuring and other costs <sup>(3)</sup>	(0.01)
Non-cash charges related to convertible notes <sup>(4)</sup>	0.01
Foreign currency gain associated with non-GAAP adjustments	(0.01)
Income tax and other tax adjustments related to the above	(0.18)
Non-GAAP net income per share, diluted	\$0.83

<sup>(1)</sup> 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.

<sup>(2)</sup> Consists of the amortization of intellectual property licenses and covenant not to sue.

<sup>(3)</sup> Consists of adjustments to restructuring and other costs.

<sup>(4)</sup> Consists primarily of non-cash interest expense for amortization of debt discount and issuance costs related to the company's convertible senior notes.

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):	Q123
Net cash provided by operating activities	\$1,236.7
Less: purchases of property, equipment, and other assets	39.6
Free cash flow (non-GAAP)	<u>\$1,197.1</u>
Adjusted free cash flow (non-GAAP)	<u>\$1,197.1</u>
<i>Free cash flow margin (non-GAAP)</i>	<u>76.6 %</u>
<i>Adjusted free cash flow margin (non-GAAP)</i>	<u>76.6 %</u>

Fiscal year ends on July 31.

# Thank you

