

2019 ANALYST MEETING



September 4, 2019

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’ Q1’20 and FY’20 guidance (and related modeling points) and FY’22 & LT target operating model (and related modeling points) and its expectations regarding expected near- and long-term trends in certain financial results and operating metrics, such as non-GAAP effective tax rate, and the effects of such rates, 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, free cash flow, adjusted free cash flow, non-GAAP operating margin, billings metrics, M&A philosophy/strategy, estimated compound annual growth rates, 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 continued strong growth rates, mix shift, 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, including through deployment of new capabilities via security applications developed by third parties; 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 (SEC), including Palo Alto Networks’ most recent Quarterly Report on Form 10-Q filed with the SEC on May 30, 2019, 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 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 4, 2019. This presentation contains non-GAAP financial measures and key metrics relating to the company's past and expected future performance. We have not provided reconciliations for certain forward-looking non-GAAP guidance as it is not available without unreasonable effort.

Agenda

1 Q4'19 and Fiscal Year 2019 Results

2 Strategy/Operating Framework

3 Financial Outlook Summary

4 Q&A

5 Cocktails & Demos

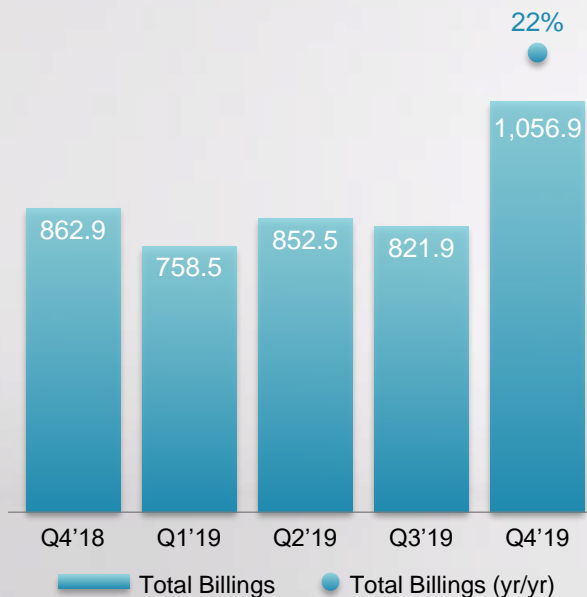
Q4'19 AND FISCAL YEAR 2019 RESULTS



Billings and Revenue

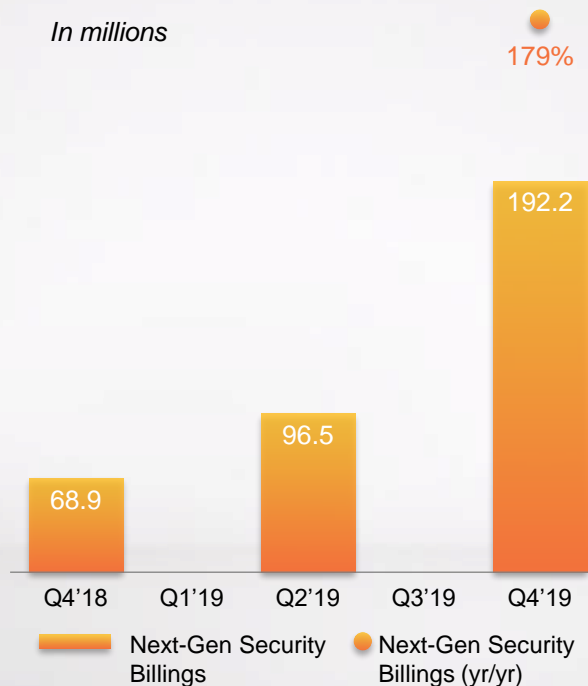
TOTAL BILLINGS¹

In millions



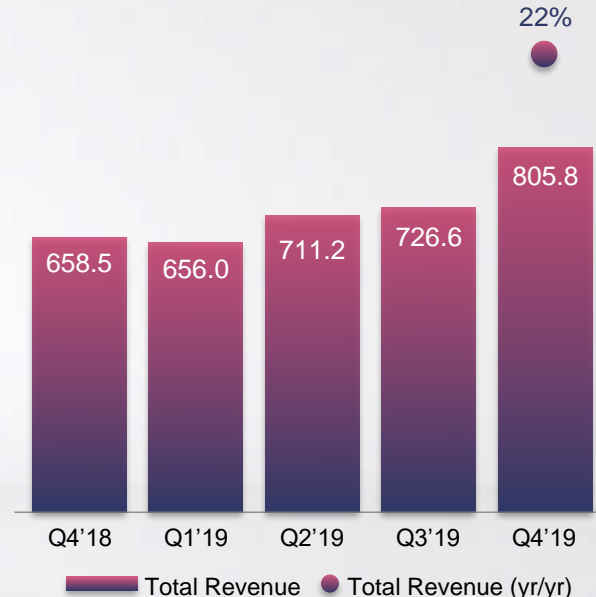
NEXT-GEN SECURITY BILLINGS²

In millions



TOTAL REVENUE

In millions



¹ 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.

² Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of VM-Series and related services. Results shown represent actual results for the period stated. Fiscal year ending on July 31.

Summary of Key Metrics

| <i>\$ In millions (except EPS)</i> | Q4'19 | FY'19 |
|------------------------------------|---------------------------|---------------------------|
| Total Billings | \$1,056.9 +22.5% yr/yr | \$3,489.8 +22.2% yr/yr |
| Revenue | \$805.8 +22.4% yr/yr | \$2,899.6 +27.5% yr/yr |
| Deferred Revenue | | \$2,888.7 +26.7% yr/yr |
| Gross Margin % (Non-GAAP) | 77.5% +130 bps yr/yr | 76.8% +60 bps yr/yr |
| Op Margin % (Non-GAAP) | 21.6% (270 bps) yr/yr | 22.0% +10 bps yr/yr |
| EPS (Non-GAAP) | \$1.47 +9.7% yr/yr | \$5.45 +29.8% yr/yr |
| Free Cash Flow (Non-GAAP) | \$178.4 | \$924.4 |
| Adjusted Free Cash Flow (Non-GAAP) | \$238.6 | \$1,065.2 |
| Employees | | 7,014 |

Note: 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). Gross margin, operating margin, EPS, free cash flow, and adjusted free cash flow presented are non-GAAP financial measures (see appendix for reconciliation to most comparable GAAP financial measure). Metrics reflect adoption of ASC 606. Fiscal year ends July 31.

Q4'19 Product Highlights



Completed Acquisitions of
Twistlock and PureSec

**Integrating into
Prisma Cloud**



Prisma Access 1.4

Support for GCP
**>100 worldwide
onboarding locations**

Clean pipe for SP



Traps 6.1

**Expanded support for
MacOS and Linux**



FedRAMP Certification
for WildFire Cloud

**Milestone shifting
government usage
towards cloud**

Q4'19 Competitive Wins



Customer: Fortune-50
US retailer for data
center and network

Competitors: Symantec
and Zscaler



Customer: European
national healthcare
provider

Competitors: Fortinet
and Zscaler



Customer: Global
insurance company

Competitors: Symantec
and CrowdStrike



Customer: APAC
government

Competitors: Cisco
and Fortinet

Continued Strength of Customer Acquisition

Customer Acquisition



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

STRATEGY/OPERATING FRAMEWORK

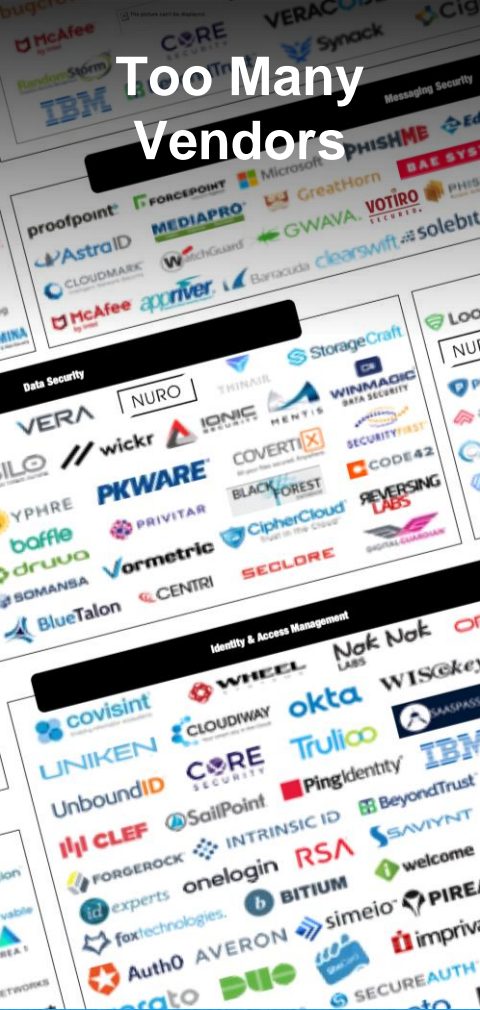
Nikesh Arora
Chairman and CEO



ASSESSING THE INDUSTRY



Too Many Vendors



Too Many Tools



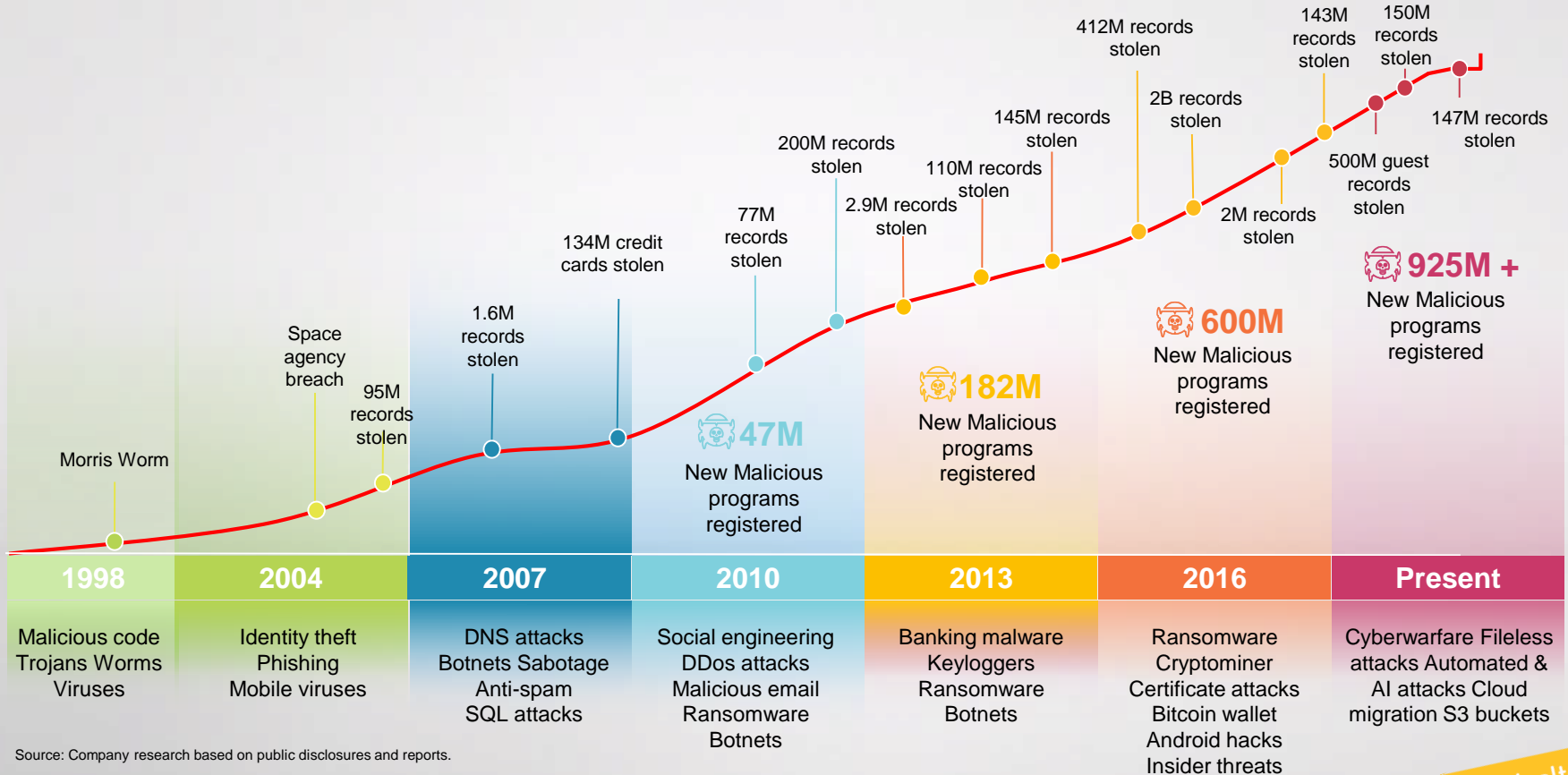
Too Many Alerts



Too Much Manual Labor



While the Threats Get More Sophisticated



Source: Company research based on public disclosures and reports.



Customers Spend More... But Feel Less Secure

Foreign cyberattack hits Los Angeles

Security Gap Leaves 885 Million Mortgage Documents Exposed 6/24/19

The New York Times

Equifax expected to settle with Numbers

U.S. Cities Are Under Attack From Ransomware — and It's Going to Get Much Worse. 6/17/19

VICE

The Washington Post

The Cybersecurity 202: Hackers just found serious vulnerabilities in a U.S. military fighter jet. 8/14/19

'Denial of service condition' disrupted US energy operations

British Airways fined \$229 million under GDPR for data breach tied to Magecart 9/8/19

cyberscoop

Even DSLR cameras are vulnerable to ransomware 8/12/19

engadget

Capital One Breach Shows a Bank Hacker Needs Just One Gap to Wreak Havoc 7/30/19

The New York Times

Customers Spend More... But Feel Less Secure

Foreign cyberattack hits Los Angeles

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The New York Times

'Denial of service condition' disrupted US energy operations

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WE NEED A NEW PARADIGM FOR SECURITY

and it's going to get much worse 6/17/19

VICE

are vulnerable to ransomware 8/12/19

engadget

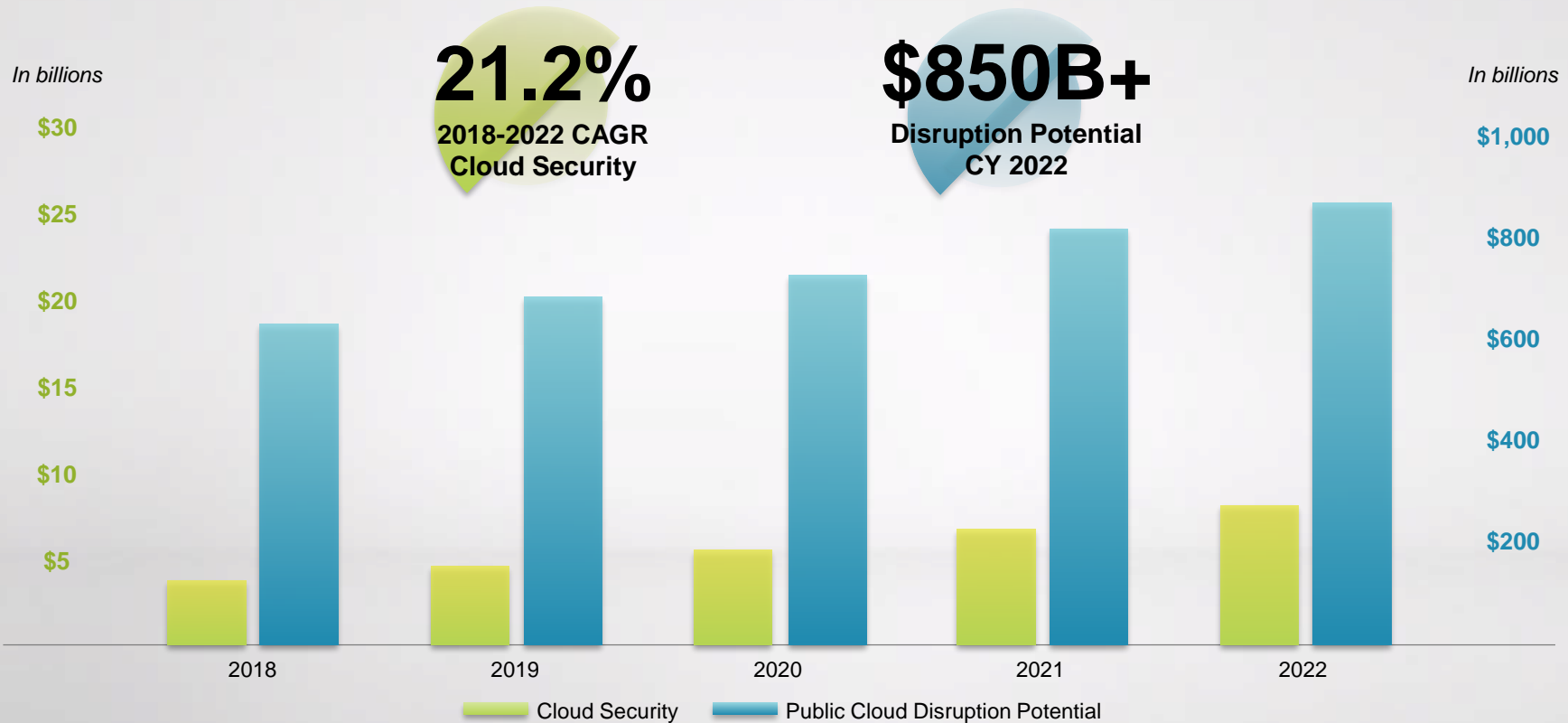
The Washington Post

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The New York Times

Cloud Security and Public Cloud Disruption Potential



Source: Goldman Sachs Global Investment Research, Cloud Quarterly – 2Q19 September 2019. Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019.
Note: Graph not to scale.

Cloud Security and Public Cloud Disruption Potential

In billions

\$30

\$25

21.2%

2018-2022 CAGR
Cloud Security

\$850B+

Disruption Potential
CY 2022

In billions

\$1,000

\$800

**WE HAVE AN OPPORTUNITY
TO DO CLOUD SECURITY RIGHT**

\$10

\$5

\$400

\$200

2018

2019

2020

2021

2022

Cloud Security

Public Cloud Disruption Potential

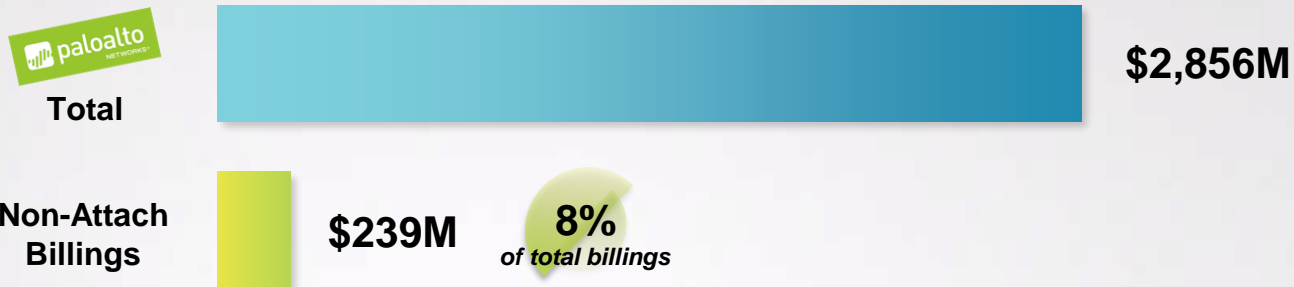
Source: Goldman Sachs Global Investment Research, Cloud Quarterly – 2Q19 September 2019. Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019.
Note: Graph not to scale.

PALO ALTO NETWORKS THE LAST 12 MONTHS

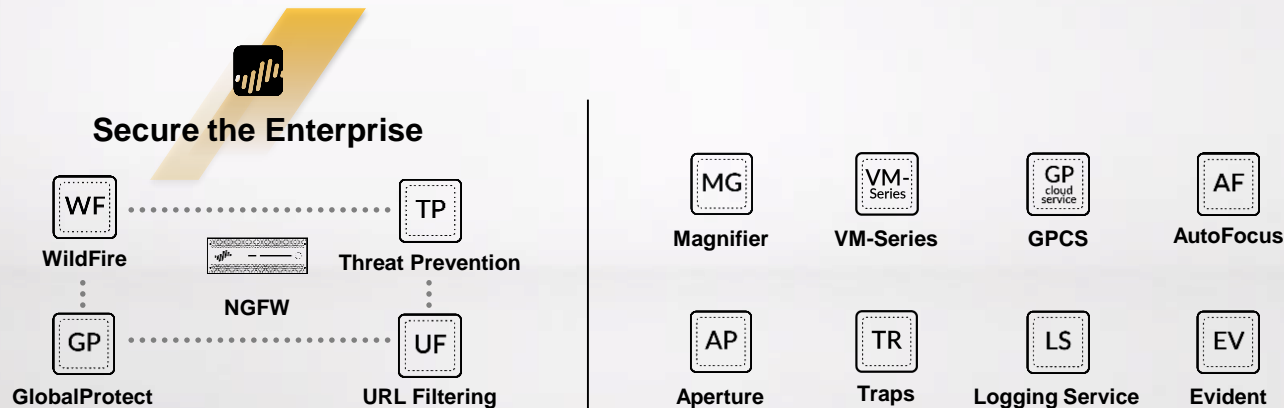


Palo Alto Networks in FY'18

Billings



Product Portfolio



Notes: 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). Non-attach billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings, inclusive of VM-Series and related services. Results shown represent actual results for the period stated. Fiscal year ends July 31.



FY'19 Focus



Secure the Enterprise

Product

Fastest NGFW at 1TB/sec
Reinvigorated subscriptions with DNS Security

Go-to-Market

Increased sales coverage
Enhanced NextWave partner program



Secure the Cloud

Established Prisma Cloud for container, workload, serverless security
Prisma Access on 100+ locations with industry-first features

Grew salespeople by ~4x
Prisma Cloud reached ~1,000 customers



Secure the Future

Leapfrogged the SOC industry with Demisto automation
Cortex XDR leads MITRE security test results

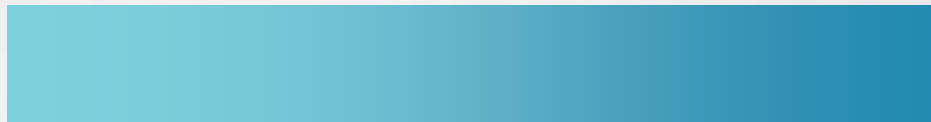
Demisto nearly doubled plan in first full quarter
Added ~250 Cortex XDR customers since launch

Palo Alto Networks in FY'19

Billings



Total



\$3,490M
22% yr/yr



PRISMA



CORTEX

Next-Gen Security



\$452M
89% yr/yr

8%
of FY'18 total
billings

13%
of FY'19 total
billings

Added:
500+ Engineers
250+ Salespeople

Product Portfolio



Secure the Enterprise

NGFW
5 Subscriptions



Secure the Cloud

Prisma Cloud
Prisma Access



Secure the Future

Cortex XDR
Demisto

Notes: 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). Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings, inclusive of VM-Series and related services. Results shown represent actual results for the period stated. Fiscal year ends July 31.



OUR OPPORTUNITY

Secure the Enterprise

Simplify enterprise security with the firewall as a trusted platform

Obviate the need for future network appliances

Secure the Cloud

Build on our early lead in cloud security

Ensure we don't end up with fragmented solutions that don't talk to each other

Deliver a comprehensive, multi-cloud, multi-platform integrated security solution both for cloud security and new cloud-based network architectures

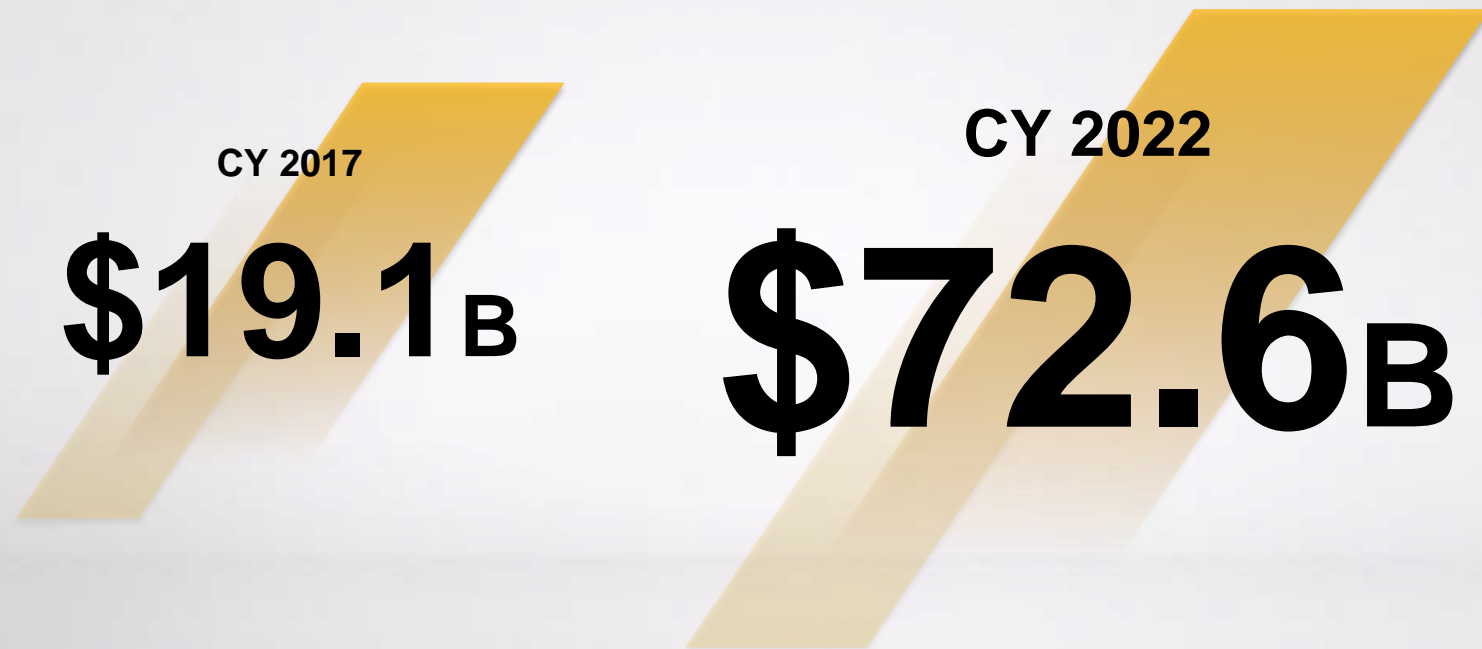
Secure the Future

Use good data, and good analytics to solve alert fatigue

Reduce time to respond through automation

Enhance the security posture of our customers

Our Efforts in FY'19 Have Enabled Our TAM Expansion



2017 Source (As presented at Analyst Meeting 2017):

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

2022 Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019

PALO ALTO NETWORKS PRODUCT STRATEGY

ONE WAY



paloalto
NETWORKS®

**SECURE
THE ENTERPRISE**

**SECURE
THE CLOUD**

**Palo Alto
Networks
Strategy**

**SECURE
THE FUTURE**

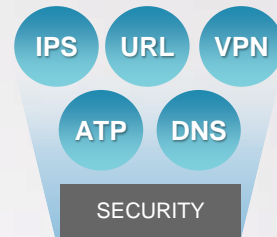
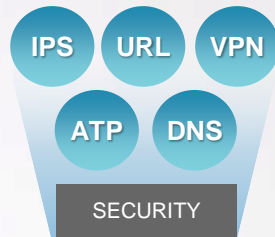
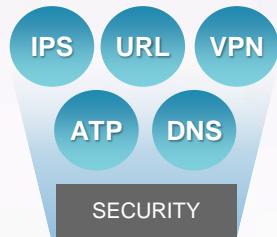
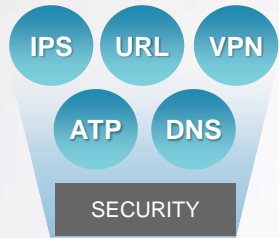
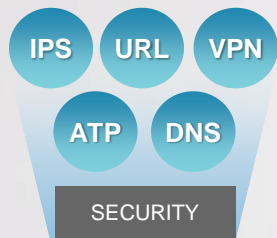


**SECURE
THE ENTERPRISE**



**Palo Alto
Networks
Strategy**

Inline Security is Expanding Across the Enterprise



DATACENTER



CLOUD



HEADQUARTERS



REMOTE
BRANCHES



MOBILE
USERS

Following Functionality Needed in Any Computing Architecture

Network-based Security (IPS, URL, DNS, + many more)

ATP

DNS

ATP

DNS

ATP

DNS

ATP

DNS

ATP

DNS

Access Enforcement for All Users and All Apps

More Security in Fewer Inline Devices

The background features a complex, abstract network diagram with various nodes and connecting lines in shades of blue, purple, and red. The lines are of varying thickness and some have a glowing effect. The overall aesthetic is futuristic and technical.

THE NEXT-GENERATION FIREWALL CONTINUES TO EVOLVE

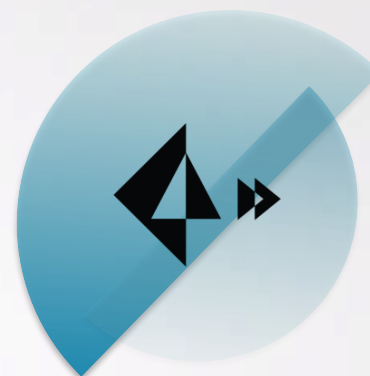
We Deliver Best-In-Class Security Across All Form Factors



Hardware



Software



As a Service

Common Control Plane

Firewall as a Platform - Simplifying and Integrating Security

2007

2010

2011

2019



Threat
Prevention



URL
Filtering



Global-
Protect



WildFire



DNS
Security

**Consistent Across All Form Factors
(Hardware, Software, As a Service)**

Firewall as a Platform - Simplifying and Integrating Security

2007

2010

2011

2019

2020-22



Threat
Prevention



URL
Filtering



Global-
Protect



WildFire



DNS
Security



IoT + 5-10 more

**Consistent Across All Form Factors
(Hardware, Software, As a Service)**

The Next Subscription: IoT

Unpatched Flaws in IoT Smart Homes to Danger

**IOT SECURITY
NO CAVALRY**



techradar.

Fancy Bear hackers used IoT devices to hack corporate networks

Researchers Demo Single Home for RCE

How a fish tank helped Even DSLR cameras
hack a casino

threat **post**

Japanese government plans to hack into citizens' IoT devices



Enterprise IoT: A Huge Untapped Opportunity



Secure the Enterprise: Expanding TAM

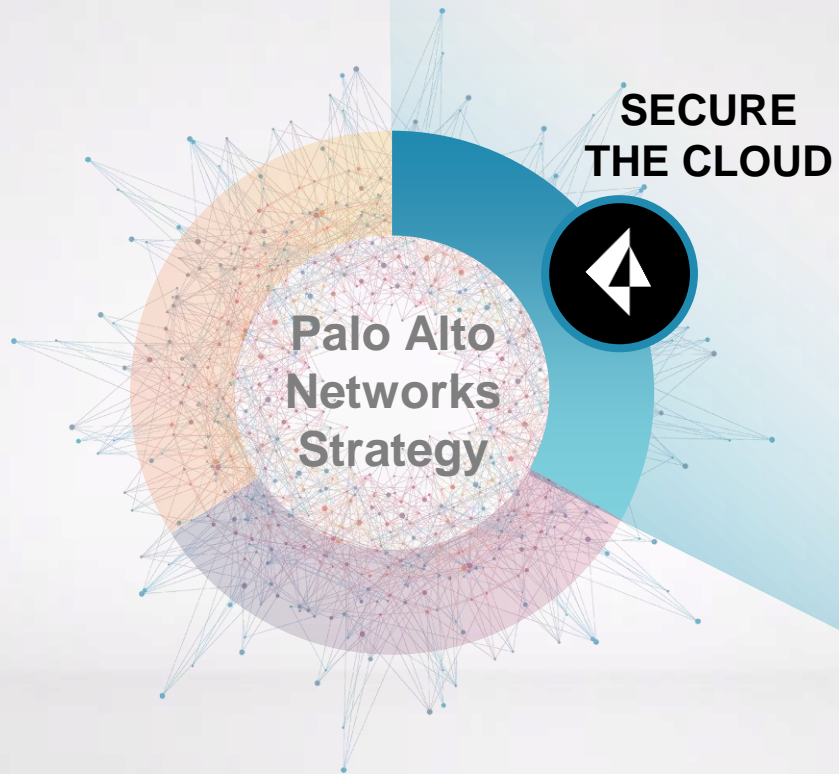
NETWORK SECURITY TAM 2022

\$26.5_B

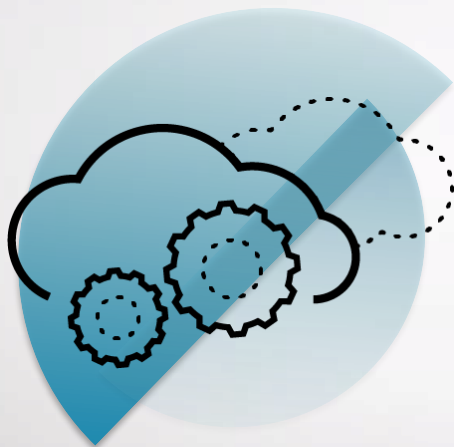
AUTOMATION OPPORTUNITY TAM 2022

\$14.1_B

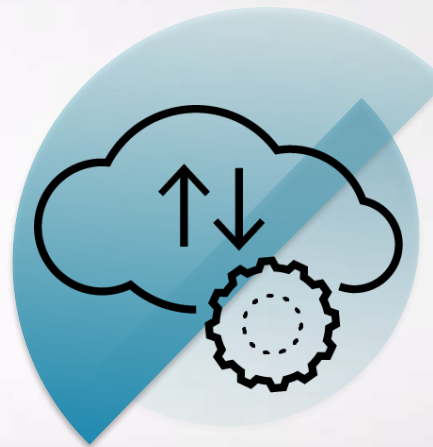
Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019 and internal PANW estimate.



Two-Pronged Strategy to Secure the Cloud



**Securing everything
that runs in the cloud**



**Securing access
to the cloud**



What Runs in the Cloud is the Customer's Responsibility



Customer

Responsible for
security "in" the cloud

Data Security

Host Vulnerabilities

Network Traffic

User Activities

Resource Configurations



Cloud Service Provider

Responsible for
security "of" the cloud

Compute

Storage

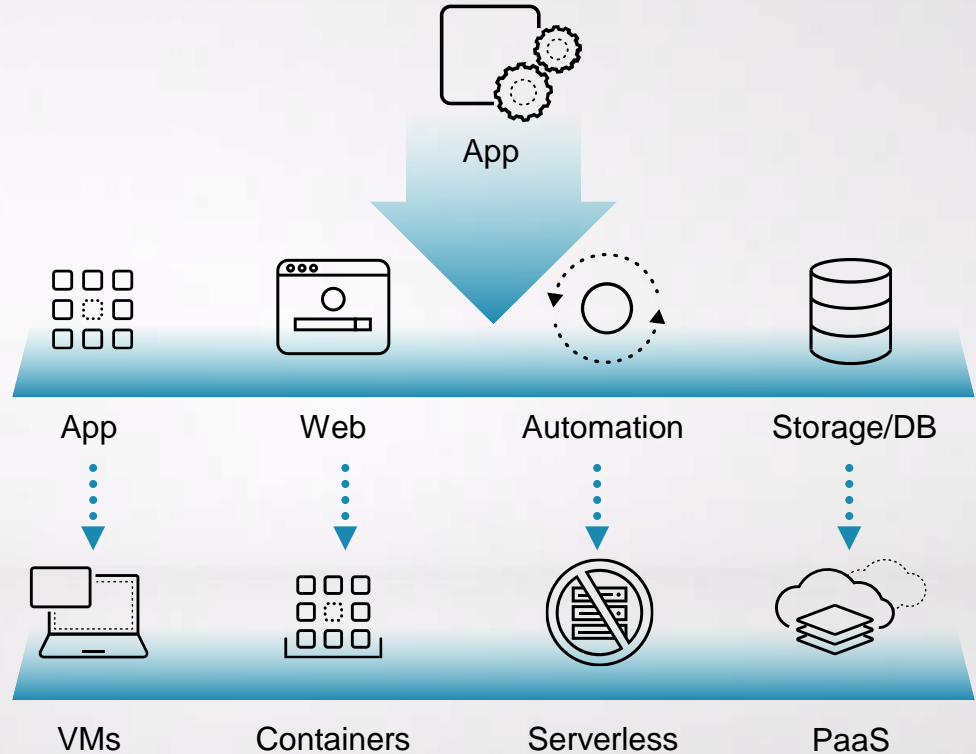
Networking

Securing a Cloud-Native App Requires Cloud-First Security

To Build an App

You Need Many Components

Running on Different Tech Stacks



Many Security Requirements Across Every Cloud Technology



Vulnerability management



Config & compliance monitoring



Runtime Security



Network Security



Data Protection



Automated Response



VMs



Containers

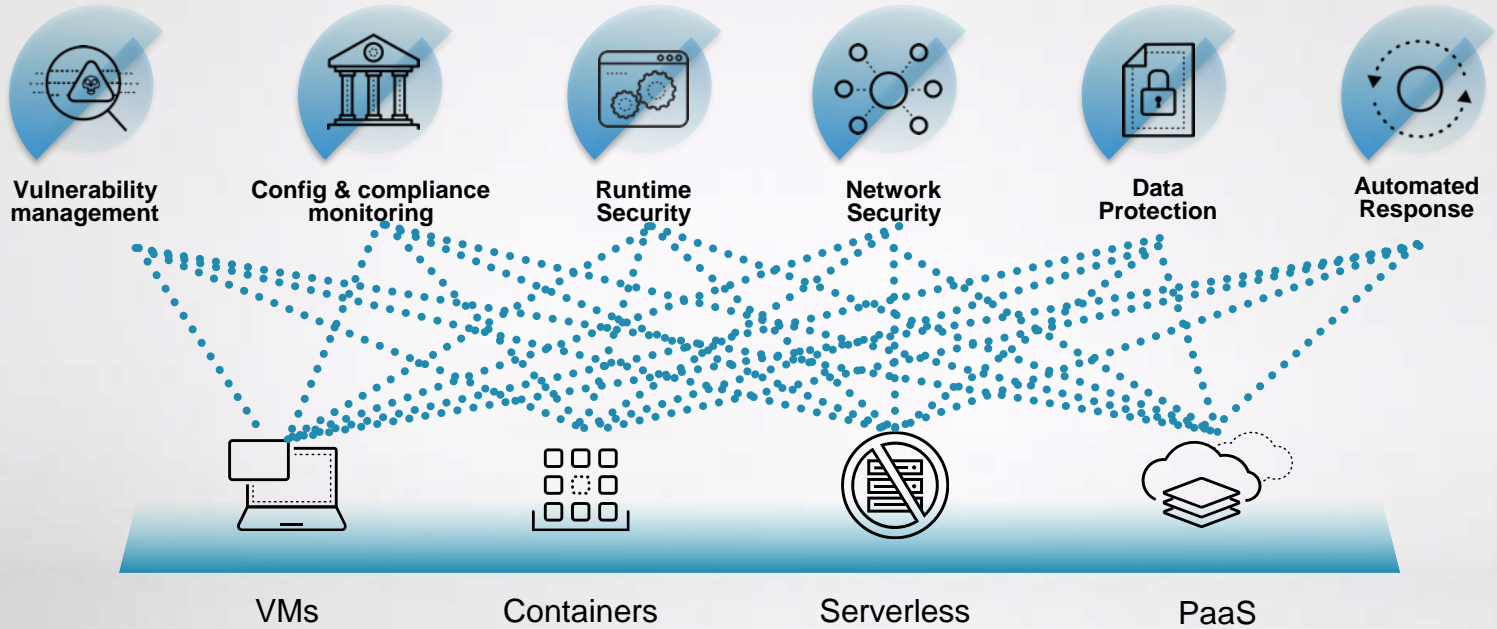


Serverless



PaaS

We Are at Risk of Repeating the Sins of the Past



Every Line = Another Point Product



PRISMA™
CLOUD

Prisma Cloud: The Most Comprehensive Platform

Today and In the Future



Vulnerability management



Config & compliance monitoring



Runtime Security



Network Security

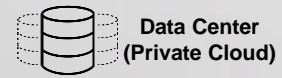


Data Protection



Automated Response

Across CI/CD, VMs, containers, serverless and PaaS



Prisma Cloud: The Most Comprehensive Platform

Today and In the Future



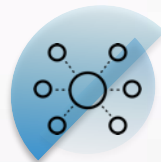
Vulnerability management



Config & compliance monitoring



Runtime Security



Network Security



Data Protection

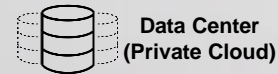


Automated Response



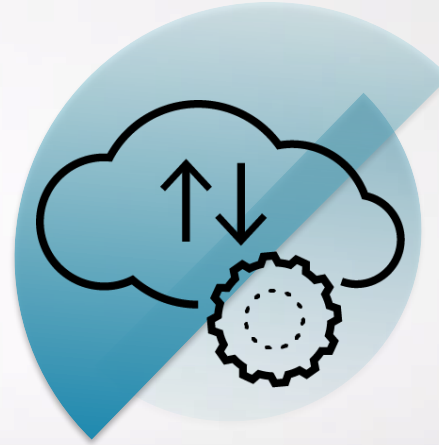
More to Come

Across CI/CD, VMs, containers, serverless and PaaS





**Securing everything
that runs in the cloud**



**Securing access
to the cloud**

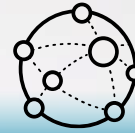
Cloud Is Driving a Network Transformation



Data Center



Public Cloud



Internet



SaaS



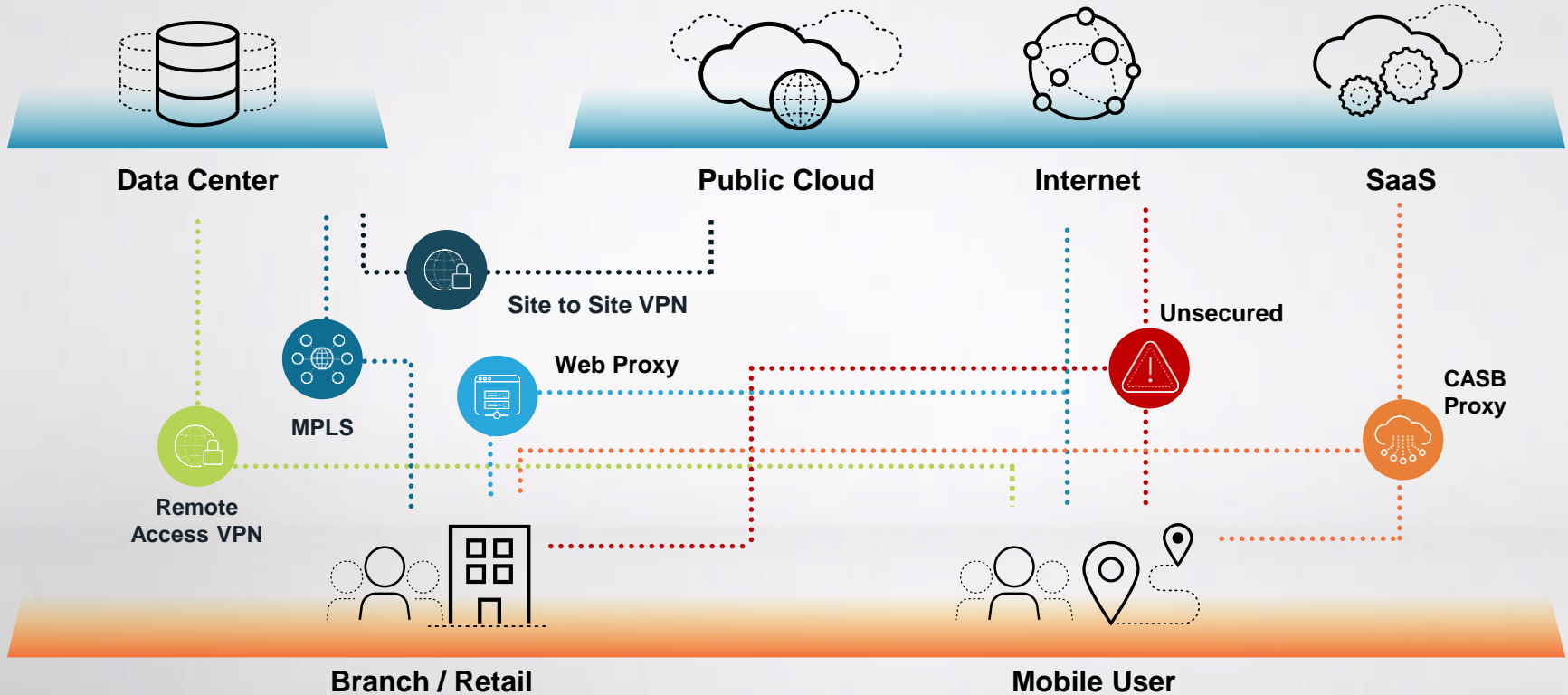
Branch / Retail



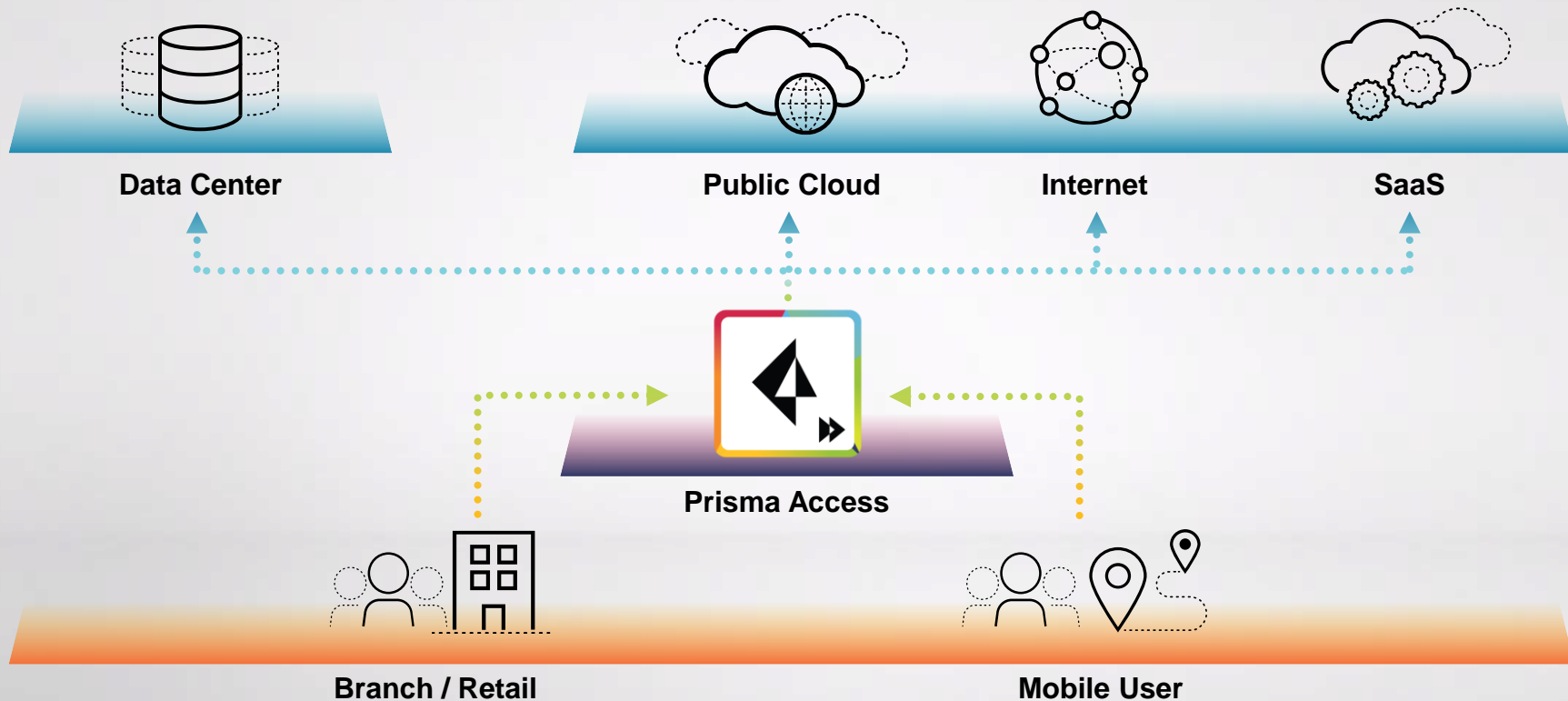
Mobile User



And Traditional Security Is Ineffective



Prisma Access: the Right Approach to Secure Access to the Cloud



Secure the Cloud: Expanding TAM

CLOUD SECURITY TAM 2022

\$7.8B

AUTOMATION OPPORTUNITY TAM 2022

\$4.1B

Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019 and internal PANW estimate.

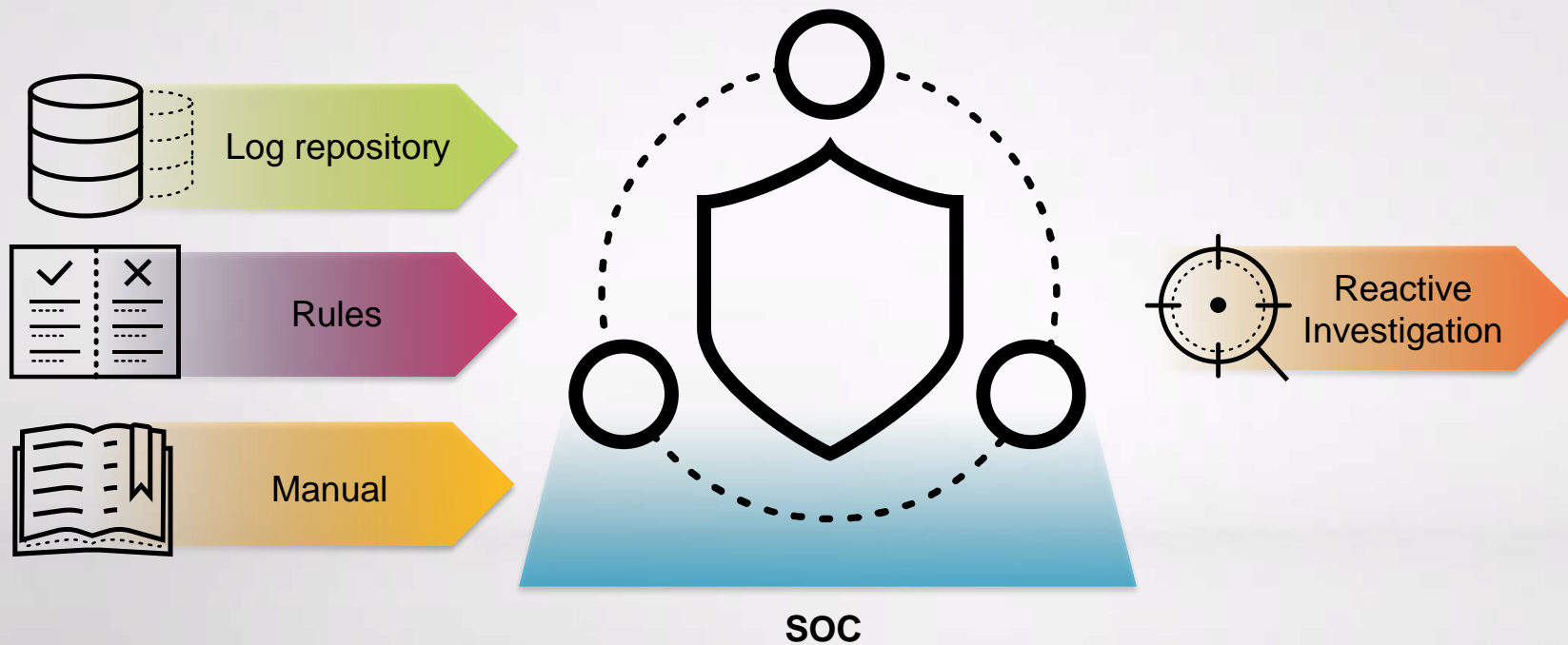


**Palo Alto
Networks
Strategy**

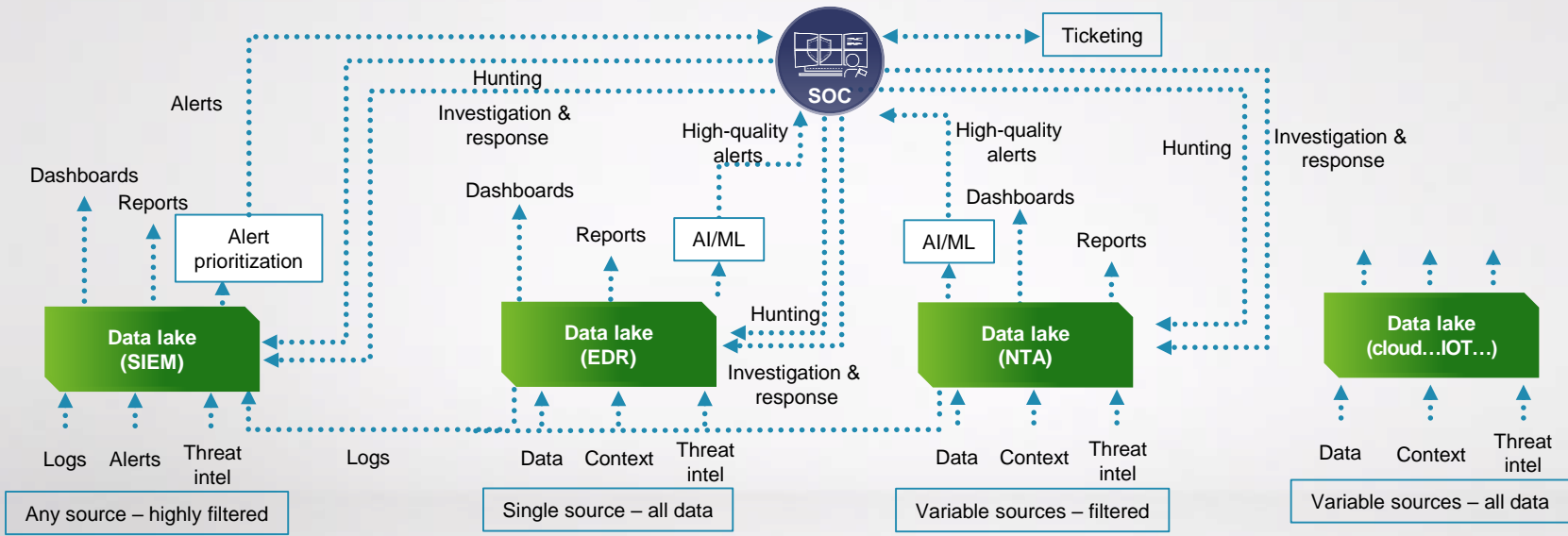


**SECURE
THE FUTURE**

Traditional Approach to the SOC Isn't Working



Attempts to Address Gaps Result in Even More Complexity



Which Result In Even More Alerts

174,000

Alerts per week

12,000

Alert capacity to review

4+

Days to investigate

Source: Demisto State of SOAR Report 2018. <https://go.demisto.com/hubfs/Resources/2018%20SOAR%20Report/SOAR%20Report%202018.pdf>

Securing the Future Requires a New Approach



Good Data: Key Ingredient for AI/ML Analytics



GOOD DATA

Now

- Next-gen firewall
- Traps endpoint
- Prisma Access/VM

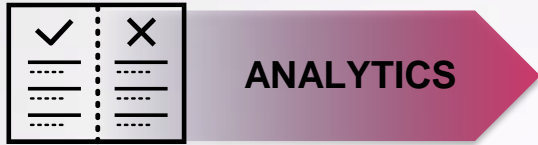
Future

- Will have all good data for analytics & security automation



Announcing 3rd party data ingestion in Cortex

Cross-Source Analytics Key to Reducing Noise



Now

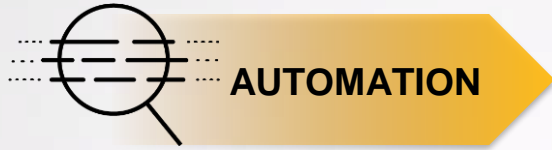
- Up to 50X alert reduction
- Up to 8X faster investigations
- Multi-source data stitching

Future

- Aspiring to further reduce alerts and speed investigations by another order of magnitude



Automation Drives Much Better Outcomes



Now

- Up to 20x alert reduction
- Up to 90% improved response time

Future

- Predictive automation



Closing the Loop With Next-Generation Endpoint Protection



Now

- 160MB/day per endpoint
- Leading MITRE security results

Future

- Further agent consolidation

Cortex: Unique Approach to the SOC



Secure the Future: Expanding TAM

ENDPOINT PROTECTION, ANALYTICS
& AUTOMATION TAM 2022

\$13.1_B

AUTOMATION OPPORTUNITY TAM 2022

\$7.0_B

Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019 and internal PANW estimate.

**STRONG ABILITY
TO EXECUTE**

 **paloalto**
NETWORKS®

Addressing a Larger TAM Through Expanded Offerings

Network
\$26.5_B

6.9% CAGR

2022

\$72.6_B

9.2% CAGR

CY'18-CY'22

Cloud
\$7.8_B

21.2% CAGR

Endpoint Protection, Analytics
& Automation TAM 2022

\$13.1_B

10.2% CAGR

Future Security
Automation

\$25.2_B

8.4% CAGR

Source: Gartner Forecast: Information Security, Worldwide, 2017-2023, Q219 Update; June 2019

Leveraging Customer Scale to Deliver Comprehensive Security

3 Security Platforms

~65K Customers

Adding 10K+ Customers Per Year Since FY'18

3K+

Sales & Marketing
Employees

4K+

Partners

150+

Countries

Best Execution Team in Cybersecurity

Hired

~2K

Cyber Professionals

From

19

Cloud & Next-Gen
Companies

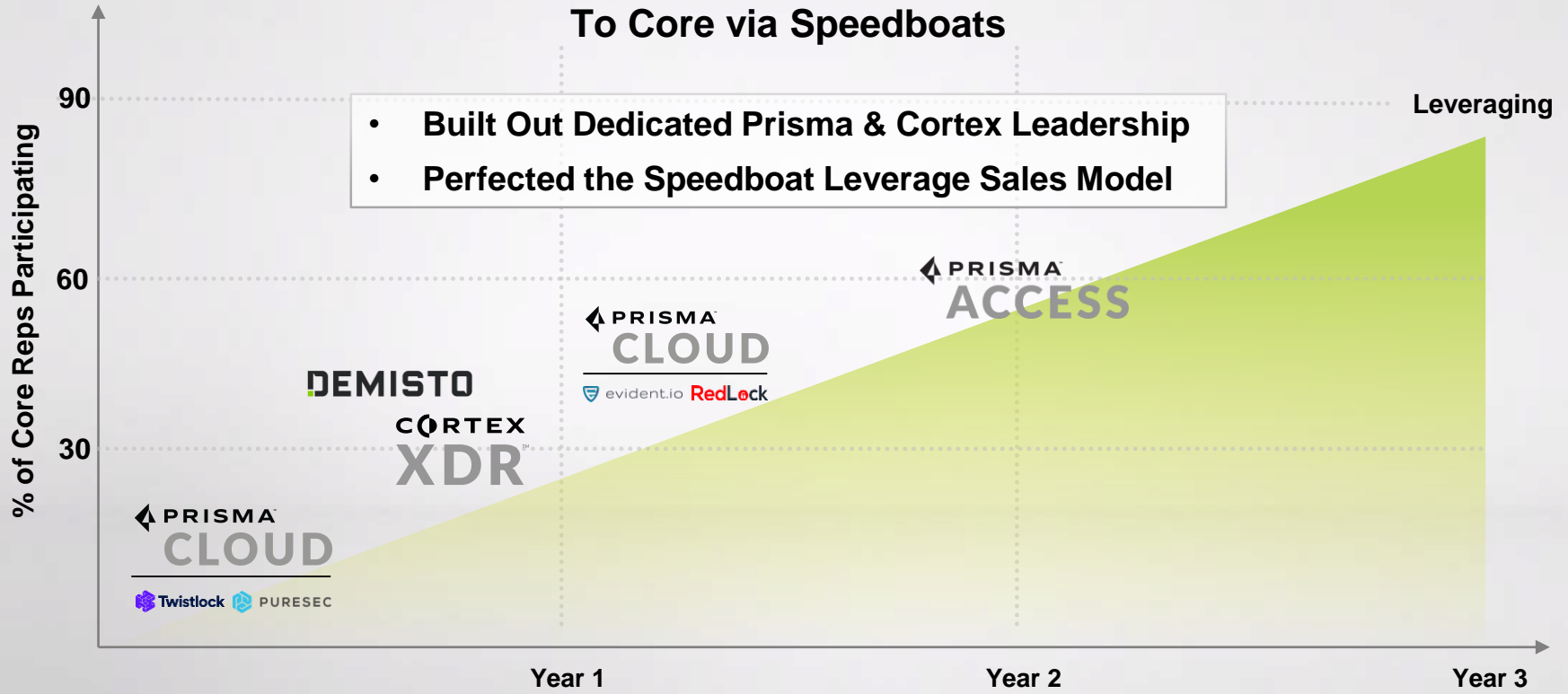
Cross-trained

3K

Palo Alto Networks
Employees in
Cloud Security

We Are the Employer of Choice In Our Space

Established Dedicated Speedboat Teams and Building an Enterprise Deployment Model at Scale To Core via Speedboats



Consistently Lead Industry Benchmarks on Customer Success and Satisfaction



4
YEARS IN A ROW



CSAT consistently above 90% | 74 NPS

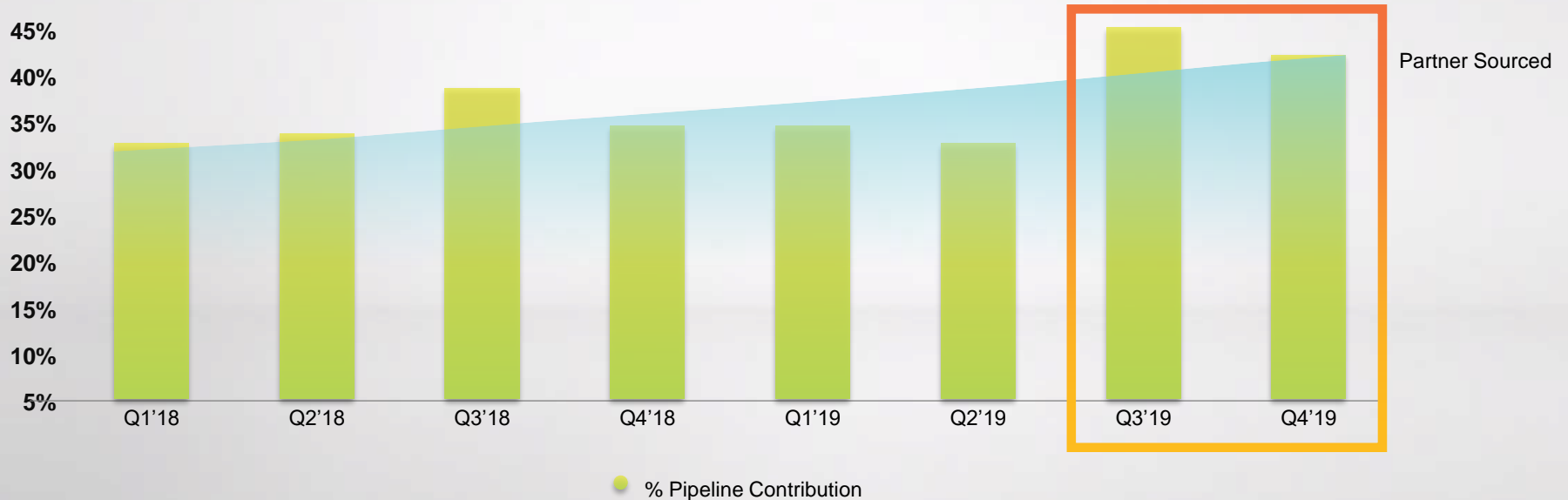
Introducing an Industry First: Security Incident Assurance

Greater automation | Assisted investigations | Log & IOC analysis

Palo Alto Networks, Inc. North America Assisted Support has been recognized by J.D. Power for providing outstanding customer service for its assisted technical support J.D. Power 2016 Certified Assisted Technical Support Program, developed in conjunction with TSIA. Based on the successful completion of an audit and exceeding a customer satisfaction benchmark for assisted support operations.
2018 TSIA/JD Power awards; CSAT & NPS scores Medallia (February - August 2019)

Leveraging Our Excellent Partner Ecosystem

- Enhanced partner program
- Implemented programs to drive partner profitability and sales alignment



Fiscal year ends July 31.

FINANCIAL OUTLOOK

We're not
scientists,
but we totally
got space.

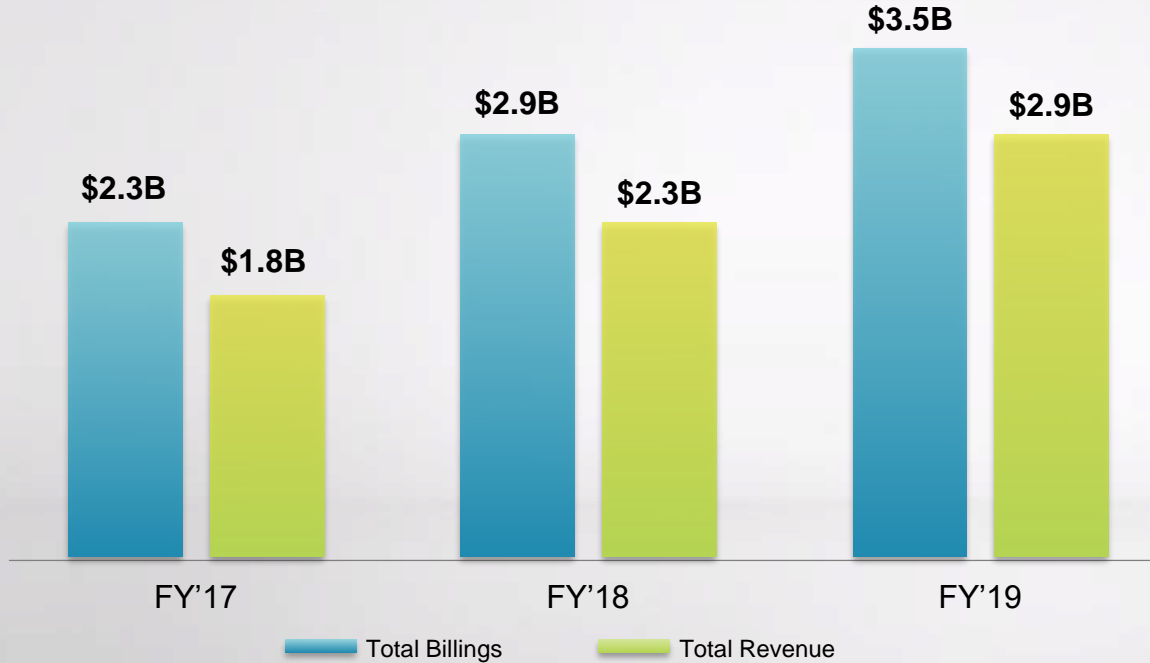
Expand your address.
ManhattanMiniStorage.com

Manhattan
mini storage



paloalto
NETWORKS®

Track Record of Market Leading Growth



FY'17–FY'19

Total Billings CAGR

24%

Total Revenue CAGR

29%

Product Revenue CAGR

24%

Note: Total billings is a key financial metric calculated as total revenue plus the change in total deferred revenue, net of total acquired deferred revenue, during the stated period. See appendix for calculation. All periods reflect adoption of ASC 606. Fiscal year ends July 31.

Expect to Deliver Strong Topline Growth Through FY'22



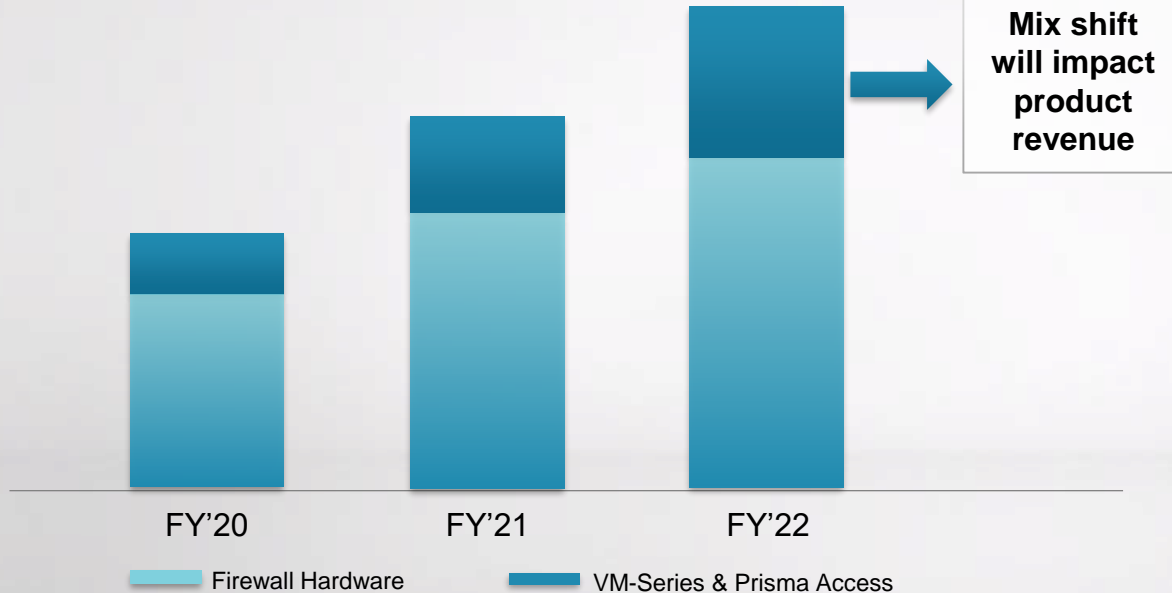
Note: Total billings is a key financial metric calculated as total revenue plus the change in total deferred revenue, net of total acquired deferred revenue, during the stated period. See appendix for calculation. All periods reflect adoption of ASC 606.

Fiscal year ends July 31.

* Forward-looking estimates.

Firewall Platform Billings Growth Continues to Outpace Market

Firewall as a Platform Billings



FY'17–FY'19

Billings CAGR
27%

FY'19–FY'22

Billings CAGR
~23%*

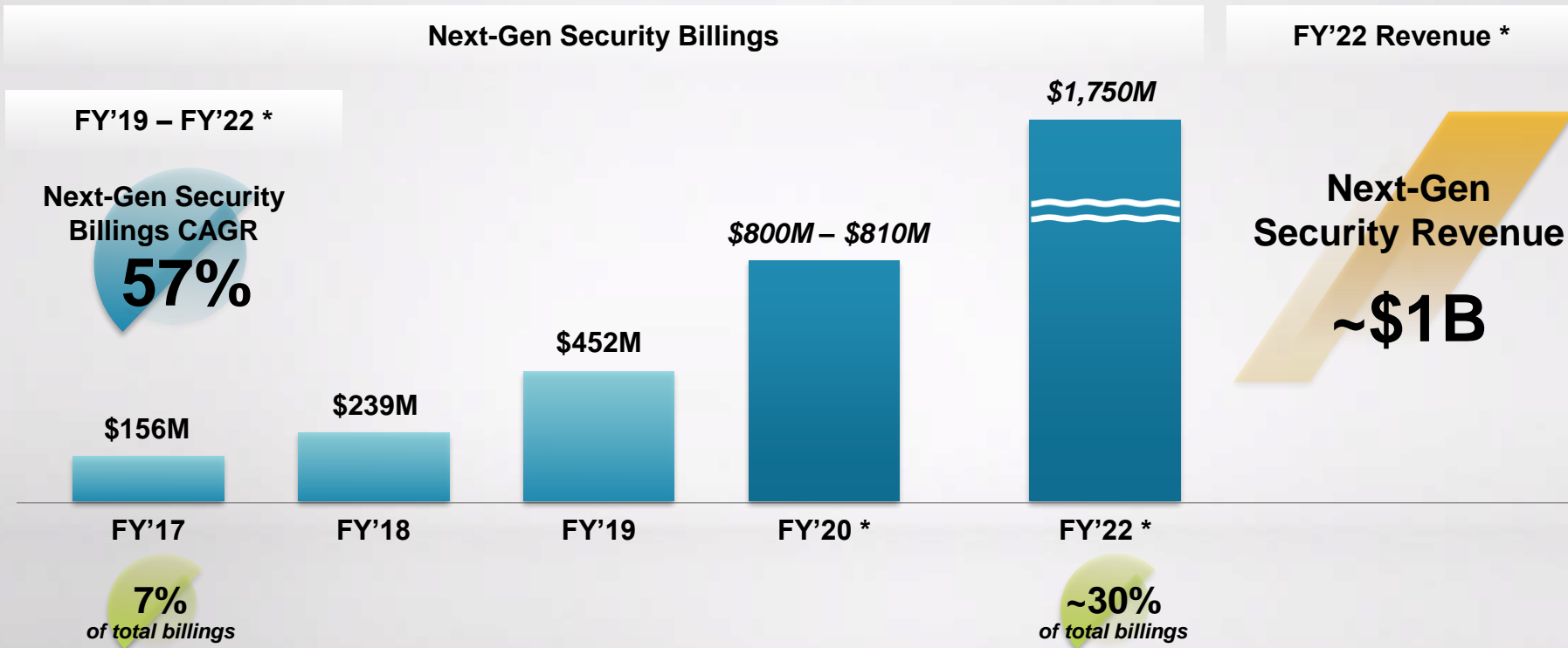
Notes: Firewall as a platform billings is a key financial metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and ratable portion of VM-Series offering, during the period stated. Product billings is a key financial metric calculated as total product revenue plus the change in total product deferred revenue, net of acquired product deferred revenue, during the stated period (see appendix for calculation). All periods reflect adoption of ASC 606. Fiscal year ends July 31.
Graph not to scale.

* Forward-looking estimates.

Expect Next-Gen Security to Reach Billings of \$1.75B by FY'22

Next-Gen Security Billings

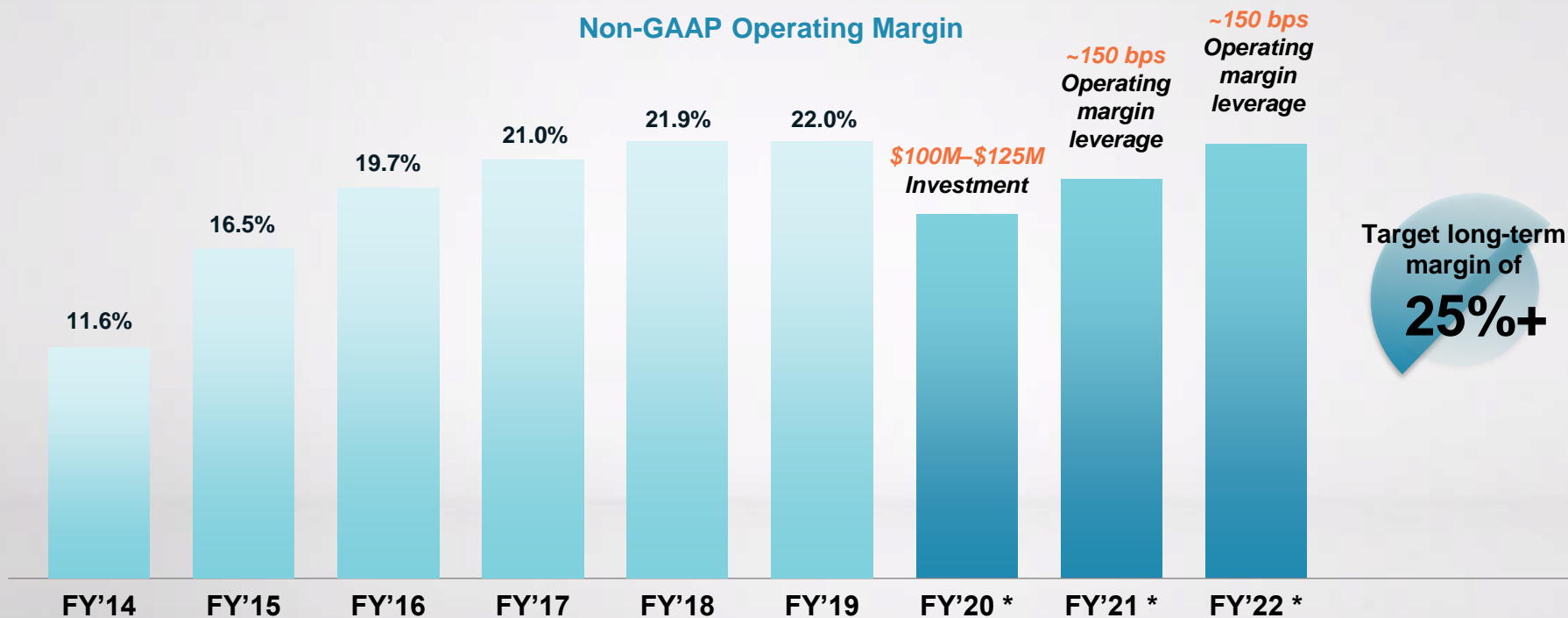
FY'22 Revenue *



Note: Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of VM-Series and related services. All periods reflect adoption of ASC 606. Total billings is a key financial metric calculated as total revenue plus the change in total deferred revenue, net of total acquired deferred revenue, during the stated period (see appendix for calculation). Fiscal year ends July 31.

* Forward-looking estimates.

Expect Operating Margin Leverage in FY'21 and FY'22

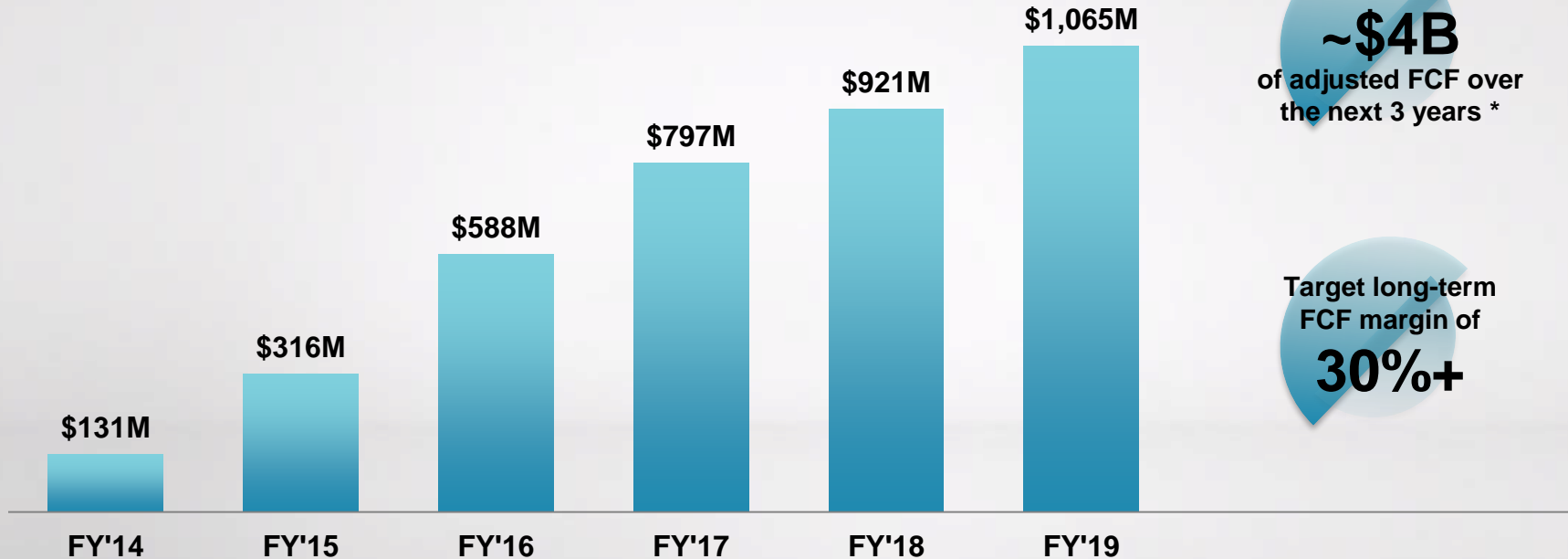


Note: Operating margin presented is a non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure for FY'14-'19. Metrics presented for FY'14 – FY'16 reflect ASC 605, adjusted for deferred commissions recast. Metrics reflect adoption of ASC 606 beginning FY'17 and forward. A reconciliation of forward-looking non-GAAP operating margin to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort. Investment in FY'20 of \$100M – \$125M is incremental to approximately \$45M in net expenses related to our recent acquisitions. Operating margin leverage in FY'21-FY'22 is “organic”, which excludes contribution from M&A activity. Fiscal year ends July 31.

* Forward-looking estimates.

Expect Cash Flow Profile to Improve Through FY'20 – FY'22

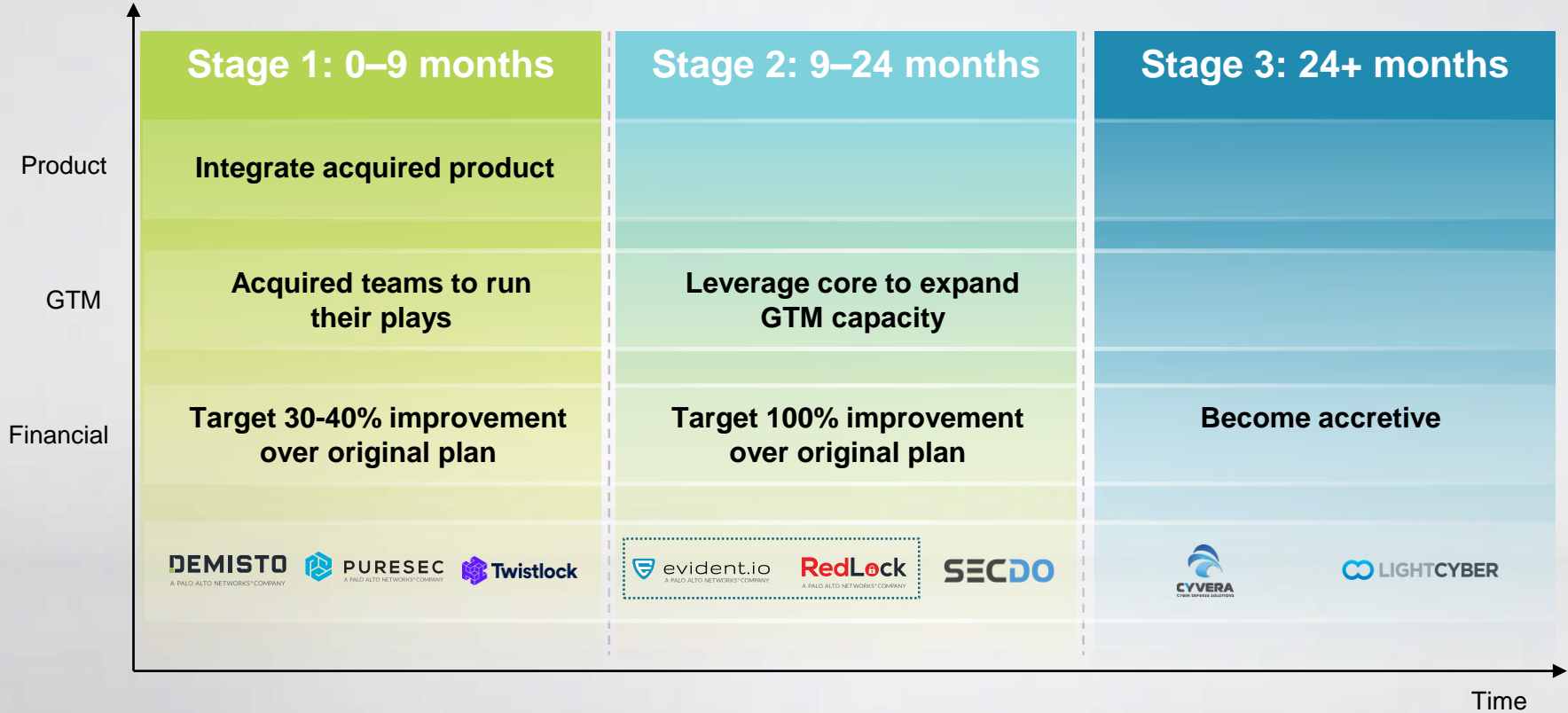
Adjusted Free Cash Flow



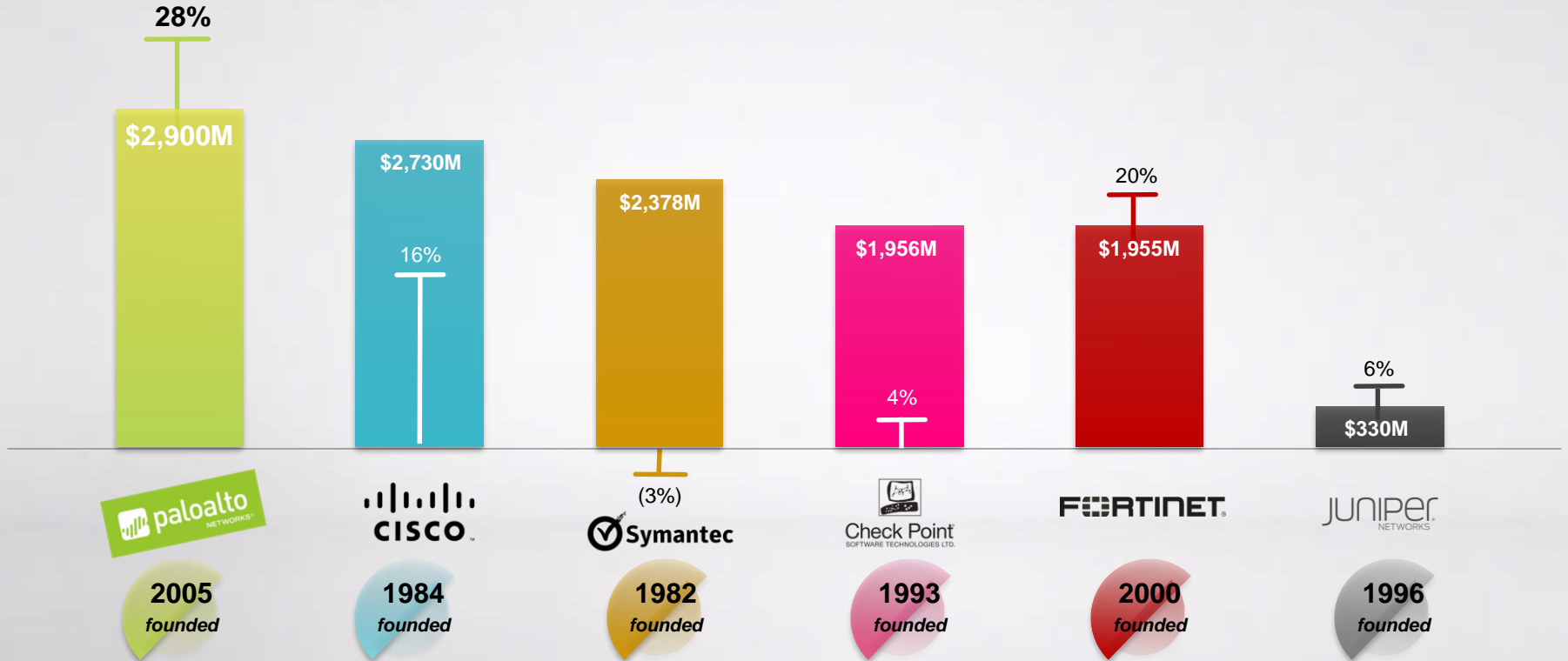
Note: Adjusted free cash flow and adjusted free cash flow margin are non-GAAP financial measures. See appendix for reconciliation to most comparable GAAP financial measure for FY'14-FY'19. A reconciliation of forward-looking non-GAAP adjusted free cash flow to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort. Fiscal year ends July 31.

* Forward-looking estimate.

Using Our Cash - M&A Philosophy in Action



Largest and Fastest Growing Enterprise Security Company at Scale

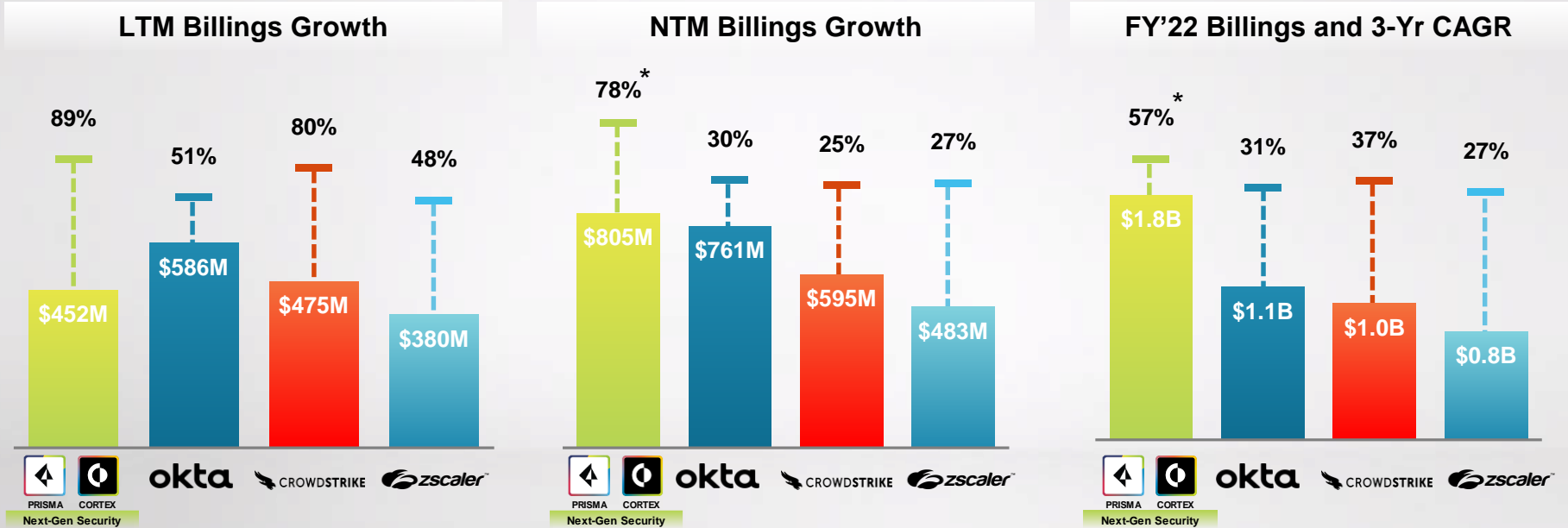


Source: Company publicly filed information per www.sec.gov.

Note: Metrics shown represent LTM revenues and LTM revenue growth for PANW and enterprise security peers. Cisco and Juniper revenue represent Security segments, and Symantec revenue represents Enterprise Security segment. LTM as of last reported quarter.



Becoming the Largest and Fastest Growing In Next-Gen Security

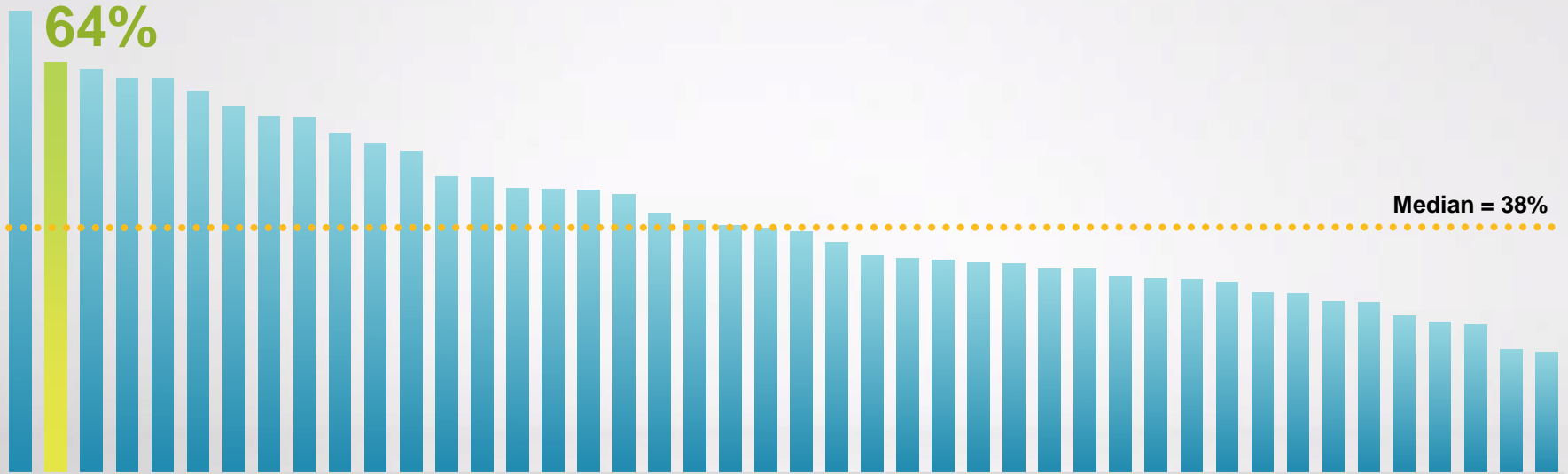


Source: Company public filings per www.sec.gov. Estimates per Factset.

LTM billings presented reflect the LTM period ending 7/31/19. Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of VM-Series and related services. Okta LTM billings are based on publicly reported results. Zscaler LTM billings is based on publicly reported results for quarters ended 7/31/18, 10/31/18, and 1/31/19, and Factset Consensus, as of 8/31/19, for the quarter ended 7/31/19. CrowdStrike billings is calculated as total revenue plus the change in total deferred revenue. CrowdStrike LTM billings and LTM billings growth are based on publicly reported results, estimates from analyst research, and Factset Consensus, as of 8/31/19. NTM billings reflect the NTM period ending 7/31/20. NTM billings for Okta, CrowdStrike, and Zscaler are based on Factset Consensus, as of 8/23/19. FY'22 billings and 3-Yr CAGR for Next-Gen Security is based on the fiscal year ending 7/31/22. FY'22 billings and 3-Yr CAGR for Okta, CrowdStrike, and Zscaler are based on Factset Consensus, as of 8/23/19, for the fiscal years ending 1/31/22, 1/31/22, and 7/31/22, respectively.

* Forward-looking estimates.

Best-In-Class Revenue Growth & Adjusted FCF Margin



Source: Factset and company filings.

Note: Metric shown represents LTM revenue growth plus free cash flow margin for top 45 technology firms with revenues greater than \$1B. Peer set includes technology companies with greater than \$1B in LTM revenue. Peer set metrics represent LTM as of most recent reported quarter. PANW metric represents LTM as of July 31, 2019. PANW metric calculated using adjusted free cash flow margin. Adjusted free cash flow and adjusted free cash flow margin are non-GAAP financial measures. See appendix for reconciliation to most comparable GAAP financial measure.



Palo Alto Networks in FY'22

- 1** **FY'19 – FY'22 20% CAGR** for total billings and total revenue
- 2** **~\$6B** total billings and **~\$5B** total revenue by FY'22
- 3** **\$1.75B** billings and **~\$1B** revenue for next-gen security by FY'22
- 4** **21%-22%** operating margin in FY'22, with long-term target of **25%+**
- 5** Generate **~\$4B** in FCF by FY'22

Note: Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex offerings inclusive of VM-Series and related services. All periods reflect adoption of ASC 606. Total billings is a key financial metric calculated as total revenue plus the change in total deferred revenue, net of total acquired deferred revenue, during the stated period. Operating margin and free cash flow are non-GAAP financial measures. A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measure, and calculation of forward looking key financial metrics, have not been provided as it is not available without unreasonable effort. Fiscal year ends July 31. *Forward-looking estimates.*

FINANCIAL OUTLOOK

Kathy Bonanno
CFO



Q1'20 and FY'20 Guidance

| | Q1'20 | FY'20 |
|----------------------------|---------------------------------------|---|
| Total Billings | \$875M–\$890M <i>15%–17% yr/yr</i> | \$4,095M–\$4,155M <i>17%–19% yr/yr</i> |
| Next-Gen Security Billings | | \$800M–\$810M <i>77%–79% yr/yr</i> |
| Total Revenue | \$760M–\$770M <i>16%–17% yr/yr</i> | \$3,440M–\$3,480M <i>19%–20% yr/yr</i> |
| EPS (Non-GAAP) | \$1.02–\$1.04 | \$5.00–\$5.10 |
| Adj. FCF Margin (Non-GAAP) | | ~30% |

Notes: 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. Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period for Prisma and Cortex, inclusive of VM series and related services. Metrics reflect adoption of ASC 606. EPS and adjusted free cash flow margin are non-GAAP financial measures. 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.

Additional Modeling Points for Q1'20 and FY'20

| | Q1'20 | FY'20 |
|-----------------------------------|--|--|
| Capex | ~\$60M <i>~\$30M related to HQ</i> | \$170M–\$180M <i>~\$50M related to HQ</i> |
| Net Impact to Op. Income from M&A | \$10M–\$12M <i>~\$0.08–\$0.09 impact to EPS</i> | ~\$45M <i>~\$0.34 impact to EPS</i> |
| Share Count | 99.5–101.5M shares | 102–104M shares |
| Non-GAAP Tax Rate | ~22% | ~22% |

Note: EPS, share count, and tax rate presented are non-GAAP financial measures. 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. Forward-looking non-GAAP tax rate estimate does not incorporate the impact of potential tax law changes or any estimates for the ultimate disposition of uncertain tax positions.

FY'22 & LT Target Operating Model

| | FY'19 | FY'22 | Long-term Target |
|-----------------------------|----------------------------|-------------------------------------|------------------|
| Total Revenue | \$2.9B <i>28% yr/yr</i> | ~\$5.0B <i>3-yr CAGR of ~20%</i> | |
| Total Billings | \$3.5B <i>22% yr/yr</i> | ~\$6.0B <i>3-yr CAGR of ~20%</i> | |
| Next-Gen Security Billings | \$452M <i>89% yr/yr</i> | ~\$1.75B <i>3-yr CAGR of 57%</i> | |
| Operating Margin (Non-GAAP) | 22.0% | 21–22% | 25%+ |
| Adj. FCF Margin (Non-GAAP) | 36.7% | | 30%+ |

Notes: 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. Next-Gen Security billings is a key financial metric defined as the total amount invoiced and billed during the period for Prisma and Cortex, inclusive of VM series and related services. Metrics reflect adoption of ASC 606. Operating margin and adjusted free cash flow margin are non-GAAP financial measures. See appendix for reconciliation to most comparable GAAP financial measure for FY'19.

Other Multi-Year Modeling Points

| | |
|-------------------|-----|
| Non-GAAP Tax Rate | 22% |
|-------------------|-----|

| | |
|------------|--|
| Cash Taxes | \$20M–\$30M per year for 3 years <i>(\$1.6B US Federal NOL Balance)</i> |
|------------|--|

| | |
|-------|-------------------|
| Capex | ~4%–5% of Revenue |
|-------|-------------------|

Note: A reconciliation of forward-looking non-GAAP tax rate to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort. Forward-looking non-GAAP and cash tax rate estimates do not incorporate the impact of potential tax law changes or any estimates for the ultimate disposition of uncertain tax positions.

THANK YOU



Q&A



APPENDIX



Calculation of Billings

\$Millions

| Billings: | FY'17 ⁽¹⁾ | FY'18 ⁽¹⁾ | FY'19 | Q4'18 ⁽¹⁾ | Q1'19 | Q2'19 | Q3'19 | Q4'19 |
|---|----------------------|----------------------|-------------------|----------------------|-----------------|-----------------|-----------------|-------------------|
| Total revenue | \$ 1,755.1 | \$ 2,273.6 | \$ 2,899.6 | \$ 658.5 | \$ 656.0 | \$ 711.2 | \$ 726.6 | \$ 805.8 |
| Add: change in total deferred revenue, net of acquired deferred revenue | 496.6 | 582.6 | 590.2 | 204.4 | 102.5 | 141.3 | 95.3 | 251.1 |
| Total Billings | <u>\$ 2,251.7</u> | <u>\$ 2,856.2</u> | <u>\$ 3,489.8</u> | <u>\$ 862.9</u> | <u>\$ 758.5</u> | <u>\$ 852.5</u> | <u>\$ 821.9</u> | <u>\$ 1,056.9</u> |

| Product billings: | FY'17 ⁽¹⁾ | FY'18 ⁽¹⁾ | FY'19 |
|---|----------------------|----------------------|-------------------|
| Product revenue | \$ 708.5 | \$ 879.8 | \$ 1,096.2 |
| Add: change in product deferred revenue | 2.0 | (1.2) | (0.2) |
| Product billings | <u>\$ 710.5</u> | <u>\$ 878.6</u> | <u>\$ 1,096.0</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.

Note: Fiscal year ends July 31.

GAAP to Non-GAAP Reconciliations

\$Millions

| Non-GAAP gross profit and gross margin: | FY19 | | Q4'19 | |
|--|-------------------|--------------|-----------------|--------------|
| | \$ | % | \$ | % |
| GAAP gross profit and gross margin | \$ 2,091.2 | 72.1% | \$ 588.4 | 73.0% |
| Share-based compensation-related charges | 84.2 | 2.9% | 21.6 | 2.7% |
| Amortization expense of acquired intangible assets | 40.4 | 1.4% | 13.5 | 1.7% |
| Litigation-related charges ⁽¹⁾ | 10.2 | 0.4% | 1.0 | 0.1% |
| Non-GAAP gross profit and gross margin | <u>\$ 2,226.0</u> | <u>76.8%</u> | <u>\$ 624.5</u> | <u>77.5%</u> |

(1) Consists of the amortization of intellectual property licenses.

Note: Fiscal year ends July 31.

GAAP to Non-GAAP Reconciliations

\$Millions

| Non-GAAP operating income and operating margin: | FY'14 | | FY'15 | | FY'16 | | FY'17 | | FY'18 | | FY'19 | | Q4'19 | |
|---|------------|---------|-----------|---------|------------|---------|------------|--------|------------|--------|-----------|--------|----------|--------|
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % |
| GAAP operating loss and operating margin ⁽¹⁾ | \$ (196.2) | (32.8%) | \$ (99.8) | (10.8%) | \$ (157.3) | (11.4%) | \$ (165.8) | (9.4%) | \$ (104.2) | (4.6%) | \$ (54.1) | (1.9%) | \$ (9.9) | (1.2%) |
| Share-based compensation-related charges | 101.3 | 16.9% | 233.2 | 25.1% | 407.5 | 29.6% | 488.9 | 27.8% | 516.4 | 22.7% | 591.3 | 20.5% | 155.3 | 19.2% |
| Acquisition-related costs ⁽²⁾ | 7.8 | 1.3% | 0.7 | 0.1% | - | - | 3.1 | 0.2% | 17.9 | 0.8% | 29.8 | 1.0% | 9.8 | 1.2% |
| 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% | 53.0 | 1.8% | 15.0 | 1.9% |
| Litigation-related charges ⁽³⁾ | 154.5 | 25.8% | 12.3 | 1.3% | 12.3 | 0.9% | 12.3 | 0.7% | 12.3 | 0.5% | 10.2 | 0.4% | 1.0 | 0.1% |
| Facility exit costs ⁽⁴⁾ | - | - | - | - | - | - | 21.3 | 1.2% | 40.8 | 1.8% | 7.0 | 0.2% | 2.9 | 0.4% |
| Non-GAAP operating income and operating margin ⁽¹⁾ | \$ 69.5 | 11.6% | \$ 153.4 | 16.5% | \$ 270.8 | 19.7% | \$ 368.7 | 21.0% | \$ 498.8 | 21.9% | \$ 637.2 | 22.0% | \$ 174.1 | 21.6% |

(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.

(2) 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.

(3) 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, 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.

(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, and additional cease-use loss of \$7.0 million in FY'19) and 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).

Note: Fiscal year ends July 31.



GAAP to Non-GAAP Reconciliations

\$Millions

| Free cash flow and adjusted free cash flow (non-GAAP): | FY'14 ⁽¹⁾ | FY'15 ⁽¹⁾ | FY'16 ⁽¹⁾ | FY'17 ⁽¹⁾ | FY'18 ⁽¹⁾ | FY'19 | Q4'19 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|--------------|------------|
| Net cash provided by operating activities ⁽²⁾ | \$ 92.0 | \$ 349.4 | \$ 659.1 | \$ 868.8 | \$ 1,038.1 | \$ 1,055.6 | \$ 231.5 |
| Less: purchases of property, equipment, and other assets | 36.1 | 33.8 | 72.5 | 163.4 | 112.0 | 131.2 | 53.1 |
| Free cash flow (non-GAAP) | 55.9 | 315.6 | 586.6 | 705.4 | 926.1 | 924.4 | 178.4 |
| Add: cash paid for legal settlement | 75.0 | - | - | - | - | - | - |
| Add: capital expenditures for new headquarters | - | - | 1.1 | 92.0 | 11.2 | 28.4 | 26.8 |
| Add: repayments of convertible senior notes attributable to debt discount | - | - | - | - | - | 97.6 | 30.5 |
| Less: cash reimbursement (payments), net related to landlord lease amendment ⁽²⁾ | - | - | - | - | 16.8 | (14.8) | (2.9) |
| Adjusted free cash flow (non-GAAP) | \$ 130.9 | \$ 315.6 | \$ 587.7 | \$ 797.4 | \$ 920.5 | \$ 1,065.2 | \$ 238.6 |
| Net cash used in investing activities | \$ (320.3) | \$ (679.0) | \$ (338.9) | \$ (472.6) | \$ (520.0) | \$ (1,825.9) | \$ (448.7) |
| Net cash provided by (used in) financing activities | \$ 574.1 | \$ 48.2 | \$ 38.9 | \$ (386.0) | \$ 1,245.6 | \$ (773.9) | \$ (136.1) |
| Free cash flow margin (non-GAAP) | 9.3% | 34.0% | 42.6% | 40.2% | 40.7% | 31.9% | 22.1% |
| Adjusted free cash flow margin (non-GAAP) | 21.9% | 34.0% | 42.6% | 45.4% | 40.5% | 36.7% | 29.6% |

- (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) 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 has been and will be applied against increased rental payments totaling \$38.2 million due in FY'18 through FY'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.

Note: Fiscal year ends July 31.



GAAP to Non-GAAP Reconciliations

| Non-GAAP net income per share, diluted: | FY19 | Q4'19 |
|--|-----------|-----------|
| GAAP net loss per share, diluted | \$ (0.87) | \$ (0.22) |
| Share-based compensation-related charges | 6.00 | 1.56 |
| Acquisition-related costs ⁽¹⁾ | 0.32 | 0.10 |
| Amortization expense of acquired intangible assets | 0.56 | 0.16 |
| Litigation-related charges ⁽²⁾ | 0.11 | 0.01 |
| Facility exit costs ⁽³⁾ | 0.07 | 0.03 |
| Non-cash charges related to convertible notes ⁽⁴⁾ | 0.77 | 0.17 |
| Foreign currency loss associated with non-GAAP adjustments | 0.02 | 0.02 |
| Income tax and other tax adjustments related to the above | (1.53) | (0.36) |
| Non-GAAP net income per share, diluted | \$ 5.45 | \$ 1.47 |

- (1) Consists of acquisition transaction costs, share-based compensation-related to the cash settlement of certain equity awards, and costs to terminate certain employment and operating lease contracts of the acquired companies.
- (2) Consists of the amortization of intellectual property licenses.
- (3) Consists of charges related to the relocation of our corporate headquarters (additional cease-use loss of \$4.1 million in Q3'19 and additional cease-use loss of \$2.9 million in Q4'19).
- (4) Consists primarily of non-cash interest expense related to our convertible senior notes. For FY'19, also includes a non-cash loss of \$2.6 million related to early conversions of the convertible notes during the period.

Note: Fiscal year ends July 31.