

Q4 Fiscal Year 2024 Earnings Call

August 19, 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), financial guidance for the first quarter of fiscal 2025 and fiscal year 2025, 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; failure of our business strategies, 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 April 30, 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 August 19, 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



The Cybersecurity environment continues to intensify



Uptick in mega-breaches



Multi-\$BB impacts from breaches



Ransomware public extortion activity up **>50%** from 2022



Continued **geopolitical tensions** keep **cybersecurity in focus**



Additional trends creating further cybersecurity challenges



Sprawling Interconnectedness of business exacerbating impacts



Recent broad outage has **elevated C-suite conversations**



Use of **GenAI tools** has **doubled in 10 months**

2H acceleration allowed us to outperform across the board in Q4

Focused Execution Against Top-Line Targets...

Q4'24 NGS ARR¹

\$4.22B

+43% y/y

Q4'24 RPO

\$12.7B

+20% y/y

Q4'24 Total Revenue

\$2.19B

+12% y/y

...balanced with strong profitability and cash generation

FY'24 Operating Margin (non-GAAP)

27.3%

+320 bps y/y

Q4'24 EPS (non-GAAP)

\$1.51

+5% y/y

FY'24 Adj. FCF Margin (non-GAAP)

38.9%

+10 bps y/y

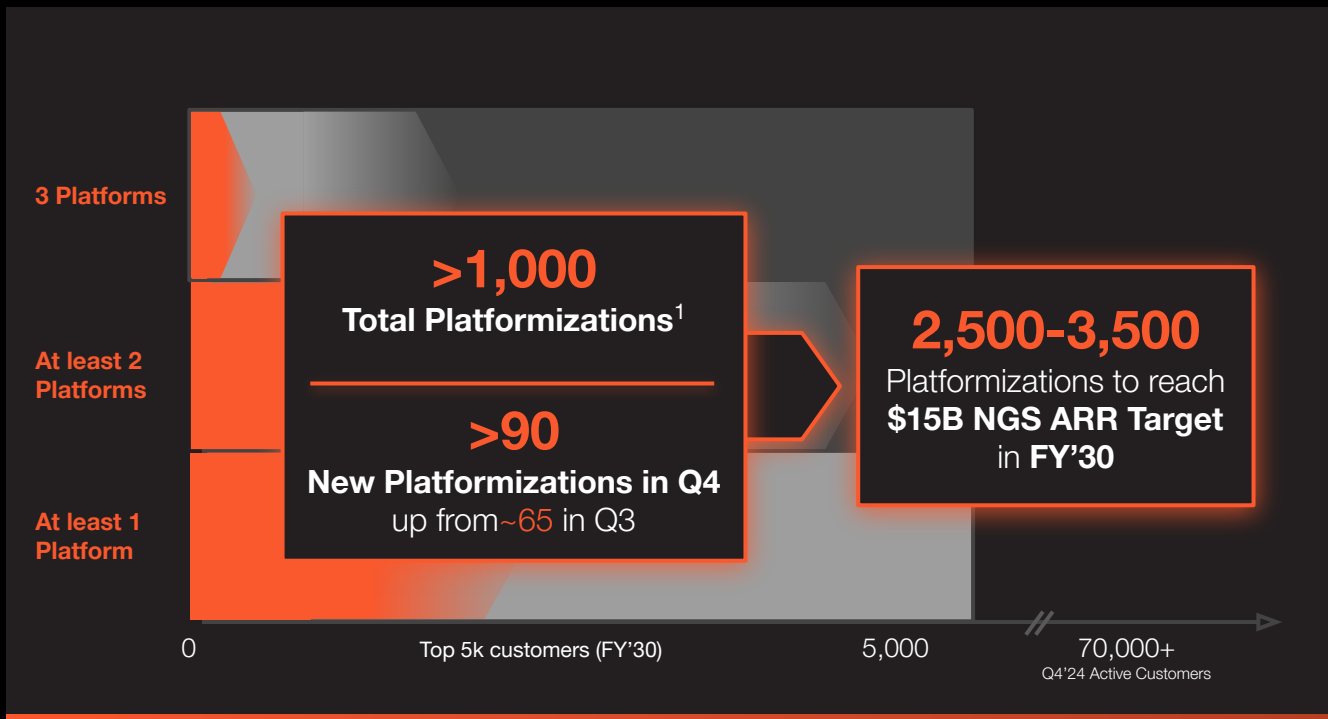
FY'24 Adj. FCF (non-GAAP)

\$3.12B

+17% 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. Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

Our business in Q4 was driven by early momentum in Platformization



>\$2.0M
Average ARR per
platformized customer,
up >10% since Q1'24

+70% y/y
Executive briefing
center meetings in
2H'24, after Q3 launch
of Platformization

¹ Platformization/Platformized defined as: Active ELA contract or >\$1M SASE ARR for Network Security; >\$1M ARR for Cloud Security, active XSIAM contract for Security Operations. Total Platformizations defined as a count of all platformizations across customers, with a customer platformized on all three platforms counting as 3 platformizations, a customer platformized on two platforms counting as 2 platformizations, and a customer platformized on one platform counting as 1 platformization.

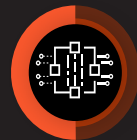
Key Platformization deals from Q4

3-Platform Customer



High 8-figure deal with a global energy company platformized on Network Security, Cloud Security, and Security Operations

2-Platform Customer



8-figure deal with a semiconductor company beating out competitors firewalls and platformizing in NetSec and Security Operations

Expansion deal



9-figure deal with a global media and entertainment company, that has platformized on NetSec and has purchased appliances, VMs, and SASE

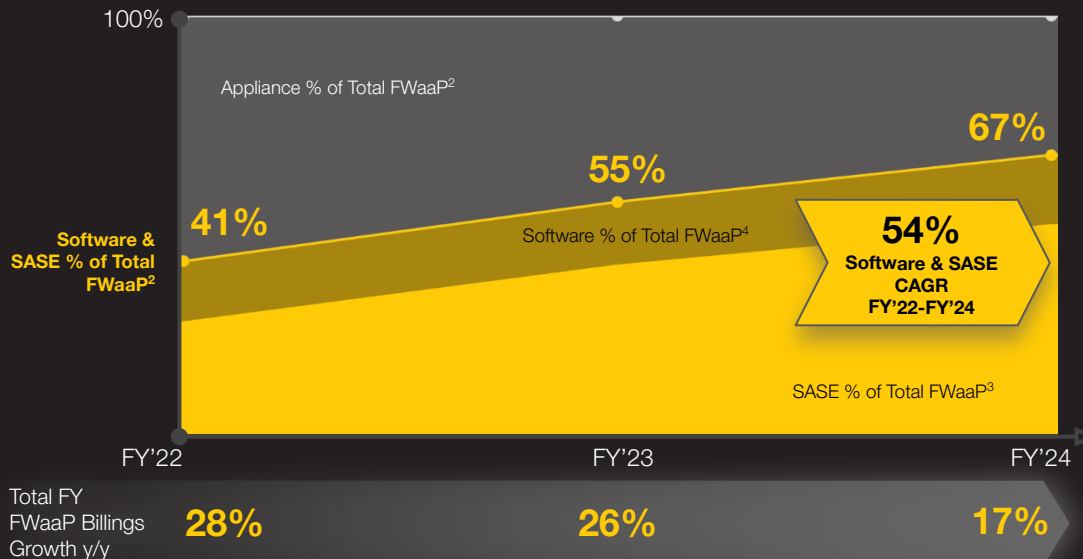
Platformization deal



8-figure deal with a U.S. financial services company, platformizing on Security Operations for greater efficiencies and enhanced security efficacy

FY 24: Software and SASE are leading our Network Security growth

FWaaP¹ driven by growth in Software and SASE in FY'24



SASE Customer Momentum

>5,300 | SASE customers, up 21% y/y

>1/3 | of new SASE customers were new to PANW in FY'24

¹Firewall as a Platform (FWaaP) billings is a financial and operating metric defined as publicly reported product billings, together with the services billings for Prisma Access, VM-Series, and SD-WAN offerings, during the period stated.

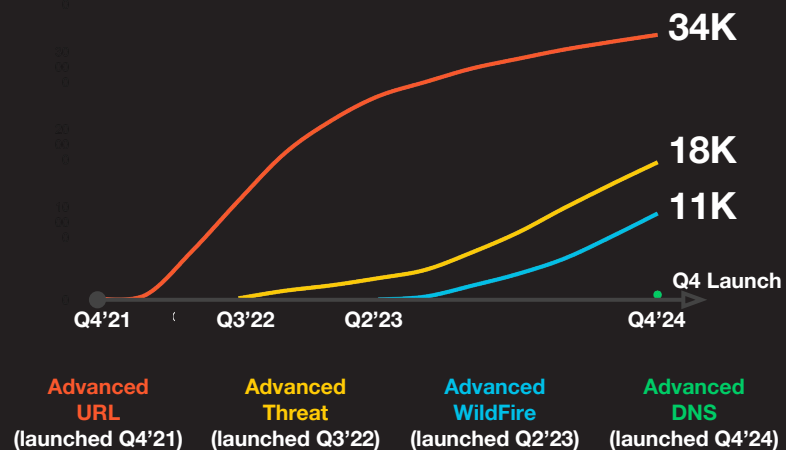
²Software and SASE percentage of Total FWaaP billings is the billings for the Prisma Access and VM-series offerings, and the non-hardware portion of SD-WAN offerings, as a percentage of total Firewall as a Platform billings, during the period stated. Appliance percentage of Total FWaaP is the remaining FWaaP billings which is not included in Software and SASE percentage of Total FWaaP billings.

³SASE percentage of Total FWaaP billings is the billings for Prisma Access, and the non-hardware portion of SD-WAN offerings, as a percentage of total Firewall as a Platform billings, during the period stated.

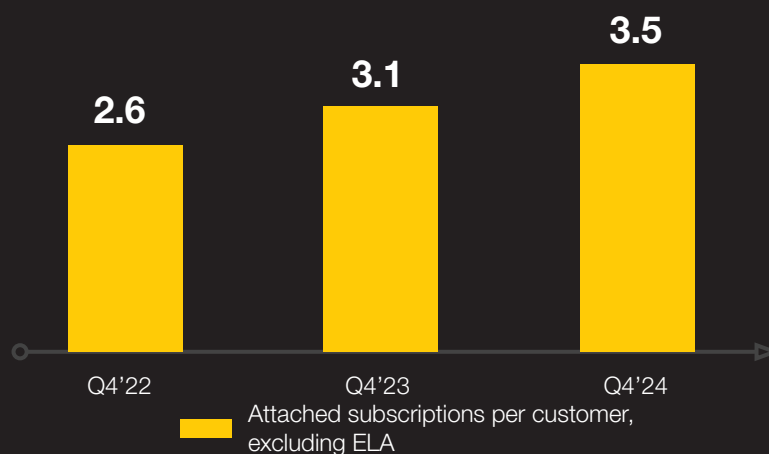
⁴Software percentage of Total FWaaP billings is the billings for VM-series offerings, as a percentage of total Firewall as a Platform billings, during the period stated.

Security subscription adoption is also adding to our momentum

Ramping opportunity for our higher-value advanced subscriptions¹



Subscription attach rate is up 35% since Q4'22



¹ Active customer count of advanced subscriptions, excluding customers with enterprise license (ELA) agreements..

FY 25: Innovation in software and SASE - drive continued growth



First **enterprise browser** natively integrated into **SASE**



ADEM across NetSec, bringing this key SASE differentiator to our firewalls



AI Access Security enables safe **GenAI adoption**



AI Runtime protects enterprise AI applications

FY 24/25: Maintaining momentum in the competitive Cloud Security market

We are staying ahead of the CNAPP market with innovation



General availability of 13th module:
Data Security Posture Management (DSPM)



General availability of 14th module:
AI-SPM - Securing AI in the Cloud



Strong initial traction from organically-developed **Cloud Detection and Response**

Hitting milestones and driving growth with new customers

1st Pure-play cybersecurity cloud security business to **>\$700M ARR¹**

>30% y/y
Growth in annual contract value from **new business**

Cloud industry leaders chose Prisma Cloud in FY'24



7-figure deal
With a front-office software company



8-figure deal
With a collaboration software company



8-figure deal
With a human capital management software vendor company

¹ Cloud Security ARR represents Annual Recurring Revenue for Prisma Cloud, and VM-Series consumed in the public cloud.

FY 24: Cortex crossed \$900M in ARR with strength driven by XSIAM

Customers are making significant XSIAM investments to transform their SoC

~\$500M

FY'24 XSIAM Bookings

>4x

XSIAM active customers in FY'24, y/y

>30

XSIAM customers with >\$1M ARR

Broader Cortex momentum continues with breach activity top-of-mind

>\$900M

Cortex ARR

>6,100

Cortex active customers¹

~\$150k

Cortex Average ARR¹ per customer

¹ Cortex customers represents all customers who have purchased any combination of Cortex XDR Pro, Cortex XSOAR, Cortex Xpanse, Cortex XSIAM. Customer defined as any customer with a binding contract as of the final date of the reported period. Cortex average ARR represents average ARR of customers that purchased the aforementioned products.

FY 25: Expanded opportunities for XSIAM Platformization

XSIAM drives **Significant reduction in MTTR**¹

Before XSIAM
2-3 Days

After XSIAM
as low as
~1 minute

>50%

of deployed XSIAM customers have **MTTR under 10 minutes**



Cortex® XDR™



Cortex® Xpanse

QRadar²



Cortex® XSOAR



Cortex® CDR



Driving towards
Platformization on XSIAM

Post-Platformization opportunities

- + Additional add-on modules
- + XSIAM for Cloud, in addition to enterprise
- + Enabling leading MSSPs
- + ...and other use cases

¹ MTTR is Median time to resolve (time from incident creation to incident resolution). Incidents resolved by automation; partially or fully addressed with automation. Source: XSIAM customer interviews and XSIAM product telemetry for customers. When not using MSSP.

² The closing of Palo Alto Networks' acquisition of certain QRadar SaaS assets remains subject to regulatory approvals and other customary closing conditions.

Clear market leadership fueled by evergreen innovation

Product leadership in 24 different cybersecurity markets

Product Category Leaderships

**Network
Security
Platform**

9

**Cloud
Security
Platform**

8

**Security
Operations
Platform**

7

New Recognitions & Leadership Categories

**Additional Leadership
Recognition**



**Operational
Technology**
Leader in Forrester
*Operational Technology
Security Solutions Wave*

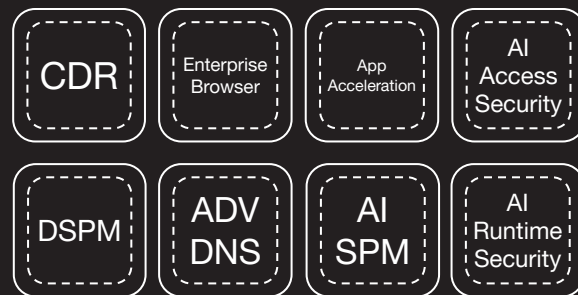


**Data Security
Posture
Management**
Leader in GigaOm
Radar for DSPM



Incident Response
Leader in Forrester
*Cybersecurity Incident
Response Services
Wave*

Evergreen innovation



...And more

¹ Recognition published during Q4 FY'24, but prior to May 20, 2024 earnings call.

Encouraged by early momentum in AI ARR - FY'25 launches

Gaining scale and growing rapidly

AI ARR¹

>\$200M

Growth

~4x y/y

General availability of Secure AI by design offerings



AI Access

Securely enable
GenAI applications

Launched Aug 15th



AI SPM

Securing AI
in the Cloud

Launched Aug 6th



AI Runtime

Protect enterprise
AI applications

Launched July 31st

¹ Annual recurring revenue from Cortex XSIAM, AIOps subscription, and ADEM products.

Strong finish to FY'24, optimistic about sustained growth in FY'25



We saw acceleration in 2H driven by demand for platformization



Platformization momentum is broadening and strengthened as we closed Q4



We are sustaining our market leadership through 'evergreen' innovation across our three platforms, including in AI



We have charted a clear course towards \$15B in NGS ARR powered by platformization



We are driving an attractive combination of top-line growth and free cash flow into FY'25 and beyond

Dipak Golechha

CHIEF FINANCIAL OFFICER

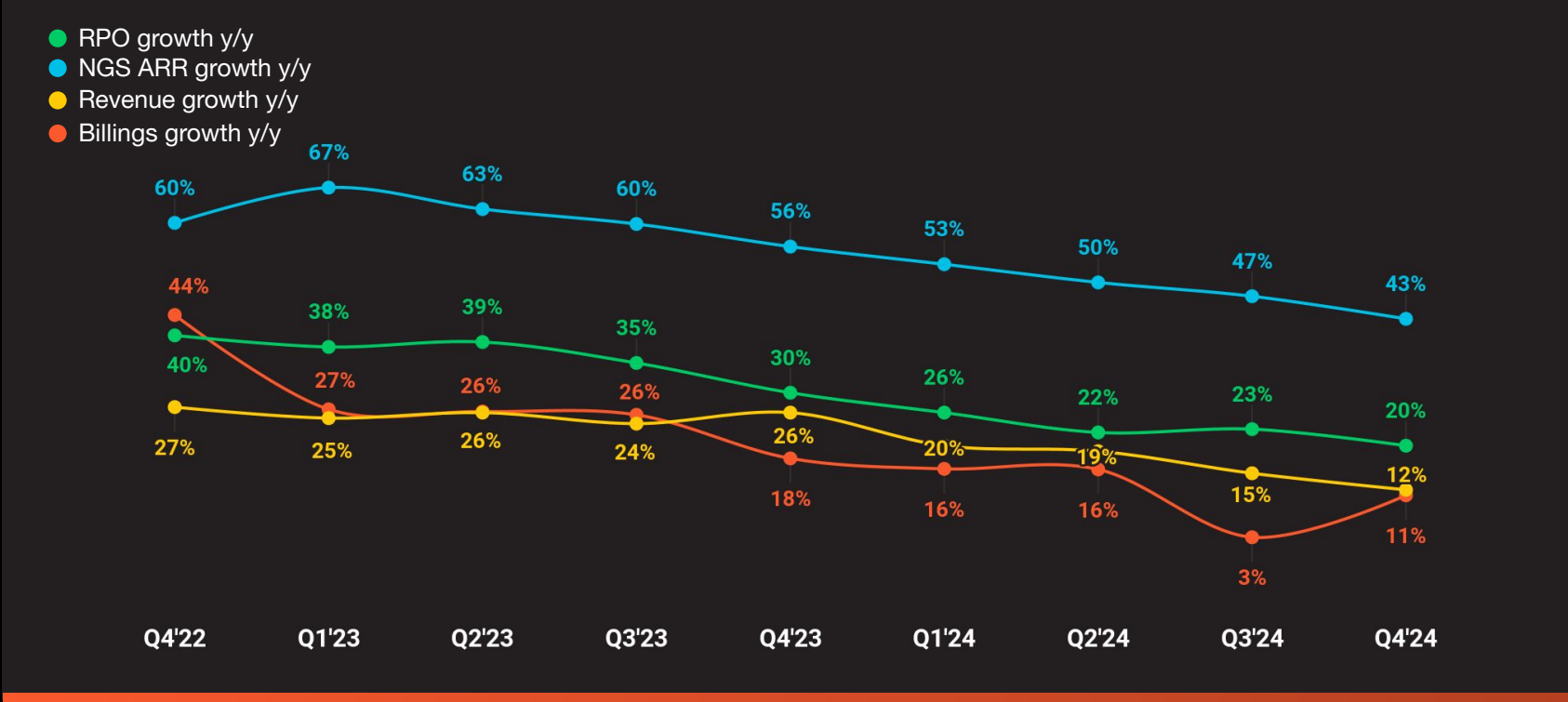


Q4'24 Metrics

| | Q4'24 Guidance (as of 5/20/24) | Q4'24 Actual | |
|----------------------------------|---|---------------------------------|---|
| Total Billings | \$3.43B-\$3.48B 9%-10% <i>yr/yr</i> | \$3.50B 11% <i>yr/yr</i> |  |
| Total Revenue | \$2.15B-\$2.17B 10%-11% <i>yr/yr</i> | \$2.19B 12% <i>yr/yr</i> |  |
| Product Revenue | | \$481M (5)% <i>yr/yr</i> | |
| Remaining Performance Obligation | | \$12.7B 20% <i>yr/yr</i> | |
| Next-Gen Security ARR | | \$4.22B 43% <i>yr/yr</i> | |
| Gross Margin (Non-GAAP) | | 76.8% (50) <i>bps yr/yr</i> | |
| Operating Income (Non-GAAP) | | \$588M 6% <i>yr/yr</i> | |
| Operating Margin (Non-GAAP) | | 26.9% (150) <i>bps yr/yr</i> | |
| EPS (Non-GAAP) | \$1.40-\$1.42 (3)% - (1)% <i>yr/yr</i> | \$1.51 |  |
| EPS (GAAP) | | \$1.01 | |
| Adj. Free Cash Flow (Non-GAAP) | | \$485M | |

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

RPO and NGS ARR continue to be steady indicators of our business



We have outlined the challenges with billings over the last year

Q4'23 Earnings Call

"As we see the shift in billing terms, RPO is becoming a more important leading indicator for our business as it's not impacted by billing terms. As a reminder, RPO represents the booked business we expect to recognize as revenue in future periods. Also, all customers' purchases included in RPO are non-cancelable."

- **Dipak Golechha**

"Our top-line strength showed through in our remaining performance obligation and next-generation security ARR. Our billings this quarter didn't fully capture that strength. We continue to make great progress in our financial transformation..."

- **Dipak Golechha**

Q1'24 Earnings Call

"Our Q1 revenue grew 20%, and our billings grew 16%, while our RPO growth of 26% exceeded both of these and was driven by our next-generation security capabilities. I would like you to pay particular attention to RPO versus billings, Dipak will talk about the difference at plan and explain why the street might be confused with our future billings guidance."

- **Nikesh Arora**

"Our revenue, next-generation security ARR, and cRPO metrics best represent our top-line performance in Q1, while our billings were impacted by the cost of money,"

- **Dipak Golechha**

Q2'24 Earnings Call

*"So we are trying to shift our go-to-market towards a consolidation and a platform play. I think, as I said to earlier, **the right number to look at in this context is RPO.** The underlying demand is strong. Our book of business is strong. Our pipeline is strong. There is nothing going on in the demand side. It's just that we see this pushing out of the billings towards later parts as we get more and more consolidation offers and platform offers out there."*

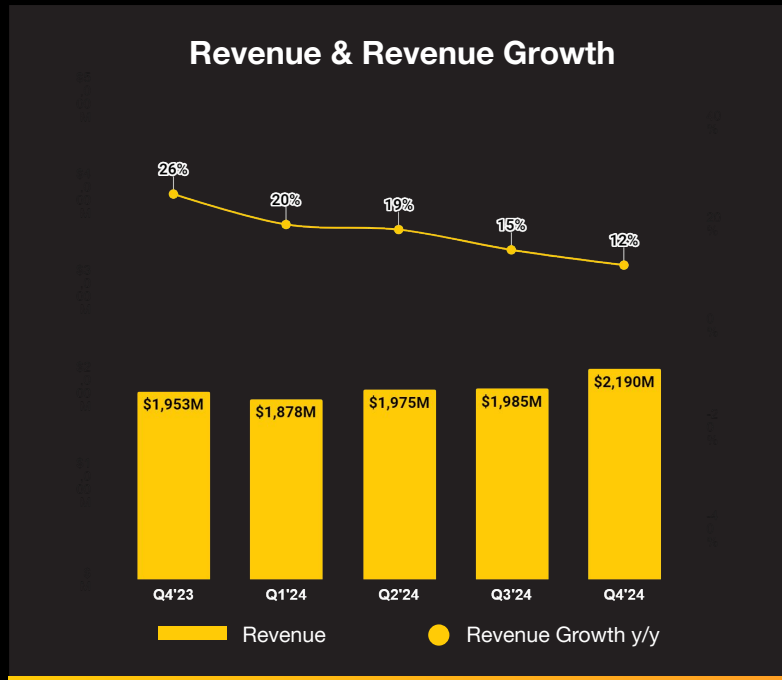
- **Nikesh Arora**

Q3'24 Earnings Call

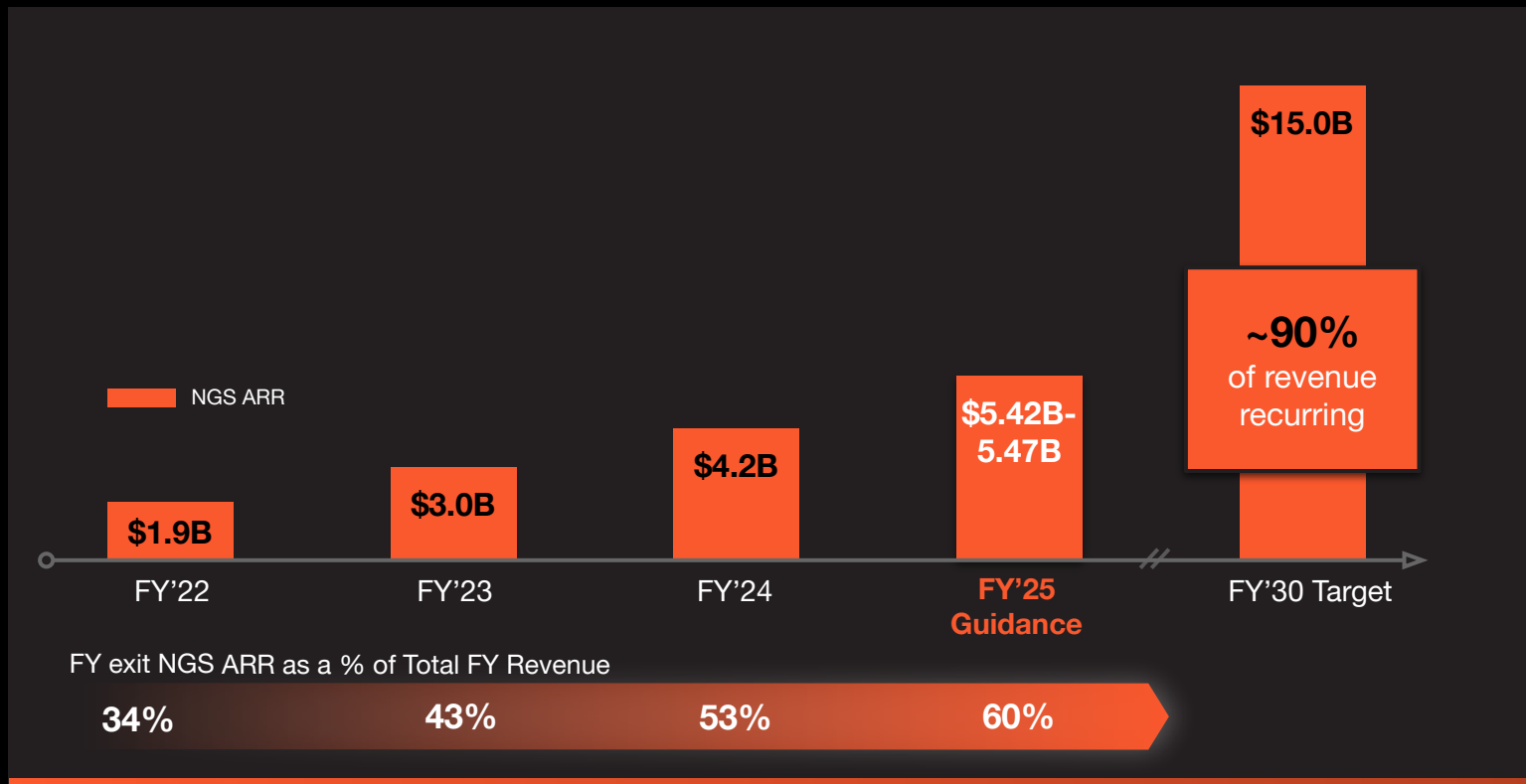
*We reported Q3 billings within the range we guided, **although as Nikesh and I have noted several times** in the past few quarters, **we continue to focus less on this metric.***

- **Dipak Golechha**

RPO & Revenue give visibility to both Long Term & Short Term contracted business



While NGS ARR is a great indicator of our continued transformation



As a result, we are replacing billings with NGS ARR and RPO in our guidance



Other companies focusing on RPO and ARR



servicenow



Q1 & Fiscal Year 2025 Guidance

| | Q1 FY'25 Guidance (as of 8/19/24) | FY 2025 Guidance (as of 8/19/24) |
|---------------------------------------|--|---|
| Next-Gen Security ARR | \$4.33B - \$4.38B 34% - 36% <i>yr/yr</i> | \$5.42B - \$5.47B 28% - 30% <i>yr/yr</i> |
| Remaining Performance Obligation | \$12.4B - \$12.5B 19% - 20% <i>yr/yr</i> | \$15.2B - \$15.3B 19% - 20% <i>yr/yr</i> |
| Total Revenue | \$2.10B - \$2.13B 12% - 13% <i>yr/yr</i> | \$9.10B - \$9.15B 13% - 14% <i>yr/yr</i> |
| Operating Margin (Non-GAAP) | | 27.5% - 28.0% +20 <i>bps</i> - +70 <i>bps yr/yr</i> |
| EPS (Non-GAAP) | \$1.47 - \$1.49 7% - 8% <i>yr/yr</i> | \$6.18 - \$6.31 9% - 11% <i>yr/yr</i> |
| Adj. Free Cash Flow Margin (Non-GAAP) | | 37.0% - 38.0% |

Our RPO guidance, with no change in mix between PAN-FS and billing programs vs. FY24 would drive 12% Y/Y billings growth in FY25

FY25 guidance assumes the consummation of the pending acquisition of IBM's QRadar SaaS assets during Q1 FY'25, and reflects revenue contribution and ongoing expenses from such acquisition. Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

Modeling Points

- Q1'25 and FY'25 non-GAAP effective tax rate: 22%
- FY'25 Cash taxes of \$550M - \$625M, up from \$340M in FY'24
- Q1'25 net interest and other income of ~\$73-78M
- Q1'25 diluted shares outstanding 348 – 350 million
- FY'25 diluted shares outstanding 350 – 354 million
- Q1'25 capital expenditures of \$45M – \$50M
- FY'25 capital expenditures of \$205M – \$215M

Q&A

Appendix

Calculation of Billings

\$ In millions

| Billings: | Q421 | Q122 | Q222 | Q322 | Q422 | Q123 | Q223 | Q323 | Q423 | Q124 | Q224 | Q324 | Q424 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total revenue | \$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 | \$2,189.5 |
| Add: change in total deferred revenue, net of acquired deferred revenue | 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 | 1,312.9 |
| Total billings | \$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 | \$3,502.4 |

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

| Non-GAAP gross profit and gross margin: | Q423 | | Q424 | |
|--|-----------|-------|-----------|-------|
| | \$ | % | \$ | % |
| GAAP gross profit and gross margin | \$1,446.5 | 74.1% | \$1,615.8 | 73.8% |
| Share-based compensation-related charges | 41.8 | 2.1% | 37.5 | 1.7% |
| Amortization expense of acquired intangible assets | 19.3 | 1.0% | 27.5 | 1.2% |
| Litigation-related charges ⁽¹⁾ | 1.7 | 0.1% | 1.7 | 0.1% |
| Non-GAAP gross profit and gross margin | \$1,509.3 | 77.3% | \$1,682.5 | 76.8% |

⁽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: | Q423 | | Q424 | | FY'23 | | FY'24 | |
|--|---------|-------|---------|-------|-----------|-------|-----------|-------|
| | \$ | % | \$ | % | \$ | % | \$ | % |
| GAAP operating income and operating margin | \$253.5 | 13.0% | \$238.4 | 10.9% | \$387.3 | 5.6% | \$683.9 | 8.5% |
| Share-based compensation-related charges | 274.1 | 14.0% | 287.1 | 13.1% | 1,145.1 | 16.6% | 1,161.7 | 14.5% |
| Acquisition-related costs ⁽¹⁾ | - | 0.0% | 3.5 | 0.2% | 19.5 | 0.3% | 13.6 | 0.2% |
| Amortization expense of acquired intangible assets | 24.7 | 1.3% | 33.7 | 1.5% | 103.1 | 1.5% | 119.0 | 1.5% |
| Litigation-related charges ⁽²⁾ | 1.7 | 0.1% | 25.6 | 1.2% | 7.1 | 0.1% | 211.5 | 2.6% |
| Restructuring and other costs ⁽³⁾ | - | 0.0% | - | 0.0% | (2.2) | 0.0% | - | 0.0% |
| Non-GAAP operating income and operating margin | \$554.0 | 28.4% | \$588.3 | 26.9% | \$1,659.9 | 24.1% | \$2,189.7 | 27.3% |

⁽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. For FY'24, also includes a legal contingency charge and a litigation settlement charge.

⁽³⁾ 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: | Q423 | Q424 |
|--|--------|--------|
| GAAP net income per share, diluted | \$0.64 | \$1.01 |
| Share-based compensation-related charges | 0.86 | 0.85 |
| Acquisition-related cost ⁽¹⁾ | 0.00 | 0.01 |
| Amortization expense of acquired intangibles assets | 0.07 | 0.10 |
| Litigation-related charges ⁽²⁾ | 0.00 | 0.07 |
| Non-cash charges related to convertible notes ⁽³⁾ | 0.00 | 0.00 |
| Income tax and other tax adjustments ⁽⁴⁾ | (0.13) | (0.53) |
| Non-GAAP net income per share, diluted | \$1.44 | \$1.51 |

⁽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. For Q4'24, also includes a legal contingency charge and a litigation settlement 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 Q4'24, 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): | Q424 |
|--|---------|
| Net cash provided by operating activities | \$512.7 |
| Less: purchases of property, equipment, and other assets | 47.4 |
| Free cash flow (non-GAAP) | \$465.3 |
| Add: litigation related payment ⁽¹⁾ | 20.0 |
| Adjusted free cash flow (non-GAAP) | \$485.3 |

⁽¹⁾ Consists of a one-time payment in Q4'24 to settle a litigation-related matter. 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): | FY'23 | FY'24 |
|--|-----------|-----------|
| Net cash provided by operating activities | \$2,777.5 | \$3,257.6 |
| Less: purchases of property, equipment, and other assets | 146.3 | 156.8 |
| Free cash flow (non-GAAP) | \$2,631.2 | \$3,100.8 |
| Add: cash payment related to tax settlement | 39.8 | - |
| Add: litigation related payment ⁽¹⁾ | - | 20.0 |
| Adjusted free cash flow (non-GAAP) | \$2,671.0 | \$3,120.8 |
| Adjusted free cash flow margin (non-GAAP) | 38.8 % | 38.9 % |

⁽¹⁾ Consists of a one-time payment in Q4'24 to settle a litigation-related matter. Fiscal year ends on July 31.

Thank You

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