

# Q1 Fiscal Year 2024 Earnings Call

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November 15, 2023

# 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 statements related to our financial guidance for the second quarter of fiscal 2024 and fiscal year 2024, modeling points, plans regarding recent acquisitions and acquired products, product development expectations, business and economic conditions and challenges, and other financial, operational and business expectations. Many of these assumptions relate to matters that are beyond our control and changing rapidly.

There are a significant number of factors that could cause actual results to differ materially from forward-looking statements made in this presentation, including: developments and changes in general market, political, economic, and business conditions; risks associated with managing our growth; risks associated with new product, subscription and support offerings; shifts in priorities or delays in the development or release of new product or subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products, subscription and support offerings; rapidly evolving technological developments in the market for security products, subscription and support offerings; our customers’ purchasing decisions and the length of sales cycles; our competition; our ability to attract and retain new customers; our ability to acquire and integrate other companies, products, or technologies in a successful manner; our debt repayment obligations; and our share repurchase program, which may not be fully consummated or enhance shareholder value, and any share repurchases which could affect the price of our common stock. Further information on these and other factors that could affect the forward-looking statements we make in this presentation can be found in the documents that we file with or furnish to the U.S. Securities and Exchange Commission, including Palo Alto Networks’ most recent Annual Report on Form 10-K filed for the year ended July 31, 2023, 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 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 November 15, 2023. 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



# 7th consecutive quarter of y/y margin expansion underpins profitable growth

## Next Generation Security Drove Top-line

Total Revenue

**\$1.88B**

+20% y/y

Remaining Performance Obligation

**\$10.4B**

+26% y/y

NGS ARR<sup>1</sup>

**\$3.23B**

+53% y/y

Total Billings<sup>2</sup>

**\$2.02B**

+16% y/y

## Profitability Improvements Towards FY'26 Targets

Operating Income (non-GAAP)

**\$529M**

+64% y/y

EPS (non-GAAP)

**\$1.38**

+66% y/y

Adj. Free Cash Flow (non-GAAP)

**\$1,489M**

+20% y/y on trailing  
12-month basis

GAAP Net Income

**\$194M**

+\$174M y/y

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

# The pace of malicious activity is fueling strong cybersecurity demand

**Ransomware attacks** are increasing in frequency and severity



**+37% y/y**

increase in multi extortion ransomware attacks<sup>1</sup>

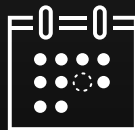


**+28% y/y**

increase in average ransomware payment<sup>2</sup>

**Increasing attack speed** of cyber threats

Speed of data exfiltration is accelerating<sup>3</sup>



**9 days**

2 years ago



**2 days**

Today



Recent Unit 42 engagement saw

**2.4 TB**

of data exfiltrated in the first 4 hours

<sup>1</sup> Based on a comparison of data for 2023 and 2022, pulled from public leak websites, and analyzed by Unit 42.

<sup>2</sup> Based on the average ransomware payment reported in the 2022 Unit 42 Ransomware Threat Report and internal Unit 42 data in 2023.

<sup>3</sup> Speed of data exfiltration is based on median time to exfiltrate data based on Palo Alto Networks Unit 42 internal data.

# Q1 shows strong progress on our NGS transformation journey

## Our largest deals are cross platform with broad NGS representation



### 8-figure deal with U.S. Federal government entity

Purchased all three platforms in Q1'24, surpassed \$100M in lifetime bookings



### 8-figure deal with a software company

Prisma Cloud led purchase; customer now has all three platforms



### 8-figure deal with education entity

Purchased all three platforms, and added XSIAM to transform their security operations



### 8-figure deal with a nation-state

First of its kind standardization on both SASE and XSIAM

## NGS is driving transformation to a recurring revenue business



# 56%

Percent of G2000 customers<sup>2</sup> who have purchased **Strata, Prisma and Cortex**



<sup>1</sup> Recurring revenue represents total revenue less hardware and professional services revenue.

<sup>2</sup> G2K Customers represent Global 2000 customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services.

# Innovation continues to underpin consolidation towards Zero Trust

## Leveraging AI in Cosmos and Strata Cloud Manager



**Continual health monitoring**, analysis & forecasting



**AI-powered** analysis of policies, reduced mis-configurations



**Single UI** across all form factors and security services

Momentum around **three form factor** NetSec customers

# 60%

of our 100 largest Network Security customers<sup>1</sup> have **purchased all 3 form factors**

# +34% y/y

growth in **3 form factor Network Security customers**<sup>1</sup>

<sup>1</sup> Customers represent all customers acquired since inception. A customer is defined as an account that has purchased products and services excluding not-for-resale services. 100 largest Network Security customers based on Lifetime Value (LTV) Bookings.

# New SASE capabilities - most comprehensive solution in the market

Broadening SASE adoption  
driving growth


~60% y/y

Growth in  
SASE ARR<sup>1</sup> in Q1'24


+35%


of >\$5M Network Security deals in  
Q1'24 included SASE,  
up from <10% in Q1'23

Significant innovations at  
**SASE Converge '23**

 SASE that is up to **5x faster**  
than the Internet

 **Securing SaaS**  
interconnections

 **Safe access to**  
GenAI tools

 **Remote Browser Isolation**  
as extra layer of security

Acquiring **Enterprise**  
**Browser pioneer**<sup>2</sup>

 **TALON**

+



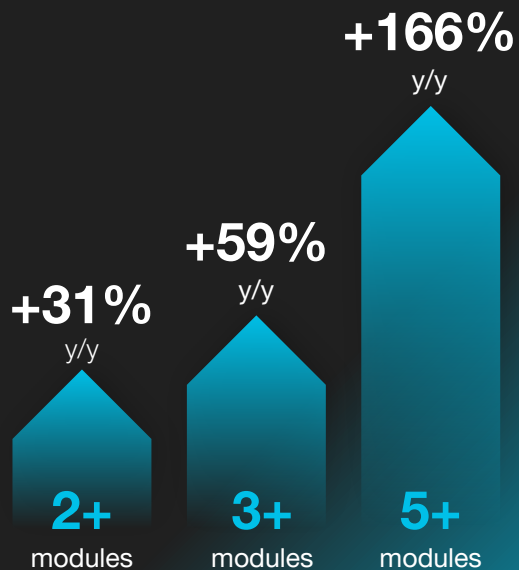
<sup>1</sup> Prisma SASE includes Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.

<sup>2</sup> Palo Alto Networks and Talon Cyber Security remain independent companies until the closing of the proposed acquisition.



# Steady execution in Prisma Cloud driving platform adoption

## Growth in multi-module customers<sup>1</sup>



## Rapid adoption of new modules

| Module                            | Customers |
|-----------------------------------|-----------|
| <b>CIEM</b><br>Q3'21 Launch       | >700      |
| <b>Serverless</b><br>Q1'22 Launch | >600      |
| <b>IaC</b><br>Q2'22 Launch        | >400      |
| <b>CI/CD</b><br>Q4'23 Launch      | >100      |

## Launched 12th module



## Cloud Discovery & Exposure Management (CDEM)

Code to Cloud Intelligence with  
**'Darwin' Release**

<sup>1</sup> Multi-module adoption customers is based on customers with module adoption over the 90 day period ending 10/31/2023, and excludes any Prisma Cloud Compute only self-hosted customers.

# Innovation - Extending code to cloud platform with data security for GenAI



## Cloud-Native Application Protection Platform (CNAPP)



Code to Cloud™  
intelligence



Root causes analysis  
traced back to source  
code



Multi-cloud  
coverage



CIEM for granular cloud  
identity management

## Data Security Posture Management (DSPM) and Data Detection & Response (DDR)



Purpose-built data  
security for cloud



Contextualizing of  
data risk



Auto-discovery of  
data stores, data,  
LLMs

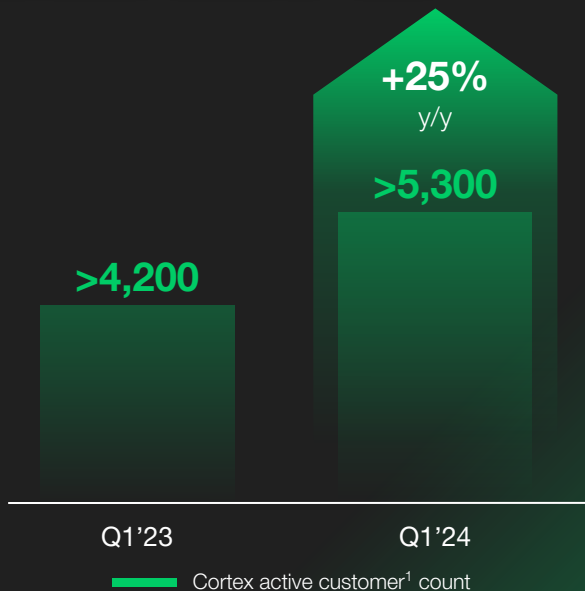


Data access controls,  
permissions visibility

<sup>1</sup> Palo Alto Networks and Dig Security remain independent companies until the closing of the proposed acquisition.

# Cortex execution and leadership position underpin our SecOps opportunity

## Cortex active customer count



## New recognitions for Cortex products

Only product with  
**100% Protection  
and Detection**

For **Cortex XDR** in MITRE  
*Engenuity Round 5* evaluation

MITRE

**Leader**

For **Cortex XSOAR** in GigaOm  
**SOAR Radar**

GIGAOM

**Leader**

For **Cortex XSIAM** in  
GigaOm **Autonomous SOC  
Radar**

GIGAOM

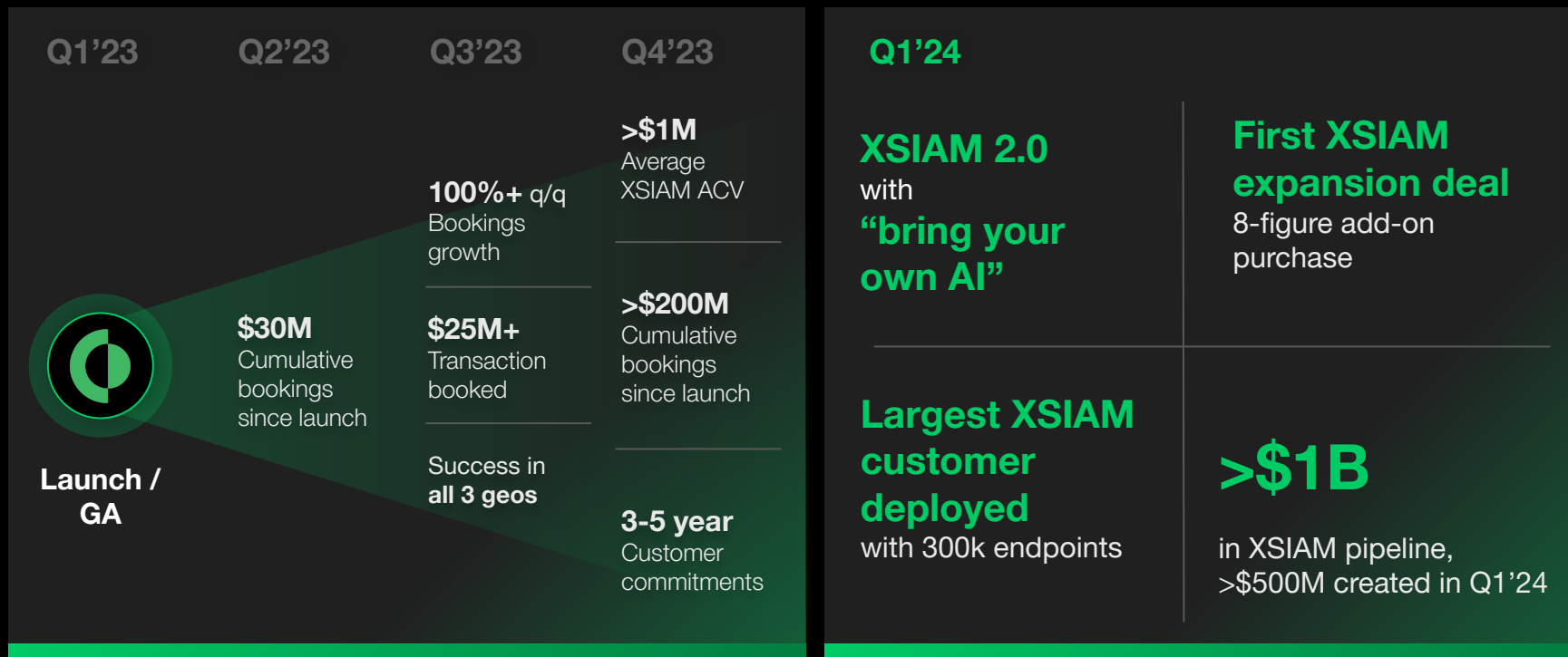
**Leader**

For **Cortex Xpanse** in  
KuppingerCole **Attack Surface  
Management Compass**

kuppingercore  
ANALYSTS

<sup>1</sup> Cortex customers represents all customers who have purchased Cortex XDR Pro and/or Cortex XSOAR, Cortex Xpanse, Cortex XSIAM. Customer defined as any customer with a binding contract as of the final date of the reported period.

# XSIAM continues to delight - positioning us as leaders in the AI Era



# We remain focused on driving our 3-year strategy in FY24



**Be an evergreen innovation company**



**Make our platforms more comprehensive & ubiquitous**



**Leverage AI across our portfolio**



**Amplify our go-to-market to deliver our ambition**



**Be the best place to work in cybersecurity**

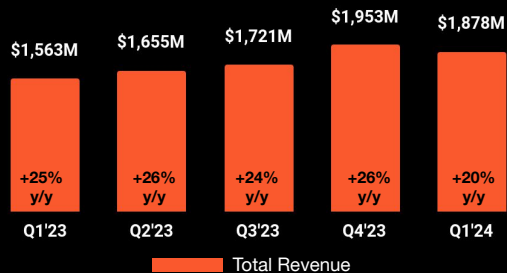
# Dipak Golechha

CHIEF FINANCIAL OFFICER

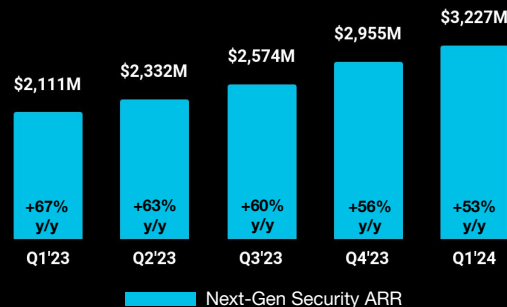


# Q1'24 Top-line Trends

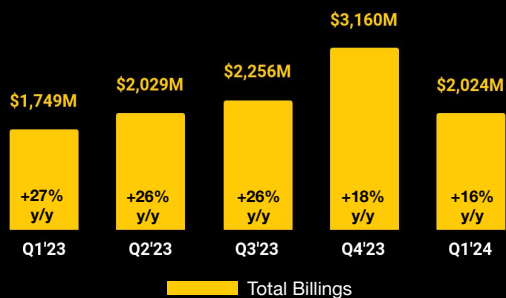
## Total Revenue



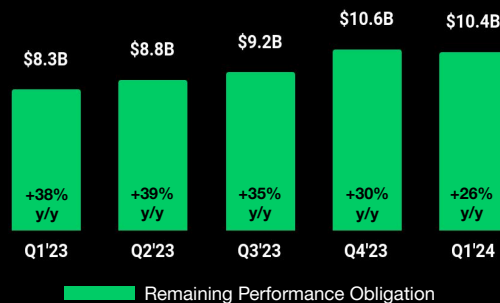
## Next-Gen Security ARR



## Total Billings



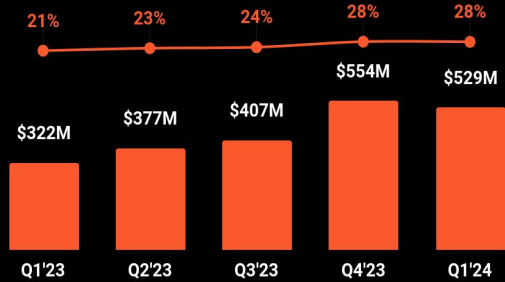
## Remaining Performance Obligation



Fiscal year ending on July 31.

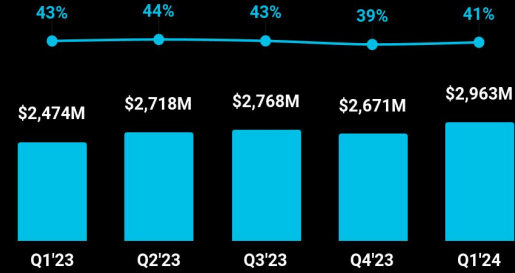
# Expanding profitability as we continue to invest for growth

## Non-GAAP Operating Income & Margin



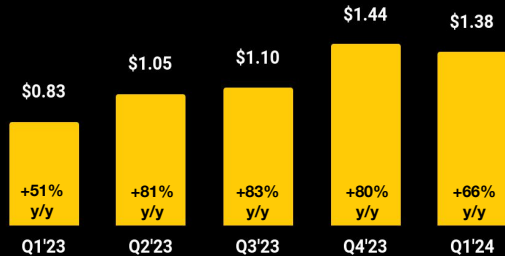
■ Non-GAAP Operating Income ● Non-GAAP Operating Margin

## Trailing 12 Month Adjusted Non-GAAP Free Cash Flow



■ Trailing 12-month Adjusted Non-GAAP Free Cash Flow ● Trailing 12-month Adjusted Non-GAAP Free Cash Flow Margin

## Non-GAAP Earnings Per Share



■ Non-GAAP Earnings Per Share

## GAAP Earnings Per Share



■ GAAP Earnings Per Share

Fiscal year ending on July 31.



# Q1'24 Metrics

|                                  | Q1'24<br>Guidance (as of 8/18/23) | Q1'24<br>Actual  |
|----------------------------------|-----------------------------------|--|
| Total Billings                   | \$2.05B-\$2.08B<br>17%-19% yr/yr  | \$2.02B<br>16% yr/yr   |
| Total Revenue                    | \$1.82B-\$1.85B<br>16%-18% yr/yr  | \$1.88B<br>20% yr/yr  |
| Product Revenue                  |                                   | \$341M<br>3% yr/yr   |
| Remaining Performance Obligation |                                   | \$10.4B<br>26% yr/yr   |
| Next-Gen Security ARR            |                                   | \$3.23B<br>53% yr/yr   |
| Gross Margin (Non-GAAP)          |                                   | 78.0%<br>+370 bps yr/yr  |
| Operating Income (Non-GAAP)      |                                   | \$529M<br>64% yr/yr  |
| Operating Margin (Non-GAAP)      |                                   | 28.2%<br>+760 bps yr/yr  |
| EPS (Non-GAAP)                   | \$1.15-\$1.17                     | \$1.38                |
| EPS (GAAP)                       |                                   | \$0.56   |
| Adj. Free Cash Flow (Non-GAAP)   |                                   | \$1,489M<br>24% yr/yr  |

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

# Cost of money has an outsized impact on billings

## Drivers of volatility in our billings



Volatility in contract duration



Increased demand for deal financing



Increased demand for deferred billings plans

## RPO & cRPO show strength in Q1'24

**+26%**

Q1'24 RPO Growth (y/y)

**+22%**

Q1'24 cRPO Growth (y/y)

**To maintain our flexibility, we are reducing billings guidance through FY'24**

# Q2 Fiscal 2024 Guidance

|                | Q2'24<br>Guidance                                    |
|----------------|--|
| Total Billings | <b>\$2.335B - \$2.385B</b><br><i>15% - 18% yrlyr</i> |
| Total Revenue  | <b>\$1.955B - \$1.985B</b><br><i>18% - 20% yrlyr</i> |
| EPS (Non-GAAP) | <b>\$1.29 - \$1.31</b>                               |

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

# Fiscal Year 2024 Guidance

|                                       | FY 2024<br>Guidance (as of 8/18/23)                | FY 2024<br>Guidance (as of 11/15/23)                    |
|---------------------------------------|--|---|
| <b>Total Billings</b>                 | <b>\$10.9B - \$11.0B</b><br><i>19% - 20% yr/yr</i> | <b>\$10.7B - \$10.8B</b><br><i>16% - 17% yr/yr</i>      |
| <b>Next-Gen Security ARR</b>          | <b>\$3.95B - \$4.00B</b><br><i>34 - 35% yr/yr</i>  | <b>\$3.95B - \$4.00B</b><br><i>34% - 35% yr/yr</i>      |
| <b>Total Revenue</b>                  | <b>\$8.15B - \$8.20B</b><br><i>18% - 19% yr/yr</i> | <b>\$8.15B - \$8.20B</b><br><i>18% - 19% yr/yr</i>      |
| <b>Operating Margin (Non-GAAP)</b>    | <b>25.0% - 25.5%</b>                               | <b>26.0% - 26.5%</b><br><i>+190 bps - 240 bps yr/yr</i> |
| <b>EPS (Non-GAAP)</b>                 | <b>\$5.27 - \$5.40B</b><br><i>19% - 22% yr/yr</i>  | <b>\$5.40 - \$5.53</b><br><i>22% - 25% yr/yr</i>        |
| <b>Adj. Free Cash Flow (Non-GAAP)</b> | <b>37.0 - 38.0%</b>                                | <b>37.0% - 38.0%</b>                                    |

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

## Modeling Points

- Q2'24 and FY'24 non-GAAP effective tax rate: 22%
- FY'24 Cash taxes of \$230M - \$280M
- Q2'24 net interest and other income of \$55M – \$60M
- Q2'24 diluted shares outstanding 339 – 342 million
- FY'24 diluted shares outstanding 338 – 343 million
- Q2'24 capital expenditures of \$40M – \$45M
- FY'24 capital expenditures of \$175M – \$185M

# Q&A

# Appendix

# Calculation of Billings

\$ In millions

| Billings:   | Q123      | Q223      | Q323      | Q423      | Q124      |
|---|-----------|-----------|-----------|-----------|-----------|
| Total revenue   | \$1,563.4 | \$1,655.1 | \$1,720.9 | \$1,953.3 | \$1,878.1 |
| Add: change in total deferred revenue, net of acquired deferred revenue | 185.6     | 374.0     | 535.3     | 1,206.8   | 146.4     |
| Total billings  | \$1,749.0 | \$2,029.1 | \$2,256.2 | \$3,160.1 | \$2,024.5 |

Fiscal year ends on July 31.



# GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

| Non-GAAP gross profit and gross margin:            | Q123      |       | Q124      |       |
|--|-----------|-------|-----------|-------|
|  | \$        | %     | \$        | %     |
| GAAP gross profit and gross margin                 | \$1,101.5 | 70.5% | \$1,405.3 | 74.8% |
| Share-based compensation-related charges           | 36.8      | 2.3%  | 39.6      | 2.1%  |
| Amortization expense of acquired intangible assets | 23.3      | 1.5%  | 19.1      | 1.0%  |
| Litigation-related charges <sup>(1)</sup>          | 1.8       | 0.1%  | 1.8       | 0.1%  |
| Restructuring and other costs <sup>(2)</sup>       | (1.7)     | -0.1% | -         | 0.0%  |
| Non-GAAP gross profit and gross margin             | \$1,161.7 | 74.3% | \$1,465.8 | 78.0% |

<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:    | Q123    |       | Q223    |       | Q323    |       | Q423    |       | Q124    |       |
|--|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|
|  | \$      | %     | \$      | %     | \$      | %     | \$      | %     | \$      | %     |
| GAAP operating income and operating margin         | \$15.2  | 1.0%  | \$39.9  | 2.4%  | \$78.7  | 4.6%  | \$253.5 | 13.0% | \$215.2 | 11.5% |
| Share-based compensation-related charges           | 278.9   | 17.8% | 298.6   | 18.1% | 293.5   | 17.0% | 274.1   | 14.0% | 287.8   | 15.3% |
| Acquisition-related costs <sup>(1)</sup>           | -       | 0.0%  | 12.1    | 0.7%  | 7.4     | 0.4%  | -       | 0.0%  | -       | 0.0%  |
| Amortization expense of acquired intangible assets | 28.7    | 1.8%  | 24.4    | 1.5%  | 25.3    | 1.5%  | 24.7    | 1.3%  | 24.5    | 1.3%  |
| Litigation-related charges <sup>(2)</sup>          | 1.8     | 0.1%  | 1.8     | 0.1%  | 1.8     | 0.1%  | 1.7     | 0.1%  | 1.8     | 0.1%  |
| Restructuring and other costs <sup>(3)</sup>       | (2.2)   | -0.1% | -       | 0.0%  | -       | 0.0%  | -       | 0.0%  | -       | 0.0%  |
| Non-GAAP operating income and operating margin     | \$322.4 | 20.6% | \$376.8 | 22.8% | \$406.7 | 23.6% | \$554.0 | 28.4% | \$529.3 | 28.2% |

<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   | Q223   | Q323   | Q423   | Q124   |
|---|--------|--------|--------|--------|--------|
| GAAP net income per share, diluted                                | \$0.06 | \$0.25 | \$0.31 | \$0.64 | \$0.56 |
| Share-based compensation-related charges                          | 0.87   | 0.94   | 0.91   | 0.86   | 0.86   |
| Acquisition-related cost <sup>(1)</sup>                           | 0.00   | 0.04   | 0.02   | 0.00   | 0.00   |
| Amortization expense of acquired intangibles assets               | 0.08   | 0.07   | 0.07   | 0.07   | 0.07   |
| Litigation-related charges <sup>(2)</sup>                         | 0.01   | 0.01   | 0.01   | 0.00   | 0.01   |
| Restructuring and other costs <sup>(3)</sup>                      | (0.01) | 0.00   | 0.00   | 0.00   | 0.00   |
| Non-cash charges related to convertible notes <sup>(4)</sup>      | 0.01   | 0.01   | 0.01   | 0.00   | 0.00   |
| Foreign currency gain (loss) associated with non-GAAP adjustments | (0.01) | 0.01   | 0.00   | 0.00   | 0.00   |
| Income tax and other tax adjustments <sup>(5)</sup>               | (0.18) | (0.28) | (0.23) | (0.13) | (0.12) |
| Non-GAAP net income per share, diluted                            | \$0.83 | \$1.05 | \$1.10 | \$1.44 | \$1.38 |

<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 issuance costs related to our convertible senior notes.

<sup>(5)</sup> Consist of income tax adjustments related to our long-term non-GAAP effective tax rate. In Q2'23, it included a tax benefit from a release of tax reserves related to uncertain tax positions resulting from a tax settlement.

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      | Q124      |
|--|-----------|-----------|
| Net cash provided by operating activities                | \$1,236.7 | \$1,526.0 |
| Less: purchases of property, equipment, and other assets | 39.6      | 36.8      |
| Free cash flow (non-GAAP)                                | \$1,197.1 | \$1,489.2 |
| Adjusted free cash flow (non-GAAP)                       | \$1,197.1 | \$1,489.2 |

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):    | TTM<br>Q123 | TTM<br>Q223 | TTM<br>Q323 | TTM<br>Q423 | TTM<br>Q124 |
|---|-------------|-------------|-------------|-------------|-------------|
| Net cash provided by operating activities                 | \$2,632.5   | \$2,844.5   | \$2,887.1   | \$2,777.5   | \$3,066.8   |
| Less: purchases of property, equipment, and other assets  | 197.8       | 155.4       | 148.3       | 146.3       | 143.5       |
| Free cash flow (non-GAAP)                                 | \$2,434.7   | \$2,689.1   | \$2,738.8   | \$2,631.2   | \$2,923.3   |
| Add: capital expenditures for headquarters <sup>(1)</sup> | 38.9        | -           | -           | -           | -           |
| Add: cash payment related to tax settlement               | -           | 28.9        | 28.9        | 39.8        | 39.8        |
| Adjusted free cash flow (non-GAAP)                        | \$2,473.6   | \$2,718.0   | \$2,767.7   | \$2,671.0   | \$2,963.1   |
| <i>Adjusted free cash flow margin (non-GAAP)</i>          | 42.5 %      | 44.2 %      | 42.6 %      | 38.8 %      | 41.1 %      |

<sup>(1)</sup> Consists of a land purchase of \$38.9 million in Q2'22.  
Fiscal year ends on July 31.

# Thank You

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