Q3 FY'18
Investor Presentation

June 2018

paloalto NETWORKS®

Safe harbor

This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management, including statements regarding Palo Alto Networks’ expectations regarding its expected effective tax rate, its expected weighted average non-GAAP effective tax rate, and the effects of such rates, as well as expectations regarding its 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 for its fiscal fourth quarter and full fiscal year 2018, its competitive position and the demand and market opportunity for its products, subscription and support offerings, the benefits to our customers of our newly acquired offerings and capabilities and the effectiveness of these offerings to perform as intended, the expected efficacy of its products and subscription and support offerings and timing of new subscription offerings, the expansion of its total addressable market, its ability to drive outsized growth rates, the expected impact of the adoption of certain recent accounting pronouncements and the anticipated timing of adopting such standards, trends in certain financial results, operating metrics, mix shift and seasonality, and continued momentum in its business.

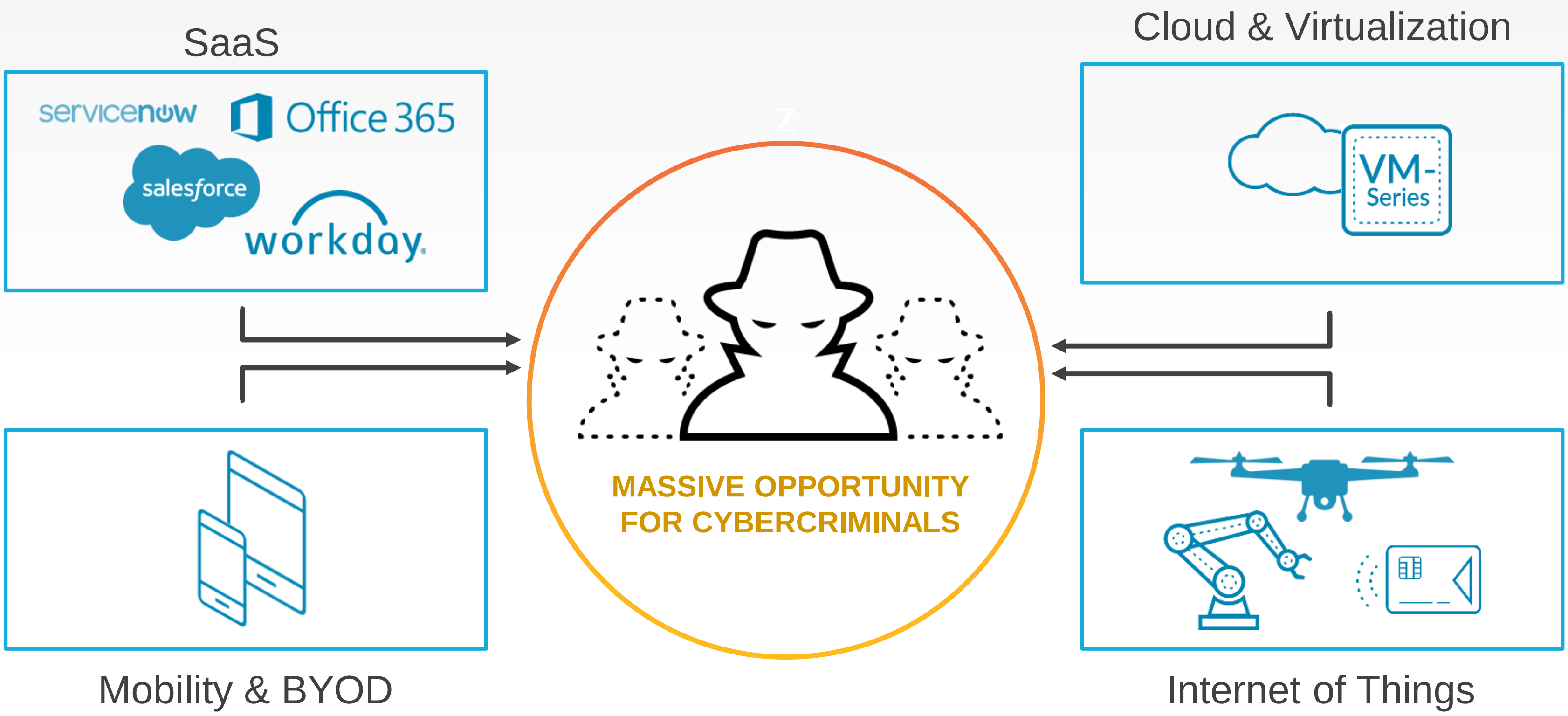
There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including: our limited operating history; risks associated with managing our rapid growth; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for 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, including Palo Alto Networks’ most recent Quarterly Report on Form 10-Q filed for the fiscal quarter ended Apr 30, 2018, 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 June 4, 2018. This presentation contains non-GAAP financial measures and key metrics relating to the company's past and expected future performance. We have not reconciled diluted non-GAAP net income per share guidance to GAAP net income (loss) per diluted share because we do not provide guidance on GAAP net income (loss) and would not be able to present the various reconciling cash and non-cash items between GAAP net income (loss) and non-GAAP net income, including share-based compensation expense, without unreasonable effort. You can also find information regarding our use of non-GAAP financial measures in our earnings release dated June 4, 2018.

OUR MISSION:

TO PROTECT OUR WAY OF LIFE IN THE DIGITAL AGE BY PREVENTING SUCCESSFUL CYBERATTACKS

Continuous evolution



The challenge

SPEED

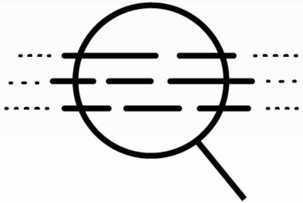
Keep pace with business needs

RISK

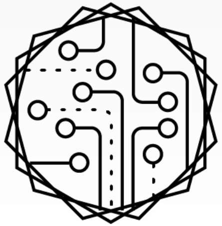
Disjointed tools limit insights

BALANCING DISJOINTED TOOLS AND MANUAL EFFORTS

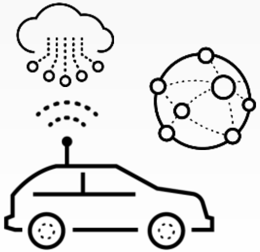
Security in the digital age



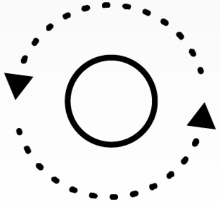
ANALYTICS



AI



IoT



AUTOMATION

DATA DRIVEN **AUTOMATED** **CLOUD DELIVERED**

The Palo Alto Networks Security Operating Platform

PREVENT SUCCESSFUL CYBERATTACKS

Operate with ease using best practices

FOCUS ON WHAT MATTERS

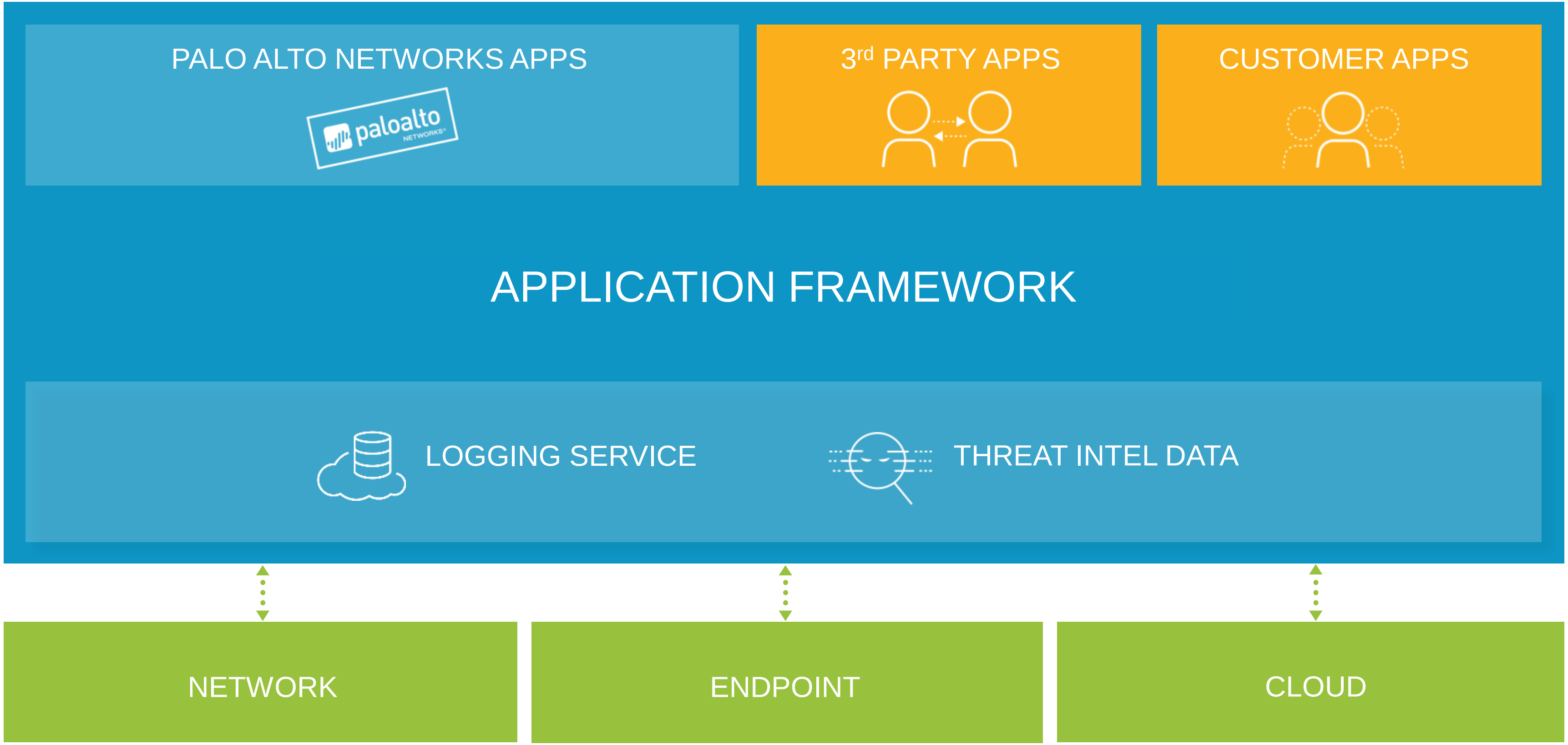
Automate tasks using context and analytics

CONSUME INNOVATIONS QUICKLY

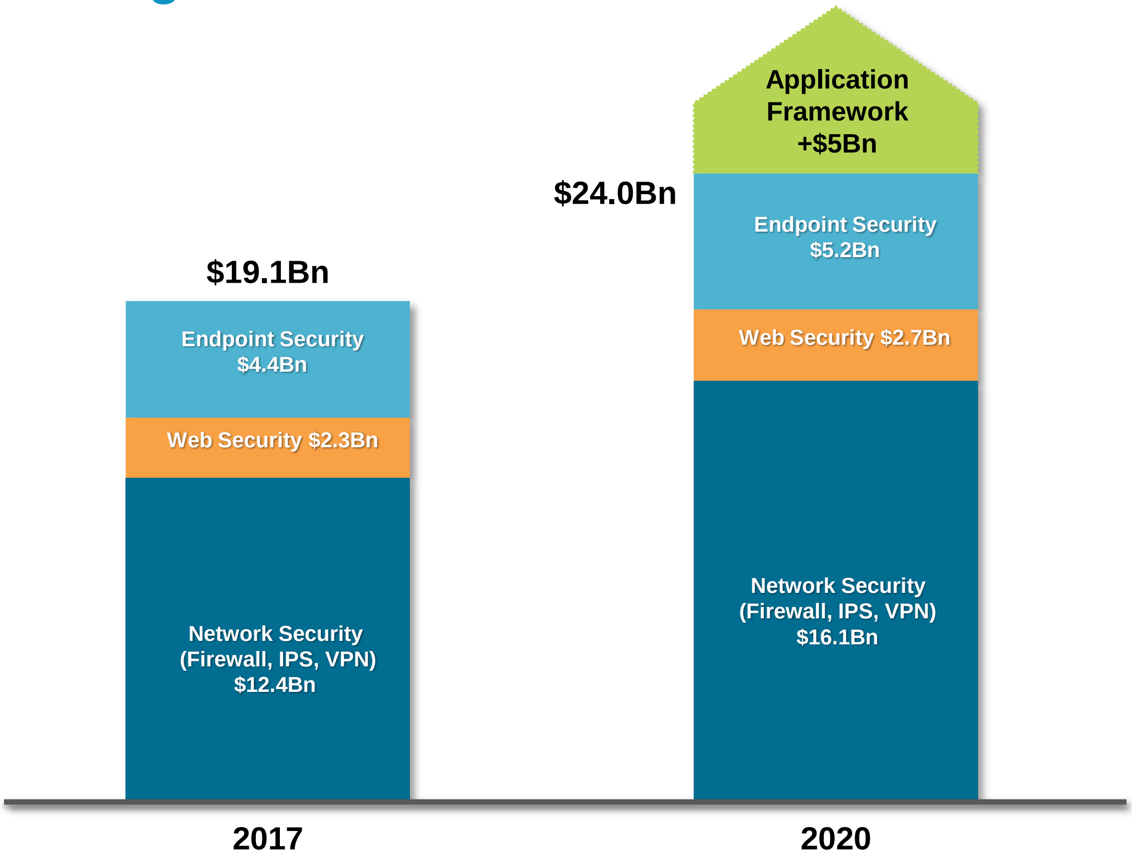
From our technologies and 3rd parties.

BUILT FOR AUTOMATION

The Palo Alto Networks Security Operating Platform



Large and expanding addressable market

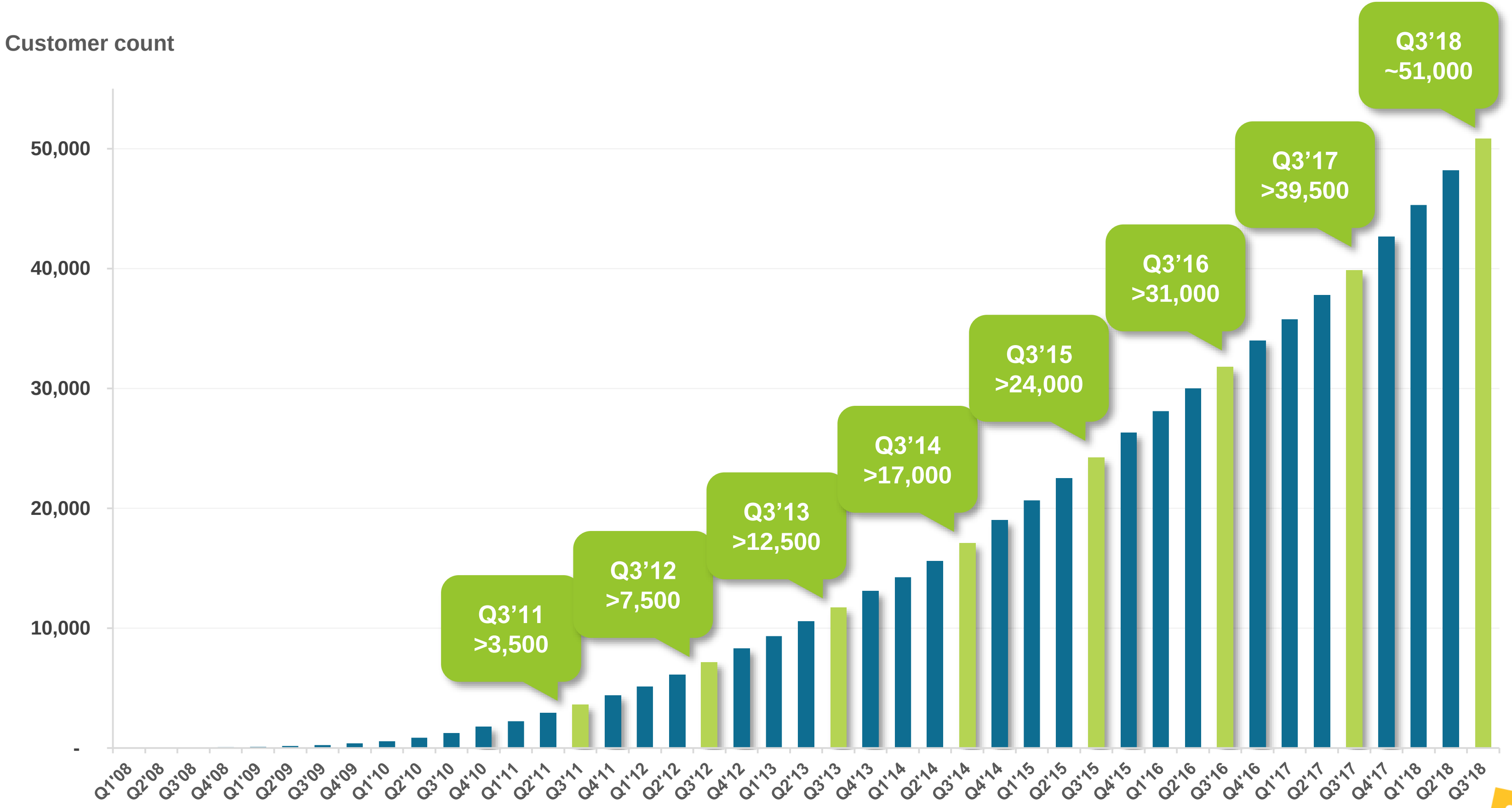


Sources: IDC, Worldwide Network Security 2016–2020 Forecast, September 2016.
IDC, Worldwide Web Security 2016–2020 Forecast, December 2016.
IDC, Worldwide Enterprise Endpoint Security 2016–2020 Forecast, October 2016.

The power of the hybrid-SaaS model

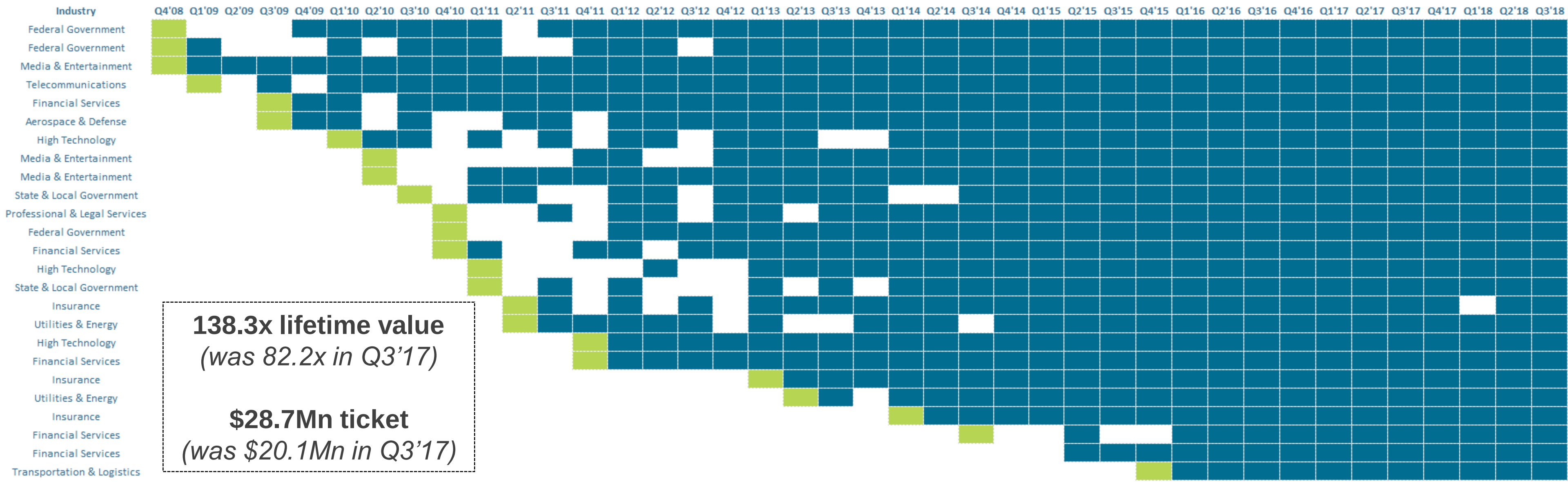
<table>
<tr><th colspan="2">Product</th><th colspan="3">Recurring subscription and support revenue</th></tr>
<tr><th>Hardware</th><th>Perpetual</th><th>Attached subscriptions</th><th>Non-attached subscriptions</th><th>Support</th></tr>
<tr><td rowspan="2">Appliances
Accessories</td><td rowspan="2">Panorama
VM-Series</td><td>Threat Prevention
URL Filtering
GlobalProtect
WildFire</td><td>Traps
VM-Series
AutoFocus
Aperture
Logging Service
GlobalProtect cloud service
Magnifier</td><td>Support
Professional services</td></tr>
<tr><td colspan="3">Renewals</td></tr>
</table>

Continued strength of customer acquisition



Note: Fiscal year ends July 31.

Q3’18 top-25 customer buying behavior



138.3x lifetime value
(was 82.2x in Q3’17)

$28.7Mn ticket
(was $20.1Mn in Q3’17)

The green cell indicates the quarter of initial purchase.

The blue cell indicates each quarter a customer transacted with Palo Alto Networks.

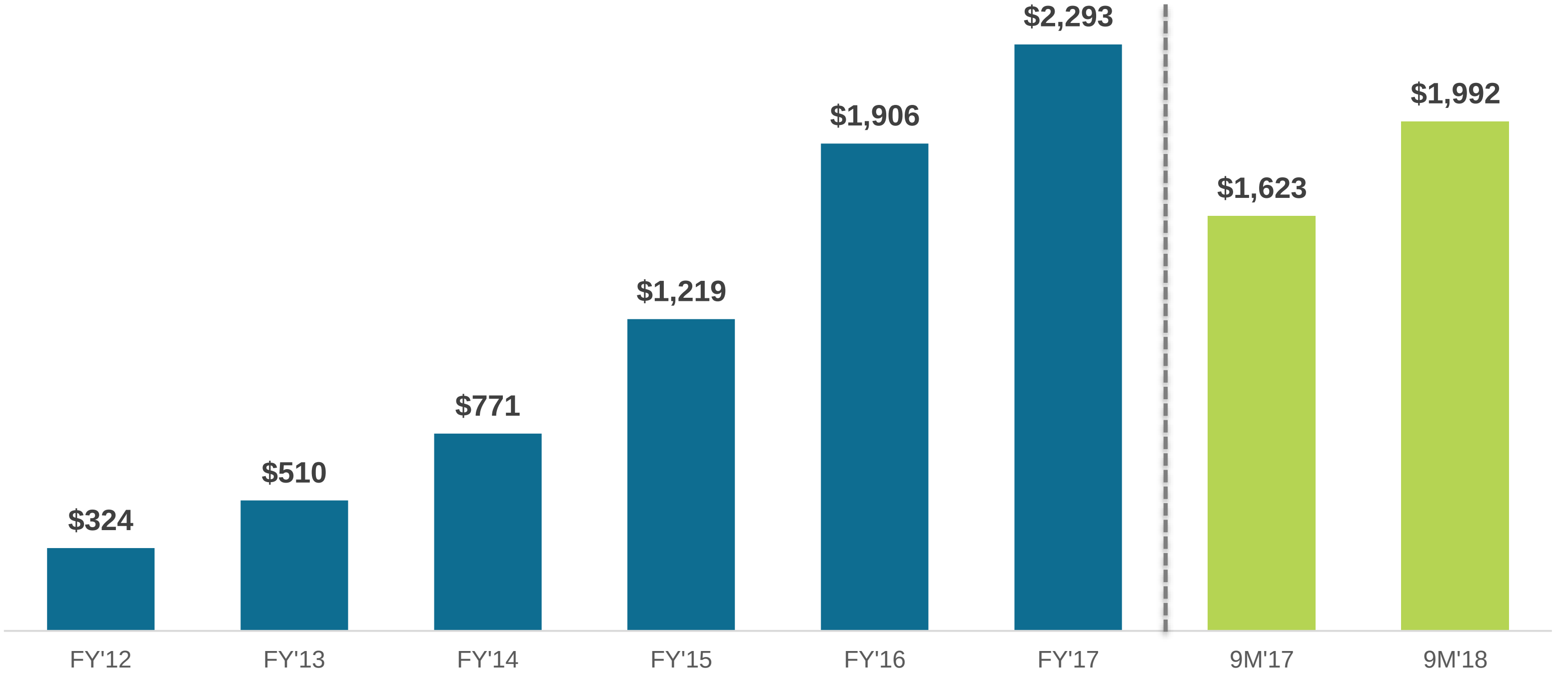
Financial highlights

	Q3 FY'18	Q3 FY'17	Y/Y Change
Billings[1]	$721.0Mn	$544.1Mn	32.5%
Revenue	$567.1Mn	$431.8Mn	31.3%
Gross margin %[2]	76.2%	76.4%	(20) bps
Operating margin %[2]	20.3%	18.4%	190 bps
EPS[2]	$0.99	$0.61	$0.38
Deferred revenue	$2.2Bn	$1.6Bn	33.7%
Free cash flow margin %[2]	37.5%	37.7%	(20) bps

(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.
(2) Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure.
Note: Fiscal year ends July 31.

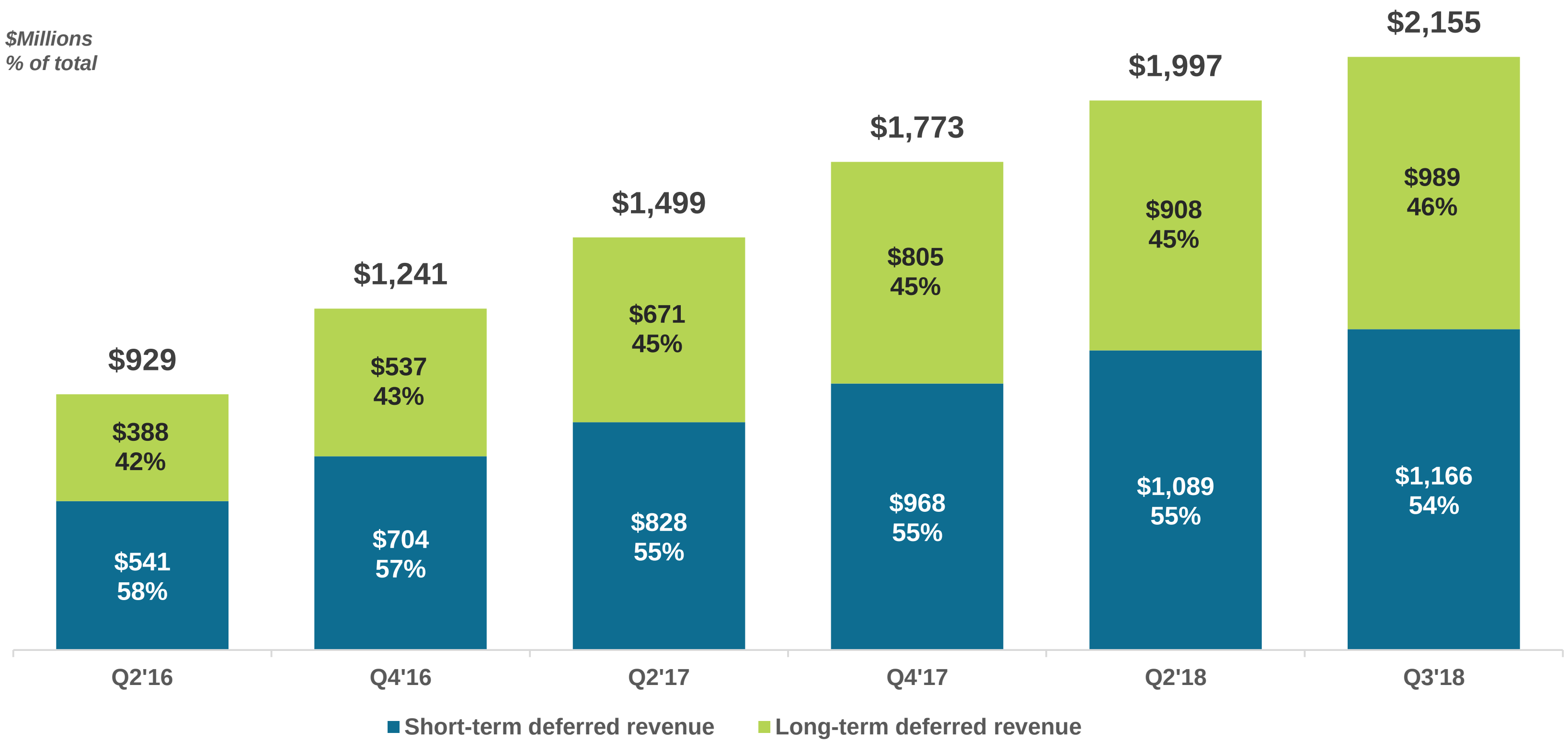
Annual billings momentum

$Millions



Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period.
See appendix for calculation.
Note: Fiscal year ends July 31.

Deferred revenue

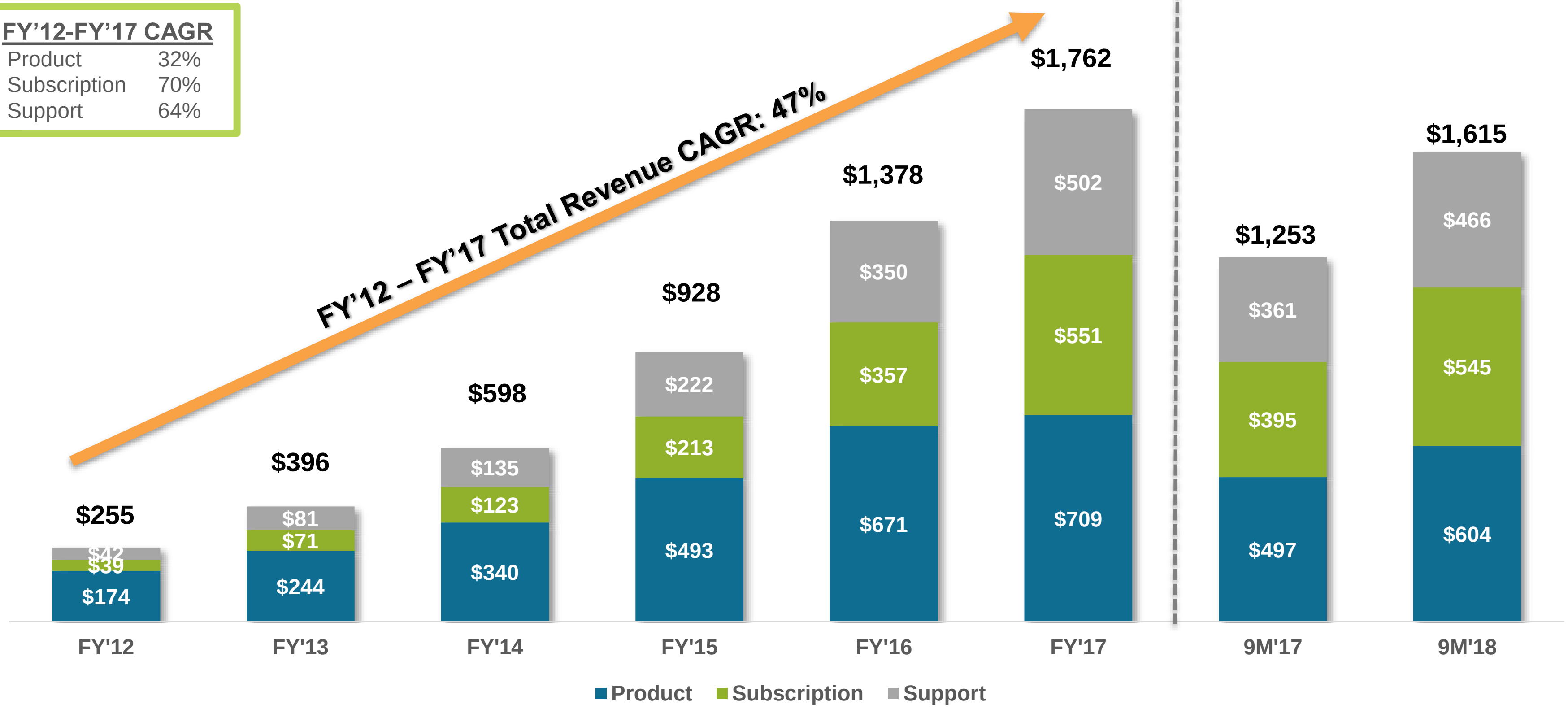


Note: Fiscal year ends July 31.

Revenue by type

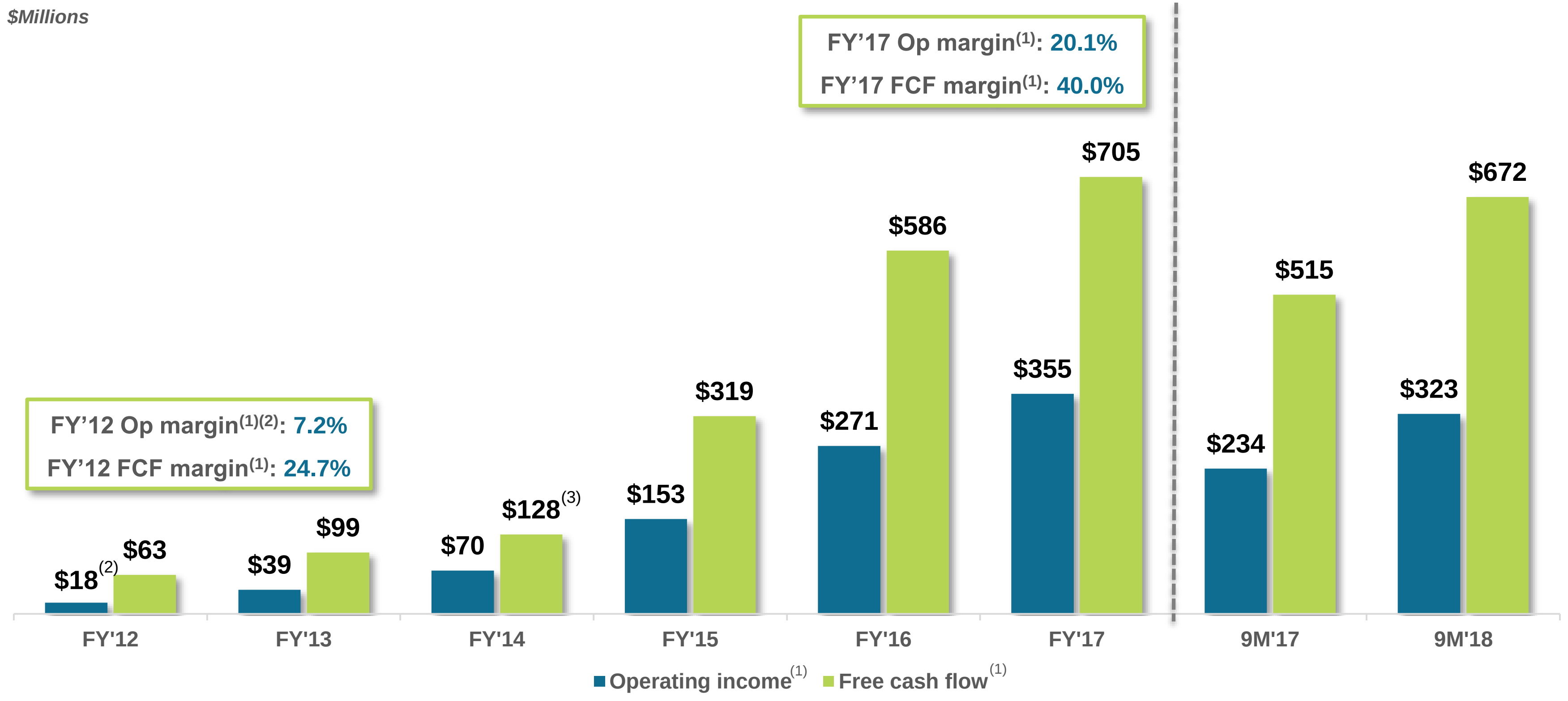
$Millions

FY’12-FY’17 CAGR	
Product	32%
Subscription	70%
Support	64%



Note: Fiscal year ends July 31.

Leverage at scale



(1) Non-GAAP financial measure. See appendix for reconciliation to most comparable GAAP financial measure.
(2) FY’12 operating income and margin are not adjusted for deferred commissions impact. All other periods reflect change in accounting policy.
(3) FY’14 free cash flow is adjusted to exclude the $75.0 million cash payment related to the Juniper settlement in Q4 FY’14. See appendix for reconciliation to most comparable GAAP financial measure.
Note: Fiscal year ends July 31.

New revenue recognition standard: ASC 606

We will adopt the new standard using the full retrospective approach at the beginning of Q1 FY19

	Current standard (ASC 605)	New standard (ASC 606)
Hardware / perpetual software[1]	Upfront	Upfront
Term licenses	Ratable	Upfront
Subscription / SaaS	Ratable	Ratable
Professional services	Upon completion of project or over time as hours incurred	Over time as hours incurred
Allocation of revenue for software products	Residual method	Relative selling price
Commission expense	Partially deferred and recognized over contract term	Partially deferred and recognized over the period of benefits

(1) Expected change due to removal of contingent revenue

Appendix

Calculation of billings

$Millions

Billings:	**FY'12**	**FY'13**	**FY'14**	**FY'15**	**FY'16**	**FY'17**	**9M'17**	**9M'18**	**Q3'17**	**Q3'18**
Total revenue	$ 255.1	$ 396.1	$ 598.2	$ 928.1	$ 1,378.5	$ 1,761.6	$ 1,252.5	$ 1,615.0	$ 431.8	$ 567.1
Add: change in total deferred revenue, net of acquired deferred revenue	68.6	113.4	173.2	291.0	527.1	531.8	370.1	377.1	112.3	153.9
Billings	$ 323.7	$ 509.5	$ 771.4	$ 1,219.1	$ 1,905.6	$ 2,293.4	$ 1,622.6	$ 1,992.1	$ 544.1	$ 721.0

Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations

$Millions

Non-GAAP gross profit and gross margin:	Q3'17		Q3'18	
	$	%	$	%
GAAP gross profit and gross margin	$ 308.1	71.4%	$ 407.2	71.8%
Share-based compensation related charges	16.7	3.8%	18.2	3.3%
Amortization expense of acquired intangible assets	2.2	0.5%	3.4	0.6%
Litigation related charges[(1)]	3.1	0.7%	3.1	0.5%
Non-GAAP gross profit and gross margin	$ 330.1	76.4%	$ 431.9	76.2%

(1) Consists of the amortization of intellectual property licenses.
Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations (cont'd)

$Millions

Non-GAAP operating income and operating margin:	FY'12		FY'13		FY'14		FY'15		FY'16		FY'17	
	$	%	$	%	$	%	$	%	$	%	$	%
GAAP operating income (loss) and operating margin[(1)]	$ 3.9	1.5%	$ (9.9)	(2.5%)	$ (196.2)	(32.8%)	$ (99.8)	(10.8%)	$ (157.3)	(11.4%)	$ (179.8)	(10.2%)
Share-based compensation related charges	13.9	5.4%	45.1	11.4%	101.3	16.9%	233.2	25.1%	407.5	29.6%	488.9	27.7%
Acquisition related costs[(2)]	-	-	-	-	7.8	1.3%	0.7	0.1%	-	-	3.1	0.2%
Amortization expense of acquired intangible assets	-	-	-	-	2.1	0.4%	7.0	0.8%	8.3	0.6%	8.9	0.5%
Litigation related charges[(3)]	0.7	0.3%	3.6	0.9%	154.5	25.8%	12.3	1.3%	12.3	0.9%	12.3	0.7%
Facility exit costs[(4)]	-	-	0.3	0.1%	-	-	-	-	-	-	21.3	1.2%
Non-GAAP operating income and operating margin	$ 18.5	7.2%	$ 39.1	9.9%	$ 69.5	11.6%	$ 153.4	16.5%	$ 270.8	19.7%	$ 354.7	20.1%

Non-GAAP operating income and operating margin:	9M'17		9M'18		Q3'17		Q3'18	
	$	%	$	%	$	%	$	%
GAAP operating loss and operating margin	$ (152.5)	(12.2%)	$ (137.7)	(8.5%)	$ (49.1)	(11.4%)	$ (51.6)	(9.1%)
Share-based compensation related charges	368.0	29.5%	388.3	24.1%	120.6	28.0%	123.1	21.8%
Acquisition related costs[(2)]	3.1	0.2%	13.3	0.8%	2.4	0.6%	13.3	2.3%
Amortization expense of acquired intangible assets	6.4	0.5%	8.6	0.5%	2.3	0.5%	3.6	0.6%
Litigation related charges[(3)]	9.2	0.7%	9.2	0.6%	3.1	0.7%	3.1	0.5%
Facility exit costs[(4)]	-	-	40.8	2.5%	-	-	23.8	4.2%
Non-GAAP operating income and operating margin	$ 234.2	18.7%	$ 322.5	20.0%	$ 79.3	18.4%	$ 115.3	20.3%

(1) *FY'12 GAAP operating income and operating margin are not adjusted for deferred commissions impact. All other periods reflect change in policy.*

(2) *Consists of acquisition transaction costs, share-based compensation related to the accelerated vesting of certain equity awards, and costs to terminate certain employment and operating lease 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, the mark-to-market for the warrants issued as part of the settlement with Juniper of $5.9M in Q4'14, 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) *For FY'13, consists of loss on facility sublease. For FY'17, consists of charges related to the relocation of our corporate headquarters (impairment loss of $20.9 million and accelerated depreciation). For 9M'18, consists of charges related to the relocation of our corporate headquarters (cease-use loss of $15.4 million and accelerated depreciation in Q1'18 and additional cease-use loss of $23.8 million in Q3'18) 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 Q2'18).*

Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations (cont'd)

Non-GAAP net income per share, diluted:	Q3'17	Q3'18
GAAP net loss per share, diluted	$ (0.67)	$ (0.51)
Share-based compensation related charges	1.30	1.30
Acquisition related costs(1)	0.03	0.14
Amortization expense of acquired intangible assets	0.03	0.04
Litigation related charges(2)	0.03	0.03
Facility exit costs(3)	-	0.26
Non-cash interest expense related to convertible notes	0.07	0.07
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	(0.02)
Income tax and other tax adjustments related to the above(4)	(0.20)	(0.32)
Non-GAAP net income per share, diluted	$ 0.61	$ 0.99

(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 (cease-use loss of $23.8 million in Q3'18).*
(4) *Effective Q2'18, our non-GAAP effective tax rate changed from 31% to 22% due to the reduction of the U.S. federal corporate income tax rate under the U.S. Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017.*

Note: Fiscal year ends July 31.

GAAP to non-GAAP reconciliations (cont'd)

$Millions

Free cash flow (non-GAAP):	FY'12	FY'13	FY'14	FY'15	FY'16	FY'17	9M'17	9M'18[1]	Q3'17	Q3'18
Net cash provided by operating activities	$ 77.6	$ 121.3	$ 89.4	$ 352.8	$ 658.6	$ 868.5	$ 629.0	$ 759.1	$ 211.2	$ 241.3
Less: purchases of property, equipment, and other assets	14.6	22.4	36.1	33.8	72.5	163.4	114.2	86.6	48.6	28.8
Free cash flow (non-GAAP)	$ 63.0	$ 98.9	$ 53.3	$ 319.0	$ 586.1	$ 705.1	$ 514.8	$ 672.5	$ 162.6	$ 212.5
Free cash flow margin (non-GAAP)	*24.7%*	*25.0%*	*8.9%*	*34.4%*	*42.5%*	*40.0%*	*41.1%*	*41.6%*	*37.7%*	*37.5%*
Net cash used in investing activities	$ (14.6)	$ (151.5)	$ (320.3)	$ (679.0)	$ (338.9)	$ (472.6)	$ (411.1)	$ (313.6)	$ (166.8)	$ (225.1)
Net cash provided by (used in) financing activities	$ 219.1	$ 18.2	$ 574.1	$ 48.2	$ 38.9	$ (386.0)	$ (260.3)	$ (240.8)	$ (113.8)	$ 17.8

Adjusted free cash flow (non-GAAP):	FY'14
Net cash provided by operating activities	$ 89.4
Less: purchases of property, equipment, and other assets	36.1
Free cash flow (non-GAAP)	53.3
Add: cash paid for legal settlement	75.0
Adjusted free cash flow (non-GAAP)	$ 128.3
Adjusted free cash flow margin (non-GAAP)	*21.4%*

(1) Cash provided by operating activities during 9M'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 will be applied against rental payments due in fiscal years 2018 through 2020 under the amended lease agreements.

Note: Fiscal year ends July 31.

