

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K**

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)  
September 4, 2019

**PALO ALTO NETWORKS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation)

**001-35594**  
(Commission File Number)

**20-2530195**  
(IRS Employer  
Identification No.)

**3000 Tannery Way**  
**Santa Clara, California 95054**  
(Address of principal executive office, including zip code)

**(408) 753-4000**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.0001 par value per share	PANW	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

**Item 2.02 Results of Operations and Financial Condition.**

On September 4, 2019, Palo Alto Networks, Inc. (the “Company”) issued a press release announcing its financial results for its fiscal fourth quarter and fiscal year ended July 31, 2019. A copy of the press release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference. The Company also provided guidance on certain non-GAAP financial measures and operating metrics for the first quarter fiscal 2020 and full year fiscal 2020. The Company is not able to provide reconciliations for the forward-looking guidance without unreasonable effort.

The information contained in this Item 2.02 and in the accompanying Exhibit 99.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing.

**Item 7.01 Regulation FD Disclosure.**

On September 4, 2019, the Company provided supplemental financial information for its fiscal fourth quarter and fiscal year ended July 31, 2019, on its website at investors.paloaltonetworks.com. The supplemental financial information is furnished herewith as Exhibit 99.2 and is incorporated herein by reference.

The information contained in this Item 7.01 and in the accompanying Exhibit 99.2 shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
<a href="#"><u>99.1</u></a>	Press release dated as of September 4, 2019.
<a href="#"><u>99.2</u></a>	Supplemental financial information dated as of September 4, 2019.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**PALO ALTO NETWORKS, INC.**

By: /s/ NIKESH ARORA  
Nikesh Arora  
Chief Executive Officer

Date: September 4, 2019

**Palo Alto Networks Reports Fiscal Fourth Quarter and Fiscal Year 2019 Financial Results**

- *Fiscal fourth quarter revenue grows 22 percent year over year to \$805.8 million; fiscal year 2019 revenue grows 28 percent year over year to \$2.9 billion*
- *Fiscal fourth quarter billings grow 22 percent year over year to \$1.1 billion; fiscal year 2019 billings grow 22 percent year over year to \$3.5 billion*
- *Deferred revenue grows 27 percent year over year to \$2.9 billion*

**SANTA CLARA, Calif. — September 4, 2019** — Palo Alto Networks (NYSE: PANW), the global cybersecurity leader, today announced financial results for its fiscal fourth quarter and fiscal year 2019, ended July 31, 2019.

Total revenue for the fiscal fourth quarter 2019 grew 22 percent year over year to \$805.8 million, compared with total revenue of \$658.5 million for the fiscal fourth quarter 2018. GAAP net loss for the fiscal fourth quarter 2019 was \$20.8 million, or \$0.22 per diluted share, compared with GAAP net income of \$7.0 million, or \$0.07 per diluted share, for the fiscal fourth quarter 2018.

Non-GAAP net income for the fiscal fourth quarter 2019 was \$146.9 million, or \$1.47 per diluted share, compared with non-GAAP net income of \$131.7 million, or \$1.34 per diluted share, for the fiscal fourth quarter 2018. A reconciliation between GAAP and non-GAAP information is contained in the tables below.

“We had a strong fourth quarter, surpassing a billion dollars in billings within the quarter for the first time, and achieving approximately 180% year-over-year growth in our newer Prisma and Cortex offerings. This year we acquired and released important new technologies and built a

robust go-to-market framework for driving their success in the market. It's gratifying to see all the team's hard work translate into strong market results," said Nikesh Arora, chairman and CEO of Palo Alto Networks. "The addition of our proposed acquisition announced today, Zingbox, Inc., a differentiated player in IoT security, continues our strategy of extending our platforms. Zingbox will add to the capabilities of our Next-Generation Firewall by offering a first-of-its kind subscription that will make it easier for organizations to protect IoT devices from attackers. It will also be available as a service on our Cortex platform."

#### **Analyst Meeting Information**

Palo Alto Networks will host an Investor Event at TheTimesCenter in New York City on Wednesday, September 4 from 4:30 p.m. to approximately 8:00 p.m. Eastern Daylight Time. The in-person event is by invitation only; however, it will be simultaneously accessible via phone and webcast. Interested parties may access the conference call by dialing 1-800-458-4148 or 1-323-794-2093 and using conference ID 8941272. The live audio webcast of the formal investor presentation, along with supplemental financial information, will be accessible beginning at 4:30 p.m. Eastern Daylight Time from the "Investors" section of the Palo Alto Networks website at [investors.paloaltonetworks.com](http://investors.paloaltonetworks.com). The webcast will be archived for a period of one year. A telephonic replay of the conference call will be available three hours after the call, will run for ten days, and may be accessed by dialing 1-888-203-1112 or 1-719-457-0820 and entering the passcode 8941272.

#### **Forward-Looking Statements**

This press release contains forward-looking statements that involve risks and uncertainties, including our proposed acquisition of Zingbox, Inc. and the anticipated benefits of its technology to us and our customers. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including: our limited

operating history; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; 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 security products and subscription and support offerings; length of sales cycles; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial results are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Quarterly Report on Form 10-Q filed with the SEC on May 30, 2019, which is available on our website at [investors.paloaltonetworks.com](http://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 press release are based 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.

#### **Non-GAAP Financial Measures and Other Key Metrics**

Palo Alto Networks has provided in this press release financial information that has not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). The company uses these non-GAAP financial measures and other key metrics internally in analyzing its financial results and believes that the use of these non-GAAP financial measures and key metrics are useful to investors as an additional tool to evaluate ongoing

operating results and trends, and in comparing the company's financial results with other companies in its industry, many of which present similar non-GAAP financial measures or key metrics.

The presentation of these non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures and should be read only in conjunction with the company's consolidated financial statements prepared in accordance with GAAP. A reconciliation of the company's historical non-GAAP financial measures to their most directly comparable GAAP measures has been provided in the financial statement tables included in this press release, and investors are encouraged to review these reconciliations.

*Non-GAAP net income and net income per share, diluted.* Palo Alto Networks defines non-GAAP net income as net income (loss) plus share-based compensation-related charges, including share-based payroll tax expense, acquisition-related costs, amortization expense of acquired intangible assets, litigation-related charges, including legal settlements, facility exit costs, non-cash charges related to convertible notes, and intellectual property restructuring-related charges. The company also excludes from non-GAAP net income the foreign currency gains (losses) and tax effects associated with these items in order to provide a complete picture of the company's recurring core business operating results. The company defines non-GAAP net income per share, diluted, as non-GAAP net income divided by the weighted-average diluted shares outstanding, which includes the potentially dilutive effect of the company's employee equity incentive plan awards and the company's convertible senior notes outstanding and related warrants, after giving effect to the anti-dilutive impact of the company's note hedge agreements, which reduces the potential economic dilution that otherwise would occur upon conversion of the company's convertible senior notes. Under GAAP, the anti-dilutive impact of

the note hedge is not reflected in diluted shares outstanding. The company believes that excluding these items from non-GAAP net income and net income per share, diluted, provides management and investors with greater visibility into the underlying performance of the company's core business operating results, meaning its operating performance excluding these items and, from time to time, other discrete charges that are infrequent in nature, over multiple periods.

*Billings.* Palo Alto Networks defines billings as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. The company considers billings to be a key metric used by management to manage the company's business given the company's hybrid-SaaS revenue model, and believes billings provides investors with an important indicator of the health and visibility of the company's business because it includes subscription and support revenue, which is recognized ratably over the contractual service period, and product revenue, which is recognized at the time of shipment, provided that all other conditions for revenue recognition have been met. The company considers billings to be a useful metric for management and investors, particularly if sales of subscriptions continue to increase and the company experiences strong renewal rates for subscriptions and support.

Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. In particular, the billings metric reported by the company includes amounts that have not yet been recognized as revenue. Additionally, many of the adjustments to the company's GAAP financial measures reflect the exclusion of items that are recurring and will be reflected in the company's financial results for the foreseeable future, such as share-based compensation, which is an important part of Palo Alto Networks employees' compensation and impacts their performance. Furthermore, these non-GAAP financial measures are not based on any standardized methodology prescribed by



GAAP, and the components that Palo Alto Networks excludes in its calculation of non-GAAP financial measures may differ from the components that its peer companies exclude when they report their non-GAAP results of operations. Palo Alto Networks compensates for these limitations by providing specific information regarding the GAAP amounts excluded from these non-GAAP financial measures. In the future, the company may also exclude non-recurring expenses and other expenses that do not reflect the company's core business operating results.

**About Palo Alto Networks**

Palo Alto Networks, the global cybersecurity leader, is shaping the cloud-centric future with technology that is transforming the way people and organizations operate. Our mission is to be the cybersecurity partner of choice, protecting our digital way of life. We help address the world's greatest security challenges with continuous innovation that seizes the latest breakthroughs in artificial intelligence, analytics, automation, and orchestration. By delivering an integrated platform and empowering a growing ecosystem of partners, we are at the forefront of protecting tens of thousands of organizations across clouds, networks, and mobile devices. Our vision is a world where each day is safer and more secure than the one before. For more information, visit [www.paloaltonetworks.com](http://www.paloaltonetworks.com).

Palo Alto Networks, Prisma, Cortex, and the Palo Alto Networks logo are trademarks of Palo Alto Networks, Inc. in the United States and in jurisdictions throughout the world. All other trademarks, trade names, or service marks used or mentioned herein belong to their respective owners.

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**Palo Alto Networks, Inc.**  
**Preliminary Consolidated Statements of Operations**  
(In millions, except per share data)  
(Unaudited)

	Three Months Ended July 31,		Year Ended July 31,	
	2019	2018 (As Adjusted) <sup>(1)</sup>	2019	2018 (As Adjusted) <sup>(1)</sup>
<b>Revenue:</b>				
Product	\$ 305.7	\$ 272.1	\$ 1,096.2	\$ 879.8
Subscription and support	500.1	386.4	1,803.4	1,393.8
<b>Total revenue</b>	<b>805.8</b>	<b>658.5</b>	<b>2,899.6</b>	<b>2,273.6</b>
<b>Cost of revenue:</b>				
Product	82.2	82.0	315.9	272.4
Subscription and support	135.2	102.5	492.5	372.7
<b>Total cost of revenue</b>	<b>217.4</b>	<b>184.5</b>	<b>808.4</b>	<b>645.1</b>
<b>Total gross profit</b>	<b>588.4</b>	<b>474.0</b>	<b>2,091.2</b>	<b>1,628.5</b>
<b>Operating expenses:</b>				
Research and development	158.7	110.3	539.5	400.7
Sales and marketing	370.4	289.9	1,344.0	1,074.2
General and administrative	69.2	56.7	261.8	257.8
<b>Total operating expenses</b>	<b>598.3</b>	<b>456.9</b>	<b>2,145.3</b>	<b>1,732.7</b>
<b>Operating income (loss)</b>	<b>(9.9)</b>	<b>17.1</b>	<b>(54.1)</b>	<b>(104.2)</b>
Interest expense	(20.0)	(10.4)	(83.9)	(29.6)
Other income, net	16.2	10.2	63.4	28.5
Income (loss) before income taxes	(13.7)	16.9	(74.6)	(105.3)
Provision for income taxes	7.1	9.9	7.3	16.9
<b>Net income (loss)</b>	<b>\$ (20.8)</b>	<b>\$ 7.0</b>	<b>\$ (81.9)</b>	<b>\$ (122.2)</b>
<b>Net income (loss) per share, basic</b>	<b>\$ (0.22)</b>	<b>\$ 0.08</b>	<b>\$ (0.87)</b>	<b>\$ (1.33)</b>
<b>Net income (loss) per share, diluted</b>	<b>\$ (0.22)</b>	<b>\$ 0.07</b>	<b>\$ (0.87)</b>	<b>\$ (1.33)</b>
Weighted-average shares used to compute net income (loss) per share, basic	95.8	92.8	94.5	91.7
Weighted-average shares used to compute net income (loss) per share, diluted	95.8	100.5	94.5	91.7

(1) Certain amounts have been adjusted due to the company's adoption of the new revenue recognition standard (ASC 606) as of August 1, 2018 using the full retrospective method.

**Palo Alto Networks, Inc.**  
**Reconciliation of GAAP to Non-GAAP Financial Measures**  
(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended		Year Ended	
	July 31,		July 31,	
	2019	2018	2019	2018
		(As Adjusted) <sup>(1)</sup>		(As Adjusted) <sup>(1)</sup>
GAAP net income (loss)	\$ (20.8)	\$ 7.0	\$ (81.9)	\$ (122.2)
Share-based compensation-related charges	155.3	128.1	591.3	516.4
Acquisition-related costs <sup>(2)</sup>	9.8	4.6	29.8	17.9
Amortization expense of acquired intangible assets	15.0	7.0	53.0	15.6
Litigation-related charges <sup>(3)</sup>	1.0	3.1	10.2	12.3
Facility exit costs <sup>(4)</sup>	2.9	—	7.0	40.8
Non-cash charges related to convertible notes <sup>(5)</sup>	16.5	9.6	72.8	28.8
Foreign currency (gain) loss associated with non-GAAP adjustments	1.5	(0.5)	2.1	(1.0)
Income tax and other tax adjustments related to the above <sup>(6)</sup>	(34.3)	(27.2)	(144.9)	(107.9)
Non-GAAP net income	<u>\$ 146.9</u>	<u>\$ 131.7</u>	<u>\$ 539.4</u>	<u>\$ 400.7</u>
GAAP net income (loss) per share, diluted	\$ (0.22)	\$ 0.07	\$ (0.87)	\$ (1.33)
Share-based compensation-related charges	1.56	1.29	6.00	5.47
Acquisition-related costs <sup>(2)</sup>	0.10	0.05	0.32	0.20
Amortization expense of acquired intangible assets	0.16	0.07	0.56	0.17
Litigation-related charges <sup>(3)</sup>	0.01	0.03	0.11	0.13
Facility exit costs <sup>(4)</sup>	0.03	0.00	0.07	0.44
Non-cash charges related to convertible notes <sup>(5)</sup>	0.17	0.10	0.77	0.31
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.00	0.02	(0.01)
Income tax and other tax adjustments related to the above <sup>(6)</sup>	(0.36)	(0.27)	(1.53)	(1.18)
Non-GAAP net income per share, diluted	<u>\$ 1.47</u>	<u>\$ 1.34</u>	<u>\$ 5.45</u>	<u>\$ 4.20</u>
GAAP weighted-average shares used to compute net income (loss) per share, diluted	95.8	100.5	94.5	91.7
Weighted-average effect of potentially dilutive securities <sup>(7)</sup>	4.2	(2.5)	4.5	3.8
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>100.0</u>	<u>98.0</u>	<u>99.0</u>	<u>95.5</u>

(1) Certain amounts have been adjusted due to the company's adoption of the new revenue recognition standard (ASC 606) as of August 1, 2018 using the full retrospective method.

(2) 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.

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

(4) Consists of charges related to the relocation of the company's corporate headquarters (cease-use loss of \$39.2 million and accelerated depreciation during the fiscal year ended July 31, 2018 and additional cease-use loss of \$7.0 million during the fiscal year ended July 31, 2019) and charges related to the relocation of the company's research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation during the fiscal year ended July 31, 2018).

(5) Consists primarily of non-cash interest expense related to the company's convertible senior notes. Also includes a non-cash loss of \$2.6 million during the fiscal year ended July 31, 2019, related to early conversions of the convertible notes during the period.

(6) The company changed its non-GAAP effective tax rate from 31% to 22% in its second quarter of fiscal 2018 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.

(7) Non-GAAP net income per share, diluted, includes the potentially dilutive effect of employee equity incentive plan awards and convertible senior notes outstanding and related warrants. In addition, non-GAAP net income per share, diluted, includes the anti-dilutive impact of the company's note hedge agreements, which reduced the potentially dilutive effect of the convertible notes by 0.6 million shares for the fiscal year ended July 31, 2019, and 2.5 million shares and 1.8 million shares for the fiscal fourth quarter and fiscal year ended July 31, 2018, respectively.

**Palo Alto Networks, Inc.**  
**Calculation of Billings**  
(In millions)  
(Unaudited)

	Three Months Ended		Year Ended	
	July 31,		July 31,	
	2019	2018	2019	2018
		(As Adjusted) <sup>(1)</sup>		(As Adjusted) <sup>(1)</sup>
Total revenue	\$ 805.8	\$ 658.5	\$ 2,899.6	\$ 2,273.6
Add: change in total deferred revenue, net of acquired deferred revenue	251.1	204.4	590.2	582.6
Billings	\$ 1,056.9	\$ 862.9	\$ 3,489.8	\$ 2,856.2

(1) These amounts have been adjusted due to the company's adoption of the new revenue recognition standard (ASC 606) as of August 1, 2018 using the full retrospective method.

**Palo Alto Networks, Inc.**  
**Preliminary Consolidated Balance Sheets**  
(In millions)  
(Unaudited)

	July 31, 2019	July 31, 2018
		(As Adjusted) <sup>(1)</sup>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 961.4	\$ 2,506.9
Short-term investments	1,841.7	896.5
Accounts receivable, net	582.4	467.0
Prepaid expenses and other current assets	279.3	268.1
<b>Total current assets</b>	<b>3,664.8</b>	<b>4,138.5</b>
Property and equipment, net	296.0	273.1
Long-term investments	575.4	547.5
Goodwill	1,352.3	522.8
Intangible assets, net	280.6	140.8
Other assets	423.1	326.2
<b>Total assets</b>	<b>\$ 6,592.2</b>	<b>\$ 5,948.9</b>
<b>Liabilities, temporary equity, and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 73.3	\$ 49.4
Accrued compensation	235.5	163.7
Accrued and other liabilities	162.4	124.6
Deferred revenue	1,582.1	1,213.6
Convertible senior notes, net	—	550.4
<b>Total current liabilities</b>	<b>2,053.3</b>	<b>2,101.7</b>
Convertible senior notes, net	1,430.0	1,369.7
Long-term deferred revenue	1,306.6	1,065.7
Other long-term liabilities	216.0	229.6
Temporary equity	—	21.9
Stockholders' equity:		
Preferred stock	—	—
Common stock and additional paid-in capital	2,490.9	1,967.4
Accumulated other comprehensive loss	(3.7)	(16.4)
Accumulated deficit	(900.9)	(790.7)
<b>Total stockholders' equity</b>	<b>1,586.3</b>	<b>1,160.3</b>
<b>Total liabilities, temporary equity, and stockholders' equity</b>	<b>\$ 6,592.2</b>	<b>\$ 5,948.9</b>

(1) Certain amounts have been adjusted due to the company's adoption of the new revenue recognition standard (ASC 606) as of August 1, 2018 using the full retrospective method.

### Supplemental Financial Information

This is an overview of our fiscal fourth quarter and fiscal 2019 results, along with our forward-looking guidance. In the fourth quarter, total revenue grew 22% to \$805.8 million. Product revenue of \$305.7 million grew by 12%. Fourth quarter subscription revenue of \$292.9 million increased by 37%, and support revenue of \$207.2 million increased by 20%.

Total billings in the fourth quarter were approximately \$1.1 billion, an increase of 22% year-over-year. The dollar weighted contract duration for new subscription and support billings in the quarter, while down by over two months compared to the same period one year ago, remained at approximately three years.

Total deferred revenue at the end of Q4'19 was \$2.9 billion, an increase of 27%.

We continue to increase our wallet share with existing customers. Our top 25 customers spent a minimum of \$39.1 million in lifetime value, a 23% percent increase over the \$31.7 million spend in the same period a year ago.

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Q4'19 GAAP gross margin was 73.0% and Q4'19 non-GAAP gross margin was 77.5%, an increase of 130 basis points compared to last year.

Q4'19 GAAP operating expenses were \$598.3 million dollars, or 74% of revenue, and Q4'19 non-GAAP operating expenses were \$450.4 million, or 56% of revenue. Q4'19 GAAP operating margin was (1.2%) and Q4'19 non-GAAP operating margin was 21.6%. This includes approximately \$10 million of net operating expenses related to acquisitions.

We ended the fourth quarter with 7,014 employees.

Fourth quarter GAAP net loss was \$20.8 million or \$0.22 per basic and diluted share compared to GAAP net income of \$7.0 million or \$0.07 per diluted share for the prior year period. Non-GAAP net income for the fourth quarter grew 12% to \$146.9 million, or \$1.47 per diluted share.

To recap the full year:

We reported total revenue of \$2.9 billion, a 28% increase year-over-year, with approximately \$1.1 billion of product revenue, up 25% year-over-year.

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Total billings were \$3.5 billion, up 22% year-over-year. Product billings were \$1.1 billion, support billings were \$947.4 million and subscription billings were \$1.4 billion.

For the full fiscal year, GAAP operating margin was (1.9%) and non-GAAP operating margin was 22.0%, an increase of 10 basis points year-over-year compared to FY'18, and included approximately \$32 million of net expense related to acquisitions throughout the year. GAAP net loss declined 33% year-over-year to \$81.9 million or \$0.87 per basic and diluted share, while non-GAAP net income grew 35% year-over-year to \$539.4 million, or \$5.45 per diluted share.

Turning to cash flow and balance sheet items:

We finished July with cash, cash equivalents and investments of \$3.4 billion.

Q4'19 cash flow from operations of \$231.5 million declined 17% year-over-year. Free cash flow was \$178.4 million, a decline of 29% year-over-year, at a margin of 22.1%. Adjusting for cash charges associated with our headquarters in Santa Clara and imputed interest expense associated with our 2019 convertible debt offering, adjusted free cash flow was \$238.6

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million, down 8% at a margin of 29.6%. Capital expenditures in the quarter were \$53.1 million. DSO was 55 days, a decline of two days from the prior year period.

Full year fiscal 2019 cash flow from operations was \$1.1 billion, and free cash flow was \$924.4 million, at a margin of 31.9%. Adjusting for cash charges associated with our headquarters in Santa Clara and the retirement of our 2019 convertible debt, adjusted free cash flow for the year was \$1.1 billion, at a margin of 36.7%.

Regarding forward-looking guidance - for fiscal Q1'20, we expect revenue to be in the range of \$760 million to \$770 million, an increase of 16% to 17% year-over-year. We expect Q1'20 total billings to be in the range of \$875 million to \$890 million, an increase of 15% to 17% year-over-year. We expect Q1'20 non-GAAP EPS to be in the range of \$1.02 to \$1.04, which includes net expenses related to our recent acquisitions, including the proposed acquisition of Zingbox, and uses approximately 99.5 million to 101.5 million shares.

For fiscal 2020, we expect revenue to be in the range of \$3,440 million to \$3,480 million, an increase of 19% to 20% year-over-year. We expect fiscal

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2020 total billings to be in the range of \$4,095 million to \$4,155 million, an increase of 17% to 19% year-over-year. Additionally, we expect fiscal 2020 Next-Gen Security billings to be in the range of \$800 million to \$810 million, an increase of 77% to 79% year-over-year. We expect fiscal 2020 non-GAAP EPS to be in the range of \$5.00 to \$5.10, which includes net expenses related to recent acquisitions and uses approximately 102 to 104 million shares.

Here are some additional modeling points:

Our Q1'20 non-GAAP EPS guidance includes the net impact of recent acquisitions (Demisto, Twistlock, PureSec and proposed acquisition of Zingbox), in the range of \$10 million to \$12 million or \$0.08 to \$0.09 per share. Our fiscal 2020 non-GAAP EPS guidance includes a \$45 million net impact of acquisitions, or \$0.34 per share.

Finally, turning to free cash flow. For fiscal 2020, we expect an adjusted free cash flow margin of approximately 30%. The adjustments include one-time items, such as the expected settlement of our 2023 convertible debt

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### **Non-GAAP Financial Measures and Other Key Metrics**

This supplemental financial information contains financial statements that have not been prepared in accordance with generally accepted accounting principles in the United States (GAAP). We use these non-GAAP financial measures and key metrics internally in analyzing our financial results and believe that the use of these non-GAAP financial measures and key metrics is useful to investors as an additional tool to evaluate ongoing operating results and trends and in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures or key metrics.

Non-GAAP financial measures and key metrics are not meant to be considered in isolation or as a substitute for comparable GAAP financial measures, and should be read only in conjunction with our consolidated financial statements prepared in accordance with GAAP. A reconciliation of our non-GAAP financial measures and key metrics to the most directly comparable GAAP measures has been provided in the financial statement tables included in this supplemental financial information, and investors are encouraged to review these reconciliations. We have not provided a reconciliation of forward-looking non-GAAP measures to the corresponding GAAP

**Palo Alto Networks, Inc.**  
**Condensed Consolidated Statements of Operations - Fiscal Years**  
(In millions, except percentages)

	<u>FY17<sup>(1)</sup></u>	<u>FY18<sup>(1)</sup></u>	<u>FY19</u>
Revenue:			
Product	\$ 708.5	\$ 879.8	\$ 1,096.2
Subscription and support	1,046.6	1,393.8	1,803.4
Total revenue	<u>1,755.1</u>	<u>2,273.6</u>	<u>2,899.6</u>
Cost of revenue:			
Product	201.4	272.4	315.9
Subscription and support	275.0	372.7	492.5
Total cost of revenue	<u>476.4</u>	<u>645.1</u>	<u>808.4</u>
Total gross profit	1,278.7	1,628.5	2,091.2
<i>Product gross margin</i>	71.6 %	69.0 %	71.2 %
<i>Subscription and support gross margin</i>	73.7 %	73.3 %	72.7 %
<i>Total gross margin</i>	72.9 %	71.6 %	72.1 %
Operating expenses:			
Research and development	347.4	400.7	539.5
Sales and marketing	898.8	1,074.2	1,344.0
General and administrative	198.3	257.8	261.8
Total operating expenses	<u>1,444.5</u>	<u>1,732.7</u>	<u>2,145.3</u>
Operating loss	(165.8)	(104.2)	(54.1)
Interest expense	(24.5)	(29.6)	(83.9)
Other income, net	10.2	28.5	63.4
Loss before income taxes	<u>(180.1)</u>	<u>(105.3)</u>	<u>(74.6)</u>
Provision for income taxes	22.9	16.9	7.3
Net loss	<u>\$ (203.0)</u>	<u>\$ (122.2)</u>	<u>\$ (81.9)</u>

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for FY'17 and FY'18 have been adjusted.

**Palo Alto Networks, Inc.**  
**Condensed Consolidated Statements of Operations - Fiscal Quarters**  
(In millions, except percentages)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
Revenue:								
Product	\$ 184.8	\$ 204.8	\$ 218.1	\$ 272.1	\$ 240.5	\$ 271.6	\$ 278.4	\$ 305.7
Subscription and support	317.0	340.8	349.6	386.4	415.5	439.6	448.2	500.1
Total revenue	501.8	545.6	567.7	658.5	656.0	711.2	726.6	805.8
Cost of revenue:								
Product	57.6	63.9	68.9	82.0	73.2	82.5	78.0	82.2
Subscription and support	83.7	95.5	91.0	102.5	110.3	120.1	126.9	135.2
Total cost of revenue	141.3	159.4	159.9	184.5	183.5	202.6	204.9	217.4
Total gross profit	360.5	386.2	407.8	474.0	472.5	508.6	521.7	588.4
<i>Product gross margin</i>	68.8 %	68.8 %	68.4 %	69.9 %	69.6 %	69.6 %	72.0 %	73.1 %
<i>Subscription and support gross margin</i>	73.6 %	72.0 %	74.0 %	73.5 %	73.5 %	72.7 %	71.7 %	73.0 %
<i>Total gross margin</i>	71.8 %	70.8 %	71.8 %	72.0 %	72.0 %	71.5 %	71.8 %	73.0 %
Operating expenses:								
Research and development	94.2	96.6	99.6	110.3	113.4	128.3	139.1	158.7
Sales and marketing	254.1	258.8	271.4	289.9	314.6	320.0	339.0	370.4
General and administrative	65.7	53.3	82.1	56.7	76.6	53.7	62.3	69.2
Total operating expenses	414.0	408.7	453.1	456.9	504.6	502.0	540.4	598.3
Operating income (loss)	(53.5)	(22.5)	(45.3)	17.1	(32.1)	6.6	(18.7)	(9.9)
Interest expense	(6.3)	(6.4)	(6.5)	(10.4)	(22.7)	(20.6)	(20.6)	(20.0)
Other income, net	4.8	4.9	8.6	10.2	13.0	16.0	18.2	16.2
Income (loss) before income taxes	(55.0)	(24.0)	(43.2)	16.9	(41.8)	2.0	(21.1)	(13.7)
Provision for (benefit from) income taxes	8.2	1.6	(2.8)	9.9	(3.5)	4.6	(0.9)	7.1
Net income (loss)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for FY'18 have been adjusted.

**Palo Alto Networks, Inc.**  
**Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Years**  
(In millions, except percentages)

	FY17 <sup>(1)</sup>	FY18 <sup>(1)</sup>	FY19
Revenue:			
Product	\$ 708.5	\$ 879.8	\$ 1,096.2
Subscription and support	1,046.6	1,393.8	1,803.4
Total revenue	<u>1,755.1</u>	<u>2,273.6</u>	<u>2,899.6</u>
Cost of revenue:			
Product	181.6	252.7	299.7
Subscription and support	207.9	287.3	373.9
Total cost of revenue	<u>389.5</u>	<u>540.0</u>	<u>673.6</u>
Total gross profit	1,365.6	1,733.6	2,226.0
<i>Product gross margin</i>	74.4 %	71.3 %	72.7 %
<i>Subscription and support gross margin</i>	80.1 %	79.4 %	79.3 %
<i>Total gross margin</i>	77.8 %	76.2 %	76.8 %
Operating expenses:			
Research and development	190.8	251.2	347.8
Sales and marketing	706.0	856.6	1,101.1
General and administrative	100.1	127.0	139.9
Total operating expenses	<u>996.9</u>	<u>1,234.8</u>	<u>1,588.8</u>
Operating income	368.7	498.8	637.2
Interest expense	-	(0.8)	(13.7)
Other income, net	12.6	27.5	68.1
Income before income taxes	<u>381.3</u>	<u>525.5</u>	<u>691.6</u>
Provision for income taxes	118.1	124.8	152.2
Net income	<u>\$ 263.2</u>	<u>\$ 400.7</u>	<u>\$ 539.4</u>

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for FY'17 and FY'18 have been adjusted.

**Palo Alto Networks, Inc.**

**Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters**

(In millions, except percentages)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
Revenue:								
Product	\$ 184.8	\$ 204.8	\$ 218.1	\$ 272.1	\$ 240.5	\$ 271.6	\$ 278.4	\$ 305.7
Subscription and support	317.0	340.8	349.6	386.4	415.5	439.6	448.2	500.1
Total revenue	501.8	545.6	567.7	658.5	656.0	711.2	726.6	805.8
Cost of revenue:								
Product	52.6	58.8	64.0	77.3	68.5	77.8	73.6	79.8
Subscription and support	64.6	72.2	71.2	79.3	84.5	91.1	96.8	101.5
Total cost of revenue	117.2	131.0	135.2	156.6	153.0	168.9	170.4	181.3
Total gross profit	384.6	414.6	432.5	501.9	503.0	542.3	556.2	624.5
<i>Product gross margin</i>	71.5 %	71.3 %	70.7 %	71.6 %	71.5 %	71.4 %	73.6 %	73.9 %
<i>Subscription and support gross margin</i>	79.6 %	78.8 %	79.6 %	79.5 %	79.7 %	79.3 %	78.4 %	79.7 %
<i>Total gross margin</i>	76.6 %	76.0 %	76.2 %	76.2 %	76.7 %	76.3 %	76.5 %	77.5 %
Operating expenses:								
Research and development	56.0	59.7	62.7	72.8	72.4	82.4	92.4	100.6
Sales and marketing	201.5	203.2	217.5	234.4	254.9	253.8	277.7	314.7
General and administrative	30.5	31.0	30.7	34.8	39.2	31.3	34.3	35.1
Total operating expenses	288.0	293.9	310.9	342.0	366.5	367.5	404.4	450.4
Operating income	96.6	120.7	121.6	159.9	136.5	174.8	151.8	174.1
Interest expense	-	-	-	(0.8)	(3.3)	(3.5)	(3.4)	(3.5)
Other income, net	5.3	5.9	6.6	9.7	14.7	17.0	18.7	17.7
Income before income taxes	101.9	126.6	128.2	168.8	147.9	188.3	167.1	188.3
Provision for income taxes	31.6	27.9	28.2	37.1	32.5	41.3	37.0	41.4
Net income	\$ 70.3	\$ 98.7	\$ 100.0	\$ 131.7	\$ 115.4	\$ 147.0	\$ 130.1	\$ 146.9

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for FY'18 have been adjusted.



**Palo Alto Networks, Inc.**  
**GAAP to Non-GAAP Reconciliations and Calculations of Other Key Metrics - Fiscal Years**  
(In millions, except percentages and per share amounts)

	FY17 <sup>(1)</sup>	FY18 <sup>(1)</sup>	FY19
<b>GAAP to Non-GAAP Reconciliations</b>			
GAAP product gross profit	\$ 507.1	\$ 607.4	\$ 780.3
Share-based compensation-related charges	7.5	7.2	6.0
Amortization expense of acquired intangible assets	-	0.2	-
Litigation-related charges <sup>(2)</sup>	12.3	12.3	10.2
Non-GAAP product gross profit	\$ 526.9	\$ 627.1	\$ 796.5
Non-GAAP product gross margin	74.4%	71.3%	72.7%
GAAP subscription and support gross profit	\$ 771.6	\$ 1,021.1	\$ 1,310.9
Share-based compensation-related charges	58.7	71.2	78.2
Amortization expense of acquired intangible assets	8.4	14.2	40.4
Non-GAAP subscription and support gross profit	\$ 838.7	\$ 1,106.5	\$ 1,429.5
Non-GAAP subscription and support gross margin	80.1%	79.4%	79.3%
GAAP total gross profit	\$ 1,278.7	\$ 1,628.5	\$ 2,091.2
Share-based compensation-related charges	66.2	78.4	84.2
Amortization expense of acquired intangible assets	8.4	14.4	40.4
Litigation-related charges <sup>(2)</sup>	12.3	12.3	10.2
Non-GAAP total gross profit	\$ 1,365.6	\$ 1,733.6	\$ 2,226.0
Non-GAAP gross margin	77.8%	76.2%	76.8%
GAAP research and development expense	\$ 347.4	\$ 400.7	\$ 539.5
Share-based compensation-related charges	156.3	149.5	191.7
Amortization expense of acquired intangible assets	0.3	-	-
Non-GAAP research and development expense	\$ 190.8	\$ 251.2	\$ 347.8
Non-GAAP research and development expense as a percentage of revenue	10.9%	11.0%	12.0%
GAAP sales and marketing expense	\$ 898.8	\$ 1,074.2	\$ 1,344.0
Share-based compensation-related charges	192.6	216.3	230.3
Acquisition-related costs <sup>(3)</sup>	-	0.1	-
Amortization expense of acquired intangible assets	0.2	1.2	12.6
Non-GAAP sales and marketing expense	\$ 706.0	\$ 856.6	\$ 1,101.1
Non-GAAP sales and marketing expense as a percentage of revenue	40.2%	37.7%	38.0%
GAAP general and administrative expense	\$ 198.3	\$ 257.8	\$ 261.8
Share-based compensation-related charges	73.8	72.2	85.1
Acquisition-related costs <sup>(3)</sup>	3.1	17.8	29.8
Facility exit costs <sup>(4)</sup>	21.3	40.8	7.0
Non-GAAP general and administrative expense	\$ 100.1	\$ 127.0	\$ 139.9
Non-GAAP general and administrative expense as a percentage of revenue	5.7%	5.6%	4.8%
GAAP total operating expense	\$ 1,444.5	\$ 1,732.7	\$ 2,145.3
Share-based compensation-related charges	422.7	438.0	507.1
Acquisition-related costs <sup>(3)</sup>	3.1	17.9	29.8
Amortization expense of acquired intangible assets	0.5	1.2	12.6
Facility exit costs <sup>(4)</sup>	21.3	40.8	7.0
Non-GAAP total operating expense	\$ 996.9	\$ 1,234.8	\$ 1,588.8
Non-GAAP total operating expense as a percentage of revenue	56.8%	54.3%	54.8%
GAAP operating loss	\$ (165.8)	\$ (104.2)	\$ (54.1)
Share-based compensation-related charges	488.9	516.4	591.3
Acquisition-related costs <sup>(3)</sup>	3.1	17.9	29.8
Amortization expense of acquired intangible assets	8.9	15.6	53.0
Litigation-related charges <sup>(2)</sup>	12.3	12.3	10.2
Facility exit costs <sup>(4)</sup>	21.3	40.8	7.0
Non-GAAP operating income	\$ 368.7	\$ 498.8	\$ 637.2
Non-GAAP operating margin	21.0%	21.9%	22.0%
GAAP interest expense	\$ (24.5)	\$ (29.6)	\$ (83.9)
Non-cash charges related to convertible notes <sup>(5)</sup>	24.5	28.8	70.2
Non-GAAP interest expense	\$ -	\$ (0.8)	\$ (13.7)
Non-GAAP interest expense as a percentage of revenue	0.0%	0.0%	-0.5%
GAAP other income, net	\$ 10.2	\$ 28.5	\$ 63.4
Non-cash charges related to convertible notes <sup>(5)</sup>	-	-	2.6
Foreign currency (gain) loss associated with non-GAAP adjustments	2.4	(1.0)	2.1
Non-GAAP other income, net	\$ 12.6	\$ 27.5	\$ 68.1
Non-GAAP other income, net as a percentage of revenue	0.7%	1.2%	2.3%
GAAP loss before income taxes	\$ (180.1)	\$ (105.3)	\$ (74.6)
Share-based compensation-related charges	488.9	516.4	591.3
Acquisition-related costs <sup>(3)</sup>	3.1	17.9	29.8
Amortization expense of acquired intangible assets	8.9	15.6	53.0
Litigation-related charges <sup>(2)</sup>	12.3	12.3	10.2
Facility exit costs <sup>(4)</sup>	21.3	40.8	7.0
Non-cash charges related to convertible notes <sup>(5)</sup>	24.5	28.8	72.8
Foreign currency (gain) loss associated with non-GAAP adjustments	2.4	(1.0)	2.1
Non-GAAP income before income taxes	\$ 381.3	\$ 525.5	\$ 691.6

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for periods prior to FY19 have been adjusted.

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

(3) 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.

(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).

(5) Consists primarily of non-cash interest expense related to our convertible senior notes. Also includes a non-cash loss of \$2.6 million in FY'19 related to early conversions of the convertible notes during the period.

**Palo Alto Networks, Inc.**  
**GAAP to Non-GAAP Reconciliations and Calculations of Other Key Metrics - Fiscal Years**  
(In millions, except percentages and per share amounts)

	FY17 <sup>(1)</sup>	FY18 <sup>(1)</sup>	FY19
GAAP provision for income taxes	\$ 22.9	\$ 16.9	\$ 7.3
Income tax and other tax adjustments related to the above	95.2	107.9	144.9
Non-GAAP provision for income taxes	\$ 118.1	\$ 124.8	\$ 152.2
Non-GAAP effective tax rate <sup>(6)</sup>	31.0%	23.7%	22.0%
GAAP net loss	\$ (203.0)	\$ (122.2)	\$ (81.9)
Share-based compensation-related charges	488.9	516.4	591.3
Acquisition-related costs <sup>(2)</sup>	3	17.9	29.8
Amortization expense of acquired intangible assets	8.9	15.6	53.0
Litigation-related charges <sup>(2)</sup>	12.3	12.3	10.2
Facility exit costs <sup>(5)</sup>	21	40.8	7.0
Non-cash charges related to convertible notes <sup>(5)</sup>	24.5	28.8	72.8
Foreign currency (gain) loss associated with non-GAAP adjustments	2.4	(1.0)	2.1
Income tax and other tax adjustments related to the above	(95.2)	(107.9)	(144.9)
Non-GAAP net income	\$ 263.2	\$ 400.7	\$ 539.4
GAAP net loss per share, diluted	\$ (2.24)	\$ (1.33)	\$ (0.87)
Share-based compensation-related charges	5.29	5.47	6.00
Acquisition-related costs <sup>(2)</sup>	0.03	0.20	0.32
Amortization expense of acquired intangible assets	0.10	0.17	0.56
Litigation-related charges <sup>(2)</sup>	0.14	0.13	0.11
Facility exit costs <sup>(5)</sup>	0.24	0.44	0.07
Non-cash charges related to convertible notes <sup>(5)</sup>	0.27	0.31	0.77
Foreign currency (gain) loss associated with non-GAAP adjustments	0.03	(0.01)	0.02
Income tax and other tax adjustments related to the above	(1.05)	(1.18)	(1.53)
Non-GAAP net income per share, diluted	\$ 2.81	\$ 4.20	\$ 5.45
GAAP weighted-average shares used to compute net loss per share, diluted	90.6	91.7	94.5
Weighted-average effect of potentially dilutive securities <sup>(7)</sup>	3.0	3.8	4.5
Non-GAAP weighted-average shares used to compute net income per share, diluted	93.6	95.5	99.0
Net cash provided by operating activities <sup>(8)</sup>	\$ 888.8	\$ 1,038.1	\$ 1,055.6
Less: purchases of property, equipment, and other assets	163.4	112.0	131.2
Free cash flow (non-GAAP) <sup>(8)</sup>	\$ 705.4	\$ 926.1	\$ 924.4
Add: capital expenditures for new headquarters	92.0	11.2	28.4
Add: repayments of convertible senior notes attributable to debt discount	-	-	97.6
Less: cash reimbursement (payments), net related to landlord lease amendment <sup>(8)</sup>	-	16.8	(14.8)
Adjusted free cash flow (non-GAAP)	\$ 797.4	\$ 920.5	\$ 1,065.2
Net cash used in investing activities	\$ (472.6)	\$ (520.0)	\$ (1,825.9)
Net cash provided by (used in) financing activities	\$ (386.0)	\$ 1,245.6	\$ (773.9)
Free cash flow margin (non-GAAP) <sup>(8)</sup>	40.2%	40.7%	31.9%
Adjusted free cash flow margin (non-GAAP) <sup>(8)</sup>	45.4%	40.5%	36.7%
<b>Other Key Metrics - Calculation of Billings</b>			
Total revenue	\$ 1,755.1	\$ 2,273.6	\$ 2,899.6
Add: change in total deferred revenue, net of acquired deferred revenue	496.6	582.6	590.2
Total billings	\$ 2,251.7	\$ 2,856.2	\$ 3,489.8
Product revenue	\$ 708.5	\$ 879.8	\$ 1,096.2
Add: change in product deferred revenue	2.0	(1.2)	(0.2)
Product billings	\$ 710.5	\$ 878.6	\$ 1,096.0
Subscription revenue	\$ 548.8	\$ 758.1	\$ 1,032.7
Add: change in subscription deferred revenue, net of acquired subscription deferred revenue	295.0	379.3	413.7
Subscription billings	\$ 843.8	\$ 1,137.4	\$ 1,446.4
Support revenue	\$ 497.8	\$ 635.7	\$ 770.7
Add: change in support deferred revenue, net of acquired support deferred revenue	199.6	204.5	176.7
Support billings	\$ 697.4	\$ 840.2	\$ 947.4
Total revenue	\$ 1,755.1	\$ 2,273.6	\$ 2,899.6
Add: change in short-term deferred revenue, net of acquired short-term deferred revenue	257.2	289.5	353.3
Current billings	\$ 2,012.3	\$ 2,563.1	\$ 3,252.9

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition 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 FY19 have been adjusted.

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

(3) 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.

(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).

(5) Consists primarily of non-cash interest expense related to our convertible senior notes. Also includes non-cash loss of \$2.6 million in FY'19 related to early conversions of the convertible notes during the period.

(6) Effective Q1'17, our non-GAAP effective tax rate changed from 38% to 31%. 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.

(7) Our potentially dilutive securities include the potentially dilutive effect of employee equity incentive plan awards and our convertible senior notes outstanding and related warrant agreements, partially offset by the anti-dilutive impact of our note hedge agreements.

(8) Cash provided by operating activities during FY18 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 FY18 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.

Palo Alto Networks, Inc.  
GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters  
(In millions, except percentages and per share amounts)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
<b>GAAP to Non-GAAP Reconciliations</b>								
GAAP product gross profit	\$ 127.2	\$ 149.9	\$ 149.2	\$ 190.1	\$ 167.3	\$ 189.1	\$ 204.4	\$ 223.5
Share-based compensation-related charges	1.9	2.1	1.8	1.4	1.6	1.7	1.3	1.4
Amortization expense of acquired intangible assets	-	-	-	0.2	-	-	-	-
Litigation-related charges <sup>(2)</sup>	3.1	3.0	3.1	3.1	3.1	3.0	3.1	1.0
Non-GAAP product gross profit	\$ 132.2	\$ 148.8	\$ 154.1	\$ 194.8	\$ 172.0	\$ 193.8	\$ 204.8	\$ 225.9
Non-GAAP product gross margin	77.5%	71.3%	70.7%	71.6%	71.5%	71.4%	73.6%	73.9%
GAAP subscription and support gross profit	\$ 233.3	\$ 245.3	\$ 256.6	\$ 283.9	\$ 305.2	\$ 319.5	\$ 321.3	\$ 364.9
Share-based compensation-related charges	16.7	20.9	16.4	17.2	18.7	19.9	19.4	20.2
Amortization expense of acquired intangible assets	2.4	2.4	3.4	6.0	7.1	9.1	10.7	13.5
Non-GAAP subscription and support gross profit	\$ 252.4	\$ 288.6	\$ 278.4	\$ 307.1	\$ 331.0	\$ 348.5	\$ 381.4	\$ 398.6
Non-GAAP subscription and support gross margin	79.6%	78.8%	79.6%	78.5%	78.7%	79.3%	78.4%	79.7%
GAAP total gross profit	\$ 360.5	\$ 398.2	\$ 407.8	\$ 474.0	\$ 472.5	\$ 508.6	\$ 521.7	\$ 588.4
Share-based compensation-related charges	18.6	23.0	18.2	18.6	20.3	21.6	20.7	21.6
Amortization expense of acquired intangible assets	2.4	2.4	3.4	6.2	7.1	9.1	10.7	13.5
Litigation-related charges <sup>(2)</sup>	3.1	3.0	3.1	3.1	3.1	3.0	3.1	1.0
Non-GAAP total gross profit	\$ 384.6	\$ 414.6	\$ 422.9	\$ 501.9	\$ 503.0	\$ 547.3	\$ 558.2	\$ 624.5
Non-GAAP gross margin	78.6%	78.0%	78.2%	78.2%	78.7%	78.3%	78.5%	77.5%
GAAP research and development expense	\$ 94.2	\$ 96.6	\$ 96.6	\$ 110.3	\$ 113.4	\$ 128.3	\$ 136.1	\$ 156.7
Share-based compensation-related charges	38.2	38.5	36.5	37.5	41.0	43.8	48.7	58.1
Non-GAAP research and development expense	\$ 56.0	\$ 59.7	\$ 62.7	\$ 72.8	\$ 72.4	\$ 82.4	\$ 92.4	\$ 100.6
Non-GAAP research and development expense as a percentage of revenue	17.2%	10.9%	11.0%	11.1%	11.0%	11.6%	12.7%	12.5%
GAAP sales and marketing expense	\$ 254.1	\$ 258.8	\$ 271.4	\$ 289.9	\$ 314.6	\$ 320.0	\$ 339.0	\$ 370.4
Share-based compensation-related charges	52.5	55.5	53.7	54.6	57.5	61.2	57.4	54.2
Acquisition-related costs <sup>(3)</sup>	-	-	-	0.1	-	-	-	-
Amortization expense of acquired intangible assets	0.1	0.1	0.2	0.8	2.2	5.0	3.9	1.5
Facility exit costs <sup>(4)</sup>	-	-	-	-	-	-	-	-
Non-GAAP sales and marketing expense	\$ 201.5	\$ 203.2	\$ 217.5	\$ 234.4	\$ 254.9	\$ 253.8	\$ 277.7	\$ 314.7
Non-GAAP sales and marketing expense as a percentage of revenue	40.0%	37.3%	38.4%	35.5%	38.9%	35.7%	38.2%	39.0%
GAAP general and administrative expense	\$ 65.7	\$ 53.3	\$ 82.1	\$ 56.7	\$ 76.6	\$ 53.7	\$ 62.3	\$ 69.2
Share-based compensation-related charges	19.6	20.9	14.3	17.4	21.9	20.8	21.0	21.4
Acquisition-related costs <sup>(3)</sup>	-	-	13.3	4.5	15.5	1.6	2.9	9.8
Facility exit costs <sup>(4)</sup>	15.6	1.4	23.8	-	-	-	-	-
Non-GAAP general and administrative expense	\$ 30.5	\$ 31.0	\$ 30.7	\$ 34.8	\$ 39.2	\$ 31.3	\$ 34.3	\$ 35.1
Non-GAAP general and administrative expense as a percentage of revenue	6.1%	5.7%	5.4%	5.3%	6.0%	4.4%	4.7%	4.4%
GAAP total operating expense	\$ 414.0	\$ 408.7	\$ 453.1	\$ 459.9	\$ 504.6	\$ 502.0	\$ 540.4	\$ 598.3
Share-based compensation-related charges	110.3	113.3	104.9	109.5	120.4	127.9	125.1	133.7
Acquisition-related costs <sup>(3)</sup>	-	-	13.3	4.6	15.5	1.6	2.9	9.8
Amortization expense of acquired intangible assets	0.1	0.2	0.2	0.8	2.2	5.0	3.9	1.5
Facility exit costs <sup>(4)</sup>	15.6	1.4	23.8	-	-	-	-	-
Non-GAAP total operating expense	\$ 288.0	\$ 283.9	\$ 310.9	\$ 342.0	\$ 366.5	\$ 367.5	\$ 404.4	\$ 450.4
Non-GAAP total operating expense as a percentage of revenue	57.3%	53.9%	54.8%	51.9%	55.9%	51.7%	55.6%	55.9%
GAAP operating income (loss)	\$ (63.5)	\$ (22.5)	\$ (45.3)	\$ 17.1	\$ (32.1)	\$ 6.6	\$ (18.7)	\$ (9.9)
Share-based compensation-related charges	128.9	136.3	123.1	128.1	140.7	149.5	145.8	155.3
Acquisition-related costs <sup>(3)</sup>	-	-	13.3	4.6	15.5	1.6	2.9	9.8
Amortization expense of acquired intangible assets	2.5	2.5	3.6	7.0	9.3	14.1	14.6	15.0
Litigation-related charges <sup>(2)</sup>	3.1	3.0	3.1	3.1	3.1	3.0	3.1	1.0
Facility exit costs <sup>(4)</sup>	15.6	1.4	23.8	-	-	-	-	-
Non-cash charges related to convertible notes <sup>(5)</sup>	6.3	6.4	6.5	9.6	21.6	17.5	17.2	16.5
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.0	(2.0)	(0.5)	(0.5)	0.6	0.5	1.5
Non-GAAP operating income	\$ 96.6	\$ 120.7	\$ 121.6	\$ 159.6	\$ 138.5	\$ 174.8	\$ 151.8	\$ 174.1
Non-GAAP operating margin	19.3%	22.1%	21.4%	24.3%	20.8%	24.6%	20.9%	21.6%
GAAP interest expense	\$ (6.3)	\$ (6.4)	\$ (6.5)	\$ (10.4)	\$ (22.7)	\$ (20.6)	\$ (20.6)	\$ (20.0)
Non-cash charges related to convertible notes <sup>(5)</sup>	6.3	6.4	6.5	9.6	19.4	17.1	17.2	16.5
Non-GAAP interest expense	\$ -	\$ -	\$ -	\$ (0.8)	\$ (3.3)	\$ (3.5)	\$ (3.4)	\$ (3.5)
Non-GAAP interest expense as a percentage of revenue	0.0%	0.0%	0.0%	-0.1%	-0.8%	-0.5%	-0.5%	-0.4%
GAAP other income, net	\$ 4.8	\$ 4.9	\$ 8.6	\$ 10.2	\$ 13.0	\$ 16.0	\$ 18.2	\$ 16.2
Non-cash charges related to convertible notes <sup>(5)</sup>	-	-	-	-	2.2	0.4	-	-
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.0	(2.0)	(0.5)	(0.5)	0.6	0.5	1.5
Non-GAAP other income, net	\$ 5.3	\$ 5.9	\$ 6.6	\$ 9.7	\$ 14.7	\$ 17.0	\$ 18.7	\$ 17.7
Non-GAAP other income, net as a percentage of revenue	1.1%	1.1%	1.2%	1.5%	2.2%	2.4%	2.6%	2.2%
GAAP income (loss) before income taxes	\$ (55.0)	\$ (24.0)	\$ (43.2)	\$ 16.9	\$ (41.8)	\$ 2.0	\$ (21.1)	\$ (13.7)
Share-based compensation-related charges	128.9	136.3	123.1	128.1	140.7	149.5	145.8	155.3
Acquisition-related costs <sup>(3)</sup>	-	-	13.3	4.6	15.5	1.6	2.9	9.8
Amortization expense of acquired intangible assets	2.5	2.5	3.6	7.0	9.3	14.1	14.6	15.0
Litigation-related charges <sup>(2)</sup>	3.1	3.0	3.1	3.1	3.1	3.0	3.1	1.0
Facility exit costs <sup>(4)</sup>	15.6	1.4	23.8	-	-	-	-	-
Non-cash charges related to convertible notes <sup>(5)</sup>	6.3	6.4	6.5	9.6	21.6	17.5	17.2	16.5
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.0	(2.0)	(0.5)	(0.5)	0.6	0.5	1.5
Non-GAAP income before income taxes	\$ 101.9	\$ 126.6	\$ 128.2	\$ 168.8	\$ 147.9	\$ 189.3	\$ 167.1	\$ 189.3
GAAP provision for (benefit from) income taxes	\$ 8.2	\$ 1.8	\$ (2.8)	\$ 9.9	\$ (3.5)	\$ 4.6	\$ (0.9)	\$ 7.1
Income tax and other tax adjustments related to the above	23.4	26.3	31.0	27.2	36.0	39.7	37.9	34.3
Non-GAAP provision for income taxes	\$ 31.6	\$ 27.8	\$ 28.2	\$ 37.1	\$ 32.5	\$ 41.3	\$ 37.0	\$ 41.4
Non-GAAP effective tax rate <sup>(6)</sup>	31.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
GAAP net income (loss)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)
Share-based compensation-related charges	128.9	136.3	123.1	128.1	140.7	149.5	145.8	155.3
Acquisition-related costs <sup>(3)</sup>	-	-	13.3	4.6	15.5	1.6	2.9	9.8
Amortization expense of acquired intangible assets	2.5	2.5	3.6	7.0	9.3	14.1	14.6	15.0
Litigation-related charges <sup>(2)</sup>	3.1	3.0	3.1	3.1	3.1	3.0	3.1	1.0
Facility exit costs <sup>(4)</sup>	15.6	1.4	23.8	-	-	-	-	-
Non-cash charges related to convertible notes <sup>(5)</sup>	6.3	6.4	6.5	9.6	21.6	17.5	17.2	16.5
Foreign currency (gain) loss associated with non-GAAP adjustments	0.5	1.0	(2.0)	(0.5)	(0.5)	0.6	0.5	1.5
Income tax and other tax adjustments related to the above	(23.4)	(26.3)	(31.0)	(27.2)	(36.0)	(39.7)	(37.9)	(34.3)
Non-GAAP net income	\$ 70.3	\$ 98.7	\$ 100.0	\$ 131.7	\$ 115.4	\$ 147.0	\$ 130.1	\$ 146.9

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for periods prior to FY'19 have been adjusted.

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

(3) Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, and costs to terminate certain employment, operating leases, and other contracts of the acquired companies.

(4) Consists of charges related to the relocation of our corporate headquarters (impairment loss of \$20.9 million and accelerated depreciation in Q4'17, cease-use loss of \$15.4 million and accelerated depreciation in Q1'18, additional cease-use loss of \$23.8 million in Q3'18, additional cease-use loss of \$4.1 million in Q3'19, and additional cease-use loss of \$2.9 million in Q4'19) 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 Q2'18).

(5) Consists primarily of non-cash interest expense related to our convertible senior notes. Also includes non-cash losses of \$2.2 million and \$0.4 million in Q1'19 and Q2'19, respectively, related to early conversions of the convertible notes during those periods.

(6) 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.

**Palo Alto Networks, Inc.**  
**GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Quarters**  
(In millions, except percentages and per share amounts)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
GAAP net income (loss) per share, diluted	\$ (0.70)	\$ (0.28)	\$ (0.44)	\$ 0.07	\$ (0.41)	\$ (0.03)	\$ (0.21)	\$ (0.22)
Share-based compensation-related charges	1.98	1.46	1.30	1.28	1.44	1.53	1.48	1.56
Acquisition-related costs <sup>(2)</sup>	0.00	0.00	0.14	0.05	0.17	0.02	0.03	0.10
Amortization expense of acquired intangible assets	0.03	0.03	0.04	0.07	0.10	0.15	0.15	0.16
Litigation-related charges <sup>(3)</sup>	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.01
Facility exit costs <sup>(4)</sup>	0.17	0.02	0.26	0.00	0.00	0.00	0.04	0.03
Non-cash charges related to convertible notes <sup>(5)</sup>	0.07	0.07	0.07	0.10	0.23	0.19	0.18	0.17
Foreign currency (gain) loss associated with non-GAAP adjustments	0.01	0.01	(0.02)	0.00	(0.01)	0.01	0.01	0.02
Income tax and other tax adjustments related to the above	(0.24)	(0.29)	(0.34)	(0.27)	(0.38)	(0.39)	(0.40)	(0.36)
Non-GAAP net income per share, diluted	\$ 0.75	\$ 1.05	\$ 1.04	\$ 1.34	\$ 1.17	\$ 1.51	\$ 1.31	\$ 1.47
GAAP weighted average shares used to compute net income (loss) per share, diluted	90.9	91.1	91.9	100.5	93.8	94.0	94.4	95.8
Weighted-average effect of potentially dilutive securities <sup>(6)</sup>	2.8	2.8	4.3	(2.5)	5.2	3.6	5.2	4.2
Non-GAAP weighted average shares used to compute net income per share, diluted	93.7	93.9	96.2	98.0	99.0	97.6	99.6	100.0
Net cash provided by operating activities <sup>(7)</sup>	\$ 274.0	\$ 244.8	\$ 241.9	\$ 277.6	\$ 252.3	\$ 275.4	\$ 286.4	\$ 231.5
Less: purchases of property, equipment, and other assets	32.2	25.8	28.8	25.4	34.3	23.5	20.3	53.1
Free cash flow (non-GAAP) <sup>(7)</sup>	\$ 241.8	\$ 219.0	\$ 213.1	\$ 252.2	\$ 218.0	\$ 251.9	\$ 276.1	\$ 178.4
Add: capital expenditures for new headquarters	11.2	-	-	-	0.2	0.7	0.7	26.8
Add: repayments of convertible senior notes attributable to debt discount	-	-	-	-	52.3	14.8	-	30.5
Less: cash reimbursement (payments), net related to landlord lease amendment <sup>(7)</sup>	35.5	(5.8)	(6.9)	(5.9)	(4.0)	(4.0)	(3.0)	(2.9)
Adjusted free cash flow (non-GAAP)	\$ 217.5	\$ 224.9	\$ 220.0	\$ 258.1	\$ 276.4	\$ 271.4	\$ 279.8	\$ 238.6
Net cash used in investing activities	\$ (52.4)	\$ (36.1)	\$ (225.1)	\$ (208.4)	\$ (713.1)	\$ (523.8)	\$ (140.3)	\$ (448.7)
Net cash provided by (used in) financing activities	\$ (123.4)	\$ (135.2)	\$ 17.8	\$ 1,488.4	\$ (261.8)	\$ (407.8)	\$ 31.8	\$ (136.1)
Free cash flow margin (non-GAAP) <sup>(7)</sup>	48.2%	40.1%	37.5%	38.3%	32.2%	35.4%	39.0%	22.1%
Adjusted free cash flow margin (non-GAAP) <sup>(7)</sup>	43.2%	41.2%	38.8%	39.2%	42.0%	38.2%	38.5%	29.6%
<b>Other Key Metrics - Calculation of Billings</b>								
Total revenue	\$ 501.8	\$ 545.6	\$ 567.7	\$ 658.5	\$ 656.0	\$ 711.2	\$ 726.6	\$ 805.8
Add: change in total deferred revenue, net of acquired deferred revenue	93.6	127.6	157.0	204.4	102.5	141.3	95.3	251.1
Total billings	\$ 595.4	\$ 673.2	\$ 724.7	\$ 862.9	\$ 758.5	\$ 852.5	\$ 821.9	\$ 1,056.9
Total revenue	\$ 501.8	\$ 545.6	\$ 567.7	\$ 658.5	\$ 656.0	\$ 711.2	\$ 726.6	\$ 805.8
Add: change in short-term deferred revenue, net of acquired short-term deferred revenue	51.1	68.4	70.1	101.9	53.6	99.4	72.9	127.4
Current billings	\$ 552.9	\$ 612.0	\$ 637.8	\$ 760.4	\$ 709.6	\$ 810.6	\$ 799.5	\$ 933.2

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition 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) Consists of the amortization of intellectual property licenses.

(3) 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.

(4) Consists of charges related to the relocation of our corporate headquarters (impairment loss of \$20.9 million and accelerated depreciation in Q4'17, cease-use loss of \$15.4 million and accelerated depreciation in Q1'18, additional cease-use loss of \$23.8 million in Q3'18, additional cease-use loss of \$4.1 million in Q3'19, and additional cease-use loss of \$2.9 million in Q4'19) 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 Q2'18).

(5) Consists primarily of non-cash interest expense related to our convertible senior notes. Also includes non-cash losses of \$2.2 million and \$0.4 million in Q1'19 and Q2'19, respectively, related to early conversions of the convertible notes during those periods.

(6) Our potentially dilutive securities include the potentially dilutive effect of employee equity incentive plan awards and our convertible senior notes outstanding and related warrant agreements, partially offset by the anti-dilutive impact of our note hedge agreements.

(7) Cash provided by operating activities during Q1'18 includes the receipt of an upfront cash reimbursement of \$38.2 million from our landlords 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 Q1'18 reflects an adjustment for the \$38.2 million received from our landlords, less related rental payments made during the period of \$2.7 million. Adjusted free cash flow for subsequent periods reflect adjustments for related rental payments made during the respective periods.

Palo Alto Networks, Inc.  
**GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Years**  
(In millions, except per share amounts)

	FY15	FY16
<b>GAAP to Non-GAAP Reconciliations</b>		
GAAP net loss per share, diluted	\$ (1.61)	\$ (2.21)
Share-based compensation-related charges	2.79	4.58
Acquisition-related costs <sup>(1)</sup>	0.01	-
Amortization expense of acquired intangible assets	0.09	0.10
Litigation-related charges <sup>(2)</sup>	0.15	0.14
Non-cash charges related to convertible notes <sup>(3)</sup>	0.27	0.27
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.00
Income tax and other tax adjustments related to the above	(0.62)	(0.99)
Non-GAAP net income per share, diluted	<u>\$ 1.10</u>	<u>\$ 1.89</u>
<b>Other Key Metrics - Calculation of Billings</b>		
Total revenue	\$ 928.1	\$ 1,378.5
Add: change in total deferred revenue, net of acquired deferred revenue	291.0	527.1
Total billings	<u>\$ 1,219.1</u>	<u>\$ 1,905.6</u>
Total revenue	\$ 928.1	\$ 1,378.5
Add: change in short-term deferred revenue, net of acquired short-term deferred revenue	164.0	280.0
Current billings	<u>\$ 1,092.1</u>	<u>\$ 1,658.5</u>

(1) Consists of acquisition transaction costs.

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

(3) Consists of non-cash interest expense related to our convertible senior notes.

**Palo Alto Networks, Inc.**  
**Condensed Consolidated Balance Sheets - Fiscal Years**  
(In millions)

	FY17 <sup>(1)</sup>	FY18 <sup>(1)</sup>	FY19
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 744.3	\$ 2,506.9	\$ 961.4
Short-term investments	630.7	896.5	1,841.7
Accounts receivable, net	431.1	467.0	582.4
Prepaid expenses and other current assets	177.8	268.1	279.3
Total current assets	<u>1,983.9</u>	<u>4,138.5</u>	<u>3,664.8</u>
Property and equipment, net	211.1	273.1	296.0
Long-term investments	789.3	547.5	575.4
Goodwill	238.8	522.8	1,352.3
Intangible assets, net	53.7	140.8	280.6
Other assets	261.7	326.2	423.1
Total assets	<u>\$ 3,538.5</u>	<u>\$ 5,948.9</u>	<u>\$ 6,592.2</u>
<b>Liabilities, temporary equity, and stockholders' equity</b>			
Current liabilities:			
Accounts payable	\$ 35.5	\$ 49.4	\$ 73.3
Accrued compensation	117.5	163.7	235.5
Accrued and other liabilities	93.0	124.6	162.4
Deferred revenue	919.8	1,213.6	1,582.1
Convertible senior notes, net	-	550.4	-
Total current liabilities	<u>1,165.8</u>	<u>2,101.7</u>	<u>2,053.3</u>
Convertible senior notes, net	524.7	1,369.7	1,430.0
Long-term deferred revenue	772.6	1,065.7	1,306.6
Other long-term liabilities	147.6	229.6	216.0
Temporary equity	-	21.9	-
Stockholders' equity:			
Preferred stock	-	-	-
Common stock and additional paid-in capital	1,599.7	1,967.4	2,490.9
Accumulated other comprehensive income (loss)	(3.4)	(16.4)	(3.7)
Accumulated deficit	(668.5)	(790.7)	(900.9)
Total stockholders' equity	<u>927.8</u>	<u>1,160.3</u>	<u>1,586.3</u>
Total liabilities, temporary equity, and stockholders' equity	<u>\$ 3,538.5</u>	<u>\$ 5,948.9</u>	<u>\$ 6,592.2</u>

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for periods prior to FY'19 have been adjusted.

**Palo Alto Networks, Inc.**  
**Condensed Consolidated Balance Sheets - Fiscal Quarters**  
(In millions)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 842.6	\$ 915.0	\$ 949.0	\$ 2,506.9	\$ 1,784.4	\$ 1,127.8	\$ 1,314.9	\$ 961.4
Short-term investments	660.6	720.7	672.2	896.5	1,419.4	1,702.2	1,733.2	1,841.7
Accounts receivable, net	350.7	363.1	361.5	467.0	382.3	415.0	407.5	582.4
Prepaid expenses and other current assets	195.2	219.1	233.1	268.1	229.1	242.5	261.9	279.3
Total current assets	2,049.1	2,217.9	2,215.8	4,138.5	3,815.2	3,487.5	3,717.5	3,664.8
Property and equipment, net	256.9	264.7	264.2	273.1	276.5	273.2	275.0	296.0
Long-term investments	777.4	722.3	592.9	547.5	565.5	808.6	669.9	575.4
Goodwill	238.8	238.8	522.2	522.8	636.4	636.4	1,027.3	1,352.3
Intangible assets, net	51.0	48.3	147.7	140.8	186.2	171.8	234.2	280.6
Other assets	218.9	245.0	282.7	326.2	321.7	330.0	337.9	423.1
Total assets	\$ 3,592.1	\$ 3,737.0	\$ 4,025.5	\$ 5,948.9	\$ 5,801.5	\$ 5,707.5	\$ 6,261.8	\$ 6,592.2
<b>Liabilities, temporary equity, and stockholders' equity</b>								
Current liabilities:								
Accounts payable	\$ 38.8	\$ 33.4	\$ 32.7	\$ 49.4	\$ 43.0	\$ 27.9	\$ 68.6	\$ 73.3
Accrued compensation	74.5	113.2	95.1	163.7	99.4	143.4	144.0	235.5
Accrued and other liabilities	95.9	97.9	118.6	124.6	163.6	171.4	178.5	162.4
Deferred revenue	970.9	1,037.3	1,111.7	1,213.6	1,269.8	1,369.2	1,449.6	1,582.1
Convertible senior notes, net	531.0	537.4	543.8	550.4	239.9	156.3	158.1	-
Total current liabilities	1,711.1	1,819.2	1,901.9	2,101.7	1,815.7	1,868.2	1,998.8	2,053.3
Convertible senior notes, net	-	-	-	1,369.7	1,384.5	1,399.5	1,414.7	1,430.0
Long-term deferred revenue	815.1	876.3	963.2	1,065.7	1,114.6	1,156.5	1,182.6	1,306.6
Other long-term liabilities	192.2	196.6	226.0	229.6	226.8	208.7	211.1	216.0
Temporary equity	39.2	33.5	27.7	21.9	6.9	2.8	1.1	-
Stockholders' equity:								
Preferred stock	-	-	-	-	-	-	-	-
Common stock and additional paid-in capital	1,573.2	1,575.9	1,717.6	1,967.4	2,129.3	1,941.5	2,340.8	2,490.9
Accumulated other comprehensive loss	(7.0)	(7.2)	(13.2)	(16.4)	(19.0)	(9.8)	(7.2)	(3.7)
Accumulated deficit	(731.7)	(757.3)	(797.7)	(790.7)	(857.3)	(859.9)	(880.1)	(900.9)
Total stockholders' equity	834.5	811.4	906.7	1,160.3	1,253.0	1,071.8	1,453.5	1,586.3
Total liabilities, temporary equity, and stockholders' equity	\$ 3,592.1	\$ 3,737.0	\$ 4,025.5	\$ 5,948.9	\$ 5,801.5	\$ 5,707.5	\$ 6,261.8	\$ 6,592.2

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, certain amounts for periods prior to FY'19 have been adjusted.

**Palo Alto Networks, Inc.**  
**Condensed Consolidated Statements of Cash Flows - Fiscal Years**  
(In millions)

	FY17 <sup>(1)</sup>	FY18 <sup>(1)</sup>	FY19
<b>Cash flows from operating activities</b>			
Net loss	\$ (203.0)	\$ (122.2)	\$ (81.9)
Adjustments to reconcile loss to net cash provided by operating activities:			
Share-based compensation for equity based awards	474.5	496.7	567.7
Depreciation and amortization	59.8	96.4	153.8
Cease-use loss and asset impairment related to facility exit	20.9	41.1	7.0
Amortization of deferred contract costs	107.4	149.8	223.8
Amortization of debt discount and debt issuance costs	24.5	28.8	70.2
Amortization of investment premiums, net of accretion of purchase discounts	2.7	0.5	(17.5)
Loss on conversions of convertible senior notes	-	-	2.6
Repayments of convertible senior notes attributable to debt discount	-	-	(97.6)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(42.1)	(33.7)	(108.7)
Prepaid expenses and other assets	(175.3)	(299.1)	(332.5)
Accounts payable	5.9	3.7	32.3
Accrued compensation	42.8	44.2	66.8
Accrued and other liabilities	54.1	49.3	(20.6)
Deferred revenue	496.6	582.6	590.2
Net cash provided by operating activities <sup>(2)</sup>	868.8	1,038.1	1,055.6
<b>Cash flows from investing activities</b>			
Purchases of investments	(995.9)	(725.7)	(2,984.6)
Proceeds from sales of investments	-	-	6.5
Proceeds from maturities of investments	777.4	691.8	2,057.1
Business acquisitions, net of cash acquired	(90.7)	(374.1)	(773.7)
Purchases of property, equipment, and other assets	(163.4)	(112.0)	(131.2)
Net cash used in investing activities	(472.6)	(520.0)	(1,825.9)
<b>Cash flows from financing activities</b>			
Repayments of convertible senior notes attributable to principal and equity component	-	-	(477.4)
Payments for debt issuance costs	-	-	(3.7)
Proceeds from borrowings on convertible senior notes, net	-	1,682.4	-
Proceeds from issuance of warrants	-	145.4	-
Purchase of note hedges	-	(332.0)	-
Repurchases of common stock	(411.0)	(259.1)	(330.0)
Proceeds from sales of shares through employee equity incentive plans	46.4	52.6	71.7
Payments for taxes related to net share settlement of equity awards	(21.4)	(43.7)	(33.2)
Payment of deferred consideration related to prior year business acquisition	-	-	(1.3)
Net cash provided by (used in) financing activities	(386.0)	1,245.6	(773.9)
Net increase (decrease) in cash, cash equivalents, and restricted cash	10.2	1,763.7	(1,544.2)
Cash, cash equivalents, and restricted cash - beginning of period	735.3	745.5	2,509.2
Cash, cash equivalents, and restricted cash - end of period	\$ 745.5	\$ 2,509.2	\$ 965.0
<b>Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets</b>			
Cash and cash equivalents	\$ 744.3	\$ 2,506.9	\$ 961.4
Restricted cash included in prepaid expenses and other current assets	0.6	1.1	1.9
Restricted cash included in other assets	0.6	1.2	1.7
<b>Total cash, cash equivalents, and restricted cash</b>	\$ 745.5	\$ 2,509.2	\$ 965.0

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition and new accounting guidance related to the presentation of restricted cash in the statement of cash flows. As 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.



**Palo Alto Networks, Inc.**  
**Condensed Consolidated Statements of Cash Flows - Fiscal Quarters**  
(In millions)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
<b>Cash flows from operating activities</b>								
Net income (loss)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Share-based compensation for equity-based awards	125.7	130.8	116.6	123.6	136.9	142.4	138.2	150.2
Depreciation and amortization	21.3	22.1	24.6	28.4	32.5	38.8	40.3	42.2
Cease-use loss and asset impairment related to facility exit	15.4	1.3	24.4	-	-	-	4.1	2.9
Amortization of deferred contract costs	30.3	33.9	37.7	47.9	43.6	46.8	57.2	76.2
Amortization of debt discount and debt issuance costs	6.3	6.4	6.5	9.6	19.4	17.1	17.1	16.6
Amortization of investment premiums, net of accretion of purchase discounts	0.5	0.1	-	(0.1)	(2.4)	(5.3)	(5.3)	(4.5)
Loss on conversions of convertible senior notes	-	-	-	-	2.2	0.4	-	-
Repayments of convertible senior notes attributable to debt discount	-	-	-	-	(52.3)	(14.8)	-	(30.5)
Changes in operating assets and liabilities, net of effects of acquisitions:								
Accounts receivable, net	80.3	(12.3)	3.8	(105.5)	86.6	(32.7)	9.9	(172.5)
Prepaid expenses and other assets	(41.2)	(71.5)	(64.4)	(122.0)	(25.1)	(65.5)	(73.8)	(168.1)
Accounts payable	4.2	(10.6)	1.8	8.3	(0.8)	(10.4)	34.4	9.1
Accrued compensation	(43.0)	38.7	(20.1)	68.6	(65.0)	44.0	(1.7)	89.5
Accrued and other liabilities	43.8	3.7	(5.6)	7.4	12.5	(24.1)	0.9	(9.9)
Deferred revenue	93.6	127.6	157.0	204.4	102.5	141.3	95.3	251.1
Net cash provided by operating activities <sup>(1)(2)</sup>	274.0	244.6	241.9	277.6	252.3	275.4	296.4	231.5
<b>Cash flows from investing activities</b>								
Purchases of investments	(226.8)	(145.7)	(15.4)	(337.8)	(741.0)	(1,290.9)	(394.7)	(558.0)
Proceeds from sales of investments	-	-	-	-	2.5	1.0	-	3.0
Proceeds from maturities of investments	206.6	135.2	189.2	160.8	214.5	789.7	502.6	550.3
Business acquisitions, net of cash acquired	-	-	(370.1)	(4.0)	(154.8)	(0.1)	(227.9)	(390.9)
Purchases of property, equipment, and other assets	(32.2)	(25.6)	(28.8)	(25.4)	(34.3)	(23.5)	(20.3)	(53.1)
Net cash used in investing activities	(52.4)	(36.1)	(225.1)	(206.4)	(713.1)	(523.8)	(140.3)	(448.7)
<b>Cash flows from financing activities</b>								
Repayments of convertible senior notes attributable to principal and equity component	-	-	-	-	(275.0)	(73.5)	-	(128.9)
Payments for debt issuance costs	-	-	-	-	(3.6)	(0.1)	-	-
Proceeds from borrowings on convertible senior notes, net	-	-	-	1,682.4	-	-	-	-
Proceeds from issuance of warrants	-	-	-	145.4	-	-	-	-
Purchase of note hedges	-	-	-	(332.0)	-	-	-	-
Repurchases of common stock	(134.1)	(125.0)	-	-	-	(330.0)	-	-
Proceeds from sales of shares through employee equity incentive plans	22.1	1.3	29.2	-	30.7	2.9	36.7	1.4
Payments for taxes related to net share settlement of equity awards	(11.4)	(11.5)	(11.4)	(9.4)	(13.9)	(7.1)	(3.6)	(8.6)
Payment of deferred consideration related to prior year business acquisition	-	-	-	-	-	-	-	(1.3)
Net cash provided by (used in) financing activities	(123.4)	(135.2)	17.8	1,486.4	(261.8)	(407.8)	31.8	(136.1)
Net increase (decrease) in cash, cash equivalents, and restricted cash	98.2	73.3	34.6	1,557.6	(722.6)	(656.2)	187.9	(353.3)
Cash, cash equivalents, and restricted cash - beginning of period	745.5	843.7	917.0	951.6	2,509.2	1,786.6	1,130.4	1,318.3
Cash, cash equivalents, and restricted cash - end of period	\$ 843.7	\$ 917.0	\$ 951.6	\$ 2,509.2	\$ 1,786.6	\$ 1,130.4	\$ 1,318.3	\$ 965.0
<b>Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets</b>								
Cash and cash equivalents	\$ 842.6	\$ 915.0	\$ 949.0	\$ 2,506.9	\$ 1,784.4	\$ 1,127.8	\$ 1,314.9	\$ 961.4
Restricted cash included in prepaid expenses and other current assets	0.5	0.7	1.3	1.1	1.0	1.3	2.2	1.9
Restricted cash included in other assets	0.6	1.3	1.3	1.2	1.2	1.3	1.2	1.7
<b>Total cash, cash equivalents, and restricted cash</b>	\$ 843.7	\$ 917.0	\$ 951.6	\$ 2,509.2	\$ 1,786.6	\$ 1,130.4	\$ 1,318.3	\$ 965.0

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition and new accounting guidance related to the presentation of restricted cash in the statement of cash flows. As a result, certain amounts for periods for FY'18 have been adjusted.

(2) Cash provided by operating activities during Q1'18 includes the receipt of an upfront cash reimbursement of \$38.2 million from our landlords 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.

**Palo Alto Networks, Inc.**  
**Revenue by Geography - Fiscal Quarters**  
(In millions)

	Q118 <sup>(1)</sup>	Q218 <sup>(1)</sup>	Q318 <sup>(1)</sup>	Q418 <sup>(1)</sup>	Q119	Q219	Q319	Q419
Revenue:								
Americas	\$ 349.3	\$ 373.3	\$ 387.7	\$ 448.4	\$ 450.2	\$ 475.0	\$ 497.8	\$ 559.3
EMEA	94.7	107.2	110.1	127.6	127.7	148.3	138.7	150.1
APAC	57.8	65.1	69.9	82.5	78.1	87.9	90.1	96.4
Total revenue	\$ 501.8	\$ 545.6	\$ 567.7	\$ 658.5	\$ 656.0	\$ 711.2	\$ 726.6	\$ 805.8

(1) In Q1'19, we adopted new accounting guidance related to revenue recognition. As a result, amounts for periods prior to FY'19 have been adjusted.

