

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 disclosure of these non-GAAP financial measures and key metrics will be useful to investors as an additional tool to evaluate our 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 measures as they are not available without unreasonable effort.

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

	FY18 ⁽¹⁾	FY19	FY20
Revenue:			
Product	\$ 879.8	\$1,096.2	\$1,064.2
Subscription and support	1,393.8	1,803.4	2,344.2
Total revenue	2,273.6	2,899.6	3,408.4
Cost of revenue:			
Product	272.4	315.9	294.4
Subscription and support	372.7	492.5	705.1
Total cost of revenue	645.1	808.4	999.5
Total gross profit	1,628.5	2,091.2	2,408.9
<i>Product gross margin</i>	69.0 %	71.2 %	72.3 %
<i>Subscription and support gross margin</i>	73.3 %	72.7 %	69.9 %
<i>Total gross margin</i>	71.6 %	72.1 %	70.7 %
Operating expenses:			
Research and development	400.7	539.5	768.1
Sales and marketing	1,074.2	1,344.0	1,520.2
General and administrative	257.8	261.8	299.6
Total operating expenses	1,732.7	2,145.3	2,587.9
Operating loss	(104.2)	(54.1)	(179.0)
Interest expense	(29.6)	(83.9)	(88.7)
Other income, net	28.5	63.4	35.9
Loss before income taxes	(105.3)	(74.6)	(231.8)
Provision for income taxes	16.9	7.3	35.2
Net loss	\$(122.2)	\$ (81.9)	\$(267.0)

(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.
Condensed Consolidated Statements of Operations - Fiscal Quarters
(In millions, except percentages)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenue:								
Product	\$ 240.5	\$ 271.6	\$ 278.4	\$ 305.7	\$ 231.2	\$ 246.5	\$ 280.9	\$ 305.6
Subscription and support	415.5	439.6	448.2	500.1	540.7	570.2	588.5	644.8
Total revenue	656.0	711.2	726.6	805.8	771.9	816.7	869.4	950.4
Cost of revenue:								
Product	73.2	82.5	78.0	82.2	65.1	68.7	73.3	87.3
Subscription and support	110.3	120.1	126.9	135.2	152.6	164.4	185.0	203.1
Total cost of revenue	183.5	202.6	204.9	217.4	217.7	233.1	258.3	290.4
Total gross profit	472.5	508.6	521.7	588.4	554.2	583.6	611.1	660.0
<i>Product gross margin</i>	69.6 %	69.6 %	72.0 %	73.1 %	71.8 %	72.1 %	73.9 %	71.4 %
<i>Subscription and support gross margin</i>	73.5 %	72.7 %	71.7 %	73.0 %	71.8 %	71.2 %	68.6 %	68.5 %
<i>Total gross margin</i>	72.0 %	71.5 %	71.8 %	73.0 %	71.8 %	71.5 %	70.3 %	69.4 %
Operating expenses:								
Research and development	113.4	128.3	139.1	158.7	170.5	185.4	196.3	215.9
Sales and marketing	314.6	320.0	339.0	370.4	365.7	374.9	388.4	391.2
General and administrative	76.6	53.7	62.3	69.2	69.8	76.2	82.9	70.7
Total operating expenses	504.6	502.0	540.4	598.3	606.0	636.5	667.6	677.8
Operating income (loss)	(32.1)	6.6	(18.7)	(9.9)	(51.8)	(52.9)	(56.5)	(17.8)
Interest expense	(22.7)	(20.6)	(20.6)	(20.0)	(18.9)	(19.0)	(19.4)	(31.4)
Other income, net	13.0	16.0	18.2	16.2	16.2	10.8	8.1	0.8
Income (loss) before income taxes	(41.8)	2.0	(21.1)	(13.7)	(54.5)	(61.1)	(67.8)	(48.4)
Provision for (benefit from) income taxes	(3.5)	4.6	(0.9)	7.1	5.1	12.6	7.0	10.5
Net loss	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)

Palo Alto Networks, Inc.
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(In millions, except percentages)

	FY18 ⁽¹⁾	FY19	FY20
Revenue:			
Product	\$ 879.8	\$1,096.2	\$1,064.2
Subscription and support	1,393.8	1,803.4	2,344.2
Total revenue	2,273.6	2,899.6	3,408.4
Cost of revenue:			
Product	252.7	299.7	284.8
Subscription and support	287.3	373.9	548.5
Total cost of revenue	540.0	673.6	833.3
Total gross profit	1,733.6	2,226.0	2,575.1
<i>Product gross margin</i>	71.3 %	72.7 %	73.2 %
<i>Subscription and support gross margin</i>	79.4 %	79.3 %	76.6 %
<i>Total gross margin</i>	76.2 %	76.8 %	75.6 %
Operating expenses:			
Research and development	251.2	347.8	487.9
Sales and marketing	856.6	1,101.1	1,290.0
General and administrative	127.0	139.9	198.1
Total operating expenses	1,234.8	1,588.8	1,976.0
Operating income	498.8	637.2	599.1
Interest expense	(0.8)	(13.7)	(14.8)
Other income, net	27.5	68.1	37.0
Income before income taxes	525.5	691.6	621.3
Provision for income taxes	124.8	152.2	136.7
Net income	\$ 400.7	\$ 539.4	\$ 484.6

(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 Quarters
(In millions, except percentages)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Revenue:								
Product	\$ 240.5	\$ 271.6	\$ 278.4	\$ 305.7	\$ 231.2	\$ 246.5	\$ 280.9	\$ 305.6
Subscription and support	415.5	439.6	448.2	500.1	540.7	570.2	588.5	644.8
Total revenue	656.0	711.2	726.6	805.8	771.9	816.7	869.4	950.4
Cost of revenue:								
Product	68.5	77.8	73.6	79.8	63.7	67.2	70.0	83.9
Subscription and support	84.5	91.1	96.8	101.5	117.0	125.8	145.7	160.0
Total cost of revenue	153.0	168.9	170.4	181.3	180.7	193.0	215.7	243.9
Total gross profit	503.0	542.3	556.2	624.5	591.2	623.7	653.7	706.5
<i>Product gross margin</i>	71.5 %	71.4 %	73.6 %	73.9 %	72.4 %	72.7 %	75.1 %	72.5 %
<i>Subscription and support gross margin</i>	79.7 %	79.3 %	78.4 %	79.7 %	78.4 %	77.9 %	75.2 %	75.2 %
<i>Total gross margin</i>	76.7 %	76.3 %	76.5 %	77.5 %	76.6 %	76.4 %	75.2 %	74.3 %
Operating expenses:								
Research and development	72.4	82.4	92.4	100.6	107.5	116.0	127.0	137.4
Sales and marketing	254.9	253.8	277.7	314.7	319.4	314.7	329.0	326.9
General and administrative	39.2	31.3	34.3	35.1	42.3	47.2	54.8	53.8
Total operating expenses	366.5	367.5	404.4	450.4	469.2	477.9	510.8	518.1
Operating income	136.5	174.8	151.8	174.1	122.0	145.8	142.9	188.4
Interest expense	(3.3)	(3.5)	(3.4)	(3.5)	(3.4)	(3.3)	(3.6)	(4.5)
Other income, net	14.7	17.0	18.7	17.7	15.7	11.8	7.5	2.0
Income before income taxes	147.9	188.3	167.1	188.3	134.3	154.3	146.8	185.9
Provision for income taxes	32.5	41.3	37.0	41.4	29.5	34.0	32.2	41.0
Net income	\$ 115.4	\$ 147.0	\$ 130.1	\$ 146.9	\$ 104.8	\$ 120.3	\$ 114.6	\$ 144.9

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Years

(In millions, except percentages and per share amounts)

	FY18 ⁽¹⁾	FY19	FY20
<u>GAAP to Non-GAAP Reconciliations</u>			
GAAP product gross profit	\$ 607.4	\$ 780.3	\$ 769.8
Share-based compensation-related charges	7.2	6.0	6.0
Amortization expense of acquired intangible assets	0.2	—	—
Litigation-related charges ⁽²⁾	12.3	10.2	3.6
Non-GAAP product gross profit	<u>\$ 627.1</u>	<u>\$ 796.5</u>	<u>\$ 779.4</u>
Non-GAAP product gross margin	<u>71.3 %</u>	<u>72.7 %</u>	<u>73.2 %</u>
GAAP subscription and support gross profit	\$1,021.1	\$1,310.9	\$1,639.1
Share-based compensation-related charges	71.2	78.2	87.9
Amortization expense of acquired intangible assets	14.2	40.4	68.7
Non-GAAP subscription and support gross profit	<u>\$1,106.5</u>	<u>\$1,429.5</u>	<u>\$1,795.7</u>
Non-GAAP subscription and support gross margin	<u>79.4 %</u>	<u>79.3 %</u>	<u>76.6 %</u>
GAAP total gross profit	\$1,628.5	\$2,091.2	\$2,408.9
Share-based compensation-related charges	78.4	84.2	93.9
Amortization expense of acquired intangible assets	14.4	40.4	68.7
Litigation-related charges ⁽²⁾	12.3	10.2	3.6
Non-GAAP total gross profit	<u>\$1,733.6</u>	<u>\$2,226.0</u>	<u>\$2,575.1</u>
Non-GAAP gross margin	<u>76.2 %</u>	<u>76.8 %</u>	<u>75.6 %</u>
GAAP research and development expense	\$ 400.7	\$ 539.5	\$ 768.1
Share-based compensation-related charges	149.5	191.7	280.2
Non-GAAP research and development expense	<u>\$ 251.2</u>	<u>\$ 347.8</u>	<u>\$ 487.9</u>
Non-GAAP research and development expense as a percentage of revenue	<u>11.0 %</u>	<u>12.0 %</u>	<u>14.3 %</u>
GAAP sales and marketing expense	\$1,074.2	\$1,344.0	\$1,520.2
Share-based compensation-related charges	216.3	230.3	222.5
Acquisition-related costs ⁽³⁾	0.1	—	—
Amortization expense of acquired intangible assets	1.2	12.6	7.7
Non-GAAP sales and marketing expense	<u>\$ 856.6</u>	<u>\$1,101.1</u>	<u>\$1,290.0</u>
Non-GAAP sales and marketing expense as a percentage of revenue	<u>37.7 %</u>	<u>38.0 %</u>	<u>37.9 %</u>
GAAP general and administrative expense	\$ 257.8	\$ 261.8	\$ 299.6
Share-based compensation-related charges	72.2	85.1	88.9
Acquisition-related costs ⁽³⁾	17.8	29.8	15.7
(Gain) loss related to facility exit ⁽⁴⁾	40.8	7.0	(3.1)
Non-GAAP general and administrative expense	<u>\$ 127.0</u>	<u>\$ 139.9</u>	<u>\$ 198.1</u>
Non-GAAP general and administrative expense as a percentage of revenue	<u>5.6 %</u>	<u>4.8 %</u>	<u>5.8 %</u>

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

(2) Consists of the amortization of intellectual property licenses and covenant not to sue.

(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 (cease-use loss of \$39.2 million and accelerated depreciation in FY'18, cease-use loss of \$7.0 million in FY'19 and gain of \$3.1 million from the early termination of leases in FY'20) 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).

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Years

(In millions, except percentages and per share amounts)

	FY18 ⁽¹⁾	FY19	FY20
GAAP total operating expense	\$1,732.7	\$2,145.3	\$2,587.9
Share-based compensation-related charges	438.0	507.1	591.6
Acquisition-related costs ⁽³⁾	17.9	29.8	15.7
Amortization expense of acquired intangible assets	1.2	12.6	7.7
(Gain) loss related to facility exit ⁽⁴⁾	40.8	7.0	(3.1)
Non-GAAP total operating expense	<u>\$1,234.8</u>	<u>\$1,588.8</u>	<u>\$1,976.0</u>
<i>Non-GAAP total operating expense as a percentage of revenue</i>	<u>54.3 %</u>	<u>54.8 %</u>	<u>58.0 %</u>
GAAP operating loss	\$ (104.2)	\$ (54.1)	\$ (179.0)
Share-based compensation-related charges	516.4	591.3	685.5
Acquisition-related costs ⁽³⁾	17.9	29.8	15.7
Amortization expense of acquired intangible assets	15.6	53.0	76.4
Litigation-related charges ⁽²⁾	12.3	10.2	3.6
(Gain) loss related to facility exit ⁽⁴⁾	40.8	7.0	(3.1)
Non-GAAP operating income	<u>\$ 498.8</u>	<u>\$ 637.2</u>	<u>\$ 599.1</u>
<i>Non-GAAP operating margin</i>	<u>21.9 %</u>	<u>22.0 %</u>	<u>17.6 %</u>
GAAP interest expense	\$ (29.6)	\$ (83.9)	\$ (88.7)
Non-cash charges related to convertible notes ⁽⁵⁾	28.8	70.2	73.9
Non-GAAP interest expense	<u>\$ (0.8)</u>	<u>\$ (13.7)</u>	<u>\$ (14.8)</u>
<i>Non-GAAP interest expense as a percentage of revenue</i>	<u>0.0 %</u>	<u>(0.5)%</u>	<u>(0.4)%</u>
GAAP other income, net	\$ 28.5	\$ 63.4	\$ 35.9
Non-cash charges related to convertible notes ⁽⁵⁾	—	2.6	—
Foreign currency (gain) loss associated with non-GAAP adjustments	(1.0)	2.1	1.1
Non-GAAP other income, net	<u>\$ 27.5</u>	<u>\$ 68.1</u>	<u>\$ 37.0</u>
<i>Non-GAAP other income, net as a percentage of revenue</i>	<u>1.2 %</u>	<u>2.3 %</u>	<u>1.1 %</u>
GAAP loss before income taxes	\$ (105.3)	\$ (74.6)	\$ (231.8)
Share-based compensation-related charges	516.4	591.3	685.5
Acquisition-related costs ⁽³⁾	17.9	29.8	15.7
Amortization expense of acquired intangible assets	15.6	53.0	76.4
Litigation-related charges ⁽²⁾	12.3	10.2	3.6
(Gain) loss related to facility exit ⁽⁴⁾	40.8	7.0	(3.1)
Non-cash charges related to convertible notes ⁽⁵⁾	28.8	72.8	73.9
Foreign currency (gain) loss associated with non-GAAP adjustments	(1.0)	2.1	1.1
Non-GAAP income before income taxes	<u>\$ 525.5</u>	<u>\$ 691.6</u>	<u>\$ 621.3</u>

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

(2) Consists of the amortization of intellectual property licenses and covenant not to sue.

(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 (cease-use loss of \$39.2 million and accelerated depreciation in FY'18, cease-use loss of \$7.0 million in FY'19 and gain of \$3.1 million from the early termination of leases in FY'20) 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 our convertible notes during the period.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Years

(In millions, except percentages and per share amounts)

	FY18 ⁽¹⁾	FY19	FY20
GAAP provision for income taxes	\$ 16.9	\$ 7.3	\$ 35.2
Income tax and other tax adjustments related to the above	107.9	144.9	101.5
Non-GAAP provision for income taxes	<u>\$ 124.8</u>	<u>\$ 152.2</u>	<u>\$ 136.7</u>
Non-GAAP effective tax rate ⁽⁶⁾	<u>23.7 %</u>	<u>22.0 %</u>	<u>22.0 %</u>
GAAP net loss	\$ (122.2)	\$ (81.9)	\$ (267.0)
Share-based compensation-related charges	516.4	591.3	685.5
Acquisition-related costs ⁽³⁾	17.9	29.8	15.7
Amortization expense of acquired intangible assets	15.6	53.0	76.4
Litigation-related charges ⁽²⁾	12.3	10.2	3.6
(Gain) loss related to facility exit ⁽⁴⁾	40.8	7.0	(3.1)
Non-cash charges related to convertible notes ⁽⁵⁾	28.8	72.8	73.9
Foreign currency (gain) loss associated with non-GAAP adjustments	(1.0)	2.1	1.1
Income tax and other tax adjustments related to the above	(107.9)	(144.9)	(101.5)
Non-GAAP net income	<u>\$ 400.7</u>	<u>\$ 539.4</u>	<u>\$ 484.6</u>
GAAP net loss per share, diluted	\$ (1.33)	\$ (0.87)	\$ (2.76)
Share-based compensation-related charges	5.47	6.00	6.96
Acquisition-related costs ⁽³⁾	0.20	0.32	0.16
Amortization expense of acquired intangible assets	0.17	0.56	0.79
Litigation-related charges ⁽²⁾	0.13	0.11	0.04
(Gain) loss related to facility exit ⁽⁴⁾	0.44	0.07	(0.03)
Non-cash charges related to convertible notes ⁽⁵⁾	0.31	0.77	0.76
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.01)	0.02	0.01
Income tax and other tax adjustments related to the above	(1.18)	(1.53)	(1.05)
Non-GAAP net income per share, diluted	<u>\$ 4.20</u>	<u>\$ 5.45</u>	<u>\$ 4.88</u>
GAAP weighted-average shares used to compute net loss per share, diluted	91.7	94.5	96.9
Weighted-average effect of potentially dilutive securities ⁽⁷⁾	3.8	4.5	2.4
Non-GAAP weighted-average shares used to compute net income per share, diluted	<u>95.5</u>	<u>99.0</u>	<u>99.3</u>

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

(2) Consists of the amortization of intellectual property licenses and covenant not to sue.

(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 (cease-use loss of \$39.2 million and accelerated depreciation in FY'18, cease-use loss of \$7.0 million in FY'19 and gain of \$3.1 million from the early termination of leases in FY'20) 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 our convertible notes during the period.

(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.

(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.

Palo Alto Networks, Inc.

GAAP to Non-GAAP Reconciliations and Calculation of Other Key Metrics - Fiscal Years

(In millions, except percentages and per share amounts)

	<u>FY18⁽¹⁾</u>	<u>FY19</u>	<u>FY20</u>
Net cash provided by operating activities	\$1,038.1	\$1,055.6	\$1,035.7
Less: purchases of property, equipment, and other assets	112.0	131.2	214.4
Free cash flow (non-GAAP)	<u>\$ 926.1</u>	<u>\$ 924.4</u>	<u>\$ 821.3</u>
Add: capital expenditures for new headquarters ⁽²⁾	11.2	28.4	94.3
Add: repayments of convertible senior notes attributable to debt discount	—	97.6	—
Add: litigation related payment ⁽³⁾	—	—	50.0
Less: cash reimbursement (payments), net related to landlord lease amendment ⁽⁴⁾	16.8	(14.8)	(2.0)
Adjusted free cash flow (non-GAAP)	<u>\$ 920.5</u>	<u>\$1,065.2</u>	<u>\$ 967.6</u>
Net cash provided by (used in) investing activities	<u>\$ (520.0)</u>	<u>\$ (1,825.9)</u>	<u>\$ 288.0</u>
Net cash provided by (used in) financing activities	<u>\$1,245.6</u>	<u>\$ (773.9)</u>	<u>\$ 673.0</u>
Free cash flow margin (non-GAAP) ⁽⁴⁾	<u>40.7 %</u>	<u>31.9 %</u>	<u>24.1 %</u>
Adjusted free cash flow margin (non-GAAP) ⁽⁴⁾	<u>40.5 %</u>	<u>36.7 %</u>	<u>28.4 %</u>

Other Key Metrics - Calculation of Billings

Total revenue	\$2,273.6	\$2,899.6	\$3,408.4
Add: change in total deferred revenue, net of acquired deferred revenue	582.6	590.2	893.3
Total billings	<u>\$2,856.2</u>	<u>\$3,489.8</u>	<u>\$4,301.7</u>
Product revenue	\$ 879.8	\$1,096.2	\$1,064.2
Add: change in product deferred revenue	(1.2)	(0.2)	4.2
Product billings	<u>\$ 878.6</u>	<u>\$1,096.0</u>	<u>\$1,068.4</u>
Subscription revenue	\$ 758.1	\$1,032.7	\$1,405.3
Add: change in subscription deferred revenue, net of acquired subscription deferred revenue	379.3	413.7	614.5
Subscription billings	<u>\$1,137.4</u>	<u>\$1,446.4</u>	<u>\$2,019.8</u>
Support revenue	\$ 635.7	\$ 770.7	\$ 938.9
Add: change in support deferred revenue, net of acquired support deferred revenue	204.5	176.7	274.6
Support billings	<u>\$ 840.2</u>	<u>\$ 947.4</u>	<u>\$1,213.5</u>

(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 FY'18 have been adjusted.

(2) Consists of capital expenditures for new headquarters including a land purchase of \$51.7 million in Q3'20.

(3) Consists of a one-time payment in Q3'20 related to covenant not to sue.

(4) During Q1'18, we received 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 was applied against increased rental payments totaling \$38.2 million due in FY'18 through Q1'20 under the amended lease agreements. 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)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
GAAP to Non-GAAP Reconciliations								
GAAP product gross profit	\$ 167.3	\$ 189.1	\$ 200.4	\$ 223.5	\$ 166.1	\$ 177.8	\$ 207.6	\$ 218.3
Share-based compensation-related charges	1.6	1.7	1.3	1.4	1.4	1.5	1.5	1.6
Amortization expense of acquired intangible assets	—	—	—	—	—	—	—	—
Litigation-related charges ⁽¹⁾	3.1	3.0	3.1	1.0	—	—	1.8	1.8
Non-GAAP product gross profit	\$ 172.0	\$ 193.8	\$ 204.8	\$ 225.9	\$ 167.5	\$ 179.3	\$ 210.9	\$ 221.7
Non-GAAP product gross margin	71.5 %	71.4 %	73.6 %	73.9 %	72.4 %	72.7 %	75.1 %	72.5 %
GAAP subscription and support gross profit	\$ 305.2	\$ 319.5	\$ 321.3	\$ 364.9	\$ 388.1	\$ 405.8	\$ 403.5	\$ 441.7
Share-based compensation-related charges	18.7	19.9	19.4	20.2	20.4	22.5	21.9	23.1
Amortization expense of acquired intangible assets	7.1	9.1	10.7	13.5	15.2	16.1	17.4	20.0
Non-GAAP subscription and support gross profit	\$ 331.0	\$ 348.5	\$ 351.4	\$ 398.6	\$ 423.7	\$ 444.4	\$ 442.8	\$ 484.8
Non-GAAP subscription and support gross margin	79.7 %	79.3 %	78.4 %	79.7 %	78.4 %	77.9 %	75.2 %	75.2 %
GAAP total gross profit	\$ 472.5	\$ 508.6	\$ 521.7	\$ 588.4	\$ 554.2	\$ 583.6	\$ 611.1	\$ 660.0
Share-based compensation-related charges	20.3	21.6	20.7	21.6	21.8	24.0	23.4	24.7
Amortization expense of acquired intangible assets	7.1	9.1	10.7	13.5	15.2	16.1	17.4	20.0
Litigation-related charges ⁽¹⁾	3.1	3.0	3.1	1.0	—	—	1.8	1.8
Non-GAAP total gross profit	\$ 503.0	\$ 542.3	\$ 556.2	\$ 624.5	\$ 591.2	\$ 623.7	\$ 653.7	\$ 706.5
Non-GAAP gross margin	76.7 %	76.3 %	76.5 %	77.5 %	76.6 %	76.4 %	75.2 %	74.3 %
GAAP research and development expense	\$ 113.4	\$ 128.3	\$ 139.1	\$ 158.7	\$ 170.5	\$ 185.4	\$ 196.3	\$ 215.9
Share-based compensation-related charges	41.0	45.9	46.7	58.1	63.0	69.4	69.3	78.5
Non-GAAP research and development expense	\$ 72.4	\$ 82.4	\$ 92.4	\$ 100.6	\$ 107.5	\$ 116.0	\$ 127.0	\$ 137.4
Non-GAAP research and development expense as a percentage of revenue	11.0 %	11.6 %	12.7 %	12.5 %	13.9 %	14.2 %	14.6 %	14.5 %
GAAP sales and marketing expense	\$ 314.6	\$ 320.0	\$ 339.0	\$ 370.4	\$ 365.7	\$ 374.9	\$ 388.4	\$ 391.2
Share-based compensation-related charges	57.5	61.2	57.4	54.2	44.8	58.5	57.6	61.6
Acquisition-related costs ⁽²⁾	—	—	—	—	—	—	—	—
Amortization expense of acquired intangible assets	2.2	5.0	3.9	1.5	1.5	1.7	1.8	2.7
Non-GAAP sales and marketing expense	\$ 254.9	\$ 253.8	\$ 277.7	\$ 314.7	\$ 319.4	\$ 314.7	\$ 329.0	\$ 326.9
Non-GAAP sales and marketing expense as a percentage of revenue	38.9 %	35.7 %	38.2 %	39.0 %	41.4 %	38.5 %	37.9 %	34.3 %
GAAP general and administrative expense	\$ 76.6	\$ 53.7	\$ 62.3	\$ 69.2	\$ 69.8	\$ 76.2	\$ 82.9	\$ 70.7
Share-based compensation-related charges	21.9	20.8	21.0	21.4	24.1	25.1	23.2	16.5
Acquisition-related costs ⁽²⁾	15.5	1.6	2.9	9.8	3.4	7.0	4.9	0.4
(Gain) loss related to facility exit ⁽³⁾	—	—	4.1	2.9	—	(3.1)	—	—
Non-GAAP general and administrative expense	\$ 39.2	\$ 31.3	\$ 34.3	\$ 35.1	\$ 42.3	\$ 47.2	\$ 54.8	\$ 53.8
Non-GAAP general and administrative expense as a percentage of revenue	6.0 %	4.4 %	4.7 %	4.4 %	5.5 %	5.8 %	6.3 %	5.7 %

(1) Consists of the amortization of intellectual property licenses and covenant not to sue.

(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 charges related to the relocation of our corporate headquarters (cease-use losses of \$23.8 million in Q3'18, \$4.1 million in Q3'19 and \$2.9 million in Q4'19) and a gain of \$3.1 million related to the early termination of our previous headquarters leases in Q2'20.

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)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
GAAP total operating expense	\$ 504.6	\$ 502.0	\$ 540.4	\$ 598.3	\$ 606.0	\$ 636.5	\$ 667.6	\$ 677.8
Share-based compensation-related charges	120.4	127.9	125.1	133.7	131.9	153.0	150.1	156.6
Acquisition-related costs ⁽²⁾	15.5	1.6	2.9	9.8	3.4	7.0	4.9	0.4
Amortization expense of acquired intangible assets	2.2	5.0	3.9	1.5	1.5	1.7	1.8	2.7
(Gain) loss related to facility exit ⁽³⁾	—	—	4.1	2.9	—	(3.1)	—	—
Non-GAAP total operating expense	\$ 366.5	\$ 367.5	\$ 404.4	\$ 450.4	\$ 469.2	\$ 477.9	\$ 510.8	\$ 518.1
Non-GAAP total operating expense as a percentage of revenue	55.9 %	51.7 %	55.6 %	55.9 %	60.8 %	58.5 %	58.8 %	54.5 %
GAAP operating income (loss)	\$ (32.1)	\$ 6.6	\$ (18.7)	\$ (9.9)	\$ (51.8)	\$ (52.9)	\$ (56.5)	\$ (17.8)
Share-based compensation-related charges	140.7	149.5	145.8	155.3	153.7	177.0	173.5	181.3
Acquisition-related costs ⁽²⁾	15.5	1.6	2.9	9.8	3.4	7.0	4.9	0.4
Amortization expense of acquired intangible assets	9.3	14.1	14.6	15.0	16.7	17.8	19.2	22.7
Litigation-related charges ⁽¹⁾	3.1	3.0	3.1	1.0	—	—	1.8	1.8
(Gain) loss related to facility exit ⁽³⁾	—	—	4.1	2.9	—	(3.1)	—	—
Non-GAAP operating income	\$ 136.5	\$ 174.8	\$ 151.8	\$ 174.1	\$ 122.0	\$ 145.8	\$ 142.9	\$ 188.4
Non-GAAP operating margin	20.8 %	24.6 %	20.9 %	21.6 %	15.8 %	17.9 %	16.4 %	19.8 %
GAAP interest expense	\$ (22.7)	\$ (20.6)	\$ (20.6)	\$ (20.0)	\$ (18.9)	\$ (19.0)	\$ (19.4)	\$ (31.4)
Non-cash charges related to convertible notes ⁽⁴⁾	19.4	17.1	17.2	16.5	15.5	15.7	15.8	26.9
Non-GAAP interest expense	\$ (3.3)	\$ (3.5)	\$ (3.4)	\$ (3.5)	\$ (3.4)	\$ (3.3)	\$ (3.6)	\$ (4.5)
Non-GAAP interest expense as a percentage of revenue	(0.5)%	(0.5)%	(0.5)%	(0.4)%	(0.4)%	(0.4)%	(0.4)%	(0.5)%
GAAP other income, net	\$ 13.0	\$ 16.0	\$ 18.2	\$ 16.2	\$ 16.2	\$ 10.8	\$ 8.1	\$ 0.8
Non-cash charges related to convertible notes ⁽⁴⁾	2.2	0.4	—	—	—	—	—	—
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.5)	0.6	0.5	1.5	(0.5)	1.0	(0.6)	1.2
Non-GAAP other income, net	\$ 14.7	\$ 17.0	\$ 18.7	\$ 17.7	\$ 15.7	\$ 11.8	\$ 7.5	\$ 2.0
Non-GAAP other income, net as a percentage of revenue	2.2 %	2.4 %	2.6 %	2.2 %	2.0 %	1.4 %	0.9 %	0.2 %
GAAP income (loss) before income taxes	\$ (41.8)	\$ 2.0	\$ (21.1)	\$ (13.7)	\$ (54.5)	\$ (61.1)	\$ (67.8)	\$ (48.4)
Share-based compensation-related charges	140.7	149.5	145.8	155.3	153.7	177.0	173.5	181.3
Acquisition-related costs ⁽²⁾	15.5	1.6	2.9	9.8	3.4	7.0	4.9	0.4
Amortization expense of acquired intangible assets	9.3	14.1	14.6	15.0	16.7	17.8	19.2	22.7
Litigation-related charges ⁽¹⁾	3.1	3.0	3.1	1.0	—	—	1.8	1.8
(Gain) loss related to facility exit ⁽³⁾	—	—	4.1	2.9	—	(3.1)	—	—
Non-cash charges related to convertible notes ⁽⁴⁾	21.6	17.5	17.2	16.5	15.5	15.7	15.8	26.9
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.5)	0.6	0.5	1.5	(0.5)	1.0	(0.6)	1.2
Non-GAAP income before income taxes	\$ 147.9	\$ 188.3	\$ 167.1	\$ 188.3	\$ 134.3	\$ 154.3	\$ 146.8	\$ 185.9

(1) Consists of the amortization of intellectual property licenses and covenant not to sue.

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(3) Consists of charges related to the relocation of our corporate headquarters (cease-use losses of \$23.8 million in Q3'18, \$4.1 million in Q3'19 and \$2.9 million in Q4'19) and a gain of \$3.1 million related to the early termination of our previous headquarters leases in Q2'20.

(4) 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 our convertible notes during those 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)

	Q119	Q119	Q319	Q419	Q120	Q220	Q320	Q420
GAAP provision for (benefit from) income taxes	\$ (3.5)	\$ 4.6	\$ (0.9)	\$ 7.1	\$ 5.1	\$ 12.6	\$ 7.0	\$ 10.5
Income tax and other tax adjustments related to the above	36.0	36.7	37.9	34.3	24.4	21.4	25.2	30.5
Non-GAAP provision for income taxes	\$ 32.5	\$ 41.3	\$ 37.0	\$ 41.4	\$ 29.5	\$ 34.0	\$ 32.2	\$ 41.0
Non-GAAP effective tax rate	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %	22.0 %
GAAP net income (loss)	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)
Share-based compensation-related charges	140.7	149.5	145.8	155.3	153.7	177.0	173.5	181.3
Acquisition-related costs ⁽²⁾	15.5	1.6	2.9	9.8	3.4	7.0	4.9	0.4
Amortization expense of acquired intangible assets	9.3	14.1	14.6	15.0	16.7	17.8	19.2	22.7
Litigation-related charges ⁽¹⁾	3.1	3.0	3.1	1.0	—	—	1.8	1.8
(Gain) loss related to facility exit ⁽³⁾	—	—	4.1	2.9	—	(3.1)	—	—
Non-cash charges related to convertible notes ⁽⁴⁾	21.6	17.5	17.2	16.5	15.5	15.7	15.8	26.9
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.5)	0.6	0.5	1.5	(0.5)	1.0	(0.6)	1.2
Income tax and other tax adjustments related to the above	(36.0)	(36.7)	(37.9)	(34.3)	(24.4)	(21.4)	(25.2)	(30.5)
Non-GAAP net income	\$ 115.4	\$ 147.0	\$ 130.1	\$ 146.9	\$ 104.8	\$ 120.3	\$ 114.6	\$ 144.9
GAAP net income (loss) per share, diluted	\$ (0.41)	\$ (0.03)	\$ (0.21)	\$ (0.22)	\$ (0.62)	\$ (0.75)	\$ (0.77)	\$ (0.61)
Share-based compensation-related charges	1.44	1.53	1.48	1.56	1.56	1.77	1.78	1.86
Acquisition-related costs ⁽²⁾	0.17	0.02	0.03	0.10	0.04	0.07	0.05	0.00
Amortization expense of acquired intangible assets	0.10	0.15	0.15	0.16	0.17	0.18	0.20	0.24
Litigation-related charges ⁽¹⁾	0.03	0.03	0.03	0.01	0.00	0.00	0.02	0.02
(Gain) loss related to facility exit ⁽³⁾	0.00	0.00	0.04	0.03	0.00	(0.03)	0.00	0.00
Non-cash charges related to convertible notes ⁽⁴⁾	0.23	0.19	0.18	0.17	0.16	0.16	0.16	0.28
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.01)	0.01	0.01	0.02	(0.01)	0.01	(0.01)	0.01
Income tax and other tax adjustments related to the above	(0.38)	(0.39)	(0.40)	(0.36)	(0.25)	(0.22)	(0.26)	(0.32)
Non-GAAP net income per share, diluted	\$ 1.17	\$ 1.51	\$ 1.31	\$ 1.47	\$ 1.05	\$ 1.19	\$ 1.17	\$ 1.48
GAAP weighted-average shares used to compute net income (loss) per share, diluted	93.8	94.0	94.4	95.8	96.6	98.3	96.7	96.0
Weighted-average effect of potentially dilutive securities ⁽⁵⁾	5.2	3.6	5.2	4.2	3.5	2.8	1.1	2.2
Non-GAAP weighted-average shares used to compute net income per share, diluted	99.0	97.6	99.6	100.0	100.1	101.1	97.8	98.2

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(4) 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 our convertible notes during those periods.

(5) 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.

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)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Net cash provided by operating activities	\$ 252.3	\$ 275.4	\$ 296.4	\$ 231.5	\$ 225.2	\$ 306.9	\$ 169.9	\$ 333.7
Less: purchases of property, equipment, and other assets	34.3	23.5	20.3	53.1	47.2	49.1	86.3	31.8
Free cash flow (non-GAAP)	\$ 218.0	\$ 251.9	\$ 276.1	\$ 178.4	\$ 178.0	\$ 257.8	\$ 83.6	\$ 301.9
Add: capital expenditures for new headquarters ⁽¹⁾	0.2	0.7	0.7	26.8	22.7	17.8	53.8	—
Add: repayments of convertible senior notes attributable to debt discount	52.3	14.8	—	30.5	—	—	—	—
Add: litigation-related payment ⁽²⁾	—	—	—	—	—	—	50.0	—
Less: cash payment related to landlord lease amendment ⁽³⁾	(4.9)	(4.0)	(3.0)	(2.9)	(2.0)	—	—	—
Adjusted free cash flow (non-GAAP)	\$ 275.4	\$ 271.4	\$ 279.8	\$ 238.6	\$ 202.7	\$ 275.6	\$ 187.4	\$ 301.9
Net cash provided by (used in) investing activities	\$ (713.1)	\$ (523.8)	\$ (140.3)	\$ (448.7)	\$ 244.5	\$ 436.4	\$ 274.7	\$ (667.6)
Net cash provided by (used in) financing activities	\$ (261.8)	\$ (407.8)	\$ 31.8	\$ (136.1)	\$ (167.1)	\$ (6.1)	\$ (959.3)	\$ 1,805.5
Free cash flow margin (non-GAAP)	33.2 %	35.4 %	38.0 %	22.1 %	23.1 %	31.6 %	9.6 %	31.8 %
Adjusted free cash flow margin (non-GAAP)	42.0 %	38.2 %	38.5 %	29.6 %	26.3 %	33.7 %	21.6 %	31.8 %

Other Key Metrics - Calculation of Billings

Total revenue	\$ 656.0	\$ 711.2	\$ 726.6	\$ 805.8	\$ 771.9	\$ 816.7	\$ 869.4	\$ 950.4
Add: change in total deferred revenue, net of acquired deferred revenue	102.5	141.3	95.3	251.1	125.5	182.2	146.0	439.6
Total billings	\$ 758.5	\$ 852.5	\$ 821.9	\$ 1,056.9	\$ 897.4	\$ 998.9	\$ 1,015.4	\$ 1,390.0

(1) Consists of capital expenditures for new headquarters including a land purchase of \$51.7 million in Q3'20.

(2) Consists of a one-time payment in Q3'20 related to covenant not to sue.

(3) During Q1'18, we received 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 was applied against increased rental payments totaling \$38.2 million due in FY'18 through Q1'20 under the amended lease agreements. Adjusted free cash flow for the periods presented reflects adjustments for these increased rental payments made during the respective periods.

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

	<u>FY18⁽¹⁾</u>	<u>FY19</u>	<u>FY20</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,506.9	\$ 961.4	\$ 2,958.0
Short-term investments	896.5	1,841.7	789.8
Accounts receivable, net	467.0	582.4	1,037.1
Prepaid expenses and other current assets	268.1	279.3	344.3
Total current assets	<u>4,138.5</u>	<u>3,664.8</u>	<u>5,129.2</u>
Property and equipment, net	273.1	296.0	348.1
Operating lease right-of-use assets	—	—	258.7
Long-term investments	547.5	575.4	554.4
Goodwill	522.8	1,352.3	1,812.9
Intangible assets, net	140.8	280.6	358.2
Other assets	326.2	423.1	603.9
Total assets	<u>\$ 5,948.9</u>	<u>\$ 6,592.2</u>	<u>\$ 9,065.4</u>
Liabilities, temporary equity, and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 49.4	\$ 73.3	\$ 63.6
Accrued compensation	163.7	235.5	322.2
Accrued and other liabilities	124.6	162.4	256.8
Deferred revenue	1,213.6	1,582.1	2,049.1
Convertible senior notes, net	550.4	—	—
Total current liabilities	<u>2,101.7</u>	<u>2,053.3</u>	<u>2,691.7</u>
Convertible senior notes, net	1,369.7	1,430.0	3,084.1
Long-term deferred revenue	1,065.7	1,306.6	1,761.1
Long-term operating lease liabilities	—	—	336.6
Other long-term liabilities	229.6	216.0	90.1
Temporary equity	21.9	—	—
Stockholders' equity:			
Preferred stock	—	—	—
Common stock and additional paid-in capital	1,967.4	2,490.9	2,259.2
Accumulated other comprehensive loss	(16.4)	(3.7)	10.5
Accumulated deficit	(790.7)	(900.9)	(1,167.9)
Total stockholders' equity	<u>1,160.3</u>	<u>1,586.3</u>	<u>1,101.8</u>
Total liabilities, temporary equity, and stockholders' equity	<u>\$ 5,948.9</u>	<u>\$ 6,592.2</u>	<u>\$ 9,065.4</u>

(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.
Condensed Consolidated Balance Sheets - Fiscal Quarters
(In millions)

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,784.4	\$ 1,127.8	\$ 1,314.9	\$ 961.4	\$ 1,263.7	\$ 2,000.0	\$ 1,484.7	\$ 2,958.0
Short-term investments	1,419.4	1,702.2	1,733.2	1,841.7	1,597.5	1,133.9	554.1	789.8
Accounts receivable, net	382.3	415.0	407.5	582.4	499.2	540.3	668.8	1,037.1
Prepaid expenses and other current assets	229.1	242.5	261.9	279.3	289.4	304.0	306.4	344.3
Total current assets	3,815.2	3,487.5	3,717.5	3,664.8	3,649.8	3,978.2	3,014.0	5,129.2
Property and equipment, net	276.5	273.2	275.0	296.0	316.4	311.4	357.2	348.1
Operating lease right-of-use assets	—	—	—	—	282.6	270.0	263.8	258.7
Long-term investments	565.5	808.6	669.9	575.4	467.6	317.9	151.2	554.4
Goodwill	636.4	636.4	1,027.3	1,352.3	1,400.4	1,511.7	1,812.9	1,812.9
Intangible assets, net	186.2	171.8	234.2	280.6	284.1	290.0	380.6	358.2
Other assets	321.7	330.0	337.9	423.1	423.9	504.9	522.1	603.9
Total assets	\$ 5,801.5	\$ 5,707.5	\$ 6,261.8	\$ 6,592.2	\$ 6,824.8	\$ 7,184.1	\$ 6,501.8	\$ 9,065.4
Liabilities, temporary equity, and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 43.0	\$ 27.9	\$ 68.6	\$ 73.3	\$ 74.7	\$ 55.4	\$ 52.3	\$ 63.6
Accrued compensation	99.4	143.4	144.0	235.5	125.7	175.2	174.9	322.2
Accrued and other liabilities	163.6	171.4	178.5	162.4	192.3	251.2	253.9	256.8
Deferred revenue	1,269.8	1,369.2	1,449.6	1,582.1	1,658.9	1,757.7	1,854.6	2,049.1
Convertible senior notes, net	239.9	156.3	158.1	—	—	—	—	—
Total current liabilities	1,815.7	1,868.2	1,998.8	2,053.3	2,051.6	2,239.5	2,335.7	2,691.7
Convertible senior notes, net	1,384.5	1,399.5	1,414.7	1,430.0	1,445.5	1,461.2	1,477.0	3,084.1
Long-term deferred revenue	1,114.6	1,156.5	1,182.6	1,306.6	1,357.1	1,440.8	1,516.0	1,761.1
Long-term operating lease liabilities	—	—	—	—	371.6	353.5	344.6	336.6
Other long-term liabilities	226.8	208.7	211.1	216.0	82.6	80.6	83.8	90.1
Temporary equity	6.9	2.8	1.1	—	—	—	—	—
Stockholders' equity:								
Preferred stock	—	—	—	—	—	—	—	—
Common stock and additional paid-in capital	2,129.3	1,941.5	2,340.8	2,490.9	2,477.5	2,644.5	1,855.7	2,259.2
Accumulated other comprehensive loss	(19.0)	(9.8)	(7.2)	(3.7)	(0.6)	(1.8)	(2.0)	10.5
Accumulated deficit	(857.3)	(859.9)	(880.1)	(900.9)	(960.5)	(1,034.2)	(1,109.0)	(1,167.9)
Total stockholders' equity	1,253.0	1,071.8	1,453.5	1,586.3	1,516.4	1,608.5	744.7	1,101.8
Total liabilities, temporary equity, and stockholders' equity	\$ 5,801.5	\$ 5,707.5	\$ 6,261.8	\$ 6,592.2	\$ 6,824.8	\$ 7,184.1	\$ 6,501.8	\$ 9,065.4

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

	FY18⁽¹⁾	FY19	FY20
Cash flows from operating activities			
Net loss	\$ (122.2)	\$ (81.9)	\$ (267.0)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Share-based compensation for equity-based awards	496.7	567.7	658.4
Depreciation and amortization	96.4	153.8	206.1
(Gain) loss related to facility exit	41.1	7.0	(3.1)
Amortization of deferred contract costs	149.8	223.8	254.4
Amortization of debt discount and debt issuance costs	28.8	70.2	73.9
Amortization of operating lease right-of-use assets	—	—	47.4
Amortization of investment premiums, net of accretion of purchase discounts	0.5	(17.5)	(6.2)
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	(33.7)	(108.7)	(435.6)
Prepaid expenses and other assets	(299.1)	(332.5)	(409.0)
Accounts payable	3.7	32.3	(12.8)
Accrued compensation	44.2	66.8	75.7
Accrued and other liabilities	49.3	(20.6)	(39.8)
Deferred revenue	582.6	590.2	893.3
Net cash provided by operating activities ⁽²⁾	<u>1,038.1</u>	<u>1,055.6</u>	<u>1,035.7</u>
Cash flows from investing activities			
Purchases of investments	(725.7)	(2,984.6)	(1,180.8)
Proceeds from sales of investments	—	6.5	314.0
Proceeds from maturities of investments	691.8	2,057.1	1,952.7
Business acquisitions, net of cash acquired	(374.1)	(773.7)	(583.5)
Purchases of property, equipment, and other assets	(112.0)	(131.2)	(214.4)
Net cash provided by (used in) investing activities	<u>(520.0)</u>	<u>(1,825.9)</u>	<u>288.0</u>
Cash flows from financing activities			
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	—	1,979.1
Proceeds from issuance of warrants	145.4	—	202.8
Purchase of note hedges	(332.0)	—	(370.8)
Repurchases of common stock	(259.1)	(330.0)	(1,198.1)
Proceeds from sales of shares through employee equity incentive plans	52.6	71.7	84.0
Payments for taxes related to net share settlement of equity awards	(43.7)	(33.2)	(22.7)
Payment of deferred consideration related to prior year business acquisition	—	(1.3)	(1.3)
Net cash provided by (used in) financing activities	<u>1,245.6</u>	<u>(773.9)</u>	<u>673.0</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>1,763.7</u>	<u>(1,544.2)</u>	<u>1,996.7</u>
Cash, cash equivalents, and restricted cash - beginning of period	<u>745.5</u>	<u>2,509.2</u>	<u>965.0</u>
Cash, cash equivalents, and restricted cash - end of period	<u><u>\$2,509.2</u></u>	<u><u>\$ 965.0</u></u>	<u><u>\$2,961.7</u></u>
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets			
Cash and cash equivalents	\$2,506.9	\$ 961.4	\$2,958.0
Restricted cash included in prepaid expenses and other current assets	1.1	1.9	2.8
Restricted cash included in other assets	1.2	1.7	0.9
Total cash, cash equivalents, and restricted cash	<u><u>\$2,509.2</u></u>	<u><u>\$ 965.0</u></u>	<u><u>\$2,961.7</u></u>

(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 FY'18 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 was applied against increased rental payments totaling \$38.2 million due in FY'18 through Q1'20 under the amended lease agreements.

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

	Q119	Q219	Q319	Q419	Q120	Q220	Q320	Q420
Cash flows from operating activities								
Net income (loss)	\$ (38.3)	\$ (2.6)	\$ (20.2)	\$ (20.8)	\$ (59.6)	\$ (73.7)	\$ (74.8)	\$ (58.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:								
Share-based compensation for equity-based awards	136.9	142.4	138.2	150.2	149.9	168.5	165.8	174.2
Depreciation and amortization	32.5	38.8	40.3	42.2	44.0	48.4	53.2	60.5
(Gain) loss related to facility exit	—	—	4.1	2.9	—	(3.1)	—	—
Amortization of deferred contract costs	43.6	46.8	57.2	76.2	55.6	55.3	60.5	83.0
Amortization of debt discount and debt issuance costs	19.4	17.1	17.1	16.6	15.5	15.7	15.8	26.9
Amortization of operating lease right-of-use assets	—	—	—	—	10.4	10.7	13.1	13.2
Amortization of investment premiums, net of accretion of purchase discounts	(2.4)	(5.3)	(5.3)	(4.5)	(3.2)	(1.4)	(1.6)	—
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	86.6	(32.7)	9.9	(172.5)	83.9	(40.8)	(110.3)	(368.4)
Prepaid expenses and other assets	(25.1)	(65.5)	(73.8)	(168.1)	(59.2)	(82.3)	(66.5)	(201.0)
Accounts payable	(0.8)	(10.4)	34.4	9.1	(2.5)	(14.8)	(5.5)	10.0
Accrued compensation	(65.0)	44.0	(1.7)	89.5	(109.9)	48.8	(10.5)	147.3
Accrued and other liabilities	12.5	(24.1)	0.9	(9.9)	(25.2)	(6.6)	(15.3)	7.3
Deferred revenue	102.5	141.3	95.3	251.1	125.5	182.2	146.0	439.6
Net cash provided by operating activities ⁽¹⁾	252.3	275.4	296.4	231.5	225.2	306.9	169.9	333.7
Cash flows from investing activities								
Purchases of investments	(741.0)	(1,290.9)	(394.7)	(558.0)	(274.3)	(9.0)	(12.2)	(885.3)
Proceeds from sales of investments	2.5	1.0	—	3.0	—	1.1	309.7	3.2
Proceeds from maturities of investments	214.5	789.7	502.6	550.3	632.4	622.7	451.3	246.3
Business acquisitions, net of cash acquired	(154.8)	(0.1)	(227.9)	(390.9)	(66.4)	(129.3)	(387.8)	—
Purchases of property, equipment, and other assets	(34.3)	(23.5)	(20.3)	(53.1)	(47.2)	(49.1)	(86.3)	(31.8)
Net cash provided by (used in) investing activities	(713.1)	(523.8)	(140.3)	(448.7)	244.5	436.4	274.7	(667.6)
Cash flows from financing activities								
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	—	—	—	—	—	—	—	1,979.1
Proceeds from issuance of warrants	—	—	—	—	—	—	—	202.8
Purchase of note hedges	—	—	—	—	—	—	—	(370.8)
Repurchases of common stock	—	(330.0)	—	—	(198.1)	—	(1,000.0)	—
Proceeds from sales of shares through employee equity incentive plans	30.7	2.9	36.7	1.4	36.3	0.6	46.8	0.3
Payments for taxes related to net share settlement of equity awards	(13.9)	(7.1)	(3.6)	(8.6)	(5.3)	(6.7)	(4.8)	(5.9)
Payment of deferred consideration related to prior year business acquisition	—	—	(1.3)	—	—	—	(1.3)	—
Net cash provided by (used in) financing activities	(261.8)	(407.8)	31.8	(136.1)	(167.1)	(6.1)	(959.3)	1,805.5
Net increase (decrease) in cash, cash equivalents, and restricted cash	(722.6)	(656.2)	187.9	(353.3)	302.6	737.2	(514.7)	1,471.6
Cash, cash equivalents, and restricted cash - beginning of period	2,509.2	1,786.6	1,130.4	1,318.3	965.0	1,267.6	2,004.8	1,490.1
Cash, cash equivalents, and restricted cash - end of period	\$1,786.6	\$1,130.4	\$1,318.3	\$ 965.0	\$1,267.6	\$2,004.8	\$1,490.1	\$2,961.7
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets								
Cash and cash equivalents	\$1,784.4	\$1,127.8	\$1,314.9	\$ 961.4	\$1,263.7	\$2,000.0	\$1,484.7	\$2,958.0
Restricted cash included in prepaid expenses and other current assets	1.0	1.3	2.2	1.9	1.9	2.5	2.7	2.8
Restricted cash included in other assets	1.2	1.3	1.2	1.7	2.0	2.3	2.7	0.9
Total cash, cash equivalents, and restricted cash	\$1,786.6	\$1,130.4	\$1,318.3	\$ 965.0	\$1,267.6	\$2,004.8	\$1,490.1	\$2,961.7

(1) 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 was applied against increased rental payments totaling \$38.2 million due in FY'18 through Q1'20 under the amended lease agreements.