

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 measures as they are not available without unreasonable effort.

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

	Q117 ⁽¹⁾⁽²⁾	Q217 ⁽²⁾	Q317 ⁽²⁾	Q417 ⁽²⁾	Q118 ⁽²⁾	Q218 ⁽²⁾	Q318 ⁽²⁾	Q418 ⁽²⁾	Q119
Revenue:									
Product	\$ 165.1	\$ 166.1	\$ 163.6	\$ 213.7	\$ 184.8	\$ 204.8	\$ 218.1	\$ 272.1	\$ 240.5
Subscription and support	233.2	254.2	264.9	294.3	317.0	340.8	349.6	386.4	415.5
Total revenue	398.3	420.3	428.5	508.0	501.8	545.6	567.7	658.5	656.0
Cost of revenue:									
Product	42.2	45.8	49.7	63.7	57.6	63.9	68.9	82.0	73.2
Subscription and support	58.9	67.3	74.0	74.8	83.7	95.5	91.0	102.5	110.3
Total cost of revenue	101.1	113.1	123.7	138.5	141.3	159.4	159.9	184.5	183.5
Total gross profit	297.2	307.2	304.8	369.5	360.5	386.2	407.8	474.0	472.5
<i>Product gross margin</i>	74.4 %	72.4 %	69.6 %	70.2 %	68.8 %	68.8 %	68.4 %	69.9 %	69.6 %
<i>Subscription and support gross margin</i>	74.7 %	73.5 %	72.1 %	74.6 %	73.6 %	72.0 %	74.0 %	73.5 %	73.5 %
<i>Total gross margin</i>	74.6 %	73.1 %	71.1 %	72.7 %	71.8 %	70.8 %	71.8 %	72.0 %	72.0 %
Operating expenses:									
Research and development	84.2	89.9	86.0	87.3	94.2	96.6	99.6	110.3	113.4
Sales and marketing	215.6	223.5	220.8	238.9	254.1	258.8	271.4	289.9	314.6
General and administrative	41.6	47.2	44.3	65.2	65.7	53.3	82.1	56.7	76.6
Total operating expenses	341.4	360.6	351.1	391.4	414.0	408.7	453.1	456.9	504.6
Operating income (loss)	(44.2)	(53.4)	(46.3)	(21.9)	(53.5)	(22.5)	(45.3)	17.1	(32.1)
Interest expense	(6.0)	(6.1)	(6.2)	(6.2)	(6.3)	(6.4)	(6.5)	(10.4)	(22.7)
Other income, net	2.5	2.7	2.1	2.9	4.8	4.9	8.6	10.2	13.0
Income (loss) before income taxes	(47.7)	(56.8)	(50.4)	(25.2)	(55.0)	(24.0)	(43.2)	16.9	(41.8)
Provision for (benefit from) income taxes	4.4	2.8	7.7	8.0	8.2	1.6	(2.8)	9.9	(3.5)
Net income (loss)	\$ (52.1)	\$ (59.6)	\$ (58.1)	\$ (33.2)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)

(1) In Q2'17, we early adopted new accounting guidance related to share-based payments. As a result, certain amounts for Q1'17 have been adjusted.

(2) 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)

	Q117 ⁽¹⁾	Q217 ⁽¹⁾	Q317 ⁽¹⁾	Q417 ⁽¹⁾	Q118 ⁽¹⁾	Q218 ⁽¹⁾	Q318 ⁽¹⁾	Q418 ⁽¹⁾	Q119
Revenue:									
Product	\$ 165.1	\$ 166.1	\$ 163.6	\$ 213.7	\$ 184.8	\$ 204.8	\$ 218.1	\$ 272.1	\$ 240.5
Subscription and support	233.2	254.2	264.9	294.3	317.0	340.8	349.6	386.4	415.5
Total revenue	398.3	420.3	428.5	508.0	501.8	545.6	567.7	658.5	656.0
Cost of revenue:									
Product	37.3	40.7	44.9	58.7	52.6	58.8	64.0	77.3	68.5
Subscription and support	44.5	49.7	56.8	56.9	64.6	72.2	71.2	79.3	84.5
Total cost of revenue	81.8	90.4	101.7	115.6	117.2	131.0	135.2	156.6	153.0
Total gross profit	316.5	329.9	326.8	392.4	384.6	414.6	432.5	501.9	503.0
<i>Product gross margin</i>	77.4 %	75.5 %	72.6 %	72.5 %	71.5 %	71.3 %	70.7 %	71.6 %	71.5 %
<i>Subscription and support gross margin</i>	80.9 %	80.4 %	78.6 %	80.7 %	79.6 %	78.8 %	79.6 %	79.5 %	79.7 %
<i>Total gross margin</i>	79.5 %	78.5 %	76.3 %	77.2 %	76.6 %	76.0 %	76.2 %	76.2 %	76.7 %
Operating expenses:									
Research and development	45.4	47.3	47.7	50.4	56.0	59.7	62.7	72.8	72.4
Sales and marketing	170.8	171.8	172.8	190.6	201.5	203.2	217.5	234.4	254.9
General and administrative	23.7	26.7	24.2	25.5	30.5	31.0	30.7	34.8	39.2
Total operating expenses	239.9	245.8	244.7	266.5	288.0	293.9	310.9	342.0	366.5
Operating income	76.6	84.1	82.1	125.9	96.6	120.7	121.6	159.9	136.5
Interest expense	-	-	-	-	-	-	-	(0.8)	(3.3)
Other income, net	2.3	3.3	3.5	3.5	5.3	5.9	6.6	9.7	14.7
Income before income taxes	78.9	87.4	85.6	129.4	101.9	126.6	128.2	168.8	147.9
Provision for income taxes	24.5	26.9	26.6	40.1	31.6	27.9	28.2	37.1	32.5
Net income	\$ 54.4	\$ 60.5	\$ 59.0	\$ 89.3	\$ 70.3	\$ 98.7	\$ 100.0	\$ 131.7	\$ 115.4

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

	Q117 ⁽¹⁾⁽²⁾	Q217 ⁽²⁾	Q317 ⁽²⁾	Q417 ⁽²⁾	Q118 ⁽²⁾	Q218 ⁽²⁾	Q318 ⁽²⁾	Q418 ⁽²⁾	Q119
GAAP to Non-GAAP Reconciliations									
GAAP product gross profit	\$ 122.9	\$ 120.3	\$ 113.9	\$ 150.0	\$ 127.2	\$ 140.9	\$ 149.2	\$ 190.1	\$ 167.3
Share-based compensation-related charges	1.8	2.1	1.7	1.9	1.9	2.1	1.8	1.4	1.6
Amortization expense of acquired intangible assets	-	-	-	-	-	-	-	0.2	-
Litigation-related charges ⁽³⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-GAAP product gross profit	\$ 127.8	\$ 125.4	\$ 118.7	\$ 155.0	\$ 132.2	\$ 146.0	\$ 154.1	\$ 194.8	\$ 172.0
Non-GAAP product gross margin	77.4%	75.5%	72.6%	72.5%	71.5%	71.3%	70.7%	71.6%	71.5%
GAAP subscription and support gross profit	\$ 174.3	\$ 186.9	\$ 190.9	\$ 219.5	\$ 233.3	\$ 245.3	\$ 258.6	\$ 283.9	\$ 305.2
Share-based compensation-related charges	12.5	15.7	15.0	15.5	16.7	20.9	16.4	17.2	18.7
Amortization expense of acquired intangible assets	1.9	1.9	2.2	2.4	2.4	2.4	3.4	6.0	7.1
Non-GAAP subscription and support gross profit	\$ 188.7	\$ 204.5	\$ 208.1	\$ 237.4	\$ 252.4	\$ 268.6	\$ 278.4	\$ 307.1	\$ 331.0
Non-GAAP subscription and support gross margin	80.9%	80.4%	78.6%	80.7%	79.6%	78.8%	79.6%	79.5%	79.7%
GAAP total gross profit	\$ 297.2	\$ 307.2	\$ 304.8	\$ 369.5	\$ 360.5	\$ 386.2	\$ 407.8	\$ 474.0	\$ 472.5
Share-based compensation-related charges	14.3	17.8	16.7	17.4	18.6	23.0	18.2	18.6	20.3
Amortization expense of acquired intangible assets	1.9	1.9	2.2	2.4	2.4	2.4	3.4	6.2	7.1
Litigation-related charges ⁽³⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Non-GAAP total gross profit	\$ 316.5	\$ 329.9	\$ 326.8	\$ 392.4	\$ 384.6	\$ 414.6	\$ 432.5	\$ 501.9	\$ 503.0
Non-GAAP gross margin	79.5%	78.5%	76.3%	77.2%	76.6%	76.0%	76.2%	76.2%	76.7%
GAAP research and development expense	\$ 84.2	\$ 89.9	\$ 86.0	\$ 87.3	\$ 94.2	\$ 96.6	\$ 99.6	\$ 110.3	\$ 113.4
Share-based compensation-related charges	38.6	42.5	38.3	36.9	38.2	36.9	36.9	37.5	41.0
Amortization expense of acquired intangible assets	0.2	0.1	-	-	-	-	-	-	-
Non-GAAP research and development expense	\$ 45.4	\$ 47.3	\$ 47.7	\$ 50.4	\$ 56.0	\$ 59.7	\$ 62.7	\$ 72.8	\$ 72.4
Non-GAAP research and development expense as a percentage of revenue	11.4%	11.3%	11.1%	9.9%	11.2%	10.9%	11.0%	11.1%	11.0%
GAAP sales and marketing expense	\$ 215.6	\$ 223.5	\$ 220.8	\$ 238.9	\$ 254.1	\$ 258.8	\$ 271.4	\$ 289.9	\$ 314.6
Share-based compensation-related charges	44.8	51.7	47.9	48.2	52.5	55.5	53.7	54.6	57.5
Acquisition-related costs ⁽⁴⁾	-	-	-	-	-	-	-	0.1	-
Amortization expense of acquired intangible assets	-	-	0.1	0.1	0.1	0.1	0.2	0.8	2.2
Non-GAAP sales and marketing expense	\$ 170.8	\$ 171.8	\$ 172.8	\$ 190.6	\$ 201.5	\$ 203.2	\$ 217.5	\$ 234.4	\$ 254.9
Non-GAAP sales and marketing expense as a percentage of revenue	42.9%	40.8%	40.4%	37.5%	40.0%	37.3%	38.4%	35.5%	38.9%
GAAP general and administrative expense	\$ 41.6	\$ 47.2	\$ 44.3	\$ 65.2	\$ 65.7	\$ 53.3	\$ 82.1	\$ 56.7	\$ 76.6
Share-based compensation-related charges	17.9	19.8	17.7	18.4	19.6	20.9	14.3	17.4	21.9
Acquisition-related costs ⁽⁴⁾	-	0.7	2.4	-	-	-	13.3	4.5	15.5
Facility exit costs ⁽⁵⁾	-	-	-	21.3	15.6	1.4	23.8	-	-
Non-GAAP general and administrative expense	\$ 23.7	\$ 26.7	\$ 24.2	\$ 25.5	\$ 30.5	\$ 31.0	\$ 30.7	\$ 34.8	\$ 39.2
Non-GAAP general and administrative expense as a percentage of revenue	6.0%	6.4%	5.6%	5.0%	6.1%	5.7%	5.4%	5.3%	6.0%
GAAP total operating expense	\$ 341.4	\$ 360.6	\$ 351.1	\$ 391.4	\$ 414.0	\$ 408.7	\$ 453.1	\$ 456.9	\$ 504.6
Share-based compensation-related charges	101.3	114.0	103.9	103.5	110.3	113.3	104.9	109.5	120.4
Acquisition-related costs ⁽⁴⁾	-	0.7	2.4	-	-	-	13.3	4.6	15.5
Amortization expense of acquired intangible assets	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.8	2.2
Facility exit costs ⁽⁵⁾	-	-	-	21.3	15.6	1.4	23.8	-	-
Non-GAAP total operating expense	\$ 239.9	\$ 245.8	\$ 244.7	\$ 266.5	\$ 288.0	\$ 293.9	\$ 310.9	\$ 342.0	\$ 366.5
Non-GAAP total operating expense as a percentage of revenue	60.3%	58.5%	57.1%	52.4%	57.3%	53.9%	54.8%	51.9%	55.9%
GAAP operating income (loss)	\$ (44.2)	\$ (53.4)	\$ (46.3)	\$ (21.9)	\$ (53.5)	\$ (22.5)	\$ (45.3)	\$ 17.1	\$ (32.1)
Share-based compensation-related charges	115.6	131.8	120.6	120.9	128.9	136.3	123.1	128.1	140.7
Acquisition-related costs ⁽⁴⁾	-	0.7	2.4	-	-	-	13.3	4.6	15.5
Amortization expense of acquired intangible assets	2.1	2.0	2.3	2.5	2.5	2.5	3.6	7.0	9.3
Litigation-related charges ⁽³⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Facility exit costs ⁽⁵⁾	-	-	-	21.3	15.6	1.4	23.8	-	-
Non-GAAP operating income	\$ 76.6	\$ 84.1	\$ 82.1	\$ 125.9	\$ 96.6	\$ 120.7	\$ 121.6	\$ 159.9	\$ 136.5
Non-GAAP operating margin	19.2%	20.0%	19.2%	24.8%	19.3%	22.1%	21.4%	24.3%	20.8%
GAAP interest expense	\$ (6.0)	\$ (6.1)	\$ (6.2)	\$ (6.2)	\$ (6.3)	\$ (6.4)	\$ (6.5)	\$ (10.4)	\$ (22.7)
Non-cash charges related to convertible notes ⁽⁶⁾	6.0	6.1	6.2	6.2	6.3	6.4	6.5	9.6	19.4
Non-GAAP interest expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (0.8)	\$ (3.3)
Non-GAAP interest expense as a percentage of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	-0.5%
GAAP other income, net	\$ 2.5	\$ 2.7	\$ 2.1	\$ 2.9	\$ 4.8	\$ 4.9	\$ 8.6	\$ 10.2	\$ 13.0
Non-cash charges related to convertible notes ⁽⁶⁾	-	-	-	-	-	-	-	-	2.2
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.2)	0.6	1.4	0.6	0.5	1.0	(2.0)	(0.5)	(0.5)
Non-GAAP other income, net	\$ 2.3	\$ 3.3	\$ 3.5	\$ 3.5	\$ 5.3	\$ 5.9	\$ 6.6	\$ 9.7	\$ 14.7
Non-GAAP other income, net as a percentage of revenue	0.6%	0.8%	0.8%	0.7%	1.1%	1.1%	1.2%	1.5%	2.2%
GAAP income (loss) before income taxes	\$ (47.7)	\$ (56.8)	\$ (50.4)	\$ (25.2)	\$ (55.0)	\$ (24.0)	\$ (43.2)	\$ 16.9	\$ (41.8)
Share-based compensation-related charges	115.6	131.8	120.6	120.9	128.9	136.3	123.1	128.1	140.7
Acquisition-related costs ⁽⁴⁾	-	0.7	2.4	-	-	-	13.3	4.6	15.5
Amortization expense of acquired intangible assets	2.1	2.0	2.3	2.5	2.5	2.5	3.6	7.0	9.3
Litigation-related charges ⁽³⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Facility exit costs ⁽⁵⁾	-	-	-	21.3	15.6	1.4	23.8	-	-
Non-cash charges related to convertible notes ⁽⁶⁾	6.0	6.1	6.2	6.2	6.3	6.4	6.5	9.6	21.6
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.2)	0.6	1.4	0.6	0.5	1.0	(2.0)	(0.5)	(0.5)
Non-GAAP income before income taxes	\$ 78.9	\$ 87.4	\$ 85.6	\$ 129.4	\$ 101.9	\$ 126.6	\$ 128.2	\$ 168.8	\$ 147.9
GAAP provision for (benefit from) income taxes	\$ 4.4	\$ 2.8	\$ 7.7	\$ 8.0	\$ 8.2	\$ 1.6	\$ (2.8)	\$ 9.9	\$ (3.5)
Income tax and other tax adjustments related to the above	20.1	24.1	18.9	32.1	23.4	26.3	31.0	27.2	36.0
Non-GAAP provision for income taxes	\$ 24.5	\$ 26.9	\$ 26.6	\$ 40.1	\$ 31.6	\$ 27.9	\$ 28.2	\$ 37.1	\$ 32.5
Non-GAAP effective tax rate ⁽⁷⁾	31.0%	31.0%	31.0%	31.0%	31.0%	22.0%	22.0%	22.0%	22.0%
GAAP net income (loss)	\$ (52.1)	\$ (59.6)	\$ (58.1)	\$ (33.2)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)
Share-based compensation-related charges	115.6	131.8	120.6	120.9	128.9	136.3	123.1	128.1	140.7
Acquisition-related costs ⁽⁴⁾	-	0.7	2.4	-	-	-	13.3	4.6	15.5
Amortization expense of acquired intangible assets	2.1	2.0	2.3	2.5	2.5	2.5	3.6	7.0	9.3
Litigation-related charges ⁽³⁾	3.1	3.0	3.1	3.1	3.1	3.0	3.1	3.1	3.1
Facility exit costs ⁽⁵⁾	-	-	-	21.3	15.6	1.4	23.8	-	-
Non-cash charges related to convertible notes ⁽⁶⁾	6.0	6.1	6.2	6.2	6.3	6.4	6.5	9.6	21.6
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.2)	0.6	1.4	0.6	0.5	1.0	(2.0)	(0.5)	(0.5)
Income tax and other tax adjustments related to the above	(20.1)	(24.1)	(18.9)	(32.1)	(23.4)	(26.3)	(31.0)	(27.2)	(36.0)
Non-GAAP net income	\$ 54.4	\$ 60.5	\$ 59.0	\$ 89.3	\$ 70.3	\$ 98.7	\$ 100.0	\$ 131.7	\$ 115.4

(1) In Q2'17, we early adopted new accounting guidance related to share-based payments. As a result, certain amounts for Q1'17 have been adjusted.

(2) 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.

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

(4) 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.

(5) 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, and additional cease-use loss of \$23.8 million in Q3'18) and charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation in Q2'18).

(6) Consists of non-cash interest expense of \$19.4 million related to our convertible senior notes and a non-cash loss of \$2.2 million related to early conversions of the convertible notes in Q1'19.

(7) 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.

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

	Q117 ⁽¹⁾⁽²⁾	Q217 ⁽²⁾	Q317 ⁽²⁾	Q417 ⁽²⁾	Q118 ⁽²⁾	Q218 ⁽²⁾	Q318 ⁽²⁾	Q418 ⁽²⁾	Q119
GAAP net income (loss) per share, diluted	\$ (0.58)	\$ (0.66)	\$ (0.64)	\$ (0.37)	\$ (0.70)	\$ (0.28)	\$ (0.44)	\$ 0.07	\$ (0.41)
Share-based compensation-related charges	1.27	1.42	1.30	1.31	1.38	1.46	1.30	1.32	1.44
Acquisition-related costs ⁽⁴⁾	0.00	0.01	0.03	0.00	0.00	0.00	0.14	0.05	0.17
Amortization expense of acquired intangible assets	0.02	0.02	0.03	0.03	0.03	0.03	0.04	0.08	0.10
Litigation-related charges ⁽³⁾	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Facility exit costs ⁽⁵⁾	0.00	0.00	0.00	0.23	0.17	0.02	0.26	0.00	0.00
Non-cash charges related to convertible notes ⁽⁶⁾	0.07	0.07	0.07	0.07	0.07	0.07	0.07	0.10	0.23
Foreign currency (gain) loss associated with non-GAAP adjustments	0.00	0.01	0.02	0.01	0.01	0.01	(0.02)	(0.01)	(0.01)
Income tax and other tax adjustments related to the above	(0.23)	(0.26)	(0.21)	(0.35)	(0.24)	(0.29)	(0.34)	(0.30)	(0.38)
Non-GAAP net income per share, diluted	\$ 0.58	\$ 0.64	\$ 0.63	\$ 0.96	\$ 0.75	\$ 1.05	\$ 1.04	\$ 1.34	\$ 1.17
GAAP weighted-average shares used to compute net income (loss) per share, diluted	89.8	90.7	91.0	90.9	90.9	91.1	91.9	100.5	93.8
Weighted-average effect of potentially dilutive securities ⁽⁷⁾	3.9	3.2	2.3	2.4	2.8	2.8	4.3	(2.5)	5.2
Non-GAAP weighted-average shares used to compute net income per share, diluted	93.7	93.9	93.3	93.3	93.7	93.9	96.2	98.0	99.0
Net cash provided by operating activities ⁽¹⁾⁽⁸⁾	\$ 203.3	\$ 214.3	\$ 211.7	\$ 239.5	\$ 274.0	\$ 244.6	\$ 241.9	\$ 277.6	\$ 252.3
Less: purchases of property, equipment, and other assets	20.9	44.7	48.6	49.2	32.2	25.6	28.8	25.4	34.3
Free cash flow (non-GAAP) ⁽¹⁾⁽⁸⁾	\$ 182.4	\$ 169.6	\$ 163.1	\$ 190.3	\$ 241.8	\$ 219.0	\$ 213.1	\$ 252.2	\$ 218.0
Add: capital expenditures for new headquarters	2.6	31.1	32.8	25.5	11.2	-	-	-	0.2
Add: repayments of convertible senior notes attributable to debt discount	-	-	-	-	-	-	-	-	52.3
Less: cash reimbursement (payments), net related to landlord lease amendment ⁽⁸⁾	-	-	-	-	35.5	(5.9)	(6.9)	(5.9)	(4.9)
Adjusted free cash flow (non-GAAP)	\$ 185.0	\$ 200.7	\$ 195.9	\$ 215.8	\$ 217.5	\$ 224.9	\$ 220.0	\$ 258.1	\$ 275.4
Free cash flow margin (non-GAAP) ⁽¹⁾⁽⁸⁾	45.8 %	40.4 %	38.1 %	37.5 %	48.2 %	40.1 %	37.5 %	38.3 %	33.2 %
Adjusted free cash flow margin (non-GAAP) ⁽¹⁾⁽⁸⁾	46.4 %	47.8 %	45.7 %	42.5 %	43.3 %	41.2 %	38.8 %	39.2 %	42.0 %
Net cash used in investing activities	\$ (71.2)	\$ (173.1)	\$ (166.8)	\$ (61.5)	\$ (52.4)	\$ (36.1)	\$ (225.1)	\$ (206.4)	\$ (713.1)
Net cash provided by (used in) financing activities ⁽¹⁾	\$ (27.3)	\$ (119.2)	\$ (113.8)	\$ (125.7)	\$ (123.4)	\$ (135.2)	\$ 17.8	\$ 1,486.4	\$ (261.8)
Other Key Metrics - Calculation of Billings									
Total revenue	\$ 398.3	\$ 420.3	\$ 428.5	\$ 508.0	\$ 501.8	\$ 545.6	\$ 567.7	\$ 658.5	\$ 656.0
Add: change in total deferred revenue, net of acquired deferred revenue	79.7	136.8	117.6	162.5	93.6	127.6	157.0	204.4	102.5
Billings	\$ 478.0	\$ 557.1	\$ 546.1	\$ 670.5	\$ 595.4	\$ 673.2	\$ 724.7	\$ 862.9	\$ 758.5

(1) In Q2'17, we early adopted new accounting guidance related to share-based payments. As a result, certain amounts for Q1'17 have been adjusted.

(2) 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.

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

(4) 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.

(5) 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, and additional cease-use loss of \$23.8 million in Q3'18) and charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation in Q2'18).

(6) Consists of non-cash interest expense of \$19.4 million related to our convertible senior notes and a non-cash loss of \$2.2 million related to early conversions of the convertible notes in Q1'19.

(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 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	FY17 ⁽¹⁾	FY18 ⁽¹⁾
<u>GAAP to Non-GAAP Reconciliations</u>				
GAAP net loss per share, diluted	\$ (1.61)	\$ (2.21)	\$ (2.24)	\$ (1.33)
Share-based compensation-related charges	2.79	4.58	5.30	5.47
Acquisition-related costs ⁽³⁾	0.01	-	0.03	0.20
Amortization expense of acquired intangible assets	0.09	0.10	0.10	0.17
Litigation-related charges ⁽²⁾	0.15	0.14	0.14	0.13
Facility exit costs ⁽⁴⁾	-	-	0.24	0.44
Non-cash charges related to convertible notes ⁽⁵⁾	0.27	0.27	0.27	0.31
Foreign currency (gain) loss associated with non-GAAP adjustments	0.02	0.00	0.03	(0.01)
Income tax and other tax adjustments related to the above	(0.62)	(0.99)	(1.06)	(1.18)
Non-GAAP net income per share, diluted	<u>\$ 1.10</u>	<u>\$ 1.89</u>	<u>\$ 2.81</u>	<u>\$ 4.20</u>
<u>Other Key Metrics - Calculation of Billings</u>				
Total revenue	\$ 928.1	\$ 1,378.5	\$ 1,755.1	\$ 2,273.6
Add: change in total deferred revenue, net of acquired deferred revenue	291.0	527.1	496.6	582.6
Billings	<u>\$ 1,219.1</u>	<u>\$ 1,905.6</u>	<u>\$ 2,251.7</u>	<u>\$ 2,856.2</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.

(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 during FY'17 and cease-use loss of \$39.2 million and accelerated depreciation during FY'18) and charges related to the relocation of our research and development center in Israel (cease-use loss of \$1.3 million and accelerated depreciation during FY'18).

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

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

	Q117 ⁽¹⁾⁽²⁾	Q217 ⁽²⁾	Q317 ⁽²⁾	Q417 ⁽²⁾	Q118 ⁽²⁾	Q218 ⁽²⁾	Q318 ⁽²⁾	Q418 ⁽²⁾	Q119
Assets									
Current assets:									
Cash and cash equivalents	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3	\$ 842.6	\$ 915.0	\$ 949.0	\$ 2,506.9	\$ 1,784.4
Short-term investments	550.6	593.0	680.0	630.7	660.6	720.7	672.2	896.5	1,419.4
Accounts receivable, net	347.8	383.3	362.4	431.1	350.7	363.1	361.5	467.0	382.3
Prepaid expenses and other current assets	134.3	146.5	168.9	177.8	195.2	219.1	233.1	268.1	229.1
Total current assets	1,872.1	1,884.2	1,903.3	1,983.9	2,049.1	2,217.9	2,215.8	4,138.5	3,815.2
Property and equipment, net	125.0	154.1	192.3	211.1	256.9	264.7	264.2	273.1	276.5
Long-term investments	708.4	790.5	719.1	789.3	777.4	722.3	592.9	547.5	565.5
Goodwill	163.5	163.5	238.8	238.8	238.8	238.8	522.2	522.8	636.4
Intangible assets, net	41.7	39.5	56.5	53.7	51.0	48.3	147.7	140.8	186.2
Other assets	184.3	229.0	233.5	261.7	218.9	245.0	282.7	326.2	321.7
Total assets	\$ 3,095.0	\$ 3,260.8	\$ 3,343.5	\$ 3,538.5	\$ 3,592.1	\$ 3,737.0	\$ 4,025.5	\$ 5,948.9	\$ 5,801.5
Liabilities, temporary equity, and stockholders' equity									
Current liabilities:									
Accounts payable	\$ 29.2	\$ 28.0	\$ 33.2	\$ 35.5	\$ 38.8	\$ 33.4	\$ 32.7	\$ 49.4	\$ 43.0
Accrued compensation	59.0	78.8	76.4	117.5	74.5	113.2	95.1	163.7	99.4
Accrued and other liabilities	60.8	71.8	72.2	93.0	95.9	97.9	118.6	124.6	163.6
Deferred revenue	706.6	775.9	838.3	919.8	970.9	1,037.3	1,111.7	1,213.6	1,269.8
Convertible senior notes, net	506.2	-	-	-	531.0	537.4	543.8	550.4	239.9
Total current liabilities	1,361.8	954.5	1,020.1	1,165.8	1,711.1	1,819.2	1,901.9	2,101.7	1,815.7
Convertible senior notes, net	-	512.3	518.4	524.7	-	-	-	1,369.7	1,384.5
Long-term deferred revenue	568.0	635.5	691.6	772.6	815.1	876.3	963.2	1,065.7	1,114.6
Other long-term liabilities	80.2	127.5	137.1	147.6	192.2	196.6	226.0	229.6	226.8
Temporary equity	61.4	-	-	-	39.2	33.5	27.7	21.9	6.9
Stockholders' equity:									
Preferred stock	-	-	-	-	-	-	-	-	-
Common stock and additional paid-in capital	1,543.1	1,613.3	1,615.8	1,599.7	1,573.2	1,575.9	1,717.6	1,967.4	2,129.3
Accumulated other comprehensive loss	(1.9)	(5.1)	(4.2)	(3.4)	(7.0)	(7.2)	(13.2)	(16.4)	(19.0)
Accumulated deficit	(517.6)	(577.2)	(635.3)	(668.5)	(731.7)	(757.3)	(797.7)	(790.7)	(857.3)
Total stockholders' equity	1,023.6	1,031.0	976.3	927.8	834.5	811.4	906.7	1,160.3	1,253.0
Total liabilities, temporary equity, and stockholders' equity	\$ 3,095.0	\$ 3,260.8	\$ 3,343.5	\$ 3,538.5	\$ 3,592.1	\$ 3,737.0	\$ 4,025.5	\$ 5,948.9	\$ 5,801.5

(1) In Q2'17, we early adopted new accounting guidance related to share-based payments. As a result, certain amounts for Q1'17 have been adjusted.

(2) 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 Cash Flows - Fiscal Quarters
(In millions)

	Q117 ⁽¹⁾⁽²⁾	Q217 ⁽²⁾	Q317 ⁽²⁾	Q417 ⁽²⁾	Q118 ⁽²⁾	Q218 ⁽²⁾	Q318 ⁽²⁾	Q418 ⁽²⁾	Q119
Cash flows from operating activities									
Net income (loss)	\$ (52.1)	\$ (59.6)	\$ (58.1)	\$ (33.2)	\$ (63.2)	\$ (25.6)	\$ (40.4)	\$ 7.0	\$ (38.3)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:									
Share-based compensation for equity-based awards	113.3	127.3	116.2	117.7	125.7	130.8	116.6	123.6	136.9
Depreciation and amortization	13.6	14.4	15.1	16.7	21.3	22.1	24.6	28.4	32.5
Cease-use loss and asset impairment related to facility exit	-	-	-	20.9	15.4	1.3	24.4	-	-
Amortization of deferred contract costs	18.9	22.6	22.3	31.0	28.1	29.2	33.3	42.3	41.1
Amortization of debt discount and debt issuance costs	6.0	6.1	6.2	6.2	6.3	6.4	6.5	9.6	19.4
Amortization of investment premiums, net of accretion of purchase discounts	0.7	0.7	0.7	0.6	0.5	0.1	-	(0.1)	(2.4)
Loss on conversions of convertible senior notes	-	-	-	-	-	-	-	-	2.2
Repayments of convertible senior notes attributable to debt discount	-	-	-	-	-	-	-	-	(52.3)
Changes in operating assets and liabilities, net of effects of acquisitions:									
Accounts receivable, net	40.7	(35.5)	21.3	(68.6)	80.3	(12.3)	3.8	(105.5)	86.6
Prepaid expenses and other assets	(13.3)	(40.1)	(35.9)	(73.4)	(39.0)	(66.8)	(60.0)	(116.4)	(22.6)
Accounts payable	1.8	(1.6)	2.6	3.1	4.2	(10.6)	1.8	8.3	(0.8)
Accrued compensation	(14.5)	19.8	(3.6)	41.1	(43.0)	38.7	(20.1)	68.6	(65.0)
Accrued and other liabilities	8.5	23.4	7.3	14.9	43.8	3.7	(5.6)	7.4	12.5
Deferred revenue	79.7	136.8	117.6	162.5	93.6	127.6	157.0	204.4	102.5
Net cash provided by operating activities ⁽¹⁾⁽²⁾⁽³⁾	203.3	214.3	211.7	239.5	274.0	244.6	241.9	277.6	252.3
Cash flows from investing activities									
Purchases of investments	(285.7)	(277.0)	(164.2)	(269.0)	(226.8)	(145.7)	(15.4)	(337.8)	(741.0)
Proceeds from sales of investments	-	-	-	-	-	-	-	-	2.5
Proceeds from maturities of investments	235.4	148.6	136.7	256.7	206.6	135.2	189.2	160.8	214.5
Business acquisitions, net of cash acquired	-	-	(90.7)	-	-	-	(370.1)	(4.0)	(154.8)
Purchases of property, equipment, and other assets	(20.9)	(44.7)	(48.6)	(49.2)	(32.2)	(25.6)	(28.8)	(25.4)	(34.3)
Net cash used in investing activities	(71.2)	(173.1)	(166.8)	(61.5)	(52.4)	(36.1)	(225.1)	(206.4)	(713.1)
Cash flows from financing activities									
Repayments of convertible senior notes attributable to principal and equity component	-	-	-	-	-	-	-	-	(275.0)
Payments for debt issuance costs	-	-	-	-	-	-	-	-	(3.6)
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	(50.0)	(120.1)	(125.0)	(115.9)	(134.1)	(125.0)	-	-	-
Proceeds from sales of shares through employee equity incentive plans	22.7	0.9	22.2	0.6	22.1	1.3	29.2	-	30.7
Payments for taxes related to net share settlement of equity awards	-	-	(11.0)	(10.4)	(11.4)	(11.5)	(11.4)	(9.4)	(13.9)
Net cash provided by (used in) financing activities ⁽¹⁾	(27.3)	(119.2)	(113.8)	(125.7)	(123.4)	(135.2)	17.8	1,486.4	(261.8)
Net increase (decrease) in cash, cash equivalents, and restricted cash	104.8	(78.0)	(68.9)	52.3	98.2	73.3	34.6	1,557.6	(722.6)
Cash, cash equivalents, and restricted cash - beginning of period	735.3	840.1	762.1	693.2	745.5	843.7	917.0	951.6	2,509.2
Cash, cash equivalents, and restricted cash - end of period	\$ 840.1	\$ 762.1	\$ 693.2	\$ 745.5	\$ 843.7	\$ 917.0	\$ 951.6	\$ 2,509.2	\$ 1,786.6
Reconciliation of cash, cash equivalents, and restricted cash to the condensed consolidated balance sheets									
Cash and cash equivalents	\$ 839.4	\$ 761.4	\$ 692.0	\$ 744.3	\$ 842.6	\$ 915.0	\$ 949.0	\$ 2,506.9	\$ 1,784.4
Restricted cash included in prepaid expenses and other current assets	0.2	0.2	0.6	0.6	0.5	0.7	1.3	1.1	1.0
Restricted cash included in other assets	0.5	0.5	0.6	0.6	0.6	1.3	1.3	1.2	1.2
Total cash, cash equivalents, and restricted cash	\$ 840.1	\$ 762.1	\$ 693.2	\$ 745.5	\$ 843.7	\$ 917.0	\$ 951.6	\$ 2,509.2	\$ 1,786.6

(1) In Q2'17, we early adopted new accounting guidance related to share-based payments. As a result, certain amounts for Q1'17 have been adjusted.

(2) 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.

(3) 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.