



Q3 Fiscal Year 2020 Earnings Call



May 21, 2020

Safe Harbor

This presentation may contain “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management, including statements regarding Palo Alto Networks’ expectations regarding the expansion of its total addressable market, our financial outlook for the fiscal fourth quarter and full year fiscal 2020, and the length of the transition and changes caused by COVID-19, including the acceleration of certain trends, and our ability to leverage this acceleration and emerge from this transition in a position of strength. Many of these assumptions relate to matters that are beyond our control and changing rapidly, including, but not limited to, the timeframes for and severity of social distancing and other mitigation requirements, the impact of COVID-19 on our customers’ purchasing decisions and the length of our sales cycles, particularly for customers in certain industries highly affected by COVID-19.

There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including: developments and changes in general market, political, economic, and business conditions; the duration and global impact of COVID-19; risks associated with managing our 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; our competition; rapidly evolving technological developments in the market for network security products and subscription and support offerings; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; length of sales cycles; our share repurchase program and accelerated share repurchase transaction, which may not be fully consummated or enhance shareholder value, and any share repurchases which could affect the price of our common stock. Further information on these and other factors that could affect the forward-looking statements we make in this presentation can be found in the documents that we file with or furnish to the U.S. Securities and Exchange Commission, including Palo Alto Networks’ most recent Quarterly Report on Form 10-Q filed for the fiscal quarter ended January 31, 2020, which is available on our website at investors.paloaltonetworks.com and on the SEC’s website at www.sec.gov. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this presentation are based our current beliefs and on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made or to update the reasons why actual results could differ materially from those anticipated in the forward-looking statements, even if new information becomes available in the future.

All information in this presentation is as of May 21, 2020. This presentation contains non-GAAP financial measures and key metrics relating to the company’s past and expected future performance. We have not reconciled diluted non-GAAP net income per share guidance to GAAP net income (loss) per diluted share because we do not provide guidance on GAAP net income (loss) and would not be able to present the various reconciling cash and non-cash items between GAAP net income (loss) and non-GAAP net income, including share-based compensation expense, without unreasonable effort. You can also find information regarding our use of non-GAAP financial measures in our earnings release dated May 21, 2020.

WELCOME

Our Response to COVID-19



Our People

Transition to nearly 100% remote workforce in early March and committed to refrain from reductions in workforce associated with COVID-19



Our Communities

Established COVID Fund to provide support to employees in need of assistance and our communities



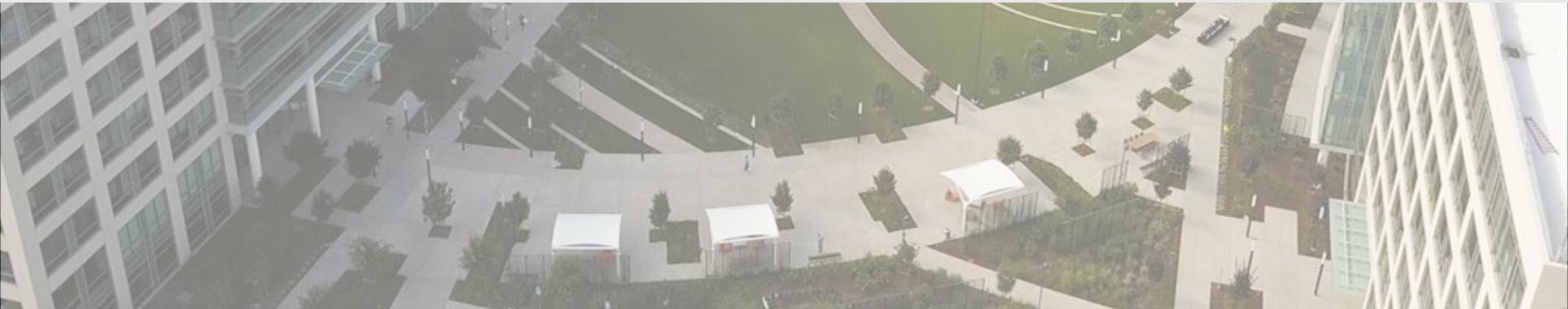
Our Customers

>1,500 customers using our free trial for remote secure access



Announcing **FLEXWORK**

A new way of working for Palo Alto Networks



COVID-19: Industry Trends

Positives

Companies supporting mobile and cloud-based consumers and workforces will benefit

Enterprises will accelerate their technology investments

Opportunity for networking and network security to come together → SASE

Larger players with strong balance sheets are better positioned

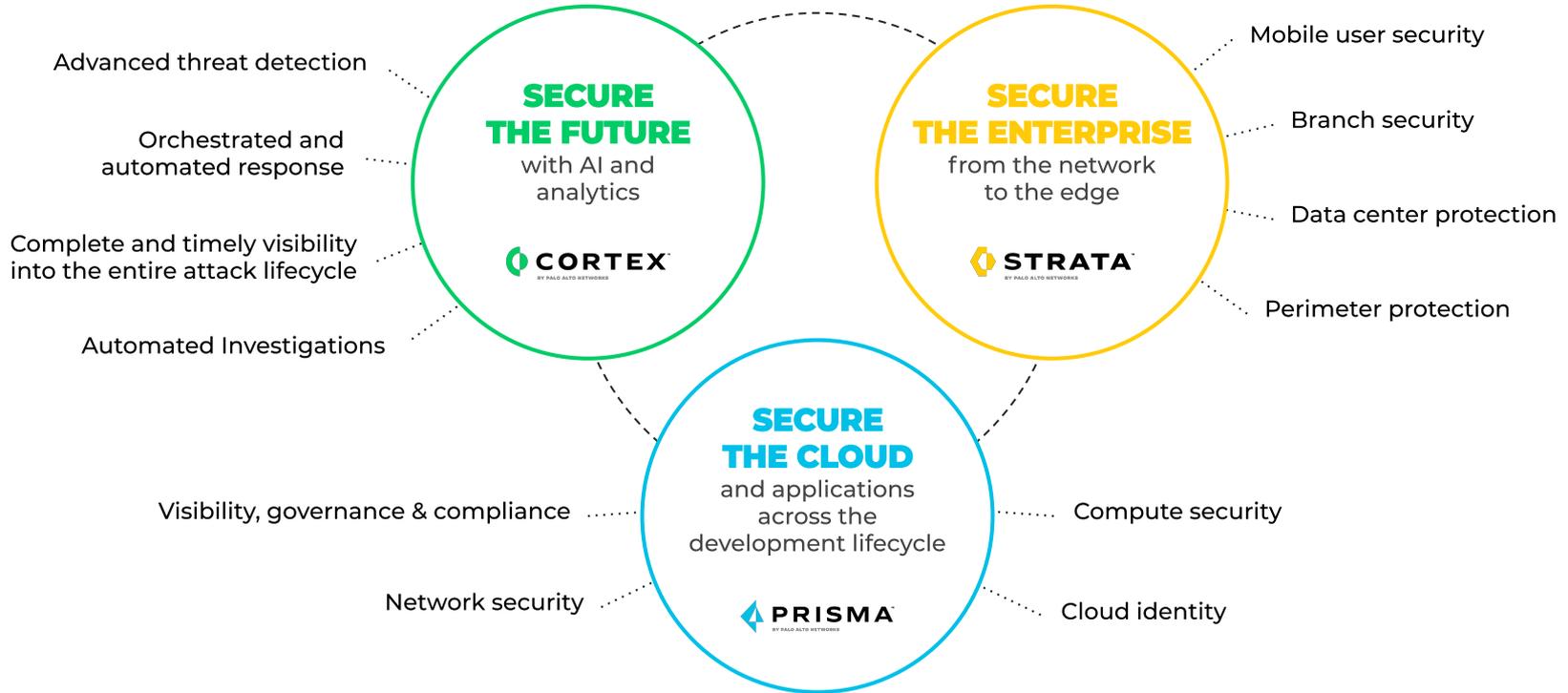
Challenges

Global economic uncertainty and volatility likely to persist for at least 12-18 months

Attacks and data breaches are accelerating

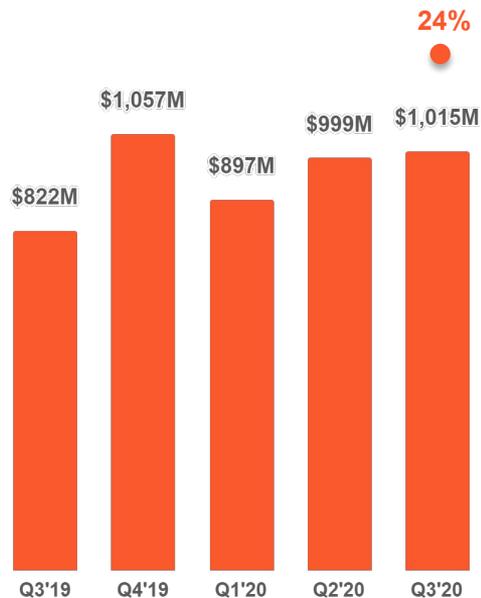
Cloud security posture is not at the same level as security in the traditional data center

Palo Alto Networks is the Comprehensive and Integrated Cybersecurity Leader



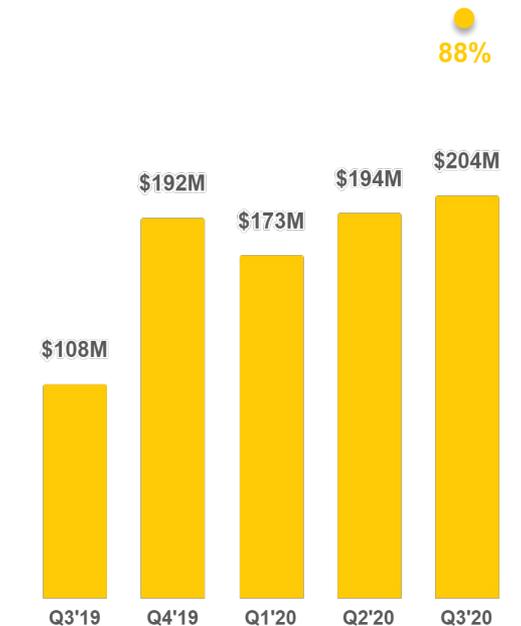
Q3 Fiscal 2020 Financial Results

TOTAL BILLINGS¹



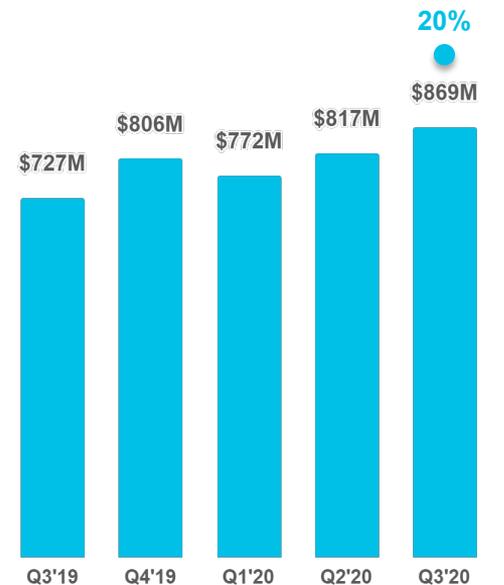
■ Total Billings
 ● Total Billings (yr/yr)

NEXT-GEN SECURITY BILLINGS²



■ Next-Gen Security Billings
 ● Next-Gen Security Billings (yr/yr)

TOTAL REVENUE



■ Total Revenue
 ● Total Revenue (yr/yr)

¹Total billings is a key financial and operational metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue.

²Next-Gen Security billings is a key financial and operational metric defined as the total amount invoiced and billed during the period stated for Prisma and Cortex, inclusive of VM-Series and related services.

Fiscal year ending on July 31.

Q3 Fiscal 2020 Customer Wins



F10 Company

Enterprise Agreement
Prisma Cloud Compute
(formerly Twistlock)



US Retailer

Enterprise Agreement
VM-Series
Cortex XSOAR
(formerly Demisto)



New York Healthcare

Prisma Access
VM-Series
Prisma Cloud
Cortex Data Lake
NGFW

STRATA

13%

**Firewall as a Platform
Billings yr/yr Growth¹**

>1,000

**Global Protect
Customers added in
Q3 Fiscal 2020**

¹Firewall as a platform billings is a financial metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and ratable portion of VM-Series offering, during the period stated.

Enhanced our NGFW Offering from 4 to 8 Subscriptions

Attached Firewall Subscriptions

2007

2010

2011

2019

2020



**Available Across All Form Factors
(Hardware, Software, As a Service)**

PRISMA ACCESS

>3x

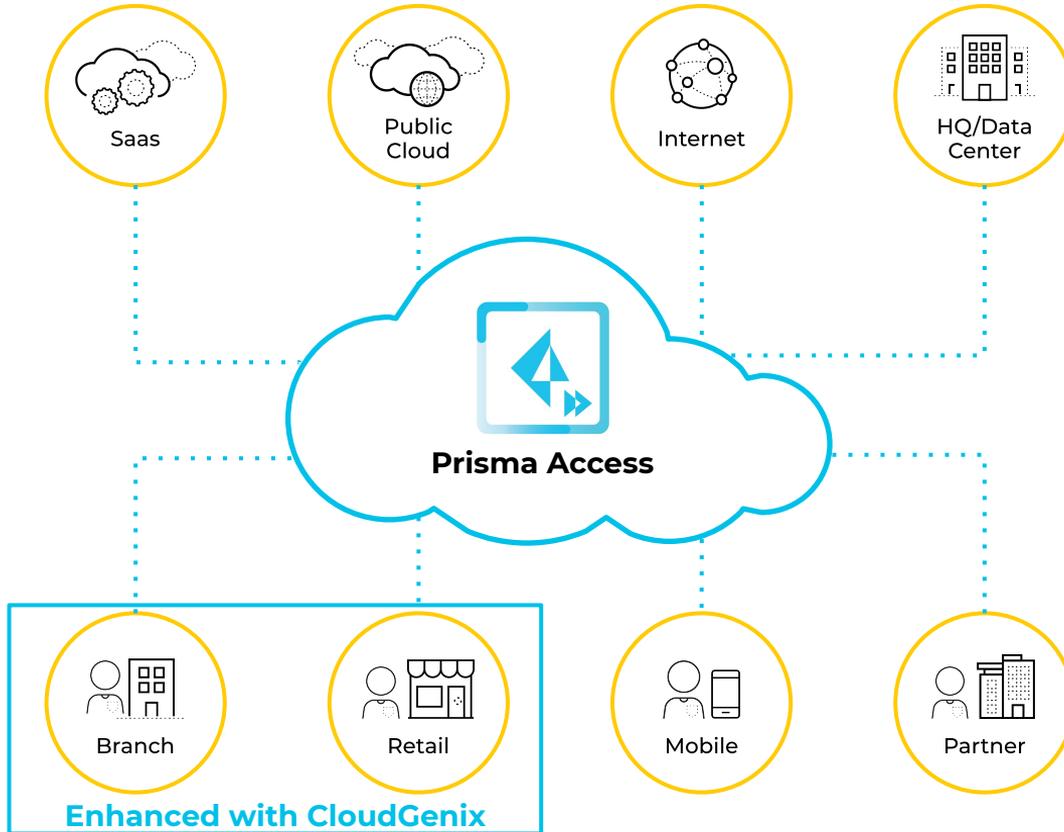
**Scaled Prisma Access
Aggregate Capacity in
the Last Few Months**

Millions

**Working Remotely,
Secured by Prisma
Access**

Palo Alto Networks + CloudGenix = SASE

Best-in-class security meets industry-leading SD-WAN, delivered from the cloud



- ✓ Consistency across *all* access methods for *all* users
- ✓ Global, private, high-performance network as a service
- ✓ Best-in-class, cloud-delivered security
- ✓ Industry-leading autonomous SD-WAN

PRISMA CLOUD

>1,500

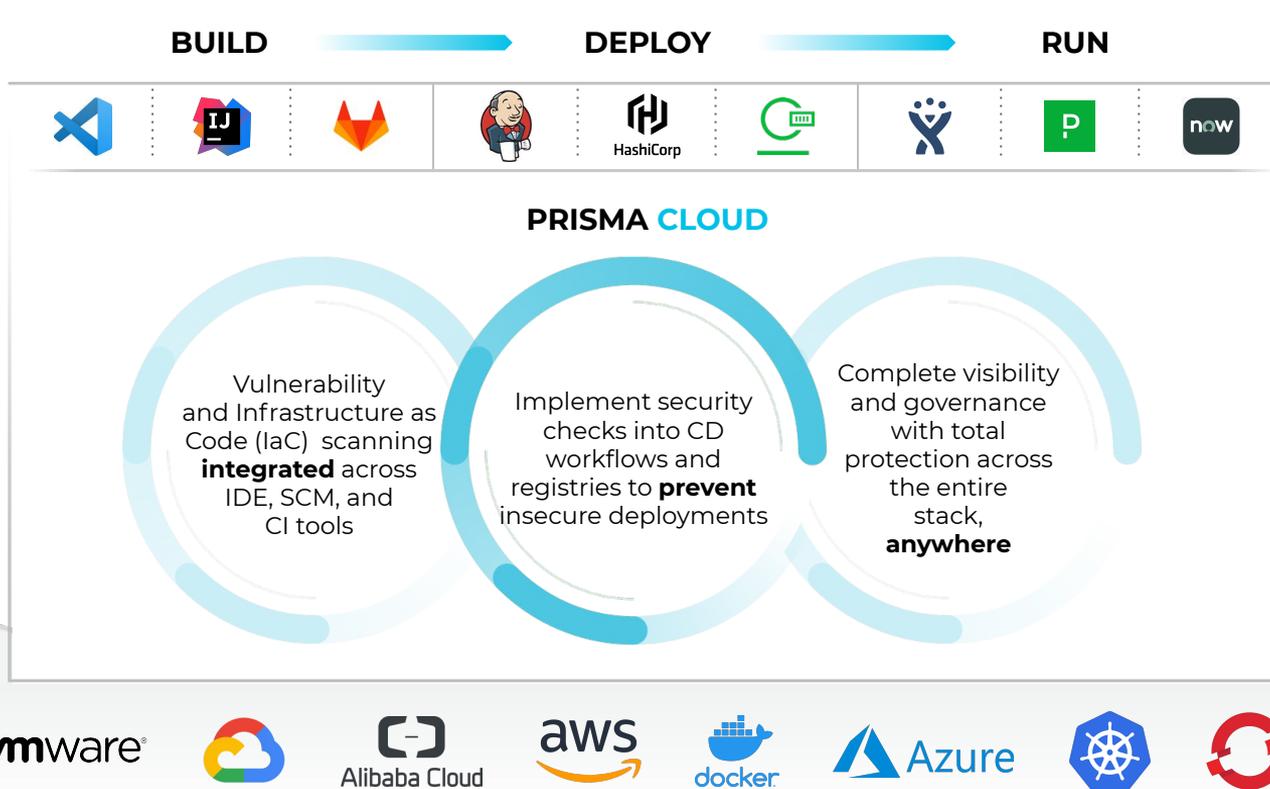
**Prisma Cloud
Customers Won**

43%

**Of Fortune 100
Rely on Prisma Cloud**

Prisma Cloud - Full Lifecycle, Full Stack, Any Cloud

Comprehensive cloud native security across the entire application lifecycle



- ✓ Asset Inventory
- ✓ Compliance Management
- ✓ Host Security
- ✓ Container Security
- ✓ Serverless Security
- ✓ Network Security

Microsegmentation (Aporeto)

Application Security

Data Security

IAM Security

COMING SOON

CORTEX



**Our Own SOC
Transitioned to a
Remote Model,
Leveraging Cortex
XSOAR**

90%

**No Other Vendor
Surpassed Cortex XDR's
MITRE Attack
Technique Coverage**

Rewiring SecOps with Cortex



**Prevent
everything
you can**

CORTEX XDR
BY PALO ALTO NETWORKS



**Everything you can't
prevent, detect and
investigate fast**

CORTEX XDR
BY PALO ALTO NETWORKS



**Automate response
and get smarter with
each incident**

CORTEX XSOAR
BY PALO ALTO NETWORKS

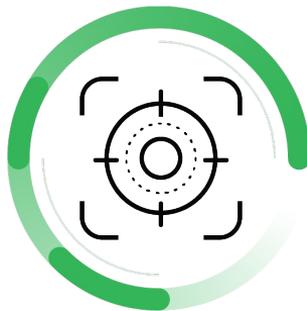
Cortex XDR Managed Threat Hunting

A complete service that delivers peace of mind



Backed by Unit 42

Leaders in adversarial
campaign tracking have
you covered 24x7



Unprecedented Threat Intelligence

Augment human expertise
with big data curated from
30,000 customers



Clear and Proactive

Detailed reports for active and
emerging attacks let you
respond with confidence



paloalto®
NETWORKS

The Largest, Most Comprehensive and
Integrated Cybersecurity Leader

Financial Overview

Q3 Fiscal 2020 Results: Summary of Key Metrics

	Q3'20	Yr/Yr %
Billings	\$1,015M	+24%
Revenue	\$869M	+20%
Deferred Revenue	\$3,371M	+28%
Gross Margin % (Non-GAAP)	75.2%	(130) bps
Operating Margin (Non-GAAP)	16.4%	(450) bps
EPS (Non-GAAP)	\$1.17	(11)%
Adjusted Free Cash Flow (Non-GAAP)	\$187M	(33)%
Employees	8,049	+24%

See appendix for reconciliation to most comparable GAAP financial measure. Fiscal year ending on July 31.

Q4 Fiscal 2020 Guidance

	Q4'20	FY'20
Billings	\$1.19B - \$1.21B <i>13%-14% yr/yr</i>	\$4.102B - \$4.122B <i>18% yr/yr</i>
Revenue	\$915M - \$925M <i>14%-15% yr/yr</i>	\$3.373B - \$3.383B <i>16%-17% yr/yr</i>
EPS (Non-GAAP)	\$1.37 - \$1.40 <i>Includes \$0.06 related to CloudGenix</i>	\$4.78 - \$4.81
Adjusted FCF Margin (Non-GAAP)		27% - 28% <i>Incorporates impact of CloudGenix and deals expected to close via Palo Alto Networks Financial Services</i>

Additional Modeling Points for Q4'20 and FY'20

<i>\$ in millions</i>	Q4'20	FY'20
Non-GAAP Tax Rate		22%
Capex	\$25M - \$35M	\$208M - \$218M <i>implied</i>
Next-Gen Security Billings		\$810M - \$820M

Q&A

Appendix

Calculation of Billings

\$ In millions

Billings:	Q3'19	Q4'19	Q1'20	Q2'20	Q3'20
Total revenue	\$726.6	\$805.8	\$771.9	\$816.7	\$869.4
Add: change in total deferred revenue, net of acquired deferred revenue	95.3	251.1	125.5	182.2	146.0
Total billings	<u>\$821.9</u>	<u>\$1,056.9</u>	<u>\$897.4</u>	<u>\$998.9</u>	<u>\$1,015.4</u>

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations - Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q3'19		Q3'20	
	\$	%	\$	%
GAAP gross profit and gross margin	\$521.7	71.8%	\$611.1	70.3%
Share-based compensation-related charges	20.7	2.8%	23.4	2.7%
Amortization expense of acquired intangible assets	10.7	1.5%	17.4	2.0%
Litigation-related charges ⁽¹⁾	3.1	0.4%	1.8	0.2%
Non-GAAP gross profit and gross margin	<u>\$556.2</u>	<u>76.5%</u>	<u>\$653.7</u>	<u>75.2%</u>

⁽¹⁾ Consists of the amortization of intellectual property licenses and covenant not to sue.
Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations - Operating Margin

\$ In millions

Non-GAAP operating income and operating margin:	Q3'19		Q3'20	
	\$	%	\$	%
GAAP operating loss and operating margin	(\$18.7)	(2.6%)	(\$56.5)	(6.5%)
Share-based compensation-related charges	145.8	20.1%	173.5	19.9%
Acquisition-related costs ⁽¹⁾	2.9	0.4%	4.9	0.6%
Amortization expense of acquired intangible assets	14.6	2.0%	19.2	2.2%
Litigation-related charges ⁽²⁾	3.1	0.4%	1.8	0.2%
Loss related to facility exit ⁽³⁾	4.1	0.6%	-	0.0%
Non-GAAP operating income and operating margin	<u>\$151.8</u>	<u>20.9%</u>	<u>\$142.9</u>	<u>16.4%</u>

⁽¹⁾ 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.

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

⁽³⁾ Consists of charges related to the relocation of our corporate headquarters of \$4.1 million in Q3'19

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations - EPS

Non-GAAP net income per share, diluted:	Q3'19	Q3'20
GAAP net loss per share, diluted	(\$0.21)	(\$0.77)
Share-based compensation-related charges	1.48	1.78
Acquisition-related costs ⁽¹⁾	0.03	0.05
Amortization expense of acquired intangible assets	0.15	0.20
Litigation-related charges ⁽²⁾	0.03	0.02
Loss related to facility exit ⁽³⁾	0.04	0.00
Non-cash charges related to convertible notes ⁽⁴⁾	0.18	0.16
Foreign currency (gain) loss associated with non-GAAP adjustments	0.01	(0.01)
Income tax and other tax adjustments related to the above	(0.40)	(0.26)
Non-GAAP net income per share, diluted	\$1.31	\$1.17

⁽¹⁾ 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.

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

⁽³⁾ Consists of charges related to the relocation of our corporate headquarters of \$4.1 million in Q3'19

⁽⁴⁾ Consists of non-cash interest expense related to our convertible senior notes.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliation- Adjusted Free Cash Flow

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	Q3'19	Q3'20
Net cash provided by operating activities	\$296.4	\$169.9
Less: purchases of property, equipment, and other assets	20.3	86.3
Free cash flow (non-GAAP)	\$276.1	\$83.6
Add: capital expenditures for new headquarters ⁽¹⁾	0.7	53.8
Add: litigation related payment ⁽²⁾	-	50.0
Less: cash payments related to landlord lease amendment ⁽³⁾	(3.0)	-
Adjusted free cash flow (non-GAAP)	\$279.8	\$187.4
Free cash flow margin (non-GAAP)	38.0%	9.6%
Adjusted free cash flow margin (non-GAAP)	38.5%	21.6%

⁽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 Q3'19 reflects adjustments for related rental payments made during the period.

Fiscal year ends on July 31.

Thank you

