



Q1 Fiscal Year 2022 Earnings Call (updated)



November 18, 2021*

*Customer counts on slide 24 updated as of 11/19/21 at 6:10am PT, which flow through to slides 8, 9 and 10

Safe Harbor

This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management, including statements regarding our expectations regarding our view as to the security threat landscape, growth drivers for fiscal 2022 and beyond, our product and service offerings, our financial guidance for the second quarter of fiscal 2022 and fiscal year 2022 regarding total revenue, total billings, Next-Gen Security ARR, product revenue, non-GAAP operating margin, non-GAAP EPS and non-GAAP adjusted free cash flow margin, our modeling points, our expectations regarding gross margins and operating margins, and our expectations regarding product launches and adoption. Many of these assumptions relate to matters that are beyond our control and changing rapidly.

There are a significant number of factors that could cause actual results to differ materially from forward-looking 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; risks associated with new products and subscription and support offerings, including the discovery of software bugs; shifts in priorities or delays in the development or release of new subscription offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support offerings; rapidly evolving technological developments in the market for security products and subscription and support offerings; our customers’ purchasing decisions and the length of sales cycles; our competition; our ability to attract and retain new customers; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; the effects of supply chain constraints and the global chip and component shortages and other factors affecting the manufacture, delivery and cost of certain of our products; our ability to obtain adequate supply of our products from our third-party manufacturing partners; our debt repayment obligations; and our share repurchase program, 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 quarter ended October 31, 2021, 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 November 18, 2021. 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 loss per diluted share, non-GAAP operating margin to GAAP operating margin or adjusted free cash flow margin guidance to GAAP net cash from operating activities because we do not provide guidance on GAAP net income (loss) or net cash from operating activities and would not be able to present the various reconciling cash and non-cash items between GAAP and non-GAAP financial measures, including share-based compensation expense, without unreasonable effort.

NIKESH ARORA

CEO & CHAIRMAN



Cybersecurity continuing to be relevant in board and nation state conversations

Cyber, Broadband Win Big In Bipartisan Infrastructure Bill

Gartner Predicts 40% of Boards Will Have a Dedicated Cybersecurity Committee by 2025

Biden administration orders federal agencies to fix hundreds of cyber flaws

Number of cloud breaches surpass on-prem ones for first time.

Cybersecurity offers jobs, high wages — if enough people can be trained

Iowa farm services firm: systems offline due to cybersecurity incident

Strong demand and focused execution delivered Q1 strength

Top-line growth

Total Billings¹

\$1.38B

+28% y/y

Total Revenue

\$1.25B

+32% y/y

Transformation to software continues

NGS ARR²

\$1.27B

Software % of FWaap billings³

37%

Balance of profitability

Operating Income (non-GAAP)

\$224M

+9% y/y

EPS (non-GAAP)

\$1.64

+\$0.07 vs. Q1 Guidance⁴

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

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

³Software % of Total FWaap billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings.

⁴Represents the midpoint of Q1'FY22 guidance provided on 8/23/2021.

Reconciliations of historical non-GAAP measures can be found in the Appendix.

Fiscal year ending on July 31.

Broadest portfolio of best of breed products on three consolidated platforms

Leadership positions awarded prior to Q1

1. Zero Trust

A **Leader** in Forrester Zero Trust eXtended Ecosystem Platform Providers Wave

2. Endpoint Security

A **Leader** in Forrester Endpoint Security Software As A Service Wave

3. SOAR

A **Leader** in KuppingerCole Security Orchestration Automation & Response Leadership Compass

4. Vulnerability Management

An **Outperformer Leader** in GigaOm's Vulnerability Management Radar

Leadership positions awarded in Q1

5. NGFW (10th time!)

A **Leader** in Gartner Magic Quadrant Network Firewalls

6. ZTNA

A **Leader** in Forrester Zero Trust Network Access New Wave

7. SD-WAN

A **Leader** in Gartner Magic Quadrant WAN Edge Infrastructure

8. XDR

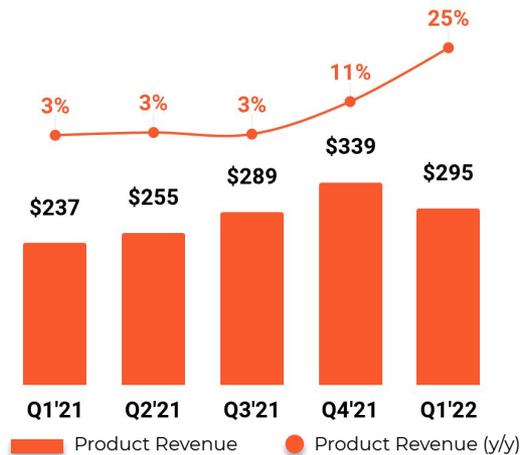
A **Strong Performer** in Forrester XDR New Wave

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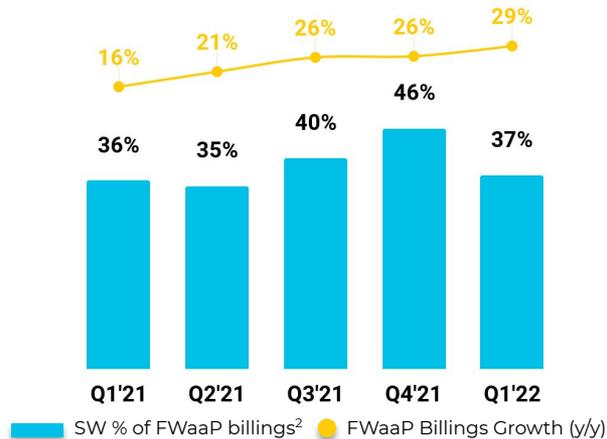
Network security: Inflection and transformation on the back of product launches



Product revenue growth inflection



Firewall-as-a-Platform¹ growth in the midst of shift to Software



Q1'22 highlights:

- **10th year positioned as 'leader'** in Gartner firewall Magic Quadrant; furthest to the right for Completeness of Vision and highest for Ability to Execute
- **~1,000** customers have purchased our virtual firewalls through Firewall FLEX, after Q3'21 launch

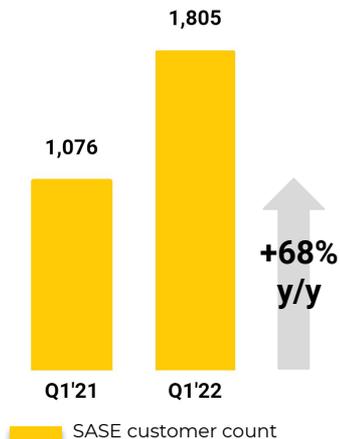
¹ Firewall as a Platform billings is a key financial and operating metric defined as publicly reported product billings, together with total amount invoiced and billed for Prisma Access offering, and the ratable portion of VM-Series and CloudGenix offerings, during the period stated.

² SW % of Total FWaaP billings is the total amount invoiced and billed for the Prisma Access and VM offerings, and the ratable portion of CloudGenix offerings, during the period stated, as a percentage of total Firewall as a Platform billings. Fiscal year ended July 31.

Network security: SASE adoption broadening into our installed base



Rapid SASE customer¹ adoption



SASE share gains in our NGFW customer¹ base



Q1'22 highlights:

- **100% Y/Y ARR² growth** in Prisma SASE
- Positioned as a **leader** in 2021 **Gartner Magic Quadrant for WAN Edge**
- **>25%** of new Prisma SASE customers are **new to Palo Alto Networks** over the last 12 months

Customer counts updated as of 11/19/21 at 6:10am PT

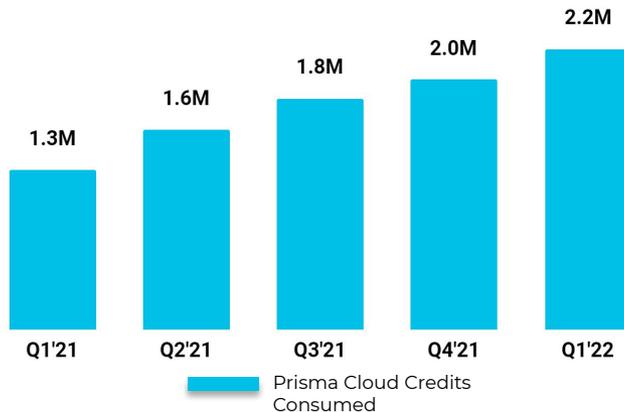
¹Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE excludes customers from Sinefa acquisition.

²ARR = Annualized Recurring Revenue, which is the annualized allocated revenue of all active contracts as of the final day of the reporting period. Fiscal year ended July 31.

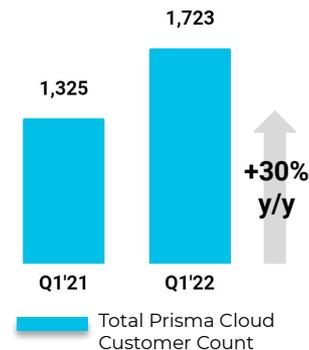
Cloud native Security: Growing with customer cloud consumption



Prisma Cloud Credits Consumed



Prisma Cloud Total Customers¹



Q1'22 highlights:

- **Strong growth from modules²** beyond compute and CSPM over the last six months
- **4.4 million Chekov downloads**, (+42% Q/Q), strategic ecosystem relationships in shift-left
- **Prisma Cloud 3.0 launch**, adding CSPM adoption advisor, infrastructure as code, agentless scanning, Google Cloud IDS and Azure CIEM support

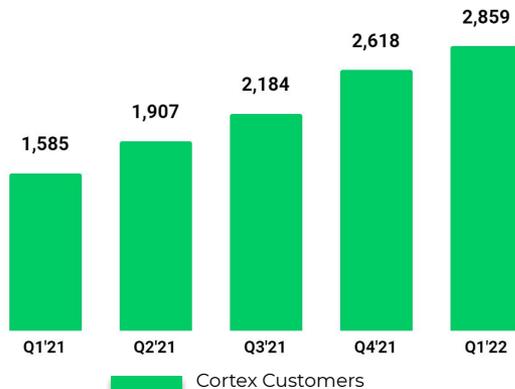
¹Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma Cloud customers exclude customers from Bridgecrew acquisition.

²Refers to aggregate consumption of credits between 3Q21 and 1Q22 for host security, IAM security and Web application & API security. Fiscal year ending on July 31

Customer counts updated as of 11/19/21 at 6:10am PT

Security automation: Progress on the journey to redefine a category

Cortex customers¹



Q1 industry recognition in XDR & XSOAR



Cortex[®]

Q1'22 highlights:

- Expansion of XDR to prevention, detection and response in **multi-cloud container environments**
- **>150 partner contributed packs** to the XSOAR marketplace
- **>80% growth** in services partner-influenced bookings, launch of new **MDR partnership program**

¹Cortex customers represents all customers who have purchased Cortex XDR Pro and/or Cortex XSOAR. Customer defined as any customer with a binding contract as of the final date of the reported period.

²GigaOm Radar for Security Orchestration, Automation, and Response (SOAR) v1.0

³The Forrester New Wave™: Extended Detection And Response (XDR) Providers, Q4 2021
Fiscal year ending on July 31.

Customer counts updated
as of 11/19/21 at 6:10am PT

Strong execution on large deals coming off Q4 strength

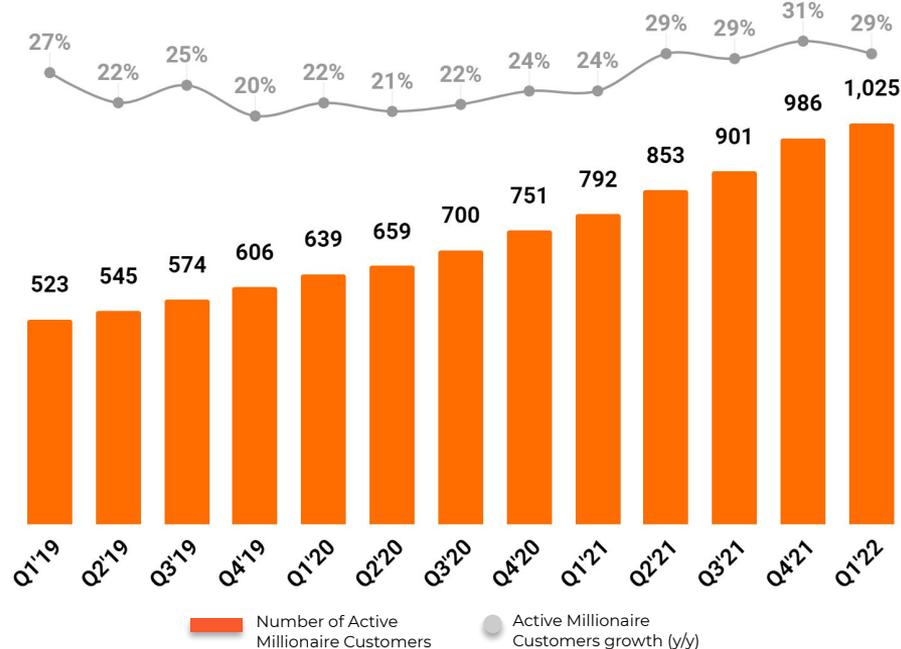
160

7 figure deals in Q1'22

+36%

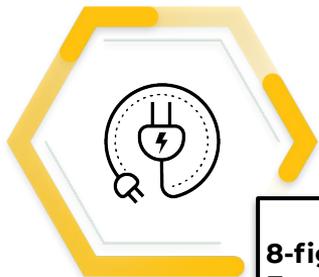
y/y growth in total dollar value of
7 figure deals in Q1'22

Acceleration in Active Millionaire customers¹



¹ Active Millionaire customer defined as customers who have spent \$1M or more in bookings value over the last 4 quarters. A booking is defined as committed customer obligation with a contract in place. Fiscal year ending on July 31.

Q1 customer wins showcase our platform differentiation



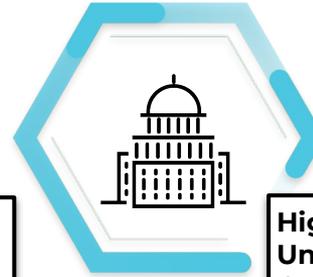
8-figure deal with Fortune 100 Utility

Competitive win for customer's new SASE architecture



High 7-figure deal with large fin. services firm

Prisma Cloud platform purchase providing comprehensive cloud security, deployed globally



High 7-figure deal with United States Federal Government agency

Strata & Prisma SASE competitive win to protect mission critical applications



8-figure deal with United States Federal Government agency

Customer purchased Strata, Prisma, and Cortex solutions



High 7-figure deal with JPAC Media firm

Prisma Access + Cortex new customer win to secure distributed workforce of 30k+ employees



7 figure deal with European Bank

Prisma Access, Cloud SWG proxy replacement, and Cortex products for 40k+ users

Fiscal year ending on July 31.

Raising our outlook on the back of strong demand and execution

Top-line strength

Raising revenue and billings guidance for FY22

Broad portfolio contributions

Strength fueling demand across Strata, Prisma and Cortex

Transformation to software continues

Strong start to FY22, NGS ARR guidance unchanged, upside bias

Balance of profitability

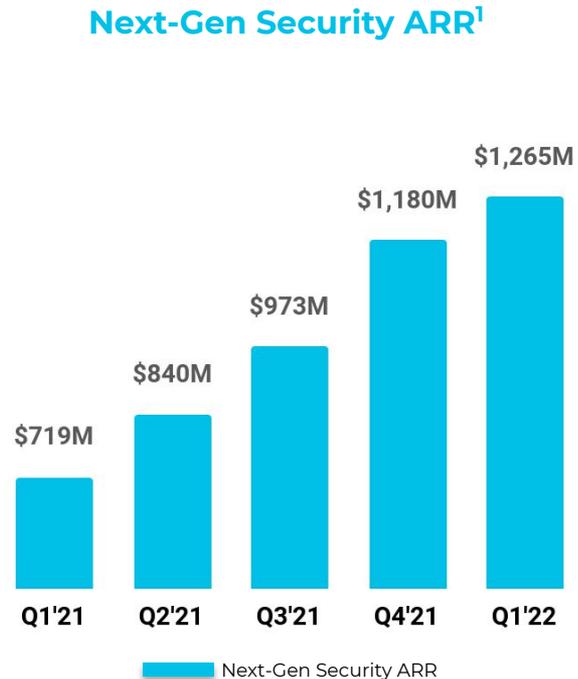
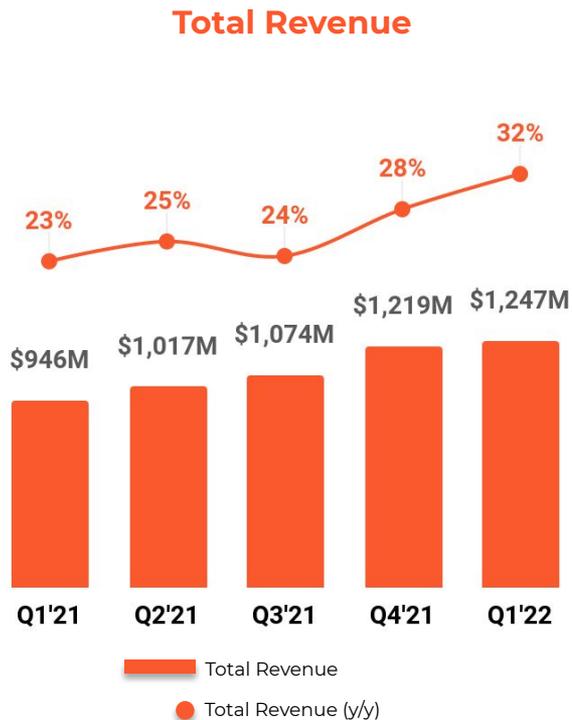
Holding profitability to ensure flexibility to deliver on strong demand

DIPAK GOLECHHA

CHIEF FINANCIAL OFFICER

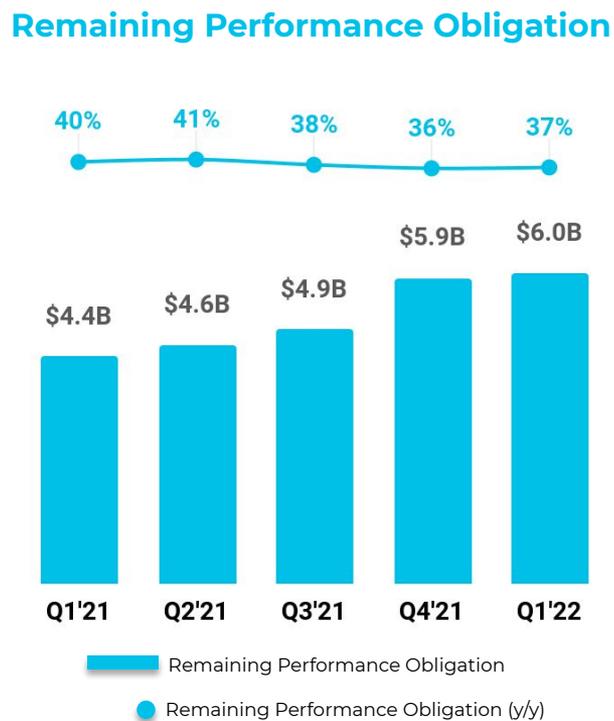
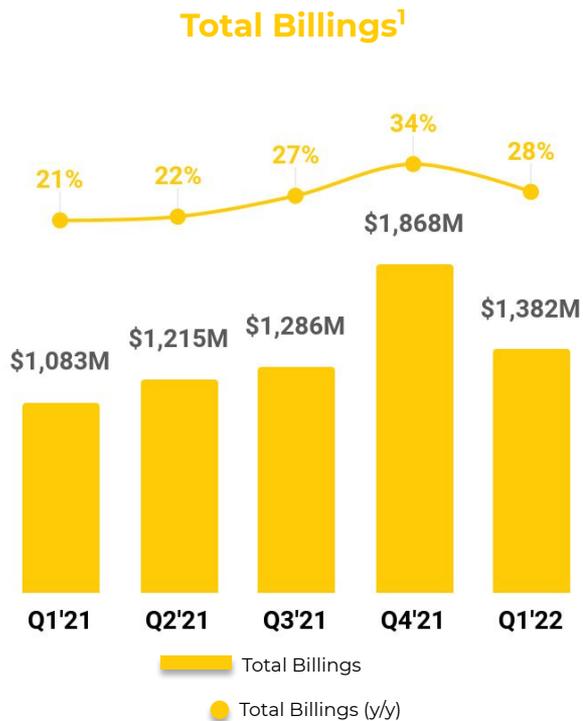


Further Q1 acceleration driven by appliances and next-generation portfolio



¹ ARR = Annualized Recurring Revenue. Next-Gen Security ARR is the annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services. Fiscal year ending on July 31.

Forward-looking billings and RPO metrics remain strong



¹Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue. Fiscal year ending on July 31.

Strength across all metrics in Q1

	1Q'22 Guidance (as of 8/23/21)	1Q'22 Actual	
Total Billings ¹	\$1.29B-\$1.31B 19%-21% yr/yr	\$1.38B 28% yr/yr	
Total Revenue	\$1.19B-\$1.21B 26%-28% yr/yr	\$1.25B 32% yr/yr	
Product Revenue	+Low-double digit yr/yr	\$296M 25% yr/yr	
Remaining Performance Obligation		\$6.0B 37% yr/yr	
Next-Gen Security ARR ²		\$1.27B	
Gross Margin (Non-GAAP)		74.4%	
Operating Income (Non-GAAP)		\$224M +9% yr/yr	
Operating Margin (Non-GAAP)		18.0%	
EPS (Non-GAAP)	\$1.55-\$1.58	\$1.64	
Adj. FCF Margin (Non-GAAP)		44.4%	

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

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

Reconciliations of historical non-GAAP measures can be found in the Appendix.

Fiscal year ending on July 31.

Application of our total shareholder return framework as we execute through 2022

COMPONENTS OF TOTAL SHAREHOLDER RETURN

Revenue growth



Compounding of accelerated growth

Profitability



Y/Y increase in profitability

Biased to fulfilling customer demand

Cash conversion



Strong Q1 cash conversion towards multi-year goals

Capital structure



\$4.4B in cash¹

Major Q1 events overlapped with buyback window

¹Represents total cash, cash equivalents, and investments as of October 31, 2021.

Q2 Fiscal 2022 guidance

	Q2'22
Total Billings	\$1.51B - \$1.53B 24%-26% yr/yr
Total Revenue	\$1.265B - \$1.285B 24%-26% yr/yr
EPS (Non-GAAP) ¹	\$1.63 - \$1.66 using 105 to 107 million shares

¹A reconciliation of forward-looking non-GAAP earnings per share to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort.
Fiscal year ending on July 31.

Raising guidance for fiscal year 2022

	FY 2022 Guidance as of 8/23/21	FY 2022 Guidance as of 11/18/21
Total Billings ¹	\$6.60B - \$6.65B 21%-22% yr/yr	\$6.675B - \$6.725B 22%-23% yr/yr
Next-Gen Security ARR ²	\$1.65B - \$1.70B 40%-44% yr/yr	\$1.65B - \$1.70B 40%-44% yr/yr
Total Revenue	\$5.275B - \$5.325B 24%-25% yr/yr	\$5.35B - \$5.40B 26%-27% yr/yr
Product Revenue	+Mid to high-single digit yr/yr	+Mid-teens yr/yr
Op Margin (Non-GAAP)	18.5-19.0%	18.5-19.0%
EPS (Non-GAAP)	\$7.15 - \$7.25 +16%-18% yr/yr	\$7.15 - \$7.25 +16%-18% yr/yr
Adj. FCF Margin (Non-GAAP)	>30% ³	32-33%

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

²ARR = Annualized Recurring Revenue. Next-Gen Security ARR is annualized allocated revenue of all active contracts as of the final day of the reporting period for Prisma and Cortex offerings inclusive of the VM-Series and related services, and certain cloud-delivered security services.

³FCF margin guidance of >30% for FY22 provided on 8/23/21 was updated to 32-33% on 9/13/21 at our analyst day.

A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measures has not been provided as it is not available without unreasonable effort. Fiscal year ending on July 31.

Modeling points

- We expect Q4 to represent 33% – 34% of FY'22 operating income
- Q2'22 and FY'22 non-GAAP effective tax rate: 22%
- Net interest and other expense of \$5M – \$6M per quarter
- FY22 diluted shares outstanding 106 – 108 million
- Q2'22 capital expenditures of \$80M – \$85M
- FY'22 capital expenditures of \$205M – \$215M (includes ~\$39M in 2Q22 related to our Santa Clara headquarters)

A reconciliation of forward-looking non-GAAP financial measures to the corresponding GAAP measure has not been provided as it is not available without unreasonable effort.
Fiscal year ending on July 31.

Q&A

Appendix

Historical Active Customer¹ Counts

	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
Prisma SASE Total Customers²	1,076	1,221	1,414	1,644	1,805
Prisma Cloud Total Customers³	1,325	1,422	1,526	1,667	1,723
Cortex Customers⁴	1,585	1,907	2,184	2,618	2,859

¹Active customer defined as any customer with a binding contract as of the final date of the reported period.

²Prisma SASE excludes customers from Sinefa acquisition.

³Prisma Cloud customers exclude customers from Bridgecrew acquisition.

⁴Cortex customers represents all customers who have purchased Cortex XDR Pro and/or Cortex XSOAR.

Customer counts updated as of 11/19/21 at
6:10am PT

Investor Links and Resources

Analyst Day Videos, Sept 2021. *(single click access to each executives presentation)*

Presenter Video replay link	Duration
Nikesh Arora, CEO & Chairman Where We Are & Looking Ahead	18:34
Lee Klarich, Chief Product Officer Market Needs & Our Platforms	40:42
Anand Oswal, SVP Products Network Security	(starts @ 6:26) 9:41
Ankur Shah, SVP Products Cloud Security	(starts @ 16:07) 8:24
Lee Klarich, Chief Product Officer & Tim Junio, SVP Products Security Operations	(starts @ 24:31) 14:23
Nir Zuk, Founder and Chief Technology Officer What does Zero Trust Really Mean?	15:00
BJ Jenkins, President Driving Sustainable Growth & Securing Our Customers	6:38
Liane Hornsey, Chief People Officer Drivers of Change - Our People. ESG for Palo Alto Networks	9:23
Dipak Golechha, Chief Financial Officer Managing for Scale and Efficiency & Bringing it All Together	15:00

Additional Resources

[2021 Analyst Day Presentation](#) | [Palo Alto Networks CSR](#) | [Recent Events & Presentations](#)

Calculation of Billings

\$ In millions

Billings:	Q121	Q221	Q321	Q421	Q122
Total revenue	\$946.0	\$1,016.9	\$1,073.9	\$1,219.3	\$1,247.4
Add: change in total deferred revenue, net of acquired deferred revenue	136.8	197.8	212.5	649.0	134.2
Total billings	<u>\$1,082.8</u>	<u>\$1,214.7</u>	<u>\$1,286.4</u>	<u>\$1,868.3</u>	<u>\$1,381.6</u>

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q122	
	\$	%
GAAP gross profit and gross margin	\$866.8	69.5%
Share-based compensation-related charges	33.2	2.7%
Amortization expense of acquired intangible assets	26.2	2.1%
Litigation-related charges ⁽¹⁾	1.8	0.1%
Non-GAAP total gross profit and gross margin	<u>\$928.0</u>	<u>74.4%</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:	Q121		Q122	
	\$	%	\$	%
GAAP operating loss	(\$44.5)	-4.7%	(\$82.7)	-6.6%
Share-based compensation-related charges	211.5	22.4%	270.2	21.8%
Acquisition-related costs ⁽¹⁾	13.1	1.3%	3.1	0.2%
Amortization expense of acquired intangible assets	23.5	2.5%	31.6	2.5%
Litigation-related charges ⁽²⁾	1.8	0.2%	1.8	0.1%
Non-GAAP operating income and operating margin	\$205.4	21.7%	\$224.0	18.0%

⁽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.

Fiscal year ends on July 31.

GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q122
GAAP net loss per share, diluted	(\$1.06)
Share-based compensation-related charges	2.67
Acquisition-related cost ⁽¹⁾	0.03
Amortization expense of acquired intangibles assets	0.32
Litigation-related charges ⁽²⁾	0.02
Non-cash charges related to convertible notes ⁽³⁾	0.02
Foreign currency loss associated with non-GAAP adjustments	0.01
Income tax and other tax adjustments related to the above	(0.37)
Non-GAAP net income per share, diluted	<u>\$1.64</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 primarily of non-cash interest expense for amortization of debt discount and issuance costs related to the company's convertible senior notes. Effective Q1'22, the company no longer recognizes interest expense for amortization of debt discount as a result of the adoption of new debt guidance.

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):	Q122
Net cash provided by operating activities	\$588.9
Less: purchases of property, equipment, and other assets	<u>34.6</u>
Free cash flow (non-GAAP)	<u>\$554.3</u>
Adjusted free cash flow (non-GAAP)	<u>\$554.3</u>
<i>Free cash flow margin (non-GAAP)</i>	<u>44.4 %</u>
<i>Adjusted free cash flow margin (non-GAAP)</i>	<u>44.4 %</u>

Fiscal year ends on July 31.

Thank you

