

# Q3 Fiscal Year 2025 Earnings Call

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May 20, 2025

# 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, including the cybersecurity threat landscape, expectations regarding our platformization strategy and related progress and opportunities, long-term expectations regarding annual recurring revenue, remaining performance obligation, product development strategy and expectations regarding artificial intelligence (AI), financial guidance for the fourth quarter of fiscal 2025 and fiscal year 2025, mid and long-term financial expectations, modeling points, business and economic conditions and challenges, and other financial, operational and business expectations. 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 or implied in this presentation, including: developments and changes in general or worldwide market, geopolitical, economic, and business conditions; failure of our platformization product offerings; failure to achieve the expected benefits of our strategic partnerships and acquisitions; changes in the fair value of our contingent consideration liability associated with acquisitions; risks associated with managing our growth; risks associated with new product, subscription and support offerings, including our product offerings that leverage AI; shifts in priorities or delays in the development or release of new product or subscription or other offerings, or the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products, subscriptions and support offerings; failure of our business strategies; rapidly evolving technological developments in the market for security products, subscriptions or support offerings; defects, errors, or vulnerabilities in our products, subscriptions, or support offerings; our customers’ purchasing decisions and the length of sales cycles; our competition; our ability to attract and retain new customers; our ability to acquire and integrate other companies, products, or technologies in a successful manner; 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. Additional risks and uncertainties on these and other factors that could affect our financial results and the forward-looking statements we make in this presentation are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in our Quarterly Report on Form 10-Q filed with the U.S. Securities and Exchange Commission (“SEC”) on February 14, 2025, which is available on our website at [investors.paloaltonetworks.com](https://investors.paloaltonetworks.com) and on the SEC’s website at [www.sec.gov](http://www.sec.gov). Additional information will also be set forth in other documents that we file with or furnish to the SEC from time to time. All forward-looking statements in this presentation are based on our beliefs and information available to management 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.

All information in this presentation is as of May 20, 2025. 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 earnings per share guidance to GAAP earnings 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**



# Palo Alto Networks Q3 at a Glance

**NGS ARR  
Surpasses  
\$5B milestone**

**Q3'25 NGS ARR<sup>1</sup>**

**\$5.09B**

+34% y/y

**Q3'25 RPO**

**\$13.5B**

+19% y/y

**Durable top line  
growth and  
operating leverage**

**Q3'25 Revenue**

**\$2.29B**

+15% y/y

**Q3'25 Operating Income (non-GAAP)**

**\$627M**

+23% y/y

**Q3'25 EPS (non-GAAP)**

**\$0.80**

+21% y/y

**Q3'25 Adj. Free Cash Flow (non-GAAP)**

**\$578M**

<sup>1</sup> ARR = 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. Beginning Q1'25, NGS ARR includes revenue attributable to QRadar software as a service contracts. Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

# Continued Robust Demand for Cybersecurity in Q3

**AI Transformation** causing urgency for enterprise data architectures and transformation

**Critical need to secure AI transformation**  
in the enterprise

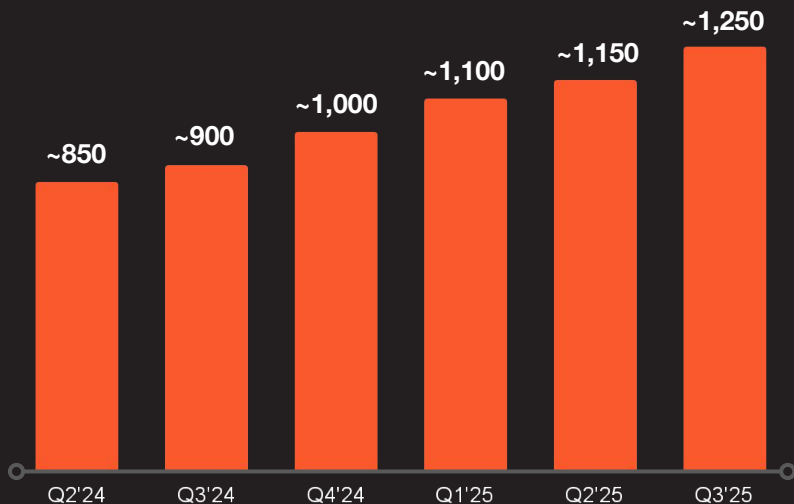
**Rising vendor consolidation** as enterprises look to  
simplify their security infrastructure

**Heightened threat environment**, including 100x faster<sup>1</sup>  
AI-powered ransomware attacks

<sup>1</sup> Palo Alto Networks Unit 42 Threat Research.

# Q3 Platformizations Keep Us on Track to Long Term Goals

## Total Platformizations



Customers with >**\$5M** NGS ARR

**130 | +41% y/y**

Customers with >**\$10M** NGS ARR

**44 | +63% y/y**

<sup>1</sup> Platformization/Platformized defined as: Active ELA contract or >\$1M SASE ARR for Network Security; >\$1M ARR for Cloud Security; active XSIAM contract or >\$100k QRadar SIEM ARR with Cortex XDR/XSOAR for Security Operations. Total Platformizations defined as a count of all platformizations across customers, with a customer platformized on all three platforms counting as three platformizations, a customer platformized on two platforms counting as two platformizations, and a customer platformized on one platform counting as one platformization. Platformizations are counted within our 5,000 largest customers, based on ARR.

# Top Q3 Platformizations Driving Consolidation

## Global Consulting Firm

Platformized on XSIAM in Q3

## \$90M Deal

Customer platformized on Cortex through XSIAM, after already platformizing on NetSec through ELA & SASE purchases, and has initial spending in Cloud Security.

4

Products Consolidated

## US Financial Services Firm

Platformized on XSIAM and NetSec in Q3

## \$46M Deal

Customer platformized on Cortex through XSIAM, including the displacement of leading endpoint and SIEM vendors. This customer also platformized on NetSec in Q3.

4

Products Consolidated

## US Financial Services Firm

Consolidated Network & Cloud Security Spending

## \$33M Deal

Purchases across Cloud Security and Network Security driven by mandates to consolidate security tools, and reduce complexity.

4

Products Consolidated

# Cortex: Record XSIAM Bookings in Q3 Drives NGS ARR Outperformance

## Momentum

>200%

XSIAM ARR Growth, y/y

~270

XSIAM Customers

>\$1M

Average ARR per  
XSIAM Customer

## XSIAM Drives Significant Reduction in MTTR<sup>1</sup>

Before XSIAM

2-3 Days

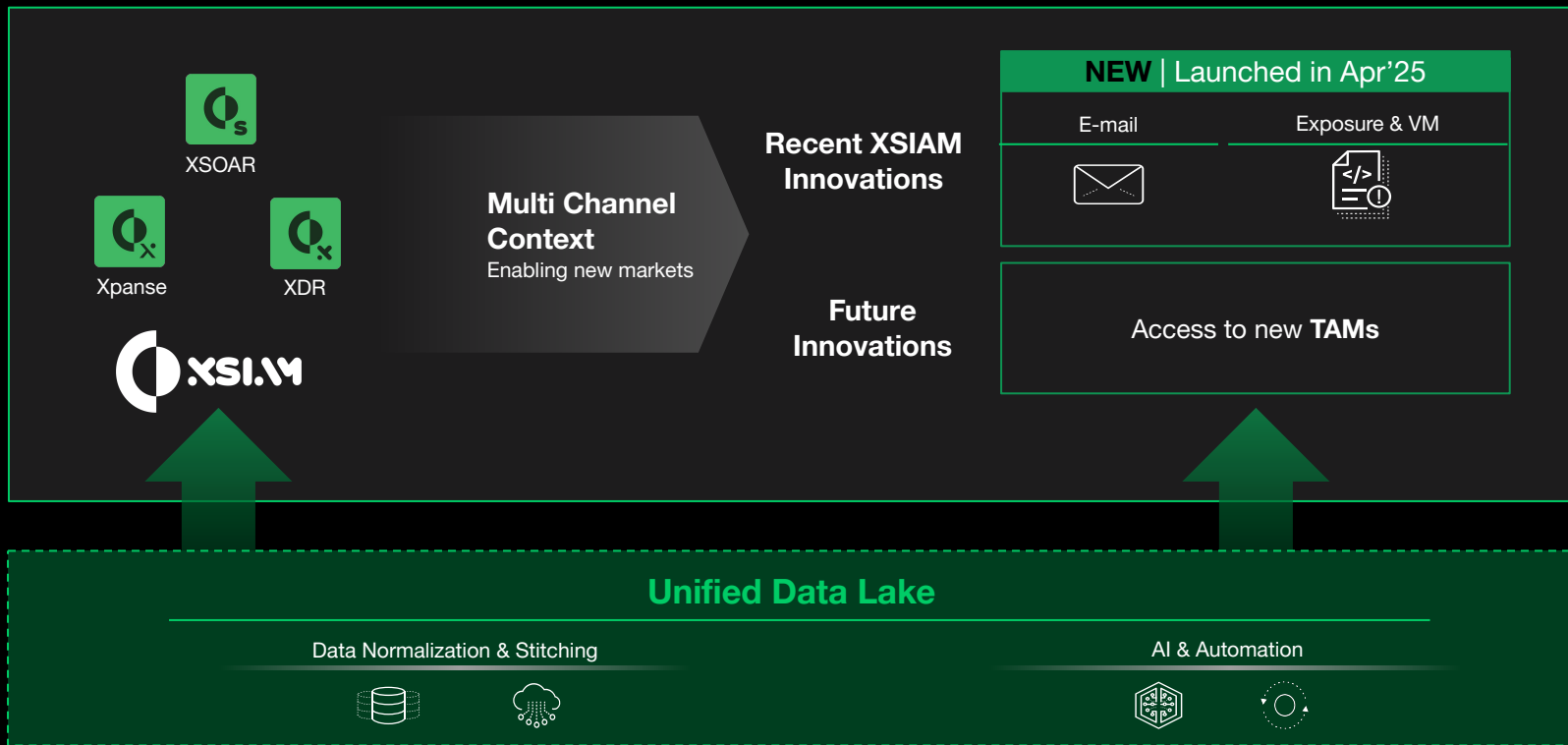
After XSIAM  
as low as  
~1 minute

~60%

of deployed XSIAM  
customers have  
MTTR under 10 minutes

<sup>1</sup> MTTR is Median time to resolve (time from incident creation to incident resolution). Incidents resolved by automation: partially or fully addressed with automation. Source: XSIAM customer interviews and XSIAM product telemetry for customers. When not using MSSP.

# XSIAM Success: Provides the Basis for “XSIAM for Peacetime” - New TAM



# NetSec: Software Firewalls – Continued Momentum in Q3

## Growth Momentum

**~20%**

Software Firewall ARR  
growth, y/y

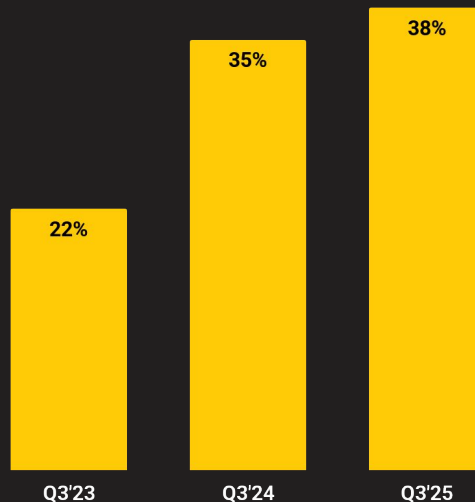
**~70%**

of Software Firewall ARR is  
deployed in the public cloud

**>25%**

Increase in Software Firewall  
Marketplace bookings, y/y

## Network Security Revenue Driven by an Increasing Software Mix



■ % of Product Revenue from Software TTM

# NetSec: SASE – Continuing to Grow Well Above Market

## Growth Momentum

**~6,000**

Active **SASE** customers  
+22% y/y

**36%**

**SASE ARR growth<sup>1</sup>, y/y**

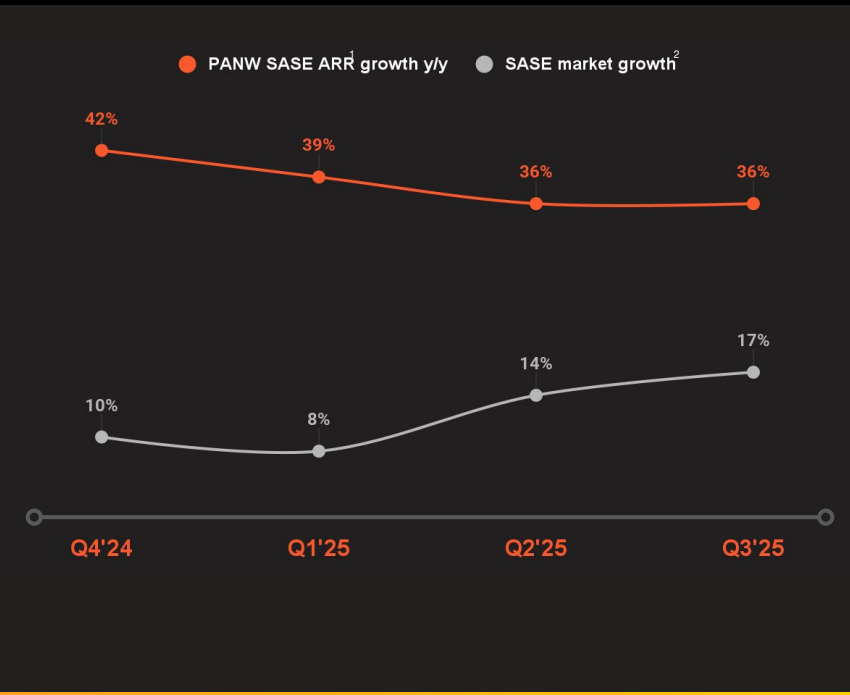
**16%**

**Growth in \$1M+ Deals, y/y**

**~40%**

of new SASE customers were  
**new to Palo Alto Networks**

## SASE growth ahead of the market



<sup>1</sup> SASE includes Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.

<sup>2</sup> Worldwide SASE Market growth, Dell'Oro Group, 2024. Dell'Oro Group data reported on a calendar quarter basis - Q3'25 represented by March 2025, Q2'25 represented by December 2024, Q1'25 represented by September 2025, Q4'24 represented by June 2024.

# Spotlight: Prisma Access Browser - The Future OS of the AI-Driven Enterprise

## Significant Demand

**~3M**

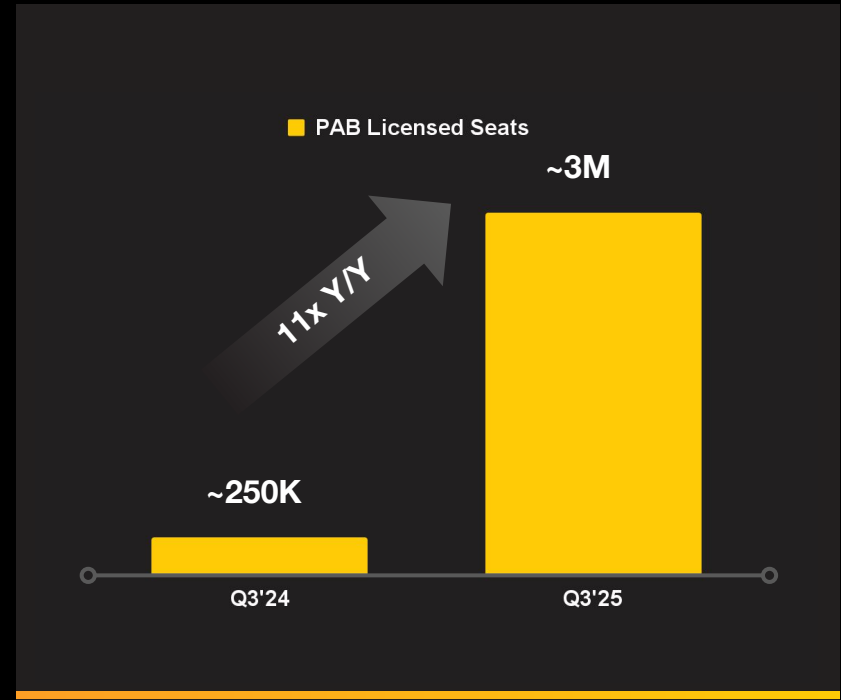
**Licenses Sold** for  
Prisma Access Browser (PAB)

**~1/3<sup>rd</sup>**

of Prisma Access **seats sold** in Q3  
were for **Prisma Access Browser**

**PAB 2.0**

Secure GenAI adoption, access control,  
and LLM-powered security



# Spotlight: Prisma AIRS - Securing the Expanding AI Attack Surface Area

## Announcing **Prisma AIRS**

The world's **most comprehensive AI security platform**

### **Discover**

Your AI ecosystem

### **Assess**

Your AI risk

### **Protect**

Against threats



Runtime Security



Posture Management



AI Agent Security



AI Red Teaming



Model Scanning

## Acquiring **Protect AI**<sup>1</sup>



**Game changer in Security for AI market**, to secure AI end to end from development to runtime

Market innovator in **Security for AI**, delivering against a **\$15B TAM**<sup>2</sup>

<sup>1</sup> Palo Alto Networks and Protect AI remain independent companies until the closing of the proposed acquisition, which remains subject to closing conditions.

<sup>2</sup> Palo Alto Networks estimated total addressable market for calendar year 2028, based on use of Gartner, Forecast Alert: GenAI IT Spending, 2023-2028, Worldwide (March 17, 2025).

# Sustaining Strong Momentum to Close Out the Year



Strong **momentum across our Platforms**, driving durable NGS ARR growth



Platformization has taken hold, **customers are consolidating with us**



**Continued strong execution**, robust pipeline opportunity in Q4



Relentless focus on **innovation for the AI security era**

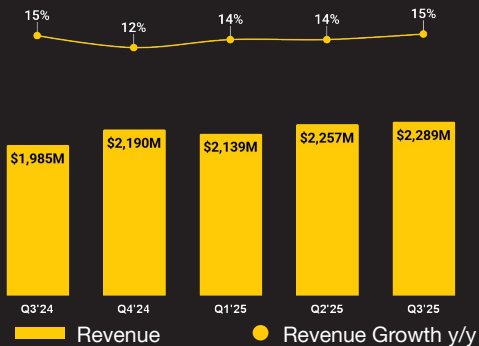
# Dipak Golechha

CHIEF FINANCIAL OFFICER

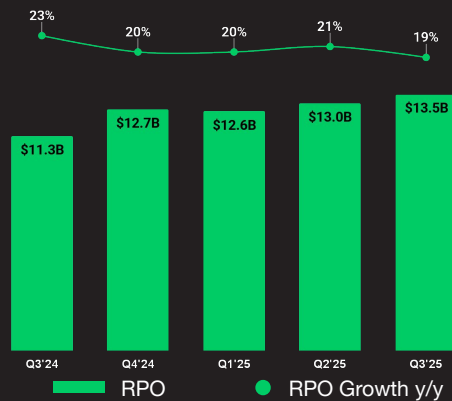


# Q3'25 Top Line Results

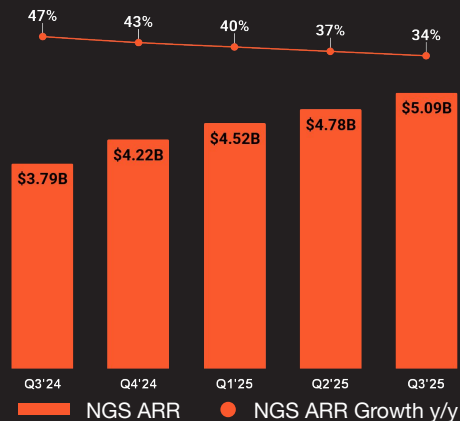
## Revenue



## Remaining Performance Obligation



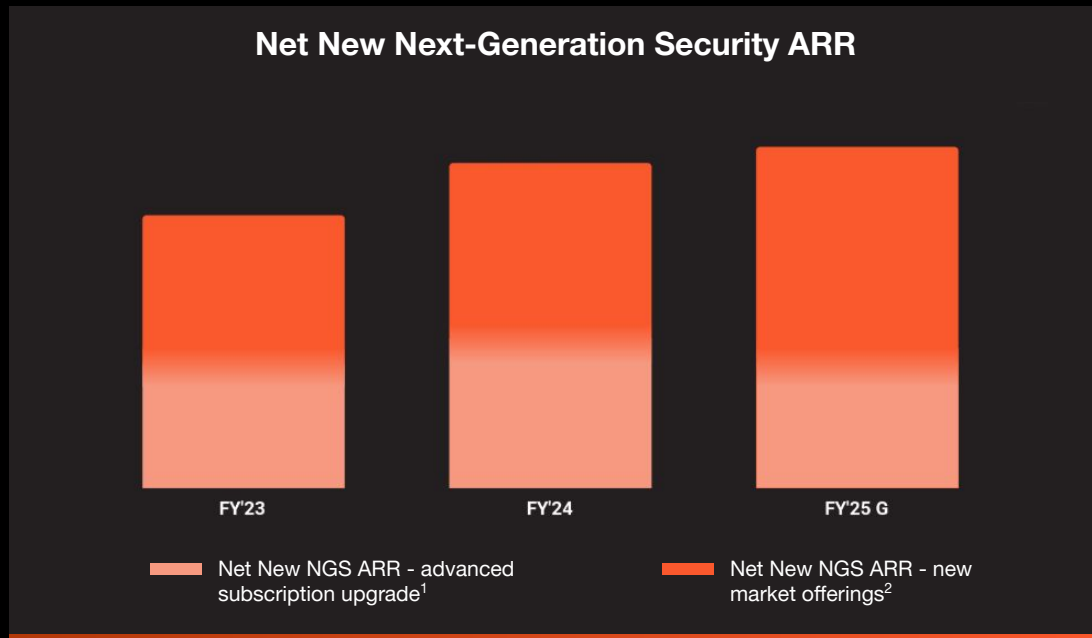
## Next-Generation Security ARR



~\$400M in AI ARR<sup>1</sup> in Q3'25

<sup>1</sup> Annual recurring revenue from Cortex XSIAM, AIOps subscription, and ADEM.

# Net New NGS ARR Mix Shift Towards New Market Offerings



### Larger Proportion of FY'25 Net New ARR driven by New Market Offerings

- Software Firewalls
- SASE
- Cortex Cloud

<sup>1</sup> Net new NGS ARR - advanced subscription upgrade represents net new NGS ARR from Advanced URL Filtering, Advanced Threat Prevention, Advanced Wildfire, Advanced DNS, and Prisma Access Agent.





<sup>2</sup> Net new NGS ARR - new market offerings represents net new NGS ARR not included in advanced subscription upgrade definition.

# Q3'25 Metrics

	Q3'25 Guidance (as of 2/13/25)	Q3'25 Actual
Total Revenue	\$2.26B - \$2.29B 14% - 15% y/y	\$2.29B 15% y/y 
Product Revenue		\$453M
Remaining Performance Obligation	\$13.5B - \$13.6B 19% - 20% y/y	\$13.5B 19% y/y 
Next-Gen Security ARR	\$5.03 - \$5.08B 33% - 34% y/y	\$5.09B 34% y/y 
Gross Margin (Non-GAAP)		76.0%
Operating Income (Non-GAAP)		\$627M
Operating Margin (Non-GAAP)		27.4%
Diluted EPS (Non-GAAP)	\$0.76 - \$0.77 15% - 17% y/y	\$0.80 21% y/y 
Diluted EPS (GAAP)		\$0.37
Adj. Free Cash Flow (Non-GAAP)		\$578M

Reconciliations of historical non-GAAP measures can be found in the Appendix.  
Fiscal year ending on July 31.

# Q4 & Fiscal Year 2025 Guidance

	Q4 FY'25 Guidance (as of 5/20/25)	FY 2025 Guidance (as of 5/20/25)
Next-Gen Security ARR	<b>\$5.52B - \$5.57B</b> 31% - 32% y/y	<b>\$5.52B - \$5.57B</b> 31% - 32% y/y
Remaining Performance Obligation	<b>\$15.2B - \$15.3B</b> 19% - 20% y/y	<b>\$15.2B - \$15.3B</b> 19% - 20% y/y
Total Revenue	<b>\$2.49B - \$2.51B</b> 14% - 15% y/y	<b>\$9.17B - \$9.19B</b> 14% y/y 
Operating Margin (Non-GAAP)		<b>28.2% - 28.5%</b> +90 bps - +120 bps y/y 
Diluted EPS (Non-GAAP)	<b>\$0.87 - \$0.89</b> 16% - 19% y/y	<b>\$3.26 - \$3.28</b> 15% y/y 
Adj. Free Cash Flow Margin (Non-GAAP)		<b>37.5% - 38.0%</b> 

Green arrow in FY 2025 column represents guidance midpoint increases relative to FY 2025 guidance published on 2/13/2025.  
Reconciliations of historical non-GAAP measures can be found in the Appendix.  
Fiscal year ending on July 31.

## Modeling Points

- Q4'25 product revenue y/y growth rate similar to Q3'25
- Q4'25 and FY'25 non-GAAP effective tax rate of 22%
- FY'25 cash taxes of \$375M – \$450M
- Q4'25 net interest and other income of \$80M – \$85M
- Q4'25 diluted shares outstanding 704 – 707 million
- FY'25 diluted shares outstanding 700 – 708 million
- Q4'25 capital expenditures of \$80M – \$90M
- FY'25 capital expenditures of \$240M – \$250M

# Q&A

# Appendix

# GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q325	
	\$	%
GAAP gross profit and gross margin	\$1,669.7	72.9%
Share-based compensation-related charges	40.9	1.8%
Amortization expense of acquired intangible assets	28.1	1.2%
Litigation-related charges <sup>(1)</sup>	1.8	0.1%
Non-GAAP gross profit and gross margin	\$1,740.5	76.0%

<sup>(1)</sup> 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:	Q324		Q325	
	\$	%	\$	%
GAAP operating income and operating margin	\$176.7	8.9%	\$218.8	9.6%
Share-based compensation-related charges	290.0	14.6%	355.3	15.5%
Acquisition-related costs <sup>(1)</sup>	2.8	0.1%	7.3	0.3%
Amortization expense of acquired intangible assets	32.9	1.7%	42.6	1.9%
Litigation-related charges <sup>(2)</sup>	5.5	0.3%	3.1	0.1%
Non-GAAP operating income and operating margin	\$507.9	25.6%	\$627.1	27.4%

<sup>(1)</sup> Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, change in fair value of contingent consideration liability, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

<sup>(2)</sup> Consists of the amortization of intellectual property licenses and covenant not to sue, and a legal contingency charge.

Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – EPS

Non-GAAP net income per share, diluted:	Q324	Q325
GAAP net income per share, diluted	\$0.39	\$0.37
Share-based compensation-related charges	0.43	0.52
Acquisition-related cost <sup>(1)</sup>	0.00	0.01
Amortization expense of acquired intangibles assets	0.05	0.06
Litigation-related charges <sup>(2)</sup>	0.01	0.00
Non-cash charges related to convertible notes <sup>(3)</sup>	0.00	0.00
Income tax and other tax adjustments <sup>(4)</sup>	(0.22)	(0.16)
Non-GAAP net income per share, diluted	\$0.66	\$0.80

<sup>(1)</sup> Consists of acquisition transaction costs, share-based compensation related to the cash settlement of certain equity awards, change in fair value of contingent consideration liability, and costs to terminate certain employment, operating lease, and other contracts of the acquired companies.

<sup>(2)</sup> Consists of the amortization of intellectual property licenses and covenant not to sue, and a legal contingency charge.

<sup>(3)</sup> Consists of non-cash interest expense for amortization of debt issuance costs related to our convertible senior notes.

<sup>(4)</sup> Consists of income tax adjustments related to our long-term non-GAAP effective tax rate. In Q3'24, it included a tax benefit from a release of our valuation allowance on U.S. federal, U.S. states other than California, and United Kingdom deferred tax assets. Fiscal year ends on July 31.

# GAAP to Non-GAAP Reconciliations – Adjusted Free Cash Flow

\$ In millions

Free cash flow and adjusted free cash flow (non-GAAP):	Q325
Net cash provided by operating activities	\$628.7
Less: purchases of property, equipment, and other assets	68.3
Free cash flow (non-GAAP)	\$560.4
Add: capital expenditures for certain corporate assets <sup>(1)</sup>	18.0
Adjusted free cash flow (non-GAAP)	\$578.4

<sup>(1)</sup> Consists of a one-time purchase of a corporate asset which is expected to be paid through the second half of calendar year 2026. Fiscal year ends on July 31.