



FISCAL SECOND QUARTER 2020 EARNINGS CONFERENCE CALL



February 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, particularly the financial targets for fiscal year 2020.

There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including: our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; risks associated with managing our growth; the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our competitive position; our ability to attract and retain new customers; 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 network security products and subscription and support offerings; length of sales cycles; timing and amount of share repurchases under our previously announced repurchase authorization or accelerated share repurchase transaction; and general market, political, economic and business conditions. 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 October 31, 2019, 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 on 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 February 24, 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 February 24, 2020.

Q2'20 Financial Results

	Q2'20	FY'20 (Guidance as of 11/25/2019)	FY'20 (Updated Guidance as of 2/24/2020)
Total Billings	\$999M 17% yr/yr	\$4,105M-\$4,165M 18% - 19% yr/yr	\$4,075M-\$4,125M 17% - 18% yr/yr
Next-Gen Security Billings	\$194M 101% yr/yr	\$810M-\$820M 79% - 82% yr/yr	\$810M-\$820M 79% - 82% yr/yr
Firewall as a Platform Billings	-3% yr/yr		
Total Revenue	\$817M 15% yr/yr	\$3,440M-\$3,480M 19% - 20% yr/yr	\$3,350M-\$3,390M 16% - 17% yr/yr
EPS (Non-GAAP)	\$1.19	\$4.90-\$5.00 \$5.00-\$5.10, excl Apero to	\$4.55-\$4.65
Adj. FCF Margin (Non-GAAP)	33.7%	~29.0% ~30%, excl Apero to	~28.0%

Note: Total billings is a key financial metric calculated as total revenue plus change in total deferred revenue, net of total acquired deferred revenue, during the stated period. Next-Gen Security billings is a key financial and operational metric defined as the total amount invoiced and billed during the period for Prisma and Cortex, inclusive of VM series and related services. Firewall as a platform billings is a key financial and operational 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. Product billings is a key financial and operational metric calculated as total product revenue plus the change in total product deferred revenue, net of acquired product deferred revenue, during the stated period. Earnings per share and Adjusted free cash flow margin are non-GAAP financial measures, during the period stated. See appendix for reconciliation to most comparable GAAP financial measure for Q2'20.

Appendix

Calculation of Billings and GAAP to Non-GAAP Reconciliations

\$Millions, except per share data

Billings:	Q2'20
Total revenue	\$816.7
Add: change in total deferred revenue, net of acquired deferred revenue	182.2
Total billings	<u>\$998.9</u>

Non-GAAP net income per share, diluted:	Q2'20
GAAP net income (loss) per share, diluted	(\$0.75)
Share-based compensation-related charges	1.77
Acquisition-related costs ⁽¹⁾	0.07
Amortization expense of acquired intangible assets	0.18
Gain related to facility exit ⁽²⁾	(0.03)
Non-cash charges related to convertible notes ⁽³⁾	0.16
Foreign currency loss associated with non-GAAP adjustments	0.01
Income tax and other tax adjustments related to the above	(0.22)
Non-GAAP net income per share, diluted	<u>\$1.19</u>

Free cash flow and adjusted free cash flow (non-GAAP):	Q2'20
Net cash provided by operating activities	\$306.9
Less: purchases of property, equipment, and other assets	49.1
Free cash flow (non-GAAP)	\$257.8
Add: capital expenditures for new headquarters	17.8
Adjusted free cash flow (non-GAAP)	\$275.6
Net cash used in investing activities	\$436.4
Net cash used in financing activities	(\$6.1)
Free cash flow margin (non-GAAP)	<u>31.6 %</u>
Adjusted free cash flow margin (non-GAAP)	<u>33.7 %</u>

Notes:

- (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 a gain related to the early termination of our previous headquarters leases.
- (3) Consists primarily of non-cash interest expense related to our convertible senior notes.

Fiscal year ends July 31.