

Q2 Fiscal Year 2025 Earnings Call

February 13, 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 third 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 market, political, 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 November 21, 2024, 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 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 February 13, 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



Strong profitable growth momentum in Q2

Delivering ahead of Top-Line Targets in Q2...

Q2'25 NGS ARR¹

\$4.78B

+37% y/y

Q2'25 RPO

\$13.0B

+21% y/y

Q2'25 Total Revenue

\$2.26B

+14% y/y

...while focusing on growing profitability

Q2'25 Operating Income (non-GAAP)

\$640M

+14% y/y

Q2'25 EPS (non-GAAP)

\$0.81

+11% y/y

Q2'25 Adj. FCF (non-GAAP)

\$509M

¹ 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.

AI is causing an inflection in cloud adoption and infrastructure investment

Cloud adoption



70% of workloads will run in the cloud by 2028¹



63% of organizations cite **AI as the driver** of increased cloud investments²



70% of organizations default to cloud-based services when upgrading or purchasing new technologies³

Infrastructure investment



91% of organizations agree their **IT infrastructure requires improvement** to support AI⁴



Inadequate infrastructure is a top 3 roadblock to digital transformation⁵



Over **\$750 billion** in AI driven **infrastructure investment** by 2027⁶

¹ Gartner's The Future of Cloud in 2028: From Technology to Business Necessity, 2023

² PwC's 2024 Cloud and AI Business Survey

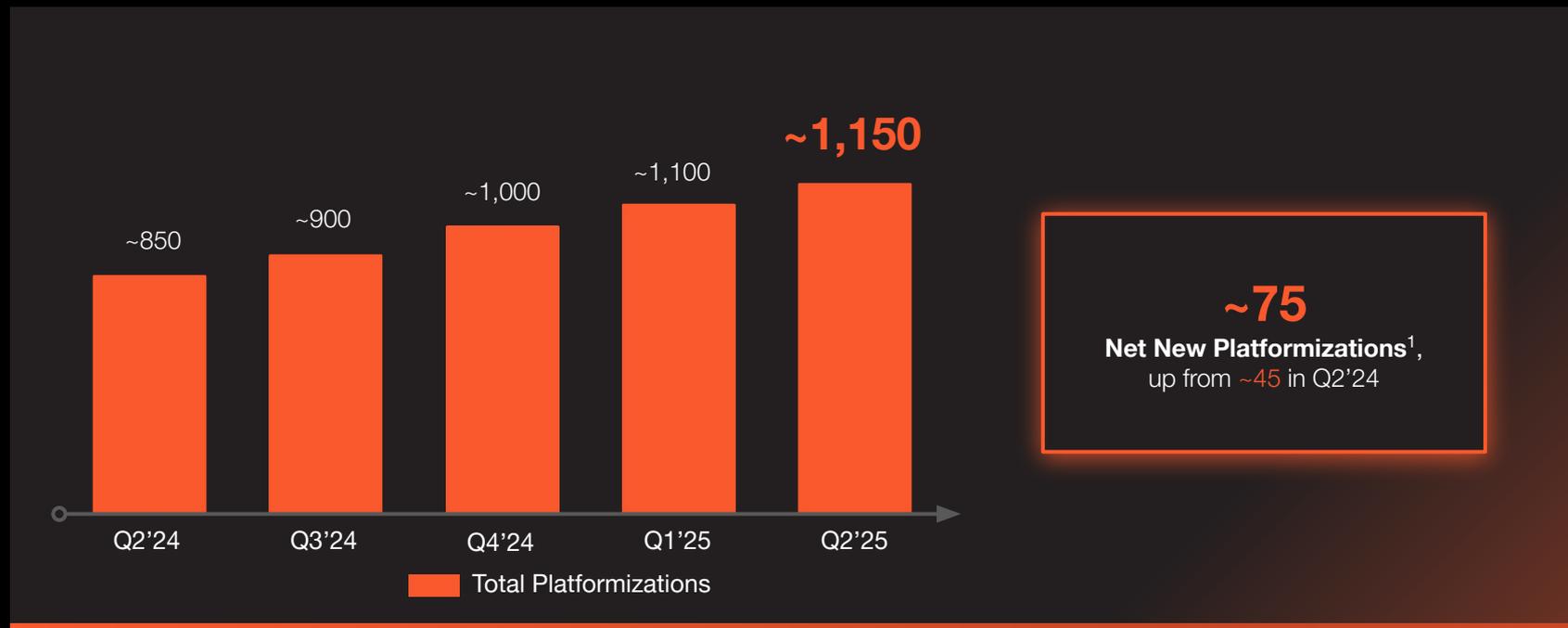
³ Foundry "Cloud Computing Study 2024"

⁴ Nutanix: "AI Technologies Usher in New Era of Data and Infrastructure Modernization"

⁵ Insight: "The Path to Digital Transformation: Where IT Leaders Stand in 2024"

⁶ S&P Global Market Intelligence estimates, 2024

One year in, Platformization is taking hold



¹ 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.

Q2 Large deals validate our platformization strategy

Bank In JAPAC

New Cortex
Platformization

\$68M Deal

Customer **Platformized on SecOps** with
XSIAM, and with additional purchases in NetSec

\$12M
NGS ARR
(+411% y/y)

US Municipality

ARR growth from
Platformized customer

\$61M Deal

Significant purchase across all three platforms,
growing ARR. Customer has **already**
Platformized on NetSec, with two further
Platformization opportunities

\$11M
NGS ARR
(+44% y/y)

Auto Manufacturer

ARR growth from
Platformized customer

\$25M Deal

Customer that **already platformized** on
NetSec and Cloud, made additional purchases
across all three platforms

\$9M
NGS ARR
(+52% y/y)

>\$5M Accounts¹ in Q2'25

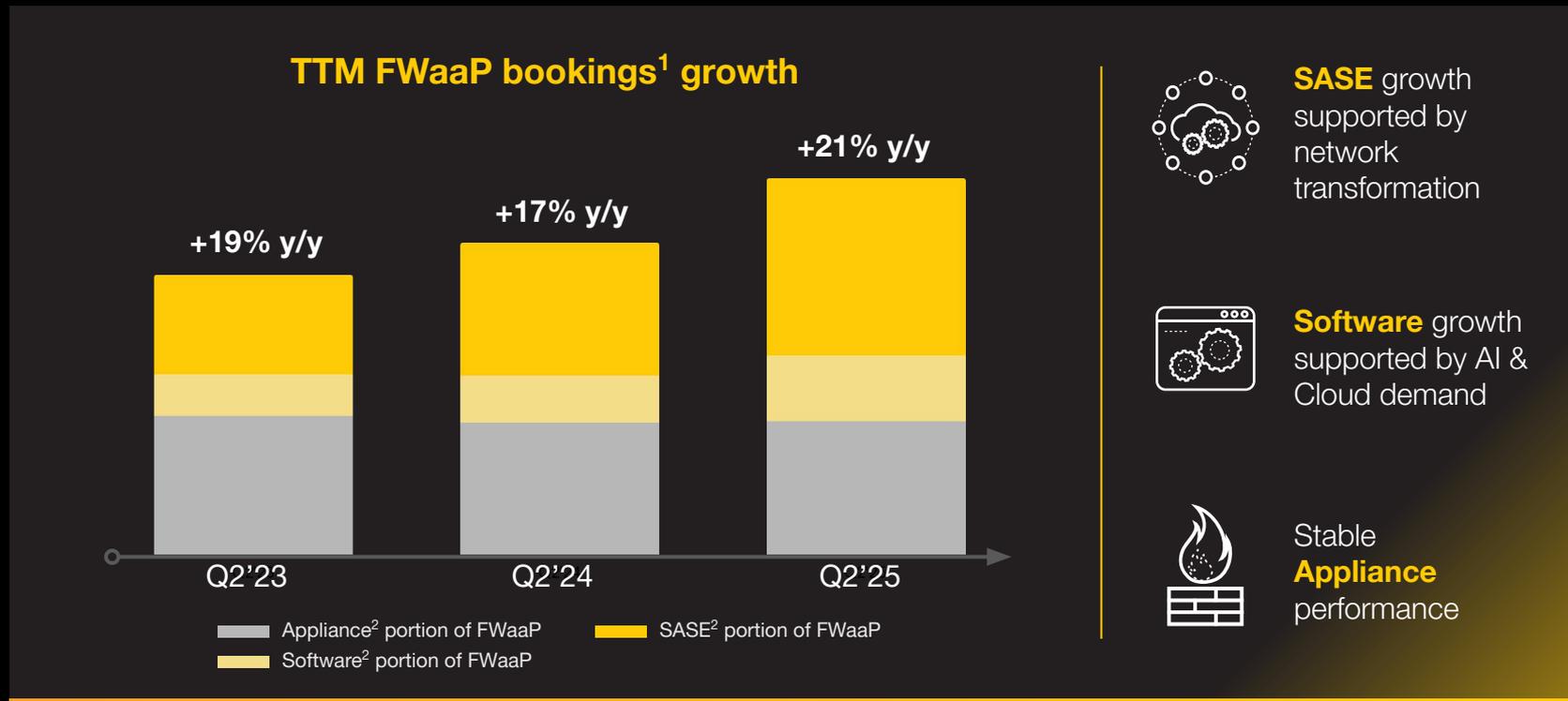
74 | +25% y/y

>\$10M Accounts¹ in Q2'25

32 | +52% y/y

¹ Number of accounts that had transactions in the period totalling >\$5M, and >\$10M.

Our NetSec momentum is being driven by strong software demand



¹ Firewall as a Platform (FWaaP) bookings is a financial and operating metric defined as product bookings, together with the services bookings for Prisma Access, VM-Series, and SD-WAN offerings, during the period stated.

² SASE portion of FWaaP is the bookings for Prisma Access, and the non-hardware portion of SD-WAN offerings during the period stated. Software portion of FWaaP is the bookings for VM-series offerings during the period stated. Appliance portion of FWaaP is the remaining FWaaP bookings not included in SASE and Software portions of FWaaP.

NetSec: SASE Update

Momentum

>5,600

Active SASE customers¹
+20% y/y

2.5x

SASE deals >\$1 million up
2.5x y/y

>23M

Over 23 million SASE seats

~1/3

of Prisma Access seats sold in Q2 were
for Prisma Access Browser (PAB)

Innovation



Prisma Access Browser Mobile

bringing enterprise grade security to
phones and tablets



AI Access

Enabling safe use of GenAI applications
through discovery and use monitoring,
while protecting sensitive data

¹ Customer defined as any customer with a binding contract as of the final date of the reported period. Prisma SASE includes unique customers for Prisma Access and Prisma SD-WAN, PANOS SD-WAN and SaaS Security subscriptions.

NetSec: Software Firewalls Update

Momentum

>50%

Bookings growth for software firewalls

~70%

of VMs are deployed in the public cloud

~2/3

of VM customers deploy a hybrid hardware / software architecture¹

>\$1M

First AI Runtime-driven VM deal over \$1M

Innovation



AI Runtime API

Expanding our ability to secure a broader set of AI applications



Securing Agentic AI

Addressing the next frontier in AI adoption with our AI Runtime capability

¹ Hybrid architecture are customers that have both VM & Appliance firewalls.

Introducing Cortex Cloud, the Future of Real-Time Cloud Security

Introducing



Powered by **Precision AI**

Best in class Cloud runtime protection for real-time cloud security

Fuel Cloud Detection and Response (CDR) momentum

Significant AI-powered innovation on our industry-leading CNAPP

Continue adoption of our breadth of Application and Cloud Security capabilities

Drive adoption of preferred SOC platform for enterprise and cloud

Sustain our strong XSIAM momentum

CORTEX: Broad momentum across Security Operations and Cloud Security

~50% y/y

Total Bookings growth across Cortex & Prisma Cloud



>\$1B

Cumulative
XSIAM bookings



Nearly 2x

Number of Prisma Cloud deals
over \$1M



100%

Detection score in
MITRE round 6 evaluation¹



Leader

First **SIEM industry leadership**
positions²

¹ 2024 MITRE ATT&CK® Evaluations: Enterprise, Round 6.

² Frost Radar: Modern Security Information and Event Management, 2024, and Omdia Universe: Next-Generation SIEM Solutions.

We are pleased with our 1H momentum driving profitable growth



Inflecting technology industry trends driven by AI are fueling strong cybersecurity demand



Robust top-line performance as we drive platformization momentum



Strong momentum and innovation in each of our platforms



Efficiency focus and early AI-based initiatives contributing to bottom-line progress

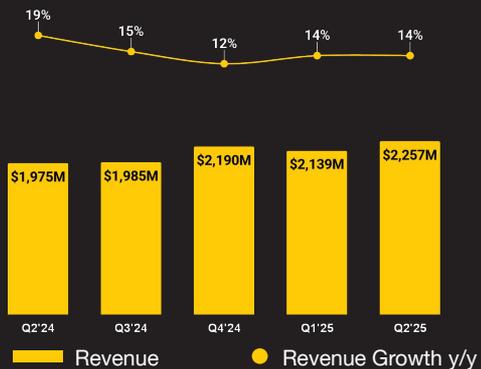
Dipak Golechha

CHIEF FINANCIAL OFFICER



Strong top-line metrics in Q2

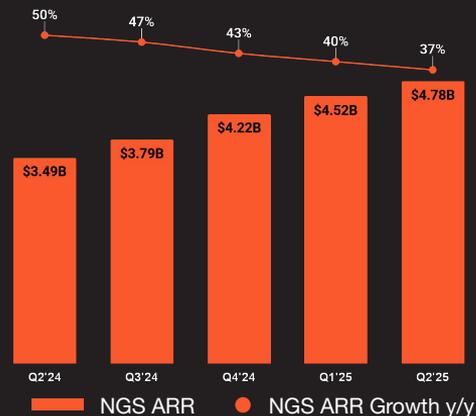
Revenue



Remaining Performance Obligation



Next-Generation Security ARR



Q2'25 Metrics

	Q2'25 Guidance (as of 11/20/24)	Q2'25 Actual
Total Revenue	\$2.22B - \$2.25B 12% - 14% yr/yr	\$2.26B 14% yr/yr 
Product Revenue		\$422M
Remaining Performance Obligation	\$12.9B - \$13.0B 20% - 21% yr/yr	\$13.0B 21% yr/yr 
Next-Gen Security ARR	\$4.70 - \$4.75B 35% - 36% yr/yr	\$4.78B 37% yr/yr 
Gross Margin (Non-GAAP)		76.6%
Operating Income (Non-GAAP)		\$640M
Operating Margin (Non-GAAP)		28.4%
Diluted EPS (Non-GAAP) ¹	\$0.77 - \$0.78 5% - 6% yr/yr	\$0.81 11% yr/yr 
Diluted EPS (GAAP)		\$0.38
Adj. Free Cash Flow (Non-GAAP)		\$509M

¹ Q2'25 EPS (Non-GAAP) guidance (as of 11/20/24), adjusted for two-for-one stock split effective after close of trading on 12/12/2024. Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

Over the last year, we have successfully executed on multiple fronts to drive our Platformization momentum

Platformization at Announcement...

...Platformization Today

Large number of new sales programs in the market

Programs are ingrained in our sales process

PANW evangelizing the benefits of Platformization

Partner ecosystem solidly behind the benefits of the Platformization approach

Top reps drove platformization success

One third of reps have participated in a new Platformization deal since Q3'24¹

Targeting ARR growth per Platformized customer

Early Success driving larger deals and upselling Platformized customers

¹ Ratio of Palo Alto Networks sales reps eligible for Platformization incentives.

We are encouraged by the initial results of our AI-based efficiencies



Employee facing

On track for ~50% reduction in contract labor to support IT processes by end of FY'25



Customer support

~85% usage in cases in NetSec; ~50% reduction in MTTR vs. baseline

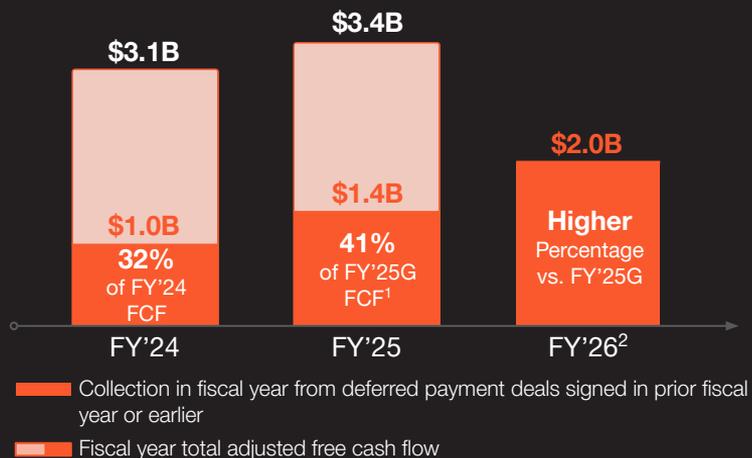


Developer

~80% of engineers leveraging coding co-pilot

We have continued confidence in our cash flow margins

Growing balance of future collections from deferred payments **increases cash flow visibility**



Continued Operating Margin Expansion

Smooth transition to deferred payments

Significant progress in **transitioning large transactions** to deferred payments

Appliance & smaller transactions **unlikely to transition** to deferred payments

Expecting **37%+** adjusted **free cash flow margins** through **FY'27**

¹ Percentage of FY'25 adjusted free cash flow based on FY'25 revenue guidance midpoint and FY'25 adjusted free cash flow margin guidance midpoint, as provided on 2/13/2025.

² FY'26 deferred collections from deals signed in prior years based deals signed through Q2'25, and 2H'25 forecast.

Q3 & Fiscal Year 2025 Guidance

	Q3 FY'25 Guidance (as of 2/13/25)	FY 2025 Guidance (as of 2/13/25)
Next-Gen Security ARR	\$5.03B - \$5.08B 33% - 34% yr/yr	\$5.52B - \$5.57B 31% - 32% yr/yr
Remaining Performance Obligation	\$13.5B - \$13.6B 19% - 20% yr/yr	\$15.2B - \$15.3B 19% - 20% yr/yr
Total Revenue	\$2.26B - \$2.29B 14% - 15% yr/yr	\$9.14B - \$9.19B 14% yr/yr 
Operating Margin (Non-GAAP)		28.0% - 28.5% +75 bps - +125 bps yr/yr 
Diluted EPS (Non-GAAP)	\$0.76 - \$0.77 15% - 17% yr/yr	\$3.18 - \$3.24 12% - 14% yr/yr 
Adj. Free Cash Flow Margin (Non-GAAP)		37.0% - 38.0%

Green arrow in FY 2025 column represents guidance range increases relative to FY 2025 guidance published on 11/20/2024. Reconciliations of historical non-GAAP measures can be found in the Appendix. Fiscal year ending on July 31.

Modeling Points

- Q3'25 and FY'25 non-GAAP effective tax rate of 22%
- FY'25 cash taxes of \$375M – \$450M, up from \$340M in FY'24
- Q3'25 net interest and other income of \$80M – \$85M
- Q3'25 diluted shares outstanding 703 – 706 million
- FY'25 diluted shares outstanding 700 – 708 million
- Q3'25 capital expenditures of \$70M – \$75M
- FY'25 capital expenditures of \$220M – \$230M

Q&A

Appendix

GAAP to Non-GAAP Reconciliations – Gross Margin

\$ In millions

Non-GAAP gross profit and gross margin:	Q225	
	\$	%
GAAP gross profit and gross margin	\$1,658.2	73.5%
Share-based compensation-related charges	39.7	1.7%
Amortization expense of acquired intangible assets	29.0	1.3%
Litigation-related charges ⁽¹⁾	1.8	0.1%
Non-GAAP gross profit and gross margin	\$1,728.7	76.6%

⁽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:	Q224		Q225	
	\$	%	\$	%
GAAP operating income and operating margin	\$53.6	2.7%	\$240.4	10.6%
Share-based compensation-related charges	296.8	15.1%	343.3	15.2%
Acquisition-related costs ⁽¹⁾	7.3	0.4%	9.7	0.5%
Amortization expense of acquired intangible assets	27.9	1.4%	43.8	1.9%
Litigation-related charges ⁽²⁾	178.6	9.0%	3.2	0.2%
Non-GAAP operating income and operating margin	\$564.2	28.6%	\$640.4	28.4%

⁽¹⁾ 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.

⁽²⁾ 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:	Q224	Q225
GAAP net income per share, diluted	\$2.44	\$0.38
Share-based compensation-related charges	0.44	0.50
Acquisition-related cost ⁽¹⁾	0.01	0.01
Amortization expense of acquired intangibles assets	0.04	0.06
Litigation-related charges ⁽²⁾	0.25	0.00
Non-cash charges related to convertible notes ⁽³⁾	0.00	0.00
Income tax and other tax adjustments ⁽⁴⁾	(2.45)	(0.14)
Non-GAAP net income per share, diluted	\$0.73	\$0.81

⁽¹⁾ 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.

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

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

⁽⁴⁾ Consists of income tax adjustments related to our long-term non-GAAP effective tax rate. In Q2'24, 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):	Q225
Net cash provided by operating activities	\$556.9
Less: purchases of property, equipment, and other assets	47.5
Free cash flow (non-GAAP)	\$509.4
Adjusted free cash flow (non-GAAP)	\$509.4

Fiscal year ends on July 31.

Thank You

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