

Fiscal Second Quarter 2017 Investor Presentation

February 2017



Safe harbor

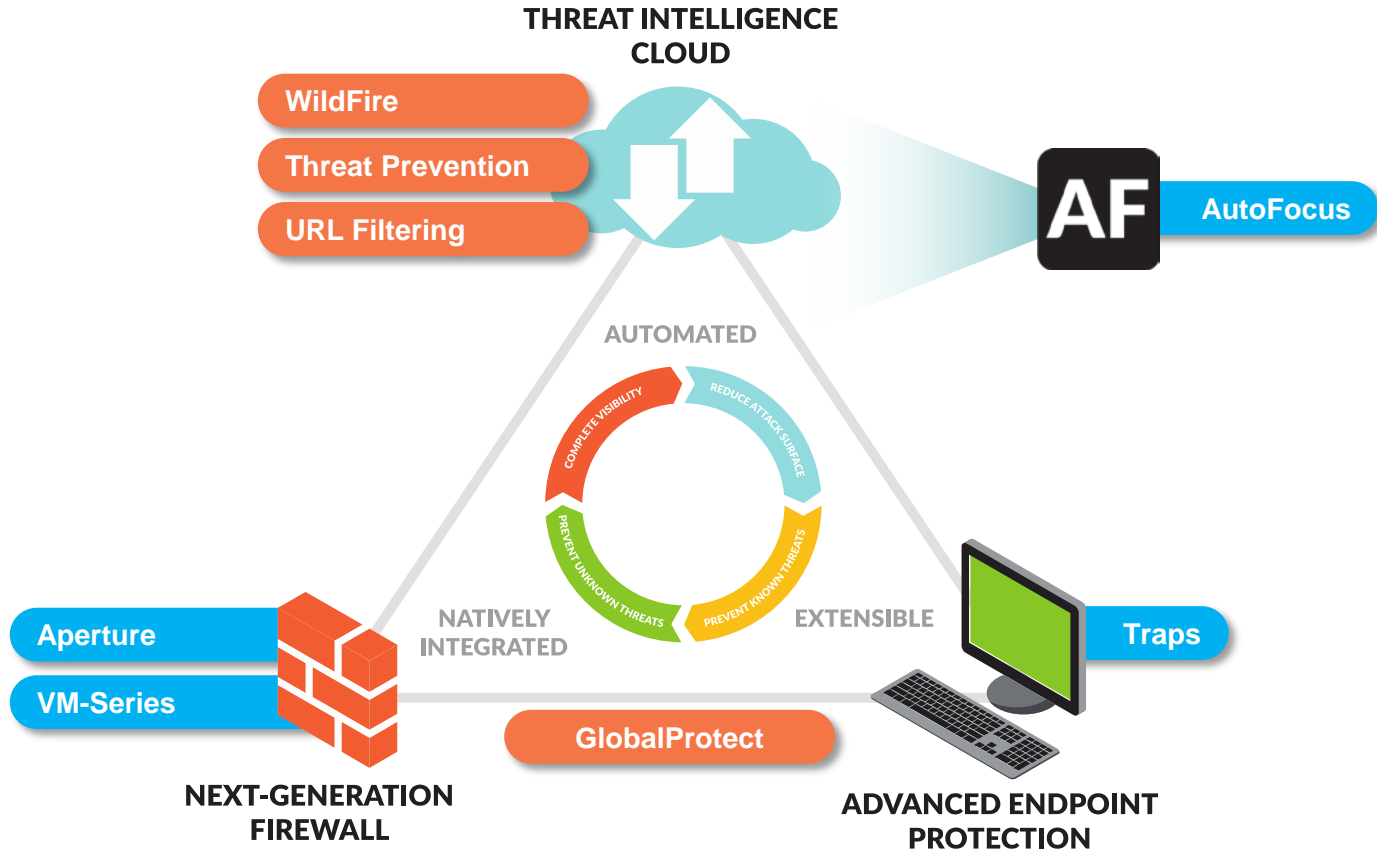
This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management. Such forward-looking statements include statements regarding our expectations for our financial performance and trends in our business; the demand for and adoption of our products and subscription and support offerings; the expected efficacy of our products and subscription and support offerings; expected benefits of the acquisition of LightCyber to us and our customers and the impact of the acquisition on our offerings; the expansion of our total addressable market; and continued momentum in our business. These statements reflect our current beliefs and are based on current information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including risks associated with new product and subscription releases, including the discovery of software bugs; our limited experience with new product and subscription and support introductions; the failure to timely develop and achieve market acceptance of our new products and subscription offerings, as well as our existing products and subscription and support offerings; our limited operating history, which makes it difficult to predict risks; risks associated with our rapid growth; rapidly evolving technological developments in the competitive market for enterprise security products and subscription and support offerings; our ability to identify and effectively implement the necessary changes to address our execution challenges; length of sales cycles; our ability as an organization to acquire and integrate other companies, product or technologies in a successful manner; our ability and general market, political, economic and business conditions. Additional risks and uncertainties are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our quarterly report on Form 10-Q filed with the SEC on March 1, 2017, 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 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.

Tectonic shifts create the perfect storm



Prevention is possible with the real security platform



LightCyber joins Palo Alto Networks

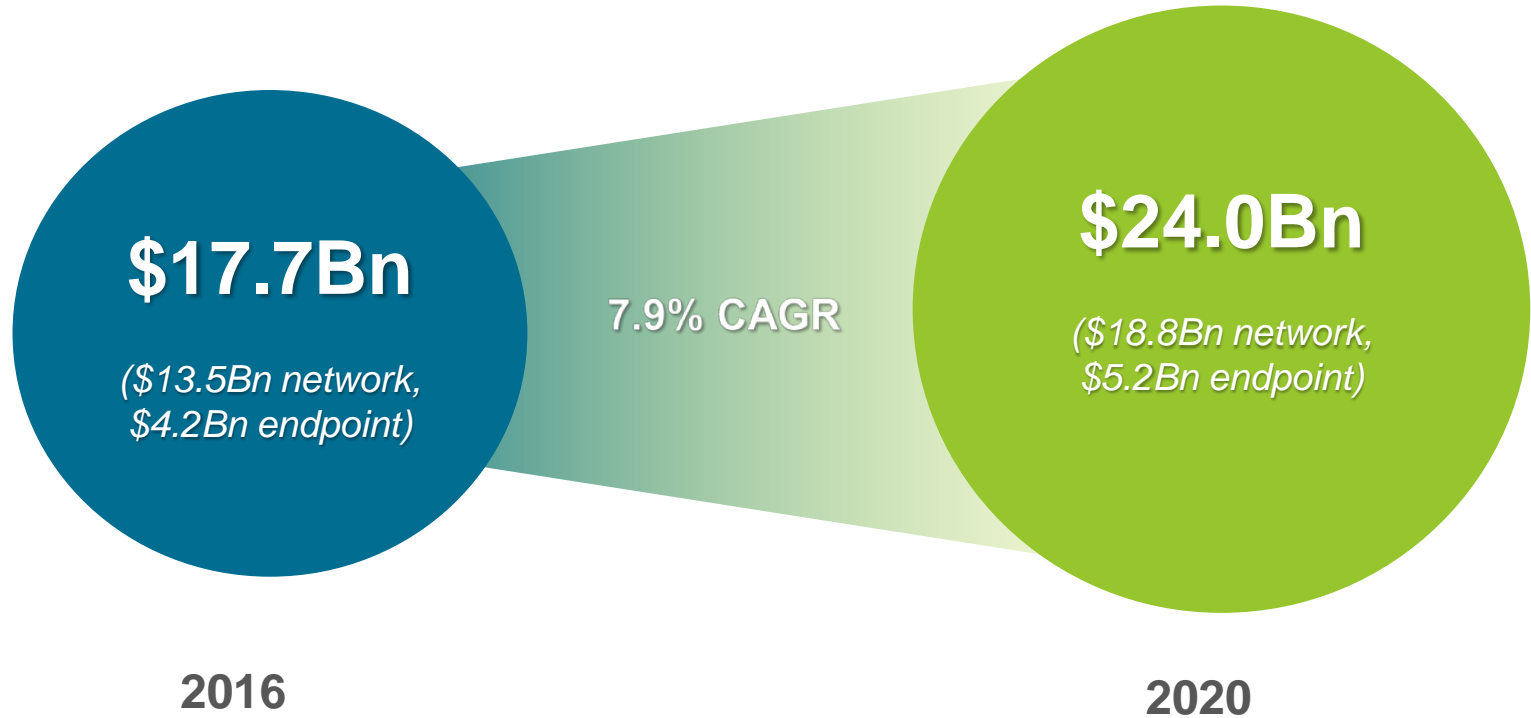


- Transaction was announced on February 28th, 2017 for \$105Mn in cash.
- LightCyber brings award-winning automated behavioral analytics to our Next-Generation Security Platform.
- LightCyber is a leader in the development of automated behavioral analytics and was founded by renowned cybersecurity experts in 2012.
- LightCyber further extends our platform with unique behavior-based prevention techniques focused on the internal reconnaissance and lateral movement stages of the attack lifecycle.
- End-customers gain unrivaled protection against successful breaches. These protections are focused on preventing highly targeted attacks, insider threats, risky behavior, and malware inside the network.



TAM 2016 – 2020

The opportunity – large and growing



Sources: IDC, Worldwide Network Security 2016–2020 Forecast, September 2016
IDC, Worldwide Web Security 2016–2020 Forecast, December 2016
IDC, Worldwide Enterprise Endpoint Security 2016–2020 Forecast, October 2016

2016 Gartner magic quadrant



Source: Gartner, magic quadrant for enterprise network firewalls, April 2016

Q2'17 financial highlights

	Q2'17	Q2'16	Y/Y change
Billings ⁽¹⁾	\$561.6Mn	\$459.0Mn	22.4%
Revenue	\$422.6Mn	\$334.7Mn	26.3%
Gross margin % ⁽²⁾	78.6%	77.2%	140 bps
Operating margin % ⁽²⁾	19.7%	18.5% ⁽³⁾	120 bps
EPS ⁽²⁾	\$0.63	\$0.43 ⁽³⁾	46.5%
Deferred revenue	\$1.5Bn	\$928.8Mn	61.3%
Free cash flow margin % ⁽²⁾⁽⁴⁾	40.1%	40.8% ⁽⁵⁾	-70 bps

(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.

(2) Non-GAAP financial measure. See appendix for a reconciliation to most comparable GAAP financial measure.

(3) Reflects our change in accounting policy for sales commissions effective Q1'17. See appendix for more information.

(4) Excluding capital expenditures for our new headquarters, free cash flow margin would be 47.5% and 40.9% for Q2'17 and Q2'16, respectively, representing a year-over-year increase of 660bps. See appendix for a reconciliation to most comparable GAAP financial measure.

(5) Reflects our early adoption of new share-based payment accounting guidance in Q2'17. See appendix for more information.

Note: Fiscal year ends July 31.



1H'17 financial highlights

	1H'17	1H'16	Y/Y change
Billings ⁽¹⁾	\$1.1Bn	\$847.0Mn	27.3%
Revenue	\$820.7Mn	\$631.9Mn	29.9%
Gross margin % ⁽²⁾	79.0%	77.5%	150 bps
Operating margin % ⁽²⁾	18.9%	17.5% ⁽³⁾	140 bps
EPS ⁽²⁾	\$1.18	\$0.77 ⁽³⁾	53.2%
Deferred revenue	\$1.5Bn	\$928.8Mn	61.3%
Free cash flow margin % ⁽²⁾⁽⁴⁾⁽⁵⁾	42.9%	41.8%	110 bps

(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.

(2) Non-GAAP financial measure. See appendix for a reconciliation to most comparable GAAP financial measure.

(3) Reflects our change in accounting policy for sales commissions effective Q1'17. See appendix for more information.

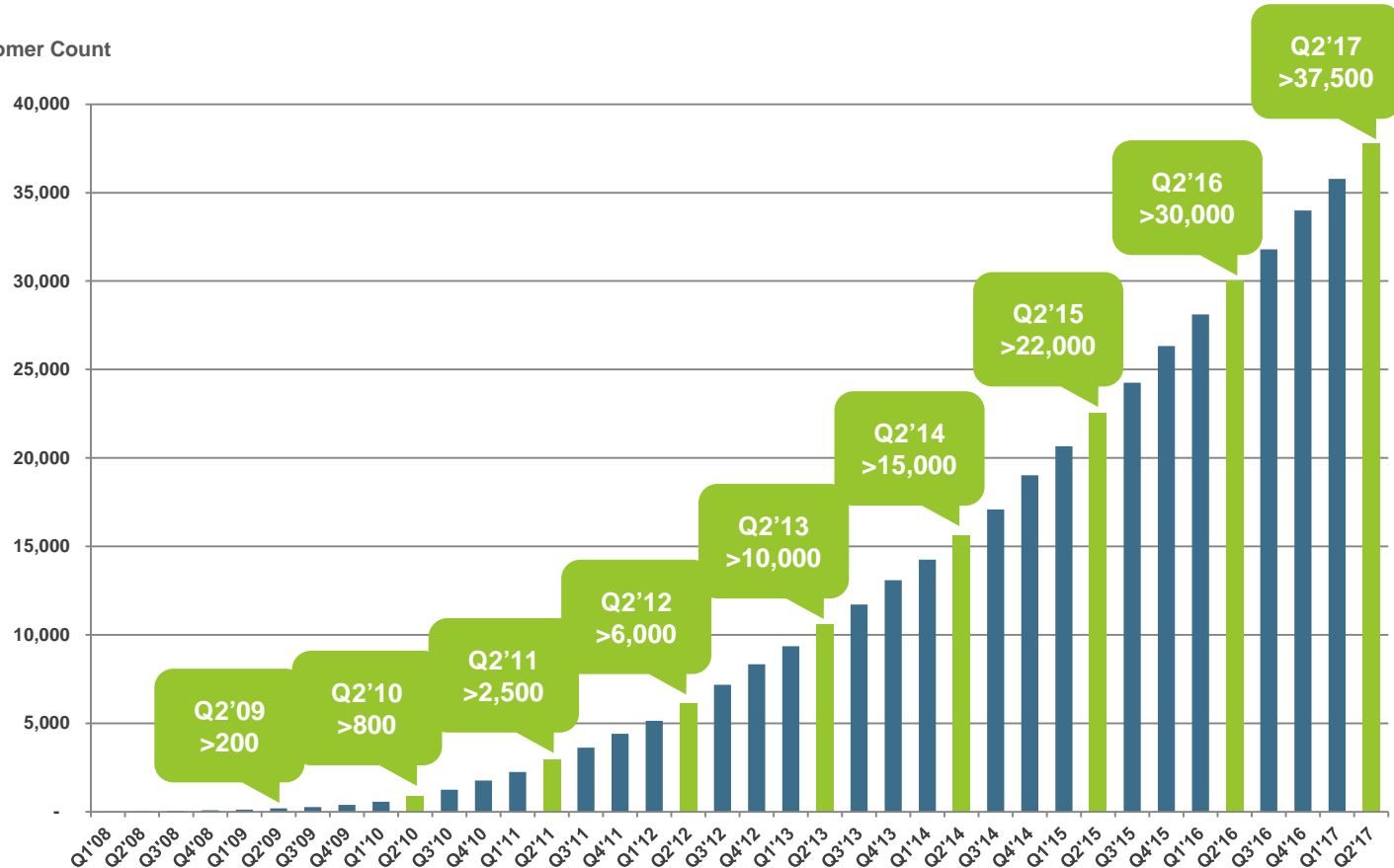
(4) Excluding capital expenditures for our new headquarters, free cash flow margin would be 47.0% and 41.8% for 1H'17 and 1H'16, respectively, representing a year-over-year increase of 520bps. See appendix for a reconciliation to most comparable GAAP financial measure.

(5) Reflects our early adoption of new share-based payment accounting guidance in Q2'17. See appendix for more information.

Note: Fiscal year ends July 31.

Continued strength of customer acquisition

Customer Count



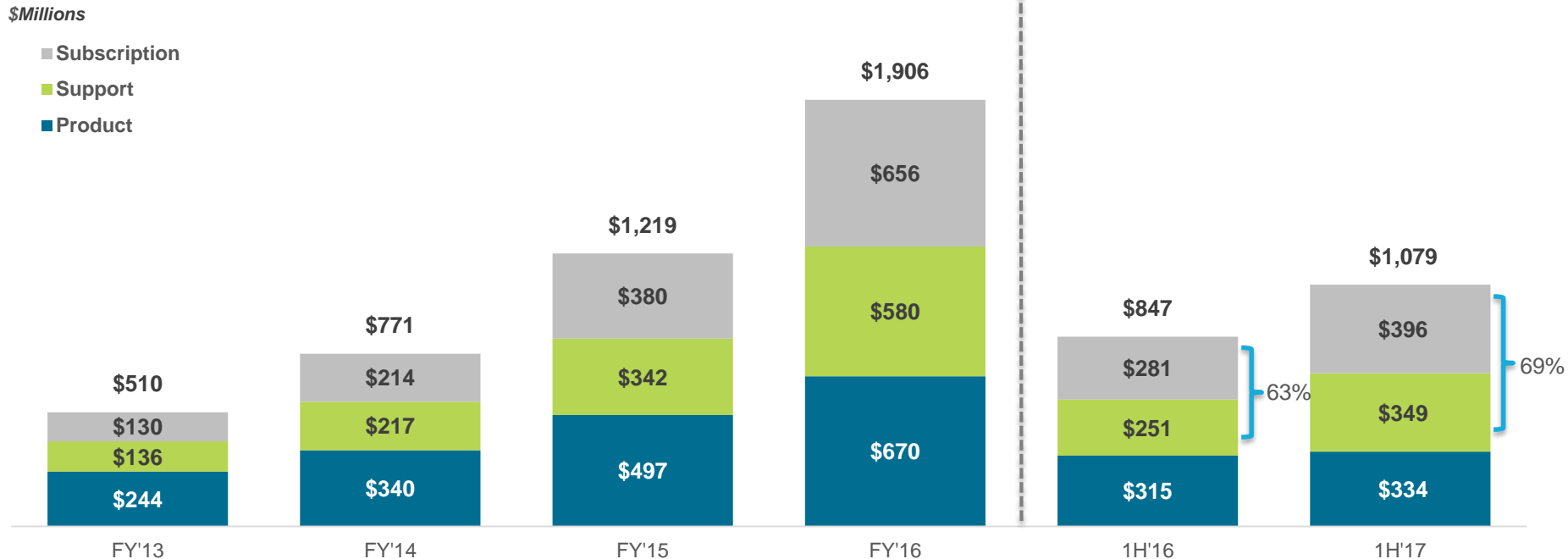
Note: Fiscal year ends July 31.

The power of the hybrid-SAAS model

Product		Recurring subscription and support revenue		
Hardware	Perpetual	Attached subscriptions	Non-attached subscriptions	Support
<i>Appliances Accessories</i>	<i>Panorama VM-Series</i>	<i>Threat Prevention URL Filtering GlobalProtect WildFire</i>	<i>Traps VM-Series AutoFocus Aperture</i>	<i>Support Professional services</i>
Renewals				

Billings momentum

Annual billings⁽¹⁾ by type



(1) Billings is a key financial metric defined as total revenue plus the change in total deferred revenue, net of acquired deferred revenue, during the period. See appendix for calculation.
 Note: Fiscal year ends July 31.

Customer adoption of the platform

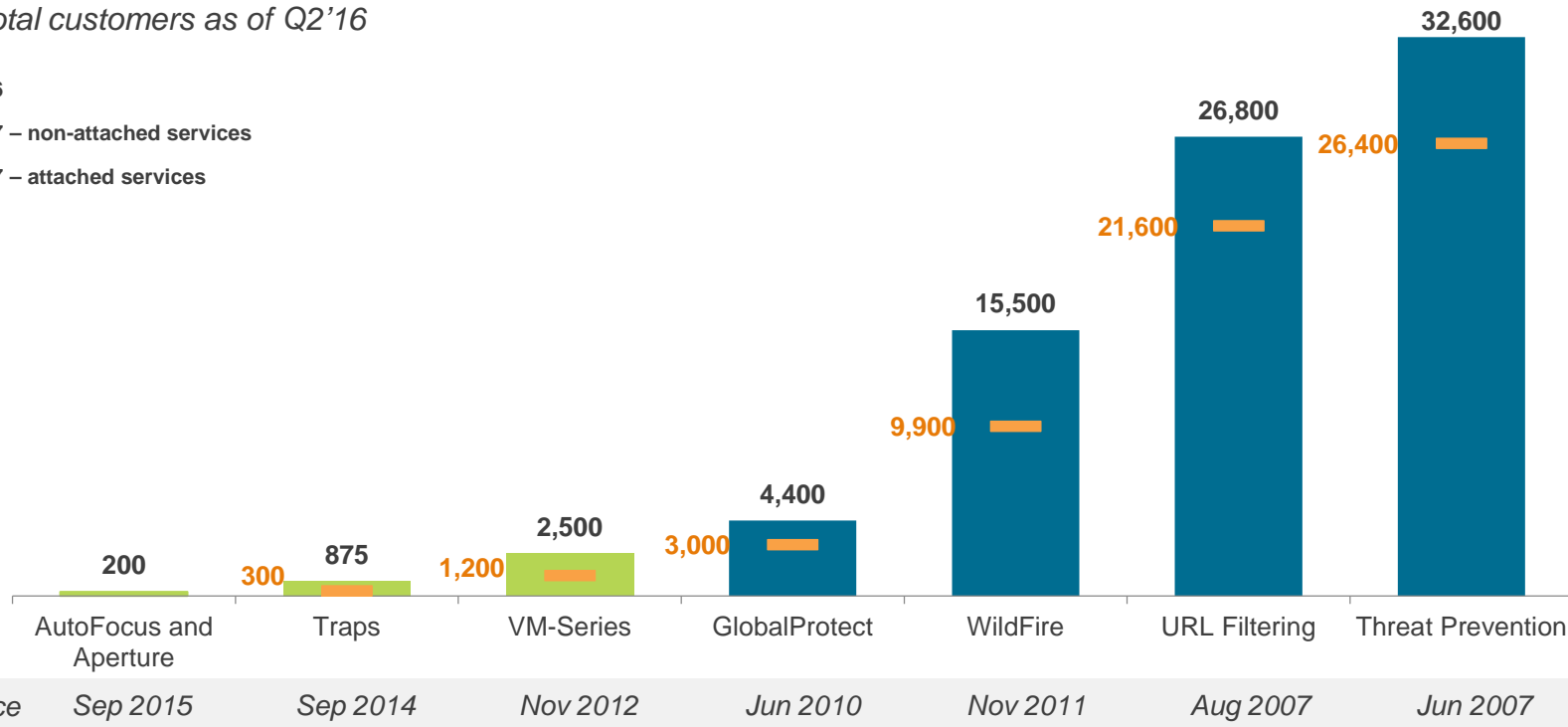
>37,500 total customers as of Q2'17

>30,000 total customers as of Q2'16

Q2'16

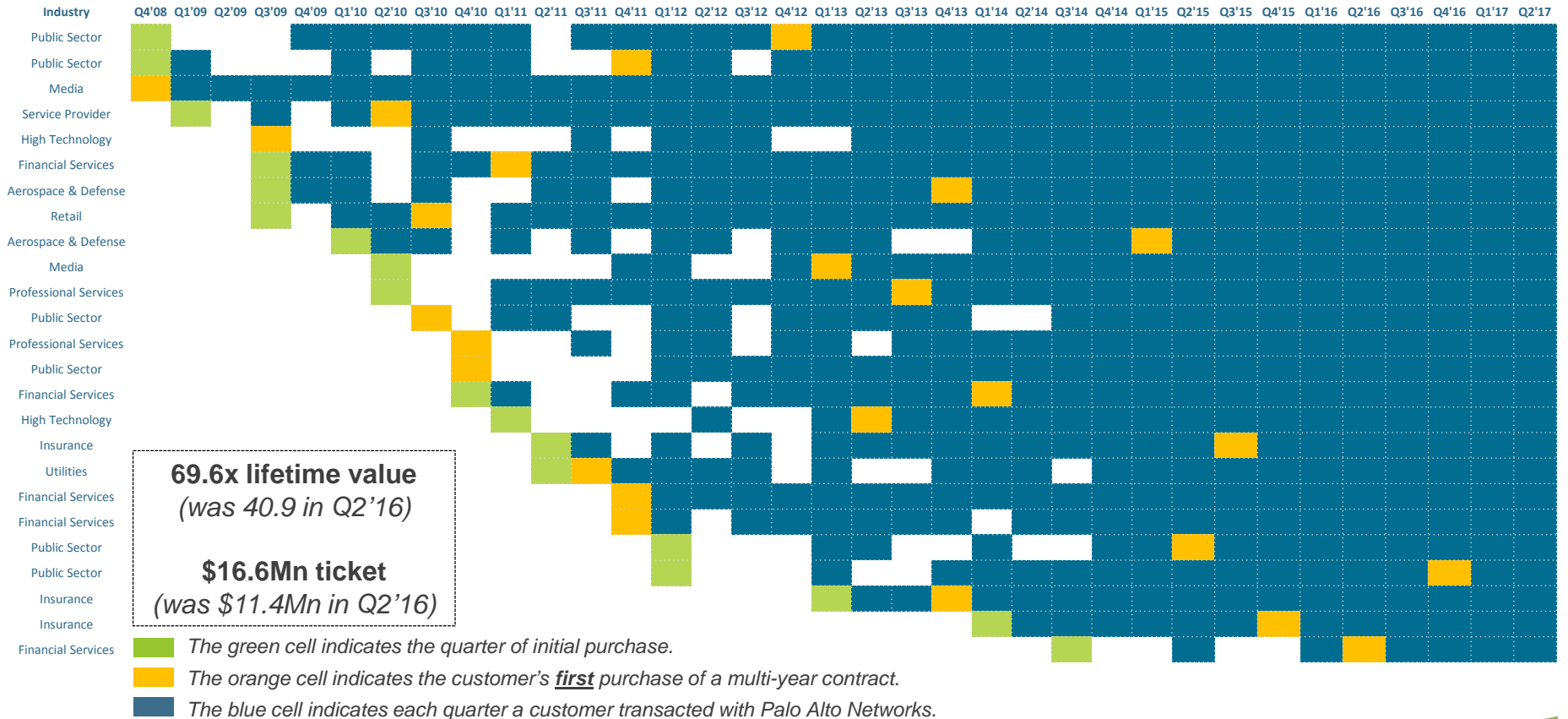
Q2'17 – non-attached services

Q2'17 – attached services



Note: Fiscal year ends July 31.

Top-25 customer buying behavior

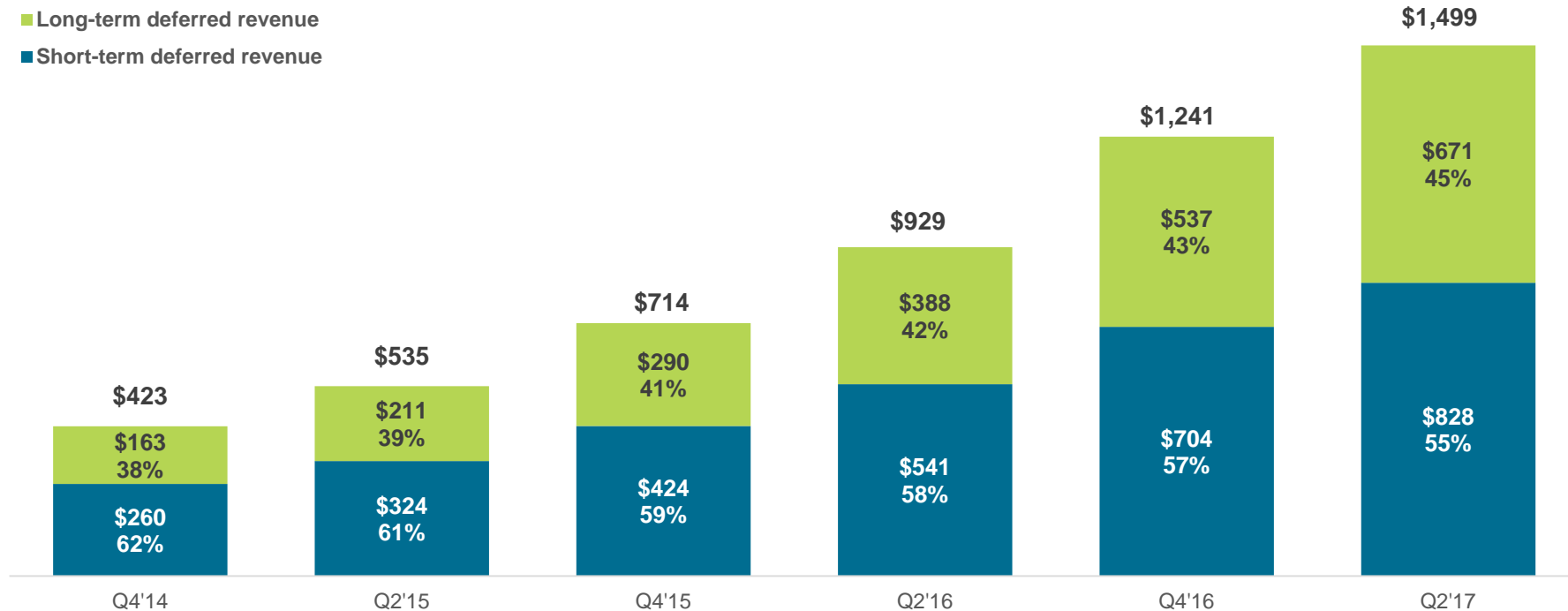


Note: Fiscal year ends July 31.

Growth in deferred revenue

\$Millions
% of total

- Long-term deferred revenue
- Short-term deferred revenue



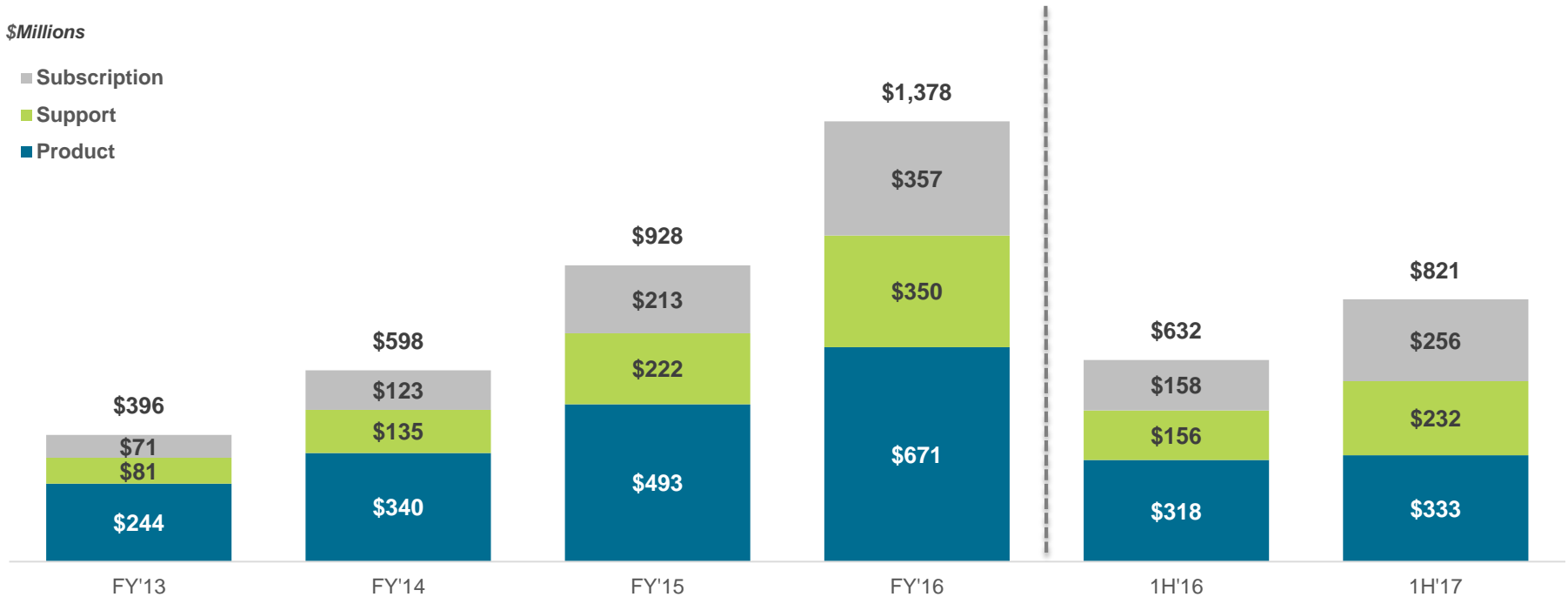
Note: Fiscal year ends July 31.

Market leading revenue growth

Annual revenue by type

\$Millions

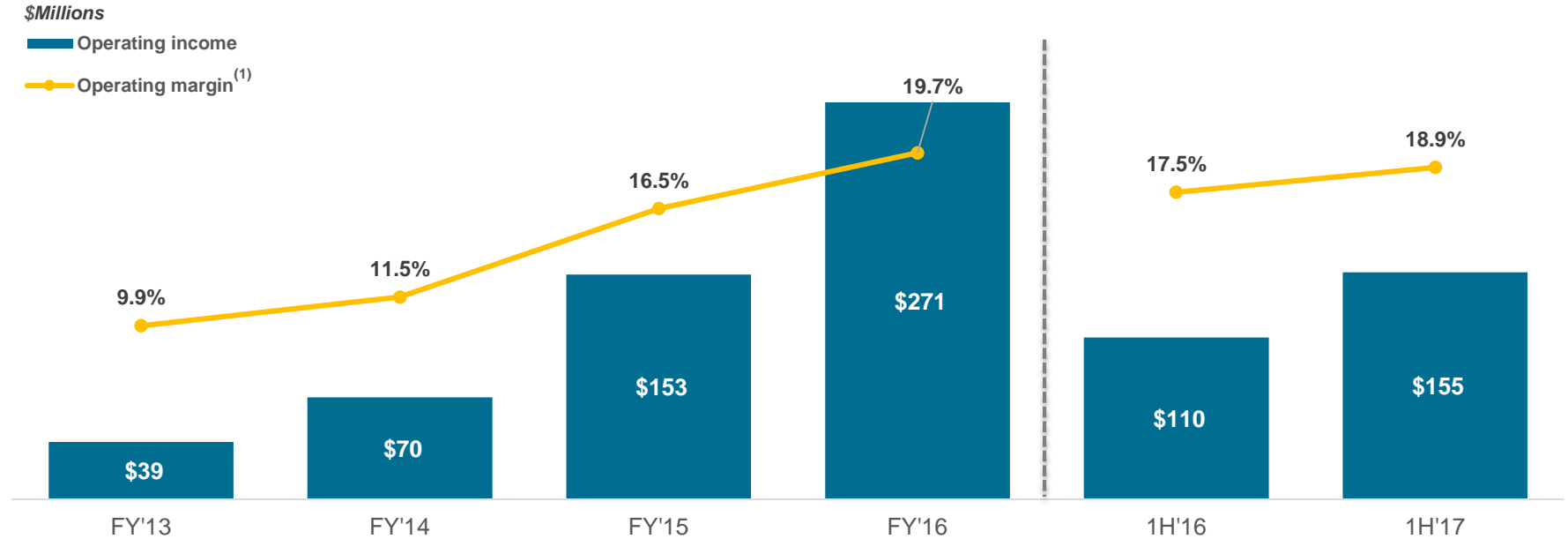
- Subscription
- Support
- Product



Note: Fiscal year ends July 31.

Positively impacting profitability: operating margin

Annual operating income⁽¹⁾

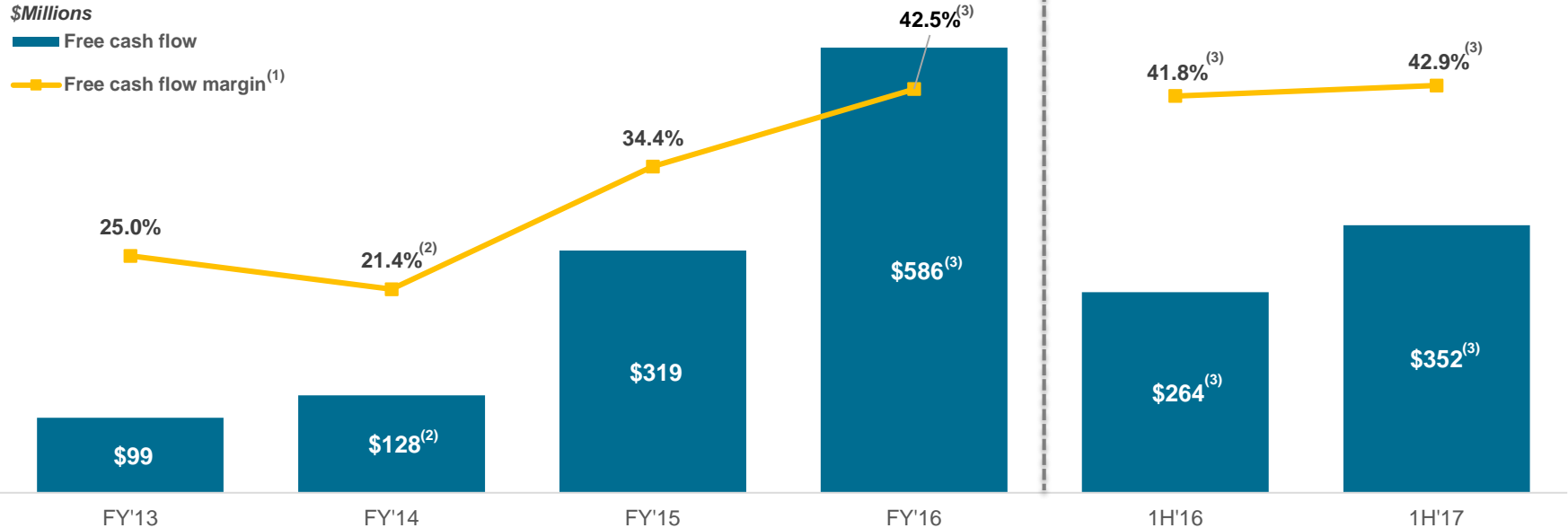


(1) Non-GAAP financial measure, which also reflects our change in accounting policy for sales commissions. See appendix for a reconciliation to most comparable GAAP financial measure.

Note: Fiscal year ends July 31.

Positively impacting profitability: free cash flow margin

Annual free cash flow⁽¹⁾



(1) Non-GAAP financial measure, which also reflects our early adoption of new share-based payment accounting guidance in Q2'17. See appendix for a reconciliation to most comparable GAAP financial measure.

(2) Adjusted to exclude the \$75.0 million cash payment related to the Juniper settlement in Q4'14. See appendix for a reconciliation to most comparable GAAP financial measure.

(3) Excluding capital expenditures for our new headquarters, free cash flow would be \$386 million, \$264 million, and \$587 million for 1H'17, 1H'16, and FY'16, respectively, and free cash flow margin would be 47.0%, 41.8%, and 42.6% for 1H'17, 1H'16, and FY'16, respectively. See appendix for a reconciliation to most comparable GAAP financial measure.

Note: Fiscal year ends July 31.

Appendix

Calculation of billings

\$Mn

Billings:	FY'13	FY'14	FY'15	FY'16	1H'16	1H'17	Q2'16	Q2'17
Total revenue	\$ 396.1	\$ 598.2	\$ 928.1	\$ 1,378.5	\$ 631.9	\$ 820.7	\$ 334.7	\$ 422.6
Add: change in total deferred revenue, net of acquired deferred revenue	113.4	173.2	291.0	527.1	215.1	257.8	124.3	139.0
Billings	<u>\$ 509.5</u>	<u>\$ 771.4</u>	<u>\$ 1,219.1</u>	<u>\$ 1,905.6</u>	<u>\$ 847.0</u>	<u>\$ 1,078.5</u>	<u>\$ 459.0</u>	<u>\$ 561.6</u>
Product billings:	FY'13	FY'14	FY'15	FY'16	1H'16	1H'17		
Product revenue	\$ 243.7	\$ 340.1	\$ 492.7	\$ 670.8	\$ 317.6	\$ 332.6		
Add: change in product deferred revenue	0.1	0.1	4.0	(0.7)	(2.3)	1.7		
Product billings	<u>\$ 243.8</u>	<u>\$ 340.2</u>	<u>\$ 496.7</u>	<u>\$ 670.1</u>	<u>\$ 315.3</u>	<u>\$ 334.3</u>		
Support billings:	FY'13	FY'14	FY'15	FY'16	1H'16	1H'17		
Support revenue	\$ 81.2	\$ 134.9	\$ 222.7	\$ 350.7	\$ 156.4	\$ 232.6		
Add: change in support deferred revenue	54.9	81.8	119.3	228.9	94.0	115.7		
Support billings	<u>\$ 136.1</u>	<u>\$ 216.7</u>	<u>\$ 342.0</u>	<u>\$ 579.6</u>	<u>\$ 250.4</u>	<u>\$ 348.3</u>		
Subscription billings:	FY'13	FY'14	FY'15	FY'16	1H'16	1H'17		
Subscription revenue	\$ 71.2	\$ 123.2	\$ 212.7	\$ 357.0	\$ 157.9	\$ 255.5		
Add: change in subscription deferred revenue, net of acquired subscription deferred revenue	58.4	91.3	167.7	298.9	123.4	140.4		
Subscription billings	<u>\$ 129.6</u>	<u>\$ 214.5</u>	<u>\$ 380.4</u>	<u>\$ 655.9</u>	<u>\$ 281.3</u>	<u>\$ 395.9</u>		

Note: Fiscal year ends July 31.

GAAP to Non-GAAP reconciliations

\$Mn

Non-GAAP gross profit and gross margin:	1H'16		1H'17 ⁽¹⁾		Q2'16		Q2'17	
	\$	%	\$	%	\$	%	\$	%
GAAP gross profit and gross margin	\$ 458.5	72.6%	\$ 606.3	73.9%	\$ 240.5	71.9%	\$ 309.4	73.2%
Share-based compensation related charges	21.4	3.3%	32.1	3.9%	13.0	3.8%	17.8	4.3%
Amortization expense of acquired intangible assets	3.8	0.6%	3.8	0.5%	1.9	0.6%	1.9	0.4%
Litigation related charges	6.1	1.0%	6.1	0.7%	3.0	0.9%	3.0	0.7%
Non-GAAP gross profit and gross margin	<u>\$ 489.8</u>	<u>77.5%</u>	<u>\$ 648.3</u>	<u>79.0%</u>	<u>\$ 258.4</u>	<u>77.2%</u>	<u>\$ 332.1</u>	<u>78.6%</u>

(1) In Q2'17, we elected to early adopt new share-based payment accounting guidance, which impacted our GAAP financial statements. As a result, amounts for 1H'17 reflect an adjustment for Q1'17. Refer to "Impact of early adoption of new accounting guidance" appendix slide for more information.

Note: Fiscal year ends July 31.

GAAP to Non-GAAP reconciliations

\$Mn

Non-GAAP operating income and operating margin:	FY'13		FY'14		FY'15		FY'16	
	\$	%	\$	%	\$	%	\$	%
GAAP operating loss and operating margin ⁽¹⁾	\$ (9.9)	(2.5%)	\$ (196.2)	(32.8%)	\$ (99.8)	(10.8%)	\$ (157.3)	(11.4%)
Share-based compensation related charges	45.1	11.4%	101.3	16.8%	233.2	25.2%	407.5	29.6%
Acquisition related costs & amortization expense of acquired intangible assets	-	-	9.9	1.7%	7.7	0.8%	8.3	0.6%
Litigation related charges	3.6	0.9%	154.5	25.8%	12.3	1.3%	12.3	0.9%
Loss on facility sublease	0.3	0.1%	-	-	-	-	-	-
Non-GAAP operating income and operating margin	\$ 39.1	9.9%	\$ 69.5	11.5%	\$ 153.4	16.5%	\$ 270.8	19.7%

Non-GAAP operating income and operating margin:	1H'16		1H'17 ⁽²⁾		Q2'16		Q2'17	
	\$	%	\$	%	\$	%	\$	%
GAAP operating loss and operating margin ⁽¹⁾	\$ (82.1)	(13.0%)	\$ (103.4)	(12.6%)	\$ (50.1)	(15.0%)	\$ (54.4)	(12.9%)
Share-based compensation related charges	182.1	28.8%	247.4	30.2%	106.9	32.0%	131.8	31.3%
Acquisition related costs & amortization expense of acquired intangible assets	4.2	0.7%	4.8	0.6%	2.1	0.6%	2.7	0.6%
Litigation related charges	6.1	1.0%	6.1	0.7%	3.0	0.9%	3.0	0.7%
Non-GAAP operating income and operating margin	\$ 110.3	17.5%	\$ 154.9	18.9%	\$ 61.9	18.5%	\$ 83.1	19.7%

(1) Effective Q1'17, we changed our accounting policy for sales commissions, which impacted our GAAP financial statements. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. Refer to "Impact of change in accounting policy for sales commissions" appendix slide for more information.

(2) In Q2'17, we elected to early adopt new share-based payment accounting guidance, which impacted our GAAP financial statements. As a result, amounts for 1H'17 reflect an adjustment for Q1'17. Refer to "Impact of early adoption of new accounting guidance" appendix slide for more information.

Note: Fiscal year ends July 31.

GAAP to Non-GAAP reconciliations

Non-GAAP net income per share, diluted:	1H'16	1H'17 ⁽³⁾	Q2'16	Q2'17
GAAP net income (loss) per share, diluted ⁽¹⁾	\$ (1.13)	\$ (1.30)	\$ (0.66)	\$ (0.67)
Share-based compensation related charges	2.08	2.69	1.21	1.42
Acquisition related costs & amortization expense of acquired intangible assets	0.05	0.06	0.02	0.03
Litigation related charges	0.07	0.07	0.04	0.03
Non-cash interest expense related to convertible notes	0.13	0.13	0.07	0.07
Foreign currency (gain) loss associated with non-GAAP adjustments	(0.02)	0.00	(0.01)	0.01
Income tax and other tax adjustments related to the above ⁽²⁾	(0.41)	(0.47)	(0.24)	(0.26)
Non-GAAP net income per share, diluted	<u>\$ 0.77</u>	<u>\$ 1.18</u>	<u>\$ 0.43</u>	<u>\$ 0.63</u>

(1) Effective Q1'17, we changed our accounting policy for sales commissions, which impacted our GAAP financial statements. As a result, amounts for periods prior to fiscal 2017 have been adjusted to reflect the change. Refer to "Impact of change in accounting policy for sales commissions" appendix slide for more information.

(2) Amounts prior to fiscal 2017 have been adjusted to reflect our change in accounting policy for sales commissions, which resulted in an adjustment of GAAP loss before income taxes and a corresponding change in non-GAAP income before income taxes. Refer to "Impact of change in accounting policy for sales commissions" appendix slide for more information.

(3) In Q2'17, we elected to early adopt new share-based payment accounting guidance, which impacted our GAAP financial statements. As a result, amounts for 1H'17 reflect an adjustment for Q1'17. Refer to "Impact of early adoption of new accounting guidance" appendix slide for more information.

Note: Fiscal year ends July 31.



GAAP to Non-GAAP reconciliations

\$Mn

Free cash flow (non-GAAP):	FY'13	FY'14	FY'15	FY'16
Net cash provided by operating activities ⁽¹⁾	\$ 121.3	\$ 89.4	\$ 352.8	\$ 658.6
Less: purchases of property, equipment, and other assets	22.4	36.1	33.8	72.5
Free cash flow (non-GAAP) ⁽¹⁾	\$ 98.9	\$ 53.3	\$ 319.0	\$ 586.1
<i>Free cash flow margin (non-GAAP)⁽¹⁾</i>	<i>25.0%</i>	<i>8.9%</i>	<i>34.4%</i>	<i>42.5%</i>
Net cash used in investing activities	\$ (151.5)	\$ (320.3)	\$ (679.0)	\$ (338.9)
Net cash provided by financing activities ⁽¹⁾	\$ 18.2	\$ 574.1	\$ 48.2	\$ 38.9

Adjusted free cash flow (non-GAAP):	FY'13	FY'14	FY'15	FY'16
Net cash provided by operating activities ⁽¹⁾	\$ 121.3	\$ 89.4	\$ 352.8	\$ 658.6
Less: purchases of property, equipment, and other assets	22.4	36.1	33.8	72.5
Free cash flow (non-GAAP) ⁽¹⁾	98.9	53.3	319.0	586.1
Add: cash paid for legal settlement	-	75.0	-	-
Add: capital expenditures for new headquarters	-	-	-	1.1
Adjusted free cash flow (non-GAAP) ⁽¹⁾	\$ 98.9	\$ 128.3	\$ 319.0	\$ 587.2
<i>Adjusted free cash flow margin (non-GAAP)⁽¹⁾</i>	<i>25.0%</i>	<i>21.4%</i>	<i>34.4%</i>	<i>42.6%</i>

(1) Amounts prior to Q1'17 have been adjusted due to our early adoption of new share-based payment accounting guidance in Q2'17. Refer to "Impact of early adoption of new accounting guidance" appendix slide for more information.

Note: Fiscal year ends July 31.

GAAP to Non-GAAP reconciliations

\$Mn

Free cash flow (non-GAAP):	1H'16	1H'17	Q2'16	Q2'17
Net cash provided by operating activities ⁽¹⁾	\$ 301.0	\$ 417.8	\$ 154.1	\$ 214.3
Less: purchases of property, equipment, and other assets	36.9	65.6	17.4	44.7
Free cash flow (non-GAAP) ⁽¹⁾	<u>\$ 264.1</u>	<u>\$ 352.2</u>	<u>\$ 136.7</u>	<u>\$ 169.6</u>
Free cash flow margin (non-GAAP) ⁽¹⁾	<u>41.8%</u>	<u>42.9%</u>	<u>40.8%</u>	<u>40.1%</u>
Net cash used in investing activities	<u>\$ (284.7)</u>	<u>\$ (244.3)</u>	<u>\$ (21.2)</u>	<u>\$ (173.1)</u>
Net cash provided by (used in) financing activities ⁽¹⁾	<u>\$ 21.1</u>	<u>\$ (146.5)</u>	<u>\$ 4.5</u>	<u>\$ (119.2)</u>

Adjusted free cash flow (non-GAAP):	1H'16	1H'17	Q2'16	Q2'17
Net cash provided by operating activities ⁽¹⁾	\$ 301.0	\$ 417.8	\$ 154.1	\$ 214.3
Less: purchases of property, equipment, and other assets	36.9	65.6	17.4	44.7
Free cash flow (non-GAAP) ⁽¹⁾	264.1	352.2	136.7	\$ 169.6
Add: capital expenditures for new headquarters	0.3	33.7	0.3	31.1
Adjusted free cash flow (non-GAAP) ⁽¹⁾	<u>\$ 264.4</u>	<u>\$ 385.9</u>	<u>\$ 137.0</u>	<u>\$ 200.7</u>
Adjusted free cash flow margin (non-GAAP) ⁽¹⁾	<u>41.8%</u>	<u>47.0%</u>	<u>40.9%</u>	<u>47.5%</u>

(1) Due to our early adoption of new share-based payment accounting guidance in Q2'17, amounts prior to fiscal 2017 have been adjusted. In addition, amounts for 1H'17 reflect an adjustment for Q1'17. Refer to "Impact of early adoption of new accounting guidance" appendix slide for more information.

Note: Fiscal year ends July 31.

Impact of change in accounting policy for sales commissions

\$Mn, except per share amounts

Consolidated Statements of Operations – GAAP impact	FY'13	FY'14	FY'15	FY'16	1H'16	Q2'16
Operating loss	\$ 8.7	\$ 19.1	\$ 33.7	\$ 32.8	\$ 4.0	\$ 5.2
Provision for income taxes	-	-	-	(0.4)	-	-
Net loss	\$ 8.7	\$ 19.1	\$ 33.7	\$ 33.2	\$ 4.0	\$ 5.2
Net loss per share, diluted	\$ 0.13	\$ 0.26	\$ 0.41	\$ 0.38	\$ 0.05	\$ 0.06

Effective August 1, 2016 (Q1'17), we voluntarily changed our accounting policy for sales commissions. The table above presents the adjustments made to the financial statement line items affected by this accounting change for the historical periods included in this presentation.

Note: Fiscal year ends July 31.

Impact of early adoption of new accounting guidance

\$Mn, except per share amounts

Consolidated Statements of Cash Flows – GAAP impact	FY'13	FY'14	FY'15	FY'16	1H'16	Q2'16	Q1'17
Net cash provided by operating activities	\$ 6.8	\$ 1.0	\$ 2.5	\$ 0.5	\$ 0.5	\$ 0.3	\$ 0.2
Net cash provided by (used in) financing activities	\$ (6.8)	\$ (1.0)	\$ (2.5)	\$ (0.5)	\$ (0.5)	\$ (0.3)	\$ (0.2)

Non-GAAP Financial Measures	FY'13	FY'14	FY'15	FY'16	1H'16	Q2'16	Q1'17
Free cash flow (non-GAAP)	\$ 6.8	\$ 1.0	\$ 2.5	\$ 0.5	\$ 0.5	\$ 0.3	\$ 0.2
Free cash flow margin (non-GAAP)	1.7%	0.2%	0.3%	0.0%	0.1%	0.1%	0.1%
Adjusted free cash flow (non-GAAP)	\$ 6.8	\$ 1.0	\$ 2.5	\$ 0.5	\$ 0.5	\$ 0.3	\$ 0.2
Adjusted free cash flow margin (non-GAAP)	1.7%	0.2%	0.3%	0.0%	0.0%	0.1%	0.0%

Consolidated Statements of Operations – GAAP impact	Q1'17
Total gross profit	\$ 0.1
Operating loss	0.9
Net loss	\$ 4.9
Net loss per share, diluted	\$ 0.06
GAAP weighted-average shares used to compute net loss per share, diluted	-

In Q2'17, we elected to early adopt new share-based payment accounting guidance. The tables above present the adjustments made to the financial statement line items and non-GAAP financial measures affected by the adoption of the accounting guidance for the historical periods included in this presentation.

Note: Fiscal year ends July 31.

