Fiscal Third Quarter 2017 Investor Presentation

May 2017

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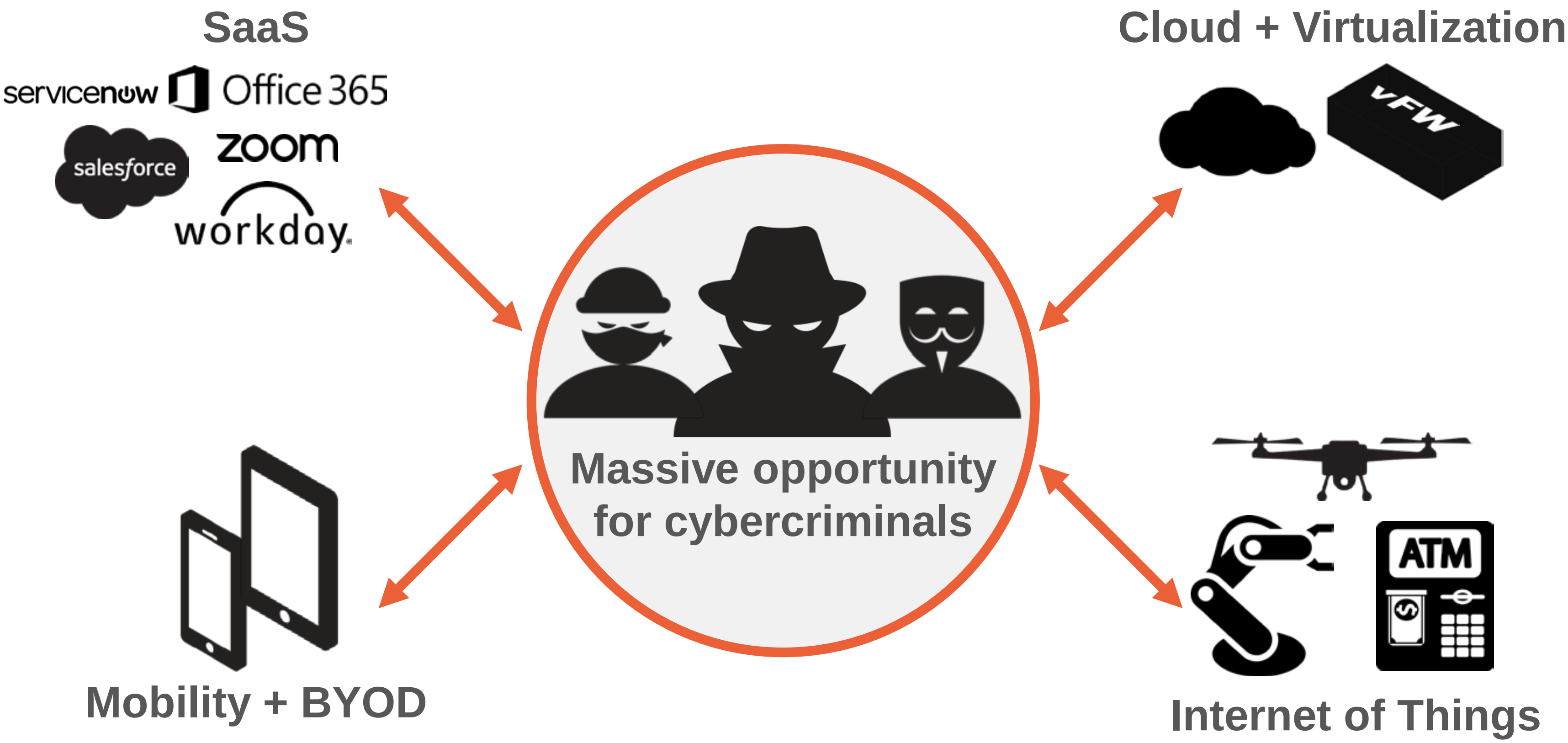
Safe harbor

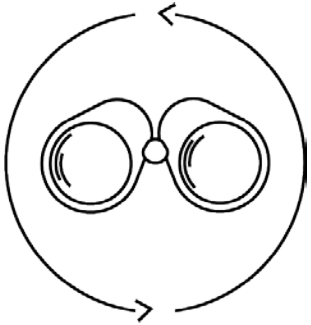
This presentation contains “forward-looking” statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act that are based on our management’s beliefs and assumptions and on information currently available to management. Such forward-looking statements include 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.

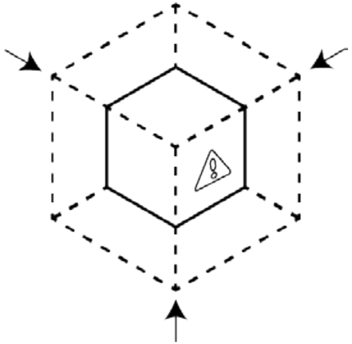
There are a significant number of factors that could cause actual results to differ materially from statements made in this presentation, including risks associated with new product and subscription releases, including the discovery of software bugs; our limited experience with new product and subscription 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 June 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.

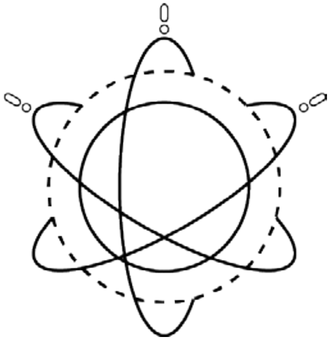
Tectonic shifts create the perfect storm



Preventing successful attacks







COMPLETE VISIBILITY

REDUCE ATTACK SURFACE

PREVENT KNOWN THREATS

PREVENT UNKNOWN THREATS

Prevention is possible with the real security platform

* We expect LightCyber will become available as a subscription service towards the end of CY17

TAM 2017 – 2020
The opportunity – large and growing

$19.1Bn

($14.7Bn network, $4.4Bn endpoint)

2017

7.9% CAGR

$24.0Bn

($18.8Bn network, $5.2Bn endpoint)

2020

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

Gartner "magic quadrant for enterprise network firewalls"

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

The power of the hybrid-SaaS model

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

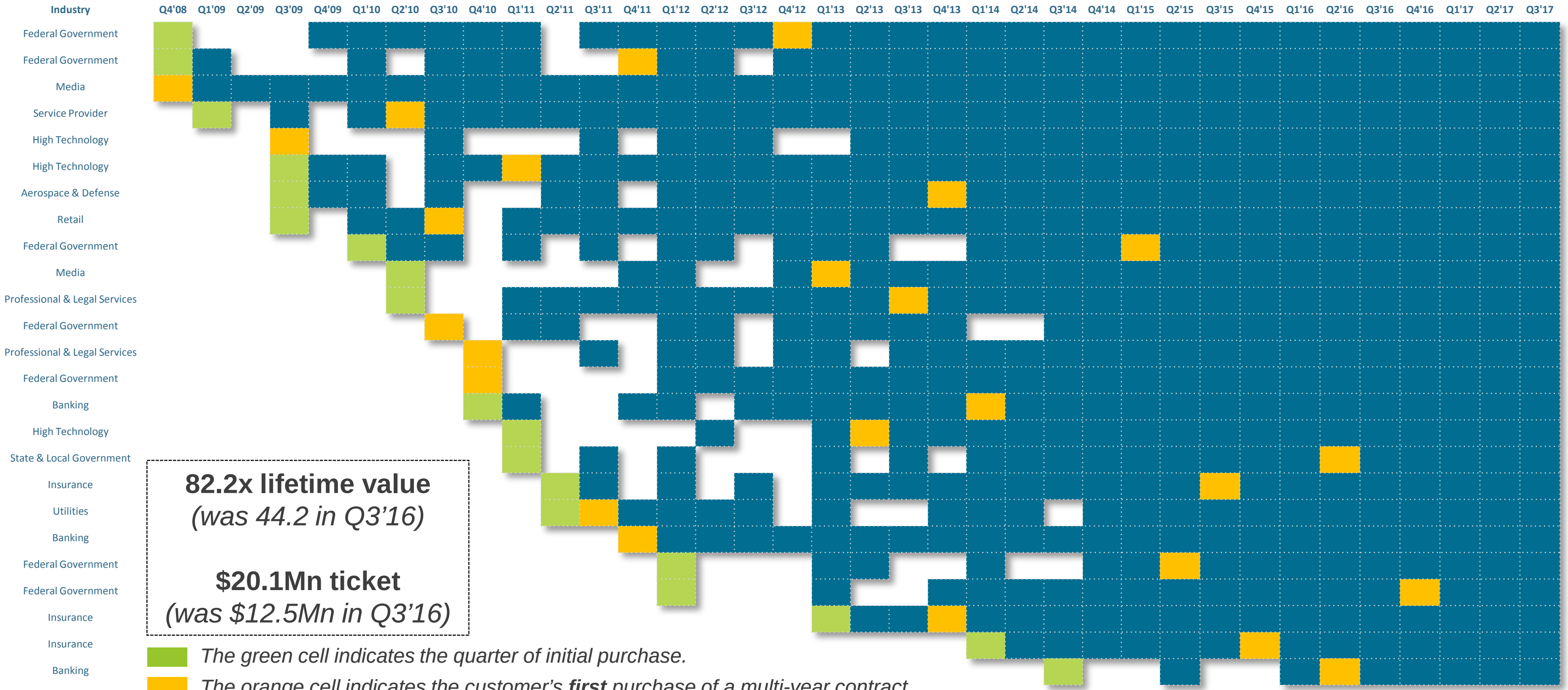
** The acquisition of LightCyber was completed on February 27, 2017. We expect LightCyber will become available as a subscription service towards the end of CY17*

Q3'17 financial highlights

	Q3'17	Q3'16	Y/Y change
Billings[(1)]	$544.1Mn	$486.2Mn	11.9%
Revenue	$431.8Mn	$345.8Mn	24.9%
Gross margin %[(2)]	76.4%	77.9%	-150 bps
Operating margin %[(2)]	18.4%	18.9%[(3)]	-50 bps
EPS[(2)]	$0.61	$0.46[(3)]	32.6%
Deferred revenue	$1.6Bn	$1.1Bn	50.8%
Free cash flow margin %[(2)(4)]	37.7%	43.7%[(5)]	-600 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 45.3% and 43.7% for Q3'17 and Q3'16, respectively, representing a year-over-year increase of 160bps. 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.

Top-25 customer buying behavior



82.2x lifetime value
(was 44.2 in Q3'16)

$20.1Mn ticket
(was $12.5Mn in Q3'16)

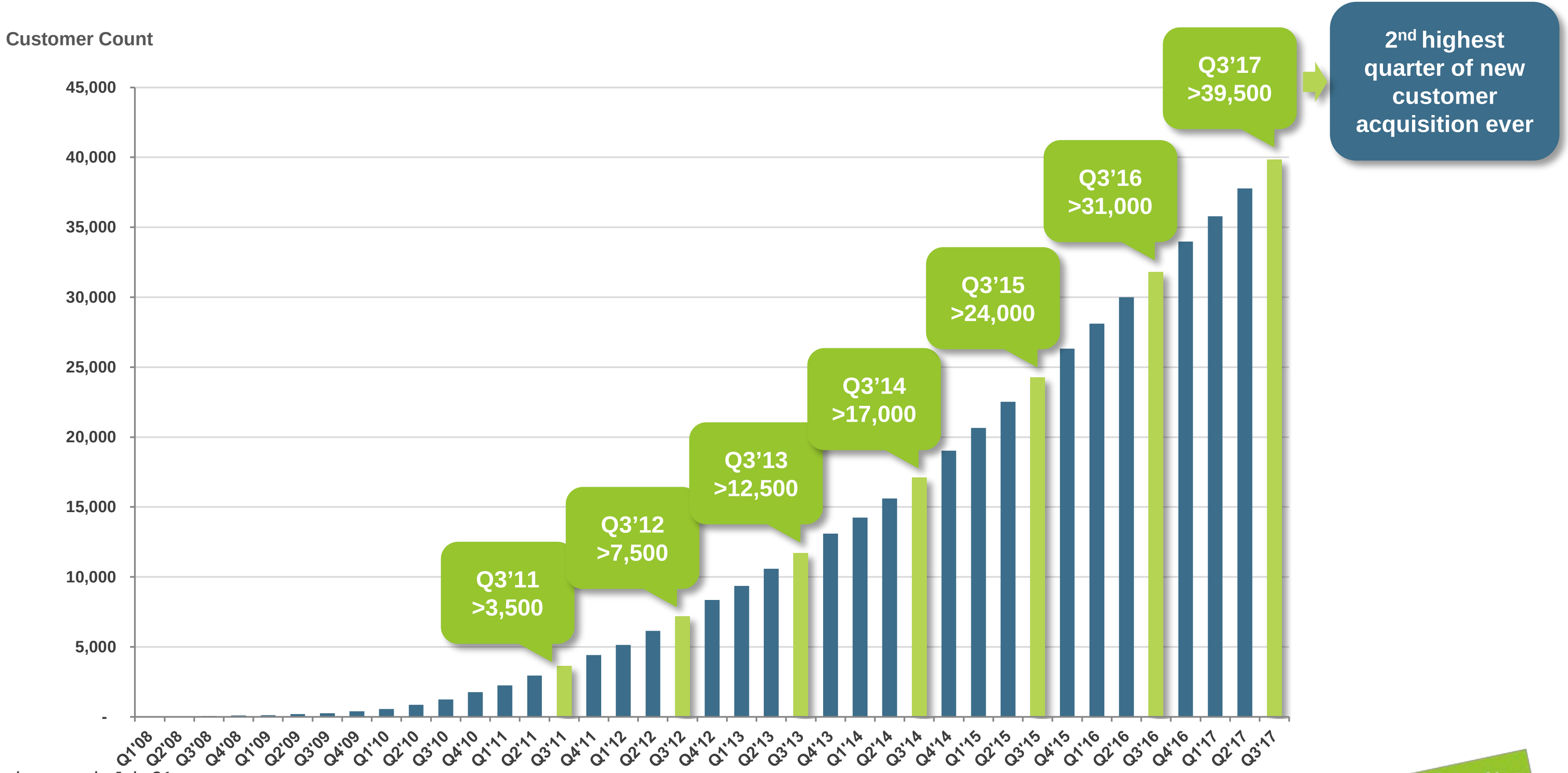
The green cell indicates the quarter of initial purchase.

*The orange cell indicates the customer's **first** purchase of a multi-year contract.*

The blue cell indicates each quarter a customer transacted with Palo Alto Networks.

Note: Fiscal year ends July 31.

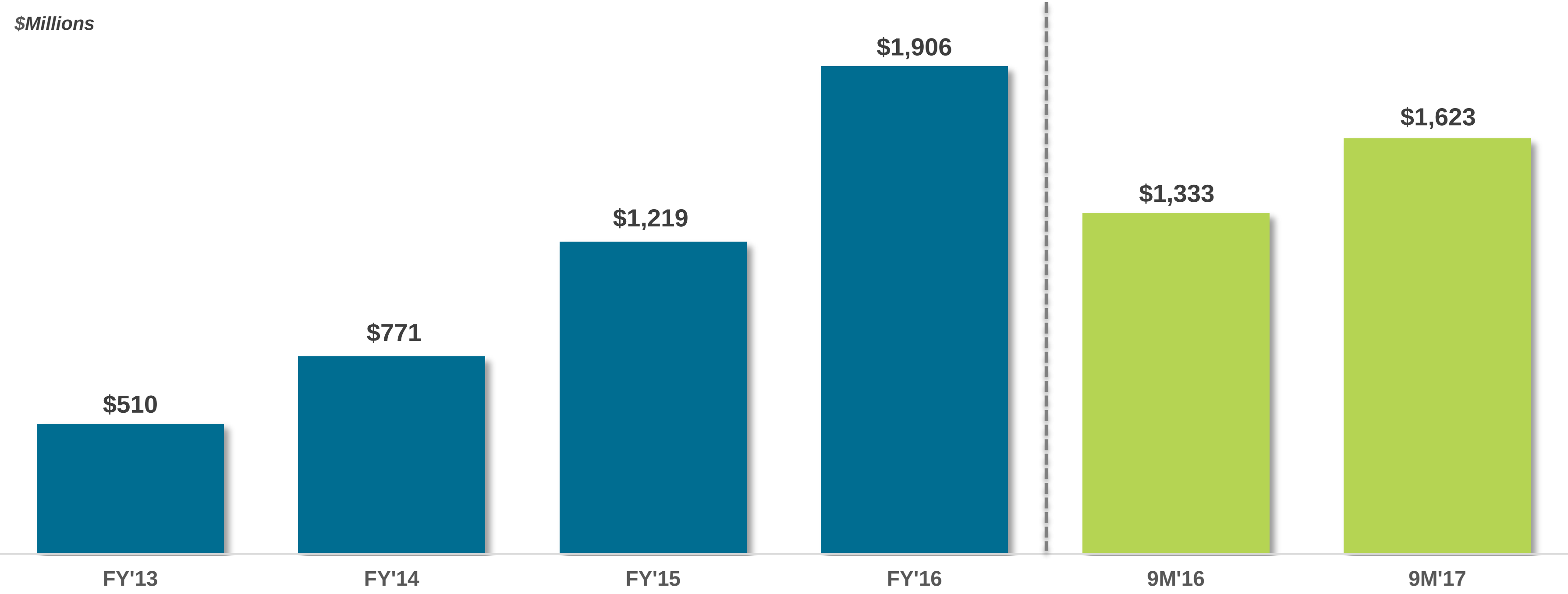
Continued strength of customer acquisition



Note: Fiscal year ends July 31.

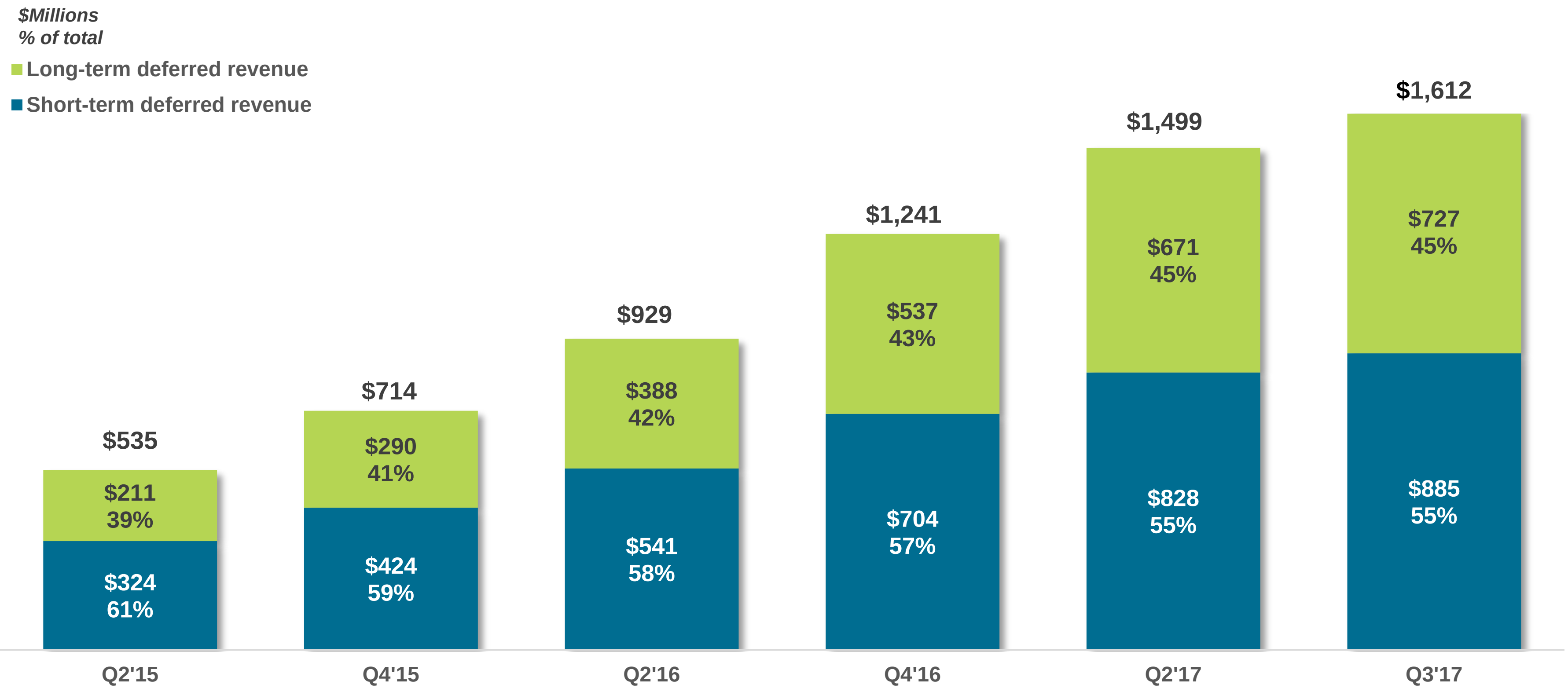
Billings momentum

Annual billings[(1)]



(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.

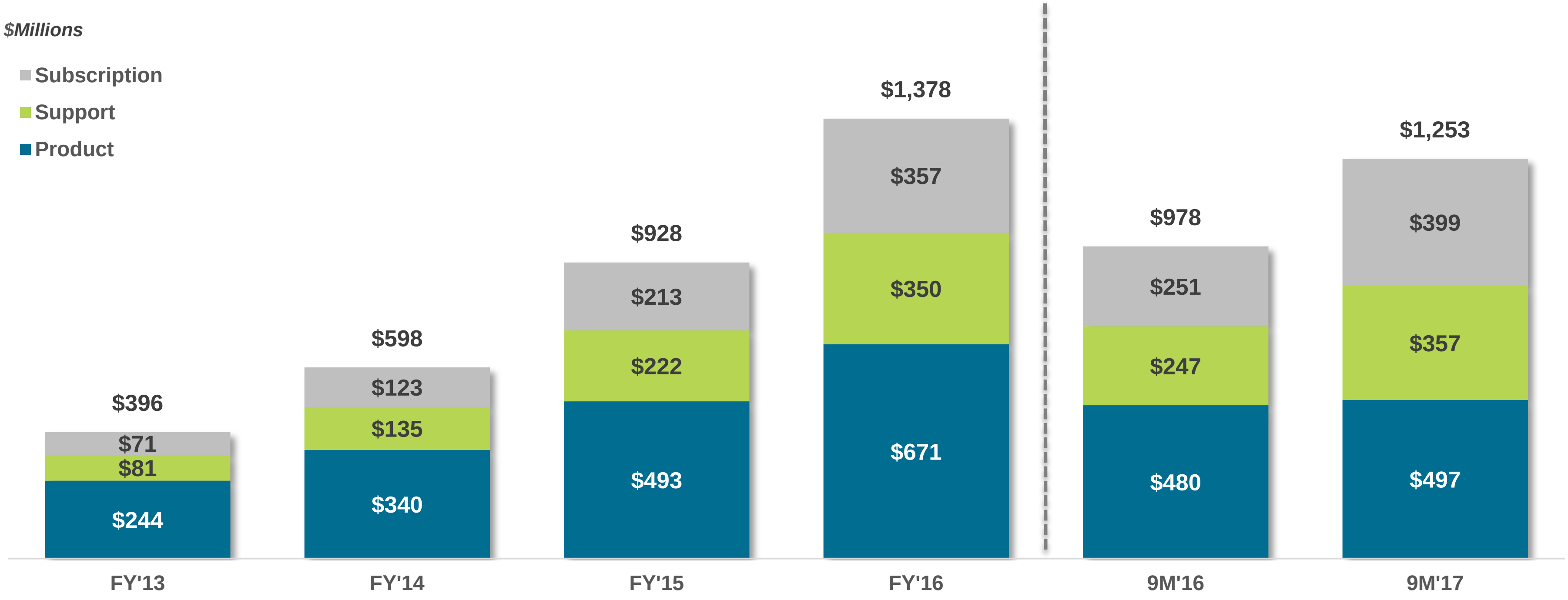
Growth in deferred revenue



Note: Fiscal year ends July 31.

Market leading revenue growth

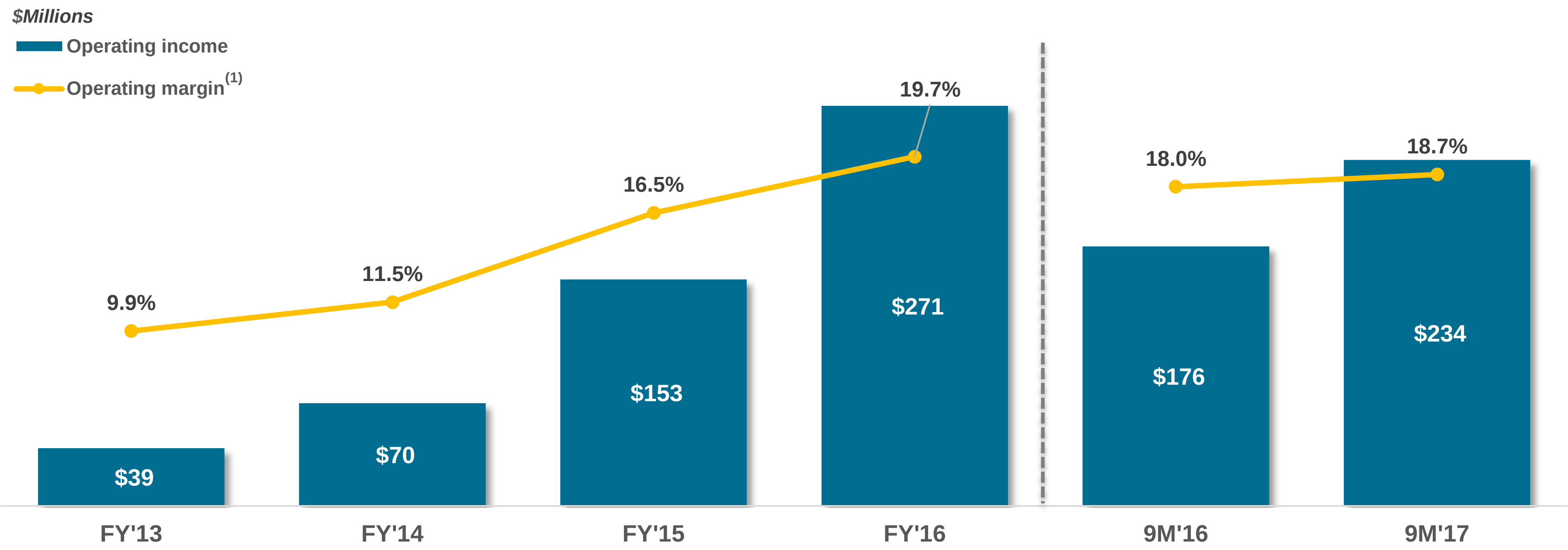
Annual revenue by type



Note: Fiscal year ends July 31.

Hybrid-SaaS model: expanding operating margins

Annual operating income[1]

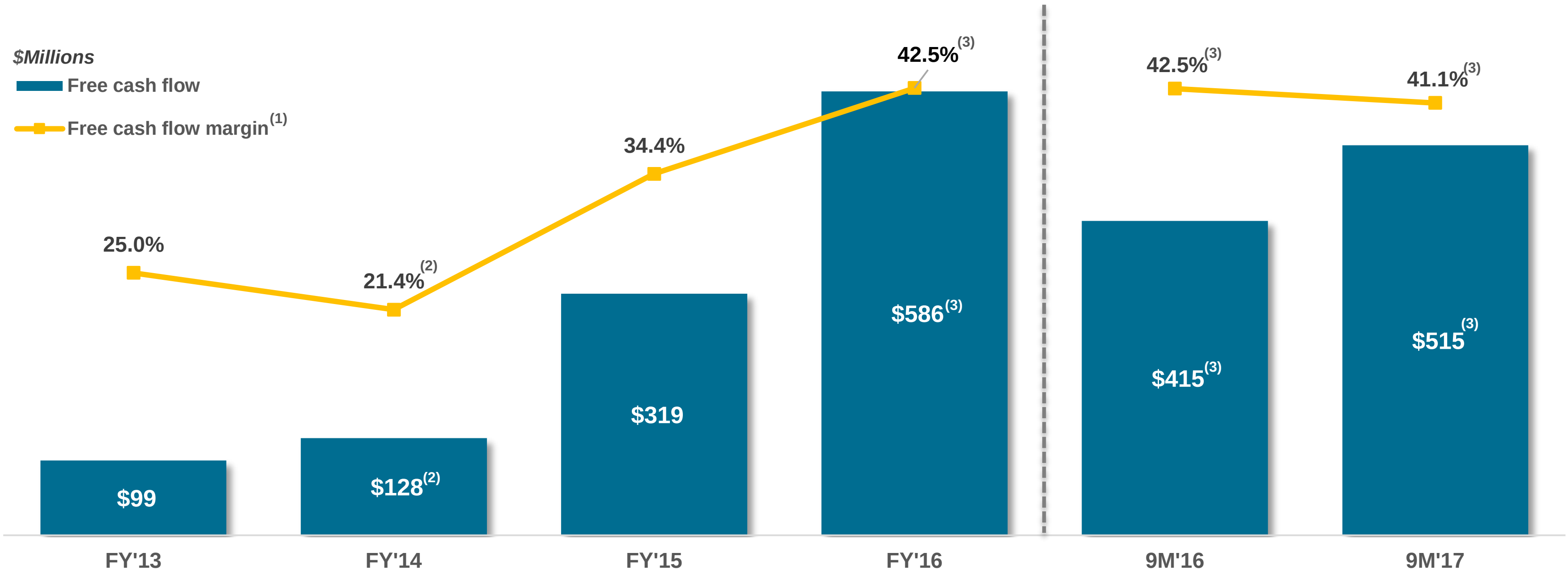


(1) *Non-GAAP financial measure, which also reflects our change in accounting policy for sales commissions. See appendix for a reconciliation to most comparable GAAP financial measure.*

Note: Fiscal year ends July 31.

Hybrid-SaaS model: strong free cash flow generation

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 $581 million, $416 million, and $587 million for 9M'17, 9M'16, and FY'16, respectively, and free cash flow margin would be 46.4%, 42.5%, and 42.6% for 9M'17, 9M'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	9M'16	9M'17	Q3'16	Q3'17
Total revenue	$ 396.1	$ 598.2	$ 928.1	$ 1,378.5	$ 977.7	$ 1,252.5	$ 345.8	$ 431.8
Add: change in total deferred revenue, net of acquired deferred revenue	113.4	173.2	291.0	527.1	355.5	370.1	140.4	112.3
Billings	$ 509.5	$ 771.4	$ 1,219.1	$ 1,905.6	$ 1,333.2	$ 1,622.6	$ 486.2	$ 544.1

Note: Fiscal year ends July 31.

GAAP to Non-GAAP reconciliations

$Mn

Non-GAAP gross profit and gross margin:	Q3'16			Q3'17		
	$		%	$		%
GAAP gross profit and gross margin	$	250.9	72.6%	$	308.1	71.4%
Share-based compensation related charges		13.6	3.9%		16.7	3.8%
Amortization expense of acquired intangible assets		1.9	0.5%		2.2	0.5%
Litigation related charges		3.1	0.9%		3.1	0.7%
Non-GAAP gross profit and gross margin	$	269.5	77.9%	$	330.1	76.4%

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	25.1%	407.5	29.6%
Acquisition related costs	-	-	7.8	1.3%	0.7	0.1%	-	-
Amortization expense of acquired intangible assets	-	-	2.1	0.4%	7.0	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:	9M’16		9M’17(2)		Q3'16		Q3'17	
	$	%	$	%	$	%	$	%
GAAP operating loss and operating margin(1)	$ (134.6)	(13.8)%	$ (152.5)	(12.2)%	$ (52.5)	(15.2)%	$ (49.1)	(11.4)%
Share-based compensation related charges	294.8	30.3%	368.0	29.5%	112.7	32.6%	120.6	28.0%
Acquisition related costs	-	-	3.1	0.2%	-	-	2.4	0.6%
Amortization expense of acquired intangible assets	6.3	0.6%	6.4	0.5%	2.1	0.6%	2.3	0.5%
Litigation related charges	9.2	0.9%	9.2	0.7%	3.1	0.9%	3.1	0.7%
Non-GAAP operating income and operating margin	$ 175.7	18.0%	$ 234.2	18.7%	$ 65.4	18.9%	$ 79.3	18.4%

(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 9M’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:		Q3'16		Q3'17
GAAP net income (loss) per share, diluted[1]	$	(0.73)	$	(0.67)
Share-based compensation related charges		1.27		1.30
Acquisition related costs		-		0.03
Amortization expense of acquired intangible assets		0.02		0.03
Litigation related charges		0.03		0.03
Non-cash interest expense related to convertible notes		0.07		0.07
Foreign currency loss associated with non-GAAP adjustments		0.02		0.02
Income tax and other tax adjustments related to the above[2]		(0.22)		(0.20)
Non-GAAP net income per share, diluted	$	0.46	$	0.61

(1) Effective Q1'17, we changed our accounting policy for sales commissions, which impacted our GAAP financial statements. As a result, amount for Q3'16 has been adjusted to reflect the change. Refer to "Impact of change in accounting policy for sales commissions" appendix slide for more information.

(2) Amount for Q3'16 has 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.

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
Free cash flow margin (non-GAAP)[1]	*25.0%*	*8.9%*	*34.4%*	*42.5%*
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
Adjusted free cash flow margin (non-GAAP)[1]	*25.0%*	*21.4%*	*34.4%*	*42.6%*

(1) Amounts 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):	9M'16	9M'17	Q3'16	Q3'17
Net cash provided by operating activities[(1)]	$ 471.3	$ 629.0	$ 170.3	$ 211.2
Less: purchases of property, equipment, and other assets	56.2	114.2	19.3	48.6
Free cash flow (non-GAAP)[(1)]	$ 415.1	$ 514.8	$ 151.0	$ 162.6
Free cash flow margin (non-GAAP)[(1)]	*42.5%*	*41.1%*	*43.7%*	*37.7%*
Net cash used in investing activities	$ (339.3)	$ (411.1)	$ (54.6)	$ (166.8)
Net cash provided by (used in) financing activities[(1)]	$ 42.2	$ (260.3)	$ 21.1	$ (113.8)

Adjusted free cash flow (non-GAAP):	9M'16	9M'17	Q3'16	Q3'17
Net cash provided by operating activities[(1)]	$ 471.3	$ 629.0	$ 170.3	$ 211.2
Less: purchases of property, equipment, and other assets	56.2	114.2	19.3	48.6
Free cash flow (non-GAAP)[(1)]	415.1	514.8	151.0	162.6
Add: capital expenditures for new headquarters	0.5	66.5	0.2	32.8
Adjusted free cash flow (non-GAAP)[(1)]	$ 415.6	$ 581.3	$ 151.2	$ 195.4
Adjusted free cash flow margin (non-GAAP)[(1)]	*42.5%*	*46.4%*	*43.7%*	*45.3%*

(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 9M'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	9M'16	Q3'16
Operating loss	$ 8.7	$ 19.1	$ 33.7	$ 32.8	$ 10.1	$ 6.1
Provision for income taxes	-	-	-	(0.4)	-	-
Net loss	$ 8.7	$ 19.1	$ 33.7	$ 33.2	$ 10.1	$ 6.1
Net loss per share, diluted	$ 0.13	$ 0.26	$ 0.41	$ 0.38	$ 0.12	$ 0.07

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	9M'16	Q3'16	Q1'17
Net cash provided by operating activities	$ 6.8	$ 1.0	$ 2.5	$ 0.5	$ 0.7	$ 0.2	$ 0.2
Net cash provided by (used in) financing activities	$ (6.8)	$ (1.0)	$ (2.5)	$ (0.5)	$ (0.7)	$ (0.2)	$ (0.2)

Non-GAAP Financial Measures	FY'13	FY'14	FY'15	FY'16	9M'16	Q3'16	Q1'17
Free cash flow (non-GAAP)	$ 6.8	$ 1.0	$ 2.5	$ 0.5	$ 0.7	$ 0.2	$ 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	$ 0.7	$ 0.2	$ 0.2
Adjusted free cash flow margin (non-GAAP)	*1.7%*	*0.2%*	*0.3%*	*0.0%*	*0.1%*	*0.0%*	*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.

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