Zscaler Reports First Quarter Fiscal 2023 Financial Results

December 1, 2022

First Quarter Highlights

- *Revenue grows 54% year-over-year to $355.5 million*
- *Calculated billings grows 37% year-over-year to $340.1 million*
- *Deferred revenue grows 55% year-over-year to $1,005.7 million*
- *GAAP net loss of $68.2 million compared to GAAP net loss of $90.8 million on a year-over-year basis*
- *Non-GAAP net income of $44.0 million compared to non-GAAP net income of $21.0 million on a year-over-year basis*

SAN JOSE, Calif., Dec. 01, 2022 (GLOBE NEWSWIRE) -- Zscaler, Inc. (Nasdaq: ZS), the leader in cloud security, today announced financial results for its first quarter of fiscal year 2023, ended October 31, 2022.

"We delivered strong top line growth with improved operating profitability and increased free cash flow, once again performing at the Rule-of-80. We are seeing customers committing to our broader platform, driven by vendor consolidation and an elevated threat environment," said Jay Chaudhry, Chairman and CEO of Zscaler. "Customers are engaging with us to embrace zero trust architecture, eliminate point products, simplify IT and standardize on the Zscaler platform, all of which delivers better security and lower cost."

First Quarter Fiscal 2023 Financial Highlights

- **Revenue:** $355.5 million, an increase of 54% year-over-year.
- **Income (loss) from operations:** GAAP loss from operations was $69.1 million, or 19% of total revenue, compared to $74.4 million, or 32% of total revenue, in the first quarter of fiscal 2022. Non-GAAP income from operations was $42.1 million, or 12% of total revenue, compared to $23.9 million, or 10% of total revenue, in the first quarter of fiscal 2022.
- **Net income (loss):** GAAP net loss was $68.2 million, compared to $90.8 million in the first quarter of fiscal 2022. Non-GAAP net income was $44.0 million, compared to $21.0 million in the first quarter of fiscal 2022.
- **Net income (loss) per share:** GAAP net loss per share was $0.48, compared to $0.65 in the first quarter of fiscal 2022. Non-GAAP net income per share was $0.29, compared to $0.14 in the first quarter of fiscal 2022.
- **Cash flow:** Cash provided by operations was $128.5 million, or 36% of revenue, compared to $93.3 million, or 40% of revenue, in the first quarter of fiscal 2022. Free cash flow was $95.6 million, or 27% of revenue, compared to $83.4 million, or 36% of revenue, in the first quarter of fiscal 2022.
- **Deferred revenue:** $1,005.7 million as of October 31, 2022, an increase of 55% year-over-year.
- **Cash, cash equivalents and short-term investments:** $1,824.8 million as of October 31, 2022, an increase of $93.5 million from July 31, 2022.

Recent Business Highlights

- Announced that Zscaler Internet Access™ achieved Federal Risk and Authorization Management Program (FedRAMP) High Authority to Operate from the FedRAMP Joint Authorization Board (JAB). Zscaler Internet Access is currently the only Secure Access Service Edge (SASE) Trusted Internet Connections (TIC) 3.0 solution that has achieved FedRAMP's highest authorization to meet civilian agencies' high security requirements, the Department of Defense (DoD), and other related intelligence organizations

- Released the findings of its annual VPN Risk Report, which shows a growing number of VPN-specific security threats and a need for Zero Trust security architecture in enterprise-level organizations. Despite high awareness of VPN risks, remote working forced many companies to rely more heavily on legacy access methods during the pandemic. As a result, cybercriminals continue to take advantage of security vulnerabilities and increased attacks on enterprises using VPNs.

- Announced the acquisition of ShiftRight, a leader in closed loop security workflow automation. ShiftRight's workflow automation technology is currently being integrated into the Zscaler platform to automate security management for the

growing influx of risks and incidents organizations are experiencing. It will provide a simple, sophisticated solution to reduce incident resolution time dramatically.

- Introduced new data protection innovations that build upon a rich heritage of securing data across all cloud apps for data in motion, data at rest, and BYOD assets with unprecedented accuracy and scale. The new advancements accelerate data protection programs from months to hours with zero configuration for data loss prevention (DLP) and mitigates security risks by unifying data protection across all channels—simplifying operations by automating workflows.

Recently Issued Accounting Pronouncements

Effective August 1, 2022, the beginning of our fiscal year ending July 31, 2023, we adopted Accounting Standards Update No. 2020-06, Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40), using the modified retrospective transition method. The adoption of this standard resulted in the elimination of the debt discount and related amortization as interest expense and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of our senior convertible debt, which will be amortized as interest expense. Additionally, ASU 2020-06 amended the calculation of diluted earnings per share for certain convertible debt instruments, eliminating the treasury stock method and requiring the use of the if-converted method to compute the underlying potentially diluted shares. Accordingly, to account for the potentially diluted shares related to our senior convertible notes, we are required to add back the non-GAAP interest expense to our non-GAAP net income and include approximately 7.63 million shares related to our senior convertible notes beginning in our first quarter of fiscal year 2023.

Financial Outlook

For the second quarter of fiscal 2023, we expect:

- Total revenue of $364 million to $366 million
- Non-GAAP income from operations of $42 million to $43 million
- Non-GAAP net income per share of approximately $0.29 to $0.30, assuming approximately 156 million common shares outstanding using the "if-converted" method for our senior convertible notes

For the full year fiscal 2023, we expect:

- Total revenue of approximately $1.525 billion to $1.530 billion
- Calculated billings of $1.930 billion to $1.940 billion. First half mix of billings to be approximately 43% of full-year
- Non-GAAP income from operations of $179 million to $183 million
- Non-GAAP net income per share of $1.23 to $1.25, assuming approximately 157 million common shares outstanding using the "if-converted" method for our senior convertible notes

These statements are forward-looking and actual results may differ materially. Refer to the Forward-Looking Statements safe harbor below for information on the factors that could cause our actual results to differ materially from these forward-looking statements.

Guidance for non-GAAP income from operations excludes stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, amortization of debt discount and issuance costs. As a result of the adoption of ASU 2020-06 on August 1, 2022, guidance for non-GAAP net income per share uses the if-converted method to calculate the potentially diluted shares related to the convertible senior notes. Accordingly, we are required to add back the non-GAAP interest expense to our non-GAAP net income and include approximately 7.63 million shares related to our senior convertible notes. Additionally, we include the anti-dilutive impact of the capped call transactions entered into in connection with the convertible senior notes. We have not reconciled our expectations to non-GAAP income from operations and non-GAAP net income per share to their most directly comparable GAAP measures because certain items are out of our control or cannot be reasonably predicted. Accordingly, a reconciliation for the guidance for non-GAAP income from operations and non-GAAP net income per share is not available without unreasonable effort.

Conference Call and Webcast Information

Zscaler will host a conference call for analysts and investors to discuss its first quarter fiscal 2023 and outlook for its second quarter of fiscal 2023 and full year fiscal 2023 today at 1:30 p.m. Pacific time (4:30 p.m. Eastern time).

Date: Thursday, December 1, 2022
Time: 1:30 p.m. PT
Webcast: https://ir.zscaler.com
Dial-in: To join by phone, register at the following link (https://register.vevent.com/register/BI9b4b8cd8fd434135a0efc391d5d57450). After registering, you will be provided with a dial-in number and personal PIN required to join the call.

Upcoming Conferences

Second quarter of fiscal 2023 investor conference participation schedule:

- UBS Global TMT Conference
  Monday, December 5, 2022
- NASDAQ Investor Conference in London
  Tuesday, December 6, 2022
- Needham Growth Conference
  Thursday, January 12, 2023

Sessions which offer a webcast will be available on the Investor Relations section of the Zscaler website at https://ir.zscaler.com.

Forward-Looking Statements

This press release contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our future financial and operating performance, including our financial outlook for the second quarter of fiscal 2023 and full year fiscal 2023. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including but not limited to: macroeconomic factors such as the duration and global impact of COVID-19, effects of inflation and international conflicts like the Russia-Ukraine crisis on our business, operations and financial results and the economy in general; our limited operating history; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new product and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial results are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth from time to time in our filings and reports with the Security Exchange Commission (SEC), including our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 filed on September 15, 2022, as well as future filings and reports by us, copies of which are available on our website at ir.zscaler.com and on the SEC’s website at www.sec.gov. You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. 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 press release 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.

Use of Non-GAAP Financial Information

We believe that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. For further information regarding why we believe that these non-GAAP measures provide useful information to investors, the specific manner in which management uses these measures, and some of the limitations associated with the use of these measures, please refer to the “Explanation of Non-GAAP Financial Measures" section of this press release.

About Zscaler

Zscaler (Nasdaq: ZS) accelerates digital transformation so customers can be more agile, efficient, resilient, and secure. The Zscaler Zero Trust Exchange protects thousands of customers from cyberattacks and data loss by securely connecting users, devices, and applications in any location. Distributed across more than 150 data centers globally, the SSE-based Zero Trust Exchange is the world’s largest in-line cloud security platform.

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ZSCALER, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended October 31,

	2022	2021
Revenue	$ 355,548	$ 230,517
Cost of revenue [1] [2]	76,697	52,169
Gross profit	278,851	178,348
Operating expenses:		
Sales and marketing [1] [2]	228,836	153,786
Research and development [1] [2]	74,946	65,216
General and administrative [1]	44,156	33,717
Total operating expenses	347,938	252,719
Loss from operations	(69,087)	(74,371)
Interest income	7,865	473
Interest expense [3] [4]	(1,331)	(13,835)
Other expense, net	(863)	(589)
Loss before income taxes	(63,416)	(88,322)
Provision for income taxes	4,746	2,479
Net loss	$ (68,162)	$ (90,801)
Net loss per share, basic and diluted	$ (0.48)	$ (0.65)
Weighted-average shares used in computing net loss per share, basic and diluted	143,476	139,296

[1] Includes stock-based compensation expense and related payroll taxes as follows:

Cost of revenue	$ 8,661	$ 5,319
Sales and marketing	55,469	43,464
Research and development	25,233	28,570
General and administrative	19,273	18,741
Total	$ 108,636	$ 96,094

[2] Includes amortization expense of acquired intangible assets as follows:

Cost of revenue	$ 1,939	$ 2,056
Sales and marketing	178	170
Research and development	435	—
Total	$ 2,552	$ 2,226

[3] Includes amortization of debt discount and issuance costs as follows [4]:	$ 972	$ 13,476

[4] Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. The adoption of this standard resulted in the elimination of the debt discount and related amortization as interest expense and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of the senior convertible notes, which will be amortized as interest expense.

ZSCALER, INC.
Condensed Consolidated Balance Sheets
(in thousands)
(unaudited)

	October 31, 2022	July 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 1,084,945	$ 1,013,210
Short-term investments	739,845	718,129
Accounts receivable, net	268,718	399,745
Deferred contract acquisition costs	90,004	86,210
Prepaid expenses and other current assets	49,849	39,353
Total current assets	2,233,361	2,256,647
Property and equipment, net	183,425	160,633
Operating lease right-of-use assets	76,199	72,357
Deferred contract acquisition costs, noncurrent	211,468	210,792
Acquired intangible assets, net	29,267	31,819

Goodwill	78,547	78,547
Other noncurrent assets	23,465	21,870
Total assets	$ 2,835,732	$ 2,832,665
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 29,717	$ 26,154
Accrued expenses and other current liabilities	60,229	46,496
Accrued compensation	79,587	111,948
Deferred revenue	913,104	923,749
Operating lease liabilities	28,646	26,100
Total current liabilities	1,111,283	1,134,447
Convertible senior notes, net [1]	1,139,542	968,674
Deferred revenue, noncurrent	92,609	97,374
Operating lease liabilities, noncurrent	51,065	50,948
Other noncurrent liabilities	9,958	7,922
Total liabilities	2,404,457	2,259,365
Stockholders' Equity		
Common stock	144	143
Additional paid-in capital	1,425,156	1,590,885
Accumulated other comprehensive loss	(37,824)	(25,850)
Accumulated deficit	(956,201)	(991,878)
Total stockholders' equity	431,275	573,300
Total liabilities and stockholders' equity	$ 2,835,732	$ 2,832,665

[1] Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. The adoption of this standard resulted in the elimination of the debt discount and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of our senior convertible debt, which will be recognized as interest expense.

ZSCALER, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended October 31,	
	2022	**2021**
Cash Flows from Operating Activities		
Net loss	$ (68,162)	$ (90,801)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization expense	11,876	9,017
Amortization expense of acquired intangible assets	2,552	2,226
Amortization of deferred contract acquisition costs	22,325	14,912
Amortization of debt discount and issuance costs [1]	972	13,476
Non-cash operating lease costs	7,108	6,031
Stock-based compensation expense	105,173	89,903
Amortization (accretion) of investments purchased at a premium (discount)	(165)	2,671
Deferred income taxes	65	(223)
Other	248	(13)
Changes in operating assets and liabilities		
Accounts receivable	130,636	84,927
Deferred contract acquisition costs	(26,795)	(23,985)
Prepaid expenses, other current and noncurrent assets	(7,579)	(4,126)
Accounts payable	3,000	(1,088)
Accrued expenses, other current and noncurrent liabilities	3,627	(192)
Accrued compensation	(32,797)	(20,955)
Deferred revenue	(15,340)	17,381
Operating lease liabilities	(8,287)	(5,890)
Net cash provided by operating activities	128,457	93,271
Cash Flows from Investing Activities		
Purchases of property, equipment and other assets	(25,202)	(6,454)

Capitalized internal-use software	(7,641)	(3,450)
Strategic investments	(700)	—
Purchases of short-term investments	(210,255)	(312,840)
Proceeds from maturities of short-term investments	186,096	322,677
Net cash used in investing activities	(57,702)	(67)
Cash Flows from Financing Activities		
Proceeds from issuance of common stock upon exercise of stock options	982	2,644
Payment of deferred consideration related to business acquisitions	—	(50)
Other	(2)	—
Net cash provided by financing activities	980	2,594
Net increase in cash and cash equivalents [2]	71,735	95,798
Cash and cash equivalents at beginning of period [2]	1,013,210	275,898
Cash and cash equivalents at end of period [2]	$ 1,084,945	$ 371,696

[1] Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. The adoption of this standard resulted in the elimination of the debt discount and related amortization as interest expense and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of the senior convertible notes, which will be amortized as interest expense.

[2] We did not hold restricted cash for any periods presented.

ZSCALER, INC.
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except percentages)
(unaudited)

	Three Months Ended October 31,	
	2022	**2021**
Revenue	$ 355,548	$ 230,517
Non-GAAP Gross Profit and Non-GAAP Gross Margin		
GAAP gross profit	$ 278,851	$ 178,348
Add: Stock-based compensation expense and related payroll taxes	8,661	5,319
Add: Amortization expense of acquired intangible assets	1,939	2,056
Non-GAAP gross profit	$ 289,451	$ 185,723
GAAP gross margin	78%	77%
Non-GAAP gross margin	81%	81%
Non-GAAP Income from Operations and Non-GAAP Operating Margin		
GAAP loss from operations	$ (69,087)	$ (74,371)
Add: Stock-based compensation expense and related payroll taxes	108,636	96,094
Add: Amortization expense of acquired intangible assets	2,552	2,226
Non-GAAP income from operations	$ 42,101	$ 23,949
GAAP operating margin	(19)%	(32)%
Non-GAAP operating margin	12%	10%

ZSCALER, INC.
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended October 31,	
	2022	**2021**
Non-GAAP Net Income per Share, Diluted		

GAAP net loss	$	(68,162)	$	(90,801)
Stock-based compensation expense and related payroll taxes		108,636		96,094
Amortization expense of acquired intangible assets		2,552		2,226
Amortization of debt discount and issuance costs [1]		972		13,476
Benefit for income taxes [2]		—		—
Non-GAAP net income	$	43,998	$	20,995
Add: Non-GAAP interest expense [1]		359		—
Numerator used in computing non-GAAP net income per share, diluted	$	44,357	$	20,995
GAAP net loss per share, diluted	$	(0.48)	$	(0.65)
Stock-based compensation expense and related payroll taxes		0.70		0.65
Amortization expense of acquired intangible assets		0.02		0.02
Amortization of debt discount and issuance costs		0.01		0.09
Benefit for income taxes [2]		—		—
Non-GAAP interest expense [1]		—		—
Adjustment to total fully diluted earnings per share [3]		0.04		0.03
Non-GAAP net income per share, diluted [1]	$	0.29	$	0.14
Weighted-average shares used in computing GAAP net loss per share, diluted		143,476		139,296
Add: Outstanding equity incentive awards		3,689		7,559
Add: Senior convertible notes [1]		7,626		3,385
Less: Antidilutive impact of capped call transactions [4]		(588)		(2,699)
Weighted-average shares used in computing non-GAAP net income per share, diluted [1]		154,203		147,541

[1] Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. The adoption of this standard resulted in the elimination of the debt discount and related amortization as interest expense and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of the senior convertible notes, which will be amortized as interest expense. Additionally, this standard amended the calculation of diluted earnings per share for certain convertible debt instruments, eliminating the treasury stock method and requiring the use of the if-converted method to compute the underlying potentially diluted shares. Accordingly, to account for the potentially diluted shares related to the senior convertible notes, we are required to add back the non-GAAP interest expense to our non-GAAP net income and include approximately 7.63 million shares related to the senior convertible notes beginning in our first quarter of fiscal year 2023.

[2] We use our GAAP provision for income taxes for purposes of determining our non-GAAP income tax expense. The difference between our GAAP and non-GAAP income tax expense represents the effects of stock-based compensation expense recognized in foreign jurisdictions. The income tax benefit related to stock-based compensation expense included in the GAAP provision for income taxes was not material for all periods presented.

[3] The sum of the fully diluted earnings per share impact of individual reconciling items may not total to fully diluted non-GAAP net income per share due to the weighted-average shares used in computing the GAAP net loss per share differing from the weighted-average shares used in computing the non-GAAP net income per share and due to rounding of the individual reconciling items. The GAAP net loss per share calculation uses a lower share count as it excludes potentially dilutive shares, which are included in calculating the non-GAAP net income per share.

[4] We exclude the in-the-money portion of the convertible senior notes for non-GAAP weighted-average diluted shares as they are covered by our capped call transactions. Our outstanding capped call transactions are antidilutive under GAAP, but are expected to mitigate the dilutive effect of the convertible notes and therefore are included in the calculation of non-GAAP diluted shares outstanding.

ZSCALER, INC.

Reconciliation of GAAP to Non-GAAP Financial Measures

(in thousands, except percentages)

(unaudited)

	Three Months Ended October 31,			
		2022		**2021**
Calculated billings				
Revenue	$	355,548	$	230,517
Add: Total deferred revenue, end of period		1,005,713		647,816
Less: Total deferred revenue, beginning of period		(1,021,123)		(630,601)
Calculated billings	$	340,138	$	247,732

Free cash flow				
Net cash provided by operating activities	$	128,457	$	93,271
Less: Purchases of property, equipment and other assets		(25,202)		(6,454)
Less: Capitalized internal-use software		(7,641)		(3,450)
Free cash flow	$	95,614	$	83,367
Free cash flow margin				
Net cash provided by operating activities, as a percentage of revenue		36%		40%
Less: Purchases of property, equipment and other assets, as a percentage of revenue		(7)%		(3)%
Less: Capitalized internal-use software, as a percentage of revenue		(2)%		(1)%
Free cash flow margin		27%		36%

ZSCALER, INC.
Explanation of Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States of America (GAAP), we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In particular, free cash flow is not a substitute for cash provided by operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation of our historical non-GAAP financial measures to their most directly comparable financial measures stated in accordance with GAAP has been included in this press release. Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. Investors are encouraged to review these reconciliations, and not to rely on any single financial measure to evaluate our business.

Expenses Excluded from Non-GAAP Measures

Stock-based compensation expense is excluded primarily because it is a non-cash expense that management believes is not reflective of our ongoing operational performance. Employer payroll taxes related to stock-based compensation, which is a cash expense, are excluded because these are tied to the timing and size of the exercise or vesting of the underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. Amortization expense of intangible assets acquired in business acquisitions and related income tax effects, if applicable, are excluded because these are considered by management to be outside of our core business operating performance. Amortization of debt discount and issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. We estimate the tax effect of these items on our non-GAAP results and may adjust our GAAP provision for income taxes, if such effects have a material impact to our non-GAAP results.

Non-GAAP Financial Measures

Non-GAAP Gross Profit and Non-GAAP Gross Margin. We define non-GAAP gross profit as GAAP gross profit excluding stock-based compensation expense and related employer payroll taxes and amortization expense of acquired intangible assets. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

Non-GAAP Income from Operations and Non-GAAP Operating Margin. We define non-GAAP income from operations as GAAP loss from operations excluding stock-based compensation expense and related employer payroll taxes and amortization expense of acquired intangible assets. We define non-GAAP operating margin as non-GAAP income from operations as a percentage of revenue.

Non-GAAP Net Income per Share, Diluted. We define non-GAAP net income as GAAP net loss excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, amortization of debt discount and issuance costs, and income tax effects generated by the effects of stock-based compensation expense recognized in foreign jurisdictions. We define non-GAAP net income per share, diluted, as non-GAAP net income plus the non-GAAP interest expense divided by the weighted-average diluted shares outstanding, which includes the effect of potentially diluted common stock equivalents outstanding during the period and the anti-dilutive impact of the capped call transactions entered into in connection with the convertible senior notes.

Calculated Billings. We define calculated billings as total revenue plus the change in deferred revenue in a period. Calculated billings in any particular period aims to reflect amounts invoiced for subscriptions to access our cloud platform, together with related support services for our new and existing customers. We typically invoice our customers annually in advance, and to a lesser extent quarterly in advance, monthly in advance or multi-year in advance.

Free Cash Flow and Free Cash Flow Margin. We define free cash flow as net cash provided by operating activities less purchases of property, equipment and other assets and capitalized internal-use software. We define free cash flow margin as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our operations that, after the investments in property, equipment and other assets and capitalized internal-use software, can be used for strategic initiatives.