

ZSCALER, INC.
Supplemental Financial Information
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, as it 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 Supplemental Financial Information. There is no GAAP measure that is comparable to ARR, so we have not reconciled the ARR data included to any GAAP measure. 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 incentive 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 acquired intangible assets and amortization of debt issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. Acquisition-related expenses incurred with business acquisitions are excluded because these are not reflective of our ongoing operational performance. Restructuring and other charges includes severance and termination benefits in connection with a restructuring plan to streamline operations and to align people, roles and projects to our strategic priorities. These expenses are excluded because they fluctuate in amount and frequency and are not reflective of our core business operating performance.

Effective August 1, 2025, the beginning of our first quarter of fiscal 2026, we have adopted a long-term projected non-GAAP tax rate of 21%, reduced from the previous rate of 23%. This adjustment aligns with the enactment of the One Big Beautiful Bill Act. The revised tax rate will apply prospectively. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations.

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, amortization expense of acquired intangible assets and restructuring and other charges. 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, amortization expense of acquired intangible assets, restructuring and other charges and acquisition-related expenses. 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 income (loss) excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, restructuring and other charges, amortization of debt issuance costs, acquisition-related expenses and the non-GAAP provision for income taxes adjustment. We define non-GAAP net income per share, diluted, as non-GAAP net income plus the applicable non-GAAP interest expense related to the convertible senior notes divided by the weighted-average diluted shares outstanding. The weighted-average diluted shares outstanding 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.

Annual Recurring Revenue ("ARR"). ARR refers to the next 12 months of revenue from subscription contracts as of the measurement date. To establish ARR for a customer, we assume that any contract expiring during the next 12 months will be renewed under the existing terms, excluding Red Canary's subscription contracts expiring in fiscal year 2026.

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.

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

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Revenue	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955	\$ 647,900	\$ 678,034	\$ 719,226	\$ 788,112
Cost of revenue ⁽¹⁾⁽²⁾⁽³⁾	117,199	118,331	130,205	141,462	148,498	155,978	172,240	184,753
Gross profit	407,800	434,870	462,663	486,493	499,402	522,056	546,986	603,359
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	276,481	262,447	294,200	306,087	307,872	314,605	330,594	373,562
Research and development ⁽¹⁾⁽²⁾⁽³⁾	122,181	124,958	139,150	154,254	170,860	169,765	177,606	200,498
General and administrative ⁽¹⁾⁽⁴⁾	54,595	50,478	56,263	56,819	60,810	63,097	71,028	65,661
Total operating expenses	453,257	437,883	489,613	517,160	539,542	547,467	579,228	639,721
Loss from operations	(45,457)	(3,013)	(26,950)	(30,667)	(40,140)	(25,411)	(32,242)	(36,362)
Interest income	28,385	27,570	27,233	30,048	30,878	31,263	33,175	33,154
Interest expense ⁽⁵⁾	(3,605)	(2,764)	(3,604)	(3,143)	(2,339)	(1,966)	(2,074)	(2,127)
Other income (expense), net	172	(927)	(1,783)	(652)	(4,936)	677	(762)	(3,039)
Income (loss) before income taxes	(20,505)	20,866	(5,104)	(4,414)	(16,537)	4,563	(1,903)	(8,374)
Provision for (benefit from) for income taxes	7,964	1,742	9,774	7,637	(8,813)	8,688	15,675	3,241
Net income (loss)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)	\$ (7,724)	\$ (4,125)	\$ (17,578)	\$ (11,615)
Net income (loss) per share								
Basic	\$ (0.19)	\$ 0.13	\$ (0.10)	\$ (0.08)	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.07)
Diluted	\$ (0.19)	\$ 0.12	\$ (0.10)	\$ (0.08)	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.07)
Weighted-average shares used in computing net income (loss) per share								
Basic	148,951	150,290	151,497	152,557	153,672	154,909	156,496	158,596
Diluted	148,951	154,081	151,497	152,557	153,672	154,909	156,496	158,596

⁽¹⁾ Includes stock-based compensation expense and related payroll taxes as follows:

Cost of revenue	\$ 13,434	\$ 12,487	\$ 13,890	\$ 15,793	\$ 17,619	\$ 18,262	\$ 19,324	\$ 19,982
Sales and marketing	65,855	45,490	60,584	64,866	69,979	63,937	60,780	71,568
Research and development	44,120	46,346	54,598	58,865	65,896	63,753	69,149	75,236
General and administrative	22,127	17,142	20,298	21,050	22,862	21,857	31,542	26,975
Total	\$ 145,536	\$ 121,465	\$ 149,370	\$ 160,574	\$ 176,356	\$ 167,809	\$ 180,795	\$ 193,761

⁽²⁾ Includes amortization expense of acquired intangible assets as follows:

Cost of revenue	\$ 2,717	\$ 2,962	\$ 4,483	\$ 3,675	\$ 3,815	\$ 3,830	\$ 3,655	\$ 5,692
Sales and marketing	226	279	501	425	425	425	425	2,941
Research and development	140	140	140	140	5	—	—	—
Total	\$ 3,083	\$ 3,381	\$ 5,124	\$ 4,240	\$ 4,245	\$ 4,255	\$ 4,080	\$ 8,633

⁽³⁾ Includes restructuring and other charges:

Cost of revenue	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 138	\$ 750
Sales and marketing	—	—	—	—	—	—	—	2,809
Research and development	—	—	—	—	—	—	4,783	1,182
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,921	\$ 4,741

⁽⁴⁾ Includes acquisition-related expenses

\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,316	\$ 1,083
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⁽⁵⁾ Includes amortization of debt issuance costs

\$ 978	\$ 979	\$ 980	\$ 981	\$ 982	\$ 984	\$ 1,346	\$ 2,038
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ZSCALER, INC.**Non-GAAP Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)**(unaudited)*

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Revenue	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955	\$ 647,900	\$ 678,034	\$ 719,226	\$ 788,112
Cost of revenue	101,048	102,882	111,832	121,994	127,064	133,886	149,123	158,329
Gross profit	423,951	450,319	481,036	505,961	520,836	544,148	570,103	629,783
Operating expenses:								
Sales and marketing	210,400	216,678	233,115	240,796	237,468	250,243	269,389	296,244
Research and development	77,921	78,472	84,412	95,249	104,959	106,012	103,674	124,080
General and administrative	32,468	33,336	35,965	35,769	37,948	41,240	38,170	37,603
Total operating expenses	320,789	328,486	353,492	371,814	380,375	397,495	411,233	457,927
Income from operations	103,162	121,833	127,544	134,147	140,461	146,653	158,870	171,856
Interest income	28,385	27,570	27,233	30,048	30,878	31,263	33,175	33,154
Interest expense	(2,627)	(1,785)	(2,624)	(2,162)	(1,357)	(982)	(728)	(89)
Other income (expense), net	172	(927)	(1,783)	(652)	(4,936)	677	(762)	(3,039)
Income before income taxes	129,092	146,691	150,370	161,381	165,046	177,611	190,555	201,882
Non-GAAP provision for income taxes ⁽¹⁾	29,691	33,739	34,585	37,118	37,965	40,844	43,830	42,395
Non-GAAP net income	\$ 99,401	\$ 112,952	\$ 115,785	\$ 124,263	\$ 127,081	\$ 136,767	\$ 146,725	\$ 159,487
Non-GAAP net income per share, diluted	\$ 0.62	\$ 0.71	\$ 0.72	\$ 0.77	\$ 0.78	\$ 0.84	\$ 0.89	\$ 0.96
Weighted-average shares used in computing non-GAAP net income per share, diluted	159,154	159,657	160,497	161,296	162,517	163,401	165,584	166,515

(1) Effective August 1, 2025, the beginning of our first quarter of fiscal 2026, we have adopted a long-term projected non-GAAP tax rate of 21%, reduced from the previous rate of 23%. This adjustment aligns with the enactment of the One Big Beautiful Bill Act. The revised tax rate will apply prospectively. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations.

(2) Supplemental information post-adoption of ASU 2020-06 ⁽¹⁾:

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
Non-GAAP net income	\$99,401	\$112,952	\$115,785	\$124,263	\$127,081	\$136,767	\$146,725	\$159,487
Add: Non-GAAP interest expense, net of tax related to the convertible senior notes	276	276	276	276	276	276	183	—
Numerator used in computing non-GAAP net income per share, diluted	\$99,677	\$113,228	\$116,061	\$124,539	\$127,357	\$137,043	\$146,908	\$159,487
Weighted-average shares used in computing GAAP net income (loss) per share, diluted	148,951	154,081	151,497	152,557	153,672	154,909	156,496	158,596
Add: Dilution from outstanding potentially dilutive equity incentive awards	4,670	—	2,699	2,348	2,988	2,812	4,457	3,994
Add: Dilution from the convertible senior notes using the if-converted method	7,626	7,626	7,626	7,626	7,626	7,626	6,211	3,925
Less: Antidilutive impact of capped call transactions ⁽²⁾	(2,093)	(2,050)	(1,325)	(1,235)	(1,769)	(1,946)	(1,580)	—
Weighted-average shares used in computing non-GAAP net income per share, diluted	159,154	159,657	160,497	161,296	162,517	163,401	165,584	166,515

(1) Effective August 1, 2022, the beginning of our fiscal year ended July 31, 2023, we adopted ASC Topic 470 “Debt” and ASC Topic 815 “Derivatives and Hedging” (“ASU 2020-06”). Post-adoption of this standard, we are required to use the if-converted method to compute the potentially diluted shares related to the senior convertible notes.

(2) The capped calls have an antidilutive impact when the average stock price of our common stock in a given period is higher than their exercise price.

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

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,438,586	\$ 1,259,197	\$ 1,423,080	\$ 1,553,645	\$ 1,758,506	\$ 1,990,890	\$ 2,389,023	\$ 1,338,195
Short-term investments	1,021,218	980,802	986,574	1,154,252	1,121,734	1,014,701	1,183,386	1,983,077
Accounts receivable, net	479,611	506,284	736,529	424,573	514,314	615,787	992,181	530,487
Deferred contract acquisition costs	125,591	135,095	148,873	152,475	156,079	165,752	180,819	182,563
Prepaid expenses and other current assets	77,702	88,636	101,561	108,835	114,573	128,271	148,881	171,639
Total current assets	3,142,708	2,970,014	3,396,617	3,393,780	3,665,206	3,915,401	4,894,290	4,205,961
Property and equipment, net	294,495	330,646	383,121	409,005	422,315	498,896	543,377	542,255
Operating lease right-of-use assets	87,804	92,473	89,758	84,091	83,703	71,351	89,772	127,457
Deferred contract acquisition costs, noncurrent	255,883	268,079	296,525	286,656	284,286	298,133	328,722	322,556
Acquired intangible assets, net	22,540	68,959	63,835	59,595	55,658	51,403	47,323	215,290
Goodwill	92,415	417,029	417,029	417,029	417,730	417,730	417,730	994,463
Other noncurrent assets	38,381	51,551	58,083	58,846	77,070	86,714	98,674	95,105
Total assets	<u>\$ 3,934,226</u>	<u>\$ 4,198,751</u>	<u>\$ 4,704,968</u>	<u>\$ 4,709,002</u>	<u>\$ 5,005,968</u>	<u>\$ 5,339,628</u>	<u>\$ 6,419,888</u>	<u>\$ 6,503,087</u>

Liabilities and stockholders' equity

Current liabilities:

Accounts payable	\$ 17,137	\$ 28,030	\$ 23,309	\$ 25,368	\$ 24,600	\$ 54,609	\$ 46,906	\$ 48,400
Accrued expenses and other current liabilities	68,217	82,639	91,708	83,384	90,626	84,666	93,984	107,510
Accrued compensation	137,362	163,119	160,810	126,379	140,430	155,117	181,807	135,234
Deferred revenue	1,316,416	1,376,676	1,643,919	1,533,080	1,595,780	1,677,895	2,054,417	1,946,191
Convertible senior notes	—	—	1,142,275	1,145,799	1,147,513	1,148,881	—	—
Operating lease liabilities	44,773	50,857	50,866	49,600	49,917	47,231	52,497	68,399
Total current liabilities	1,583,905	1,701,321	3,112,887	2,963,610	3,048,866	3,168,399	2,429,611	2,305,734
Convertible senior notes, noncurrent	1,141,011	1,137,687	—	—	—	—	1,700,727	1,699,871
Deferred revenue, noncurrent	185,759	200,338	251,055	250,640	282,725	307,090	413,609	405,113
Operating lease liabilities, noncurrent	47,906	46,897	44,824	41,938	40,912	32,703	43,352	65,771
Other noncurrent liabilities	16,789	19,369	22,100	24,269	26,119	26,497	33,316	44,270
Total liabilities	2,975,370	3,105,612	3,430,866	3,280,457	3,398,622	3,534,689	4,620,615	4,520,759

Stockholders' equity

Common stock	150	151	152	153	155	156	159	159
Additional paid-in capital	2,114,041	2,241,865	2,426,819	2,593,010	2,797,350	2,960,521	2,980,591	3,175,453
Accumulated other comprehensive income (loss)	(3,009)	(15,675)	(4,789)	(4,487)	(22,304)	16,242	8,081	7,889
Accumulated deficit	(1,152,326)	(1,133,202)	(1,148,080)	(1,160,131)	(1,167,855)	(1,171,980)	(1,189,558)	(1,201,173)
Total stockholders' equity	958,856	1,093,139	1,274,102	1,428,545	1,607,346	1,804,939	1,799,273	1,982,328
Total liabilities and stockholders' equity	<u>\$ 3,934,226</u>	<u>\$ 4,198,751</u>	<u>\$ 4,704,968</u>	<u>\$ 4,709,002</u>	<u>\$ 5,005,968</u>	<u>\$ 5,339,628</u>	<u>\$ 6,419,888</u>	<u>\$ 6,503,087</u>

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

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Cash flows from operating activities								
Net income (loss)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)	\$ (7,724)	\$ (4,125)	\$ (17,578)	\$ (11,615)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	15,399	17,672	19,275	21,423	24,488	28,190	30,260	32,651
Amortization expense of acquired intangible assets	3,083	3,381	5,124	4,240	4,245	4,255	4,080	8,633
Amortization of deferred contract acquisition costs	31,393	33,207	35,428	39,068	40,123	42,308	44,811	48,082
Amortization of debt issuance costs	978	979	980	981	982	984	1,346	2,038
Non-cash operating lease costs	11,730	13,280	14,532	15,657	15,908	16,331	15,102	18,445
Stock-based compensation expense	140,432	113,236	144,870	157,178	172,117	159,401	172,654	188,593
Accretion of investments purchased at a discount	(6,383)	(5,002)	(4,478)	(5,003)	(5,107)	(3,752)	(2,061)	(1,905)
Unrealized (gains) losses on hedging transactions	1,277	(1,267)	(821)	3,689	(653)	(3,898)	1,231	3,033
Deferred income taxes	(1,394)	(4,332)	136	186	(17,545)	(482)	3,490	(3,698)
Other	372	314	1,603	644	659	(244)	(72)	1,234
Changes in operating assets and liabilities, net of effects of business acquisitions:								
Accounts receivable	(112,708)	(23,968)	(231,366)	311,975	(89,932)	(101,537)	(376,516)	482,861
Deferred contract acquisition costs	(40,064)	(54,907)	(77,652)	(32,801)	(41,357)	(65,828)	(90,467)	(43,660)
Prepaid expenses, other current and noncurrent assets	1,311	(26,112)	(16,519)	(8,767)	(3,377)	(38)	(29,390)	(17,322)
Accounts payable	(7,008)	9,932	(3,356)	1,043	(945)	28,849	(11,415)	(2,942)
Accrued expenses, other current and noncurrent liabilities	1,161	8,627	28,909	(6,240)	(5,241)	4,448	12,213	8,409
Accrued compensation	39,794	12,254	(2,309)	(34,431)	14,051	14,687	26,690	(54,816)
Deferred revenue	102,631	69,877	317,960	(111,254)	94,785	106,480	483,041	(191,132)
Operating lease liabilities	(11,466)	(12,881)	(13,881)	(14,202)	(16,044)	(14,948)	(16,815)	(18,609)
Net cash provided by operating activities	142,069	173,414	203,557	331,335	179,433	211,081	250,604	448,280
Cash flows from investing activities								
Purchases of property, equipment and other assets	(30,894)	(35,651)	(49,384)	(17,025)	(15,018)	(72,163)	(60,046)	(17,311)
Capitalized internal-use software	(10,387)	(14,637)	(17,855)	(22,429)	(20,987)	(19,455)	(18,637)	(17,673)
Payments for business acquisitions, net of cash acquired	—	(357,404)	(12,921)	—	(834)	—	—	(672,780)
Purchase of strategic investments	(2,000)	—	—	(561)	(225)	—	(38)	—
Purchases of short-term investments	(385,867)	(242,176)	(287,043)	(430,296)	(298,770)	(157,570)	(393,993)	(896,388)
Proceeds from maturities of short-term investments	340,838	244,566	293,015	268,651	336,352	270,890	225,132	93,593
Proceeds from sale of short-term investments	2,105	45,060	—	—	—	—	—	8,348
Net cash provided by (used in) investing activities	(86,205)	(360,242)	(74,188)	(201,660)	518	21,702	(247,582)	(1,502,211)
Cash flows from financing activities								
Proceeds from issuance of common stock upon exercise of stock options	2,592	7,439	962	890	2,566	41	84	3,984
Proceeds from issuance of common stock under the employee stock purchase plan	18,407	—	33,591	—	22,344	—	41,219	—
Payment of deferred consideration related to business acquisitions	—	—	—	—	—	(440)	(352)	—
Proceeds from issuance of the 2028 convertible senior notes	—	—	—	—	—	—	1,725,000	—
Payments for issuance costs related to the 2028 convertible senior notes	—	—	—	—	—	—	(24,150)	(684)
Purchases of capped calls related to the 2028 convertible senior notes	—	—	—	—	—	—	(196,650)	(197)
Payments for settlement of the 2025 convertible senior notes	—	—	—	—	—	—	(1,150,040)	—
Other	—	—	(39)	—	—	—	—	—
Net cash provided by (used in) financing activities	20,999	7,439	34,514	890	24,910	(399)	395,111	3,103
Net increase (decrease) in cash and cash equivalents	76,863	(179,389)	163,883	130,565	204,861	232,384	398,133	(1,050,828)
Cash and cash equivalents at beginning of period	1,361,723	1,438,586	1,259,197	1,423,080	1,553,645	1,758,506	1,990,890	2,389,023
Cash and cash equivalents at end of period	<u>\$ 1,438,586</u>	<u>\$ 1,259,197</u>	<u>\$ 1,423,080</u>	<u>\$ 1,553,645</u>	<u>\$ 1,758,506</u>	<u>\$ 1,990,890</u>	<u>\$ 2,389,023</u>	<u>\$ 1,338,195</u>

ZSCALER, INC.
GAAP to Non-GAAP Reconciliations
(in thousands, except percentages and per share amounts)(unaudited)

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
GAAP gross profit	\$ 407,800	\$ 434,870	\$ 462,663	\$ 486,493	\$ 499,402	\$ 522,056	\$ 546,986	\$ 603,359
Stock-based compensation expense and related payroll taxes	13,434	12,487	13,890	15,793	17,619	18,262	19,324	19,982
Amortization expense of acquired intangible assets	2,717	2,962	4,483	3,675	3,815	3,830	3,655	5,692
Restructuring and other charges	—	—	—	—	—	—	138	750
Non-GAAP gross profit	\$ 423,951	\$ 450,319	\$ 481,036	\$ 505,961	\$ 520,836	\$ 544,148	\$ 570,103	\$ 629,783
GAAP gross margin	78%	79%	78%	77%	77%	77%	76%	77%
Non-GAAP gross margin	81%	81%	81%	81%	80%	80%	79%	80%
GAAP sales and marketing expense	\$ 276,481	\$ 262,447	\$ 294,200	\$ 306,087	\$ 307,872	\$ 314,605	\$ 330,594	\$ 373,562
Stock-based compensation expense and related payroll taxes	65,855	45,490	60,584	64,866	69,979	63,937	60,780	71,568
Amortization expense of acquired intangible assets	226	279	501	425	425	425	425	2,941
Restructuring and other charges	—	—	—	—	—	—	—	2,809
Non-GAAP sales and marketing expense	\$ 210,400	\$ 216,678	\$ 233,115	\$ 240,796	\$ 237,468	\$ 250,243	\$ 269,389	\$ 296,244
GAAP sales and marketing expense as a percentage of revenue	53%	47%	50%	49%	48%	46%	46%	47%
Non-GAAP sales and marketing expense as a percentage of revenue	40%	39%	39%	38%	37%	37%	37%	38%
GAAP research and development expense	\$ 122,181	\$ 124,958	\$ 139,150	\$ 154,254	\$ 170,860	\$ 169,765	\$ 177,606	\$ 200,498
Stock-based compensation expense and related payroll taxes	44,120	46,346	54,598	58,865	65,896	63,753	69,149	75,236
Amortization expense of acquired intangible assets	140	140	140	140	5	—	—	—
Restructuring and other charges	—	—	—	—	—	—	4,783	1,182
Non-GAAP research and development expense	\$ 77,921	\$ 78,472	\$ 84,412	\$ 95,249	\$ 104,959	\$ 106,012	\$ 103,674	\$ 124,080
GAAP research and development expense as a percentage of revenue	23%	23%	23%	25%	26%	25%	25%	25%
Non-GAAP research and development expense as a percentage of revenue	15%	14%	14%	15%	16%	16%	14%	16%
GAAP general and administrative expense	\$ 54,595	\$ 50,478	\$ 56,263	\$ 56,819	\$ 60,810	\$ 63,097	\$ 71,028	\$ 65,661
Stock-based compensation expense and related payroll taxes	22,127	17,142	20,298	21,050	22,862	21,857	31,542	26,975
Acquisition-related expenses	—	—	—	—	—	—	1,316	1,083
Non-GAAP general and administrative expense	\$ 32,468	\$ 33,336	\$ 35,965	\$ 35,769	\$ 37,948	\$ 41,240	\$ 38,170	\$ 37,603
GAAP general and administrative expense as a percentage of revenue	10%	9%	9%	9%	9%	9%	10%	8%
Non-GAAP general and administrative expense as a percentage of revenue	6%	6%	6%	6%	6%	6%	5%	5%
GAAP total operating expenses	\$ 453,257	\$ 437,883	\$ 489,613	\$ 517,160	\$ 539,542	\$ 547,467	\$ 579,228	\$ 639,721
Stock-based compensation expense and related payroll taxes	132,102	108,978	135,480	144,781	158,737	149,547	161,471	173,779
Amortization expense of acquired intangible assets	366	419	641	565	430	425	425	2,941
Restructuring and other charges	—	—	—	—	—	—	4,783	3,991
Acquisition-related expenses	—	—	—	—	—	—	1,316	1,083
Non-GAAP total operating expenses	\$ 320,789	\$ 328,486	\$ 353,492	\$ 371,814	\$ 380,375	\$ 397,495	\$ 411,233	\$ 457,927
GAAP total operating expenses as a percentage of revenue	86%	79%	83%	82%	83%	81%	81%	81%

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Non-GAAP total operating expenses as a percentage of revenue	61%	59%	60%	59%	59%	59%	57%	58%
GAAP loss from operations	\$ (45,457)	\$ (3,013)	\$ (26,950)	\$ (30,667)	\$ (40,140)	\$ (25,411)	\$ (32,242)	\$ (36,362)
Stock-based compensation expense and related payroll taxes	145,536	121,465	149,370	160,574	176,356	167,809	180,795	193,761
Amortization expense of acquired intangible assets	3,083	3,381	5,124	4,240	4,245	4,255	4,080	8,633
Restructuring and other charges	—	—	—	—	—	—	4,921	4,741
Acquisition-related expenses	—	—	—	—	—	—	1,316	1,083
Non-GAAP income from operations	<u>\$ 103,162</u>	<u>\$ 121,833</u>	<u>\$ 127,544</u>	<u>\$ 134,147</u>	<u>\$ 140,461</u>	<u>\$ 146,653</u>	<u>\$ 158,870</u>	<u>\$ 171,856</u>
GAAP operating margin	(9)%	(1)%	(5)%	(5)%	(6)%	(4)%	(4)%	(5)%
Non-GAAP operating margin	20%	22%	22%	21%	22%	22%	22%	22%
GAAP interest expense	\$ (3,605)	\$ (2,764)	\$ (3,604)	\$ (3,143)	\$ (2,339)	\$ (1,966)	\$ (2,074)	\$ (2,127)
Amortization of debt issuance costs	978	979	980	981	982	984	1,346	2,038
Non-GAAP interest expense	<u>\$ (2,627)</u>	<u>\$ (1,785)</u>	<u>\$ (2,624)</u>	<u>\$ (2,162)</u>	<u>\$ (1,357)</u>	<u>\$ (982)</u>	<u>\$ (728)</u>	<u>\$ (89)</u>
GAAP provision for (benefit from) income taxes	\$ 7,964	\$ 1,742	\$ 9,774	\$ 7,637	\$ (8,813)	\$ 8,688	\$ 15,675	\$ 3,241
Income tax and other tax adjustments ⁽¹⁾	21,727	31,997	24,811	29,481	46,778	32,156	28,155	39,154
Non-GAAP provision for income taxes ⁽¹⁾	<u>\$ 29,691</u>	<u>\$ 33,739</u>	<u>\$ 34,585</u>	<u>\$ 37,118</u>	<u>\$ 37,965</u>	<u>\$ 40,844</u>	<u>\$ 43,830</u>	<u>\$ 42,395</u>
Non-GAAP effective tax rate ⁽¹⁾	23%	23%	23%	23%	23%	23%	23%	21%
GAAP net income (loss)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)	\$ (7,724)	\$ (4,125)	\$ (17,578)	\$ (11,615)
Add: GAAP provision for (benefit from) income taxes	7,964	1,742	9,774	7,637	(8,813)	8,688	15,675	3,241
GAAP income (loss) before income taxes	(20,505)	20,866	(5,104)	(4,414)	(16,537)	4,563	(1,903)	(8,374)
Add:								
Stock-based compensation expense and related payroll taxes	145,536	121,465	149,370	160,574	176,356	167,809	180,795	193,761
Amortization expense of acquired intangible assets	3,083	3,381	5,124	4,240	4,245	4,255	4,080	8,633
Restructuring and other charges	—	—	—	—	—	—	4,921	4,741
Acquisition-related expenses	—	—	—	—	—	—	1,316	1,083
Amortization of debt issuance costs	978	979	980	981	982	984	1,346	2,038
Non-GAAP net income before income taxes	129,092	146,691	150,370	161,381	165,046	177,611	190,555	201,882
Non-GAAP provision for income taxes ⁽¹⁾	29,691	33,739	34,585	37,118	37,965	40,844	43,830	42,395
Non-GAAP net income	<u>\$ 99,401</u>	<u>\$ 112,952</u>	<u>\$ 115,785</u>	<u>\$ 124,263</u>	<u>\$ 127,081</u>	<u>\$ 136,767</u>	<u>\$ 146,725</u>	<u>\$ 159,487</u>
Non-GAAP net income	\$ 99,401	\$ 112,952	\$ 115,785	\$ 124,263	\$ 127,081	\$ 136,767	\$ 146,725	\$ 159,487
Add: Non-GAAP interest expense, net of tax related to the convertible senior notes	276	276	276	276	276	276	183	—
Numerator used in computing non-GAAP net income per share, diluted	<u>\$ 99,677</u>	<u>\$ 113,228</u>	<u>\$ 116,061</u>	<u>\$ 124,539</u>	<u>\$ 127,357</u>	<u>\$ 137,043</u>	<u>\$ 146,908</u>	<u>\$ 159,487</u>
GAAP net income (loss) per share, diluted	\$ (0.19)	\$ 0.12	\$ (0.10)	\$ (0.08)	\$ (0.05)	\$ (0.03)	\$ (0.11)	\$ (0.07)
Stock-based compensation expense and related payroll taxes	0.91	0.76	0.93	1.00	1.09	1.03	1.09	1.16
Amortization expense of acquired intangible assets	0.02	0.02	0.03	0.03	0.03	0.03	0.02	0.05

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Restructuring and other charges	—	—	—	—	—	—	0.03	0.03
Acquisition-related expenses	—	—	—	—	—	—	0.01	0.01
Amortization of debt issuance costs	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Income tax and other tax adjustment ⁽¹⁾	(0.14)	(0.20)	(0.15)	(0.18)	(0.29)	(0.20)	(0.17)	(0.24)
Non-GAAP interest expense, net of tax related to the convertible senior notes	—	—	—	—	—	—	—	—
Adjustment to total fully diluted earnings per share ⁽²⁾	0.02	—	—	(0.01)	(0.01)	—	0.01	0.01
Non-GAAP net income per share, diluted	\$ 0.63	\$ 0.71	\$ 0.72	\$ 0.77	\$ 0.78	\$ 0.84	\$ 0.89	\$ 0.96
Weighted-average shares used in computing GAAP net income (loss) per share, diluted	148,951	154,081	151,497	152,557	153,672	154,909	156,496	158,596
Outstanding potentially dilutive equity incentive awards	4,670	—	2,699	2,348	2,988	2,812	4,457	3,994
Convertible senior notes	7,626	7,626	7,626	7,626	7,626	7,626	6,211	3,925
Antidilutive impact of capped call transactions ⁽³⁾	(2,093)	(2,050)	(1,325)	(1,235)	(1,769)	(1,946)	(1,580)	—
Weighted-average shares used in computing non-GAAP net income per share, diluted	159,154	159,657	160,497	161,296	162,517	163,401	165,584	166,515

⁽¹⁾ Effective August 1, 2025, the beginning of our first quarter of fiscal 2026, we have adopted a long-term projected non-GAAP tax rate of 21%, reduced from the previous rate of 23%. This adjustment aligns with the enactment of the One Big Beautiful Bill Act. The revised tax rate will apply prospectively. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations.

⁽²⁾ 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 differs 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.

⁽³⁾ 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 senior notes and therefore are included in the calculation of non-GAAP diluted shares outstanding. The capped calls have an antidilutive impact when the average stock price of our common stock in a given period is higher than their exercise price.

ZSCALER, INC.**Free Cash Flow and Free Cash Flow Margin***(in thousands, except percentages)**(unaudited)*

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Revenue	\$524,999	\$553,201	\$592,868	\$627,955	\$647,900	\$678,034	\$719,226	\$788,112
Free cash flow								
Net cash provided by operating activities	\$142,069	\$173,414	\$203,557	\$331,335	\$179,433	\$211,081	\$250,604	\$448,280
Less: Purchases of property, equipment and other assets	(30,894)	(35,651)	(49,384)	(17,025)	(15,018)	(72,163)	(60,046)	(17,311)
Less: Capitalized internal-use software	(10,387)	(14,637)	(17,855)	(22,429)	(20,987)	(19,455)	(18,637)	(17,673)
Free cash flow	<u>\$100,788</u>	<u>\$123,126</u>	<u>\$136,318</u>	<u>\$291,881</u>	<u>\$143,428</u>	<u>\$119,463</u>	<u>\$171,921</u>	<u>\$413,296</u>
Year-over-year growth	60%	67%	35%	30%	42%	(3)%	26%	42%
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	27%	31%	34%	53%	27%	31%	35%	57%
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(6)%	(6)%	(8)%	(3)%	(2)%	(10)%	(8)%	(2)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(3)%	(3)%	(4)%	(3)%	(3)%	(3)%	(3)%
Free cash flow margin	<u>19%</u>	<u>22%</u>	<u>23%</u>	<u>46%</u>	<u>22%</u>	<u>18%</u>	<u>24%</u>	<u>52%</u>

ZSCALER, INC.**ARR and Other Selected Key Metrics***(in millions, except customer data)**(unaudited)*

Fiscal Quarter	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	Q1 FY26
End of Fiscal Quarter	1/31/2024	4/30/2024	7/31/2024	10/31/2024	1/31/2025	4/30/2025	7/31/2025	10/31/2025
Beginning of Fiscal Quarter	11/1/2023	2/1/2024	5/1/2024	8/1/2024	11/1/2024	2/1/2025	5/1/2025	8/1/2025
Annual Recurring Revenue ("ARR")^(*)	\$2,177	\$2,304	\$2,474	\$2,553	\$2,683	\$2,817	\$3,015	\$3,204
Other key business metrics								
Customers with equal or greater than \$100,000 ARR	2,817	2,919	3,087	3,154	3,281	3,357	3,494	3,754
Customers with equal or greater than \$1.0 million ARR	491	522	564	584	619	633	664	698

^(*) ARR refers to the next 12 months of revenue from subscription contracts as of the measurement date. To establish ARR for a customer, we assume that any contract expiring during the next 12 months will be renewed under the existing terms, excluding Red Canary's subscription contracts expiring in fiscal year 2026.