



Q3 Fiscal Year 2023 Earnings Call

June 1, 2023



Safe Harbor

Forward-Looking Statements

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to non-GAAP financial measures is in the appendix of this presentation.

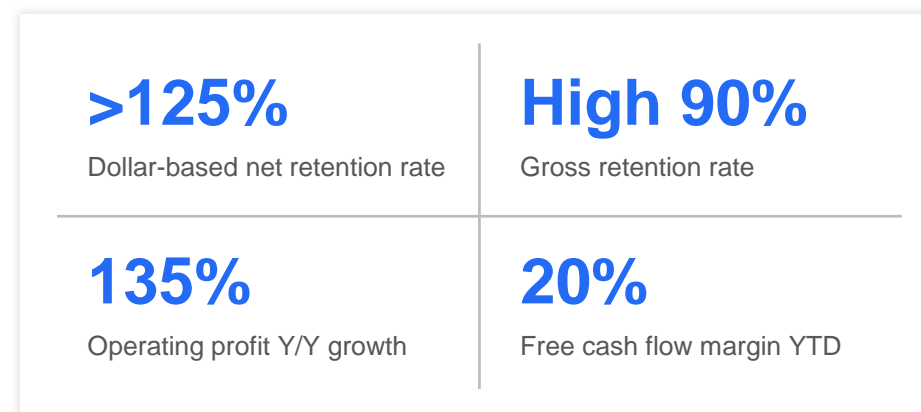
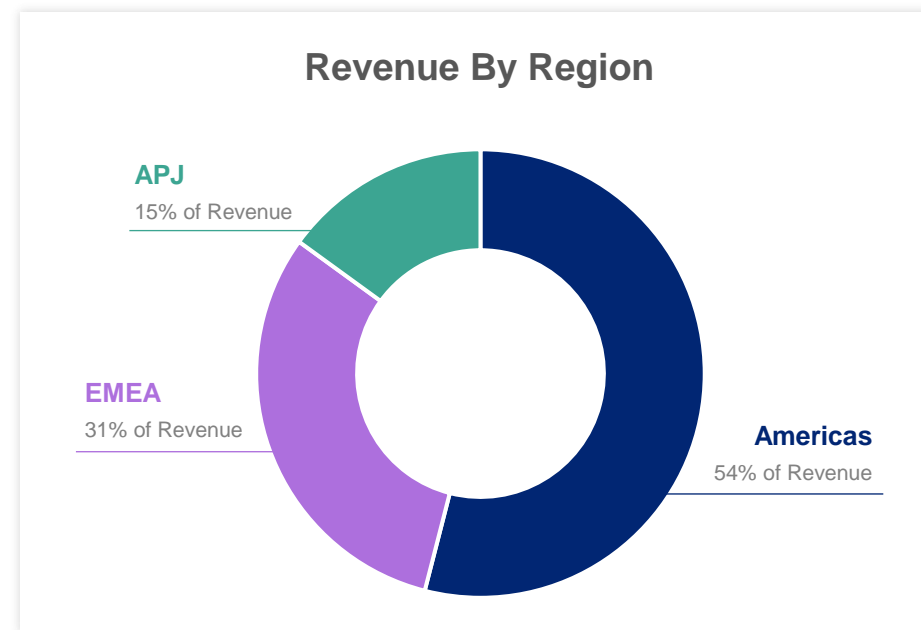
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This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the fourth quarter of fiscal 2023 and full year fiscal 2023, our planned products and upgrades, business strategy and plans and objectives of management for future operations of Zscaler are forward-looking statements. These statements involve known and a significant number of unknown risks, uncertainties, assumptions and other factors that could cause results to differ materially from statements made in this message, including any performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks may emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results or outcomes to differ materially from those contained in any forward-looking statements we may make, including but not limited to the ongoing effects of inflation, geopolitical events and the COVID-19 pandemic 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 and operating results are included in our most recent filings with the Securities and Exchange Commission (“SEC”). You can locate these reports through our website at <http://ir.zscaler.com> or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continue,” “contemplate,” “could,” “estimate,” “expect,” “explore,” “intend,” “likely,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message 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.

Fiscal Q3'23 Results

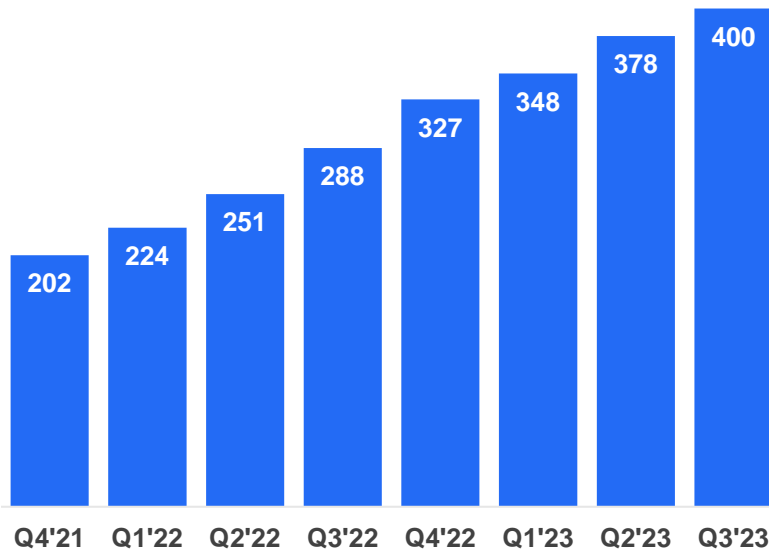
	Q3 Guidance	Q3 Results
Revenue	\$396M - \$398M 38% - 39% y/y	\$419M 46% y/y
Calculated Billings		\$482M 40% y/y
Calculated Current Billings		\$477M 44% y/y
Gross Profit		\$336M 80.2% margin
Operating Profit	\$55M - \$56M 14% margin	\$63.9M 15.3% margin
EPS	\$0.39 129% y/y	\$0.48 182% y/y
Free Cash Flow		\$73.9M 17.6% margin



Large customer momentum

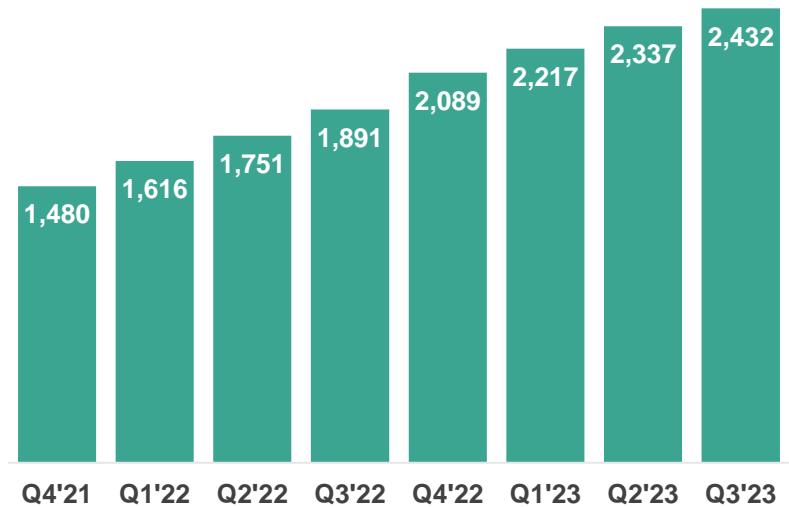
\$1M+ ARR Customers

87% 87% 85% 77% 62% 55% 51% 39%



\$100K+ ARR Customers

52% 53% 48% 44% 41% 37% 33% 29%



40%

Fortune 500 Customers

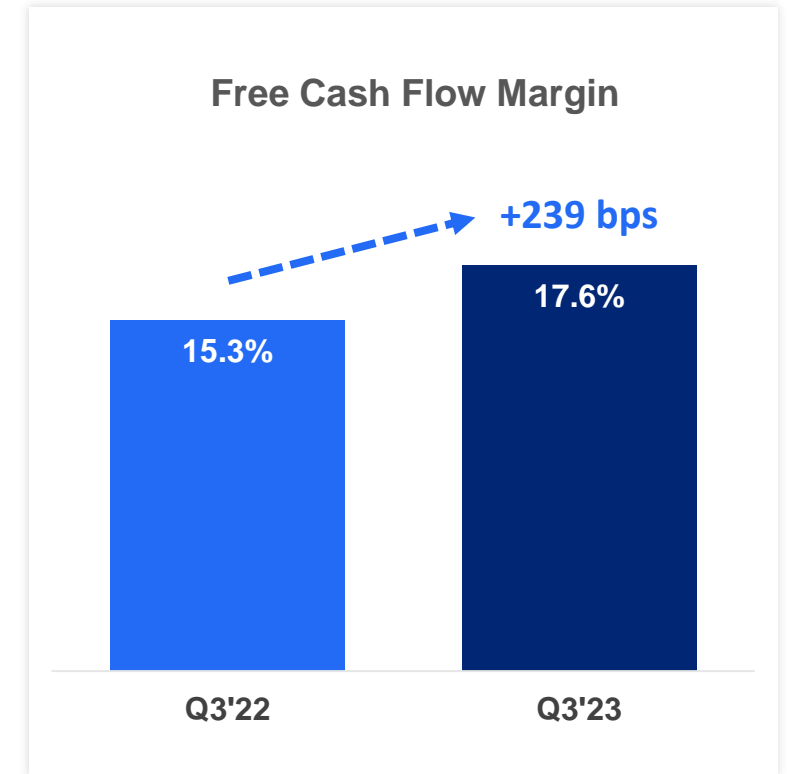
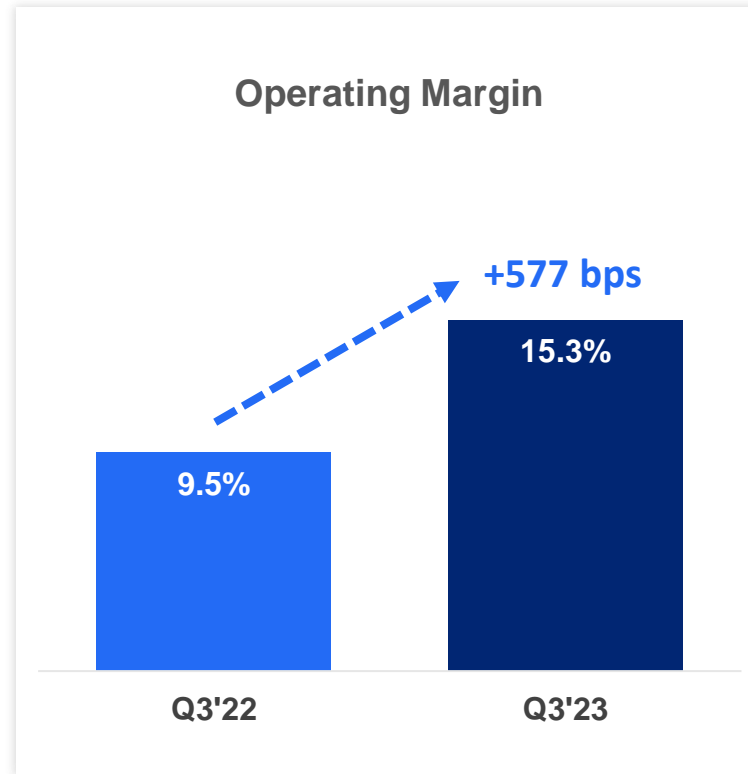
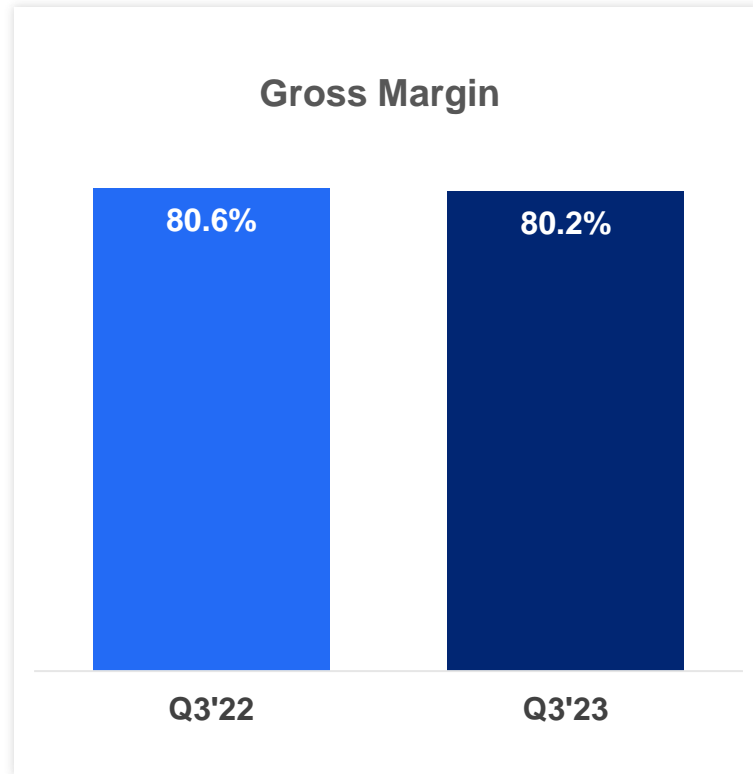
30%

Global 2000 Customers

35+

\$5M+ ARR Customers

Improving operating efficiency



Comments on the business environment

Complex macro environment



Cyber attacks rapidly growing and evolving

- Cyber is the #1 IT priority
- Generational shift from old network security architectures
- Zero trust is mainstream – mindsets are changing



Sustained high levels of deal scrutiny

- Tighter budgets available to achieve more
- Legacy network/security point products impeding progress
- Immature offerings not considered for mission critical services



Projects that move forward in this environment

- High priority security modernization
- High ROI vendor consolidation
- Federal deployments moving beyond initial phases

How we are navigating it



Strong execution and customer-first approach

- Our comprehensive platform with high ROI is resonating with customers
- Partnering earlier with CXOs to create CFO-ready business cases
- Doubling-down on customer success to deliver measurable customer value
- Platform innovations to solve customers' real time IT challenges



Leveraging our maturity and scale

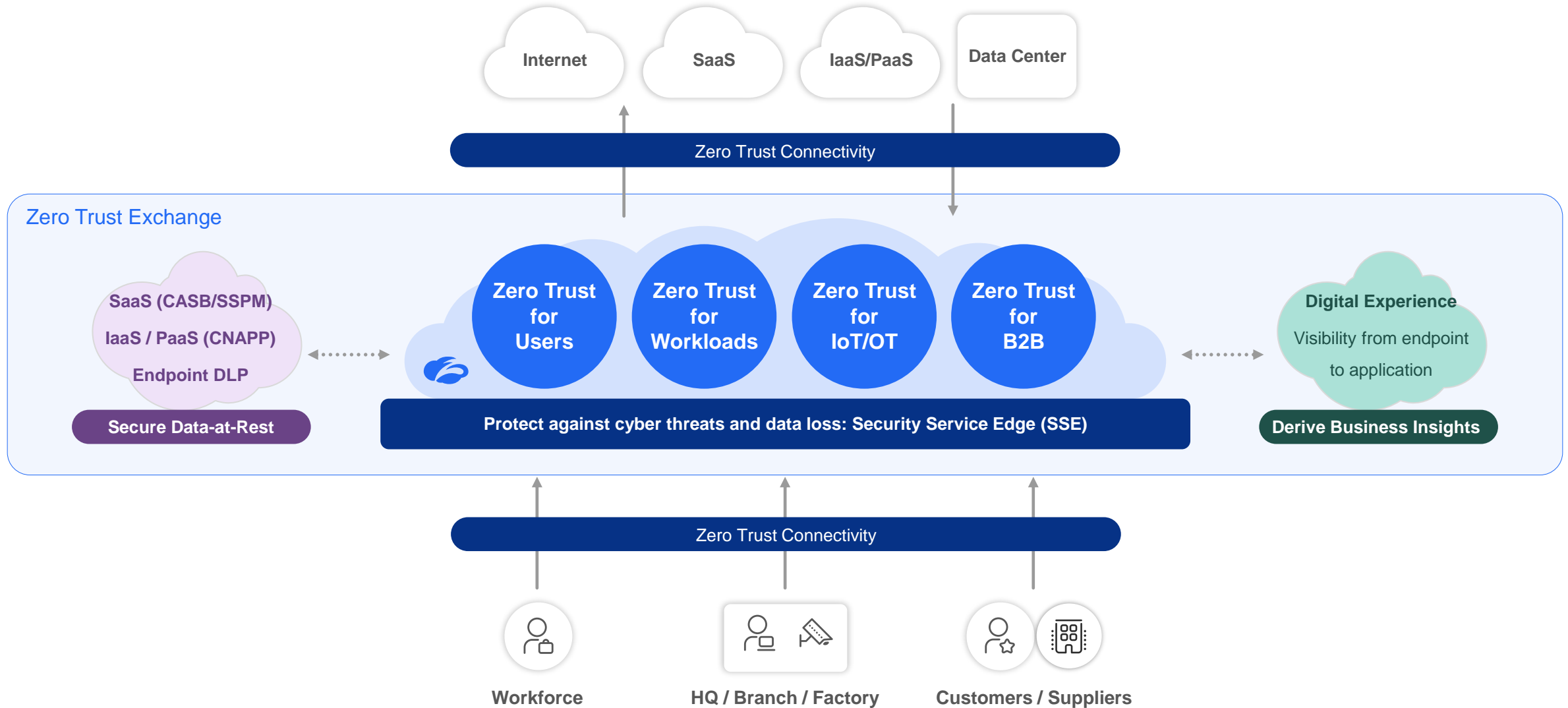
- Our proven experience at scale makes us the partner of choice for Zero Trust
- Repeatable blueprint for delivering greater value to sell our broader Zero Trust platform for users, workloads, IoT/OT, and B2B
- Massive data across an integrated platform to deliver AI/ML innovations



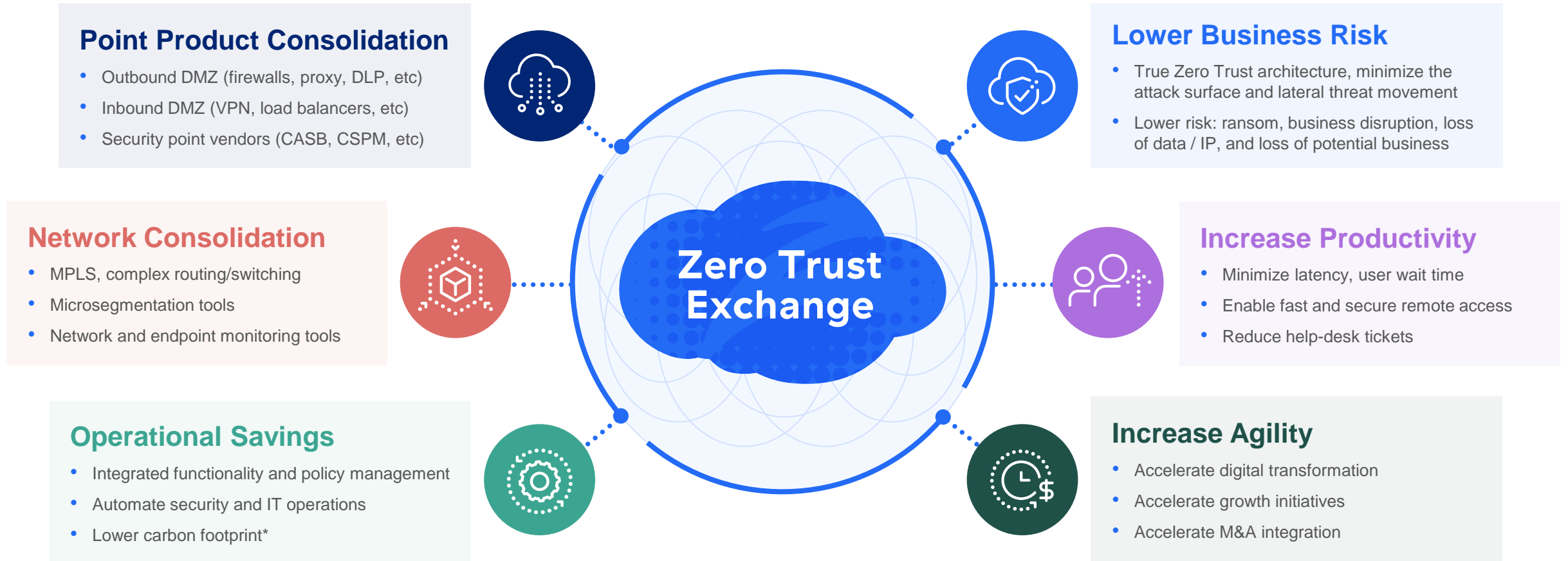
Operational discipline

- High visibility: 100% recurring revenue model, mature consultative sales process at the c-level, geo and vertical diversification
- Flexible cost structure that enables us to balance growth and profitability based on business momentum

The Zscaler Zero Trust Exchange™ Platform



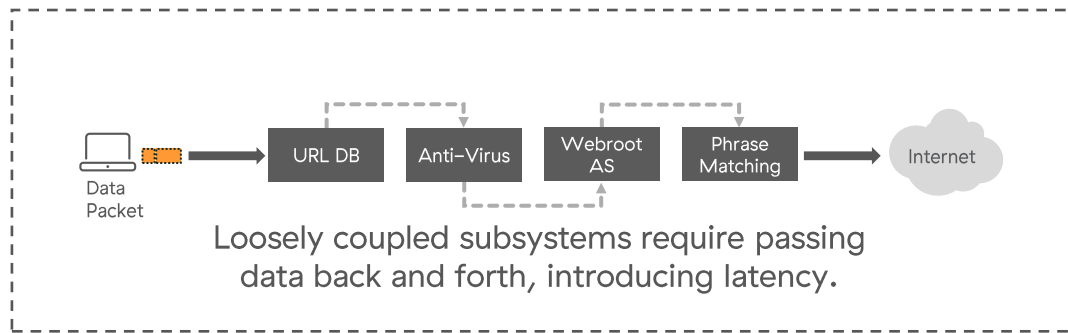
High ROI delivered by the Zero Trust Exchange



*Lower energy consumption by ~93%: Zscaler 2022 ESG Report, Life Cycle Assessment (LCA) Study

Architecture matters in delivering high performance at scale

Service Function Chaining

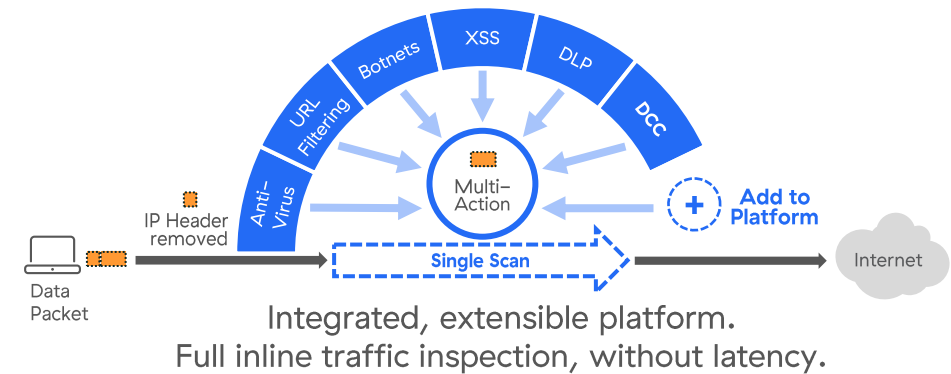


This is what others call a platform

- Different vendors, different UIs and policies
- Looking for different things
- Trade-offs between performance and security as scale increases
- Commodity

Many vendors choose this approach for faster time-to-market, but scale low performance

Zscaler's Patented Single-Scan, Multi-Action (SSMA) Engine



- One vendor, one UI, one action
- ZERO copies
- Comprehensive security at high performance and scale
- New inspection engines added, without impacting performance

Zscaler built the right foundational architecture from the start, in anticipation of a cloud-first world

Q3'23 Deal Highlights



Global Bank in APJ

Upsell, >\$10M ARR customer

ZIA 150,000 users

ZPA 150,000 users

ZDX 150,000 users

Zscaler for Users bundle – includes ZIA, ZPA, and ZDX

Why Zscaler

- After seeing the value of ZIA, chose to partner with Zscaler to secure their digital transformation efforts
- Eliminating the need for firewalls and MPLS network services
- Reducing time to open a new branch office by 50%



Fortune 100 Logistics

New logo, 4-year, multi-million ACV

ZPA 100,000 users

ZDX 100,000 users

Why Zscaler

- Chose Zscaler to drive company-wide network and app transformation, with ZPA as their Zero Trust application access architecture for their employees, partners, and suppliers
- Estimated 300% ROI by consolidating multiple point products, including multiple VPNs, load balancers, VDIs, and dedicated private network services



Global 30 Healthcare Insurance

Large SSE win

ZIA 430,000 users

ZPA 450,000 users

ZDX 450,000 users

Why Zscaler

- Chose Zscaler to replace incumbent CASB vendor that could not scale to meet their requirements
- Consolidating multiple point products, including DLP, CASB, web proxies, firewalls, and VPNs
- Accelerating integration of new acquisitions in weeks, rather than months that are required by legacy network security architecture



Fed Cabinet-Level Agency

New logo, now landed at 12 of 15 Cabinet-level agencies

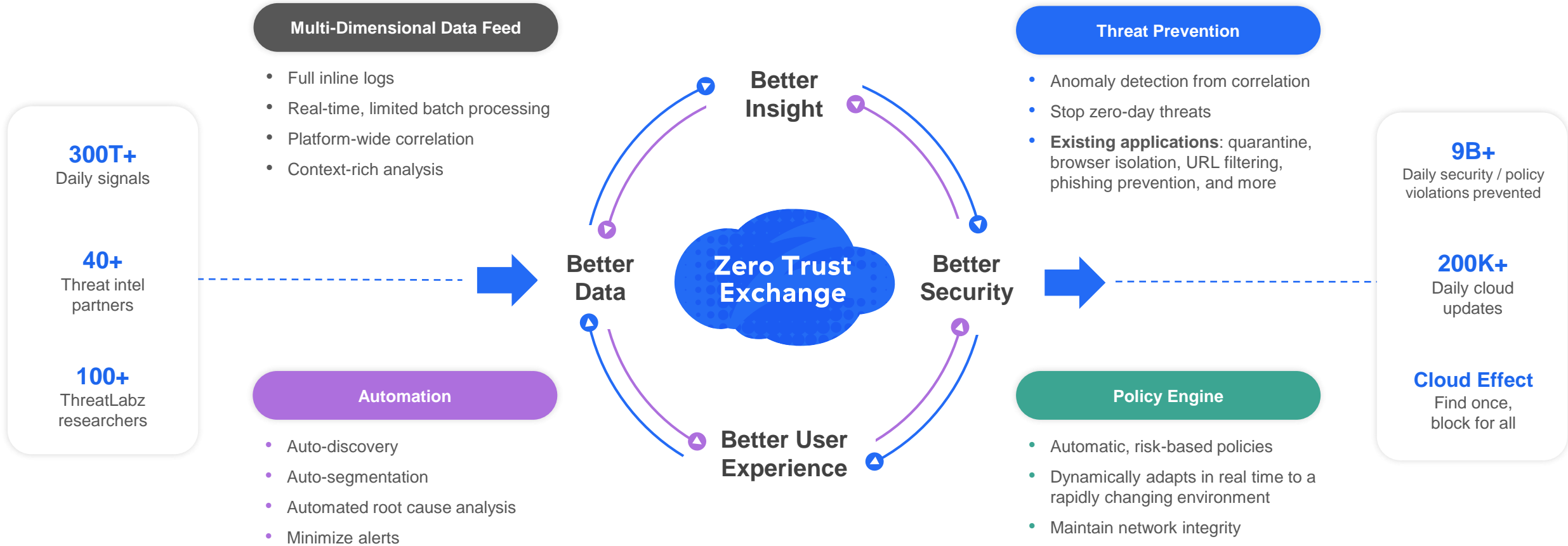
ZIA 110,000 users

ZPA 110,000 users

Why Zscaler

- Chose to standardize on Zscaler to comply with the President's Executive Order to adopt Zero Trust principles, covering all sub-agencies
- Consolidating multiple point products across the agency
- Our highly scalable and reliable platform, and our highest FedRAMP authorizations for both ZIA and ZPA, were key differentiators in this win

Leveraging AI/ML across our platform



This is possible because of our integrated, cloud-native platform that sits inline of customer traffic

Financial Guidance

	Fiscal Q4 2023	Initial FY Fiscal 2023	Updated FY Fiscal 2023
Revenue	\$429M - \$431M <i>35%-36% y/y</i>	\$1.49B - \$1.50B <i>37% y/y</i>	\$1.591B - \$1.593B <i>Approx. 46% y/y</i>
Billings		\$1.92B - \$1.94B <i>30%-31% y/y</i>	\$1.974B - \$1.978B <i>33%-34% y/y</i>
Gross Margins	Approx. 80%		
Operating Profit	\$69M - \$70M <i>>400 bps y/y</i>	\$173M - \$176M <i>130-160 bps y/y</i>	\$224M - \$225M <i>Approx. 400 bps y/y</i>
Net Other Income	\$13M		
Income Taxes	\$6M	\$14M	\$21M
Earnings Per Share	\$0.49	\$1.16 - \$1.18	\$1.63 - \$1.64
Fully Diluted Shares	157M	157M	156M

Financial Appendix

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 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. However, non-GAAP financial information is presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. 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. Restructuring and other charges related to severance and termination benefits in connection with a restructuring plan to streamline operations and to align people, roles and projects to our strategic priorities are excluded because these fluctuate in amounts and frequency and are not reflective 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.

Key Non-GAAP Financial Measures Included within this Presentation:

- Non-GAAP Gross Profit and Non-GAAP Gross Margin (*)
- Non-GAAP Income (Loss) from Operations and Non-GAAP Operating Margin (*)
- Non-GAAP Net Income (Loss) and Non-GAAP Net Income (Loss) per Share (*)
- Calculated Billings and Calculated Current Billings (*)
- Free Cash Flow and Free Cash Flow Margin (*)

(*) Non-GAAP to GAAP reconciliations shown on the following slides.

Appendix A: Non-GAAP to GAAP Reconciliation

(\$ in thousands)

	Q3'23	Q3'22	YTD Q3'23	YTD Q3'22
Revenue	\$ 418,800	\$ 286,807	\$ 1,161,946	\$ 772,887
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP Gross Profit	\$ 322,951	\$ 222,785	\$ 901,796	\$ 598,913
Add: Stock-based compensation expense and related payroll taxes	10,025	6,511	28,281	17,596
Add: Amortization expense of acquired intangible assets	2,695	1,980	6,809	6,036
Non-GAAP Gross profit	\$ 335,671	\$ 231,276	\$ 936,886	\$ 622,545
GAAP Gross Margin	77 %	78 %	78 %	77 %
Non-GAAP Gross Margin	80 %	81 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	\$ (55,746)	\$ (86,597)	\$ (190,071)	\$ (244,900)
Add: Stock-based compensation expense and related payroll taxes (1)	111,386	111,566	331,540	311,705
Add: Amortization expense of acquired intangible assets	2,975	2,238	8,078	6,695
Add: Restructuring and other charges, excluding stock-based compensation expenses (1)	5,265	—	5,265	—
Non-GAAP Income from Operations	\$ 63,880	\$ 27,207	\$ 154,812	\$ 73,500
GAAP Operating Margin	(13)%	(30)%	(16)%	(32)%
Non-GAAP Operating Margin	15 %	9 %	13 %	10 %

(1) In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million, which is included in stock-based compensation expense and related payroll taxes

Appendix A: Non-GAAP to GAAP Reconciliation (cont.)

(\$ in thousands)

	Q3'23	Q3'22	YTD Q3'23	YTD Q3'22
Non-GAAP Net Income per Share, Diluted				
GAAP net loss	\$ (46,046)	\$ (101,405)	\$ (171,661)	\$ (292,626)
Stock-based compensation expense and related payroll taxes (1)	111,386	111,566	331,540	311,705
Amortization expense of acquired intangible assets	2,975	2,238	8,078	6,695
Restructuring and other charges, excluding stock-based compensation expense (1)	5,265	—	5,265	—
Amortization of debt discount and issuance costs (2)	974	13,887	2,919	41,043
Benefit for income taxes (3)	—	(1,554)	—	(1,915)
Non-GAAP Net Income	\$ 74,554	\$ 24,732	\$ 176,141	\$ 64,902
Add: Non-GAAP interest expense (2)	359	—	1,078	—
Numerator used in computing non-GAAP net income per share, diluted	\$ 74,913	\$ 24,732	\$ 177,219	\$ 64,902
GAAP Net Loss per share, diluted	\$ (0.32)	\$ (0.72)	\$ (1.19)	\$ (2.08)
Stock-based compensation expense and related payroll taxes (1)	0.72	0.76	2.13	2.11
Amortization expense of acquired intangible assets	0.02	0.02	0.05	0.05
Restructuring and other charges, excluding stock-based compensation expense (1)	0.03	—	0.03	—
Amortization of debt discount and issuance costs	0.01	0.09	0.02	0.28
Benefit for income taxes (3)	—	(0.01)	—	(0.01)
Non-GAAP interest expense (2)	—	—	0.01	—
Adjustment to total fully diluted earnings per share (4)	0.02	0.03	0.09	0.09
Non-GAAP Net Loss per share, diluted (2)	\$ 0.48	\$ 0.17	\$ 1.14	\$ 0.44

Appendix A: Non-GAAP to GAAP Reconciliation (cont.)

(\$ in thousands)

	Q3'23	Q3'22	YTD Q3'23	YTD Q3'22
Weighted-average shares used in computing GAAP Net Loss per share, diluted	145,354	141,422	144,442	140,403
Add: Outstanding equity incentive awards	2,492	5,493	3,249	6,798
Add: Convertible senior notes (2)	7,626	2,740	7,626	3,377
Less: Antidilutive impact of capped call transactions (5)	—	(2,740)	—	2,704
Weighted-average shares used in computing non-GAAP Net Loss per share, diluted (2)	155,472	146,915	155,317	147,874

(1) In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million, which is included in included in stock-based compensation expense and related payroll taxes.

(2) 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 convertible senior notes, which will be recognized 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 convertible senior notes, we are required to add back the non-GAAP interest expense related to the convertible senior notes to our non-GAAP net income and include approximately 7.63 million shares related to the convertible senior notes beginning in our first quarter of fiscal year 2023.

(3) 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.

(4) 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.

(5) 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. No antidilutive impact was reflected in the three and nine months ended April 30, 2023, as the average stock price of our common stock during such periods was lower than the capped calls' exercise price.

Appendix A: Non-GAAP to GAAP Reconciliation (cont.)

(\$ in thousands)

	Q3'23	Q3'22	YTD Q3'23	YTD Q3'22
Calculated Billings				
Revenue	\$ 418,800	\$ 286,807	\$ 1,161,946	\$ 772,887
Add: Total deferred revenue, end of period	1,175,373	818,743	1,175,373	818,743
Less: Total deferred revenue, beginning of period	(1,111,880)	(759,931)	(1,021,123)	(630,601)
Calculated Billings	\$ 482,293	\$ 345,619	\$ 1,316,196	\$ 961,029
Calculated Current Billings				
Revenue	\$ 418,800	\$ 286,807	\$ 1,161,946	\$ 772,887
Add: Current deferred revenue, end of period	1,058,901	731,904	1,058,901	731,904
Less: Current deferred revenue, beginning of period	(1,000,359)	(687,919)	(923,749)	(571,286)
Calculated Current Billings	\$ 477,342	\$ 330,792	\$ 1,297,098	\$ 933,505
Free Cash Flow				
Net cash provided by operating activities	\$ 108,469	\$ 77,241	\$ 326,407	\$ 218,774
Less: Purchases of property, equipment and other assets	(26,244)	(27,604)	(70,127)	(48,046)
Less: Capitalized internal-use software	(8,339)	(5,892)	(23,962)	(14,167)
Free Cash Flow	\$ 73,886	\$ 43,475	\$ 232,318	\$ 156,561
Free Cash Flow Margin				
Net cash provided by operating activities, as a percentage of revenue	26 %	27 %	28 %	28 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(6)%	(10)%	(6)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(2)%	(2)%
Free Cash Flow Margin	18 %	15 %	20 %	20 %