

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, 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. 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 acquired intangible assets from business acquisitions is excluded because these are considered by management to be outside of our core business operating performance. Restructuring and other charges include 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. 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, amortization expense of acquired intangible assets and restructuring and other charges. 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, restructuring and other charges, amortization of debt discount and issuance costs, refunds of certain foreign withholding taxes related to prior fiscal periods and the tax effects of these items on our non-GAAP net income. We define non-GAAP net income per share plus the non-GAAP interest expense, diluted, as non-GAAP net income 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 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.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Revenue	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999
Cost of revenue ⁽¹⁾⁽²⁾	64,022	68,308	76,697	87,604	95,849	102,682	111,394	117,199
Gross profit	222,785	249,751	278,851	299,994	322,951	352,324	385,309	407,800
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	192,132	214,228	228,836	235,945	236,273	252,810	267,111	276,481
Research and development ⁽¹⁾⁽²⁾	76,578	78,150	74,946	85,765	92,637	96,387	113,539	122,181
General and administrative ⁽¹⁾	40,672	39,902	44,156	43,522	43,486	46,380	50,716	54,595
Restructuring and other charges ⁽¹⁾	—	—	—	—	6,301	1,299	—	—
Total operating expenses	309,382	332,280	347,938	365,232	378,697	396,876	431,366	453,257
Loss from operations	(86,597)	(82,529)	(69,087)	(65,238)	(55,746)	(44,552)	(46,057)	(45,457)
Interest income	949	2,607	7,865	12,669	18,577	21,351	25,942	28,385
Interest expense ⁽³⁾	(14,246)	(14,458)	(1,331)	(1,333)	(1,383)	(2,494)	(3,159)	(3,605)
Other income (expense), net	(2,001)	(774)	(863)	141	(809)	(331)	(1,212)	172
Loss before income taxes	(101,895)	(95,154)	(63,416)	(53,761)	(39,361)	(26,026)	(24,486)	(20,505)
Provision (benefit) for income taxes ⁽⁴⁾	(490)	2,498	4,746	3,692	6,685	4,648	8,997	7,964
Net loss	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)
Net loss per share, basic and diluted	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)	\$ (0.32)	\$ (0.21)	\$ (0.23)	\$ (0.19)
Weighted-average shares used in computing net loss per share, basic and diluted	141,422	142,355	143,476	144,511	145,354	146,424	147,625	148,951

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

Cost of revenue	\$ 6,511	\$ 7,696	\$ 8,661	\$ 9,595	\$ 10,025	\$ 12,016	\$ 12,955	\$ 13,434
Sales and marketing	53,576	57,505	55,469	55,213	51,417	60,181	58,668	65,855
Research and development	31,366	33,486	25,233	29,380	31,796	34,742	41,043	44,120
General and administrative	20,113	19,628	19,273	17,330	17,112	19,336	20,063	22,127
Restructuring and other charges	—	—	—	—	1,036	—	—	—
Total	\$ 111,566	\$ 118,315	\$ 108,636	\$ 111,518	\$ 111,386	\$ 126,275	\$ 132,729	\$ 145,536

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

Cost of revenue	\$ 1,980	\$ 1,939	\$ 1,939	\$ 2,175	\$ 2,695	\$ 2,765	\$ 2,717	\$ 2,717
Sales and marketing	178	178	178	178	200	217	226	226
Research and development	80	198	435	198	80	—	93	140
Total	\$ 2,238	\$ 2,315	\$ 2,552	\$ 2,551	\$ 2,975	\$ 2,982	\$ 3,036	\$ 3,083

⁽³⁾ Includes amortization of debt discount and issuance costs as follows ⁽²⁾:

	\$ 13,887	\$ 14,098	\$ 972	\$ 973	\$ 974	\$ 975	\$ 977	\$ 978
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⁽⁴⁾ Effective August 1, 2022, we adopted ASC Topic 470 “Debt” and ASC Topic 815 “Derivatives and Hedging” (“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.

⁽⁴⁾ Includes tax expense (benefit) associated with specific transactions as follows:

Provision (benefit) for income taxes (**)	\$ (1,554)	\$ (682)	\$ —	\$ —	\$ —	\$ —	\$ 3,259	\$ —
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(**) In the fiscal quarter ended July 31, 2022, we recorded a tax benefit of \$0.7 million, associated with intangible assets recognized as a result of our business acquisitions. In the fiscal quarter ended April 30, 2022, we recorded a tax benefit of \$1.5 million associated with a refund of certain foreign withholding taxes relating to the prior fiscal year. In the fiscal quarter ended October 31, 2023, we recognized a tax expense of \$3.3 million associated with the integration of a business acquisition.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Revenue	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999
Cost of revenue	55,531	58,673	66,097	75,834	83,129	87,901	95,722	101,048
Gross profit	231,276	259,386	289,451	311,764	335,671	367,105	400,981	423,951
Operating expenses:								
Sales and marketing	138,378	156,545	173,189	180,554	184,656	192,412	208,217	210,400
Research and development	45,132	44,466	49,278	56,187	60,761	61,645	72,403	77,921
General and administrative	20,559	20,274	24,883	26,192	26,374	27,044	30,653	32,468
Total operating expenses	204,069	221,285	247,350	262,933	271,791	281,101	311,273	320,789
Income from operations	27,207	38,101	42,101	48,831	63,880	86,004	89,708	103,162
Interest income	949	2,607	7,865	12,669	18,577	21,351	25,942	28,385
Interest expense	(359)	(360)	(359)	(360)	(409)	(1,519)	(2,182)	(2,627)
Other income (expense), net	(2,001)	(774)	(863)	141	(809)	(331)	(1,212)	172
Income before income taxes	25,796	39,574	48,744	61,281	81,239	105,505	112,256	129,092
Provision for income taxes ⁽¹⁾	1,064	3,180	4,746	3,692	6,685	4,648	5,738	7,964
Non-GAAP net income	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589	\$ 74,554	\$ 100,857	\$ 106,518	\$ 121,128
Non-GAAP net income per share, diluted ⁽²⁾	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37	\$ 0.48	\$ 0.64	\$ 0.67	\$ 0.76
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽²⁾	146,915	146,407	154,203	154,742	155,472	157,315	158,505	159,154

⁽¹⁾ 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 and income tax effects associated with business acquisitions. 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. In the fiscal quarter ended July 31, 2022, we recorded a tax benefit of \$0.7 million, associated with intangible assets recognized as a result of our business acquisitions. In the fiscal quarter ended April 30, 2022, we recorded a tax benefit of \$1.5 million associated with a refund of certain foreign withholding taxes relating to the prior fiscal year. In the fiscal quarter ended October 31, 2023, we recognized a tax expense of \$3.3 million associated with the integration of a business acquisition.

⁽²⁾ Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. 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 convertible senior notes beginning in our first quarter of fiscal year 2023.

⁽³⁾ Supplemental information subsequent to the adoption of ASU 2020-06:

Fiscal Quarter	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Non-GAAP net income	\$ 43,998	\$ 57,589	\$ 74,554	\$ 100,857	\$ 106,518	\$ 121,128
Add: Non-GAAP interest expense related to the convertible senior notes	359	360	359	359	359	359
Numerator used in computing non-GAAP net income per share, diluted	\$ 44,357	\$ 57,949	\$ 74,913	\$ 101,216	\$ 106,877	\$ 121,487
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	143,476	144,511	145,354	146,424	147,625	148,951
Add: Dilution from outstanding equity incentive awards	3,689	2,605	2,492	3,265	3,431	4,670
Add: Dilution from the convertible senior notes using the if-converted method	7,626	7,626	7,626	7,626	7,626	7,626
Less: Antidilutive impact of capped call transactions (*)	(588)	—	—	—	(177)	(2,093)
Weighted-average shares used in computing non-GAAP net income per share, diluted	154,203	154,742	155,472	157,315	158,505	159,154

(*) No antidilutive impact was reflected in the three months ended January 31, 2023, April 30, 2023, July 31, 2023 as the average stock price of our common stock in such periods was lower than the capped calls' exercise price.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Assets								
Current assets:								
Cash and cash equivalents	\$ 594,893	\$ 1,013,210	\$ 1,084,945	\$ 1,257,012	\$ 1,275,297	\$ 1,262,206	\$ 1,361,723	\$ 1,438,586
Short-term investments	1,062,981	718,129	739,845	648,332	693,110	838,026	962,681	1,021,218
Accounts receivable, net	272,092	399,745	268,718	358,614	376,339	582,636	366,843	479,611
Deferred contract acquisition costs	75,897	86,210	90,004	96,105	103,896	115,827	119,417	125,591
Prepaid expenses and other current assets	41,182	39,353	49,849	56,046	78,608	91,619	80,926	77,702
Total current assets	2,047,045	2,256,647	2,233,361	2,416,109	2,527,250	2,890,314	2,891,590	3,142,708
Property and equipment, net	141,692	160,633	183,425	200,468	222,801	242,355	265,592	294,495
Operating lease right-of-use assets	45,185	72,357	76,199	69,848	68,526	70,671	77,137	87,804
Deferred contract acquisition costs, noncurrent	181,402	210,792	211,468	219,046	232,304	259,407	253,386	255,883
Acquired intangible assets, net	27,034	31,819	29,267	26,716	28,841	25,859	25,623	22,540
Goodwill	59,823	78,547	78,547	78,547	89,192	89,192	92,415	92,415
Other noncurrent assets	22,363	21,870	23,465	29,222	31,798	30,519	29,841	38,381
Total assets	<u>\$ 2,524,544</u>	<u>\$ 2,832,665</u>	<u>\$ 2,835,732</u>	<u>\$ 3,039,956</u>	<u>\$ 3,200,712</u>	<u>\$ 3,608,317</u>	<u>\$ 3,635,584</u>	<u>\$ 3,934,226</u>

Liabilities and stockholders' equity

Current liabilities:

Accounts payable	\$ 15,234	\$ 26,154	\$ 29,717	\$ 33,632	\$ 24,783	\$ 18,481	\$ 23,234	\$ 17,137
Accrued expenses and other current liabilities	43,160	46,496	60,229	43,547	51,209	64,975	70,950	68,217
Accrued compensation	102,678	111,948	79,587	97,293	123,195	136,800	97,568	137,362
Deferred revenue	731,904	923,749	913,104	1,000,359	1,058,901	1,281,143	1,244,528	1,316,416
Operating lease liabilities	19,600	26,100	28,646	29,173	31,054	34,469	38,138	44,773
Total current liabilities	912,576	1,134,447	1,111,283	1,204,004	1,289,142	1,535,868	1,474,418	1,583,905
Convertible senior notes, net ⁽¹⁾	954,578	968,674	1,139,542	1,140,516	1,140,840	1,134,159	1,134,026	1,141,011
Deferred revenue, noncurrent	86,839	97,374	92,609	111,521	116,472	158,533	155,016	185,759
Operating lease liabilities, noncurrent	31,028	50,948	51,065	46,233	42,884	41,917	43,606	47,906
Other noncurrent liabilities	7,946	7,922	9,958	9,025	10,100	12,728	20,993	16,789
Total liabilities	1,992,967	2,259,365	2,404,457	2,511,299	2,599,438	2,883,205	2,828,059	2,975,370

Stockholders' equity

Common stock	142	143	144	145	146	147	148	150
Additional paid-in capital	1,450,139	1,590,885	1,425,156	1,547,203	1,660,930	1,816,915	1,949,189	2,114,041
Accumulated other comprehensive loss	(24,478)	(25,850)	(37,824)	(5,037)	(102)	(1,576)	(17,955)	(3,009)
Accumulated deficit	(894,226)	(991,878)	(956,201)	(1,013,654)	(1,059,700)	(1,090,374)	(1,123,857)	(1,152,326)
Total stockholders' equity	531,577	573,300	431,275	528,657	601,274	725,112	807,525	958,856
Total liabilities and stockholders' equity	<u>\$ 2,524,544</u>	<u>\$ 2,832,665</u>	<u>\$ 2,835,732</u>	<u>\$ 3,039,956</u>	<u>\$ 3,200,712</u>	<u>\$ 3,608,317</u>	<u>\$ 3,635,584</u>	<u>\$ 3,934,226</u>

⁽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 convertible senior notes, which will be recognized as interest expense.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Cash flows from operating activities								
Net loss	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	10,432	11,019	11,876	13,365	14,528	15,987	13,962	15,399
Amortization expense of acquired intangible assets	2,238	2,315	2,552	2,551	2,975	2,982	3,036	3,083
Amortization of deferred contract acquisition costs	17,755	19,738	22,325	23,728	25,315	27,350	30,111	31,393
Amortization of debt discount and issuance costs ⁽¹⁾	13,887	14,098	972	973	974	975	977	978
Non-cash operating lease costs	6,577	6,638	7,108	7,880	8,332	8,892	9,903	11,730
Stock-based compensation expense	105,854	114,817	105,173	109,738	107,819	122,104	129,138	140,432
Amortization (accretion) of investments purchased at a premium (discount)	1,280	638	(165)	(1,268)	(1,956)	(3,193)	(3,199)	(6,383)
Unrealized (gains) losses on hedging transactions	668	476	1,185	(1,881)	(444)	(2,179)	1,564	1,277
Deferred income taxes	138	(41)	65	(56)	149	194	(43)	(1,394)
Other	(314)	(730)	(937)	153	(163)	127	1,031	372
Changes in operating assets and liabilities, net of effects of business acquisitions								
Accounts receivable	(2,827)	(127,887)	130,636	(89,836)	(17,795)	(206,863)	215,082	(112,708)
Deferred contract acquisition costs	(40,549)	(59,441)	(26,795)	(37,407)	(46,364)	(66,384)	(27,680)	(40,064)
Prepaid expenses, other current and noncurrent assets	(15,257)	67	(7,579)	(221)	(21,805)	(10,317)	1,349	1,311
Accounts payable	3,069	11,392	3,000	2,228	(9,307)	(4,337)	4,596	(7,008)
Accrued expenses, other current and noncurrent liabilities	5,121	3,227	3,627	2,272	8,962	11,953	4,859	1,161
Accrued compensation	18,815	9,270	(32,797)	15,146	28,584	13,605	(39,232)	39,794
Deferred revenue	59,001	202,584	(15,340)	106,202	63,394	264,308	(40,154)	102,631
Operating lease liabilities	(7,242)	(7,390)	(8,287)	(6,633)	(8,683)	(8,594)	(11,011)	(11,466)
Net cash provided by operating activities	77,241	103,138	128,457	89,481	108,469	135,936	260,806	142,069
Cash flows from investing activities								
Purchases of property, equipment and other assets	(27,604)	(21,250)	(25,202)	(18,681)	(26,244)	(27,070)	(28,659)	(30,894)
Capitalized internal-use software	(5,892)	(7,117)	(7,641)	(7,982)	(8,339)	(7,565)	(7,429)	(10,387)
Payments for business acquisitions, net of cash acquired	—	(24,907)	—	—	(15,643)	—	(4,377)	—
Purchase of strategic investments	—	—	(700)	(500)	(1,000)	(1,006)	—	(2,000)
Purchases of short-term investments	(185,857)	(34,833)	(210,255)	(303,488)	(226,496)	(323,904)	(375,929)	(385,867)
Proceeds from maturities of short-term investments	325,868	379,595	186,096	400,705	161,365	153,683	253,849	340,838
Proceeds from sale of short-term investments	—	—	—	—	25,083	25,447	—	2,105
Net cash provided by (used in) investing activities	106,515	291,488	(57,702)	70,054	(91,274)	(180,415)	(162,545)	(86,205)
Cash flows from financing activities								
Proceeds from issuance of common stock upon exercise of stock options	1,319	753	982	1,122	1,090	750	1,256	2,592
Proceeds from issuance of common stock under the employee stock purchase plan	—	23,140	—	11,410	—	30,853	—	18,407
Payment of deferred consideration related to business acquisitions	—	(200)	—	—	—	(215)	—	—
Other	(1)	(2)	(2)	—	—	—	—	—
Net cash provided by financing activities	1,318	23,691	980	12,532	1,090	31,388	1,256	20,999
Net increase (decrease) in cash and cash equivalents	185,074	418,317	71,735	172,067	18,285	(13,091)	99,517	76,863
Cash and cash equivalents at beginning of period	409,819	594,893	1,013,210	1,084,945	1,257,012	1,275,297	1,262,206	1,361,723
Cash and cash equivalents at end of period	<u>\$ 594,893</u>	<u>\$ 1,013,210</u>	<u>\$ 1,084,945</u>	<u>\$ 1,257,012</u>	<u>\$ 1,275,297</u>	<u>\$ 1,262,206</u>	<u>\$ 1,361,723</u>	<u>\$ 1,438,586</u>

⁽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 convertible senior notes, which will be recognized as interest expense.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
GAAP gross profit	<u>\$ 222,785</u>	<u>\$ 249,751</u>	<u>\$ 278,851</u>	<u>\$ 299,994</u>	<u>\$ 322,951</u>	<u>\$ 352,324</u>	<u>\$ 385,309</u>	<u>\$ 407,800</u>
Stock-based compensation expense and related payroll taxes	6,511	7,696	8,661	9,595	10,025	12,016	12,955	13,434
Amortization expense of acquired intangible assets	1,980	1,939	1,939	2,175	2,695	2,765	2,717	2,717
Non-GAAP gross profit	<u>\$ 231,276</u>	<u>\$ 259,386</u>	<u>\$ 289,451</u>	<u>\$ 311,764</u>	<u>\$ 335,671</u>	<u>\$ 367,105</u>	<u>\$ 400,981</u>	<u>\$ 423,951</u>
GAAP Gross Margin	78 %	79 %	78 %	77 %	77 %	77 %	78 %	78 %
Non-GAAP gross margin	81 %	82 %	81 %	80 %	80 %	81 %	81 %	81 %
GAAP sales and marketing expense	<u>\$ 192,132</u>	<u>\$ 214,228</u>	<u>\$ 228,836</u>	<u>\$ 235,945</u>	<u>\$ 236,273</u>	<u>\$ 252,810</u>	<u>\$ 267,111</u>	<u>\$ 276,481</u>
Stock-based compensation expense and related payroll taxes	53,576	57,505	55,469	55,213	51,417	60,181	58,668	65,855
Amortization expense of acquired intangible assets	178	178	178	178	200	217	226	226
Non-GAAP sales and marketing expense	<u>\$ 138,378</u>	<u>\$ 156,545</u>	<u>\$ 173,189</u>	<u>\$ 180,554</u>	<u>\$ 184,656</u>	<u>\$ 192,412</u>	<u>\$ 208,217</u>	<u>\$ 210,400</u>
GAAP sales and marketing expense as a percentage of revenue	67 %	67 %	64 %	61 %	56 %	56 %	54 %	53 %
Non-GAAP sales and marketing expense as a percentage of revenue	48 %	49 %	49 %	47 %	44 %	42 %	42 %	40 %
GAAP research and development expense	<u>\$ 76,578</u>	<u>\$ 78,150</u>	<u>\$ 74,946</u>	<u>\$ 85,765</u>	<u>\$ 92,637</u>	<u>\$ 96,387</u>	<u>\$ 113,539</u>	<u>\$ 122,181</u>
Stock-based compensation expense and related payroll taxes	31,366	33,486	25,233	29,380	31,796	34,742	41,043	44,120
Amortization expense of acquired intangible assets	80	198	435	198	80	—	93	140
Non-GAAP research and development expense	<u>\$ 45,132</u>	<u>\$ 44,466</u>	<u>\$ 49,278</u>	<u>\$ 56,187</u>	<u>\$ 60,761</u>	<u>\$ 61,645</u>	<u>\$ 72,403</u>	<u>\$ 77,921</u>
GAAP research and development expense as a percentage of revenue	27 %	25 %	21 %	22 %	22 %	21 %	23 %	23 %
Non-GAAP research and development expense as a percentage of revenue	16 %	14 %	14 %	14 %	15 %	14 %	15 %	15 %
GAAP general and administrative expense	<u>\$ 40,672</u>	<u>\$ 39,902</u>	<u>\$ 44,156</u>	<u>\$ 43,522</u>	<u>\$ 43,486</u>	<u>\$ 46,380</u>	<u>\$ 50,716</u>	<u>\$ 54,595</u>
Stock-based compensation expense and related payroll taxes	20,113	19,628	19,273	17,330	17,112	19,336	20,063	22,127
Non-GAAP general and administrative expense	<u>\$ 20,559</u>	<u>\$ 20,274</u>	<u>\$ 24,883</u>	<u>\$ 26,192</u>	<u>\$ 26,374</u>	<u>\$ 27,044</u>	<u>\$ 30,653</u>	<u>\$ 32,468</u>
GAAP general and administrative expense as a percentage of revenue	14 %	13 %	12 %	11 %	10 %	10 %	10 %	10 %
Non-GAAP general and administrative expense as a percentage of revenue	7 %	6 %	7 %	7 %	6 %	6 %	6 %	6 %
GAAP restructuring and other charges	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,301</u>	<u>\$ 1,299</u>	<u>\$ —</u>	<u>\$ —</u>
Stock-based compensation expense and related payroll taxes	—	—	—	—	1,036	—	—	—
Restructuring and other charges, excluding stock-based compensation expense (1)	—	—	—	—	5,265	1,299	—	—
Non-GAAP restructuring and other charges	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAAP restructuring and other charges as a percentage of revenue	— %	— %	— %	— %	2 %	— %	— %	— %
Non-GAAP restructuring and other charges as a percentage of revenue	— %	— %	— %	— %	— %	— %	— %	— %
GAAP total operating expenses	<u>\$ 309,382</u>	<u>\$ 332,280</u>	<u>\$ 347,938</u>	<u>\$ 365,232</u>	<u>\$ 378,697</u>	<u>\$ 396,876</u>	<u>\$ 431,366</u>	<u>\$ 453,257</u>
Stock-based compensation expense and related payroll taxes ⁽¹⁾	105,055	110,619	99,975	101,923	101,361	114,259	119,774	132,102
Amortization expense of acquired intangible assets	258	376	613	376	280	217	319	366

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	5,265	1,299	—	—
Non-GAAP total operating expenses	\$ 204,069	\$ 221,285	\$ 247,350	\$ 262,933	\$ 271,791	\$ 281,101	\$ 311,273	\$ 320,789
GAAP total operating expenses as a percentage of revenue	108 %	104 %	98 %	94 %	90 %	87 %	87 %	86 %
Non-GAAP total operating expenses as a percentage of revenue	71 %	70 %	70 %	68 %	65 %	62 %	63 %	61 %
GAAP loss from operations	\$ (86,597)	\$ (82,529)	\$ (69,087)	\$ (65,238)	\$ (55,746)	\$ (44,552)	\$ (46,057)	\$ (45,457)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	111,566	118,315	108,636	111,518	111,386	126,275	132,729	145,536
Amortization expense of acquired intangible assets	2,238	2,315	2,552	2,551	2,975	2,982	3,036	3,083
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	5,265	1,299	—	—
Non-GAAP income from operations	\$ 27,207	\$ 38,101	\$ 42,101	\$ 48,831	\$ 63,880	\$ 86,004	\$ 89,708	\$ 103,162
GAAP operating margin	(30)%	(26)%	(19)%	(17)%	(13)%	(10)%	(9)%	(9)%
Non-GAAP operating margin	9 %	12 %	12 %	13 %	15 %	19 %	18 %	20 %
GAAP interest expense	\$ (14,246)	\$ (14,458)	\$ (1,331)	\$ (1,333)	\$ (1,383)	\$ (2,494)	\$ (3,159)	\$ (3,605)
Amortization of debt discount and issuance costs	13,887	14,098	972	973	974	975	977	978
Non-GAAP interest expense	\$ (359)	\$ (360)	\$ (359)	\$ (360)	\$ (409)	\$ (1,519)	\$ (2,182)	\$ (2,627)
GAAP net loss	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	111,566	118,315	108,636	111,518	111,386	126,275	132,729	145,536
Amortization expense of acquired intangible assets	2,238	2,315	2,552	2,551	2,975	2,982	3,036	3,083
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	5,265	1,299	—	—
Amortization of debt discount and issuance costs	13,887	14,098	972	973	974	975	977	978
Provision (benefit) for income taxes (3)	(1,554)	(682)	—	—	—	—	3,259	—
Non-GAAP net income	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589	\$ 74,554	\$ 100,857	\$ 106,518	\$ 121,128
GAAP net loss as a percentage of revenue	(35)%	(31)%	(19)%	(15)%	(11)%	(7)%	(7)%	(5)%
Non-GAAP net income as a percentage of revenue	9 %	11 %	12 %	15 %	18 %	22 %	21 %	23 %
Non-GAAP net income	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589	\$ 74,554	\$ 100,857	\$ 106,518	\$ 121,128
Add: Non-GAAP interest expense related to the convertible senior notes ⁽²⁾	—	—	359	360	359	359	359	359
Numerator used in computing non-GAAP net income per share, diluted	\$ 24,732	\$ 36,394	\$ 44,357	\$ 57,949	\$ 74,913	\$ 101,216	\$ 106,877	\$ 121,487
GAAP net loss per share, basic and diluted	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)	\$ (0.32)	\$ (0.21)	\$ (0.23)	\$ (0.19)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	0.76	0.81	0.70	0.72	0.72	0.80	0.84	0.91
Amortization expense of acquired intangible assets	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	0.03	0.01	—	—
Amortization of debt discount and issuance costs	0.09	0.10	0.01	0.01	0.01	0.01	0.01	0.01
Provision (benefit) for income taxes (3)	(0.01)	—	—	—	—	—	0.02	—

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Non-GAAP interest expense related to the convertible senior notes ⁽²⁾	—	—	—	—	—	—	—	—
Adjustment to total fully diluted earnings per share ⁽⁴⁾	0.03	0.01	0.04	0.02	0.02	0.01	0.01	0.01
Non-GAAP net income per share, diluted ⁽²⁾	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37	\$ 0.48	\$ 0.64	\$ 0.67	\$ 0.76
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	141,422	142,355	143,476	144,511	145,354	146,424	147,625	148,951
Outstanding equity incentive awards	5,493	4,052	3,689	2,605	2,492	3,265	3,431	4,670
Convertible senior notes ⁽²⁾	2,740	208	7,626	7,626	7,626	7,626	7,626	7,626
Antidilutive impact of capped call transactions ⁽⁵⁾	(2,740)	(208)	(588)	—	—	—	(177)	(2,093)
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽²⁾	146,915	146,407	154,203	154,742	155,472	157,315	158,505	159,154

⁽¹⁾ In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million for the year ended July 31, 2023, which is 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 senior convertible 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 provision for income taxes represents primarily the effects of stock-based compensation expense and income tax effects associated with business acquisitions. 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. In the fiscal quarters ended July 31, 2022, we recorded a tax benefit of \$0.7 million, associated with intangible assets recognized as a result of our business acquisitions. In the fiscal quarter ended April 30, 2022, we recorded a tax benefit of \$1.5 million associated with a refund of certain foreign withholding taxes relating to the prior fiscal year. In the fiscal quarter ended October 31, 2023, we recognized a tax expense of \$3.3 million associated with the integration of a business acquisition.

⁽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 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.

⁽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 months ended January 31, 2023, April 30, 2023, July 31, 2023, as the average stock price of our common stock in such periods was lower than the capped calls' exercise price.

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

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Revenue	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999
Free cash flow								
Net cash provided by operating activities	\$ 77,241	\$ 103,138	\$ 128,457	\$ 89,481	\$ 108,469	\$ 135,936	\$ 260,806	\$ 142,069
Less: Purchases of property, equipment and other assets	(27,604)	(21,250)	(25,202)	(18,681)	(26,244)	(27,070)	(28,659)	(30,894)
Less: Capitalized internal-use software	(5,892)	(7,117)	(7,641)	(7,982)	(8,339)	(7,565)	(7,429)	(10,387)
Free cash flow	<u>\$ 43,745</u>	<u>\$ 74,771</u>	<u>\$ 95,614</u>	<u>\$ 62,818</u>	<u>\$ 73,886</u>	<u>\$ 101,301</u>	<u>\$ 224,718</u>	<u>\$ 100,788</u>
Year-over-year growth	(22)%	170 %	15 %	113 %	69 %	35 %	135 %	60 %
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	27 %	32 %	36 %	23 %	26 %	30 %	53 %	27 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(10)%	(6)%	(7)%	(5)%	(6)%	(6)%	(6)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%
Free cash flow margin	<u>15 %</u>	<u>24 %</u>	<u>27 %</u>	<u>16 %</u>	<u>18 %</u>	<u>22 %</u>	<u>45 %</u>	<u>19 %</u>

ZSCALER, INC.**Calculated Billings and Other Selected Key Metrics***(in thousands, except percentages and customer data)**(unaudited)*

Fiscal Quarter	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
End of Fiscal Quarter	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024
Beginning of Fiscal Quarter	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023
Calculated billings								
Revenue	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999
Add: Total deferred revenue, end of period	818,743	1,021,123	1,005,713	1,111,880	1,175,373	1,439,676	1,399,544	1,502,175
Less: Total deferred revenue, beginning of period	(759,931)	(818,743)	(1,021,123)	(1,005,713)	(1,111,880)	(1,175,373)	(1,439,676)	(1,399,544)
Calculated billings	\$ 345,619	\$ 520,439	\$ 340,138	\$ 493,765	\$ 482,293	\$ 719,309	\$ 456,571	\$ 627,630
Year-over-year growth	54 %	57 %	37 %	34 %	40 %	38 %	34 %	27 %

Other key business metrics

Customers with equal or greater than \$100,000 annualized recurring revenue ("ARR")	1,891	2,089	2,217	2,337	2,432	2,609	2,708	2,820
Customers with equal or greater than \$1.0 million ARR	288	327	348	378	400	449	468	497