

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 used in 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 the Company's historical non-GAAP financial measures to their most directly comparable financial measure 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 they are non-cash expenses that management believes are not reflective of our ongoing operational performance. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of the Company's core business operating performance. We also exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us in defending against significant claims that we deem not to be in the ordinary course of our business and, if applicable, actual losses and accruals related to estimated losses in connection with these claims. There are many uncertainties and potential outcomes associated with any litigation, including the expense of litigation, timing of such expenses, court rulings, unforeseen developments, complications and delays, each of which may affect our results of operations from period to period, as well as the unknown magnitude of the potential loss relating to any lawsuit, all of which are inherently subject to change, difficult to predict and could adversely affect our results of operations. 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 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 (Loss) from Operations and Non-GAAP Operating Margin. We define non-GAAP income (loss) from operations and non-GAAP operating margin as GAAP loss from operations and GAAP operating margin, respectively, excluding stock-based compensation expense, amortization expense of acquired intangible assets and certain litigation-related expenses.

Non-GAAP Net Income (Loss) and Non-GAAP Net Income (Loss) per Share Attributable to Common Stockholders, Diluted. We define non-GAAP net income (loss) as GAAP net loss plus stock-based compensation expense, amortization expense of acquired intangible assets, certain litigation-related expenses and accretion of Series C and Series D redeemable convertible preferred stock. We define non-GAAP net income (loss) per share attributable to common stockholders, diluted, as non-GAAP net income (loss) divided by the weighted-average diluted shares outstanding, which includes the dilutive effect of potentially diluted common stock equivalents outstanding during the period.

Pro Forma Non-GAAP Net Income (Loss) per Share Attributable to Common Stockholders, Diluted. We define pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted, as the weighted-average shares used in computing the GAAP net loss per share attributable to common stockholders, diluted, plus a pro forma adjustment to give effect to the automatic conversion, upon the closing of our initial public offering on March 20, 2018, of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. We believe that this adjustment is necessary in order to provide meaningful comparison between periods.

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

Calculated Billings. We define calculated billings as total revenue plus the change in deferred revenue in a period. Calculated billings in any particular period aims to reflect amounts invoiced for subscriptions to access our cloud platform, together with related support services related to 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.

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

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
Revenue	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128
Cost of revenue ^{(1) (2)}	8,034	8,271	8,679	9,424	11,501	12,099	15,271	14,960
Gross profit	28,510	31,590	36,297	39,739	44,673	51,199	59,031	64,168
Operating expenses:								
Sales and marketing ^{(1) (2)}	23,635	26,928	27,110	29,892	32,479	36,545	38,756	45,295
Research and development ^{(1) (2)}	8,609	8,809	9,183	9,907	11,480	13,186	15,071	16,499
General and administrative ^{(1) (3)}	9,320	7,130	6,403	8,964	8,638	10,131	10,386	15,911
Total operating expenses	41,564	42,867	42,696	48,763	52,597	59,862	64,213	77,705
Loss from operations	(13,054)	(11,277)	(6,399)	(9,024)	(7,924)	(8,663)	(5,182)	(13,537)
Interest income, net	190	195	213	596	1,232	1,590	1,924	2,081
Other income (expense), net	(79)	(27)	28	14	64	(188)	250	(144)
Loss before income taxes	(12,943)	(11,109)	(6,158)	(8,414)	(6,628)	(7,261)	(3,008)	(11,600)
Provision for income taxes	326	289	357	357	334	327	547	636
Net loss	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)
Accretion of Series C and D redeemable convertible preferred stock	(2,482)	(2,530)	(2,579)	(1,223)	—	—	—	—
Net loss attributable to common stockholders	\$ (15,751)	\$ (13,928)	\$ (9,094)	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)
Accretion of Series C and D redeemable convertible preferred stock	\$ (0.52)	\$ (0.45)	\$ (0.29)	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽⁴⁾	30,102	30,793	31,434	73,818	119,204	120,587	122,741	124,672

⁽¹⁾ Includes stock-based compensation expense as follows:

Cost of revenue	\$ 103	\$ 109	\$ 126	\$ 199	\$ 323	\$ 503	\$ 619	\$ 686
Sales and marketing	796	785	985	1,493	1,781	2,801	5,517	6,459
Research and development	343	398	494	960	1,193	2,795	4,398	4,194
General and administrative	341	441	459	657	821	1,487	2,693	1,936
Total	\$ 1,583	\$ 1,733	\$ 2,064	\$ 3,309	\$ 4,118	\$ 7,586	\$ 13,227	\$ 13,275

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

Cost of revenue	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 144	\$ 163
Sales and marketing	—	—	—	—	—	—	—	3
Research and development	—	—	—	—	—	95	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 95	\$ 144	\$ 166

⁽³⁾ Includes certain litigation-related expenses as follows:

Litigation-related expenses	\$ 4,301	\$ 2,146	\$ 1,630	\$ 2,836	\$ 1,427	\$ 2,174	\$ 1,768	\$ 6,164
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⁽⁴⁾ Since we have reported GAAP net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of the diluted net loss per share attributable to common stockholders as their effect is antidilutive and accordingly, basic net loss per share equals diluted net loss per share for all periods presented.

ZSCALER, INC.
Non-GAAP Condensed Consolidated Statements of Operations - Fiscal Quarters

(in thousands, except per share amounts)
(unaudited)

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
Revenue	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128
Cost of revenue	7,931	8,162	8,553	9,225	11,178	11,596	14,508	14,111
Gross profit	28,613	31,699	36,423	39,938	44,996	51,702	59,794	65,017
Operating expenses:								
Sales and marketing	22,839	26,143	26,125	28,399	30,698	33,744	33,239	38,833
Research and development	8,266	8,411	8,689	8,947	10,287	10,296	10,673	12,305
General and administrative	4,678	4,543	4,314	5,471	6,390	6,470	5,925	7,811
Total operating expenses	35,783	39,097	39,128	42,817	47,375	50,510	49,837	58,949
Income (loss) from operations	(7,170)	(7,398)	(2,705)	(2,879)	(2,379)	1,192	9,957	6,068
Interest income, net	190	195	213	596	1,232	1,590	1,924	2,081
Other income (expense), net	(79)	(27)	28	14	64	(188)	250	(144)
Income (loss) before income taxes	(7,059)	(7,230)	(2,464)	(2,269)	(1,083)	2,594	12,131	8,005
Provision for income taxes ⁽¹⁾	326	289	357	357	334	327	547	636
Non-GAAP net income (loss) attributable to common stockholders	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369
Non-GAAP net income (loss) per share attributable to common stockholders, diluted	\$ (0.25)	\$ (0.24)	\$ (0.09)	\$ (0.04)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	30,102	30,793	31,434	73,818	119,204	133,845	134,246	136,538
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	\$ (0.07)	\$ (0.07)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05
Weighted-average shares used in computing pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	102,603	103,293	103,935	112,105	119,204	133,845	134,246	136,538

⁽¹⁾ We use our GAAP provision for income taxes for purposes of determining our non-GAAP results. The difference between our GAAP and non-GAAP income tax expense primarily represents the excess tax deduction of stock-based compensation recognized in foreign jurisdictions. The income tax benefit included in the GAAP provision for income tax reported for fiscal Q1 FY19 was \$0.3 million and not material for all other periods presented. For our U.S. entities, we do not include the impact of income taxes on the non-GAAP items due to our continued history of non-GAAP losses and full valuation allowance.

⁽²⁾ We define pro forma non-GAAP net income (loss) per share attributable to common stockholders as the weighted-average shares used in computing the non-GAAP net income (loss) per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis. For further information, refer to the GAAP to Non-GAAP Reconciliations section included in this Supplemental Financial Information.

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

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Assets								
Current assets:								
Cash and cash equivalents	\$ 87,978	\$ 75,760	\$ 71,569	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974
Short-term investments	—	—	—	—	162,960	271,254	272,476	297,762
Accounts receivable, net	39,052	30,431	47,536	40,215	61,611	49,228	75,470	71,151
Deferred contract acquisition costs	10,469	10,815	12,271	13,753	16,136	16,387	18,058	19,391
Prepaid expenses and other current assets	5,410	6,085	6,754	9,036	10,878	11,949	12,540	12,765
Total current assets	142,909	123,091	138,130	350,447	387,164	391,604	446,011	456,043
Property and equipment, net	13,139	15,712	16,858	20,441	19,765	24,132	25,762	31,976
Deferred contract acquisition costs, noncurrent	24,193	25,187	27,672	32,755	39,774	39,591	42,543	44,714
Other noncurrent assets	2,661	5,096	5,512	1,895	1,078	2,767	3,797	4,803
Total assets	\$ 182,902	\$ 169,086	\$ 188,172	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)								
Current liabilities:								
Accounts payable	\$ 3,763	\$ 2,404	\$ 2,343	\$ 4,944	\$ 4,895	\$ 4,573	\$ 3,459	\$ 3,585
Accrued expenses and other current liabilities	11,648	12,673	11,177	13,767	12,313	14,925	13,934	11,815
Accrued compensation	11,608	8,115	10,423	14,820	23,393	18,686	15,541	21,845
Liability for early exercised unvested stock	7,972	4,120	4,522	2,625	1,561	1,249	972	695
Deferred revenue	85,468	88,461	107,907	111,035	140,670	144,472	176,326	183,622
Total current liabilities	120,459	115,773	136,372	147,191	182,832	183,905	210,232	221,562
Deferred revenue, noncurrent	11,151	9,805	11,350	13,771	23,353	20,807	29,694	27,920
Other noncurrent liabilities	1,457	1,411	1,422	1,384	1,360	1,204	1,114	1,475
Total liabilities	133,067	126,989	149,144	162,346	207,545	205,916	241,040	250,957
Redeemable convertible preferred stock	200,977	203,507	206,086	—	—	—	—	—
Stockholders' equity (deficit):								
Common stock	18	19	19	119	119	122	124	126
Additional paid-in capital	18,734	20,133	21,045	434,250	438,392	455,761	483,951	505,531
Notes receivable from stockholders	(7,878)	(7,710)	(7,755)	(2,039)	(2,051)	—	—	—
Accumulated other comprehensive income (loss)	—	—	—	—	(124)	(317)	(59)	101
Accumulated deficit	(162,016)	(173,852)	(180,367)	(189,138)	(196,100)	(203,388)	(206,943)	(219,179)
Total stockholders' equity (deficit)	(151,142)	(161,410)	(167,058)	243,192	240,236	252,178	277,073	286,579
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$ 182,902	\$ 169,086	\$ 188,172	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536

ZSCALER, INC
Condensed Consolidated Cash flows - Fiscal Quarters
(in thousands)
(unaudited)

Fiscal Reporting Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
Cash flows from operating activities								
Net loss	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:								
Depreciation and amortization expense	1,833	1,921	1,989	1,932	2,146	2,170	2,492	2,669
Amortization of acquired intangible assets	—	—	—	—	—	95	144	166
Amortization of deferred contract acquisition costs	2,482	2,868	3,064	3,422	3,827	4,324	4,457	4,724
Stock-based compensation expense	1,583	1,733	2,064	3,309	4,118	7,586	13,227	13,275
Accretion of purchased discounts, net of amortization of investment premiums	—	—	—	—	—	(493)	(632)	(577)
Other	(43)	(47)	(45)	370	(148)	176	26	42
Changes in operating assets and liabilities, net of effects of acquisitions::								
Accounts receivable	(14,818)	8,621	(17,103)	7,321	(21,398)	12,383	(26,242)	4,319
Deferred contract acquisition costs	(10,339)	(4,208)	(7,005)	(9,987)	(13,229)	(4,392)	(9,080)	(8,228)
Prepaid expenses and other assets	(1,280)	(686)	(408)	(2,247)	(1,727)	(1,138)	(1,640)	(583)
Accounts payable	2,111	(2,065)	(146)	591	841	(768)	(18)	175
Accrued expenses and other liabilities	4,243	755	(310)	2,231	(600)	2,110	(1,068)	(2,089)
Accrued compensation	4,910	(3,493)	2,308	4,397	8,573	(4,707)	(3,145)	6,304
Deferred revenue	18,879	1,647	20,991	5,549	39,217	1,256	40,741	5,522
Net cash provided by (used in) operating activities	(3,708)	(4,352)	(1,116)	8,117	14,658	11,014	15,707	13,483
Cash flows from investing activities:								
Purchases of property and equipment	(1,492)	(4,010)	(3,035)	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)
Capitalized internal-use software	(245)	(534)	(416)	(474)	(349)	(356)	(547)	(810)
Acquired intangible assets	—	—	—	—	—	(1,480)	—	—
Payments for business acquisitions, net of cash acquired	—	—	—	—	—	—	—	(823)
Purchases of short-term investments	—	—	—	—	(163,366)	(137,429)	(42,467)	(92,428)
Proceeds from maturities of short-term investments	—	—	—	—	433	29,333	42,270	67,758
Net cash used in investing activities	(1,737)	(4,544)	(3,451)	(4,437)	(165,671)	(115,346)	(3,937)	(34,394)
Cash flows from financing activities:								
Proceeds from initial public offering, net of underwriting discounts and commissions	—	—	—	205,344	—	—	—	—
Payments of offering costs related to initial public offering	(31)	(1,443)	(1,453)	(670)	(770)	(230)	(1,567)	—
Proceeds from issuance of common stock upon exercise of stock options	1,556	1,211	960	2,174	640	9,796	5,697	8,030
Proceeds from issuance of common stock related to early exercised stock options	4,701	—	869	—	—	—	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	—	—	—	—	—	—	8,691	—
Repurchase of unvested common stock	—	(3,090)	—	—	(721)	(22)	—	—
Repayment of notes receivable from stockholders	—	—	—	5,346	—	1,905	—	—
Net cash provided by (used in) financing activities	6,226	(3,322)	376	212,194	(851)	11,449	12,821	8,030
Net increase (decrease) in cash, cash equivalents and restricted cash	781	(12,218)	(4,191)	215,874	(151,864)	(92,883)	24,591	(12,881)
Cash, cash equivalents and restricted cash at beginning of period	87,765	88,546	76,328	72,137	288,011	136,147	43,264	67,855
Cash, cash equivalents and restricted cash at end of period	<u>\$ 88,546</u>	<u>\$ 76,328</u>	<u>\$ 72,137</u>	<u>\$ 288,011</u>	<u>\$ 136,147</u>	<u>\$ 43,264</u>	<u>\$ 67,855</u>	<u>\$ 54,974</u>
Reconciliation of cash, cash equivalents, and restricted cash with condensed consolidated balance sheets :								
Cash and cash equivalents	\$ 87,978	\$ 75,760	\$ 71,569	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974
Restricted cash (within other current assets)	—	180	180	180	236	186	96	—
Restricted cash (within other noncurrent assets)	568	388	388	388	332	292	292	—
Total cash, cash equivalents and restricted cash	<u>\$ 88,546</u>	<u>\$ 76,328</u>	<u>\$ 72,137</u>	<u>\$ 288,011</u>	<u>\$ 136,147</u>	<u>\$ 43,264</u>	<u>\$ 67,855</u>	<u>\$ 54,974</u>

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

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
GAAP gross profit	\$ 28,510	\$ 31,590	\$ 36,297	\$ 39,739	\$ 44,673	\$ 51,199	\$ 59,031	\$ 64,168
Stock-based compensation expense	103	109	126	199	323	503	619	686
Amortization expense of acquired intangible assets	—	—	—	—	—	—	144	163
Non-GAAP gross profit	<u>\$ 28,613</u>	<u>\$ 31,699</u>	<u>\$ 36,423</u>	<u>\$ 39,938</u>	<u>\$ 44,996</u>	<u>\$ 51,702</u>	<u>\$ 59,794</u>	<u>\$ 65,017</u>
Non-GAAP gross margin	<u>78 %</u>	<u>80 %</u>	<u>81 %</u>	<u>81 %</u>	<u>80 %</u>	<u>82 %</u>	<u>80 %</u>	<u>82 %</u>
GAAP sales and marketing expense	\$ 23,635	\$ 26,928	\$ 27,110	\$ 29,892	\$ 32,479	\$ 36,545	\$ 38,756	\$ 45,295
Stock-based compensation expense	796	785	985	1,493	1,781	2,801	5,517	6,459
Amortization expense of acquired intangible assets	—	—	—	—	—	—	—	3
Non-GAAP sales and marketing expense	<u>\$ 22,839</u>	<u>\$ 26,143</u>	<u>\$ 26,125</u>	<u>\$ 28,399</u>	<u>\$ 30,698</u>	<u>\$ 33,744</u>	<u>\$ 33,239</u>	<u>\$ 38,833</u>
Non-GAAP sales and marketing expense as a percentage of revenue	<u>62 %</u>	<u>66 %</u>	<u>58 %</u>	<u>58 %</u>	<u>55 %</u>	<u>53 %</u>	<u>45 %</u>	<u>49 %</u>
GAAP research and development expense	\$ 8,609	\$ 8,809	\$ 9,183	\$ 9,907	\$ 11,480	\$ 13,186	\$ 15,071	\$ 16,499
Stock-based compensation expense	343	398	494	960	1,193	2,795	4,398	4,194
Amortization expense of acquired intangible assets	—	—	—	—	—	95	—	—
Non-GAAP research and development expense	<u>\$ 8,266</u>	<u>\$ 8,411</u>	<u>\$ 8,689</u>	<u>\$ 8,947</u>	<u>\$ 10,287</u>	<u>\$ 10,296</u>	<u>\$ 10,673</u>	<u>\$ 12,305</u>
Non-GAAP research and development expense as a percentage of revenue	<u>23 %</u>	<u>21 %</u>	<u>19 %</u>	<u>18 %</u>	<u>18 %</u>	<u>16 %</u>	<u>14 %</u>	<u>16 %</u>
GAAP general and administrative expense	\$ 9,320	\$ 7,130	\$ 6,403	\$ 8,964	\$ 8,638	\$ 10,131	\$ 10,386	\$ 15,911
Stock-based compensation expense	341	441	459	657	821	1,487	2,693	1,936
Litigation-related expenses	4,301	2,146	1,630	2,836	1,427	2,174	1,768	6,164
Non-GAAP general and administrative expense	<u>\$ 4,678</u>	<u>\$ 4,543</u>	<u>\$ 4,314</u>	<u>\$ 5,471</u>	<u>\$ 6,390</u>	<u>\$ 6,470</u>	<u>\$ 5,925</u>	<u>\$ 7,811</u>
Non-GAAP general and administrative expense as a percentage of revenue	<u>13 %</u>	<u>11 %</u>	<u>10 %</u>	<u>11 %</u>	<u>11 %</u>	<u>10 %</u>	<u>8 %</u>	<u>10 %</u>
GAAP total operating expenses	\$ 41,564	\$ 42,867	\$ 42,696	\$ 48,763	\$ 52,597	\$ 59,862	\$ 64,213	\$ 77,705
Stock-based compensation expense	1,480	1,624	1,938	3,110	3,795	7,083	12,608	12,589
Litigation-related expenses	4,301	2,146	1,630	2,836	1,427	2,174	1,768	6,164
Amortization expense of acquired intangible assets	—	—	—	—	—	95	—	3
Non-GAAP total operating expenses	<u>\$ 35,783</u>	<u>\$ 39,097</u>	<u>\$ 39,128</u>	<u>\$ 42,817</u>	<u>\$ 47,375</u>	<u>\$ 50,510</u>	<u>\$ 49,837</u>	<u>\$ 58,949</u>
Non-GAAP total operating expenses as a percentage of revenue	<u>98 %</u>	<u>98 %</u>	<u>87 %</u>	<u>87 %</u>	<u>84 %</u>	<u>80 %</u>	<u>67 %</u>	<u>74 %</u>
GAAP loss from operations	\$ (13,054)	\$ (11,277)	\$ (6,399)	\$ (9,024)	\$ (7,924)	\$ (8,663)	\$ (5,182)	\$ (13,537)
Stock-based compensation expense	1,583	1,733	2,064	3,309	4,118	7,586	13,227	13,275
Litigation-related expenses	4,301	2,146	1,630	2,836	1,427	2,174	1,768	6,164
Amortization expense of acquired intangible assets	—	—	—	—	—	95	144	166
Non-GAAP income (loss) from operations	<u>\$ (7,170)</u>	<u>\$ (7,398)</u>	<u>\$ (2,705)</u>	<u>\$ (2,879)</u>	<u>\$ (2,379)</u>	<u>\$ 1,192</u>	<u>\$ 9,957</u>	<u>\$ 6,068</u>
Non-GAAP operating margin	<u>(20)%</u>	<u>(19)%</u>	<u>(6)%</u>	<u>(6)%</u>	<u>(4)%</u>	<u>2 %</u>	<u>13 %</u>	<u>8 %</u>

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
GAAP net loss	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)
Stock-based compensation expense	1,583	1,733	2,064	3,309	4,118	7,586	13,227	13,275
Litigation-related expenses	4,301	2,146	1,630	2,836	1,427	2,174	1,768	6,164
Amortization expense of acquired intangible assets	—	—	—	—	—	95	144	166
Provision for income taxes ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net income (loss)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369
GAAP net loss attributable to common stockholders	\$ (15,751)	\$ (13,928)	\$ (9,094)	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)
Stock-based compensation expense	1,583	1,733	2,064	3,309	4,118	7,586	13,227	13,275
Litigation-related expenses	4,301	2,146	1,630	2,836	1,427	2,174	1,768	6,164
Amortization expense of acquired intangible assets	—	—	—	—	—	95	144	166
Accretion of Series C and D redeemable convertible preferred stock	2,482	2,530	2,579	1,223	—	—	—	—
Provision for income taxes ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net income (loss) attributable to common stockholders	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369
GAAP net loss per share attributable to common stockholders, basic and diluted	\$ (0.52)	\$ (0.45)	\$ (0.29)	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)
Stock-based compensation expense	0.05	0.06	0.07	0.04	0.03	0.06	0.10	0.10
Litigation-related expenses	0.14	0.07	0.05	0.04	0.01	0.02	0.01	0.05
Amortization expense of acquired intangible assets	—	—	—	—	—	—	—	—
Accretion of Series C and D redeemable convertible preferred stock	0.08	0.08	0.08	0.02	—	—	—	—
Provision for income taxes ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	\$ (0.25)	\$ (0.24)	\$ (0.09)	\$ (0.04)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	30,102	30,793	31,434	73,818	119,204	133,845	134,246	136,538
Numerator:								
Non-GAAP net income (loss) attributable to common stockholders (from above)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369
Denominator:								
Weighted-average shares used in computing of GAAP net loss per share attributable to common stockholders, basic and diluted ⁽³⁾	30,102	30,793	31,434	73,818	119,204	120,587	122,741	124,672
Potentially diluted shares	—	—	—	—	—	13,258	11,505	11,866
Pro forma adjustment to reflect assumed conversion of our convertible preferred stock as of the beginning of the period ⁽⁴⁾	72,501	72,500	72,501	38,287	—	—	—	—
Weighted-average shares used in computing the pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽⁴⁾	102,603	103,293	103,935	112,105	119,204	133,845	134,246	136,538
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽⁴⁾	\$ (0.07)	\$ (0.07)	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05

⁽¹⁾ We use our GAAP provision for income taxes for purposes of determining our non-GAAP results. The difference between our GAAP and non-GAAP income tax expense primarily represents the excess tax deduction of stock-based compensation recognized in foreign jurisdictions. The income tax benefit included in the GAAP provision for income tax reported for fiscal Q1 FY19 was \$0.3 million and not material for all other periods presented. For our U.S. entities, we do not include the impact of income taxes on the non-GAAP items due to our continued history of non-GAAP losses and full valuation allowance.

⁽²⁾ The sum of the non-GAAP per share attributable to common stockholders of individual line items excluded from our non-GAAP net loss may not total to the non-GAAP net loss per share attributable to common stockholders due to rounding.

⁽³⁾ Since we have reported GAAP net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of the diluted net loss per share attributable to common stockholders as their effect is antidilutive and accordingly, basic net loss per share equals diluted net loss per share for all periods presented.

⁽⁴⁾ We define pro forma non-GAAP net income (loss) per share attributable to common stockholders as the weighted-average shares used in computing the GAAP net loss per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis.

ZSCALER, INC.

Non-GAAP Free Cash Flow and Free Cash Flow Margin - Fiscal Quarter

(in thousands)

(unaudited)

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
Non-GAAP Free Cash Flows								
Net cash provided by (used in) operating activities	\$ (3,708)	\$ (4,352)	\$ (1,116)	\$ 8,117	\$ 14,658	\$ 11,014	\$ 15,707	\$ 13,483
Less: Purchases of property and equipment	(1,492)	(4,010)	(3,035)	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)
Less: Capitalized internal-use software costs	(245)	(534)	(416)	(474)	(349)	(356)	(547)	(810)
Free cash flow	<u>\$ (5,445)</u>	<u>\$ (8,896)</u>	<u>\$ (4,567)</u>	<u>\$ 3,680</u>	<u>\$ 11,920</u>	<u>\$ 5,244</u>	<u>\$ 11,967</u>	<u>\$ 4,582</u>
Free Cash Flow Margin								
Net cash provided by (used in) operating activities as a percentage of revenue	(10)%	(11)%	(2)%	16 %	26 %	17 %	21 %	17 %
Less: Purchases of property and equipment as a percentage of revenue	(4)	(10)	(7)	(8)	(4)	(8)	(4)	(10)
Less: Capitalized internal-use software costs as a percentage of revenue	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Free cash flow margin	<u>(15)%</u>	<u>(22)%</u>	<u>(10)%</u>	<u>7 %</u>	<u>21 %</u>	<u>8 %</u>	<u>16 %</u>	<u>6 %</u>

ZSCALER, INC.

Non-GAAP Calculated Billings - Fiscal Quarters

(in thousands)

(unaudited)

Fiscal Quarter	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19
End of Fiscal Quarter	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019
Beginning of Fiscal Quarter	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019
Calculated Billings								
Total revenue	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128
Add: Total deferred revenue, end of period	96,619	98,266	119,257	124,806	164,023	165,279	206,020	211,542
Less: Total deferred revenue, beginning of period	(77,740)	(96,619)	(98,266)	(119,257)	(124,806)	(164,023)	(165,279)	(206,020)
Calculated billings	<u>\$ 55,423</u>	<u>\$ 41,508</u>	<u>\$ 65,967</u>	<u>\$ 54,712</u>	<u>\$ 95,391</u>	<u>\$ 64,554</u>	<u>\$ 115,043</u>	<u>\$ 84,650</u>
Year-over-year growth - calculated billings	65 %	65 %	49 %	73 %	72 %	56 %	74 %	55 %