

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, accretion of Series C and Series D redeemable convertible preferred stock, income tax effects generated by the excess tax deduction of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. 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	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
Revenue	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590
Cost of revenue ^{(1) (2)}	8,679	9,424	11,501	12,099	15,271	14,960	17,339	19,558
Gross profit	36,297	39,739	44,673	51,199	59,031	64,168	68,769	74,032
Operating expenses:								
Sales and marketing ^{(1) (2)}	27,110	29,892	32,479	36,545	38,756	45,295	49,317	59,411
Research and development ^{(1) (2)}	9,183	9,907	11,480	13,186	15,071	16,499	17,213	20,271
General and administrative ^{(1) (3)}	6,403	8,964	8,638	10,131	10,386	15,911	10,170	12,625
Total operating expenses	42,696	48,763	52,597	59,862	64,213	77,705	76,700	92,307
Loss from operations	(6,399)	(9,024)	(7,924)	(8,663)	(5,182)	(13,537)	(7,931)	(18,275)
Interest income, net	213	596	1,232	1,590	1,924	2,081	2,135	2,022
Other income (expense), net	28	14	64	(188)	250	(144)	(247)	(29)
Loss before income taxes	(6,158)	(8,414)	(6,628)	(7,261)	(3,008)	(11,600)	(6,043)	(16,282)
Provision (benefit) for income taxes	357	357	334	327	547	636	(767)	794
Net loss	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)
Accretion of Series C and D redeemable convertible preferred stock	(2,579)	(1,223)	—	—	—	—	—	—
Net loss attributable to common stockholders	\$ (9,094)	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.29)	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)	\$ (0.04)	\$ (0.13)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽⁴⁾	31,434	73,818	119,204	120,587	122,741	124,672	126,302	127,548

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

Cost of revenue	\$ 126	\$ 199	\$ 323	\$ 503	\$ 619	\$ 686	\$ 1,118	\$ 1,381
Sales and marketing	985	1,493	1,781	2,801	5,517	6,459	8,341	10,039
Research and development	494	960	1,193	2,795	4,398	4,194	3,703	4,874
General and administrative	459	657	821	1,487	2,693	1,936	(827)	2,082
Total	\$ 2,064	\$ 3,309	\$ 4,118	\$ 7,586	\$ 13,227	\$ 13,275	\$ 12,335	\$ 18,376

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

Cost of revenue	\$ —	\$ —	\$ —	\$ —	\$ 144	\$ 163	\$ 205	\$ 205
Sales and marketing	—	—	—	—	—	3	7	8
Research and development	—	—	—	95	—	—	291	566
Total	\$ —	\$ —	\$ —	\$ 95	\$ 144	\$ 166	\$ 503	\$ 779

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

Litigation-related expenses	\$ 1,630	\$ 2,836	\$ 1,427	\$ 2,174	\$ 1,768	\$ 6,164	\$ 2,973	\$ 2,007
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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	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
Revenue	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590
Cost of revenue	8,553	9,225	11,178	11,596	14,508	14,111	16,016	17,972
Gross profit	36,423	39,938	44,996	51,702	59,794	65,017	70,092	75,618
Operating expenses:								
Sales and marketing	26,125	28,399	30,698	33,744	33,239	38,833	40,969	49,364
Research and development	8,689	8,947	10,287	10,296	10,673	12,305	13,219	14,831
General and administrative	4,314	5,471	6,390	6,470	5,925	7,811	8,024	8,536
Total operating expenses	39,128	42,817	47,375	50,510	49,837	58,949	62,212	72,731
Income (loss) from operations	(2,705)	(2,879)	(2,379)	1,192	9,957	6,068	7,880	2,887
Interest income, net	213	596	1,232	1,590	1,924	2,081	2,135	2,022
Other income (expense), net	28	14	64	(188)	250	(144)	(247)	(29)
Income (loss) before income taxes	(2,464)	(2,269)	(1,083)	2,594	12,131	8,005	9,768	4,880
Provision for income taxes ⁽¹⁾	357	357	334	327	547	636	655	794
Non-GAAP net income (loss) attributable to common stockholders	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086
Non-GAAP net income (loss) per share attributable to common stockholders, diluted	\$ (0.09)	\$ (0.04)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	31,434	73,818	119,204	133,845	134,246	136,538	137,545	136,860
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	\$ (0.03)	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.09	\$ 0.05	\$ 0.07	\$ 0.03
Weighted-average shares used in computing pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	103,935	112,105	119,204	133,845	134,246	136,538	137,545	136,860

⁽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 excess tax deduction of stock-based compensation recognized in foreign jurisdictions and any income tax benefits associated with business combinations. The income tax benefit related to stock-based compensation and included in the GAAP provision for income taxes was not material for all periods presented. In the fiscal quarter ended July 31, 2019, we recorded a non-recurring tax benefit of \$1.4 million associated with an intangible asset recognized as a result of our acquisition of Appslulate, Inc.

⁽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	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019 (*)
Assets								
Current assets:								
Cash and cash equivalents	\$ 71,569	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974	\$ 78,484	\$ 69,346
Short-term investments	—	—	162,960	271,254	272,476	297,762	286,162	308,285
Accounts receivable, net	47,536	40,215	61,611	49,228	75,470	71,151	93,341	70,482
Deferred contract acquisition costs	12,271	13,753	16,136	16,387	18,058	19,391	21,219	22,060
Prepaid expenses and other current assets	6,754	9,036	10,878	11,949	12,540	12,765	16,880	18,713
Total current assets	138,130	350,447	387,164	391,604	446,011	456,043	496,086	488,886
Property and equipment, net	16,858	20,441	19,765	24,132	25,762	31,976	41,046	48,361
Operating lease right-of-use assets (*)	—	—	—	—	—	—	—	32,585
Deferred contract acquisition costs, noncurrent	27,672	32,755	39,774	39,591	42,543	44,714	48,566	48,366
Acquired intangible assets, net	—	—	—	1,621	1,477	2,211	8,708	7,929
Goodwill	—	—	—	—	—	198	7,479	7,479
Other noncurrent assets	5,512	1,895	1,078	1,146	2,320	2,394	2,277	2,622
Total assets	\$ 188,172	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536	\$ 604,162	\$ 636,228
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)								
Current liabilities:								
Accounts payable	\$ 2,343	\$ 4,944	\$ 4,895	\$ 4,573	\$ 3,459	\$ 3,585	\$ 6,208	\$ 3,784
Accrued expenses and other current liabilities	15,699	16,392	13,874	16,174	14,906	12,510	12,810	12,003
Accrued compensation	10,423	14,820	23,393	18,686	15,541	21,845	21,544	22,926
Deferred revenue	107,907	111,035	140,670	144,472	176,326	183,622	221,387	218,191
Operating lease liabilities (*)	—	—	—	—	—	—	—	9,413
Total current liabilities	136,372	147,191	182,832	183,905	210,232	221,562	261,949	266,317
Deferred revenue, noncurrent	11,350	13,771	23,353	20,807	29,694	27,920	29,815	27,678
Operating lease liabilities, noncurrent (*)	—	—	—	—	—	—	—	24,825
Other noncurrent liabilities	1,422	1,384	1,360	1,204	1,114	1,475	3,840	3,356
Total liabilities	149,144	162,346	207,545	205,916	241,040	250,957	295,604	322,176
Redeemable convertible preferred stock	206,086	—	—	—	—	—	—	—
Stockholders' equity (deficit):								
Common stock	19	119	119	122	124	126	127	128
Additional paid-in capital	21,045	434,250	438,392	455,761	483,951	505,531	532,618	555,019
Notes receivable from stockholders	(7,755)	(2,039)	(2,051)	—	—	—	—	—
Accumulated other comprehensive income (loss)	—	—	(124)	(317)	(59)	101	268	436
Accumulated deficit	(180,367)	(189,138)	(196,100)	(203,388)	(206,943)	(219,179)	(224,455)	(241,531)
Total stockholders' equity (deficit)	(167,058)	243,192	240,236	252,178	277,073	286,579	308,558	314,052
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$ 188,172	\$ 405,538	\$ 447,781	\$ 458,094	\$ 518,113	\$ 537,536	\$ 604,162	\$ 636,228

(*) On August 1, 2019, we adopted the new leasing accounting standard using the transitional provision that allows us for the adoption of Topic 842 to be applied prospectively at the beginning of the fiscal year of adoption. As such, the condensed consolidated balance sheets for prior periods are not comparable to our fiscal 2020. The adoption of this standard resulted in the recognition of the operating lease right-of-use assets and operating lease liabilities related to our real estate and co-location arrangements.

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

Fiscal Reporting Quarter	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
Cash flows from operating activities								
Net loss	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:								
Depreciation and amortization expense	1,989	1,932	2,146	2,170	2,492	2,669	3,067	3,582
Amortization of acquired intangible assets	—	—	—	95	144	166	503	779
Amortization of deferred contract acquisition costs	3,064	3,422	3,827	4,324	4,457	4,724	5,146	5,535
Amortization of operating lease right-of-use assets	—	—	—	—	—	—	—	2,596
Stock-based compensation expense	2,064	3,309	4,118	7,586	13,227	13,275	12,335	18,376
Deferred income taxes	—	—	—	—	—	—	(1,392)	(49)
Accretion of purchased discounts, net of amortization of investment premiums	—	—	—	(493)	(632)	(577)	(479)	(300)
Other	(45)	370	(148)	176	26	42	40	223
Changes in operating assets and liabilities, net of effects of business acquisitions:								
Accounts receivable	(17,103)	7,321	(21,398)	12,383	(26,242)	4,319	(22,190)	22,859
Deferred contract acquisition costs	(7,005)	(9,987)	(13,229)	(4,392)	(9,080)	(8,228)	(10,826)	(6,176)
Prepaid expenses, other current and noncurrent assets	(408)	(2,247)	(1,727)	(1,138)	(1,640)	(583)	(4,281)	(2,471)
Accounts payable	(146)	591	841	(768)	(18)	175	1,106	(38)
Accrued expenses, other current and noncurrent liabilities	(310)	2,231	(600)	2,110	(1,068)	(2,089)	711	(466)
Accrued compensation	2,308	4,397	8,573	(4,707)	(3,145)	6,304	(301)	1,382
Deferred revenue	20,991	5,549	39,217	1,256	40,741	5,522	39,660	(5,333)
Operating lease liabilities	—	—	—	—	—	—	—	(1,994)
Net cash provided by (used in) operating activities	(1,116)	8,117	14,658	11,014	15,707	13,483	17,823	21,429
Cash flows from investing activities:								
Purchases of property and equipment	(3,035)	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)	(8,822)	(10,210)
Capitalized internal-use software	(416)	(474)	(349)	(356)	(547)	(810)	(1,449)	(1,802)
Acquired intangible assets	—	—	—	(1,480)	—	—	—	—
Payments for business acquisitions, net of cash acquired	—	—	—	—	—	(823)	(10,609)	—
Purchases of short-term investments	—	—	(163,366)	(137,429)	(42,467)	(92,428)	(62,862)	(88,410)
Proceeds from maturities of short-term investments	—	—	433	29,333	42,270	67,758	60,355	66,796
Proceeds from sale of short-term investments	—	—	—	—	—	—	14,990	—
Net cash used in investing activities	(3,451)	(4,437)	(165,671)	(115,346)	(3,937)	(34,394)	(8,397)	(33,626)
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	(1,453)	(670)	(770)	(230)	(1,567)	—	—	—
Proceeds from issuance of common stock upon exercise of stock options	960	2,174	640	9,796	5,697	8,030	6,339	3,059
Proceeds from issuance of common stock related to early exercised stock options	869	—	—	—	—	—	—	—
Proceeds from issuance of common stock under the employee stock purchase plan	—	—	—	—	8,691	—	7,745	—
Repurchase of unvested common stock	—	—	(721)	(22)	—	—	—	—
Repayment of notes receivable from stockholders	—	5,346	—	1,905	—	—	—	—
Net cash provided by (used in) financing activities	376	212,194	(851)	11,449	12,821	8,030	14,084	3,059
Net increase (decrease) in cash, cash equivalents and restricted cash	(4,191)	215,874	(151,864)	(92,883)	24,591	(12,881)	23,510	(9,138)
Cash, cash equivalents and restricted cash at beginning of period	76,328	72,137	288,011	136,147	43,264	67,855	54,974	78,484
Cash, cash equivalents and restricted cash at end of period	\$ 72,137	\$ 288,011	\$ 136,147	\$ 43,264	\$ 67,855	\$ 54,974	\$ 78,484	\$ 69,346
Reconciliation of cash, cash equivalents and restricted cash with condensed consolidated balance sheets :								
Cash and cash equivalents	\$ 71,569	\$ 287,443	\$ 135,579	\$ 42,786	\$ 67,467	\$ 54,974	\$ 78,484	\$ 69,346
Restricted cash, current	180	180	236	186	96	—	—	—
Restricted cash, non-current	388	388	332	292	292	—	—	—
Total cash, cash equivalents and restricted cash	\$ 72,137	\$ 288,011	\$ 136,147	\$ 43,264	\$ 67,855	\$ 54,974	\$ 78,484	\$ 69,346

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

Fiscal Quarter	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
GAAP gross profit	\$ 36,297	\$ 39,739	\$ 44,673	\$ 51,199	\$ 59,031	\$ 64,168	\$ 68,769	\$ 74,032
Stock-based compensation expense	126	199	323	503	619	686	1,118	1,381
Amortization expense of acquired intangible assets	—	—	—	—	144	163	205	205
Non-GAAP gross profit	<u>\$ 36,423</u>	<u>\$ 39,938</u>	<u>\$ 44,996</u>	<u>\$ 51,702</u>	<u>\$ 59,794</u>	<u>\$ 65,017</u>	<u>\$ 70,092</u>	<u>\$ 75,618</u>
Non-GAAP gross margin	<u>81 %</u>	<u>81 %</u>	<u>80 %</u>	<u>82 %</u>	<u>80 %</u>	<u>82 %</u>	<u>81 %</u>	<u>81 %</u>
GAAP sales and marketing expense	\$ 27,110	\$ 29,892	\$ 32,479	\$ 36,545	\$ 38,756	\$ 45,295	\$ 49,317	\$ 59,411
Stock-based compensation expense	985	1,493	1,781	2,801	5,517	6,459	8,341	10,039
Amortization expense of acquired intangible assets	—	—	—	—	—	3	7	8
Non-GAAP sales and marketing expense	<u>\$ 26,125</u>	<u>\$ 28,399</u>	<u>\$ 30,698</u>	<u>\$ 33,744</u>	<u>\$ 33,239</u>	<u>\$ 38,833</u>	<u>\$ 40,969</u>	<u>\$ 49,364</u>
Non-GAAP sales and marketing expense as a percentage of revenue	<u>58 %</u>	<u>58 %</u>	<u>55 %</u>	<u>53 %</u>	<u>45 %</u>	<u>49 %</u>	<u>48 %</u>	<u>53 %</u>
GAAP research and development expense	\$ 9,183	\$ 9,907	\$ 11,480	\$ 13,186	\$ 15,071	\$ 16,499	\$ 17,213	\$ 20,271
Stock-based compensation expense	494	960	1,193	2,795	4,398	4,194	3,703	4,874
Amortization expense of acquired intangible assets	—	—	—	95	—	—	291	566
Non-GAAP research and development expense	<u>\$ 8,689</u>	<u>\$ 8,947</u>	<u>\$ 10,287</u>	<u>\$ 10,296</u>	<u>\$ 10,673</u>	<u>\$ 12,305</u>	<u>\$ 13,219</u>	<u>\$ 14,831</u>
Non-GAAP research and development expense as a percentage of revenue	<u>19 %</u>	<u>18 %</u>	<u>18 %</u>	<u>16 %</u>	<u>14 %</u>	<u>16 %</u>	<u>15 %</u>	<u>16 %</u>
GAAP general and administrative expense	\$ 6,403	\$ 8,964	\$ 8,638	\$ 10,131	\$ 10,386	\$ 15,911	\$ 10,170	\$ 12,625
Stock-based compensation expense	459	657	821	1,487	2,693	1,936	(827)	2,082
Litigation-related expenses	1,630	2,836	1,427	2,174	1,768	6,164	2,973	2,007
Non-GAAP general and administrative expense	<u>\$ 4,314</u>	<u>\$ 5,471</u>	<u>\$ 6,390</u>	<u>\$ 6,470</u>	<u>\$ 5,925</u>	<u>\$ 7,811</u>	<u>\$ 8,024</u>	<u>\$ 8,536</u>
Non-GAAP general and administrative expense as a percentage of revenue	<u>10 %</u>	<u>11 %</u>	<u>11 %</u>	<u>10 %</u>	<u>8 %</u>	<u>10 %</u>	<u>9 %</u>	<u>9 %</u>
GAAP total operating expenses	\$ 42,696	\$ 48,763	\$ 52,597	\$ 59,862	\$ 64,213	\$ 77,705	\$ 76,700	\$ 92,307
Stock-based compensation expense	1,938	3,110	3,795	7,083	12,608	12,589	11,217	16,995
Litigation-related expenses	1,630	2,836	1,427	2,174	1,768	6,164	2,973	2,007
Amortization expense of acquired intangible assets	—	—	—	95	—	3	298	574
Non-GAAP total operating expenses	<u>\$ 39,128</u>	<u>\$ 42,817</u>	<u>\$ 47,375</u>	<u>\$ 50,510</u>	<u>\$ 49,837</u>	<u>\$ 58,949</u>	<u>\$ 62,212</u>	<u>\$ 72,731</u>
Non-GAAP total operating expenses as a percentage of revenue	<u>87 %</u>	<u>87 %</u>	<u>84 %</u>	<u>80 %</u>	<u>67 %</u>	<u>74 %</u>	<u>72 %</u>	<u>78 %</u>
GAAP loss from operations	\$ (6,399)	\$ (9,024)	\$ (7,924)	\$ (8,663)	\$ (5,182)	\$ (13,537)	\$ (7,931)	\$ (18,275)
Stock-based compensation expense	2,064	3,309	4,118	7,586	13,227	13,275	12,335	18,376
Litigation-related expenses	1,630	2,836	1,427	2,174	1,768	6,164	2,973	2,007
Amortization expense of acquired intangible assets	—	—	—	95	144	166	503	779
Non-GAAP income (loss) from operations	<u>\$ (2,705)</u>	<u>\$ (2,879)</u>	<u>\$ (2,379)</u>	<u>\$ 1,192</u>	<u>\$ 9,957</u>	<u>\$ 6,068</u>	<u>\$ 7,880</u>	<u>\$ 2,887</u>
Non-GAAP operating margin	<u>(6)%</u>	<u>(6)%</u>	<u>(4)%</u>	<u>2 %</u>	<u>13 %</u>	<u>8 %</u>	<u>9 %</u>	<u>3 %</u>

Fiscal Quarter	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
GAAP net loss	\$ (6,515)	\$ (8,771)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)
Stock-based compensation expense	2,064	3,309	4,118	7,586	13,227	13,275	12,335	18,376
Litigation-related expenses	1,630	2,836	1,427	2,174	1,768	6,164	2,973	2,007
Amortization expense of acquired intangible assets	—	—	—	95	144	166	503	779
Provision (benefit) for income taxes ⁽¹⁾	—	—	—	—	—	—	(1,422)	—
Non-GAAP net income (loss)	<u>\$ (2,821)</u>	<u>\$ (2,626)</u>	<u>\$ (1,417)</u>	<u>\$ 2,267</u>	<u>\$ 11,584</u>	<u>\$ 7,369</u>	<u>\$ 9,113</u>	<u>\$ 4,086</u>
GAAP net loss attributable to common stockholders	\$ (9,094)	\$ (9,994)	\$ (6,962)	\$ (7,588)	\$ (3,555)	\$ (12,236)	\$ (5,276)	\$ (17,076)
Stock-based compensation expense	2,064	3,309	4,118	7,586	13,227	13,275	12,335	18,376
Litigation-related expenses	1,630	2,836	1,427	2,174	1,768	6,164	2,973	2,007
Amortization expense of acquired intangible assets	—	—	—	95	144	166	503	779
Accretion of Series C and D redeemable convertible preferred stock	2,579	1,223	—	—	—	—	—	—
Provision (benefit) for income taxes ⁽¹⁾	—	—	—	—	—	—	(1,422)	—
Non-GAAP net income (loss) attributable to common stockholders	<u>\$ (2,821)</u>	<u>\$ (2,626)</u>	<u>\$ (1,417)</u>	<u>\$ 2,267</u>	<u>\$ 11,584</u>	<u>\$ 7,369</u>	<u>\$ 9,113</u>	<u>\$ 4,086</u>
GAAP net loss per share attributable to common stockholders, basic and diluted	\$ (0.29)	\$ (0.14)	\$ (0.06)	\$ (0.06)	\$ (0.03)	\$ (0.10)	\$ (0.04)	\$ (0.13)
Stock-based compensation expense	0.07	0.04	0.03	0.06	0.10	0.10	0.09	0.13
Litigation-related expenses	0.05	0.04	0.01	0.02	0.01	0.05	0.02	0.01
Amortization expense of acquired intangible assets	—	—	—	—	—	—	—	0.01
Accretion of Series C and D redeemable convertible preferred stock	0.08	0.02	—	—	—	—	—	—
Provision (benefit) for income taxes ⁽¹⁾	—	—	—	—	—	—	(0.01)	—
Non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽²⁾	<u>\$ (0.09)</u>	<u>\$ (0.04)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.03</u>
Weighted-average shares used in computing non-GAAP net income (loss) per share attributable to common stockholders, diluted	<u>31,434</u>	<u>73,818</u>	<u>119,204</u>	<u>133,845</u>	<u>134,246</u>	<u>136,538</u>	<u>137,545</u>	<u>136,860</u>
Numerator:								
Non-GAAP net income (loss) attributable to common stockholders (from above)	\$ (2,821)	\$ (2,626)	\$ (1,417)	\$ 2,267	\$ 11,584	\$ 7,369	\$ 9,113	\$ 4,086
Denominator:								
Weighted-average shares used in computing of GAAP net loss per share attributable to common stockholders, basic and diluted ⁽³⁾	31,434	73,818	119,204	120,587	122,741	124,672	126,302	127,548
Potentially diluted shares	—	—	—	13,258	11,505	11,866	11,243	9,312
Pro forma adjustment to reflect assumed conversion of our convertible preferred stock as of the beginning of the period ⁽⁴⁾	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⁾	<u>103,935</u>	<u>112,105</u>	<u>119,204</u>	<u>133,845</u>	<u>134,246</u>	<u>136,538</u>	<u>137,545</u>	<u>136,860</u>
Pro forma non-GAAP net income (loss) per share attributable to common stockholders, diluted ⁽⁴⁾	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.09</u>	<u>\$ 0.05</u>	<u>\$ 0.07</u>	<u>\$ 0.03</u>

⁽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 excess tax deduction of stock-based compensation recognized in foreign jurisdictions and any income tax benefits associated with business combinations. The income tax benefit related to stock-based compensation and included in the GAAP provision for income taxes was not material for all periods presented. In the fiscal quarter ended July 31, 2019, we recorded a non-recurring tax benefit of \$1.4 million associated with an intangible asset recognized as a result of our acquisition of Appulate, Inc.

⁽²⁾ The sum of the GAAP net loss per share attributable to common stockholders and the Non-GAAP expense per share, diluted line items excluded from our non-GAAP results may not total to the non-GAAP net income (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	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
Non-GAAP Free Cash Flows								
Net cash provided by (used in) operating activities	\$ (1,116)	\$ 8,117	\$ 14,658	\$ 11,014	\$ 15,707	\$ 13,483	\$ 17,823	\$ 21,429
Less: Purchases of property and equipment	(3,035)	(3,963)	(2,389)	(5,414)	(3,193)	(8,091)	(8,822)	(10,210)
Less: Capitalized internal-use software costs	(416)	(474)	(349)	(356)	(547)	(810)	(1,449)	(1,802)
Free cash flow	<u>\$ (4,567)</u>	<u>\$ 3,680</u>	<u>\$ 11,920</u>	<u>\$ 5,244</u>	<u>\$ 11,967</u>	<u>\$ 4,582</u>	<u>\$ 7,552</u>	<u>\$ 9,417</u>
Free Cash Flow Margin								
Net cash provided by (used in) operating activities as a percentage of revenue	(2)%	16 %	26 %	17 %	21 %	17 %	21 %	23 %
Less: Purchases of property and equipment as a percentage of revenue	(7)	(8)	(4)	(8)	(4)	(10)	(10)	(11)
Less: Capitalized internal-use software costs as a percentage of revenue	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)
Free cash flow margin	<u>(10)%</u>	<u>7 %</u>	<u>21 %</u>	<u>8 %</u>	<u>16 %</u>	<u>6 %</u>	<u>9 %</u>	<u>10 %</u>

ZSCALER, INC.**Non-GAAP Calculated Billings - Fiscal Quarters***(in thousands)**(unaudited)*

Fiscal Quarter	Q2 FY18	Q3 FY18	Q4 FY18 (*)	Q1 FY19	Q2 FY19 (*)	Q3 FY19	Q4 FY19	Q1 FY20
End of Fiscal Quarter	1/31/2018	4/30/2018	7/31/2018	10/31/2018	1/31/2019	4/30/2019	7/31/2019	10/31/2019
Beginning of Fiscal Quarter	11/1/2017	2/1/2018	5/1/2018	8/1/2018	11/1/2018	2/1/2019	5/1/2019	8/1/2019
Calculated Billings								
Total revenue	\$ 44,976	\$ 49,163	\$ 56,174	\$ 63,298	\$ 74,302	\$ 79,128	\$ 86,108	\$ 93,590
Add: Total deferred revenue, end of period	119,257	124,806	164,023	165,279	206,020	211,542	251,202	245,869
Less: Total deferred revenue, beginning of period	(98,266)	(119,257)	(124,806)	(164,023)	(165,279)	(206,020)	(211,542)	(251,202)
Calculated billings	<u>\$ 65,967</u>	<u>\$ 54,712</u>	<u>\$ 95,391</u>	<u>\$ 64,554</u>	<u>\$ 115,043</u>	<u>\$ 84,650</u>	<u>\$ 125,768</u>	<u>\$ 88,257</u>
Year-over-year growth - calculated billings	49 %	73 %	72 %	56 %	74 %	55 %	32 %	37 %

* Includes one large customer choosing to pay up-front for a multi-year, private cloud subscription: \$16.5 million in Q4 FY18 and \$11.0 million in Q2 FY19.