

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 intangible assets acquired in business acquisitions and related income tax effects, if applicable, are excluded because these are considered by management to be outside of our core business operating performance. Restructuring and other charges 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, any income tax benefits associated with business combinations and refunds of certain foreign withholding taxes related to prior fiscal periods. 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 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 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	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Revenue	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800
Cost of revenue ⁽¹⁾⁽²⁾	45,478	52,169	57,783	64,022	68,308	76,697	87,604	95,849
Gross profit	151,596	178,348	197,780	222,785	249,751	278,851	299,994	322,951
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	136,385	153,786	175,073	192,132	214,228	228,836	235,945	236,273
Research and development ⁽¹⁾⁽²⁾	56,180	65,216	69,195	76,578	78,150	74,946	85,765	92,637
General and administrative ⁽¹⁾	26,428	33,717	37,444	40,672	39,902	44,156	43,522	43,486
Restructuring and other charges ⁽¹⁾	—	—	—	—	—	—	—	6,301
Total operating expenses	218,993	252,719	281,712	309,382	332,280	347,938	365,232	378,697
Loss from operations	(67,397)	(74,371)	(83,932)	(86,597)	(82,529)	(69,087)	(65,238)	(55,746)
Interest income	524	473	557	949	2,607	7,865	12,669	18,577
Interest expense ⁽³⁾	(13,634)	(13,835)	(14,040)	(14,246)	(14,458)	(1,331)	(1,333)	(1,383)
Other income (expense), net	329	(589)	(844)	(2,001)	(774)	(863)	141	(809)
Loss before income taxes	(80,178)	(88,322)	(98,259)	(101,895)	(95,154)	(63,416)	(53,761)	(39,361)
Provision (benefit) for income taxes	845	2,479	2,161	(490)	2,498	4,746	3,692	6,685
Net loss	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)
Net loss per share, basic and diluted	\$ (0.59)	\$ (0.65)	\$ (0.71)	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)	\$ (0.32)
Weighted-average shares used in computing net loss per share, basic and diluted	137,778	139,296	140,515	141,422	142,355	143,476	144,511	145,354

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

Cost of revenue	\$ 5,033	\$ 5,319	\$ 5,766	\$ 6,511	\$ 7,696	\$ 8,661	\$ 9,595	\$ 10,025
Sales and marketing	42,957	43,464	47,666	53,576	57,505	55,469	55,213	51,417
Research and development	25,558	28,570	30,000	31,366	33,486	25,233	29,380	31,796
General and administrative	12,395	18,741	20,613	20,113	19,628	19,273	17,330	17,112
Restructuring and other charges	—	—	—	—	—	—	—	1,036
Total	\$ 85,943	\$ 96,094	\$ 104,045	\$ 111,566	\$ 118,315	\$ 108,636	\$ 111,518	\$ 111,386

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

Cost of revenue	\$ 1,958	\$ 2,056	\$ 2,000	\$ 1,980	\$ 1,939	\$ 1,939	\$ 2,175	\$ 2,695
Sales and marketing	108	170	178	178	178	178	178	200
Research and development	—	—	53	80	198	435	198	80
Total	\$ 2,066	\$ 2,226	\$ 2,231	\$ 2,238	\$ 2,315	\$ 2,552	\$ 2,551	\$ 2,975

⁽³⁾ Includes amortization of debt discount and issuance costs as follows ⁽⁵⁾:

	\$ 13,274	\$ 13,476	\$ 13,680	\$ 13,887	\$ 14,098	\$ 972	\$ 973	\$ 974
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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.

⁽⁵⁾ 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 senior convertible notes, which will be recognized as interest expense.

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

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Revenue	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800
Cost of revenue	38,487	44,794	50,017	55,531	58,673	66,097	75,834	83,129
Gross profit	158,587	185,723	205,546	231,276	259,386	289,451	311,764	335,671
Operating expenses:								
Sales and marketing	93,320	110,152	127,229	138,378	156,545	173,189	180,554	184,656
Research and development	30,622	36,646	39,142	45,132	44,466	49,278	56,187	60,761
General and administrative	14,033	14,976	16,831	20,559	20,274	24,883	26,192	26,374
Total operating expenses	137,975	161,774	183,202	204,069	221,285	247,350	262,933	271,791
Income from operations	20,612	23,949	22,344	27,207	38,101	42,101	48,831	63,880
Interest income	524	473	557	949	2,607	7,865	12,669	18,577
Interest expense	(360)	(359)	(360)	(359)	(360)	(359)	(360)	(409)
Other income (expense), net	329	(589)	(844)	(2,001)	(774)	(863)	141	(809)
Income before income taxes	21,105	23,474	21,697	25,796	39,574	48,744	61,281	81,239
Provision for income taxes ⁽¹⁾	845	2,479	2,522	1,064	3,180	4,746	3,692	6,685
Non-GAAP net income	\$ 20,260	\$ 20,995	\$ 19,175	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589	\$ 74,554
Non-GAAP net income per share, diluted ⁽²⁾	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37	\$ 0.48
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽²⁾	145,674	147,541	148,801	146,915	146,407	154,203	154,742	155,472

⁽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 recognized in foreign jurisdictions and any income tax benefits associated with business combinations. 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 January 31, 2022 and July 31, 2022, we recorded a tax benefit of \$0.4 million and \$0.7 million, respectively, 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.

⁽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 senior convertible 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
Non-GAAP net income	\$ 43,998	\$ 57,589	\$ 74,554
Add: Non-GAAP interest expense	359	360	359
Numerator used in computing non-GAAP net income per share, diluted	\$ 44,357	\$ 57,949	\$ 74,913
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	143,476	144,511	145,354
Add: Dilution from outstanding equity incentive awards	3,689	2,605	2,492
Add: Dilution from senior convertible notes using the if-converted method	7,626	7,626	7,626
Less: Antidilutive impact of capped call transactions (*)	(588)	—	—
Weighted-average shares used in computing non-GAAP net income per share, diluted	154,203	154,742	155,472

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

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

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	<u>7/31/2021</u>	<u>10/31/2021</u>	<u>1/31/2022</u>	<u>4/30/2022</u>	<u>7/31/2022</u>	<u>10/31/2022</u>	<u>1/31/2023</u>	<u>4/30/2023</u>
Assets								
Current assets:								
Cash and cash equivalents	\$ 275,898	\$ 371,696	\$ 409,819	\$ 594,893	\$ 1,013,210	\$ 1,084,945	\$ 1,257,012	\$ 1,275,297
Short-term investments	1,226,654	1,212,946	1,211,390	1,062,981	718,129	739,845	648,332	693,110
Accounts receivable, net	257,109	172,028	269,449	272,092	399,745	268,718	358,614	376,339
Deferred contract acquisition costs	57,373	62,067	69,025	75,897	86,210	90,004	96,105	103,896
Prepaid expenses and other current assets	31,269	36,699	29,482	41,182	39,353	49,849	56,046	78,608
Total current assets	<u>1,848,303</u>	<u>1,855,436</u>	<u>1,989,165</u>	<u>2,047,045</u>	<u>2,256,647</u>	<u>2,233,361</u>	<u>2,416,109</u>	<u>2,527,250</u>
Property and equipment, net	108,576	112,999	121,195	141,692	160,633	183,425	200,468	222,801
Operating lease right-of-use assets	44,339	44,153	42,837	45,185	72,357	76,199	69,848	68,526
Deferred contract acquisition costs, noncurrent	149,657	154,036	165,480	181,402	210,792	211,468	219,046	232,304
Acquired intangible assets, net	32,129	29,903	29,272	27,034	31,819	29,267	26,716	28,841
Goodwill	58,977	58,977	59,823	59,823	78,547	78,547	78,547	89,192
Other noncurrent assets	15,650	15,614	14,249	22,363	21,870	23,465	29,222	31,798
Total assets	<u>\$ 2,257,631</u>	<u>\$ 2,271,118</u>	<u>\$ 2,422,021</u>	<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>
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 12,547	\$ 14,961	\$ 13,499	\$ 15,234	\$ 26,154	\$ 29,717	\$ 33,632	\$ 24,783
Accrued expenses and other current liabilities	22,908	22,859	31,096	43,160	46,496	60,229	43,547	51,209
Accrued compensation	93,622	72,667	83,863	102,678	111,948	79,587	97,293	123,195
Deferred revenue	571,286	584,325	687,919	731,904	923,749	913,104	1,000,359	1,058,901
Operating lease liabilities	19,842	20,488	19,665	19,600	26,100	28,646	29,173	31,054
Total current liabilities	<u>720,205</u>	<u>715,300</u>	<u>836,042</u>	<u>912,576</u>	<u>1,134,447</u>	<u>1,111,283</u>	<u>1,204,004</u>	<u>1,289,142</u>
Convertible senior notes, net ⁽¹⁾	913,538	927,014	940,692	954,578	968,674	1,139,542	1,140,516	1,140,840
Deferred revenue, noncurrent	59,315	63,491	72,012	86,839	97,374	92,609	111,521	116,472
Operating lease liabilities, noncurrent	31,225	30,534	29,280	31,028	50,948	51,065	46,233	42,884
Other noncurrent liabilities	4,453	4,580	4,628	7,946	7,922	9,958	9,025	10,100
Total liabilities	<u>1,728,736</u>	<u>1,740,919</u>	<u>1,882,654</u>	<u>1,992,967</u>	<u>2,259,365</u>	<u>2,404,457</u>	<u>2,511,299</u>	<u>2,599,438</u>
Stockholders' equity								
Common stock	139	140	141	142	143	144	145	146
Additional paid-in capital	1,131,006	1,225,224	1,341,346	1,450,139	1,590,885	1,425,156	1,547,203	1,660,930
Accumulated other comprehensive loss	(650)	(2,764)	(9,299)	(24,478)	(25,850)	(37,824)	(5,037)	(102)
Accumulated deficit	(601,600)	(692,401)	(792,821)	(894,226)	(991,878)	(956,201)	(1,013,654)	(1,059,700)
Total stockholders' equity	<u>528,895</u>	<u>530,199</u>	<u>539,367</u>	<u>531,577</u>	<u>573,300</u>	<u>431,275</u>	<u>528,657</u>	<u>601,274</u>
Total liabilities and stockholders' equity	<u>\$ 2,257,631</u>	<u>\$ 2,271,118</u>	<u>\$ 2,422,021</u>	<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>

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

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

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Cash flows from operating activities								
Net loss	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	8,262	9,017	9,988	10,432	11,019	11,876	13,365	14,528
Amortization expense of acquired intangible assets	2,066	2,226	2,231	2,238	2,315	2,552	2,551	2,975
Amortization of deferred contract acquisition costs	11,981	14,912	16,126	17,755	19,738	22,325	23,728	25,315
Amortization of debt discount and issuance costs ⁽¹⁾	13,275	13,476	13,680	13,887	14,098	972	973	974
Non-cash operating lease costs	5,839	6,031	6,380	6,577	6,638	7,108	7,880	8,332
Stock-based compensation expense	79,997	89,903	98,988	105,854	114,817	105,173	109,738	107,819
Amortization (accretion) of investments purchased at a premium (discount)	3,115	2,671	1,991	1,280	638	(165)	(1,268)	(1,956)
Deferred income taxes	(904)	(223)	(436)	138	(41)	65	(56)	149
Other	304	(13)	308	354	(254)	248	(1728)	(607)
Changes in operating assets and liabilities, net of effects of business acquisitions								
Accounts receivable	(91,477)	84,927	(97,549)	(2,827)	(127,887)	130,636	(89,836)	(17,795)
Deferred contract acquisition costs	(66,543)	(23,985)	(34,528)	(40,549)	(59,441)	(26,795)	(37,407)	(46,364)
Prepaid expenses, other current and noncurrent assets	(5,185)	(4,126)	9,029	(15,257)	67	(7,579)	(221)	(21,805)
Accounts payable	1,030	(1,088)	985	3,069	11,392	3,000	2,228	(9,307)
Accrued expenses, other current and noncurrent liabilities	3,524	(192)	5,221	5,121	3,227	3,627	2,272	8,962
Accrued compensation	32,294	(20,955)	11,196	18,815	9,270	(32,797)	15,146	28,584
Deferred revenue	134,011	17,381	112,213	59,001	202,584	(15,340)	106,202	63,394
Operating lease liabilities	(5,830)	(5,890)	(7,141)	(7,242)	(7,390)	(8,287)	(6,633)	(8,683)
Net cash provided by operating activities	44,736	93,271	48,262	77,241	103,138	128,457	89,481	108,469
Cash flows from investing activities:								
Purchases of property, equipment and other assets	(13,950)	(6,454)	(13,988)	(27,604)	(21,250)	(25,202)	(18,681)	(26,244)
Capitalized internal-use software	(3,085)	(3,450)	(4,825)	(5,892)	(7,117)	(7,641)	(7,982)	(8,339)
Payments for business acquisitions, net of cash acquired	(11,110)	—	(380)	—	(24,907)	—	—	(15,643)
Purchase of strategic investments	(200)	—	—	—	—	(700)	(500)	(1,000)
Purchases of short-term investments	(91,008)	(312,840)	(311,414)	(185,857)	(34,833)	(210,255)	(303,488)	(226,496)
Proceeds from maturities of short-term investments	222,473	322,677	306,734	325,868	379,595	186,096	400,705	161,365
Proceeds from sale of short-term investments	—	—	—	—	—	—	—	25,083
Net cash provided by (used in) investing activities	103,120	(67)	(23,873)	106,515	291,488	(57,702)	70,054	(91,274)
Cash flows from financing activities:								
Proceeds from issuance of common stock upon exercise of stock options	4,311	2,644	2,227	1,319	753	982	1,122	1,090
Proceeds from issuance of common stock under the employee stock purchase plan	17,141	—	11,509	—	23,140	—	11,410	—
Payment of deferred consideration related to business acquisitions	—	(50)	—	—	(200)	—	—	—
Other	—	—	(2)	(1)	(2)	(2)	—	—
Net cash provided by financing activities	21,452	2,594	13,734	1,318	23,691	980	12,532	1,090
Net increase (decrease) in cash and cash equivalents	169,308	95,798	38,123	185,074	418,317	71,735	172,067	18,285
Cash and cash equivalents at beginning of period	106,590	275,898	371,696	409,819	594,893	1,013,210	1,084,945	1,257,012
Cash and cash equivalents at end of period	\$ 275,898	\$ 371,696	\$ 409,819	\$ 594,893	\$ 1,013,210	\$ 1,084,945	\$ 1,257,012	\$ 1,275,297

⁽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 senior convertible 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	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
GAAP gross profit	<u>\$ 151,596</u>	<u>\$ 178,348</u>	<u>\$ 197,780</u>	<u>\$ 222,785</u>	<u>\$ 249,751</u>	<u>\$ 278,851</u>	<u>\$ 299,994</u>	<u>\$ 322,951</u>
Stock-based compensation expense and related payroll taxes	5,033	5,319	5,766	6,511	7,696	8,661	9,595	10,025
Amortization expense of acquired intangible assets	1,958	2,056	2,000	1,980	1,939	1,939	2,175	2,695
Non-GAAP gross profit	<u>\$ 158,587</u>	<u>\$ 185,723</u>	<u>\$ 205,546</u>	<u>\$ 231,276</u>	<u>\$ 259,386</u>	<u>\$ 289,451</u>	<u>\$ 311,764</u>	<u>\$ 335,671</u>
GAAP Gross Margin	77 %	77 %	77 %	78 %	79 %	78 %	77 %	77 %
Non-GAAP gross margin	80 %	81 %	80 %	81 %	82 %	81 %	80 %	80 %
GAAP sales and marketing expense	<u>\$ 136,385</u>	<u>\$ 153,786</u>	<u>\$ 175,073</u>	<u>\$ 192,132</u>	<u>\$ 214,228</u>	<u>\$ 228,836</u>	<u>\$ 235,945</u>	<u>\$ 236,273</u>
Stock-based compensation expense and related payroll taxes	42,957	43,464	47,666	53,576	57,505	55,469	55,213	51,417
Amortization expense of acquired intangible assets	108	170	178	178	178	178	178	200
Non-GAAP sales and marketing expense	<u>\$ 93,320</u>	<u>\$ 110,152</u>	<u>\$ 127,229</u>	<u>\$ 138,378</u>	<u>\$ 156,545</u>	<u>\$ 173,189</u>	<u>\$ 180,554</u>	<u>\$ 184,656</u>
GAAP sales and marketing expense as a percentage of revenue	69 %	67 %	69 %	67 %	67 %	64 %	61 %	56 %
Non-GAAP sales and marketing expense as a percentage of revenue	47 %	48 %	50 %	48 %	49 %	49 %	47 %	44 %
GAAP research and development expense	<u>\$ 56,180</u>	<u>\$ 65,216</u>	<u>\$ 69,195</u>	<u>\$ 76,578</u>	<u>\$ 78,150</u>	<u>\$ 74,946</u>	<u>\$ 85,765</u>	<u>\$ 92,637</u>
Stock-based compensation expense and related payroll taxes	25,558	28,570	30,000	31,366	33,486	25,233	29,380	31,796
Amortization expense of acquired intangible assets	—	—	53	80	198	435	198	80
Non-GAAP research and development expense	<u>\$ 30,622</u>	<u>\$ 36,646</u>	<u>\$ 39,142</u>	<u>\$ 45,132</u>	<u>\$ 44,466</u>	<u>\$ 49,278</u>	<u>\$ 56,187</u>	<u>\$ 60,761</u>
GAAP research and development expense as a percentage of revenue	29 %	28 %	27 %	27 %	25 %	21 %	22 %	22 %
Non-GAAP research and development expense as a percentage of revenue	16 %	16 %	15 %	16 %	14 %	14 %	14 %	15 %
GAAP general and administrative expense	<u>\$ 26,428</u>	<u>\$ 33,717</u>	<u>\$ 37,444</u>	<u>\$ 40,672</u>	<u>\$ 39,902</u>	<u>\$ 44,156</u>	<u>\$ 43,522</u>	<u>\$ 43,486</u>
Stock-based compensation expense and related payroll taxes	12,395	18,741	20,613	20,113	19,628	19,273	17,330	17,112
Non-GAAP general and administrative expense	<u>\$ 14,033</u>	<u>\$ 14,976</u>	<u>\$ 16,831</u>	<u>\$ 20,559</u>	<u>\$ 20,274</u>	<u>\$ 24,883</u>	<u>\$ 26,192</u>	<u>\$ 26,374</u>
GAAP general and administrative expense as a percentage of revenue	13 %	15 %	15 %	14 %	13 %	12 %	11 %	10 %
Non-GAAP general and administrative expense as a percentage of revenue	7 %	6 %	7 %	7 %	6 %	7 %	7 %	6 %
GAAP restructuring and other charges	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,301</u>
Stock-based compensation expense and related payroll taxes	—	—	—	—	—	—	—	1,036
Restructuring and other charges	—	—	—	—	—	—	—	5,265
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>\$ 218,993</u>	<u>\$ 252,719</u>	<u>\$ 281,712</u>	<u>\$ 309,382</u>	<u>\$ 332,280</u>	<u>\$ 347,938</u>	<u>\$ 365,232</u>	<u>\$ 378,697</u>
Stock-based compensation expense and related payroll taxes ⁽¹⁾	80,910	90,775	98,279	105,055	110,619	99,975	101,923	101,361
Amortization expense of acquired intangible assets	108	170	231	258	376	613	376	280
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	—	—	—	5,265

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Non-GAAP total operating expenses	<u>\$ 137,975</u>	<u>\$ 161,774</u>	<u>\$ 183,202</u>	<u>\$ 204,069</u>	<u>\$ 221,285</u>	<u>\$ 247,350</u>	<u>\$ 262,933</u>	<u>\$ 271,791</u>
GAAP total operating expenses as a percentage of revenue	111 %	110 %	110 %	108 %	104 %	98 %	94 %	90 %
Non-GAAP total operating expenses as a percentage of revenue	70 %	70 %	72 %	71 %	70 %	70 %	68 %	65 %
GAAP loss from operations	\$ (67,397)	\$ (74,371)	\$ (83,932)	\$ (86,597)	\$ (82,529)	\$ (69,087)	\$ (65,238)	\$ (55,746)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	85,943	96,094	104,045	111,566	118,315	108,636	111,518	111,386
Amortization expense of acquired intangible assets	2,066	2,226	2,231	2,238	2,315	2,552	2,551	2,975
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	—	—	—	5,265
Non-GAAP income from operations	<u>\$ 20,612</u>	<u>\$ 23,949</u>	<u>\$ 22,344</u>	<u>\$ 27,207</u>	<u>\$ 38,101</u>	<u>\$ 42,101</u>	<u>\$ 48,831</u>	<u>\$ 63,880</u>
GAAP operating margin	(34)%	(32)%	(33)%	(30)%	(26)%	(19)%	(17)%	(13)%
Non-GAAP operating margin	10 %	10 %	9 %	9 %	12 %	12 %	13 %	15 %
GAAP interest expense	\$ (13,634)	\$ (13,835)	\$ (14,040)	\$ (14,246)	\$ (14,458)	\$ (1,331)	\$ (1,333)	\$ (1,383)
Amortization of debt discount and issuance costs	13,274	13,476	13,680	13,887	14,098	972	973	974
Non-GAAP interest expense	<u>\$ (360)</u>	<u>\$ (359)</u>	<u>\$ (360)</u>	<u>\$ (359)</u>	<u>\$ (360)</u>	<u>\$ (359)</u>	<u>\$ (360)</u>	<u>\$ (409)</u>
GAAP net loss	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)	\$ (46,046)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	85,943	96,094	104,045	111,566	118,315	108,636	111,518	111,386
Amortization expense of acquired intangible assets	2,066	2,226	2,231	2,238	2,315	2,552	2,551	2,975
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	—	—	—	5,265
Amortization of debt discount and issuance costs	13,274	13,476	13,680	13,887	14,098	972	973	974
Benefit for income taxes ⁽³⁾	—	—	(361)	(1,554)	(682)	—	—	—
Non-GAAP net income	<u>20,260</u>	<u>20,995</u>	<u>19,175</u>	<u>24,732</u>	<u>36,394</u>	<u>43,998</u>	<u>57,589</u>	<u>74,554</u>
GAAP net loss as a percentage of revenue	(41)%	(39)%	(39)%	(35)%	(31)%	(19)%	(15)%	(11)%
Non-GAAP net income as a percentage of revenue	10 %	9 %	8 %	9 %	11 %	12 %	15 %	18 %
Non-GAAP net income	\$ 20,260	\$ 20,995	\$ 19,175	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589	\$ 74,554
Add: non-GAAP interest expense ⁽²⁾	—	—	—	—	—	359	360	359
Numerator used in computing non-GAAP net income per share, diluted	<u>\$ 20,260</u>	<u>\$ 20,995</u>	<u>\$ 19,175</u>	<u>\$ 24,732</u>	<u>\$ 36,394</u>	<u>\$ 44,357</u>	<u>\$ 57,949</u>	<u>\$ 74,913</u>
GAAP net loss per share, basic and diluted	\$ (0.59)	\$ (0.65)	\$ (0.71)	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)	\$ (0.32)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	0.59	0.65	0.70	0.76	0.81	0.70	0.72	0.72
Amortization expense of acquired intangible assets	0.01	0.02	0.01	0.02	0.02	0.02	0.02	0.02
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	—	—	—	—	—	—	0.03
Amortization of debt discount and issuance costs	0.09	0.09	0.09	0.09	0.10	0.01	0.01	0.01
Benefit for income taxes ⁽³⁾	—	—	—	(0.01)	—	—	—	—
Non-GAAP interest expense ⁽²⁾	—	—	—	—	—	—	—	—

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Adjustment to total fully diluted earnings per share ⁽⁴⁾	0.04	0.03	0.04	0.03	0.01	0.04	0.02	0.02
Non-GAAP net income per share, diluted ⁽²⁾	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37	\$ 0.48
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	137,778	139,296	140,515	141,422	142,355	143,476	144,511	145,354
Outstanding equity incentive awards	7,896	7,559	6,834	5,493	4,052	3,689	2,605	2,492
Convertible senior notes ⁽²⁾	1,973	3,385	3,853	2,740	208	7,626	7,626	7,626
Antidilutive impact of capped call transactions ⁽⁵⁾	(1,973)	(2,699)	(2,401)	(2,740)	(208)	(588)	—	—
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽²⁾	145,674	147,541	148,801	146,915	146,407	154,203	154,742	155,472

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

⁽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 senior convertible 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 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 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 income tax expense represents the effects of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. 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 January 31, 2022 and July 31, 2022, we recorded a tax benefit of \$0.4 million and \$0.7 million, respectively, 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.

⁽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 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 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 and April 30, 2023, as the average stock price of our common stock in such period 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	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Revenue	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800
Free cash flow								
Net cash provided by operating activities	\$ 44,736	\$ 93,271	\$ 48,262	\$ 77,241	\$ 103,138	\$ 128,457	\$ 89,481	\$ 108,469
Less: Purchases of property, equipment and other assets	(13,950)	(6,454)	(13,988)	(27,604)	(21,250)	(25,202)	(18,681)	(26,244)
Less: Capitalized internal-use software	(3,085)	(3,450)	(4,825)	(5,892)	(7,117)	(7,641)	(7,982)	(8,339)
Free cash flow	<u>\$ 27,701</u>	<u>\$ 83,367</u>	<u>\$ 29,449</u>	<u>\$ 43,745</u>	<u>\$ 74,771</u>	<u>\$ 95,614</u>	<u>\$ 62,818</u>	<u>\$ 73,886</u>
Year-over-year growth	154 %	97 %	63 %	(22)%	170 %	15 %	113 %	69 %
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	23 %	40 %	19 %	27 %	32 %	36 %	23 %	26 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(7)%	(3)%	(5)%	(10)%	(6)%	(7)%	(5)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(1)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%
Free cash flow margin	<u>14 %</u>	<u>36 %</u>	<u>12 %</u>	<u>15 %</u>	<u>24 %</u>	<u>27 %</u>	<u>16 %</u>	<u>18 %</u>

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

Fiscal Quarter	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
End of Fiscal Quarter	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023	4/30/2023
Beginning of Fiscal Quarter	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022	2/1/2023
Calculated billings								
Revenue	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598	\$ 418,800
Add: Total deferred revenue, end of period	630,601	647,816	759,931	818,743	1,021,123	1,005,713	1,111,880	1,175,373
Less: Total deferred revenue, beginning of period	(495,434)	(630,601)	(647,816)	(759,931)	(818,743)	(1,021,123)	(1,005,713)	(1,111,880)
Calculated billings	\$ 332,241	\$ 247,732	\$ 367,678	\$ 345,619	\$ 520,439	\$ 340,138	\$ 493,765	\$ 482,293
Year-over-year growth	70 %	71 %	59 %	54 %	57 %	37 %	34 %	40 %

Other key business metrics

Customers with equal or greater than \$100,000 annualized recurring revenue ("ARR")	1,480	1,616	1,751	1,891	2,089	2,217	2,337	2,432
Customers with equal or greater than \$1.0 million ARR	202	224	251	288	327	348	378	400