



Fiscal Q1 2024 Earnings Call

November 27, 2023



Safe Harbor

FORWARD-LOOKING STATEMENTS

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

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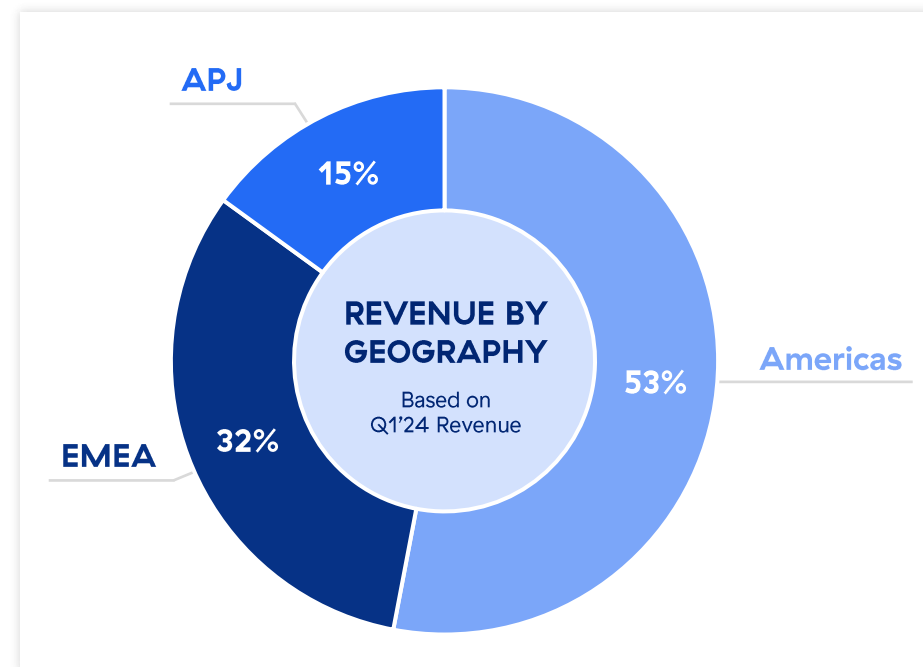
This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the second quarter of fiscal 2024 and full year fiscal 2024, our planned products and upgrades, business strategy and plans and objectives of management for future operations of Zscaler are forward-looking statements. These statements involve known and a significant number of unknown risks, uncertainties, assumptions and other factors that could cause results to differ materially from statements made in this message, including any performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks may emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results or outcomes to differ materially from those contained in any forward-looking statements we may make, including but not limited to the ongoing effects of inflation, geopolitical events and the COVID-19 pandemic on our business, operations and financial results and the economy in general; our limited operating history; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new product and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; and general market, political, economic and business conditions. Additional risks and uncertainties that could affect our financial and operating results are included in our most recent filings with the Securities and Exchange Commission (“SEC”). You can locate these reports though our website at <http://ir.zscaler.com> or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continues,” “contemplate,” “could,” “estimate,” “expect,” “explore,” “intend,” “likely,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

Fiscal Q1'24 Results

	Q1 Guidance	Q1 Results
Revenue	\$472M – \$474M Approx. 33% y/y	\$497M 40% y/y
Calculated Billings	Approx. 30% y/y	\$457M 34% y/y
Calculated Current Billings		\$460M 33% y/y
Gross Profit	80% margin	\$401M 80.7% margin
Operating Profit	\$70M – \$72M	\$90M 18.1% margin
EPS	\$0.48 – \$0.49	\$0.67 131% y/y
Free Cash Flow		\$225M 45.2% margin

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120%

Dollar-based net retention rate

High 90%

Gross retention rate

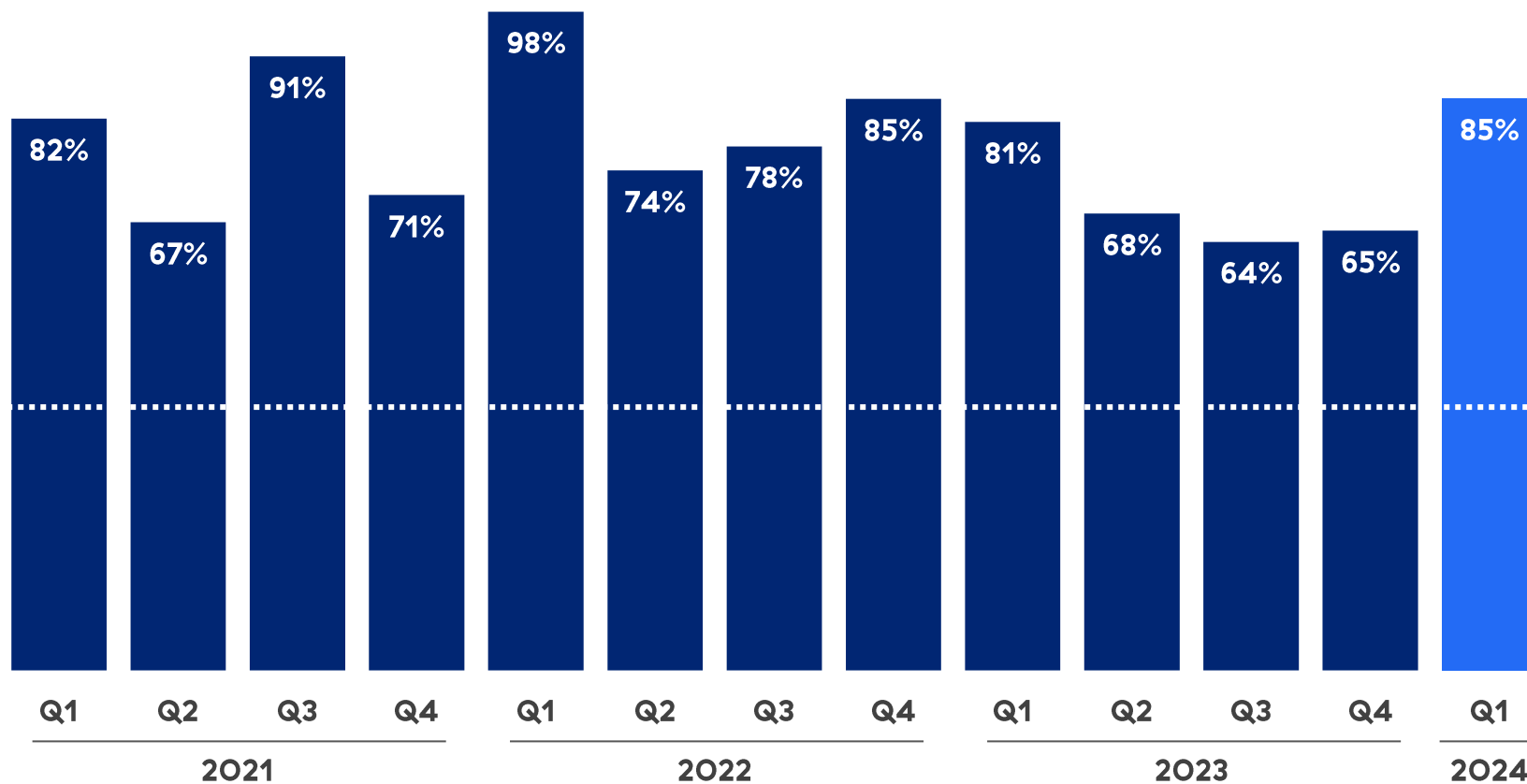
113%

Operating profit Y/Y growth

26%

Free cash flow margin for trailing twelve months

Leading growth and profitability, beyond \$2B ARR



Rule-of-40

40%
Revenue
Growth Y/Y



45%
Free Cash
Flow Margin



85%
Rule-of-80
In Q1

SaaS companies aspire to achieve Rule-of-40

Three factors that drove our Q1 performance

CUSTOMERS ARE EMBRACING OUR PLATFORM VISION OF ZERO TRUST SECURITY

1

New Logo Wins

14

New logo >\$1M ARR deals
Spanned across many verticals

Q1 Record

2

Multi-Pillar Platform Purchases

Nearly 50%

Of new logo customers purchased ZIA, ZPA, and ZDX

Increasing average deal size

3

Record New ACV in Fed

>90%

New ACV Y/Y in Fed vertical

More Federal SIs as customers

Why enterprises are selecting Zscaler over legacy solutions

Network & Firewall-centric Architectures



Expands the attack surface

Struggles to inspect encrypted traffic

Allows lateral threat movement

Allows data exfiltration



Minimizes the attack surface

Encrypted traffic inspection at large enterprise scales

Eliminates lateral movement

Prevents data loss

Select Q1'24 Deal Highlights



Fed Cabinet-Level Agency

Upsell from initial deployment

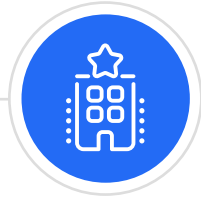
ZIA 100,000 users

ZPA 100,000 users

ZDX 100,000 users

Why Zscaler

- Standardizing on Zscaler to meet President's Executive Order to adopt Zero Trust security
- Expanded from 25K users to 100K users, while cross-selling ZDX



Hospitality and Gaming Company

New logo, Zscaler for Users

ZIA 25,000 users

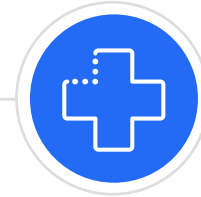
ZPA 25,000 users

ZDX 25,000 users

Risk360 25,000 users

Why Zscaler

- Replace firewall/VPN-based architecture with Zero Trust
- Rapidly restore business operations by eliminating network access
- Organization-wide risk insights with Risk360



U.S. Hospital Network

New logo, large ZDX win

ZIA 87,000 users

ZPA 40,000 users

ZDX 87,000 users

Why Zscaler

- Transformation project, working with system integrator Accenture
- ZDX to consolidate existing performance tools
- ZDX Advanced Plus component is 7-figures in ACV



Leading Software Company

New logo, Zscaler for Users

ZIA 25,000 users

ZPA 25,000 users

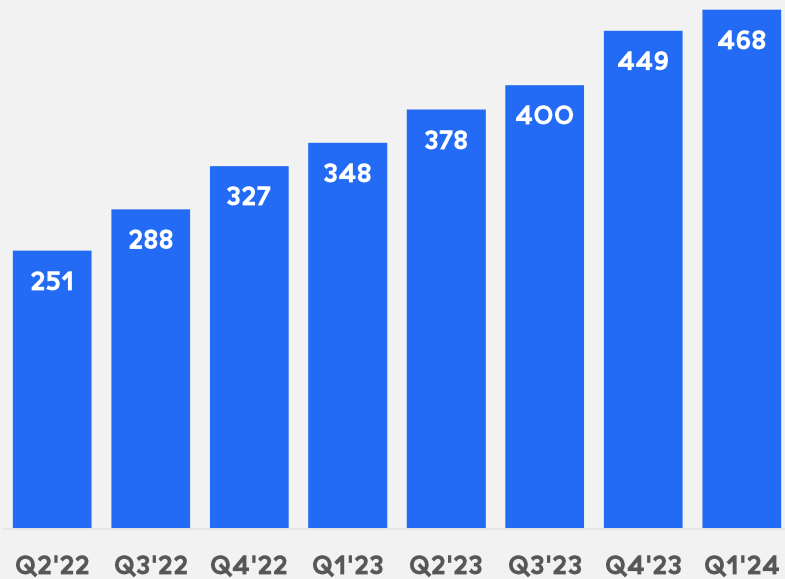
ZDX 25,000 users

Why Zscaler

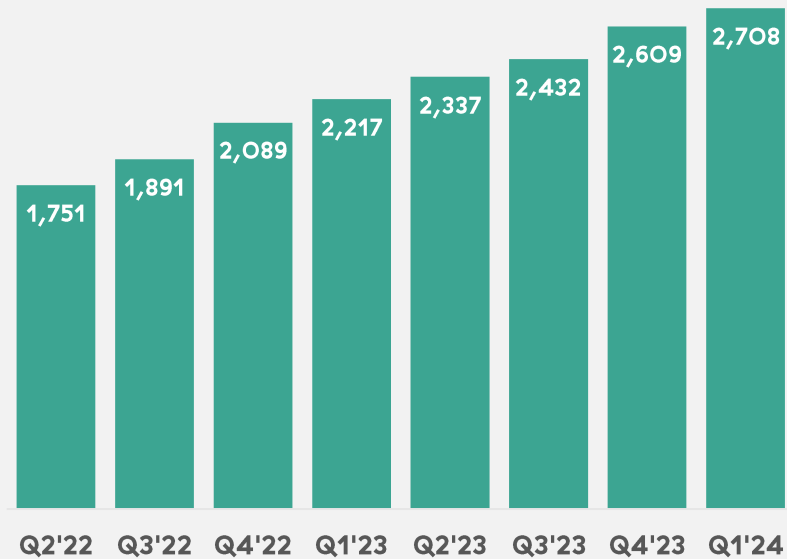
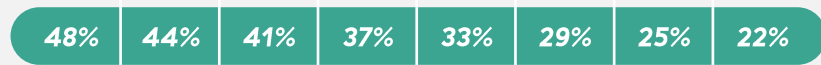
- Replace firewall-based single vendor SASE with Zero Trust architecture
- Eliminate attack surface
- Eliminate lateral threat movement

Large customer momentum

\$1M+ ARR Customers



\$100K+ ARR Customers



>40%

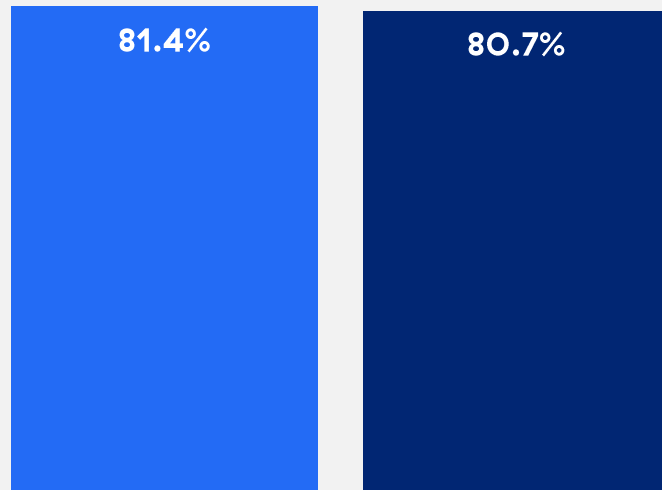
Fortune 500 Customers

>30%

Global 2000 Customers

Improving operating efficiency

Gross Margin



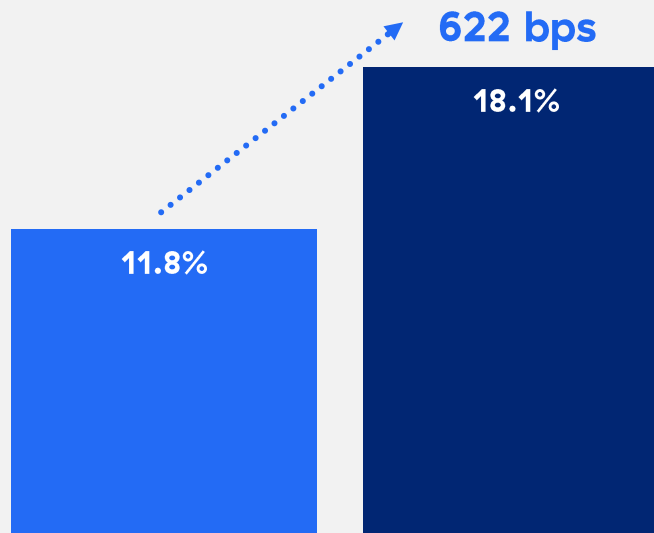
Q1'23

Q1'24

Key factors

Scale of our purpose-built, multi-tenant cloud
Higher public cloud usage for our emerging products

Operating Margin



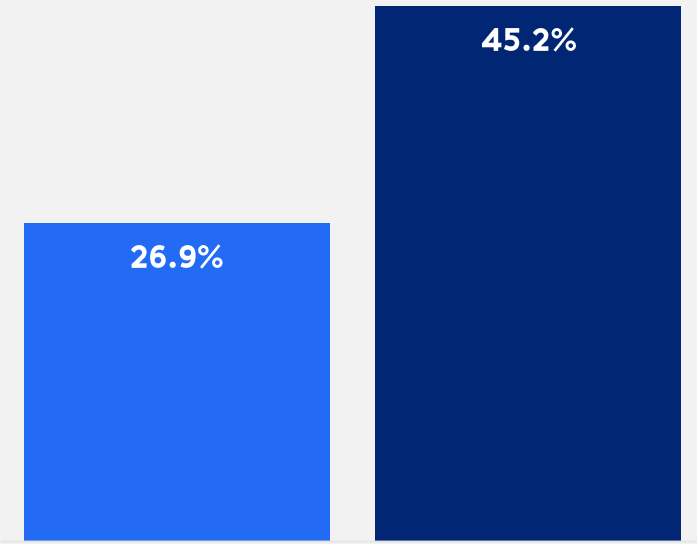
Q1'23

Q1'24

Key factors

Leverage in our financial model, including 60%+ contribution margins on renewal cohorts in years 2 and 3

Free Cash Flow Margin



Q1'23

Q1'24

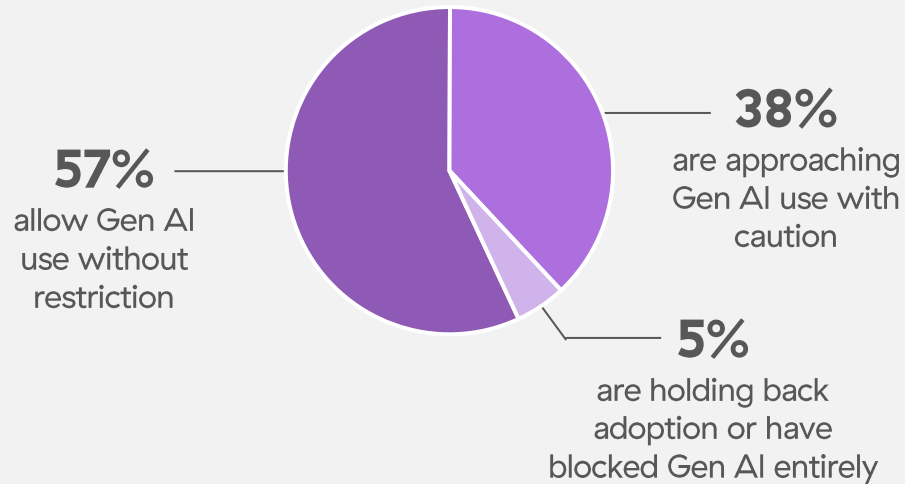
Key factors

Strong collections from Q4 billings, including \$20 million upfront deal in fiscal Q4'23

Enterprises are rushing to Gen AI, despite security risks

SURVEY OF >900 IT DECISION MAKERS ON GEN AI

95% of organizations are using Gen AI tools...



Zscaler research "All Eyes of Securing GenAI"

...Yet **89%** consider Gen AI tools to be a potential security risk

Top concerns include:

- The potential loss of sensitive data **43%**
- A lack of resource to monitor use **43%**
- A lack of understanding around the benefits / dangers **41%**

48% see Gen AI as more of a threat than an opportunity

Zscaler secures Gen AI traffic

LIKE THE EARLY DAYS OF SAAS ADOPTION, GEN AI IS A TAILWIND

>2B

AI transactions secured
per month on average

20%

ASP uplift of premium bundles
with AI-driven features

Cyber Protection

Faster time to zero-day
threat detection and
auto-segmentation

Data Protection

Secure unstructured
data with automated
classification

Problems with Gen AI

Attackers leverage Gen AI
(evades traditional security)

Gen AI apps create security risk
(attack surface, lateral movement)

**Rapidly growing # of
new Gen AI apps**

Gen AI apps need policies
(every app for every user)

Gen AI apps create data loss risk
(text, code, files, audio, image, video)

Our Platform

 **AI-powered threat detection**

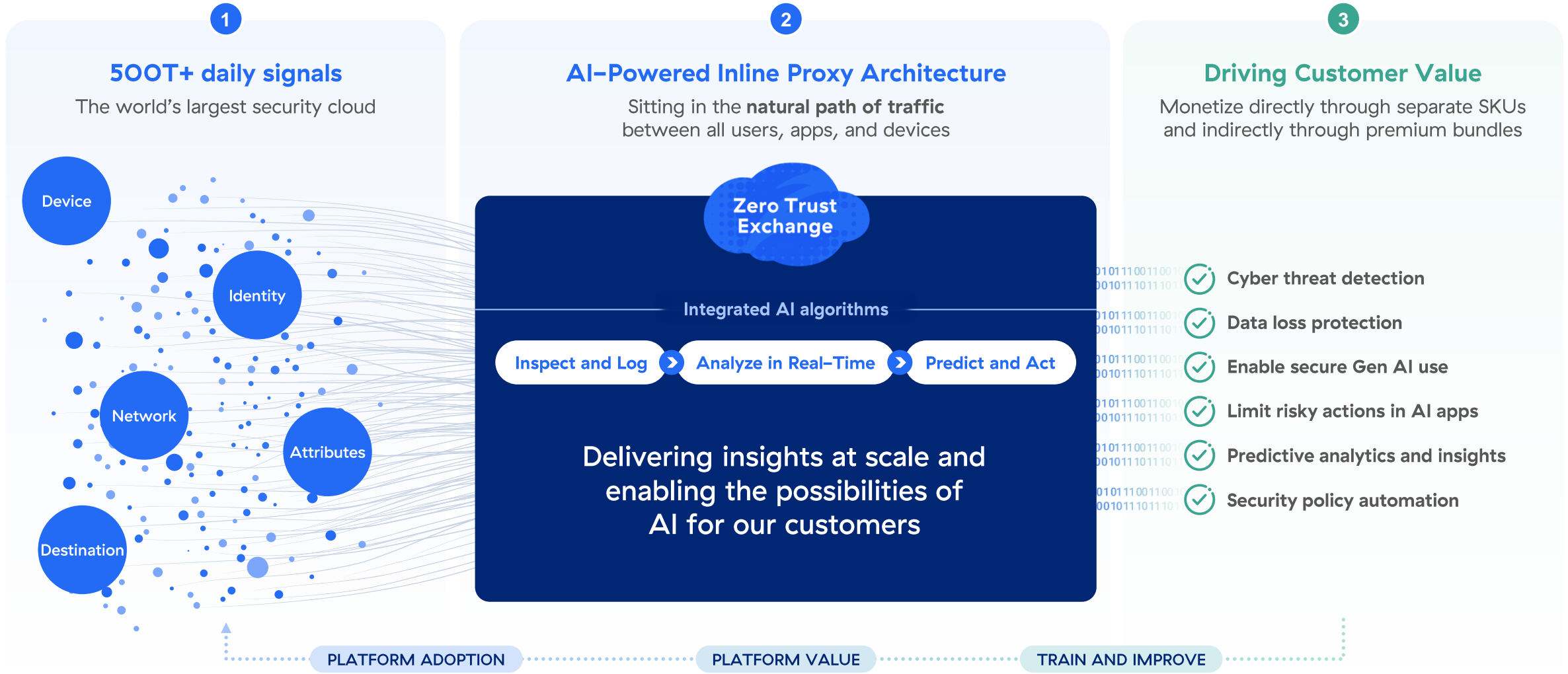
 **Zero Trust**
(proxy-based)

 **Comprehensive AI app
visibility and risk assessment**

 **AI-powered policy automation**

 **Comprehensive logging
and data loss protection**

Our platform architecture creates a unique AI opportunity



Risk360: Generating strong customer interest

AI-POWERED HOLISTIC RISK QUANTIFICATION AND MITIGATION

After recent launch:

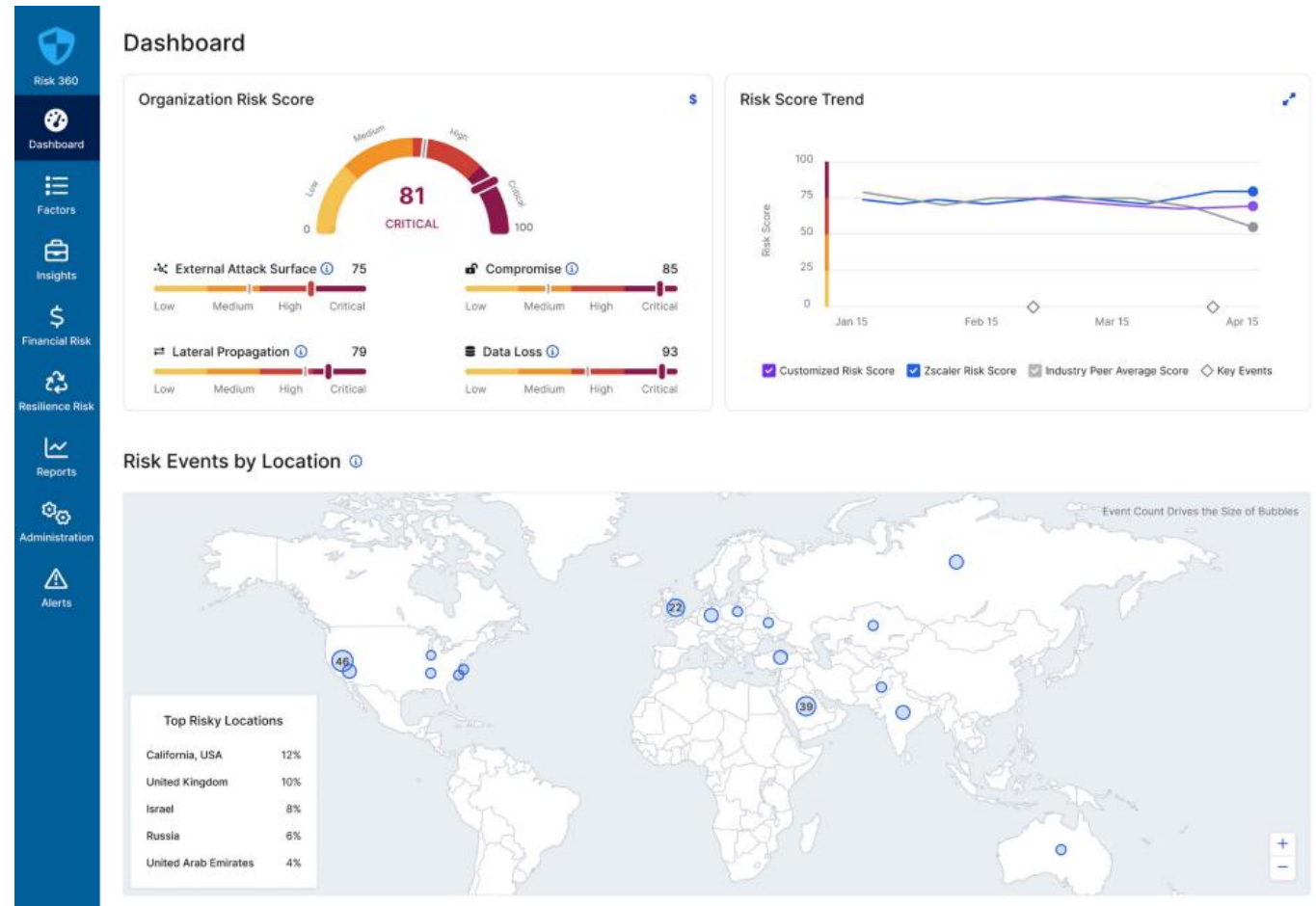
100+ enterprises in active evaluation

10+ deals closed

6-figure average ACV in early-stage deals

How it works:

- 1 Separate SKU**
All Zscaler customers can leverage Risk360
- 2 Data ingestion**
Zscaler cloud, external sources, and ThreatLabZ, leveraging >100 factors
- 3 Cyber risk**
Pinpoint and remediate critical cyber risk issues, trend and peer benchmarks
- 4 Financial risk**
Data/research backed financial loss estimates, based on risk score



Workload Communications – New Innovations

INDUSTRY-FIRST ZERO TRUST CONNECTIVITY FOR CLOUD WORKLOADS

>1/3 of our customers have made **initial purchases** for workload protection

- ➔ Workload Communication often starts with **small land deals**
- ➔ With customers already securing user-to-app with our platform, **natural for them to extend it to secure their workloads**

The Problem with Traditional Workload Security

Site-to-site VPNs, data center and cloud DMZs, SD-WAN

Mesh networks

Attack surface

Lateral movement

Inconsistent protection

⊗ Business risk ⊗ Complexity ⊗ Cost

Not Zero Trust

Latest Innovation Highlights

1 Expanded Cloud Coverage



2 Workload segmentation with AWS user-defined tags

3 Real-time, automated cloud resource discovery

4 Multi-session, non-persistent VDI security in public cloud

Financial Guidance

	Fiscal Q2'24	Initial Fiscal FY24	Updated Fiscal FY24
Revenue	\$505M - \$507M <i>30%-31% y/y</i>	\$2.05B - \$2.065B <i>27%-28% y/y</i>	\$2.09B - \$2.10B <i>29%-30% y/y</i>
Calculated Billings		\$2.52B - \$2.56B <i>24%-26% y/y</i>	\$2.52B - \$2.56B <i>24%-26% y/y</i>
Gross Margin	80%		
Operating Profit	\$84M - \$86M	\$330M - \$340M <i>Margin +100-150 bps y/y</i>	\$360M - \$365M <i>Margin up to 250 bps y/y</i>
Net Other Income	\$15M		
Income Taxes	\$8M	\$35M	\$35M
Earnings Per Share	\$0.57 - \$0.58	\$2.20 - \$2.25	\$2.45 - \$2.48
Fully Diluted Shares	160M	161M	161M

All numbers presented on an adjusted, non-GAAP basis. See appendix of this presentation for a reconciliation of GAAP to non-GAAP financial measures.



Financial Appendix



Explanation of Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States of America (“GAAP”), we believe that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. However, non-GAAP financial information is presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. Investors are encouraged to review these reconciliations, and not to rely on any single financial measure to evaluate our business.

Expenses Excluded from Non-GAAP Measures

Stock-based compensation expense is excluded primarily because it is a non-cash expense that management believes is not reflective of our ongoing operational performance. Employer payroll taxes related to stock-based compensation, which is a cash expense, are excluded because these are tied to the timing and size of the exercise or vesting of the underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. Amortization expense of acquired intangible assets from business acquisitions is excluded because it is considered by management to be outside of our core business operating performance. Amortization of debt issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. We estimate the tax effect of these items on our non-GAAP results and may adjust our GAAP provision for income taxes, if such effects have a material impact to our non-GAAP results.

Key Non-GAAP Financial Measures Included within this Presentation:

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

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

Appendix A: Non-GAAP to GAAP Reconciliation

\$ IN THOUSANDS

	Q1 23	Q1 24
Revenue	\$ 355,548	\$ 496,703
Non-GAAP Gross Profit and Non-GAAP Gross Margin		
GAAP Gross Profit	\$ 278,851	\$ 385,309
Add: Stock-based compensation expense and related payroll taxes	8,661	12,955
Add: Amortization expense of acquired intangible assets	1,939	2,717
Non-GAAP Gross profit	\$ 289,451	\$ 400,981
GAAP Gross Margin	78 %	78 %
Non-GAAP Gross Margin	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin		
GAAP loss from operations	\$ (69,087)	\$ (46,057)
Add: Stock-based compensation expense and related payroll taxes	108,636	132,729
Add: Amortization expense of acquired intangible assets	2,552	3,036
Non-GAAP Income from Operations	\$ 42,101	\$ 89,708
GAAP Operating Margin	(19) %	(9) %
Non-GAAP Operating Margin	12 %	18 %

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

\$ IN THOUSANDS

	Q1 23	Q1 24
Non-GAAP Net Income per Share, Diluted		
GAAP net loss	\$ (68,162)	\$ (33,483)
Stock-based compensation expense and related payroll taxes	108,636	132,729
Amortization expense of acquired intangible assets	2,552	3,036
Amortization of debt discount and issuance costs	972	977
Provision for income taxes	—	3,259
Non-GAAP Net Income	\$ 43,998	\$ 106,518
Add: Non-GAAP interest expense related to the convertible senior notes	359	359
Numerator used in computing non-GAAP net income per share, diluted	\$ 44,357	\$ 106,877
GAAP Net Loss per share, diluted		
GAAP Net Loss per share, diluted	\$ (0.48)	\$ (0.23)
Stock-based compensation expense and related payroll taxes	0.70	0.84
Amortization expense of acquired intangible assets	0.02	0.02
Amortization of debt issuance costs	0.01	0.01
Provision for income taxes	—	0.02
Non-GAAP interest expense related to the convertible senior notes	—	—
Adjustment to total fully diluted earnings per share	0.04	0.01
Non-GAAP Net Loss per share, diluted	\$ 0.29	\$ 0.67
Weighted-average shares used in computing GAAP Net Loss per share, diluted		
Weighted-average shares used in computing GAAP Net Loss per share, diluted	143,976	147,625
Add: Outstanding equity incentive awards	3,689	3,431
Add: Convertible senior notes	7,626	7,626
Less: Antidilutive impact of capped call transactions	(588)	(177)
Weighted-average shares used in computing non-GAAP Net Loss per share, diluted	154,203	158,505

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

\$ IN THOUSANDS

	Q1 23	Q1 24
Calculated Billings		
Revenue	\$ 355,548	\$ 496,703
Add: Total deferred revenue, end of period	1,005,713	1,399,544
Less: Total deferred revenue, beginning of period	(1,021,123)	(1,439,676)
Calculated Billings	\$ 340,138	\$ 456,571
Calculated Current Billings		
Revenue	\$ 355,548	\$ 496,703
Add: Current deferred revenue, end of period	913,104	1,244,528
Less: Current deferred revenue, beginning of period	(923,749)	(1,281,143)
Calculated Current Billings	\$ 344,903	\$ 460,088
Free Cash Flow		
Net cash provided by operating activities	\$ 128,457	\$ 260,806
Less: Purchases of property, equipment and other assets	(25,202)	(28,659)
Less: Capitalized internal-use software	(7,641)	(7,429)
Free Cash Flow	\$ 95,614	\$ 224,718
Free Cash Flow Margin		
Net cash provided by operating activities, as a percentage of revenue	36 %	53 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(7)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%
Free Cash Flow Margin	27 %	45%