

**Forward-Looking Statements**

This document contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our future financial and operating performance, including our financial outlook for the fourth quarter of fiscal 2022 and full year fiscal 2022. There are a significant number of factors that could cause actual results to differ materially from statements made in this document, including but not limited to: macroeconomic factors such as the duration and global impact of COVID-19 and the Russia-Ukraine crisis 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 results are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth from time to time in our filings and reports with the Security Exchange Commission (SEC), including our Quarterly Report on Form 10-Q for the three months ended January 31, 2022 filed on March 9, 2022, as well as future filings and reports by us, copies of which are available on our website at [ir.zscaler.com](http://ir.zscaler.com) and on the SEC’s website at [www.sec.gov](http://www.sec.gov). You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this document 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.

## CEO Commentary

We're pleased to report another strong quarter. In Q3, we delivered 63% year-over-year revenue growth, 54% billings growth and 15% free cash flow margins, all while investing for high growth. While most public SaaS companies are happy to get to Rule-of-40<sup>1</sup>, we again exceeded the Rule-of-70 based on revenue growth and free cash flow margins. With our increased guidance today, we expect to achieve the Rule-of-80 for the full year. We are not only delivering excellent growth, we are also delivering strong profitability. We are disciplined in making investments for innovation and go-to-market scale. With the breadth and depth of our ever expanding Zero Trust platform, we can efficiently sell to our growing base of enterprise customers. We believe our clear focus on securing large enterprises makes us the partner of choice for our customers' Zero Trust security journey.

- While there are broader macro challenges and economic uncertainties, we have seen an increase in large, multi-year commitments for multiple product pillars of Zscaler platform as periods of uncertainty can act as a catalyst for change. This, coupled with growing cyber threats such as ransomware, are driving IT leaders to transform security from castle-and-moat security to zero-trust architecture. In this environment, customers cannot risk transformational and mission-critical projects with immature offerings from unproven vendors. As the pioneer and category leader in Security Service Edge or SSE with the widest and deepest offerings, Zscaler is the trusted partner for vendor consolidation, cost savings, increased user productivity and better cyber protection.
- We are adding new Global 2000 customers at a record pace. In the last two quarters, we added close to 80 G2K customers. Now 40% of the Fortune 500 and 30% of Global 2000 companies trust Zscaler to secure their digital transformation. Approximately half of our Global 2000 customers have both ZIA and ZPA, and I am excited to report that ZPA has surpassed over \$200 million in annualized revenue.
- In Q3, we had significant growth in new \$1-million+ ACV deals across major geographies and customer verticals. We are seeing an acceleration in multi-year, multi-product pillar deals as enterprises are racing to transform their business. We provide a path for large strategic customers to ramp into larger and longer commitments for our entire transformational platform, not just for elements of it. This is driving a strong growth in bookings, with the total value of our committed future revenue reaching a key milestone – it has surpassed \$2 billion.

Now, let me highlight some customer deal wins during the quarter. As I mentioned before, I believe all customers will ultimately purchase ZIA, ZPA and ZDX for all users. This quarter, we have seen ample evidence that customers are buying ZIA, ZPA and ZDX together, providing Zero Trust security for users with fast user experience.

- In a new logo win, a global 500 food services conglomerate headquartered in Europe, purchased ZIA, ZPA and ZDX for all 100,000 users. Leveraging our globally distributed SSE platform, this customer is consolidating dozens of different vendors point products across hundreds of locations in 45 countries. The customer was most excited about having a single Zero Trust security policy framework for in-line inspection across its business units in every location. Given the significant cost savings, upleveled security and improved user experience across the company, the CEO and CFO signed off on this non-budgeted, 4-year commitment. In addition, they started a paid pilot for our Zero Trust for Workloads offering for their sizable AWS footprint, which we are very excited about.
- Next, in an upsell deal, a Global 10 oil and gas customer headquartered in Europe, after deploying ZIA and ZPA for 100,000 users, purchased ZDX for all 100,000 employees. ZDX is delivering immediate

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<sup>1</sup> Rule-of-40 is calculated as year-over-year revenue growth percentage plus free cash flow margin.

value by reducing the customer's time to troubleshoot performance issues by 50-80%, while consolidating 40 legacy performance point products. In addition, the customer upgraded to our newly introduced ZPA Transformation bundle that includes browser isolation, application protection, and deception services. This is a 4-year deal that increased the customer's annual spend by over 70%. This customer's journey with Zscaler is remarkable: I remember sitting with the chief architect in their office, finalizing the purchase of our ZIA Professional bundle six years ago. Since then, their annual spend has increased over 14x to well over \$10 million. Next, we look forward to working with them on Zero Trust for Workloads.

- In an upsell win, a Fortune 500 Bank in Asia that has deployed ZIA for over 50,000 users purchased ZPA and ZDX for all 50,000 employees. This is another example of a large customer buying ZIA, ZPA and ZDX for all users. While the immediate objective for this deal was to replace a legacy multi-vendor VPN infrastructure, ZPA was selected to implement zero trust access by establishing an application-level policy—where users connect to specific applications, not to a network—hence achieving app segmentation without having to do legacy network segmentation. ZPA did not just replace VPN, it's eliminating the need for the entire inbound DMZ including DDoS protection, app delivery controllers, and firewalls, generating a payback on their Zscaler purchase within 6 months. Because of this substantial ROI, even in a tougher macro, Zscaler can help reduce cost while driving transformation. Our integration with Microsoft's E5 suite across ZIA and ZPA was also an important decision factor for them. This latest purchase more than doubled the customer's annual spend.

ZIA, ZPA and ZDX together form a complete solution to implement Zero Trust for users. Our next immediate big opportunity is Zero Trust for workloads, powered by the same core ZIA and ZPA technology. Let me highlight a few exciting wins in this area:

- An existing Fortune 100 financial services customer with ZIA deployed for 60,000 users, purchased Zero Trust for Workloads to protect 50,000 workloads spanning across multiple data centers and public clouds. This eliminates the need for virtual firewalls and site-to-site VPNs. This multi-million-dollar ACV deal is our largest workload deal to-date and more than doubles the customer's annual spend. The customer now protects both users and workloads under a single policy framework, enhancing their cyber protection, providing visibility and simplifying operations.
- Lastly, let me discuss a new customer purchasing all four product pillars together. An elite research university purchased our comprehensive ZIA, ZPA and ZDX offerings for 35,000 users and Zero Trust for Workloads for over 3,000 workloads for their multi-cloud environment. Their CIO's top priority is to eliminate the risk of legacy VPNs and lateral threat movement as universities are increasingly becoming a target for ransomware and intellectual property theft. Also, a critical requirement for this win was our Zero Trust platform meeting the criteria of Zero Trust framework as recommended by NIST. We closed this 3-year, 8-figure deal through AWS marketplace. I'm very happy with our continued success in expanding our routes to market via cloud marketplaces.

Next, I am excited to highlight US Federal government where we're having considerable momentum. Driven in part by the President's Executive Order, we are seeing increased interest in our Zero Trust Exchange across all levels of the government. We are excited to help our country dramatically improve our security posture while significantly reducing legacy IT costs. We have the highest level of FedRAMP certifications for ZIA and ZPA. In addition, ZPA is the only Zero Trust solution with DoD IL5 certification. There are only a select few cloud companies that have this level of certification, and there is no other cybersecurity company at this level. IL5 certification is an important differentiator for us. Let me highlight 2 new customer wins this quarter where this was an important factor:

1. First, a defense contractor that purchased ZIA and ZPA in a 6-year seven-figure ACV deal.
2. Second, a DOD unit also purchased ZPA for secure access to SAP instances in AWS Gov cloud.

Two important considerations for our ongoing success in the Federal market are:

1. First, ZPA is the only cloud security service with FedRAMP High authorization for Zero Trust Remote Access. We connect users to applications and not to the network, eliminating lateral threat movement, a core principle of zero trust architecture that can't be achieved by next gen firewalls or cloud VPNs.
2. Second, ZIA's proxy architecture, which inspects TLS-encrypted traffic at scale delivering superior security.

Our proven track record running the world's largest inline security cloud makes Zscaler the obvious and trusted partner of choice for governments and enterprises. We now have 288 customers exceeding \$1 million in ARR, an increase of 77% year-over-year. We deliver a mission-critical service that requires unmatched reliability and availability for an in-line cloud. There is no compression algorithm for over 10 years of operational experience running such a cloud. An example of our proven scale is that Zscaler processes over 240 billion transactions inline per day, which is more than 20x the number of Google searches per day.

Now, let me share a few observations about our high net retention rates, which has exceeded 125% for the last 6 quarters. We made a number of investments in customer success services, technical account managers, partner services, and certification of partners, which together are driving a faster and greater adoption across our broad portfolio. We have a solid blueprint for accelerating value delivery, which is driving upsells. All of these investments result in happy customers, demonstrated by our Net Promoter Score or NPS of more than 70, which is more than 2 times that of an average SaaS company.

Next let me now highlight our rapid pace of innovation. After having built the most comprehensive platform to provide Zero Trust for Users, we are now expanding it for Zero Trust for Workloads. Unlike scores of vendors who offer point-products for cloud native apps, Zscaler has developed a fully integrated CSPM, CIEM and Infrastructure-as-Code Scanning with a common backend and fully correlated, actionable dashboard. Gartner calls this functionality CNAPP, but we have moved beyond CNAPP by integrating the threat and data awareness from ZIA and ZPA. We will be highlighting it and other innovations at Zenith Live, our annual cloud summit, next month.

We enhanced our AI/ML engine for ZDX, our fastest growing new service, to leverage billions of telemetry points from millions of users to improve digital user experience. It can not only automatically figure out what and where performance issues are but can also provide information about the quality of voice, video and screen sharing due to our integration with Microsoft Teams and Zoom. We have also integrated ZDX with ServiceNow making customer end-user support far more efficient. ZDX also got certified and became available on our Federal cloud.

Our ThreatLabZ security research team is tracking over a dozen APT groups and getting better reconnaissance about their tools and behavioral patterns resulting in higher order threat intelligence. This specific threat intel coupled with our massive cloud effect from 240 billion transactions and 300 trillion signals per day enables Zscaler to deliver better threat protection than other vendors.

Moving beyond users and workloads, we are now bringing Zero Trust to IoT/OT systems, a large emerging opportunity. Today, Siemens and Zscaler announced the availability of an integrated all-in-one solution to accelerate secure access to OT systems. Our joint development with Siemens brings the benefits of Zscaler to factory and industrial control systems. We are thrilled to have Siemens, a long-standing customer, as a development and go-to-market partner.

In closing, in spite of uncertain macro conditions, we continue to see strong demand for our services. We are in a strong financial position, and we will continue to aggressively invest in our business. We are focused on hiring and developing talent and creating a culture that rewards innovation at all levels. We have grown our global organization to approximately 4,500 employees who are energized by our shared mission to secure the hyperconnected world of cloud and mobility. We grew our total sales and marketing headcount by 54% year over year, and we remain focused on investing in our go-to-market machine. In today's competitive hiring market, Zscaler is a destination for top talent. To drive continued growth in hiring and to build on Zscaler's high-performing hybrid-work culture, this month, we welcomed Brendan Castle, Google's former global head of talent acquisition, as our new Chief People Officer. Brendan has proven experience in building highly motivated and productive teams at scale.

With app transformation already mainstream, network and security transformation is also becoming mainstream, which we pioneered with our Zero Trust Exchange. We believe customers trust Zscaler more than any other provider for securing their cloud journey. Recent uncertainty in the macro environment is driving customers to accelerate their network and security transformation with our integrated platform, resulting in reductions in cost, complexity and business risk. We are adding a record number of Global 2000 customers, now with 30% of Global 2000 and 40% of Fortune 500 customers trusting Zscaler. These demanding customers are making large multi-year commitments to our platform. We are not just growing rapidly at any cost, we are also profitable and delivering efficient growth. We will continue our disciplined investment in innovation and growth to capture the large and growing opportunity ahead of us.

## CFO Commentary

We are pleased with the results for the third quarter of fiscal 2022. Revenue for the quarter was \$287 million, up 63% year-over-year and up 12% sequentially. On a year-over-year basis, revenue growth exceeded 60% for the third straight quarter driven by strong customer demand for our Zero Trust platform. ZPA product revenue was approximately 18% of total revenue, growing 87% year-over-year. From a geographic perspective, we had broad strength across our three major regions: Americas represented 52% of revenue, EMEA was 33% and APJ was 15%. APJ continues to be our fastest growing region, with revenue growth of 105% year-over-year.

Our total calculated billings grew 54% year-over-year to \$346 million, with billing duration comparable to a year ago and above the midpoint of our normal 10-14 months range. Our remaining performance obligations, or RPO, grew 83% from one year ago to \$2.216 billion. The current RPO is 49% of the total RPO.

Our strong customer retention rate and our ability to upsell the broader platform have resulted in a high dollar-based net retention rate, which was again above 125%.

We had 288 customers paying us more than \$1 million annually, up 77% from 163 in the prior year. I'm very pleased with the pace at which we are adding these \$1 million ARR customers: we increased by 37 customers in the quarter. The continued strength in this metric speaks to our large enterprise focus and the strategic role we play in our customers' digital transformation initiatives. We added 140 customers in the quarter paying us more than \$100,000 annually, ending the quarter at 1,891 such customers.

Turning to the rest of our Q3 financial performance, total gross margin of 80.6% was approximately flat quarter-over-quarter and year-over-year. Our total operating expenses increased 11% sequentially and 70% year-over-year to \$204 million. Operating expenses as a percentage of revenue was 71% compared to 68% in the year ago quarter, due to a partial return of T&E. Operating margin was 9% and Free cash flow margin was 15%. We continue to expect data center capex to be around high-single digit percent of revenue for the full year. We ended the quarter with over \$1.66 billion in cash, cash equivalents, and short-term investments.

Now, moving on to guidance and modeling points. As a reminder, these numbers are all non-GAAP which excludes stock-based compensation expenses and related payroll taxes, amortization of debt discount and amortization of intangible assets.

We are once again increasing our guidance across all metrics. For the fourth quarter of fiscal 2022, we expect:

- Revenue in the range of \$304 million to \$306 million, reflecting a year-over-year growth of 54% to 55%
- Gross margins of 79%. I would like to remind investors that a number of our emerging products, including ZDX, Workload Segmentation and CSPM, will initially have lower gross margins than our core products, because we are more focused on time-to-market and growth rather than optimizing them for gross margins.
- Operating profit in the range of \$33 million to \$34 million. We have more in-person events this quarter, including customer events, Zenith Live and RSA conferences.
- Net loss on other income of \$500 thousand.
- Income taxes of \$3 million.
- Earnings per share of \$0.20 to \$0.21, assuming approximately 146 to 147 million fully diluted shares.

For the full-year fiscal 2022 we are:

- Increasing our revenue guidance to approximately \$1.078 billion or year-over-year growth of 60%.
- Increasing calculated billings to a range of \$1.425 billion to \$1.430 billion or year-over-year growth of approximately 53%.
- Increasing our operating profit to a range of \$106 million to \$108 million.
- Increasing our earnings per share to a range of \$0.64 to \$0.65 assuming approximately 147 to 148 million fully diluted shares.
- Free cash flow of \$215 million, reflecting free cash flow margin of approximately 20% for the full year. With a revenue growth outlook of 60% and free cash flow margin of 20%, we expect to operate at the Rule-of-80 for the full year.

With customers increasingly adopting the broader platform with longer-term commitments, we plan to invest in capturing our large market opportunity. We have confidence in the durability of our business model, with very high contribution margins after the initial land and proven ability to retain and upsell to our enterprise customer base. We will balance growth and profitability based on how our business is growing, but we will continue to prioritize growth which we believe is in the best interest of our shareholders, employees, and customers.