

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. 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 asset impairment related to facility exit. 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, asset impairment related to facility exit, 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	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Revenue	\$ 176,404	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598
Cost of revenue ⁽¹⁾⁽²⁾	38,977	45,478	52,169	57,783	64,022	68,308	76,697	87,604
Gross profit	137,427	151,596	178,348	197,780	222,785	249,751	278,851	299,994
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	115,730	136,385	153,786	175,073	192,132	214,228	228,836	235,945
Research and development ⁽¹⁾⁽²⁾	40,952	56,180	65,216	69,195	76,578	78,150	74,946	85,765
General and administrative ⁽¹⁾	24,595	26,428	33,717	37,444	40,672	39,902	44,156	43,522
Total operating expenses	181,277	218,993	252,719	281,712	309,382	332,280	347,938	365,232
Loss from operations	(43,850)	(67,397)	(74,371)	(83,932)	(86,597)	(82,529)	(69,087)	(65,238)
Interest income	593	524	473	557	949	2,607	7,865	12,669
Interest expense ⁽³⁾	(13,436)	(13,634)	(13,835)	(14,040)	(14,246)	(14,458)	(1,331)	(1,333)
Other income (expense), net	71	329	(589)	(844)	(2,001)	(774)	(863)	141
Loss before income taxes	(56,622)	(80,178)	(88,322)	(98,259)	(101,895)	(95,154)	(63,416)	(53,761)
Provision (benefit) for income taxes	1,837	845	2,479	2,161	(490)	2,498	4,746	3,692
Net loss	\$ (58,459)	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)
Net loss per share, basic and diluted	\$ (0.43)	\$ (0.59)	\$ (0.65)	\$ (0.71)	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)
Weighted-average shares used in computing net loss per share, basic and diluted	136,385	137,778	139,296	140,515	141,422	142,355	143,476	144,511

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

Cost of revenue	\$ 3,665	\$ 5,033	\$ 5,319	\$ 5,766	\$ 6,511	\$ 7,696	\$ 8,661	\$ 9,595
Sales and marketing	34,798	42,957	43,464	47,666	53,576	57,505	55,469	55,213
Research and development	15,033	25,558	28,570	30,000	31,366	33,486	25,233	29,380
General and administrative	11,681	12,395	18,741	20,613	20,113	19,628	19,273	17,330
Total	\$ 65,177	\$ 85,943	\$ 96,094	\$ 104,045	\$ 111,566	\$ 118,315	\$ 108,636	\$ 111,518

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

Cost of revenue	\$ 1,503	\$ 1,958	\$ 2,056	\$ 2,000	\$ 1,980	\$ 1,939	\$ 1,939	\$ 2,175
Sales and marketing	73	108	170	178	178	178	178	178
Research and development	—	—	—	53	80	198	435	198
Total	\$ 1,576	\$ 2,066	\$ 2,226	\$ 2,231	\$ 2,238	\$ 2,315	\$ 2,552	\$ 2,551

⁽³⁾ Includes amortization of debt discount and issuance costs as follows ⁽⁵⁾ :	\$ 13,077	\$ 13,274	\$ 13,476	\$ 13,680	\$ 13,887	\$ 14,098	\$ 972	\$ 973
--	-----------	-----------	-----------	-----------	-----------	-----------	--------	--------

⁽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	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Revenue	\$ 176,404	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598
Cost of revenue	33,809	38,487	44,794	50,017	55,531	58,673	66,097	75,834
Gross profit	142,595	158,587	185,723	205,546	231,276	259,386	289,451	311,764
Operating expenses:								
Sales and marketing	80,859	93,320	110,152	127,229	138,378	156,545	173,189	180,554
Research and development	25,919	30,622	36,646	39,142	45,132	44,466	49,278	56,187
General and administrative	12,914	14,033	14,976	16,831	20,559	20,274	24,883	26,192
Total operating expenses	119,692	137,975	161,774	183,202	204,069	221,285	247,350	262,933
Income from operations	22,903	20,612	23,949	22,344	27,207	38,101	42,101	48,831
Interest income	593	524	473	557	949	2,607	7,865	12,669
Interest expense	(359)	(360)	(359)	(360)	(359)	(360)	(359)	(360)
Other income (expense), net	71	329	(589)	(844)	(2,001)	(774)	(863)	141
Income before income taxes	23,208	21,105	23,474	21,697	25,796	39,574	48,744	61,281
Provision for income taxes ⁽¹⁾	1,837	845	2,479	2,522	1,064	3,180	4,746	3,692
Non-GAAP net income	\$ 21,371	\$ 20,260	\$ 20,995	\$ 19,175	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589
Non-GAAP net income per share, diluted ⁽²⁾	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽²⁾	144,913	145,674	147,541	148,801	146,915	146,407	154,203	154,742

⁽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
Non-GAAP net income	\$ 43,998	\$ 57,589
Add: Non-GAAP interest expense	359	360
Numerator used in computing non-GAAP net income per share, diluted	\$ 44,357	\$ 57,949
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	143,476	144,511
Add: Dilution from outstanding equity incentive awards	3,689	2,605
Add: Dilution from senior convertible notes using the if-converted method	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

(*) No antidilutive impact was reflected in the three months ended January 31, 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	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Assets								
Current assets:								
Cash and cash equivalents	\$ 106,590	\$ 275,898	\$ 371,696	\$ 409,819	\$ 594,893	\$ 1,013,210	\$ 1,084,945	\$ 1,257,012
Short-term investments	1,361,019	1,226,654	1,212,946	1,211,390	1,062,981	718,129	739,845	648,332
Accounts receivable, net	164,923	257,109	172,028	269,449	272,092	399,745	268,718	358,614
Deferred contract acquisition costs	44,541	57,373	62,067	69,025	75,897	86,210	90,004	96,105
Prepaid expenses and other current assets	28,428	31,269	36,699	29,482	41,182	39,353	49,849	56,046
Total current assets	1,705,501	1,848,303	1,855,436	1,989,165	2,047,045	2,256,647	2,233,361	2,416,109
Property and equipment, net	106,812	108,576	112,999	121,195	141,692	160,633	183,425	200,468
Operating lease right-of-use assets	49,727	44,339	44,153	42,837	45,185	72,357	76,199	69,848
Deferred contract acquisition costs, noncurrent	107,927	149,657	154,036	165,480	181,402	210,792	211,468	219,046
Acquired intangible assets, net	26,495	32,129	29,903	29,272	27,034	31,819	29,267	26,716
Goodwill	53,291	58,977	58,977	59,823	59,823	78,547	78,547	78,547
Other noncurrent assets	12,523	15,650	15,614	14,249	22,363	21,870	23,465	29,222
Total assets	<u>\$ 2,062,276</u>	<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>
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 20,172	\$ 12,547	\$ 14,961	\$ 13,499	\$ 15,234	\$ 26,154	\$ 29,717	\$ 33,632
Accrued expenses and other current liabilities	16,622	22,908	22,859	31,096	43,160	46,496	60,229	43,547
Accrued compensation	61,276	93,622	72,667	83,863	102,678	111,948	79,587	97,293
Deferred revenue	445,835	571,286	584,325	687,919	731,904	923,749	913,104	1,000,359
Operating lease liabilities	20,974	19,842	20,488	19,665	19,600	26,100	28,646	29,173
Total current liabilities	564,879	720,205	715,300	836,042	912,576	1,134,447	1,111,283	1,204,004
Convertible senior notes, net ⁽¹⁾	900,263	913,538	927,014	940,692	954,578	968,674	1,139,542	1,140,516
Deferred revenue, noncurrent	49,599	59,315	63,491	72,012	86,839	97,374	92,609	111,521
Operating lease liabilities, noncurrent	35,472	31,225	30,534	29,280	31,028	50,948	51,065	46,233
Other noncurrent liabilities	3,956	4,453	4,580	4,628	7,946	7,922	9,958	9,025
Total liabilities	1,554,169	1,728,736	1,740,919	1,882,654	1,992,967	2,259,365	2,404,457	2,511,299
Stockholders' equity								
Common stock	137	139	140	141	142	143	144	145
Additional paid-in capital	1,027,888	1,131,006	1,225,224	1,341,346	1,450,139	1,590,885	1,425,156	1,547,203
Accumulated other comprehensive income (loss)	659	(650)	(2,764)	(9,299)	(24,478)	(25,850)	(37,824)	(5,037)
Accumulated deficit	(520,577)	(601,600)	(692,401)	(792,821)	(894,226)	(991,878)	(956,201)	(1,013,654)
Total stockholders' equity	508,107	528,895	530,199	539,367	531,577	573,300	431,275	528,657
Total liabilities and stockholders' equity	<u>\$ 2,062,276</u>	<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>

⁽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	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Cash flows from operating activities								
Net loss	\$ (58,459)	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	8,074	8,262	9,017	9,988	10,432	11,019	11,876	13,365
Amortization expense of acquired intangible assets	1,576	2,066	2,226	2,231	2,238	2,315	2,552	2,551
Amortization of deferred contract acquisition costs	10,454	11,981	14,912	16,126	17,755	19,738	22,325	23,728
Amortization of debt discount and issuance costs ⁽¹⁾	13,076	13,275	13,476	13,680	13,887	14,098	972	973
Non-cash operating lease costs	5,656	5,839	6,031	6,380	6,577	6,638	7,108	7,880
Stock-based compensation expense	59,973	79,997	89,903	98,988	105,854	114,817	105,173	109,738
Amortization (accretion) of investments purchased at a premium (discount)	3,154	3,115	2,671	1,991	1,280	638	(165)	(1,268)
Deferred income taxes	(521)	(904)	(223)	(436)	138	(41)	65	(56)
Other	(56)	304	(13)	308	354	(254)	248	(1,728)
Changes in operating assets and liabilities, net of effects of business acquisitions								
Accounts receivable	4,553	(91,477)	84,927	(97,549)	(2,827)	(127,887)	130,636	(89,836)
Deferred contract acquisition costs	(27,976)	(66,543)	(23,985)	(34,528)	(40,549)	(59,441)	(26,795)	(37,407)
Prepaid expenses, other current and noncurrent assets	(4,925)	(5,185)	(4,126)	9,029	(15,257)	67	(7,579)	(221)
Accounts payable	1,794	1,030	(1,088)	985	3,069	11,392	3,000	2,228
Accrued expenses, other current and noncurrent liabilities	1,275	3,524	(192)	5,221	5,121	3,227	3,627	2,272
Accrued compensation	13,166	32,294	(20,955)	11,196	18,815	9,270	(32,797)	15,146
Deferred revenue	49,530	134,011	17,381	112,213	59,001	202,584	(15,340)	106,202
Operating lease liabilities	(6,976)	(5,830)	(5,890)	(7,141)	(7,242)	(7,390)	(8,287)	(6,633)
Net cash provided by operating activities	73,368	44,736	93,271	48,262	77,241	103,138	128,457	89,481
Cash flows from investing activities:								
Purchases of property, equipment and other assets	(14,812)	(13,950)	(6,454)	(13,988)	(27,604)	(21,250)	(25,202)	(18,681)
Capitalized internal-use software	(2,775)	(3,085)	(3,450)	(4,825)	(5,892)	(7,117)	(7,641)	(7,982)
Payments for business acquisitions, net of cash acquired	(29,420)	(11,110)	—	(380)	—	(24,907)	—	—
Purchase of strategic investments	(2,877)	(200)	—	—	—	—	(700)	(500)
Purchases of short-term investments	(304,834)	(91,008)	(312,840)	(311,414)	(185,857)	(34,833)	(210,255)	(303,488)
Proceeds from maturities of short-term investments	278,929	222,473	322,677	306,734	325,868	379,595	186,096	400,705
Proceeds from sale of short-term investments	10,999	—	—	—	—	—	—	—
Net cash provided by (used in) investing activities	(64,790)	103,120	(67)	(23,873)	106,515	291,488	(57,702)	70,054
Cash flows from financing activities:								
Proceeds from issuance of common stock upon exercise of stock options	2,665	4,311	2,644	2,227	1,319	753	982	1,122
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	2,665	21,452	2,594	13,734	1,318	23,691	980	12,532
Net increase (decrease) in cash and cash equivalents ⁽²⁾	11,243	169,308	95,798	38,123	185,074	418,317	71,735	172,067
Cash and cash equivalents at beginning of period ⁽²⁾	95,347	106,590	275,898	371,696	409,819	594,893	1,013,210	1,084,945
Cash and cash equivalents at end of period ⁽²⁾	\$ 106,590	\$ 275,898	\$ 371,696	\$ 409,819	\$ 594,893	\$ 1,013,210	\$ 1,084,945	\$ 1,257,012

⁽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.

⁽²⁾ We did not hold restricted cash for any periods presented.

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

Fiscal Quarter	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
GAAP gross profit	<u>\$ 137,427</u>	<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>
Stock-based compensation expense and related payroll taxes	3,665	5,033	5,319	5,766	6,511	7,696	8,661	9,595
Amortization expense of acquired intangible assets	1,503	1,958	2,056	2,000	1,980	1,939	1,939	2,175
Non-GAAP gross profit	<u>\$ 142,595</u>	<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>
GAAP Gross Margin	78 %	77 %	77 %	77 %	78 %	79 %	78 %	77 %
Non-GAAP gross margin	81 %	80 %	81 %	80 %	81 %	82 %	81 %	80 %
GAAP sales and marketing expense	<u>\$ 115,730</u>	<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>
Stock-based compensation expense and related payroll taxes	34,798	42,957	43,464	47,666	53,576	57,505	55,469	55,213
Amortization expense of acquired intangible assets	73	108	170	178	178	178	178	178
Non-GAAP sales and marketing expense	<u>\$ 80,859</u>	<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>
GAAP sales and marketing expense as a percentage of revenue	66 %	69 %	67 %	69 %	67 %	67 %	64 %	61 %
Non-GAAP sales and marketing expense as a percentage of revenue	46 %	47 %	48 %	50 %	48 %	49 %	49 %	47 %
GAAP research and development expense	<u>\$ 40,952</u>	<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>
Stock-based compensation expense and related payroll taxes	15,033	25,558	28,570	30,000	31,366	33,486	25,233	29,380
Amortization expense of acquired intangible assets	—	—	—	53	80	198	435	198
Non-GAAP research and development expense	<u>\$ 25,919</u>	<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>
GAAP research and development expense as a percentage of revenue	23 %	29 %	28 %	27 %	27 %	25 %	21 %	22 %
Non-GAAP research and development expense as a percentage of revenue	15 %	16 %	16 %	15 %	16 %	14 %	14 %	14 %
GAAP general and administrative expense	<u>\$ 24,595</u>	<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>
Stock-based compensation expense and related payroll taxes	11,681	12,395	18,741	20,613	20,113	19,628	19,273	17,330
Non-GAAP general and administrative expense	<u>\$ 12,914</u>	<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>
GAAP general and administrative expense as a percentage of revenue	14 %	13 %	15 %	15 %	14 %	13 %	12 %	11 %
Non-GAAP general and administrative expense as a percentage of revenue	7 %	7 %	6 %	7 %	7 %	6 %	7 %	7 %
GAAP total operating expenses	<u>\$ 181,277</u>	<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>
Stock-based compensation expense and related payroll taxes	61,512	80,910	90,775	98,279	105,055	110,619	99,975	101,923
Amortization expense of acquired intangible assets	73	108	170	231	258	376	613	376
Non-GAAP total operating expenses	<u>\$ 119,692</u>	<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>
GAAP total operating expenses as a percentage of revenue	103 %	111 %	110 %	110 %	108 %	104 %	98 %	94 %
Non-GAAP total operating expenses as a percentage of revenue	68 %	70 %	70 %	72 %	71 %	70 %	70 %	68 %

Fiscal Quarter	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
GAAP loss from operations	\$ (43,850)	\$ (67,397)	\$ (74,371)	\$ (83,932)	\$ (86,597)	\$ (82,529)	\$ (69,087)	\$ (65,238)
Stock-based compensation expense and related payroll taxes	65,177	85,943	96,094	104,045	111,566	118,315	108,636	111,518
Amortization expense of acquired intangible assets	1,576	2,066	2,226	2,231	2,238	2,315	2,552	2,551
Non-GAAP income from operations	\$ 22,903	\$ 20,612	\$ 23,949	\$ 22,344	\$ 27,207	\$ 38,101	\$ 42,101	\$ 48,831
GAAP operating margin	(25)%	(34)%	(32)%	(33)%	(30)%	(26)%	(19)%	(17)%
Non-GAAP operating margin	13 %	10 %	10 %	9 %	9 %	12 %	12 %	13 %
GAAP interest expense	\$ (13,436)	\$ (13,634)	\$ (13,835)	\$ (14,040)	\$ (14,246)	\$ (14,458)	\$ (1,331)	\$ (1,333)
Amortization of debt discount and issuance costs	13,077	13,274	13,476	13,680	13,887	14,098	972	973
Non-GAAP interest expense	\$ (359)	\$ (360)	\$ (359)	\$ (360)	\$ (359)	\$ (360)	\$ (359)	\$ (360)
GAAP net loss	\$ (58,459)	\$ (81,023)	\$ (90,801)	\$ (100,420)	\$ (101,405)	\$ (97,652)	\$ (68,162)	\$ (57,453)
Stock-based compensation expense and related payroll taxes	65,177	85,943	96,094	104,045	111,566	118,315	108,636	111,518
Amortization expense of acquired intangible assets	1,576	2,066	2,226	2,231	2,238	2,315	2,552	2,551
Amortization of debt discount and issuance costs	13,077	13,274	13,476	13,680	13,887	14,098	972	973
Benefit for income taxes ⁽²⁾	—	—	—	(361)	(1,554)	(682)	—	—
Non-GAAP net income	21,371	20,260	20,995	19,175	24,732	36,394	43,998	57,589
GAAP net loss as a percentage of revenue	(33)%	(41)%	(39)%	(39)%	(35)%	(31)%	(19)%	(15)%
Non-GAAP net income as a percentage of revenue	12 %	10 %	9 %	8 %	9 %	11 %	12 %	15 %
Non-GAAP net income	\$ 21,371	\$ 20,260	\$ 20,995	\$ 19,175	\$ 24,732	\$ 36,394	\$ 43,998	\$ 57,589
Add: non-GAAP interest expense ⁽¹⁾	—	—	—	—	—	—	359	360
Numerator used in computing non-GAAP net income per share, diluted	\$ 21,371	\$ 20,260	\$ 20,995	\$ 19,175	\$ 24,732	\$ 36,394	\$ 44,357	\$ 57,949
GAAP net loss per share, basic and diluted	\$ (0.43)	\$ (0.59)	\$ (0.65)	\$ (0.71)	\$ (0.72)	\$ (0.69)	\$ (0.48)	\$ (0.40)
Stock-based compensation expense and related payroll taxes	0.45	0.59	0.65	0.70	0.76	0.81	0.70	0.72
Amortization expense of acquired intangible assets	0.01	0.01	0.02	0.01	0.02	0.02	0.02	0.02
Amortization of debt discount and issuance costs	0.09	0.09	0.09	0.09	0.09	0.10	0.01	0.01
Benefit for income taxes ⁽²⁾	—	—	—	—	(0.01)	—	—	—
Non-GAAP interest expense ⁽¹⁾	—	—	—	—	—	—	—	—
Adjustment to total fully diluted earnings per share ⁽³⁾	0.03	0.04	0.03	0.04	0.03	0.01	0.04	0.02
Non-GAAP net income per share, diluted ⁽¹⁾	\$ 0.15	\$ 0.14	\$ 0.14	\$ 0.13	\$ 0.17	\$ 0.25	\$ 0.29	\$ 0.37
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	136,385	137,778	139,296	140,515	141,422	142,355	143,476	144,511
Outstanding equity incentive awards	8,528	7,896	7,559	6,834	5,493	4,052	3,689	2,605
Senior convertible notes ⁽¹⁾	1,692	1,973	3,385	3,853	2,740	208	7,626	7,626

Fiscal Quarter	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Antidilutive impact of capped call transactions ⁽⁴⁾	(1,692)	(1,973)	(2,699)	(2,401)	(2,740)	(208)	(588)	—
Weighted-average shares used in computing non-GAAP net income per share, diluted ⁽¹⁾	144,913	145,674	147,541	148,801	146,915	146,407	154,203	154,742

⁽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. 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.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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, 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	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Revenue	\$ 176,404	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598
Free cash flows								
Net cash provided by operating activities	\$ 73,368	\$ 44,736	\$ 93,271	\$ 48,262	\$ 77,241	\$ 103,138	\$ 128,457	\$ 89,481
Less: Purchases of property, equipment and other assets	(14,812)	(13,950)	(6,454)	(13,988)	(27,604)	(21,250)	(25,202)	(18,681)
Less: Capitalized internal-use software	(2,775)	(3,085)	(3,450)	(4,825)	(5,892)	(7,117)	(7,641)	(7,982)
Free cash flow	<u>\$ 55,781</u>	<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>
Year-over-year growth	(513)%	154 %	97 %	63 %	(22)%	170 %	15 %	113 %
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	42 %	23 %	40 %	19 %	27 %	32 %	36 %	23 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(8)%	(7)%	(3)%	(5)%	(10)%	(6)%	(7)%	(5)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(1)%	(2)%	(2)%	(2)%	(2)%	(2)%
Free cash flow margin	<u>32 %</u>	<u>14 %</u>	<u>36 %</u>	<u>12 %</u>	<u>15 %</u>	<u>24 %</u>	<u>27 %</u>	<u>16 %</u>

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

Fiscal Quarter	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23
End of Fiscal Quarter	4/30/2021	7/31/2021	10/31/2021	1/31/2022	4/30/2022	7/31/2022	10/31/2022	1/31/2023
Beginning of Fiscal Quarter	2/1/2021	5/1/2021	8/1/2021	11/1/2021	2/1/2022	5/1/2022	8/1/2022	11/1/2022
Calculated billings								
Revenue	\$ 176,404	\$ 197,074	\$ 230,517	\$ 255,563	\$ 286,807	\$ 318,059	\$ 355,548	\$ 387,598
Add: Total deferred revenue, end of period	495,434	630,601	647,816	759,931	818,743	1,021,123	1,005,713	1,111,880
Less: Total deferred revenue, beginning of period	(446,817)	(495,434)	(630,601)	(647,816)	(759,931)	(818,743)	(1,021,123)	(1,005,713)
Calculated billings	\$ 225,021	\$ 332,241	\$ 247,732	\$ 367,678	\$ 345,619	\$ 520,439	\$ 340,138	\$ 493,765
Year-over-year growth	71 %	70 %	71 %	59 %	54 %	57 %	37 %	34 %

Other key business metrics

Customers with equal or greater than \$100,000 annualized recurring revenue ("ARR")	1,314	1,480	1,616	1,751	1,891	2,089	2,217	2,337
Customers with equal or greater than \$1.0 million ARR	163	202	224	251	288	327	348	378