

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, as it 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 incentive 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 and 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. Restructuring and other charges includes 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. 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.

Effective August 1, 2024, the beginning of our fiscal year ending July 31, 2025, we are using a long-term projected non-GAAP tax rate of 23% for the purpose of determining our non-GAAP net income and non-GAAP net income per share to provide better consistency across interim reporting periods. Given the significant growth of our business and non-GAAP operating income, we believe this change is necessary to better reflect the performance of our business. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations. Prior period amounts have been recast to reflect this change.

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 income (loss) excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, restructuring and other charges, amortization of debt issuance costs, and the non-GAAP provision for income taxes adjustment. We define non-GAAP net income per share, diluted, as non-GAAP net income plus the non-GAAP interest expense related to the convertible senior notes 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 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	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Revenue	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955
Cost of revenue ⁽¹⁾⁽²⁾	87,604	95,849	102,682	111,394	117,199	118,331	130,205	141,462
Gross profit	299,994	322,951	352,324	385,309	407,800	434,870	462,663	486,493
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	235,945	236,273	252,810	267,111	276,481	262,447	294,200	306,087
Research and development ⁽¹⁾⁽²⁾	85,765	92,637	96,387	113,539	122,181	124,958	139,150	154,254
General and administrative ⁽¹⁾	43,522	43,486	46,380	50,716	54,595	50,478	56,263	56,819
Restructuring and other charges ⁽¹⁾	—	6,301	1,299	—	—	—	—	—
Total operating expenses	365,232	378,697	396,876	431,366	453,257	437,883	489,613	517,160
Loss from operations	(65,238)	(55,746)	(44,552)	(46,057)	(45,457)	(3,013)	(26,950)	(30,667)
Interest income	12,669	18,577	21,351	25,942	28,385	27,570	27,233	30,048
Interest expense ⁽³⁾	(1,333)	(1,383)	(2,494)	(3,159)	(3,605)	(2,764)	(3,604)	(3,143)
Other income (expense), net	141	(809)	(331)	(1,212)	172	(927)	(1,783)	(652)
Income (loss) before income taxes	(53,761)	(39,361)	(26,026)	(24,486)	(20,505)	20,866	(5,104)	(4,414)
Provision for income taxes	3,692	6,685	4,648	8,997	7,964	1,742	9,774	7,637
Net income (loss)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)
Net income (loss) per share								
Basic	\$ (0.40)	\$ (0.32)	\$ (0.21)	\$ (0.23)	\$ (0.19)	\$ 0.13	\$ (0.10)	\$ (0.08)
Diluted	\$ (0.40)	\$ (0.32)	\$ (0.21)	\$ (0.23)	\$ (0.19)	\$ 0.12	\$ (0.10)	\$ (0.08)
Weighted-average shares used in computing net income (loss) per share								
Basic	144,511	145,354	146,424	147,625	148,951	150,290	151,497	152,557
Diluted	144,511	145,354	146,424	147,625	148,951	154,081	151,497	152,557

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

Cost of revenue	\$ 9,595	\$ 10,025	\$ 12,016	\$ 12,955	\$ 13,434	\$ 12,487	\$ 13,890	\$ 15,793
Sales and marketing	55,213	51,417	60,181	58,668	65,855	45,490	60,584	64,866
Research and development	29,380	31,796	34,742	41,043	44,120	46,346	54,598	58,865
General and administrative	17,330	17,112	19,336	20,063	22,127	17,142	20,298	21,050
Restructuring and other charges	—	1,036	—	—	—	—	—	—
Total	\$ 111,518	\$ 111,386	\$ 126,275	\$ 132,729	\$ 145,536	\$ 121,465	\$ 149,370	\$ 160,574

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

Cost of revenue	\$ 2,175	\$ 2,695	\$ 2,765	\$ 2,717	\$ 2,717	\$ 2,962	\$ 4,483	\$ 3,675
Sales and marketing	178	200	217	226	226	279	501	425
Research and development	198	80	—	93	140	140	140	140
Total	\$ 2,551	\$ 2,975	\$ 2,982	\$ 3,036	\$ 3,083	\$ 3,381	\$ 5,124	\$ 4,240

⁽³⁾ Includes amortization of debt issuance costs

	\$ 973	\$ 974	\$ 975	\$ 977	\$ 978	\$ 979	\$ 980	\$ 981
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ZSCALER, INC.**Non-GAAP Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)**(unaudited)*

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Revenue	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955
Cost of revenue	75,834	83,129	87,901	95,722	101,048	102,882	111,832	121,994
Gross profit	311,764	335,671	367,105	400,981	423,951	450,319	481,036	505,961
Operating expenses:								
Sales and marketing	180,554	184,656	192,412	208,217	210,400	216,678	233,115	240,796
Research and development	56,187	60,761	61,645	72,403	77,921	78,472	84,412	95,249
General and administrative	26,192	26,374	27,044	30,653	32,468	33,336	35,965	35,769
Total operating expenses	262,933	271,791	281,101	311,273	320,789	328,486	353,492	371,814
Income from operations	48,831	63,880	86,004	89,708	103,162	121,833	127,544	134,147
Interest income	12,669	18,577	21,351	25,942	28,385	27,570	27,233	30,048
Interest expense	(360)	(409)	(1,519)	(2,182)	(2,627)	(1,785)	(2,624)	(2,162)
Other income (expense), net	141	(809)	(331)	(1,212)	172	(927)	(1,783)	(652)
Income before income taxes	61,281	81,239	105,505	112,256	129,092	146,691	150,370	161,381
Provision for income taxes ⁽¹⁾	14,095	18,685	24,266	25,819	29,691	33,739	34,585	37,118
Non-GAAP net income	\$ 47,186	\$ 62,554	\$ 81,239	\$ 86,437	\$ 99,401	\$ 112,952	\$ 115,785	\$ 124,263
Non-GAAP net income per share, diluted	\$ 0.31	\$ 0.40	\$ 0.52	\$ 0.55	\$ 0.63	\$ 0.71	\$ 0.72	\$ 0.77
Weighted-average shares used in computing non-GAAP net income per share, diluted	154,742	155,472	157,315	158,505	159,154	159,657	160,497	161,296

⁽¹⁾ Effective August 1, 2024, the beginning of our fiscal year ending July 31, 2025, we are using a long-term projected non-GAAP tax rate of 23% for the purpose of determining our non-GAAP net income and non-GAAP net income per share to provide better consistency across interim reporting periods in fiscal 2025 and beyond. Given the significant growth of our business and non-GAAP operating income, we believe this change is necessary to better reflect the performance of our business. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations. All periods presented have been recast to reflect this change.

⁽²⁾ Supplemental information post-adoption of ASU 2020-06 (*):

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
Non-GAAP net income	\$47,186	\$62,554	\$81,239	\$86,437	\$99,401	\$112,952	\$115,785	\$124,263
Add: Non-GAAP interest expense related to the convertible senior notes	360	359	359	359	359	359	359	359
Numerator used in computing non-GAAP net income per share, diluted	\$47,546	\$62,913	\$81,598	\$86,796	\$99,760	\$113,311	\$116,144	\$124,622
Weighted-average shares used in computing GAAP net income (loss) per share, diluted	144,511	145,354	146,424	147,625	148,951	154,081	151,497	152,557
Add: Dilution from outstanding potentially dilutive equity incentive awards	2,605	2,492	3,265	3,431	4,670	—	2,699	2,348
Add: Dilution from the convertible senior notes using the if-converted method	7,626	7,626	7,626	7,626	7,626	7,626	7,626	7,626
Less: Antidilutive impact of capped call transactions (**)	—	—	—	(177)	(2,093)	(2,050)	(1,325)	(1,235)
Weighted-average shares used in computing non-GAAP net income per share, diluted	154,742	155,472	157,315	158,505	159,154	159,657	160,497	161,296

(*) Effective August 1, 2022, the beginning of our fiscal year ended July 31, 2023, we adopted ASC Topic 470 “Debt” and ASC Topic 815 “Derivatives and Hedging” (“ASU 2020-06”). Post-adoption of this standard, we are required to use the if-converted method to compute the potentially diluted shares related to the senior convertible notes, which results in approximately 7.63 million shares, and to add back the non-GAAP interest expense related to the convertible senior notes to the non-GAAP net income.

(**) The capped calls have an antidilutive impact when the average stock price of our common stock in a given period is higher than their exercise price.

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

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Assets								
Current assets:								
Cash and cash equivalents	\$ 1,257,012	\$ 1,275,297	\$ 1,262,206	\$ 1,361,723	\$ 1,438,586	\$ 1,259,197	\$ 1,423,080	\$ 1,553,645
Short-term investments	648,332	693,110	838,026	962,681	1,021,218	980,802	986,574	1,154,252
Accounts receivable, net	358,614	376,339	582,636	366,843	479,611	506,284	736,529	424,573
Deferred contract acquisition costs	96,105	103,896	115,827	119,417	125,591	135,095	148,873	152,475
Prepaid expenses and other current assets	56,046	78,608	91,619	80,926	77,702	88,636	101,561	108,835
Total current assets	2,416,109	2,527,250	2,890,314	2,891,590	3,142,708	2,970,014	3,396,617	3,393,780
Property and equipment, net	200,468	222,801	242,355	265,592	294,495	330,646	383,121	409,005
Operating lease right-of-use assets	69,848	68,526	70,671	77,137	87,804	92,473	89,758	84,091
Deferred contract acquisition costs, noncurrent	219,046	232,304	259,407	253,386	255,883	268,079	296,525	286,656
Acquired intangible assets, net	26,716	28,841	25,859	25,623	22,540	68,959	63,835	59,595
Goodwill	78,547	89,192	89,192	92,415	92,415	417,029	417,029	417,029
Other noncurrent assets	29,222	31,798	30,519	29,841	38,381	51,551	58,083	58,846
Total assets	<u>\$ 3,039,956</u>	<u>\$ 3,200,712</u>	<u>\$ 3,608,317</u>	<u>\$ 3,635,584</u>	<u>\$ 3,934,226</u>	<u>\$ 4,198,751</u>	<u>\$ 4,704,968</u>	<u>\$ 4,709,002</u>
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 33,632	\$ 24,783	\$ 18,481	\$ 23,234	\$ 17,137	\$ 28,030	\$ 23,309	\$ 25,368
Accrued expenses and other current liabilities	43,547	51,209	64,975	70,950	68,217	82,639	91,708	83,384
Accrued compensation	97,293	123,195	136,800	97,568	137,362	163,119	160,810	126,379
Deferred revenue	1,000,359	1,058,901	1,281,143	1,244,528	1,316,416	1,376,676	1,643,919	1,533,080
Convertible senior notes	—	—	—	—	—	—	1,142,275	1,145,799
Operating lease liabilities	29,173	31,054	34,469	38,138	44,773	50,857	50,866	49,600
Total current liabilities	1,204,004	1,289,142	1,535,868	1,474,418	1,583,905	1,701,321	3,112,887	2,963,610
Convertible senior notes, noncurrent	1,140,516	1,140,840	1,134,159	1,134,026	1,141,011	1,137,687	—	—
Deferred revenue, noncurrent	111,521	116,472	158,533	155,016	185,759	200,338	251,055	250,640
Operating lease liabilities, noncurrent	46,233	42,884	41,917	43,606	47,906	46,897	44,824	41,938
Other noncurrent liabilities	9,025	10,100	12,728	20,993	16,789	19,369	22,100	24,269
Total liabilities	2,511,299	2,599,438	2,883,205	2,828,059	2,975,370	3,105,612	3,430,866	3,280,457
Stockholders' equity								
Common stock	145	146	147	148	150	151	152	153
Additional paid-in capital	1,547,203	1,660,930	1,816,915	1,949,189	2,114,041	2,241,865	2,426,819	2,593,010
Accumulated other comprehensive loss	(5,037)	(102)	(1,576)	(17,955)	(3,009)	(15,675)	(4,789)	(4,487)
Accumulated deficit	(1,013,654)	(1,059,700)	(1,090,374)	(1,123,857)	(1,152,326)	(1,133,202)	(1,148,080)	(1,160,131)
Total stockholders' equity	528,657	601,274	725,112	807,525	958,856	1,093,139	1,274,102	1,428,545
Total liabilities and stockholders' equity	<u>\$ 3,039,956</u>	<u>\$ 3,200,712</u>	<u>\$ 3,608,317</u>	<u>\$ 3,635,584</u>	<u>\$ 3,934,226</u>	<u>\$ 4,198,751</u>	<u>\$ 4,704,968</u>	<u>\$ 4,709,002</u>

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

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Cash flows from operating activities								
Net income (loss)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	13,365	14,528	15,987	13,962	15,399	17,672	19,275	21,423
Amortization expense of acquired intangible assets	2,551	2,975	2,982	3,036	3,083	3,381	5,124	4,240
Amortization of deferred contract acquisition costs	23,728	25,315	27,350	30,111	31,393	33,207	35,428	39,068
Amortization of debt issuance costs	973	974	975	977	978	979	980	981
Non-cash operating lease costs	7,880	8,332	8,892	9,903	11,730	13,280	14,532	15,657
Stock-based compensation expense	109,738	107,819	122,104	129,138	140,432	113,236	144,870	157,178
Accretion of investments purchased at a discount	(1,268)	(1,956)	(3,193)	(3,199)	(6,383)	(5,002)	(4,478)	(5,003)
Unrealized (gains) losses on hedging transactions	(1,881)	(444)	(2,179)	1,564	1,277	(1,267)	(821)	3,689
Deferred income taxes	(56)	149	194	(43)	(1,394)	(4,332)	136	186
Other	153	(163)	127	1,031	372	314	1,603	644
Changes in operating assets and liabilities, net of effects of business acquisitions:								
Accounts receivable	(89,836)	(17,795)	(206,863)	215,082	(112,708)	(23,968)	(231,366)	311,975
Deferred contract acquisition costs	(37,407)	(46,364)	(66,384)	(27,680)	(40,064)	(54,907)	(77,652)	(32,801)
Prepaid expenses, other current and noncurrent assets	(221)	(21,805)	(10,317)	1,349	1,311	(26,112)	(16,519)	(8,767)
Accounts payable	2,228	(9,307)	(4,337)	4,596	(7,008)	9,932	(3,356)	1,043
Accrued expenses, other current and noncurrent liabilities	2,272	8,962	11,953	4,859	1,161	8,627	28,909	(6,240)
Accrued compensation	15,146	28,584	13,605	(39,232)	39,794	12,254	(2,309)	(34,431)
Deferred revenue	106,202	63,394	264,308	(40,154)	102,631	69,877	317,960	(111,254)
Operating lease liabilities	(6,633)	(8,683)	(8,594)	(11,011)	(11,466)	(12,881)	(13,881)	(14,202)
Net cash provided by operating activities	89,481	108,469	135,936	260,806	142,069	173,414	203,557	331,335
Cash flows from investing activities								
Purchases of property, equipment and other assets	(18,681)	(26,244)	(27,070)	(28,659)	(30,894)	(35,651)	(49,384)	(17,025)
Capitalized internal-use software	(7,982)	(8,339)	(7,565)	(7,429)	(10,387)	(14,637)	(17,855)	(22,429)
Payments for business acquisitions, net of cash acquired	—	(15,643)	—	(4,377)	—	(357,404)	(12,921)	—
Purchase of strategic investments	(500)	(1,000)	(1,006)	—	(2,000)	—	—	(561)
Purchases of short-term investments	(303,488)	(226,496)	(323,904)	(375,929)	(385,867)	(242,176)	(287,043)	(430,296)
Proceeds from maturities of short-term investments	400,705	161,365	153,683	253,849	340,838	244,566	293,015	268,651
Proceeds from sale of short-term investments	—	25,083	25,447	—	2,105	45,060	—	—
Net cash provided by (used in) investing activities	70,054	(91,274)	(180,415)	(162,545)	(86,205)	(360,242)	(74,188)	(201,660)
Cash flows from financing activities								
Proceeds from issuance of common stock upon exercise of stock options	1,122	1,090	750	1,256	2,592	7,439	962	890
Proceeds from issuance of common stock under the employee stock purchase plan	11,410	—	30,853	—	18,407	—	33,591	—
Payment of deferred consideration related to business acquisitions	—	—	(215)	—	—	—	—	—
Other	—	—	—	—	—	—	(39)	—
Net cash provided by financing activities	12,532	1,090	31,388	1,256	20,999	7,439	34,514	890
Net increase (decrease) in cash and cash equivalents	172,067	18,285	(13,091)	99,517	76,863	(179,389)	163,883	130,565
Cash and cash equivalents at beginning of period	1,084,945	1,257,012	1,275,297	1,262,206	1,361,723	1,438,586	1,259,197	1,423,080
Cash and cash equivalents at end of period	<u>\$ 1,257,012</u>	<u>\$ 1,275,297</u>	<u>\$ 1,262,206</u>	<u>\$ 1,361,723</u>	<u>\$ 1,438,586</u>	<u>\$ 1,259,197</u>	<u>\$ 1,423,080</u>	<u>\$ 1,553,645</u>

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

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
GAAP gross profit	<u>\$ 299,994</u>	<u>\$ 322,951</u>	<u>\$ 352,324</u>	<u>\$ 385,309</u>	<u>\$ 407,800</u>	<u>\$ 434,870</u>	<u>\$ 462,663</u>	<u>\$ 486,493</u>
Stock-based compensation expense and related payroll taxes	9,595	10,025	12,016	12,955	13,434	12,487	13,890	15,793
Amortization expense of acquired intangible assets	2,175	2,695	2,765	2,717	2,717	2,962	4,483	3,675
Non-GAAP gross profit	<u>\$ 311,764</u>	<u>\$ 335,671</u>	<u>\$ 367,105</u>	<u>\$ 400,981</u>	<u>\$ 423,951</u>	<u>\$ 450,319</u>	<u>\$ 481,036</u>	<u>\$ 505,961</u>
GAAP gross margin	77%	77%	77%	78%	78%	79%	78%	77%
Non-GAAP gross margin	80%	80%	81%	81%	81%	81%	81%	81%
GAAP sales and marketing expense	<u>\$ 235,945</u>	<u>\$ 236,273</u>	<u>\$ 252,810</u>	<u>\$ 267,111</u>	<u>\$ 276,481</u>	<u>\$ 262,447</u>	<u>\$ 294,200</u>	<u>\$ 306,087</u>
Stock-based compensation expense and related payroll taxes	55,213	51,417	60,181	58,668	65,855	45,490	60,584	64,866
Amortization expense of acquired intangible assets	178	200	217	226	226	279	501	425
Non-GAAP sales and marketing expense	<u>\$ 180,554</u>	<u>\$ 184,656</u>	<u>\$ 192,412</u>	<u>\$ 208,217</u>	<u>\$ 210,400</u>	<u>\$ 216,678</u>	<u>\$ 233,115</u>	<u>\$ 240,796</u>
GAAP sales and marketing expense as a percentage of revenue	61%	56%	56%	54%	53%	47%	50%	49%
Non-GAAP sales and marketing expense as a percentage of revenue	47%	44%	42%	42%	40%	39%	39%	38%
GAAP research and development expense	<u>\$ 85,765</u>	<u>\$ 92,637</u>	<u>\$ 96,387</u>	<u>\$ 113,539</u>	<u>\$ 122,181</u>	<u>\$ 124,958</u>	<u>\$ 139,150</u>	<u>\$ 154,254</u>
Stock-based compensation expense and related payroll taxes	29,380	31,796	34,742	41,043	44,120	46,346	54,598	58,865
Amortization expense of acquired intangible assets	198	80	—	93	140	140	140	140
Non-GAAP research and development expense	<u>\$ 56,187</u>	<u>\$ 60,761</u>	<u>\$ 61,645</u>	<u>\$ 72,403</u>	<u>\$ 77,921</u>	<u>\$ 78,472</u>	<u>\$ 84,412</u>	<u>\$ 95,249</u>
GAAP research and development expense as a percentage of revenue	22%	22%	21%	23%	23%	23%	23%	25%
Non-GAAP research and development expense as a percentage of revenue	14%	15%	14%	15%	15%	14%	14%	15%
GAAP general and administrative expense	<u>\$ 43,522</u>	<u>\$ 43,486</u>	<u>\$ 46,380</u>	<u>\$ 50,716</u>	<u>\$ 54,595</u>	<u>\$ 50,478</u>	<u>\$ 56,263</u>	<u>\$ 56,819</u>
Stock-based compensation expense and related payroll taxes	17,330	17,112	19,336	20,063	22,127	17,142	20,298	21,050
Non-GAAP general and administrative expense	<u>\$ 26,192</u>	<u>\$ 26,374</u>	<u>\$ 27,044</u>	<u>\$ 30,653</u>	<u>\$ 32,468</u>	<u>\$ 33,336</u>	<u>\$ 35,965</u>	<u>\$ 35,769</u>
GAAP general and administrative expense as a percentage of revenue	11%	10%	10%	10%	10%	9%	9%	9%
Non-GAAP general and administrative expense as a percentage of revenue	7%	6%	6%	6%	6%	6%	6%	6%
GAAP restructuring and other charges	<u>\$ —</u>	<u>\$ 6,301</u>	<u>\$ 1,299</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Stock-based compensation expense and related payroll taxes	—	1,036	—	—	—	—	—	—
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	5,265	1,299	—	—	—	—	—
Non-GAAP restructuring and other charges	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
GAAP total operating expenses	<u>\$ 365,232</u>	<u>\$ 378,697</u>	<u>\$ 396,876</u>	<u>\$ 431,366</u>	<u>\$ 453,257</u>	<u>\$ 437,883</u>	<u>\$ 489,613</u>	<u>\$ 517,160</u>
Stock-based compensation expense and related payroll taxes ⁽¹⁾	101,923	101,361	114,259	119,774	132,102	108,978	135,480	144,781
Amortization expense of acquired intangible assets	376	280	217	319	366	419	641	565
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	5,265	1,299	—	—	—	—	—
Non-GAAP total operating expenses	<u>\$ 262,933</u>	<u>\$ 271,791</u>	<u>\$ 281,101</u>	<u>\$ 311,273</u>	<u>\$ 320,789</u>	<u>\$ 328,486</u>	<u>\$ 353,492</u>	<u>\$ 371,814</u>

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
GAAP total operating expenses as a percentage of revenue	94%	90%	87%	87%	86%	79%	83%	82%
Non-GAAP total operating expenses as a percentage of revenue	68%	65%	62%	63%	61%	59%	60%	59%
GAAP loss from operations	\$ (65,238)	\$ (55,746)	\$ (44,552)	\$ (46,057)	\$ (45,457)	\$ (3,013)	\$ (26,950)	\$ (30,667)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	111,518	111,386	126,275	132,729	145,536	121,465	149,370	160,574
Amortization expense of acquired intangible assets	2,551	2,975	2,982	3,036	3,083	3,381	5,124	4,240
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	5,265	1,299	—	—	—	—	—
Non-GAAP income from operations	<u>\$ 48,831</u>	<u>\$ 63,880</u>	<u>\$ 86,004</u>	<u>\$ 89,708</u>	<u>\$ 103,162</u>	<u>\$ 121,833</u>	<u>\$ 127,544</u>	<u>\$ 134,147</u>
GAAP operating margin	(17)%	(13)%	(10)%	(9)%	(9)%	(1)%	(5)%	(5)%
Non-GAAP operating margin	13%	15%	19%	18%	20%	22%	22%	21%
GAAP interest expense	\$ (1,333)	\$ (1,383)	\$ (2,494)	\$ (3,159)	\$ (3,605)	\$ (2,764)	\$ (3,604)	\$ (3,143)
Amortization of debt issuance costs	973	974	975	977	978	979	980	981
Non-GAAP interest expense	<u>\$ (360)</u>	<u>\$ (409)</u>	<u>\$ (1,519)</u>	<u>\$ (2,182)</u>	<u>\$ (2,627)</u>	<u>\$ (1,785)</u>	<u>\$ (2,624)</u>	<u>\$ (2,162)</u>
GAAP net income (loss)	\$ (57,453)	\$ (46,046)	\$ (30,674)	\$ (33,483)	\$ (28,469)	\$ 19,124	\$ (14,878)	\$ (12,051)
Add: GAAP provision for income taxes	3,692	6,685	4,648	8,997	7,964	1,742	9,774	7,637
GAAP income (loss) before income taxes	<u>(53,761)</u>	<u>(39,361)</u>	<u>(26,026)</u>	<u>(24,486)</u>	<u>(20,505)</u>	<u>20,866</u>	<u>(5,104)</u>	<u>(4,414)</u>
Add (less):								
Stock-based compensation expense and related payroll taxes ⁽¹⁾	111,518	111,386	126,275	132,729	145,536	121,465	149,370	160,574
Amortization expense of acquired intangible assets	2,551	2,975	2,982	3,036	3,083	3,381	5,124	4,240
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	5,265	1,299	—	—	—	—	—
Amortization of debt issuance costs	973	974	975	977	978	979	980	981
Non-GAAP net income before income taxes	<u>61,281</u>	<u>81,239</u>	<u>105,505</u>	<u>112,256</u>	<u>129,092</u>	<u>146,691</u>	<u>150,370</u>	<u>161,381</u>
Non-GAAP provision for income taxes ⁽²⁾	14,095	18,685	24,266	25,819	29,691	33,739	34,585	37,118
Non-GAAP net income	<u>\$ 47,186</u>	<u>\$ 62,554</u>	<u>\$ 81,239</u>	<u>\$ 86,437</u>	<u>\$ 99,401</u>	<u>\$ 112,952</u>	<u>\$ 115,785</u>	<u>\$ 124,263</u>
Non-GAAP net income	\$ 47,186	\$ 62,554	\$ 81,239	\$ 86,437	\$ 99,401	\$ 112,952	\$ 115,785	\$ 124,263
Add: Non-GAAP interest expense related to the convertible senior notes	360	359	359	359	359	359	359	359
Numerator used in computing non-GAAP net income per share, diluted	<u>\$ 47,546</u>	<u>\$ 62,913</u>	<u>\$ 81,598</u>	<u>\$ 86,796</u>	<u>\$ 99,760</u>	<u>\$ 113,311</u>	<u>\$ 116,144</u>	<u>\$ 124,622</u>
GAAP net income (loss) per share, diluted	\$ (0.40)	\$ (0.32)	\$ (0.21)	\$ (0.23)	\$ (0.19)	\$ 0.12	\$ (0.10)	\$ (0.08)
Stock-based compensation expense and related payroll taxes ⁽¹⁾	0.72	0.72	0.80	0.84	0.91	0.76	0.93	1.00
Amortization expense of acquired intangible assets	0.02	0.02	0.02	0.02	0.02	0.02	0.03	0.03
Restructuring and other charges, excluding stock-based compensation expense ⁽¹⁾	—	0.03	0.01	—	—	—	—	—
Amortization of debt issuance costs	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Non-GAAP provision for income taxes adjustment	(0.07)	(0.08)	(0.12)	(0.11)	(0.14)	(0.20)	(0.15)	(0.18)
Non-GAAP interest expense related to the convertible senior notes	—	—	—	—	—	—	—	—

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Adjustment to total fully diluted earnings per share ⁽³⁾	0.03	0.02	0.01	0.02	0.02	—	—	(0.01)
Non-GAAP net income per share, diluted	\$ 0.31	\$ 0.40	\$ 0.52	\$ 0.55	\$ 0.63	\$ 0.71	\$ 0.72	\$ 0.77
Weighted-average shares used in computing GAAP net income (loss) per share, diluted	144,511	145,354	146,424	147,625	148,951	154,081	151,497	152,557
Outstanding potentially dilutive equity incentive awards	2,605	2,492	3,265	3,431	4,670	—	2,699	2,348
Convertible senior notes	7,626	7,626	7,626	7,626	7,626	7,626	7,626	7,626
Antidilutive impact of capped call transactions ⁽⁴⁾	—	—	—	(177)	(2,093)	(2,050)	(1,325)	(1,235)
Weighted-average shares used in computing non-GAAP net income per share, diluted	154,742	155,472	157,315	158,505	159,154	159,657	160,497	161,296

⁽¹⁾ In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million for the year ended July 31, 2023, which is included in stock-based compensation expense and related payroll taxes.

⁽²⁾ Effective August 1, 2024, the beginning of our fiscal year ending July 31, 2025, we are using a long-term projected non-GAAP tax rate of 23% for the purpose of determining our non-GAAP net income and non-GAAP net income per share to provide better consistency across interim reporting periods in fiscal 2025 and beyond. Given the significant growth of our business and non-GAAP operating income, we believe this change is necessary to better reflect the performance of our business. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations. All periods presented have been recast to reflect this change.

⁽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 net 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 senior notes and therefore are included in the calculation of non-GAAP diluted shares outstanding. The capped calls have an antidilutive impact when the average stock price of our common stock in a given period is higher than their exercise price.

ZSCALER, INC.**Free Cash Flow and Free Cash Flow Margin***(in thousands, except percentages)**(unaudited)*

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Revenue	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955
Free cash flow								
Net cash provided by operating activities	\$ 89,481	\$ 108,469	\$ 135,936	\$ 260,806	\$ 142,069	\$ 173,414	\$ 203,557	\$ 331,335
Less: Purchases of property, equipment and other assets	(18,681)	(26,244)	(27,070)	(28,659)	(30,894)	(35,651)	(49,384)	(17,025)
Less: Capitalized internal-use software	(7,982)	(8,339)	(7,565)	(7,429)	(10,387)	(14,637)	(17,855)	(22,429)
Free cash flow	<u>\$ 62,818</u>	<u>\$ 73,886</u>	<u>\$ 101,301</u>	<u>\$ 224,718</u>	<u>\$ 100,788</u>	<u>\$ 123,126</u>	<u>\$ 136,318</u>	<u>\$ 291,881</u>
Year-over-year growth	113%	69%	35%	135%	60%	67%	35%	30%
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	23%	26%	30%	53%	27%	31%	34%	53%
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(5)%	(6)%	(6)%	(6)%	(6)%	(6)%	(8)%	(3)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(2)%	(2)%	(2)%	(3)%	(3)%	(4)%
Free cash flow margin	<u>16%</u>	<u>18%</u>	<u>22%</u>	<u>45%</u>	<u>19%</u>	<u>22%</u>	<u>23%</u>	<u>46%</u>

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

Fiscal Quarter	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25
End of Fiscal Quarter	1/31/2023	4/30/2023	7/31/2023	10/31/2023	1/31/2024	4/30/2024	7/31/2024	10/31/2024
Beginning of Fiscal Quarter	11/1/2022	2/1/2023	5/1/2023	8/1/2023	11/1/2023	2/1/2024	5/1/2024	8/1/2024
Calculated billings								
Revenue	\$ 387,598	\$ 418,800	\$ 455,006	\$ 496,703	\$ 524,999	\$ 553,201	\$ 592,868	\$ 627,955
Add: Total deferred revenue, end of period	1,111,880	1,175,373	1,439,676	1,399,544	1,502,175	1,577,014	1,894,974	1,783,720
Less: Total deferred revenue, beginning of period	(1,005,713)	(1,111,880)	(1,175,373)	(1,439,676)	(1,399,544)	(1,502,175)	(1,577,014)	(1,894,974)
Calculated billings	\$ 493,765	\$ 482,293	\$ 719,309	\$ 456,571	\$ 627,630	\$ 628,040	\$ 910,828	\$ 516,701
Year-over-year growth	34 %	40 %	38 %	34 %	27 %	30 %	27 %	13 %

Other key business metrics

Customers with equal or greater than \$100,000 annualized recurring revenue ("ARR")	2,337	2,432	2,609	2,708	2,820	2,922	3,100	3,165
Customers with equal or greater than \$1.0 million ARR	378	400	449	468	497	523	567	585