

**Forward-Looking Statements**

This document contains forward-looking statements that involve risks and uncertainties, including statements regarding our future financial and operating performance, including our financial outlook for the third quarter of fiscal 2021 and full year fiscal 2021. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, including but not limited to: the duration and global impact of COVID-19 on our business, operations and financial results and the economy in general; our ability as an organization to acquire and integrate other companies, products or technologies in a successful manner; 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 Annual Report on Form 10-K for the fiscal year ended July 31, 2020 filed on September 17, 2020, 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 press release 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 are very pleased with our strong performance in Q2, which showed accelerating growth at scale and rapid innovation of our Zero Trust platform. We drove 55% growth in revenue and 71% growth in billings, while also generating growth in operating profits and free cash flow. Our optimized go-to-market engine is driving significant velocity, including a strong pace of new customer additions. During the quarter, we achieved a milestone of over 5,000 customers, including over 500 of the Global 2000. Our strategic decision last year to increase our investments across all areas, particularly the expansion of our go-to-market and R&D teams, is yielding strong results. We drove increased wins in our enterprise segment, as we begin to pursue smaller enterprises with 2,000-6,000 employees.

We are helping our customers to securely accelerate their digital transformation journey, which remains their top priority. With our Zero Trust Exchange, Zscaler provides secure, any-to-any connectivity for users, applications, workloads and IoT and OT systems – regardless of their location. The recent SolarWinds security incident has further elevated the need for a true zero trust platform like Zscaler. During such sophisticated attacks, our proxy-based architecture would prevent loss of sensitive data and our application-level segmentation eliminates lateral threat movement. We provide users access to applications, not the network, which is fundamentally different from firewalls and legacy network security architecture. The CIO level awareness, engagements and inbound requests for our purpose-built zero trust platform have significantly increased, and we are viewed as a foundation of application, network and security transformation.

I'm proud of our speed of innovation, which is accelerating and further expanding our substantial technology lead. There are four pillars of our Zero Trust Exchange: ZIA, ZPA and ZDX for user protection and experience, and ZCP for workload protection. Last quarter, we launched our fourth pillar called Zscaler Cloud Protection or ZCP, which extends our Zero Trust Exchange from users to workloads, and has an expanding portfolio of products including:

- CSPM to ensure proper configuration and compliance,
- Workload Communication to secure app-to-app and cloud-to-cloud secure communication, and
- Workload Segmentation to achieve app segmentation without legacy network segmentation.

In our latest major cloud upgrade, we added over 100 new product enhancements. Over the past 12 months, we have significantly increased the number of solutions delivered through our platform, including Zscaler Browser Isolation, Out-of-band CASB, Zscaler B2B and Zscaler Digital Experience or ZDX. All this innovation is making our cloud platform wider and deeper.

For enterprises who want network and security modernization, we believe we are the only zero-trust, multi-tenant platform that meets their needs. Many vendors have tried and failed to build a high performance, highly reliable proxy required for proper cybersecurity protection and data loss prevention. As a true SASE framework, we are deployed across 150 data centers, enforcing policy at the edge instead of a limited number of public cloud locations. Every day, we are processing more than 150 billion transactions, while preventing up to 7 billion security incidents and policy violations. We are operating at a massive scale and doing so with environmental sustainability in mind. Our platform uses over 75% renewable energy today with a goal to use over 90%. I would like to thank our engineering teams for an exceptional job in expanding our platform and keeping Zscaler at the forefront of innovation.

Now, on to the customer wins. There is an accelerated market shift towards work from anywhere, which is the world Zscaler was built for.

- In an upsell win, a Fortune 500 chemical company that was using ZIA for a subset of its workforce, accelerated their zero-trust initiative by purchasing ZIA transformation, ZPA and ZDX for all 45,000 employees. In addition, they bought two of our recently announced ZCP solutions. They purchased Workload Communications to secure server traffic out to the Internet from 200 plants, and Workload Segmentation for 7,000 servers to secure east/west traffic in the public cloud and data center. I am excited to see wins like this where the customer is buying all 4 pillars of the Zscaler platform.
- In a new logo win, a new Global 2000 customer in the high tech-industry purchased all three pillars of our user protection service. They purchased ZIA Transformation, ZPA and ZDX for all 10,000 employees to move away from network security to a zero-trust architecture. This customer had standardized on next-gen firewalls and VPNs, which left gaps in security leading to a ransomware attack. In spite of an ELA license from their firewall vendor, they couldn't do SSL inspection at scale. Since Zscaler is a purpose-built proxy architecture, the customer can now inspect encrypted traffic without impacting user experience, leading to better security and reduced business risk.
- In another new logo win, a customer in the transportation services industry purchased three of our four pillars—ZIA, ZPA and ZDX—for their 7,500 employees. With their cloud and mobile first strategy, they purchased our best-in class DLP and CASB to protect sensitive information from leaking, no matter where the user is. ZDX was purchased to pinpoint and resolve performance issues in real-time by monitoring the digital experience score of every user and application regardless of their location.

We have seen a strong customer interest for our new pillars, ZDX and ZCP. Over 200 customers to-date have purchased ZDX. ZCP is also off to a great start, with a few dozen deals closed in Q2 and great excitement for our ZCP Workload Communication.

Moving on to ZPA. Our customers view ZPA as the foundation for their architectural shift to zero-trust access for private applications. ZPA is the clear market leader, with proven maturity and scalability, supporting millions of daily active users and nearly 40% of our Global 2000 customers. Today, ZPA is delivering over 10 million unique application segments without operational overhead of traditional network segmentation. Let me highlight several ZPA deals in the quarter.

- A Global 500 consumer products company with headquarters in EMEA that has been a ZIA customer, purchased ZPA for all 100,000 employees and 10,000 third-party B2B partners. This customer wanted to eliminate the security risk of VPN, which provides unfettered access to network resources. ZPA represents the next step in zero trust adoption for their IT transformation journey.
- In an upsell deal, a Global 2000 bank with headquarters in EMEA started with ZIA and ZPA for 10,000 employees in July to expand their work-from-home capacity as a result of the pandemic. Within 6 months of the initial purchase, the customer bought ZIA and ZPA for the remaining 30,000 employees and CASB for all 40,000 employees. In addition, they purchased ZPA to enable 3,000 third-party B2B partners.
- Let me highlight a ZIA and ZPA new logo win in the federal space. A research organization mandated with advising federal agencies on cybersecurity, purchased our ZIA Transformation bundle and ZPA for all 10,000 employees after evaluating various zero-trust architectures. This customer concluded that if a user connects to the network with a VPN, that is not zero trust. Based on this criteria, the legacy firewall and VPN providers were disqualified. An important consideration for our selection was ZPA's position as the first and only cloud security service with FedRAMP certification for Zero Trust Remote Access. With the highest levels of FedRAMP certifications for both ZIA and ZPA, we are very well positioned to serve the Federal government.

Lastly, I would like to share another new customer win that highlights our continued ZIA success with large enterprises that are embracing direct to cloud architecture and migrating away from their complex, legacy on-premise appliances.

- A Fortune 100 professional services customer purchased our ZIA Transformation bundle plus CASB, advanced DLP and CSPM for Office 365 to protect 125,000 employees across 150 countries as they embraced work from anywhere. Zscaler eliminated the need for 30 different gateways and consolidated six different legacy point products, while meeting the customer's environmental goals for their ESG program. With sensitive customer data at risk, security was a major requirement and the customer only considered solutions with a proxy architecture.

Let me conclude with some thoughts on our vision and strategy. At our analyst day in January, we laid out our audacious goal of serving 200 million users and 100 million workloads on our Zero Trust Exchange. To achieve that:

- Our entire organization is focused on attracting and developing talent and creating a culture of excellence. Our commitment to culture starts at the top with our executive team and creates an environment where a global and diverse workforce can deliver excellence to help our customers succeed.
- We are scaling our world-class engineering organization, which continues to rapidly deliver new products and features to our customers.
- On the go-to-market front, as we have demonstrated over the last 12 months, we have built a sophisticated sales machine to sell value and deliver measurable outcomes at the CXO level. We will continue to scale our sales organization, as we are a destination for top talent.
- Our Marketing organization is augmenting talent in all critical areas while specializing campaigns by persona and segment to better address our significant opportunity.

We are focused on driving broader adoption of our four pillars. We will continue to expand our ecosystem of technology partners and value-based channel partners, who are contributing to sales velocity and expanding our reach. I believe we are on the right track to capture a material share of the \$72 billion serviceable market that we outlined on our Analyst Day. We are also seeing opportunities in bringing zero trust to IoT and OT systems, and are excited about 5G, which pushes computing further to the edge and opens up additional opportunities for Zscaler. We are excited about our future.

## **CFO Commentary**

As Jay mentioned, we are pleased with the results for the second quarter of 2021. Revenue for the quarter was a \$157.0 million, up 10% sequentially and 55% year-over-year. ZPA product revenue was 14% of total revenue. From a geographic perspective, we had broad strength across our three major regions: Americas represented 51% of revenue, EMEA was 38% and APJ was 11%.

Turning to calculated billings, which we define as the change in deferred revenue for the quarter plus total revenue recognized in that quarter. Billings grew 71% year-over-year to \$232.0 million, with billing duration around the mid-point of our 10-14 month range. As a reminder our contract terms are typically one to three years, and we primarily invoice our customers one year in advance. Remaining performance obligations or RPO, which represents our total committed non-cancellable future revenue, exceeded one billion dollars during the quarter and ended at \$1.025 billion as of January 31. RPO grew 68% from one year ago. The current RPO is 53% of the total RPO.

Our strong customer retention and ability to upsell have resulted in a consistently high dollar-based net retention rate, which was 127% compared to 122% last quarter and 116% a year ago. As we have highlighted, this metric will vary quarter-to-quarter. While good for our business, our increased success selling bigger Transformation bundles, selling both ZIA and ZPA from the start, and faster upsells within a year, can reduce our dollar-based net retention rate in the future. Considering these factors, we feel that 127% is outstanding.

Total gross margin of 81% was flat quarter over quarter and declined 1 percentage point year over year, but exceeded our expectations. The year-over-year decline was primarily driven by a higher mix of newly introduced products. I would like to remind investors that a number of our emerging products, which includes ZDX, Workload Segmentation and CSPM, will initially have lower gross margins than our core products. As a result, we expect gross margins to be approximately 80% for the full year in fiscal 2021.

Turning to operating expenses. Our total operating expenses increased 18% sequentially and 60% year-over-year to \$112.9 million. Operating expenses as a percentage of revenue increased by 2 percentage points from 70% a year ago to 72% in the quarter.

Sales and marketing expense increased 19% sequentially and 57% year-over-year to \$76.5 million. The year-over-year increase was due to higher compensation expenses and investments in building our teams and go-to-market initiatives offset by lower T&E with our employees working from home. We've been very successful in hiring and onboarding remotely, and we are accelerating our sales and marketing hiring throughout the second half of the fiscal year.

R&D expenses increased 15% sequentially and 71% year-over-year to \$24.0 million. The increase is primarily due to continued investments in our engineering teams.

G&A expenses increased 14% sequentially and 57% year-over-year to \$12.5 million. The growth in G&A includes investments in building our teams, compensation-related expenses and professional fees.

Our second quarter operating margin was 9% compared to 12% in the same quarter last year. Net income in the quarter was \$14.0 million or a non-GAAP earnings per share of \$0.10. We ended the quarter with over \$1.4 billion in cash, cash equivalents, and short-term investments. Free cash flow was positive \$18 million in the quarter, which compares to negative \$2 million during the same quarter last year. The strength in Free Cash Flow was driven by strong receivable collections.

Now, moving on to guidance. As a reminder, these numbers are all non-GAAP which excludes stock-based compensation expenses and related payroll taxes, amortization of debt discount, amortization of intangible assets, facility exit costs and any associated tax effects. For the third quarter of fiscal 2021, we expect:

- Revenue in the range of \$162 million to \$164 million reflecting a year-over-year growth of 47% to 48%.
- Operating profit of \$11 million to \$12 million,
- Other Income of \$300k, net of interest payments on our senior convertible notes
- Income taxes of \$1.5 million and
- Earnings per share of approximately \$0.07 assuming approximately 146 million common shares outstanding.

Due to better than expected first half performance and our strong pipeline, we are increasing our full year fiscal 2021 guidance for revenue, calculated billings and operating profit. For fiscal 2021 we now expect:

- Revenue in the range of \$634 million to \$638 million or year-over-year growth of 47% to 48%.
- Calculated billings in the range of \$820 million to \$825 million or year-over-year growth of 49% to 50%.
- Operating profit in the range of \$59 million to \$61 million.
- Other income of \$2.4 million, income taxes of \$5.3 million, and earnings per share in the range of \$0.39 to \$0.40 assuming approximately 145-146 million common shares outstanding.

For your modeling, we would like to remind investors that Q2 and Q4 have historically been our strongest billing quarters with declines in Q1 and Q3 quarters, respectively. The average sequential decline in billings during fiscal third quarters over the last five years was approximately 20%.

We continue to see the market coming to us and we remain committed to investing aggressively in our company behind the growth in our business. We have a highly efficient business model and are making investments across the organization today in order to capitalize on the large opportunity ahead of us. While we will balance growth and profitability, growth will continue to take priority considering our strong business momentum.