

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 used in 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 they are non-cash expenses that management believes are not reflective of our ongoing operational performance. Effective August 1, 2020, the beginning of our fiscal year ending July 31, 2021, we have presented employer payroll taxes related to employee equity award transactions, which is a cash expense, as part of stock-based compensation expense in our non-GAAP results. These payroll taxes have been excluded from our non-GAAP results as 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. Prior period amounts have been recasted to conform to this presentation. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of our core business operating performance. Asset impairments related to facility exit costs are excluded because such charges are not reflective of our ongoing operational performance. Amortization of debt discount and issuance costs from our convertible senior notes are excluded because they are non-cash expenses and are not reflective of our ongoing operational performance. We also exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us in defending against significant claims that we deem not to be in the ordinary course of our business and, if applicable, actual losses and accruals related to estimated losses in connection with these claims. There are many uncertainties and potential outcomes associated with any litigation, including the expense of litigation, timing of such expenses, court rulings, unforeseen developments, complications and delays, each of which may affect our results of operations from period to period, as well as the unknown magnitude of the potential loss relating to any lawsuit, all of which are inherently subject to change, difficult to predict and could adversely affect our results of operations. 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 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 payroll taxes, amortization expense of acquired intangible assets, asset impairment related to facility exit and certain litigation-related expenses. 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 plus stock-based compensation expense and related payroll taxes, amortization expense of acquired intangible assets, asset impairment related to facility exit, amortization of debt discount and issuance costs, certain litigation-related expenses, income tax effects generated by the effects of stock-based compensation expense recognized in foreign jurisdictions and any income tax benefits associated with business combinations. We define non-GAAP net income per share, diluted, as non-GAAP net income divided by the weighted-average diluted shares outstanding, which includes the dilutive effect of potentially diluted common stock equivalents outstanding during the period and the antidilutive impact of the capped call transactions entered into in connection with our convertible senior notes issued in June 2020.

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 meaningful indicators of liquidity 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.

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 related to 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.

ZSCALER, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(unaudited)

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	2/1/2019	5/1/2019	8/1/2019	11/1/2019	2/1/2020	5/1/2020	8/1/2020	11/1/2020
Revenue	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268	\$ 110,524	\$ 125,887	\$ 142,578	\$ 157,044
Cost of revenue ⁽¹⁾⁽²⁾	14,960	17,339	19,558	20,238	24,579	31,358	31,727	34,135
Gross profit	64,168	68,769	74,032	81,030	85,945	94,529	110,851	122,909
Operating expenses:								
Sales and marketing ⁽¹⁾⁽²⁾	45,295	49,317	59,411	61,621	67,727	89,222	96,889	110,403
Research and development ⁽¹⁾⁽²⁾	16,499	17,213	20,271	20,706	24,117	32,785	35,770	41,751
General and administrative ⁽¹⁾⁽³⁾⁽⁴⁾	15,911	10,170	12,625	28,983	14,615	17,409	20,859	24,653
Total operating expenses	77,705	76,700	92,307	111,310	106,459	139,416	153,518	176,807
Loss from operations	(13,537)	(7,931)	(18,275)	(30,280)	(20,514)	(44,887)	(42,667)	(53,898)
Interest income	2,081	2,135	2,022	1,855	1,528	1,072	940	755
Interest expense ⁽⁵⁾	—	—	—	—	—	(5,025)	(13,049)	(13,245)
Other income (expense), net	(144)	(247)	(29)	(13)	70	(252)	268	518
Loss before income taxes	(11,600)	(6,043)	(16,282)	(28,438)	(18,916)	(49,092)	(54,508)	(65,870)
Provision (benefit) for income taxes	636	(767)	794	716	421	457	498	1,671
Net loss	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)	\$ (19,337)	\$ (49,549)	\$ (55,006)	\$ (67,541)
Net loss per share, basic and diluted	\$ (0.10)	\$ (0.04)	\$ (0.13)	\$ (0.23)	\$ (0.15)	\$ (0.38)	\$ (0.41)	\$ (0.50)
Weighted-average shares used in computing net loss per share, basic and diluted ⁽⁶⁾	124,672	126,302	127,548	128,408	129,682	131,660	133,452	135,024

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

Cost of revenue	\$ 759	\$ 1,282	\$ 1,414	\$ 1,648	\$ 1,672	\$ 3,117	\$ 3,266	\$ 3,308
Sales and marketing	8,318	9,873	10,586	13,033	15,795	32,054	32,654	33,864
Research and development	4,280	4,008	5,054	6,280	7,145	13,458	14,900	17,747
General and administrative	2,169	(522)	2,167	4,392	4,470	7,351	9,509	12,194
Total	\$ 15,526	\$ 14,641	\$ 19,221	\$ 25,353	\$ 29,082	\$ 55,980	\$ 60,329	\$ 67,113

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

Cost of revenue	\$ 163	\$ 205	\$ 205	\$ 205	\$ 348	\$ 1,272	\$ 1,504	\$ 1,503
Sales and marketing	3	7	8	8	8	50	73	73
Research and development	—	291	566	429	285	—	—	—
Total	\$ 166	\$ 503	\$ 779	\$ 642	\$ 641	\$ 1,322	\$ 1,577	\$ 1,576

⁽³⁾ Includes asset impairment related to facility exit as follows:

	\$ —	\$ —	\$ —	\$ 316	\$ 430	\$ —	\$ 416	\$ —
--	------	------	------	--------	--------	------	--------	------

⁽⁴⁾ Includes litigation-related expenses as follows:

	\$ 6,164	\$ 2,973	\$ 2,007	\$ 16,334	\$ 12	\$ 3	\$ —	\$ —
--	----------	----------	----------	-----------	-------	------	------	------

⁽⁵⁾ Includes amortization of debt discount and issuance costs as follows:

	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 4,885	\$ 12,690	\$ 12,882
--	------	------	------	------	------	----------	-----------	-----------

⁽⁶⁾ 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.

ZSCALER, INC.**Non-GAAP Condensed Consolidated Statements of Operations***(in thousands, except per share amounts)**(unaudited)*

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	2/1/2019	5/1/2019	8/1/2019	11/1/2019	2/1/2020	5/1/2020	8/1/2020	11/1/2020
Revenue	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268	\$ 110,524	\$ 125,887	\$ 142,578	\$ 157,044
Cost of revenue	14,038	15,852	17,939	18,385	22,559	26,969	26,957	29,324
Gross profit	65,090	70,256	75,651	82,883	87,965	98,918	115,621	127,720
Operating expenses:								
Sales and marketing	36,974	39,437	48,817	48,580	51,924	57,118	64,162	76,466
Research and development	12,219	12,914	14,651	13,997	16,687	19,327	20,870	24,004
General and administrative	7,578	7,719	8,451	7,941	9,703	10,055	10,934	12,459
Total operating expenses	56,771	60,070	71,919	70,518	78,314	86,500	95,966	112,929
Income from operations	8,319	10,186	3,732	12,365	9,651	12,418	19,655	14,791
Interest income	2,081	2,135	2,022	1,855	1,528	1,072	940	755
Interest expense	—	—	—	—	—	(140)	(359)	(363)
Other income (expense), net	(144)	(247)	(29)	(13)	70	(252)	268	518
Income before income taxes	10,256	12,074	5,725	14,207	11,249	13,098	20,504	15,701
Provision for income taxes ⁽¹⁾	636	655	794	716	911	1,077	498	1,671
Non-GAAP net income	\$ 9,620	\$ 11,419	\$ 4,931	\$ 13,491	\$ 10,338	\$ 12,021	\$ 20,006	\$ 14,030
Non-GAAP net income per share, diluted	\$ 0.07	\$ 0.08	\$ 0.04	\$ 0.10	\$ 0.07	\$ 0.08	\$ 0.14	\$ 0.10
Weighted-average shares used in computing non-GAAP net income per share, diluted	136,538	137,545	136,860	136,663	137,873	141,465	143,372	144,623

⁽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 and included in the GAAP provision for income taxes was not material for all periods presented. In the fiscal quarter ended July 31, 2019, April 30, 2020 and July 31, 2020, we recorded a tax benefit of \$1.4 million, \$0.5 million and \$0.6 million, respectively, associated with intangible assets recognized as a result of our acquisitions of Appuslate, Inc., Cloudneeti Corporation and Edgewise Networks, Inc., respectively.

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

Fiscal Quarter	Q3 FY19 (*)	Q4 FY19 (*)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Assets								
Current assets:								
Cash and cash equivalents	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534	\$ 124,592	\$ 141,851	\$ 102,016	\$ 95,347
Short-term investments	297,762	286,162	308,285	308,380	266,722	1,228,722	1,313,938	1,349,402
Accounts receivable, net	71,151	93,341	70,482	94,784	105,583	147,584	105,942	170,412
Deferred contract acquisition costs	19,391	21,219	22,060	23,527	26,316	32,240	35,589	39,902
Prepaid expenses and other current assets	12,765	16,880	18,713	19,917	28,903	31,396	22,040	23,586
Total current assets	456,043	496,086	488,886	523,142	552,116	1,581,793	1,579,525	1,678,649
Property and equipment, net	31,976	41,046	48,361	52,355	63,297	75,734	83,976	90,527
Operating lease right-of-use assets	—	—	32,585	32,142	35,128	36,119	45,586	45,942
Deferred contract acquisition costs, noncurrent	44,714	48,566	48,366	50,523	58,024	77,675	83,690	95,044
Acquired intangible assets, net	2,211	8,708	7,929	7,287	10,146	24,024	22,447	20,871
Goodwill	198	7,479	7,479	7,479	13,350	30,059	30,059	30,059
Other noncurrent assets	2,394	2,277	2,622	3,497	3,903	8,054	7,664	8,325
Total assets	\$ 537,536	\$ 604,162	\$ 636,228	\$ 676,425	\$ 735,964	\$ 1,833,458	\$ 1,852,947	\$ 1,969,417
Liabilities and stockholders' equity								
Current liabilities:								
Accounts payable	\$ 3,585	\$ 6,208	\$ 3,784	\$ 2,675	\$ 9,392	\$ 5,233	\$ 7,663	\$ 13,170
Accrued expenses and other current liabilities	12,510	12,810	12,003	13,606	14,366	16,361	13,871	14,208
Accrued compensation	21,845	21,544	22,926	25,019	34,215	49,444	37,097	47,861
Deferred revenue	183,622	221,387	218,191	251,221	274,726	337,263	340,035	406,184
Operating lease liabilities	—	—	9,413	11,142	12,939	15,600	17,796	20,152
Total current liabilities	221,562	261,949	266,317	303,663	345,638	423,901	416,462	501,575
Convertible senior notes, net	—	—	—	—	—	861,615	874,359	887,186
Deferred revenue, noncurrent	27,920	29,815	27,678	28,801	26,065	32,504	31,865	40,633
Operating lease liabilities, noncurrent	—	—	24,825	23,300	27,909	28,023	35,266	33,829
Other noncurrent liabilities	1,475	3,840	3,356	1,497	1,558	2,586	2,890	3,490
Total liabilities	250,957	295,604	322,176	357,261	401,170	1,348,629	1,360,842	1,466,713
Stockholders' equity								
Common stock	126	127	128	129	130	133	134	136
Additional paid-in capital	505,531	532,618	555,019	589,229	623,859	823,804	886,815	964,214
Accumulated other comprehensive income (loss)	101	268	436	491	827	463	(267)	472
Accumulated deficit	(219,179)	(224,455)	(241,531)	(270,685)	(290,022)	(339,571)	(394,577)	(462,118)
Total stockholders' equity	286,579	308,558	314,052	319,164	334,794	484,829	492,105	502,704
Total liabilities and stockholders' equity	\$ 537,536	\$ 604,162	\$ 636,228	\$ 676,425	\$ 735,964	\$ 1,833,458	\$ 1,852,947	\$ 1,969,417

(*) On August 1, 2019, the beginning of our fiscal 2020, we adopted Topic 842 using the transition provision which allows for the adoption of Topic 842 to be applied on a modified retrospective basis at the beginning of the fiscal year of adoption. As such, the condensed consolidated balance sheets for fiscal 2019 periods are not comparable to subsequent periods. The adoption of this standard resulted in the recognition of the operating lease right-of-use assets and operating lease liabilities related to our real estate and co-location arrangements.

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

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4//30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	2/1/2019	5/1/2019	8/1/2019	1/11/2019	2/1/2020	5/1/2020	8/1/2020	1/11/2020
Cash flows from operating activities								
Net loss	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)	\$ (19,337)	\$ (49,549)	\$ (55,006)	\$ (67,541)
Adjustments to reconcile net loss to cash provided by operating activities:								
Depreciation and amortization expense	2,669	3,067	3,582	3,926	4,770	5,456	6,092	7,235
Amortization expense of acquired intangible assets	166	503	779	642	641	1,322	1,577	1,576
Amortization of deferred contract acquisition costs	4,724	5,146	5,535	5,890	6,248	7,249	8,678	9,445
Amortization of debt discount and issuance costs	—	—	—	—	—	4,885	12,690	12,882
Non-cash operating lease costs	—	—	2,951	3,264	3,434	3,906	4,513	4,987
Stock-based compensation expense	13,275	12,335	18,376	23,866	27,770	51,383	57,185	61,380
Amortization (accretion) of investments purchased at a premium (discount)	(577)	(479)	(300)	(142)	(21)	513	2,605	2,841
Deferred income taxes	—	(1,392)	(49)	49	(555)	(617)	(520)	(461)
Impairment of assets	—	—	—	316	430	—	416	—
Other	42	40	223	25	57	16	29	30
Changes in operating assets and liabilities:								
Accounts receivable	4,319	(22,190)	22,859	(24,291)	(10,786)	(42,004)	41,634	(66,315)
Deferred contract acquisition costs	(8,228)	(10,826)	(6,176)	(9,514)	(16,538)	(32,824)	(18,042)	(25,112)
Prepaid expenses, other current and noncurrent assets	(583)	(4,281)	(2,471)	(1,510)	(9,384)	(215)	7,883	(1,161)
Accounts payable	175	1,106	(38)	(565)	2,526	(1,061)	76	4,551
Accrued expenses, other current and noncurrent liabilities	(2,089)	711	(466)	(777)	1,903	1,632	(1,243)	2,976
Accrued compensation	6,304	(301)	1,382	2,093	9,196	15,229	(12,347)	10,764
Deferred revenue	5,522	39,660	(5,333)	34,153	20,761	68,436	2,133	76,751
Operating lease liabilities	—	—	(2,349)	(2,840)	(293)	(2,122)	(4,821)	(4,424)
Net cash provided by operating activities	13,483	17,823	21,429	5,431	20,822	31,635	53,532	30,404
Cash flows from investing activities:								
Purchases of property, equipment and other assets	(8,091)	(8,822)	(10,210)	(4,889)	(9,694)	(18,279)	(8,904)	(10,499)
Capitalized internal-use software	(810)	(1,449)	(1,802)	(2,471)	(2,023)	(2,441)	(2,401)	(1,871)
Payments for business acquisitions, net of cash acquired	(823)	(10,609)	—	—	(8,918)	(30,683)	—	—
Investment in a privately held company	—	—	—	—	—	(2,000)	—	—
Purchases of short-term investments	(92,428)	(62,862)	(88,410)	(59,133)	(55,221)	(1,052,865)	(174,663)	(244,975)
Proceeds from maturities of short-term investments	67,758	60,355	66,796	59,217	83,212	80,560	76,582	207,233
Proceeds from sale of short-term investments	—	14,990	—	—	14,084	7,008	11,500	—
Net cash provided by (used in) investing activities	(34,394)	(8,397)	(33,626)	(7,276)	21,440	(1,018,700)	(97,886)	(50,112)
Cash flows from financing activities:								
Proceeds from issuance of common stock upon exercise of stock options	8,030	6,339	3,059	3,699	5,796	9,048	4,519	6,726
Proceeds from issuance of common stock under the employee stock purchase plan	—	7,745	—	5,334	—	9,999	—	8,563
Payment of deferred consideration related to a business acquisition	—	—	—	—	—	—	—	(2,250)
Proceeds from issuance of convertible senior notes, net of issuance costs	—	—	—	—	—	1,130,522	—	—
Purchases of capped calls related to convertible senior notes	—	—	—	—	—	(145,245)	—	—
Net cash provided by financing activities	8,030	14,084	3,059	9,033	5,796	1,004,324	4,519	13,039
Net increase (decrease) in cash, cash equivalents and restricted cash	(12,881)	23,510	(9,138)	7,188	48,058	17,259	(39,835)	(6,669)
Cash, cash equivalents and restricted cash at beginning of period	67,855	54,974	78,484	69,346	76,534	124,592	141,851	102,016
Cash, cash equivalents and restricted cash at end of period	<u>\$ 54,974</u>	<u>\$ 78,484</u>	<u>\$ 69,346</u>	<u>\$ 76,534</u>	<u>\$ 124,592</u>	<u>\$ 141,851</u>	<u>\$ 102,016</u>	<u>\$ 95,347</u>
Reconciliation of cash, cash equivalents and restricted cash with condensed consolidated balance sheets:								
Cash and cash equivalents	\$ 54,974	\$ 78,484	\$ 69,346	\$ 76,534	\$ 124,592	\$ 141,851	\$ 102,016	\$ 95,347
Restricted cash, current and noncurrent	—	—	—	—	—	—	—	—
Total cash, cash equivalents and restricted cash	<u>\$ 54,974</u>	<u>\$ 78,484</u>	<u>\$ 69,346</u>	<u>\$ 76,534</u>	<u>\$ 124,592</u>	<u>\$ 141,851</u>	<u>\$ 102,016</u>	<u>\$ 95,347</u>

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

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	2/1/2019	5/1/2019	8/1/2019	11/1/2019	2/1/2020	5/1/2020	8/1/2020	11/1/2020
GAAP gross profit	<u>\$ 64,168</u>	<u>\$ 68,769</u>	<u>\$ 74,032</u>	<u>\$ 81,030</u>	<u>\$ 85,945</u>	<u>\$ 94,529</u>	<u>\$ 110,851</u>	<u>\$ 122,909</u>
Stock-based compensation expense and related payroll taxes	759	1,282	1,414	1,648	1,672	3,117	3,266	3,308
Amortization expense of acquired intangible assets	163	205	205	205	348	1,272	1,504	1,503
Non-GAAP gross profit	<u>\$ 65,090</u>	<u>\$ 70,256</u>	<u>\$ 75,651</u>	<u>\$ 82,883</u>	<u>\$ 87,965</u>	<u>\$ 98,918</u>	<u>\$ 115,621</u>	<u>\$ 127,720</u>
Non-GAAP gross margin	82 %	82 %	81 %	82 %	80 %	79 %	81 %	81 %
GAAP sales and marketing expense	<u>\$ 45,295</u>	<u>\$ 49,317</u>	<u>\$ 59,411</u>	<u>\$ 61,621</u>	<u>\$ 67,727</u>	<u>\$ 89,222</u>	<u>\$ 96,889</u>	<u>\$ 110,403</u>
Stock-based compensation expense and related payroll taxes	8,318	9,873	10,586	13,033	15,795	32,054	32,654	33,864
Amortization expense of acquired intangible assets	3	7	8	8	8	50	73	73
Non-GAAP sales and marketing expense	<u>\$ 36,974</u>	<u>\$ 39,437</u>	<u>\$ 48,817</u>	<u>\$ 48,580</u>	<u>\$ 51,924</u>	<u>\$ 57,118</u>	<u>\$ 64,162</u>	<u>\$ 76,466</u>
Non-GAAP sales and marketing expense as a percentage of revenue	47 %	46 %	52 %	48 %	47 %	45 %	45 %	49 %
GAAP research and development expense	<u>\$ 16,499</u>	<u>\$ 17,213</u>	<u>\$ 20,271</u>	<u>\$ 20,706</u>	<u>\$ 24,117</u>	<u>\$ 32,785</u>	<u>\$ 35,770</u>	<u>\$ 41,751</u>
Stock-based compensation expense and related payroll taxes	4,280	4,008	5,054	6,280	7,145	13,458	14,900	17,747
Amortization expense of acquired intangible assets	—	291	566	429	285	—	—	—
Non-GAAP research and development expense	<u>\$ 12,219</u>	<u>\$ 12,914</u>	<u>\$ 14,651</u>	<u>\$ 13,997</u>	<u>\$ 16,687</u>	<u>\$ 19,327</u>	<u>\$ 20,870</u>	<u>\$ 24,004</u>
Non-GAAP research and development expense as a percentage of revenue	15 %	15 %	16 %	14 %	15 %	15 %	15 %	15 %
GAAP general and administrative expense	<u>\$ 15,911</u>	<u>\$ 10,170</u>	<u>\$ 12,625</u>	<u>\$ 28,983</u>	<u>\$ 14,615</u>	<u>\$ 17,409</u>	<u>\$ 20,859</u>	<u>\$ 24,653</u>
Stock-based compensation expense and related payroll taxes	2,169	(522)	2,167	4,392	4,470	7,351	9,509	12,194
Litigation-related expenses	6,164	2,973	2,007	16,334	12	3	—	—
Asset impairment related to facility exit ⁽¹⁾	—	—	—	316	430	—	416	—
Non-GAAP general and administrative expense	<u>\$ 7,578</u>	<u>\$ 7,719</u>	<u>\$ 8,451</u>	<u>\$ 7,941</u>	<u>\$ 9,703</u>	<u>\$ 10,055</u>	<u>\$ 10,934</u>	<u>\$ 12,459</u>
Non-GAAP general and administrative expense as a percentage of revenue	10 %	9 %	9 %	8 %	9 %	8 %	8 %	8 %
GAAP total operating expenses	<u>\$ 77,705</u>	<u>\$ 76,700</u>	<u>\$ 92,307</u>	<u>\$ 111,310</u>	<u>\$ 106,459</u>	<u>\$ 139,416</u>	<u>\$ 153,518</u>	<u>\$ 176,807</u>
Stock-based compensation expense and related payroll taxes	14,767	13,359	17,807	23,705	27,410	52,863	57,063	63,805
Litigation-related expenses	6,164	2,973	2,007	16,334	12	3	—	—
Amortization expense of acquired intangible assets	3	298	574	437	293	50	73	73
Asset impairment related to facility exit ⁽¹⁾	—	—	—	316	430	—	416	—
Non-GAAP total operating expenses	<u>\$ 56,771</u>	<u>\$ 60,070</u>	<u>\$ 71,919</u>	<u>\$ 70,518</u>	<u>\$ 78,314</u>	<u>\$ 86,500</u>	<u>\$ 95,966</u>	<u>\$ 112,929</u>
Non-GAAP total operating expenses as a percentage of revenue	72 %	70 %	77 %	70 %	71 %	69 %	67 %	72 %

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	2/1/2019	5/1/2019	8/1/2019	11/1/2019	2/1/2020	5/1/2020	8/1/2020	11/1/2020
GAAP loss from operations	\$ (13,537)	\$ (7,931)	\$ (18,275)	\$ (30,280)	\$ (20,514)	\$ (44,887)	\$ (42,667)	\$ (53,898)
Stock-based compensation expense and related payroll taxes	15,526	14,641	19,221	25,353	29,082	55,980	60,329	67,113
Litigation-related expenses	6,164	2,973	2,007	16,334	12	3	—	—
Amortization expense of acquired intangible assets	166	503	779	642	641	1,322	1,577	1,576
Asset impairment related to facility exit ⁽¹⁾	—	—	—	316	430	—	416	—
Non-GAAP income from operations	\$ 8,319	\$ 10,186	\$ 3,732	\$ 12,365	\$ 9,651	\$ 12,418	\$ 19,655	\$ 14,791
Non-GAAP operating margin	11 %	12 %	4 %	12 %	9 %	10 %	14 %	9 %
GAAP interest expense	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (5,025)	\$ (13,049)	\$ (13,245)
Amortization of debt discount and issuance costs	—	—	—	—	—	4,885	12,690	12,882
Non-GAAP interest expense	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (140)	\$ (359)	\$ (363)
Non-GAAP interest expense as a percentage of revenue	— %	— %	— %	— %	— %	— %	— %	— %
GAAP net loss	\$ (12,236)	\$ (5,276)	\$ (17,076)	\$ (29,154)	\$ (19,337)	\$ (49,549)	\$ (55,006)	\$ (67,541)
Stock-based compensation expense and related payroll taxes	15,526	14,641	19,221	25,353	29,082	55,980	60,329	67,113
Litigation-related expenses	6,164	2,973	2,007	16,334	12	3	—	—
Amortization expense of acquired intangible assets	166	503	779	642	641	1,322	1,577	1,576
Asset impairment related to facility exit ⁽¹⁾	—	—	—	316	430	—	416	—
Amortization of debt discount and issuance costs	—	—	—	—	—	4,885	12,690	12,882
Provision (benefit) for income taxes ⁽²⁾	—	(1,422)	—	—	(490)	(620)	—	—
Non-GAAP net income	\$ 9,620	\$ 11,419	\$ 4,931	\$ 13,491	\$ 10,338	\$ 12,021	\$ 20,006	\$ 14,030
Non-GAAP net income as a percentage of revenue	12 %	13 %	5 %	13 %	9 %	10 %	14 %	9 %
GAAP net loss per share, basic and diluted	\$ (0.10)	\$ (0.04)	\$ (0.13)	\$ (0.23)	\$ (0.15)	\$ (0.38)	\$ (0.41)	\$ (0.50)
Stock-based compensation expense and related payroll taxes	0.11	0.11	0.14	0.19	0.21	0.40	0.42	0.46
Litigation-related expenses	0.05	0.02	0.01	0.12	—	—	—	—
Amortization expense of acquired intangible assets	—	—	0.01	—	—	0.01	0.01	0.01
Asset impairment related to facility exit ⁽¹⁾	—	—	—	—	—	—	—	—
Amortization of debt discount and issuance costs	—	—	—	—	—	0.03	0.09	0.09
Provision (benefit) for income taxes ⁽²⁾	—	(0.01)	—	—	—	—	—	—
Adjustment to total fully diluted earnings per share ⁽³⁾	0.01	—	0.01	0.02	0.01	0.02	0.03	0.04
Non-GAAP net income per share, diluted	\$ 0.07	\$ 0.08	\$ 0.04	\$ 0.10	\$ 0.07	\$ 0.08	\$ 0.14	\$ 0.10
Weighted-average shares used in computing GAAP net loss per share, basic and diluted	124,672	126,302	127,548	128,408	129,682	131,660	133,452	135,024
Potentially diluted shares	11,866	11,243	9,312	8,255	8,191	9,805	9,920	10,719
Antidilutive impact of capped call transactions ⁽⁴⁾	—	—	—	—	—	—	—	(1,120)
Weighted-average shares used in computing non-GAAP net income per share, diluted	136,538	137,545	136,860	136,663	137,873	141,465	143,372	144,623

⁽¹⁾ Consists of asset impairment charges related to the relocation of our corporate headquarters.

⁽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 quarter ended July 31, 2019, April 30, 2020 and July 31, 2020, we recorded a tax benefit of \$1.4 million, \$0.5 million and \$0.6 million, respectively, associated with intangible asset recognized as a result of our acquisitions of Appulate, Inc., Cloudneeti Corporation and Edgewise Networks Inc., respectively.

⁽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 our 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 our convertible notes and therefore are included in the calculations of non-GAAP diluted shares outstanding.

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

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	<u>2/1/2019</u>	<u>5/1/2019</u>	<u>8/1/2019</u>	<u>11/1/2019</u>	<u>2/1/2020</u>	<u>5/1/2020</u>	<u>8/1/2020</u>	<u>11/1/2020</u>
Revenue	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268	\$ 110,524	\$ 125,887	\$ 142,578	\$ 157,044
Free cash flows								
Net cash provided by operating activities	\$ 13,483	\$ 17,823	\$ 21,429	\$ 5,431	\$ 20,822	\$ 31,635	\$ 53,532	\$ 30,404
Less: Purchases of property, equipment and other assets	(8,091)	(8,822)	(10,210)	(4,889)	(9,694)	(18,279)	(8,904)	(10,499)
Less: Capitalized internal-use software costs	(810)	(1,449)	(1,802)	(2,471)	(2,023)	(2,441)	(2,401)	(1,871)
Free cash flow	<u>\$ 4,582</u>	<u>\$ 7,552</u>	<u>\$ 9,417</u>	<u>\$ (1,929)</u>	<u>\$ 9,105</u>	<u>\$ 10,915</u>	<u>\$ 42,227</u>	<u>\$ 18,034</u>
Free cash flow margin								
Net cash provided by operating activities, as a percentage of revenue	17 %	21 %	23 %	5 %	19 %	25 %	38 %	19 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(10)%	(10)%	(11)%	(5)%	(9)%	(14)%	(6)%	(7)%
Less: Capitalized internal-use software costs, as a percentage of revenue	(1)%	(2)%	(2)%	(2)%	(2)%	(2)%	(2)%	(1)%
Free cash flow margin	<u>6 %</u>	<u>9 %</u>	<u>10 %</u>	<u>(2)%</u>	<u>8 %</u>	<u>9 %</u>	<u>30 %</u>	<u>11 %</u>

ZSCALER, INC.
Calculated Billings
(in thousands)
(unaudited)

Fiscal Quarter	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20 (*)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
End of Fiscal Quarter	4/30/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Beginning of Fiscal Quarter	<u>2/1/2019</u>	<u>5/1/2019</u>	<u>8/1/2019</u>	<u>11/1/2019</u>	<u>2/1/2020</u>	<u>5/1/2020</u>	<u>8/1/2020</u>	<u>11/1/2020</u>
Revenue	\$ 79,128	\$ 86,108	\$ 93,590	\$ 101,268	\$ 110,524	\$ 125,887	\$ 142,578	\$ 157,044
Add: Total deferred revenue, end of period	211,542	251,202	245,869	280,022	300,791	369,767	371,900	446,817
Less: Total deferred revenue, beginning of period	<u>(206,020)</u>	<u>(211,542)</u>	<u>(251,202)</u>	<u>(245,869)</u>	<u>(280,022)</u>	<u>(300,791)</u>	<u>(369,767)</u>	<u>(371,900)</u>
Calculated billings	<u>\$ 84,650</u>	<u>\$ 125,768</u>	<u>\$ 88,257</u>	<u>\$ 135,421</u>	<u>\$ 131,293</u>	<u>\$ 194,863</u>	<u>\$ 144,711</u>	<u>\$ 231,961</u>
Year-over-year growth	55 %	32 %	37 %	18 %	55 %	55 %	64 %	71 %

* Comparative fiscal quarter (Q2 FY19) includes one large customer choosing to pay up-front for a multi-year, private cloud subscription of \$11.0 million.