Forward-Looking Statements

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to the non-GAAP financial measures is included in our earnings release.

This document contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our future financial and operating performance, including our financial outlook for the second quarter of fiscal 2024 and full year fiscal 2024. There are a significant number of factors that could cause actual results to differ materially from statements made in this document, including but not limited to: macroeconomic influences and instability, including the ongoing effects of inflation, geopolitical events, operations and financial results and the economy in general; risks related to the use of AI in our platform; the impact of a government default or shut-down; 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 products and subscriptions 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; useful lives of our assets and other estimates; 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 Securities and Exchange Commission (SEC), including our Annual Report on Form 10-K for the fiscal year ended July 31, 2023 filed on September 14, 2023, as well as future filings and reports by us, copies of which are available on our website at ir.zscaler.com and on the SEC’s website at www.sec.gov. You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this document are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.
**CEO Commentary**

I am pleased to share our first quarter results, which exceeded our guidance across all metrics. We delivered 40% revenue growth and 34% billings growth. Our operating profit and free cash flow more than doubled year-over-year, and free cash flow margin reached a record 45%. We exceeded the Rule-of-60 for the 13th consecutive quarter. At a significant scale of $2 billion plus in ARR, we are delivering a unique combination of high growth and high profitability that only a few SaaS companies have accomplished.

In Q1, we executed well in a challenging macro environment and what is typically a slower quarter for us. The elevated scrutiny of large deals remains mostly unchanged. The increased frequency of high-profile breaches, coupled with impending SEC disclosure requirements, has propelled Zero Trust security more into focus at the management and the Board level. Against this backdrop, we achieved a Q1 record for number of new logo customers with over $1 million in ARR. We also achieved a record for new pipeline generation in a quarter. More customers are adopting our broader platform to consolidate multiple point products, increasing our average deal size. As a result, we are actively working on more large multi-year, multi-pillar opportunities than ever before. To meet this demand and to further scale our business, we are adding two key go-to-market leaders—one in sales and one in marketing. I will provide details about these new executives after reviewing our Q1 performance.

Let me highlight three factors that drove our strong Q1 performance.

First, large new logo wins were strong this quarter, with a Q1 record of 14 new logos contributing over $1 million ARR. We ended with 468 such customers, up 34% year-over-year. These wins spanned across many verticals, proving that every vertical needs Zscaler.

Second, customers are buying the broader Zscaler platform with multiple product pillars. I have said before, over time, I believe every one of our customers will buy ZIA, ZPA and ZDX for every user to deliver secure, fast, and reliable access to any application, anywhere. This quarter, nearly half of our new logo customers purchased all three user pillars—ZIA, ZPA and ZDX. In addition, strong platform upsells drove our 120% dollar-based net retention rate.

Third, this was a record US Federal quarter, with new business up over 90% year-over-year, including four deals that are greater than $1 million in ACV. We are starting to see larger awards as multiple US Federal agencies are standardizing on Zscaler to meet the President’s Executive Order to adopt Zero Trust security. We are extremely proud of having landed 12 of the 15 cabinet-level agencies as our customers, where we have plenty of opportunity to expand.

For example, at a cabinet-level agency, we expanded their ZIA and ZPA deployment from 25,000 users to 100,000 users, while cross-selling ZDX for all 100,000 users. We also won a top defense integrator, who purchased ZIA, ZPA and ZDX for its employees. In parallel, they launched a go-to-market service to take Zscaler to their federal customers. As our SI partners are selling and deploying Zscaler for their customers, they are also adopting Zscaler to make their own businesses secure, agile and competitive.

From my conversations with hundreds of IT executives, it is clear that cybersecurity is the #1 IT spending priority. Adopting Zero Trust architecture and protecting their enterprise from Gen AI risks are top priorities for CISOs in 2024. We have enhanced our data protection policies for AI/ML applications and tools to protect our customers risk of data loss due to increasing use of Gen AI. Our AI-powered threat protection uses a diffusion model to detect complex exploits and to catch sophisticated phishing attacks that evade traditional...
security controls. These AI-driven features are included in our advanced plus bundles, which are often priced 20% higher than advanced bundles. We now secure on average over 2 billion AI transactions every month for our customers.

Next, let me discuss some of our Q1 deals which demonstrate our differentiation and business value.

We’re starting to see some wins where customers are coming to us after initially purchasing a firewall-based, single-vendor SASE solution that failed to deliver in the real world. For those who are not familiar, firewall-based single-vendor SASE is the combination of SD-WAN and firewall and VPN deployed as VMs in the cloud. A leading software company made an architectural shift to our Zero Trust Exchange platform, after trying to deploy a leading firewall vendor SASE solution across 50 office locations and multiple public cloud sites. It became clear to the customer that this solution expanded their attack surface to all locations and increased the risk of lateral threat movement. They decided to move to our Zero Trust security with the purchase of Zscaler for Users—our complete bundle for ZIA, ZPA and ZDX—for all 25,000 employees. Our Zero Trust Exchange connects users directly to apps, eliminating attack surface and lateral threat movement. For unmanaged devices, the customer is deploying our browser isolation with ZPA to enable third-parties to access their applications. Deals like this reinforce our conviction that firewall-based SASE solutions are not the future of security that some analysts advocate. Customers are choosing Zscaler’s purpose-built Zero Trust platform.

Let me highlight one new logo win where our superior security helped a customer after a breach. Despite extensive investments in firewalls and VPNs, a hospitality and gaming company experienced a crippling ransomware breach. To restore their operations, they purchased the entire Zscaler for Users bundle for 25,000 users. With Zscaler, their apps are now hidden from threat actors behind our Zero Trust Exchange, and can’t be discovered, exploited or DDoS’d. This customer also purchased our new Risk360 solution to understand their organization-wide risk and to get actionable information to reduce it.

We have shared with you that Data Protection is one of the fastest growing solutions for us. For our customers, after implementing cyber protection, adopting Data Protection is the natural second phase of their Zero Trust journey. For example, a Fortune 500 travel and hospitality services provider more than doubled their annual spend with us, with data protection being a critical component of the upsell. Their first purchase was ZIA for 22,000 users to inspect all traffic, including TLS encrypted traffic, for cyber protection. As the next step, they are implementing real-time, in-line DLP for sensitive data. Our solution also enables this customer to enforce policies for secure use of AI applications.

These deals highlight the breadth and depth of our Zero Trust security platform. We also help our customers achieve high ROI by eliminating tech debt and consolidating multiple point products. For example, a Fortune 200 financial services group turned to Zscaler to consolidate data centers and safely adopt cloud with the necessary security controls for regulatory compliance. They purchased Zscaler for Users bundle for 10,000 employees and Workload Communications for 1,500 workloads. By leveraging our cloud platform, they will eliminate half of their data centers, reduce their MPLS spend, and consolidate security and networking point products. We are eliminating several point products, including secure web gateways, firewalls, IPS appliances, VPNs, CASB and DLP, from 7 security vendors. This deal is expected to generate a remarkable 5x ROI for the customer.

I’m also excited to share that ZDX, one of our emerging pillars, continues to gain significant customer adoption. It is an important part of every deal conversation due to its unique ability to eliminate IT blind spots. ZDX significantly reduces helpdesk hours spent on ticket resolutions and manual correlation of metrics. Let me
highlight a new logo deal where ZDX played a pivotal role. A top-ranked U.S. hospital network purchased ZIA and ZDX Advanced Plus for 87,000 users and ZPA for 40,000 users. What initially began as a ZIA and ZPA project, quickly evolved into a significant ZDX opportunity. The ZDX component alone is 7-figures in ACV. Unlike their existing performance tools, ZDX provides comprehensive visibility and root cause analysis—for users, devices, and applications. This deal is a great example of the leverage we gain from working with system integrators, like Accenture, who was awarded this overall transformation project.

We are also seeing strong customer interest in workload protection, our other emerging product pillar. Our Zero Trust Exchange is designed for any-to-any secure communication—it may be users to apps, workload to workload or IoT/OT devices. Thousands of enterprises already leverage Zscaler platform for secure user-to-app communication. It is natural for them to extend our Zero Trust platform to secure their workload communication. To radically simplify multi-cloud connectivity and automated deployment of workload protection at scale, we recently released significant enhancements to our Workload Communications offering, including:

- Granular workload segmentation using AWS user-defined Tags, the first Zero Trust security solution for workloads in the market. The only alternative is legacy virtual firewalls.
- Real-time auto discovery of cloud resources.

More than a third of our customers have made initial purchases for workload protection. Workload Communication often starts with small land deals, and we expect to rapidly expand to secure their growing number of workloads.

Zscaler pioneered Zero Trust and SASE, both delivered via our cloud-native platform. We have established ourselves as the premier provider for user protection and are now making progress expanding into workload protection and IoT/OT protection. We continue to push the boundaries of what our platform can achieve, extending it for B2B and 5G use cases. As we are like a switchboard for all communications, we collect full transaction logs and trillions of signals daily. We are utilizing those signals and logs to deliver AI-powered insights and automation for our customers.

Let me discuss a few of the high-value products in our AI Cloud family.

We recently launched Risk360, which is the industry's first holistic, AI-powered risk quantification and mitigation solution. It delivers up-to-date risk posture and recommends corrective actions to mitigate risk in a timely fashion. We have already closed 10-plus Risk360 deals, and are in active evaluations with over 100 enterprises. For these deals, we are getting 6-figure ACV on average, and we expect to grow this value over time. Risk360 provides critical insights to CISOs when reporting on cybersecurity risk, strategy, and governance, particularly in light of new SEC regulations.

Another exciting new product, Breach Predictor, currently under development, uses predictive and generative AI models to anticipate potential breach scenarios and eliminate those risks before they materialize. Early feedback from customers who have previewed Breach Predictor indicates the enormous potential value this solution can deliver. We are working with our technology partners to bring this world class innovation to thousands of customers to proactively protect against potential breaches.

While we have achieved tremendous success for user protection solutions, our platform's potential in other categories is just beginning. Our relentless innovations have paved the way for an ever-growing stream of opportunities. As our platform continues to scale and expand, our go-to-market efforts are continuing to evolve and scale as well.
To enable that next stage of go-to-market scaling, I’m excited to share the appointments of two exceptional leaders—Mike Rich as CRO and President of Global Sales, and Joyce Kim as CMO. They bring a wealth of experience in driving revenue and pipeline growth. Mike joins from ServiceNow where, as the President for Americas, he established an efficient and scalable process to drive deeper engagements with large enterprises and to scale their business to over $8 billion in revenue, an experience that is critical to the next phase of our growth journey. Joyce’s previous experiences include CMO roles at Twilio, Genesys and Arm, with expertise in building high-performance marketing teams and driving impactful marketing strategies and campaigns.

With Mike assuming leadership of our sales organization, Dali, in his capacity as the COO, can focus on scaling our business operations. Dali has been instrumental in establishing the go-to-market process, which has helped Zscaler achieve a milestone of $2 billion in ARR. With our expanded portfolio of products and experienced CRO and CMO on board, we will further scale our value-led sales process for larger platform deals, which will sustain our high growth. I’m thrilled to have strong go-to-market leaders who we believe will drive world-class execution to scale our business beyond $5 billion in ARR.
**CFO Commentary**

Our Q1 results exceeded our guidance on growth and profitability, even with ongoing customer scrutiny of large deals. Revenue was $497 million, up 40% year-over-year and up 9% sequentially. From a geographic perspective, Americas represented 53% of revenue, EMEA was 32% and APJ was 15%. As Jay highlighted, from a new business perspective, Federal had its best new ACV quarter ever, growing over 90% year-over-year. Our new ACV outside of the Fed also grew year-over-year.

Our total calculated billings in Q1 grew 34% year-over-year to $457 million. On a sequential basis, total billings declined 37% quarter-over-quarter with a difficult comparison to Q4, which had a $20 million upfront billing on a multi-year deal. As a reminder, our contract terms are typically one to three years, and we primarily invoice our customers one year in advance. Our calculated current billings grew 33% year-over-year and a seasonal decline of 32% quarter-over-quarter.

Our remaining performance obligations, or RPO, grew 30% from a year ago to $3.49 billion. The current RPO is approximately 51% of the total RPO.

We ended Q1 with 468 customers with greater than $1 million in ARR, adding 19 such customers in the quarter. 14 of the 19 $1 million ARR customer adds were new logos, which was a record for Q1. The continued strength of this large customer metric speaks to the strategic role we play in our customers’ digital transformation initiatives. We also ended the quarter with 2,708 customers with greater than $100,000 in ARR. Our 12-months trailing dollar-based net retention rate was 120%.

Turning to the rest of our Q1 financial performance. Total gross margin of 80.7% compares to 80.7% in the prior quarter and 81.4% in the year ago quarter. Higher public cloud usage for our emerging products drove the year-over-year change in gross margin, partially offset by approximately 60 basis points of benefit from a change in accounting attributed to the longer useful life of our cloud infrastructure. As mentioned last quarter, as a result of advances in technology and efficiencies in how we operate our server and network equipment, starting this quarter, we extended the depreciable useful life for these assets in our cloud infrastructure from four to five years.

Our total operating expenses increased 11% sequentially and 26% year-over-year to $311 million. We continue to generate significant leverage in our financial model, with operating margin reaching 18%, an increase of approximately 620 basis points year-over-year. Our free cash flow margin was 45%, including data center capex of approximately 6% of revenue. Free cash flow benefited from strong collections from Q4 billings, including the $20 million upfront billings I mentioned. We ended the quarter with over $2.3 billion in cash, cash equivalents, and short-term investments.

Next, let me share some observations about the macro environment and our framework for guidance for the rest of the fiscal year. While the global macro environment remains challenging and customers continue to scrutinize large deals, from our perspective, customer sentiment seems to be stabilizing. Our customer engagements remain strong, and we have a large and growing pipeline. However, we want to be prudent in our assumptions given the sales leadership change. In our outlook for fiscal 24, we are balancing our business optimism and continued sales execution with ongoing macroeconomic uncertainties.
With that in mind, let me provide our guidance for Q2 and full year fiscal 2024. As a reminder, these numbers are all non-GAAP.

For the second quarter:
- We expect revenue in the range of $505 million to $507 million, reflecting a year-over-year growth of 30 to 31%.
- Gross margins of 80%, including the change in accounting for useful life of server equipment. I would also like to remind investors that a number of our emerging products, including newer products like ZDX and Zscaler for Workloads, will initially have lower gross margins than our core products. We are currently managing the emerging products for time-to-market and growth, not optimizing them for gross margins.
- Operating profit in the range of $84 million to $86 million.
- Net other income of $15 million.
- Income taxes of $8 million.
- Earnings per share in the range of $0.57 to $0.58, assuming 160 million fully diluted shares.

For the full year fiscal 2024, we are updating our guidance as follows:
- Increased revenue in the range of $2.09 billion to $2.10 billion or year-over-year growth of 29% to 30%.
- Calculated billings in the range of $2.52 billion to $2.56 billion, or year-over-year growth of 24% to 26%. We still expect our first half mix to be approximately 42% of our full-year billings guide.
- Increased operating profit in the range of $360 million to $365 million, which reflects up to 250 basis points of operating margin improvement compared to last year.
- Income taxes of $35 million.
- Increased earnings per share in the range of $2.45 to $2.48, assuming approximately 161 million fully diluted shares.
- We expect our free cash flow margin to be up year-over-year and in the low 20% range. We continue to expect our data center capex to be high single digit percentage of revenue for the full year, reflecting a 3 to 4 percentage points of headwind to free cash flow margins. We expect the timing of capex spend to be more towards the second half of the year, as we invest in upgrades to our cloud and AI infrastructure.

Our guidance reflects our plans to invest aggressively in our business to pursue our significant market opportunity. With our new CRO and CMO coming on board, we expect to step up our sales and marketing investments in the coming quarters. In addition, we will increase investments in our technology platform and cloud infrastructure. With a large market opportunity and customers increasingly adopting the broader platform, we plan to invest aggressively to position us for long-term growth while increasing profitability.