



# Fiscal Q1 2025 Earnings Call

December 2, 2024



# Safe Harbor

## FORWARD-LOOKING STATEMENTS

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to non-GAAP financial measures is in the appendix of this presentation.

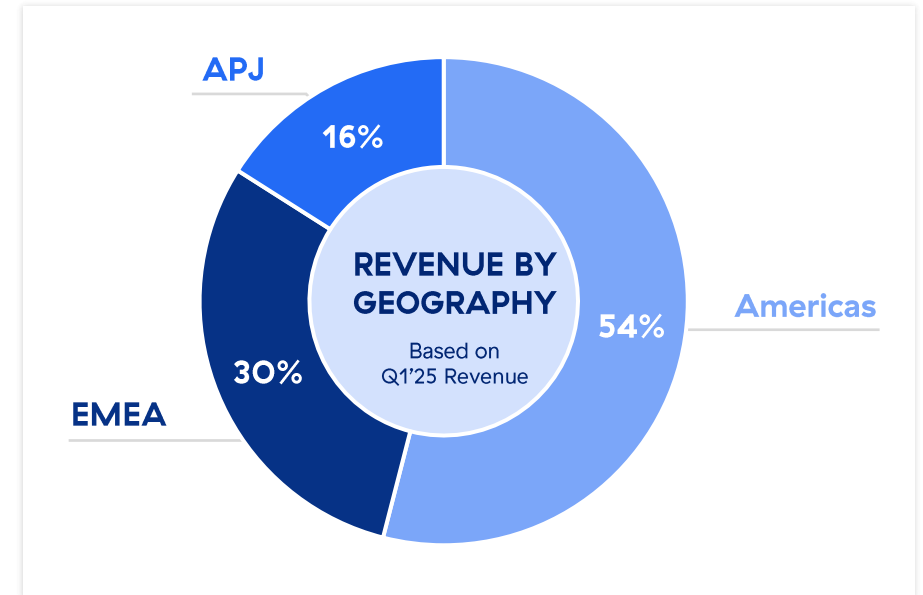
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This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the second quarter of fiscal 2025 and full year fiscal 2025, our planned products and upgrades, business strategy and plans and objectives of management for future operations of Zscaler are forward-looking statements. These statements involve known and a significant number of unknown risks, uncertainties, assumptions and other factors that could cause results to differ materially from statements made in this message, including any performance or achievements expressed or implied by the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment, and new risks may emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results or outcomes to differ materially from those contained in any forward-looking statements we may make, including but not limited to the ongoing effects of inflation and geopolitical events on our business, operations and financial results and the economy in general; 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 and operating results are included in our most recent filings with the Securities and Exchange Commission (“SEC”). You can locate these reports through our website at <http://ir.zscaler.com> or on the SEC website at [www.sec.gov](http://www.sec.gov).

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continues,” “contemplate,” “could,” “estimate,” “expect,” “explore,” “intend,” “likely,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message 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.

# Fiscal Q1'25 results

	Q1 Guidance	Q1 Results	Q1 Results vs. Guidance
Revenue	\$604M – \$606M ~22% y/y	\$628M 26% y/y	✓ Exceeded
Calculated Billings	\$504M – \$508M 10% –11% y/y	\$517M 13% y/y	✓ Exceeded
Calculated Current Billings		\$517M 12% y/y	
Gross Margin	80%	80.6%	✓ Exceeded
Operating Profit	\$114M – \$116M 18.8% –19.2% margin	\$134M 21.4% margin	✓ Exceeded
EPS	\$0.62 – \$0.63	\$0.77 41% y/y	✓ Exceeded
Free Cash Flow		\$292M 46.5% margin	



**114%**

Dollar-based net retention rate

**585**

\$1M+ ARR customers

**50%**

Operating profit Y/Y growth

**Rule-of-73**

Revenue growth + FCF margin for Q1'25

All numbers presented on an adjusted, non-GAAP basis. See appendix of this presentation for a reconciliation of GAAP to non-GAAP financial measures.

# FY25 guidance increased

	Prior FY25 Guidance	New FY25 Guidance	New vs. Prior FY25 Guidance
Revenue	\$2.60B – \$2.62B 20%–21% y/y	\$2.623B – \$2.643B 21%–22% y/y	↑ Increased
Calculated Billings	\$3.110B – \$3.135B ~19%–20% y/y	\$3.124B – \$3.149B 19%–20% y/y	↑ Increased
Operating Profit	\$530M – \$540M 20.2%–20.8% margin	\$549M – \$559M ~21% margin	↑ Increased
Earnings Per Share	\$2.81 – \$2.87	\$2.94 – \$2.99	↑ Increased
Free Cash Flow Margin	23.5%–24%	23.5%–24%	Free Cash Flow increased

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# Outstanding Q1'25 results for growth and profitability

## Innovations resonating with customers

Dollar-based NRR

**114%**

upselling expanded portfolio

Emerging Products ARR Y/Y

**>2x**

core products ARR Y/Y

AI-Analytics

**90%+**

NU ACV Y/Y growth

## Increasing customer commitments with Zscaler

Bookings Growth Y/Y

**30%+**

acceleration vs Q4'24

\$1M+ ARR customers

**585**

25% Y/Y growth

\$100K+ ARR customers

**3,165**

17% Y/Y growth

## Driving profitable growth at scale

Revenue Growth Y/Y

**26%+**

>\$2.5B Q1 annualized revenue

Operating Margin

**21%**

operating discipline

Free Cash Flow Margin

**46%**

strong collections quarter

# Expanding AI-portfolio as we fight AI with AI

## Securing use of AI-apps

### 1 Secure use of Public-AI apps

- Granular visibility into Copilots, ChatGPT, etc.
- Discovery and classification of data
- Gives access control; Fixes Copilot misconfigurations; Policy enforcement for DLP

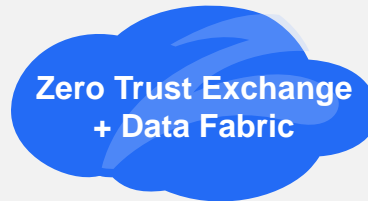
### 2 Secure use of Private-AI apps<sup>1</sup>

- Secure use of chatbots, LLM and SLM models, inference engines, etc.
- Analyst prompt queries and results
- Detect and prevent prompt injections

## Zscaler AI Innovations

### Leveraging relevant enterprise data for AI

Zscaler has the best data (Quantity & Quality)  
500B+ transactions, 500T+ signals, every day



### Complete Transaction Logs

Structured data, Unstructured data, Full URL

## AI-powered products

### 3 Cyber and Data protection

- Automated data classification
- Gen-AI based image classification
- Zero-day vulnerability detection and prevention
- AI-powered App segmentation

### 4 AI-powered SecOps

- Organization wide IT risk scoring with Risk360
- Vulnerability prioritization with UVM
- Breach Prediction<sup>1</sup>
- Threat Hunting<sup>1</sup>

## Automated Digital Experience

### 5 Resolve user performance issues

- Automate IT ops and gain visibility into end-to-end user performance issues with ZDX Copilot
- Automate root cause analysis and reduce resolution time with ZDX AI-Agent<sup>1</sup>
- Automated recommendations to fix user performance issues<sup>1</sup>

# AI-driven differentiation in 7-figure ACV deals

## Secure use of Public-AI apps

### Global 2000 Services Company

Upsell, 7-figure deal

- AI-powered Data Protection to enable secure roll out of Microsoft Copilot
- Data Protection contributed **50% to this 7-figure deal**

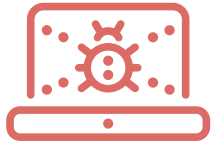
## Automated Digital Experience (ZDX Copilot)

### Large Healthcare Provider

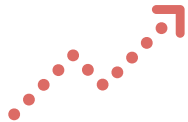
Upsell, 7-figure deal

- ZDX Copilot to automate IT operations and reduce resolution time for service tickets
- Customer's annual spend **more than doubled** with this purchase

# Cyber threats continue to increase in frequency and sophistication



The limitations of firewall and VPN based architectures are being exploited by threat actors



Increasing high profile breaches and volume of sophisticated attacks



Rising adoption of GenAI is exposing new gaps in organizations' security posture



# Velocity and variety of attacks continue to proliferate



**29%**

YoY growth in banking malware,  
most of which can bypass MFA



**45%**

YoY growth in IoT attacks



**111%**

YoY growth in spyware

# Select Q1'25 deal highlights

SUCCESS IN SELLING THE BROADER PLATFORM



## Fortune 500 Insurance

Upsell, 7-figure deal

**ZIA** 70,000 users

**ZPA** 70,000 users

**ZDX** 70,000 users

**Data Protection** 70,000 users

### Key features:

- ZPA to provide Zero Trust access to business apps and enable rapid M&A integration
- Customer's annual spend almost doubled to over \$5M



## Fortune 500 Health Care

Upsell, 7-figure deal

**ZIA** >23,000 users

**ZPA** >23,000 users

**ZDX** Future upsell opportunity

**Data Protection** >23,000 users

### Key features:

- Data Protection to secure data-at-rest and data-in-motion across all channels (email, endpoint, web etc.), consolidating multiple point products
- Annual spend of the customer almost doubled with this purchase



## Large US Federal Agency

New logo, 7-figure deal

**ZIA** 1,000 users

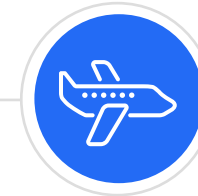
**ZPA** 22,000 users

**ZDX** 22,000 users

**Data Protection** 1,000 users

### Key features:

- Adopted the Zscaler platform to improve their security posture
- Zscaler also reduces cost and complexity by eliminating firewalls and VPNs



## Global 2000 Aerospace

New logo, 7-figure deal

**ZIA** 100,000 users

**ZPA** Future upsell opportunity

**ZDX** Future upsell opportunity

**Data Protection** Future upsell opportunity

### Key features:

- Initiated a strategic shift towards a cloud first architecture
- Zscaler was the transformation vendor of choice as FW-based SASE solutions do not provide Zero Trust security

# Zero Trust for Branch and Cloud

Growing Workloads footprint in Cloud; First 7-figure ACV deal in Branch

## Zero Trust for Workloads

### Fortune 500 Transportation

Upsell, 7-figure ACV deal

- ZIA for workloads for protecting all internet traffic
- Zero Trust for Workloads contributed more than **60% of ACV of this 7-figure ACV deal**

## Zero Trust for Branch




### Large US Automotive Supplier

New logo, 7-figure ACV deal




- Zero Trust SD-WAN for all 45 branches and Zero Trust Device Segmentation for all 37 factories
- First **7-figure deal for Branch solution**; worked closely with GSI to transform customer's security

# Making significant progress in transforming our go-to-market engine

## Q1'25 results

-  Strong hiring quarter and lower-than-expected attrition
-  Account-centric selling driving better close rates and stronger customer engagements; \$1M+ ARR customers up 25% YoY
-  GSI initiatives starting to contribute to wins – two 7-figure deals called out (Large US automotive supplier deal; G2K services customer deal)

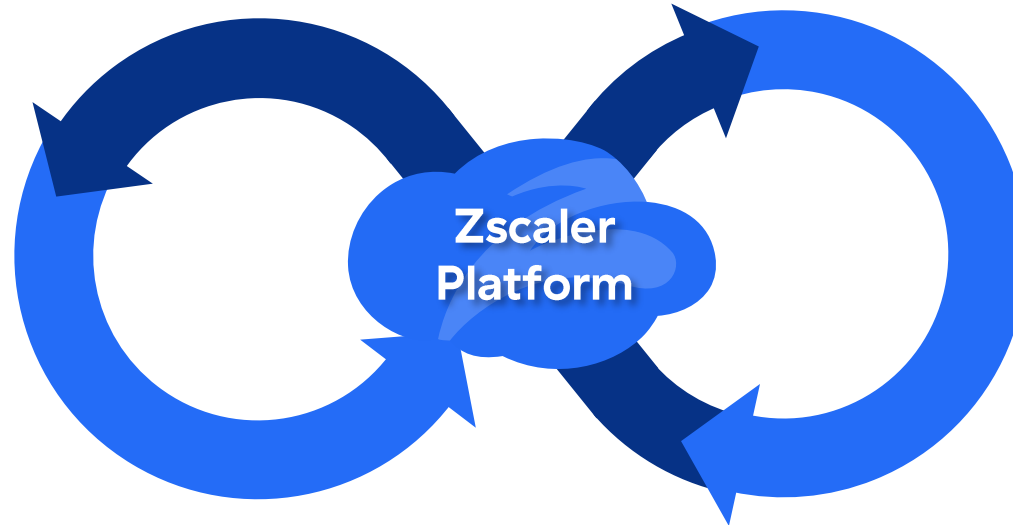
## FY25 strategy

-  Expect to continue hiring reps at a strong pace and for attrition to improve in FY25
-  Expect sales productivity to continue to improve, with 2H stronger than 1H
-  Continue scaling channel with GSIs, National and Regional strategic partners, and more, to increase channel contribution to the business

# Powerful **cloud effect** of better cyber protection

**500B+**  
Daily  
transactions

**60+**  
Threat intel  
partners

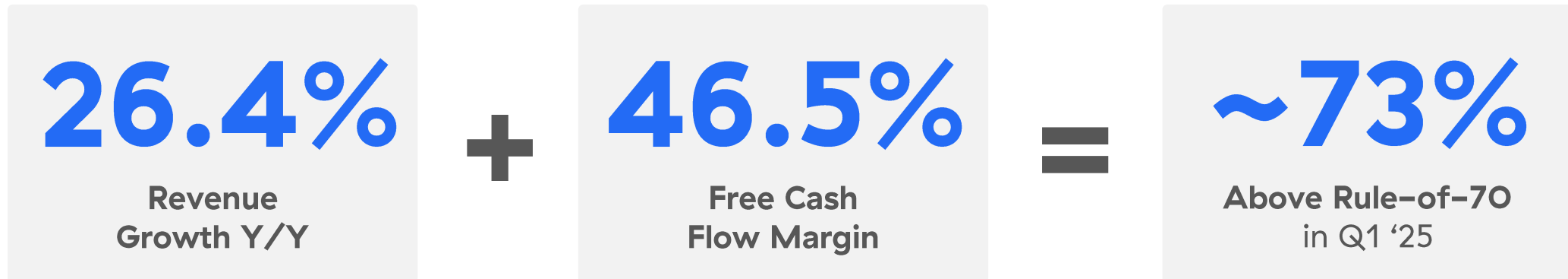


**9B+**  
Daily security /  
policy violations  
prevented

**250K+**  
Daily cloud  
updates

**More Data + More Customers = Deeper Insights**

# Above Rule-of-70 in Q1'25

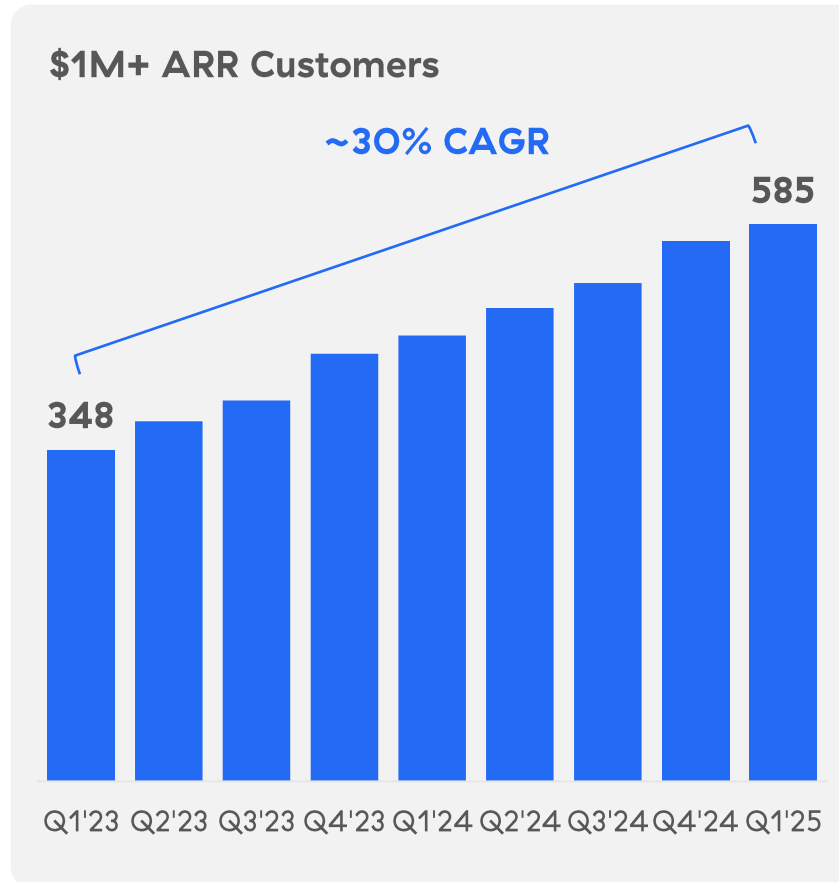
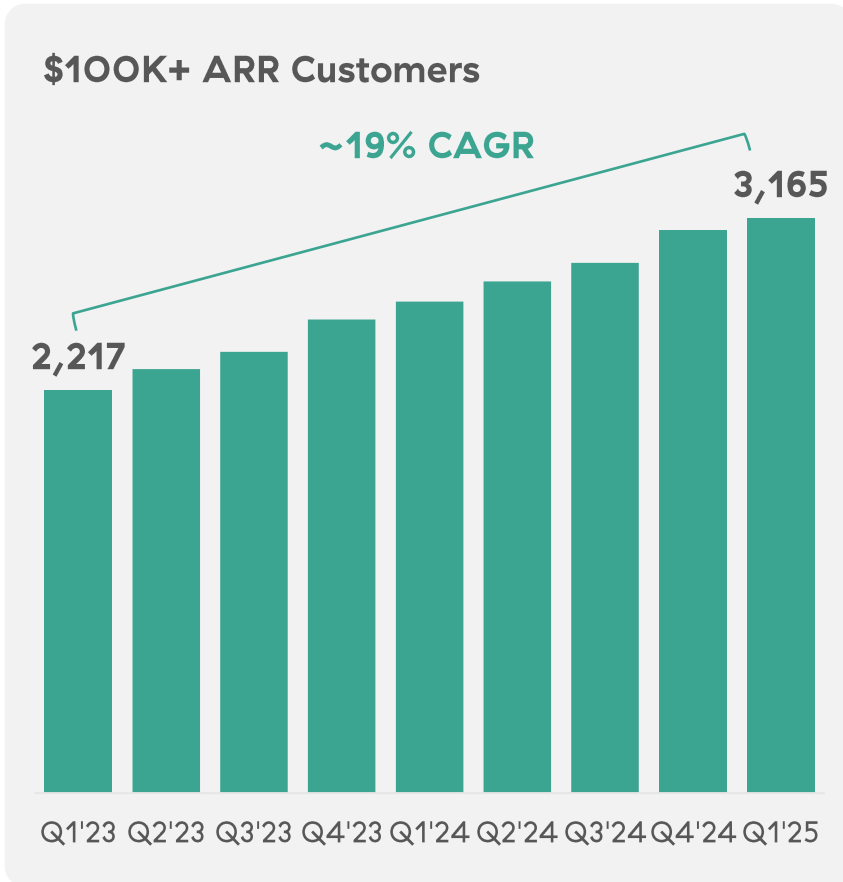


**SaaS companies aspire to achieve Rule-of-40**

**Among top handful of the 145 largest public SaaS companies**

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# Large customer momentum



**>65**  
\$5M+ ARR Customers

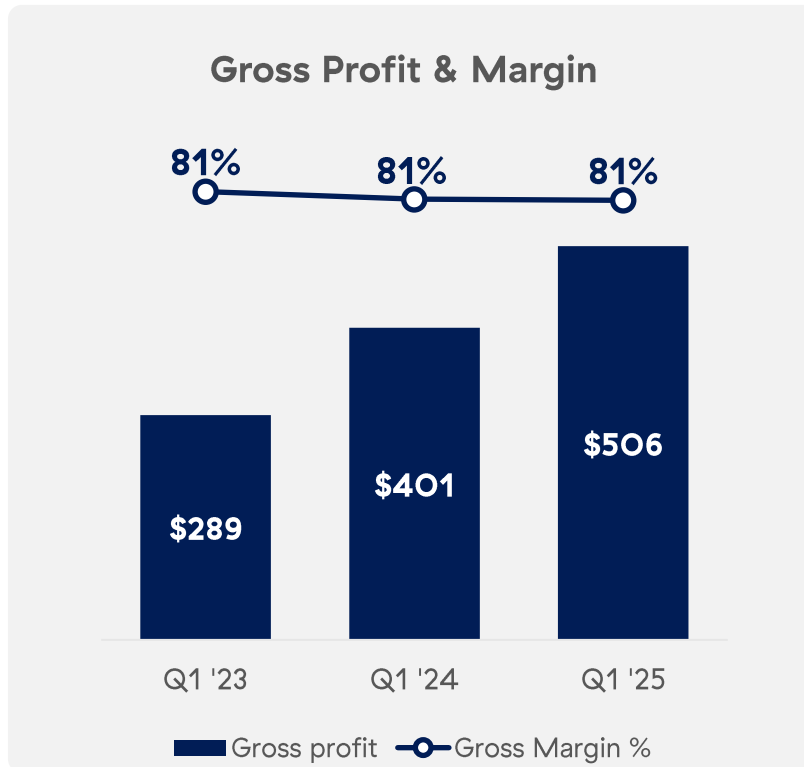
**~45%**  
Fortune 500 Customers

**>35%**  
Global 2000 Customers

Fortune 500 and Forbes Global 2000 customer count based on June 2024 rankings.

# Improving operating efficiency, profitability & cash flow

(in \$ M)



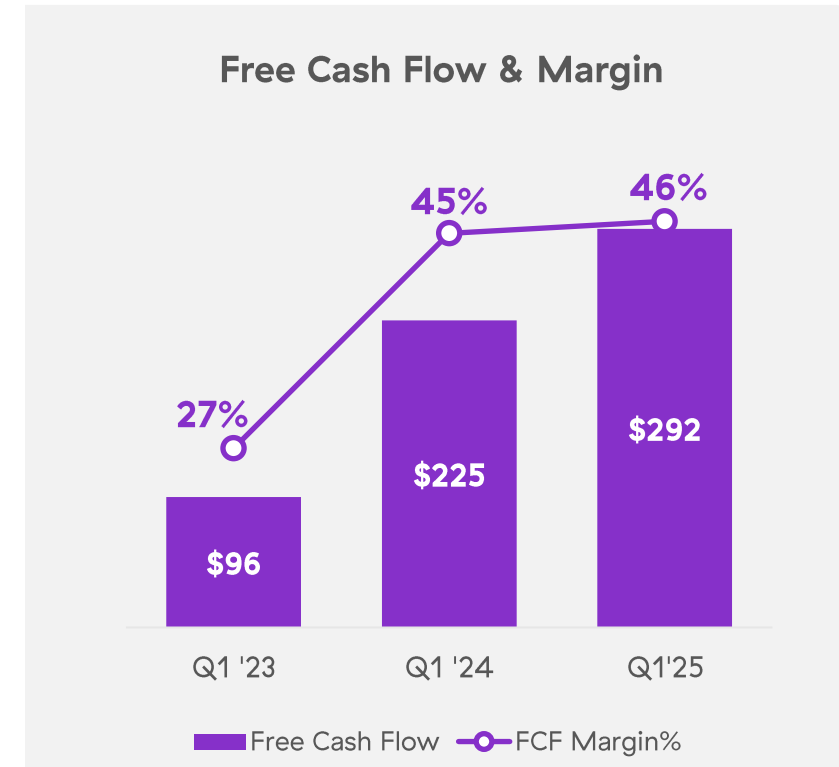
## Key factors

- Scale of our purpose-built, multi-tenant cloud
- New products optimized for faster go-to-market rather than margins



## Key factors

- Leverage in our financial model
- Pace of hiring



## Key factors

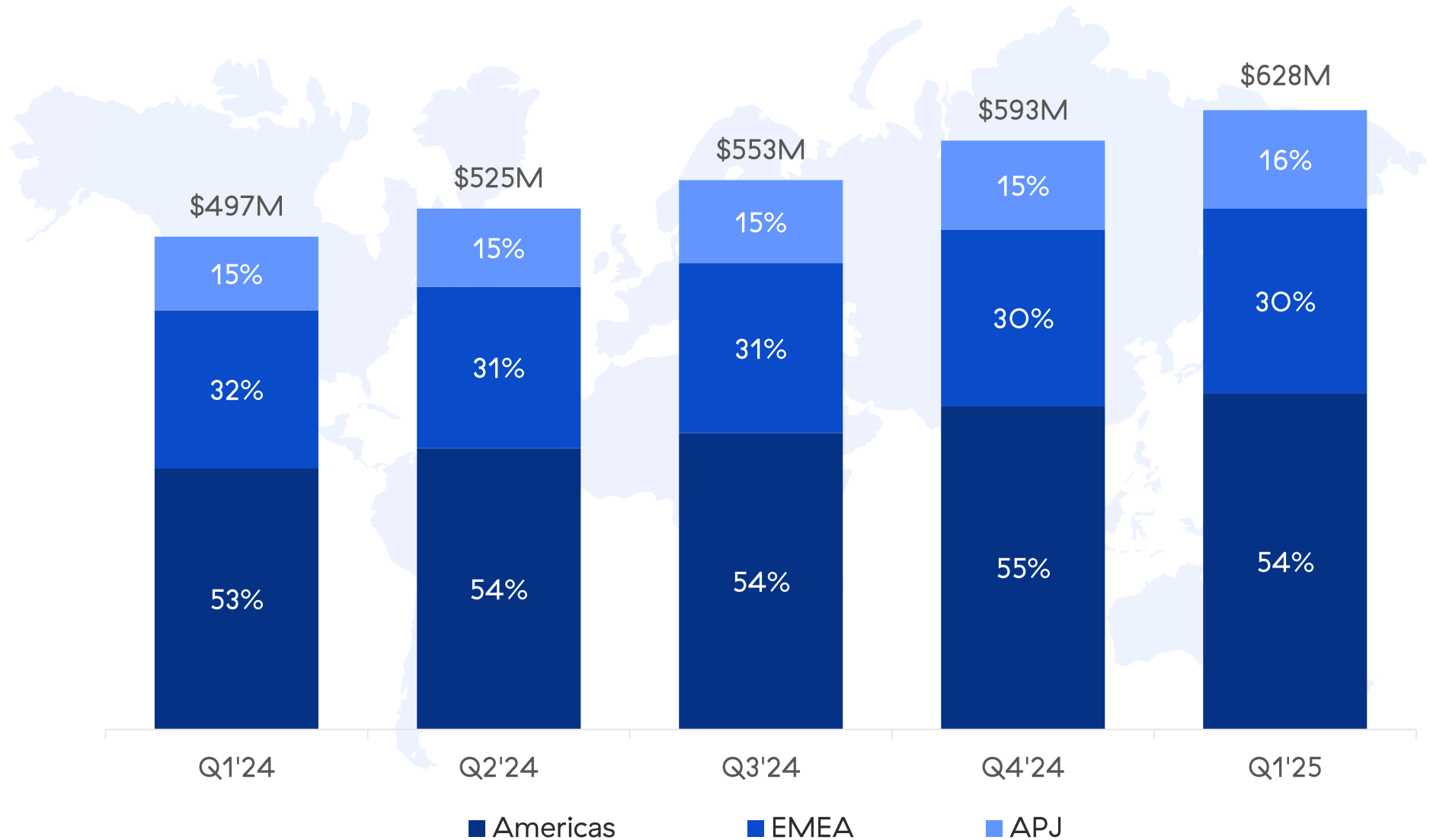
- Strong billings collections in the quarter
- Data center capital expenditures as a % of revenue

All numbers presented on an adjusted, non-GAAP basis. See appendix of this presentation for a reconciliation of GAAP to non-GAAP financial measures.



# Growing across all geographies

Revenue mix by geographies



In early stages  
of capturing our  
large market  
opportunity

**\$96B**

Serviceable Addressable Market

**\$39B**

Zero Trust for Users<sup>1</sup>

**\$35B**

Zero Trust for  
Cloud<sup>2</sup> and Branch<sup>3</sup>

**\$20B**

Data Protection<sup>1</sup>

**\$2B**

AI-Analytics  
Solutions<sup>4</sup>

1. Based on Zscaler's analysis of worldwide organization and employee data from ZoomInfo. User SAM multiplies 335 million users by Zscaler's aggregate average revenue per user (ARPU) of approximately \$45 for ZIA Transformation bundle, \$60 for Data Protection, \$45 for ZPA and \$25 for ZDX from customers purchasing 5,000 seats.

2. Based on Zscaler's analysis of workload market forecast for 2020 from 650 Research. Workload SAM multiplies 150 million workloads by Zscaler's aggregate average revenue per workload of approximately \$40 for CSPM, \$60 for Workload segmentation and \$55 for Workload Communication solutions in the ZCP family.

3. Based on Zscaler's analysis of IoT market forecast from Gartner.

4. Zscaler's estimate of potential B2B Users is based on assuming a similar number of users as total worldwide workforce. We consider B2B users to include third-party vendors and customers of our customer.

# Strong Q1, well positioned for Fiscal 2025

- 1 Customer **adoption of our Zero Trust platform** is stronger than ever, with CXOs prioritizing Zero Trust security and AI for their IT spending
- 2 We are **expanding AI-portfolio** to secure use of public and private AI apps, enabled Automated Digital Experience and deliver AI-powered products
- 3 Strong adoption of **Emerging Products**<sup>1</sup> continues. Emerging Products ARR is growing twice as fast as our core products and driving large deal wins
- 4 We have **landed in 14 of 15 cabinet-level agencies**, including the DoD. We're accelerating our public sector go-to-market investments in other nations
- 5 We are making significant progress on our plans to increase sales hiring and lower rep attrition, **strengthening our sales capacity** heading into second half of FY25

1. Emerging products includes (a) Zscaler Digital Experience (ZDX), (b) Zero Trust for Branch and Cloud (including Zero Trust SD-WAN, Zero Trust for Workloads, and Zero Trust Segmentation), and (c) AI-Analytics Solutions (including Unified Vulnerability Management, Risk360, and Business Insights).



# Financial Appendix



# 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 that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. However, non-GAAP financial information is presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. 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.

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.

## Key Non-GAAP Financial Measures Included within this Presentation:

- Non-GAAP Gross Profit and Non-GAAP Gross Margin<sup>(\*)</sup>
- Non-GAAP Income from Operations and Non-GAAP Operating Margin<sup>(\*)</sup>
- Non-GAAP Net Income and Non-GAAP Net Income per Share
- Free Cash Flow and Free Cash Flow Margin<sup>(\*)</sup>

\*Non-GAAP to GAAP reconciliations shown on the following slides.

# Appendix A: GAAP to Non-GAAP Reconciliation

\$ IN THOUSANDS, EXCEPT PERCENTAGES

	Q1 25	Q1 24	Q1 23
Revenue	\$ 627,955	\$ 496,703	\$ 355,548
<b>Non-GAAP Gross Profit and Non-GAAP Gross Margin</b>			
GAAP gross profit	\$ 486,493	\$ 385,309	\$ 278,851
Add: Stock-based compensation expense and related payroll taxes	15,793	12,955	8,661
Add: Amortization expense of acquired intangible assets	3,675	2,717	1,939
<b>Non-GAAP gross profit</b>	<b>\$ 505,961</b>	<b>\$ 400,981</b>	<b>\$ 289,451</b>
GAAP gross margin	77%	78%	78%
Non-GAAP gross margin	81%	81%	81%
<b>Non-GAAP Income from Operations and Non-GAAP Operating Margin</b>			
GAAP loss from operations	\$ (30,667)	\$ (46,057)	\$ (69,087)
Add: Stock-based compensation expense and related payroll taxes	160,574	132,729	108,636
Add: Amortization expense of acquired intangible assets	4,240	3,036	2,552
<b>Non-GAAP income from operations</b>	<b>\$ 134,147</b>	<b>\$ 89,708</b>	<b>\$ 42,101</b>
GAAP operating margin	(5)%	(9)%	(19)%
Non-GAAP operating margin	21%	18%	12%

# Appendix A: GAAP to Non-GAAP Reconciliation (cont.)

\$ IN THOUSANDS, EXCEPT PERCENTAGES

	Q1 25	Q1 24	Q1 23
<b>Calculated Billings</b>			
Revenue	\$ 627,955	\$ 496,703	\$ 355,548
Add: Total deferred revenue, end of period	1,783,720	1,399,544	1,005,713
Less: Total deferred revenue, beginning of period	(1,894,974)	(1,439,676)	(1,021,123)
<b>Calculated Billings</b>	<b>\$ 516,701</b>	<b>\$ 456,571</b>	<b>\$ 340,138</b>
<b>Calculated Current Billings</b>			
Revenue	\$ 627,955	\$ 496,703	\$ 355,548
Add: Current deferred revenue, end of period	1,533,080	1,244,528	913,104
Less: Current deferred revenue, beginning of period	(1,643,919)	(1,281,143)	(923,749)
<b>Calculated Current Billings</b>	<b>\$ 517,116</b>	<b>\$ 460,088</b>	<b>\$ 344,903</b>
<b>Free Cash Flow</b>			
Net cash provided by operating activities	\$ 331,335	\$ 260,806	\$ 128,457
Less: Purchases of property, equipment and other assets	(17,025)	(28,659)	(25,202)
Less: Capitalized internal-use software	(22,429)	(7,429)	(7,641)
<b>Free Cash Flow</b>	<b>\$ 291,881</b>	<b>\$ 224,718</b>	<b>\$ 95,614</b>
<b>Free Cash Flow Margin</b>			
Net cash provided by operating activities, as a percentage of revenue	53%	53%	36%
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(3)%	(6)%	(7)%
Less: Capitalized internal-use software, as a percentage of revenue	(4)%	(2)%	(2)%
<b>Free Cash Flow Margin</b>	<b>46%</b>	<b>45%</b>	<b>27%</b>

# Appendix A: GAAP to Non-GAAP Reconciliation (cont.)

\$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Q1 25	Q1 24
<b>Non-GAAP Net Income per Share, Diluted</b>		
GAAP net loss	\$ (12,051)	\$ (33,483)
Add: GAAP provision for income taxes	7,637	8,997
GAAP loss before income taxes	(4,414)	(24,486)
Add:		
Stock-based compensation expense and related payroll taxes	160,574	132,729
Amortization expense of acquired intangible assets	4,240	3,036
Amortization of debt issuance costs	981	977
Non-GAAP net income before taxes	161,381	112,256
Non-GAAP provision for income taxes	37,118	25,819
<b>Non-GAAP Net Income</b>	<b>\$ 124,263</b>	<b>\$ 86,437</b>
Add: Non-GAAP interest expense related to the convertible senior notes	359	359
<b>Numerator used in computing non-GAAP net income per share, diluted</b>	<b>\$ 124,622</b>	<b>\$ 86,796</b>
<b>GAAP net loss per share, diluted</b>	<b>\$ (0.08)</b>	<b>\$ (0.23)</b>
Stock-based compensation expense and related payroll taxes	1.00	0.84
Amortization expense of acquired intangible assets	0.03	0.02
Amortization of debt issuance costs	0.01	0.01
Non-GAAP provision for income taxes adjustment	(0.18)	(0.11)
Non-GAAP interest expense related to the convertible senior notes	—	—
Adjustment to total fully diluted earnings per share	(0.01)	0.02
<b>Non-GAAP net income per share, diluted</b>	<b>\$ 0.77</b>	<b>\$ 0.55</b>
<b>Weighted-average shares used in computing GAAP net loss per share, diluted</b>	<b>152,557</b>	<b>147,625</b>
Add: Outstanding potentially dilutive equity incentive awards	2,348	3,431
Add: Convertible senior notes	7,626	7,626
Less: Antidilutive impact of capped call transactions	(1,235)	(177)
<b>Weighted-average shares used in computing non-GAAP net income per share, diluted</b>	<b>161,296</b>	<b>158,505</b>