

Zscaler, Inc.
Supplemental Financial Information
Explanation of Non-GAAP Financial Measures and Other Key Metrics

In addition to our results determined in accordance with U.S. 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 U.S. 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 the company's historical non-GAAP financial measures to their most directly comparable financial measure stated in accordance with U.S. GAAP has been provided in the financial statement tables included in this press release. 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.

Non-GAAP Gross Profit and Non-GAAP Gross Margin. We define non-GAAP gross profit as GAAP gross profit excluding stock-based compensation expense. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

Non-GAAP Loss from Operations and Non-GAAP Operating Margin. We define non-GAAP loss from operations and non-GAAP operating margin as GAAP loss from operations and GAAP operating margin, respectively, excluding stock-based compensation expense and certain litigation-related expenses. These excluded litigation-related expenses are 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, 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 estimate and could adversely affect our results of operations.

Non-GAAP Net Loss and Non-GAAP Net Loss per Share, Diluted. We define non-GAAP net loss as GAAP net loss plus stock-based compensation, litigation-related expenses and accretion of Series C and Series D redeemable convertible preferred stock. We do not include the effects of income taxes on non-GAAP items due to our continued history of non-GAAP losses and full valuation allowance. We define non-GAAP net loss per share, diluted, as non-GAAP net loss divided by the weighted-average diluted shares outstanding, which includes the dilutive effect of potentially diluted common stock equivalents outstanding during the period. Since we have reported net losses for all periods presented, we have excluded all potentially dilutive securities from the calculation of the diluted net loss per share as their effect is antidilutive and accordingly, basic and diluted net loss per share is the same for all periods presented. We believe that excluding these items from non-GAAP net loss and non-GAAP net loss per share, diluted, provides management and investors with greater visibility into the underlying performance of our core business operating results.

Pro Forma Non-GAAP Net Loss per Share, Diluted. We define pro forma non-GAAP net loss per share, diluted, as the weighted-average shares used in computing the GAAP net loss per share, diluted, plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis. We believe that giving effect to the conversion of our redeemable convertible preferred stock as though the conversion had occurred as of the beginning of the periods presented is necessary to provide meaningful comparison between periods.

Free Cash Flow and Free Cash Flow Margin. We define free cash flow as net cash used in operating activities less purchases of property and equipment and capitalized internal-use software. We define free cash flow margin as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our operations that, after the investments in property and equipment and capitalized internal-use software, can be used for strategic initiatives, including investing in our business and strengthening our financial position.

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 - Fiscal Quarters
(In thousands, except per share data)

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Revenue	\$ 26,782	\$ 29,427	\$ 32,964	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174
Cost of revenue ⁽¹⁾	5,926	6,515	6,997	8,034	8,271	8,679	9,424	11,501
Gross profit	20,856	22,912	25,967	28,510	31,590	36,297	39,739	44,673
Operating expenses:								
Sales and marketing ⁽¹⁾	17,116	17,796	20,689	23,635	26,928	27,110	29,892	32,479
Research and development ⁽¹⁾	6,141	11,033	7,778	8,609	8,809	9,183	9,907	11,480
General and administrative ⁽¹⁾⁽²⁾	2,753	3,387	5,061	9,320	7,130	6,403	8,964	8,638
Total operating expenses	26,010	32,216	33,528	41,564	42,867	42,696	48,763	52,597
Loss from operations	(5,154)	(9,304)	(7,561)	(13,054)	(11,277)	(6,399)	(9,024)	(7,924)
Interest income, net	125	130	152	190	195	213	596	1,232
Other income (expense), net	(12)	(47)	31	(79)	(27)	28	14	64
Loss before income taxes	(5,041)	(9,221)	(7,378)	(12,943)	(11,109)	(6,158)	(8,414)	(6,628)
Provision for income taxes	200	167	184	326	289	357	357	334
Net loss	\$ (5,241)	\$ (9,388)	\$ (7,562)	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)
Accretion of Series C and D redeemable convertible preferred stock	(2,344)	(2,389)	(2,355)	(2,482)	(2,530)	(2,579)	(1,223)	—
Net loss attributable to common stockholders	\$ (7,585)	\$ (11,777)	\$ (9,917)	\$ (15,751)	\$ (13,928)	\$ (9,094)	\$ (9,994)	\$ (6,962)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.27)	\$ (0.41)	\$ (0.34)	\$ (0.52)	\$ (0.45)	\$ (0.29)	\$ (0.14)	\$ (0.06)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽³⁾	28,198	28,867	29,583	30,102	30,793	31,434	73,818	119,204

⁽¹⁾ Includes stock-based compensation expense as follows:

Cost of revenue	\$ 51	\$ 88	\$ 106	\$ 103	\$ 109	\$ 126	\$ 199	\$ 323
Sales and marketing	515	721	762	796	785	985	1,493	1,781
Research and development	274	4,651	306	343	398	494	960	1,193
General and administrative	184	266	412	341	441	459	657	821
Total stock-based compensation expense	\$ 1,024	\$ 5,726	\$ 1,586	\$ 1,583	\$ 1,733	\$ 2,064	\$ 3,309	\$ 4,118

⁽²⁾ Includes litigation-related expenses as follows:

Litigation-related expenses	\$ 42	\$ 478	\$ 1,006	\$ 4,301	\$ 2,146	\$ 1,630	\$ 2,836	\$ 1,427
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⁽³⁾ Since we have reported 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 - Fiscal Quarters
(In thousands, except per share data)

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Revenue	\$ 26,782	\$ 29,427	\$ 32,964	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174
Cost of revenue	5,875	6,427	6,891	7,931	8,162	8,553	9,225	11,178
Gross profit	20,907	23,000	26,073	28,613	31,699	36,423	39,938	44,996
Operating expenses:								
Sales and marketing	16,601	17,075	19,927	22,839	26,143	26,125	28,399	30,698
Research and development	5,867	6,382	7,472	8,266	8,411	8,689	8,947	10,287
General and administrative	2,527	2,643	3,643	4,678	4,543	4,314	5,471	6,390
Total operating expenses	24,995	26,100	31,042	35,783	39,097	39,128	42,817	47,375
Loss from operations	(4,088)	(3,100)	(4,969)	(7,170)	(7,398)	(2,705)	(2,879)	(2,379)
Interest income, net	125	130	152	190	195	213	596	1,232
Other income (expense), net	(12)	(47)	31	(79)	(27)	28	14	64
Loss before income taxes	(3,975)	(3,017)	(4,786)	(7,059)	(7,230)	(2,464)	(2,269)	(1,083)
Provision for income taxes	200	167	184	326	289	357	357	334
Income tax expense effects ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net loss attributable to common stockholders	\$ (4,175)	\$ (3,184)	\$ (4,970)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)
Non-GAAP net loss per share attributable to common stockholders, diluted	\$ (0.15)	\$ (0.11)	\$ (0.17)	\$ (0.25)	\$ (0.24)	\$ (0.09)	\$ (0.04)	\$ (0.01)
Weighted-average shares used in computing net loss per share attributable to common stockholders, diluted ⁽²⁾	28,198	28,867	29,583	30,102	30,793	31,434	73,818	119,204
Pro forma non-GAAP net loss per share attributable to common stockholders, diluted ⁽³⁾	\$ (0.04)	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.03)	\$ (0.02)	\$ (0.01)
Weighted-average shares used in computing pro forma non-GAAP net loss per share attributable to common stockholders, diluted ⁽³⁾	100,699	101,368	102,083	102,603	103,293	103,935	112,105	119,204

⁽¹⁾ We do not include the effects of income taxes on non-GAAP items due to our continued history of non-GAAP losses and full valuation allowance.

⁽²⁾ Since we have reported 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.

⁽³⁾ We define pro forma non-GAAP net loss per share attributable to common stockholders as the weighted-average shares used in computing the net loss per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis. Refer to GAAP to Non-GAAP Reconciliations for further information.

Zscaler, Inc.
Condensed Consolidated Balance Sheets - Fiscal Quarters
(In thousands)

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Assets								
Current assets:								
Cash and cash equivalents	\$ 88,688	\$ 87,256	\$ 87,365	\$ 87,978	\$ 75,760	\$ 71,569	\$ 287,443	\$ 135,579
Short-term investments	—	—	—	—	—	—	—	162,960
Accounts receivable, net	19,897	31,693	24,234	39,052	30,431	47,536	40,215	61,611
Deferred contract acquisition costs	7,057	7,890	8,560	10,469	10,815	12,271	13,753	16,136
Prepaid expenses and other current assets	3,612	4,504	4,146	5,410	6,085	6,754	9,036	10,878
Total current assets	119,254	131,343	124,305	142,909	123,091	138,130	350,447	387,164
Property and equipment, net	13,008	12,230	12,750	13,139	15,712	16,858	20,441	19,765
Deferred contract acquisition costs, non-current	14,833	16,786	18,245	24,193	25,187	27,672	32,755	39,774
Other noncurrent assets	1,053	1,049	1,318	2,661	5,096	5,512	1,895	1,078
Total assets	\$ 148,148	\$ 161,408	\$ 156,618	\$ 182,902	\$ 169,086	\$ 188,172	\$ 405,538	\$ 447,781
Liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)								
Current liabilities:								
Accounts payable	\$ 2,480	\$ 2,190	\$ 1,830	\$ 3,763	\$ 2,404	\$ 2,343	\$ 4,944	\$ 4,895
Accrued expenses and other current liabilities	4,516	5,283	5,575	11,648	12,673	11,177	13,767	12,313
Accrued compensation	4,944	6,053	6,698	11,608	8,115	10,423	14,820	23,393
Liability for early exercise of unvested stock options	6,236	4,952	3,851	7,972	4,120	4,522	2,625	1,561
Deferred revenue	56,963	71,248	70,684	85,468	88,461	107,907	111,035	140,670
Total current liabilities	75,139	89,726	88,638	120,459	115,773	136,372	147,191	182,832
Deferred revenue, noncurrent	7,361	7,843	7,056	11,151	9,805	11,350	13,771	23,353
Other noncurrent liabilities	1,479	1,453	1,492	1,457	1,411	1,422	1,384	1,360
Total liabilities	83,979	99,022	97,186	133,067	126,989	149,144	162,346	207,545
Redeemable convertible preferred stock	193,751	196,140	198,495	200,977	203,507	206,086	—	—
Stockholders' equity (deficit):								
Common stock	15	17	18	18	19	19	119	119
Additional paid-in capital	11,469	16,737	17,497	18,734	20,133	21,045	434,250	438,392
Notes receivable from stockholders	(9,269)	(9,323)	(7,831)	(7,878)	(7,710)	(7,755)	(2,039)	(2,051)
Accumulated other comprehensive loss	—	—	—	—	—	—	—	(124)
Accumulated deficit	(131,797)	(141,185)	(148,747)	(162,016)	(173,852)	(180,367)	(189,138)	(196,100)
Total stockholders' equity (deficit)	(129,582)	(133,754)	(139,063)	(151,142)	(161,410)	(167,058)	243,192	240,236
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	\$ 148,148	\$ 161,408	\$ 156,618	\$ 182,902	\$ 169,086	\$ 188,172	\$ 405,538	\$ 447,781

Zscaler, Inc.
Condensed Consolidated Cash flows - Fiscal Quarters
(In thousands)

Fiscal Reporting Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Cash flows from operating activities								
Net loss	\$ (5,241)	\$ (9,388)	\$ (7,562)	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)
Adjustments to reconcile net loss to cash used in operating activities:								
Depreciation and amortization expense	1,503	1,768	1,736	1,833	1,921	1,989	1,932	2,146
Amortization of deferred contract acquisition costs	1,857	1,969	2,166	2,482	2,868	3,064	3,422	3,827
Stock-based compensation expense	1,024	5,726	1,586	1,583	1,733	2,064	3,309	4,118
Other	(27)	(61)	42	(43)	(47)	(45)	370	(148)
Changes in operating assets and liabilities:								
Accounts receivable	4,592	(11,796)	7,459	(14,818)	8,621	(17,103)	7,321	(21,398)
Deferred contract acquisition costs	(2,610)	(4,755)	(4,295)	(10,339)	(4,208)	(7,005)	(9,987)	(13,229)
Prepaid expenses and other assets	(639)	(898)	99	(1,280)	(686)	(408)	(2,247)	(1,727)
Accounts payable	535	216	(613)	2,111	(2,065)	(146)	591	841
Accrued expenses and other liabilities	61	741	331	4,243	755	(310)	2,231	(600)
Accrued compensation	(1,418)	1,109	645	4,910	(3,493)	2,308	4,397	8,573
Deferred revenue	(1,589)	14,767	(1,351)	18,879	1,647	20,991	5,549	39,217
Net cash provided by (used in) operating activities	(1,952)	(602)	243	(3,708)	(4,352)	(1,116)	8,117	14,658
Cash flows from investing activities:								
Purchases of property and equipment	(2,934)	(1,479)	(1,878)	(1,492)	(4,010)	(3,035)	(3,963)	(2,389)
Capitalized internal-use software	—	—	(146)	(245)	(534)	(416)	(474)	(349)
Change in restricted cash	—	—	—	(168)	—	—	—	—
Purchases of short-term investments	—	—	—	—	—	—	—	(163,366)
Other	—	—	—	—	—	—	—	433
Net cash used in investing activities	(2,934)	(1,479)	(2,024)	(1,905)	(4,544)	(3,451)	(4,437)	(165,671)
Cash flows from financing activities:								
Proceeds from issuance of common stock in initial public offering, net of underwriting discounts	—	—	—	—	—	—	205,344	—
Payments of costs related to initial public offering	—	—	—	(31)	(1,443)	(1,453)	(670)	(770)
Proceeds from issuance of preferred stock, net of issuance costs	—	—	—	—	—	—	—	—
Proceeds from issuance of common stock upon exercise of stock options	337	649	429	1,556	1,211	960	2,174	640
Proceeds from issuance of common stock related to early exercised stock options	—	—	—	4,701	—	869	—	—
Repurchase of unvested common stock	—	—	—	—	(3,090)	—	—	(721)
Repayment of notes receivable from stockholders	395	—	1,461	—	—	—	5,346	—
Net cash provided by (used in) financing activities	732	649	1,890	6,226	(3,322)	376	212,194	(851)
Net increase (decrease) in cash and cash equivalents	(4,154)	(1,432)	109	613	(12,218)	(4,191)	215,874	(151,864)
Cash and cash equivalents at beginning of period	92,842	88,688	87,256	87,365	87,978	75,760	71,569	287,443
Cash and cash equivalents at end of period	\$ 88,688	\$ 87,256	\$ 87,365	\$ 87,978	\$ 75,760	\$ 71,569	\$ 287,443	\$ 135,579

Zscaler, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

(In thousands, except per percentage data and per share data)

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
GAAP gross profit	\$ 20,856	\$ 22,912	\$ 25,967	\$ 28,510	\$ 31,590	\$ 36,297	\$ 39,739	\$ 44,673
Stock-based compensation expense	51	88	106	103	109	126	199	323
Non-GAAP total gross profit	<u>\$ 20,907</u>	<u>\$ 23,000</u>	<u>\$ 26,073</u>	<u>\$ 28,613</u>	<u>\$ 31,699</u>	<u>\$ 36,423</u>	<u>\$ 39,938</u>	<u>\$ 44,996</u>
Non-GAAP total gross margin	78.1 %	78.2 %	79.1 %	78.3 %	79.5 %	81.0 %	81.2 %	80.1 %
GAAP sales and marketing expense	\$ 17,116	\$ 17,796	\$ 20,689	\$ 23,635	\$ 26,928	\$ 27,110	\$ 29,892	\$ 32,479
Stock-based compensation expense	515	721	762	796	785	985	1,493	1,781
Non-GAAP sales and marketing expense	<u>\$ 16,601</u>	<u>\$ 17,075</u>	<u>\$ 19,927</u>	<u>\$ 22,839</u>	<u>\$ 26,143</u>	<u>\$ 26,125</u>	<u>\$ 28,399</u>	<u>\$ 30,698</u>
Non-GAAP sales and marketing expense as a percentage of revenue	62.0 %	58.0 %	60.5 %	62.5 %	65.6 %	58.1 %	57.8 %	54.6 %
GAAP research and development expense	\$ 6,141	\$ 11,033	\$ 7,778	\$ 8,609	\$ 8,809	\$ 9,183	\$ 9,907	\$ 11,480
Stock-based compensation expense	274	4,651	306	343	398	494	960	1,193
Non-GAAP research and development expense	<u>\$ 5,867</u>	<u>\$ 6,382</u>	<u>\$ 7,472</u>	<u>\$ 8,266</u>	<u>\$ 8,411</u>	<u>\$ 8,689</u>	<u>\$ 8,947</u>	<u>\$ 10,287</u>
Non-GAAP research and development expense as a percentage of revenue	21.9 %	21.7 %	22.7 %	22.6 %	21.1 %	19.3 %	18.2 %	18.3 %
GAAP general and administrative expense	\$ 2,753	\$ 3,387	\$ 5,061	\$ 9,320	\$ 7,130	\$ 6,403	\$ 8,964	\$ 8,638
Stock-based compensation expense	184	266	412	341	441	459	657	821
Litigation-related expenses	42	478	1,006	4,301	2,146	1,630	2,836	1,427
Non-GAAP general and administrative expense	<u>\$ 2,527</u>	<u>\$ 2,643</u>	<u>\$ 3,643</u>	<u>\$ 4,678</u>	<u>\$ 4,543</u>	<u>\$ 4,314</u>	<u>\$ 5,471</u>	<u>\$ 6,390</u>
Non-GAAP general and administrative expense as a percentage of revenue	9.4 %	9.0 %	11.1 %	12.8 %	11.4 %	9.6 %	11.1 %	11.4 %
GAAP total operating expenses	\$ 26,010	\$ 32,216	\$ 33,528	\$ 41,564	\$ 42,867	\$ 42,696	\$ 48,763	\$ 52,597
Stock-based compensation expense	973	5,638	1,480	1,480	1,624	1,938	3,110	3,795
Litigation-related expenses	42	478	1,006	4,301	2,146	1,630	2,836	1,427
Non-GAAP total operating expenses	<u>\$ 24,995</u>	<u>\$ 26,100</u>	<u>\$ 31,042</u>	<u>\$ 35,783</u>	<u>\$ 39,097</u>	<u>\$ 39,128</u>	<u>\$ 42,817</u>	<u>\$ 47,375</u>
Non-GAAP total operating expenses as a percentage of revenue	93.3 %	88.7 %	94.2 %	97.9 %	98.1 %	87.0 %	87.1 %	84.3 %
GAAP loss from operations	\$ (5,154)	\$ (9,304)	\$ (7,561)	\$ (13,054)	\$ (11,277)	\$ (6,399)	\$ (9,024)	\$ (7,924)
Stock-based compensation expense	1,024	5,726	1,586	1,583	1,733	2,064	3,309	4,118
Litigation-related expenses	42	478	1,006	4,301	2,146	1,630	2,836	1,427
Non-GAAP loss from operations	<u>\$ (4,088)</u>	<u>\$ (3,100)</u>	<u>\$ (4,969)</u>	<u>\$ (7,170)</u>	<u>\$ (7,398)</u>	<u>\$ (2,705)</u>	<u>\$ (2,879)</u>	<u>\$ (2,379)</u>

Zscaler, Inc.

GAAP to Non-GAAP Reconciliations - Fiscal Quarters

(In thousands, except per percentage data and per share data)

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Non-GAAP operating margin	(15.3)%	(10.5)%	(15.1)%	(19.6)%	(18.6)%	(6.0)%	(5.9)%	(4.2)%
GAAP net loss	\$ (5,241)	\$ (9,388)	\$ (7,562)	\$ (13,269)	\$ (11,398)	\$ (6,515)	\$ (8,771)	\$ (6,962)
Stock-based compensation expense	1,024	5,726	1,586	1,583	1,733	2,064	3,309	4,118
Litigation-related expenses	42	478	1,006	4,301	2,146	1,630	2,836	1,427
Income tax expense effects ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net loss	\$ (4,175)	\$ (3,184)	\$ (4,970)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)
GAAP net loss attributable to common stockholders	\$ (7,585)	\$ (11,777)	\$ (9,917)	\$ (15,751)	\$ (13,928)	\$ (9,094)	\$ (9,994)	\$ (6,962)
Stock-based compensation expense	1,024	5,726	1,586	1,583	1,733	2,064	3,309	4,118
Litigation-related expenses	42	478	1,006	4,301	2,146	1,630	2,836	1,427
Accretion of Series C and D redeemable convertible preferred stock	2,344	2,389	2,355	2,482	2,530	2,579	1,223	—
Income tax expense effects ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net loss attributable to common stockholders	\$ (4,175)	\$ (3,184)	\$ (4,970)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)
GAAP net loss per share attributable to common stockholders, basic and diluted	\$ (0.27)	\$ (0.41)	\$ (0.34)	\$ (0.52)	\$ (0.45)	\$ (0.29)	\$ (0.14)	\$ (0.06)
Stock-based compensation expense	0.04	0.20	0.05	0.05	0.06	0.07	0.04	0.03
Litigation-related expenses	—	0.02	0.03	0.14	0.07	0.05	0.04	0.01
Accretion of Series C and D redeemable convertible preferred stock	0.08	0.08	0.08	0.08	0.08	0.08	0.02	—
Income tax expense effects ⁽¹⁾	—	—	—	—	—	—	—	—
Non-GAAP net loss per share attributable to common stockholders, basic and diluted ⁽²⁾	\$ (0.15)	\$ (0.11)	\$ (0.17)	\$ (0.25)	\$ (0.24)	\$ (0.09)	\$ (0.04)	\$ (0.01)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽³⁾	28,198	28,867	29,583	30,102	30,793	31,434	73,818	119,204
Numerator:								
Non-GAAP net loss attributable to common stockholders (from above)	\$ (4,175)	\$ (3,184)	\$ (4,970)	\$ (7,385)	\$ (7,519)	\$ (2,821)	\$ (2,626)	\$ (1,417)
Denominator:								
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted ⁽³⁾	28,198	28,867	29,583	30,102	30,793	31,434	73,818	119,204

Zscaler, Inc.**GAAP to Non-GAAP Reconciliations - Fiscal Quarters****(In thousands, except per percentage data and per share data)**

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Pro forma adjustment to reflect assumed conversion of our convertible preferred stock as of the beginning of the period ⁽⁴⁾	72,501	72,501	72,500	72,501	72,500	72,501	38,287	—
Weighted-average shares used in computing pro forma non-GAAP net loss per share attributable to common stockholders, basic and diluted ⁽⁴⁾	100,699	101,368	102,083	102,603	103,293	103,935	112,105	119,204
Pro forma non-GAAP net loss per share attributable to common stockholders, basic and diluted ⁽⁴⁾	\$ (0.04)	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.03)	\$ (0.02)	\$ (0.01)

⁽¹⁾ We do not include the effects of income taxes on non-GAAP items due to our continued history of non-GAAP losses and full valuation allowance.

⁽²⁾ The sum of the non-GAAP per share attributable to common stockholders of individual line items excluded from our non-GAAP net loss may not total to the non-GAAP net loss per share attributable to common stockholders due to rounding.

⁽³⁾ Since we have reported 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.

⁽⁴⁾ We define pro forma non-GAAP net loss per share attributable to common stockholders as the weighted-average shares used in computing the net loss per share attributable to common stockholders plus a pro forma adjustment to give effect to the automatic conversion of our redeemable convertible preferred stock into 72,500,750 shares of common stock as though the conversion had occurred as of the beginning of the periods presented. Upon the closing of our initial public offering on March 20, 2018, all our outstanding shares of redeemable convertible preferred stock automatically converted into 72,500,750 shares of common stock on a one-to-one basis.

Zscaler, Inc.**Non-GAAP Free Cash Flow and Free Cash Flow Margin - Fiscal Quarter****(In thousands, except per percentage data)**

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Non-GAAP Free Cash Flows								
Net cash provided by (used in) operating activities	\$ (1,952)	\$ (602)	\$ 243	\$ (3,708)	\$ (4,352)	\$ (1,116)	\$ 8,117	\$ 14,658
Less: Purchases of property and equipment	(2,934)	(1,479)	(1,878)	(1,492)	(4,010)	(3,035)	(3,963)	(2,389)
Less: Capitalized internal-use software costs	—	—	(146)	(245)	(534)	(416)	(474)	(349)
Free cash flow	<u>\$ (4,886)</u>	<u>\$ (2,081)</u>	<u>\$ (1,781)</u>	<u>\$ (5,445)</u>	<u>\$ (8,896)</u>	<u>\$ (4,567)</u>	<u>\$ 3,680</u>	<u>\$ 11,920</u>
Free Cash Flow Margin								
Net cash provided by (used in) operating activities, as a percentage of revenue	(7)%	(2)%	1 %	(10)%	(11)%	(2)%	16%	26%
Less: Purchases of property and equipment, as a percentage of revenue	(11)	(5)	(6)	(4)	(10)	(7)	(8)	(4)
Less: Capitalized internal-use software costs, as a percentage of revenue	—	—	—	(1)	(1)	(1)	(1)	(1)
Free cash flow margin	<u>(18)%</u>	<u>(7)%</u>	<u>(5)%</u>	<u>(15)%</u>	<u>(22)%</u>	<u>(10)%</u>	<u>7%</u>	<u>21%</u>

Zscaler, Inc.**Non-GAAP Calculated Billings - Fiscal Quarters****(In thousands, except per percentage data)**

Fiscal Quarter	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18
End of Fiscal Quarter (MM/DD/YYYY)	10/31/2016	1/31/2017	4/30/2017	7/31/2017	10/31/2017	1/31/2018	4/30/2018	7/31/2018
Beginning of Fiscal Quarter (MM/DD/YYYY)	8/1/2016	11/1/2016	2/1/2017	5/1/2017	8/1/2017	11/1/2017	2/1/2018	5/1/2018
Calculated Billings								
Total revenue	\$ 26,782	\$ 29,427	\$ 32,964	\$ 36,544	\$ 39,861	\$ 44,976	\$ 49,163	\$ 56,174
Add: Total deferred revenue, end of period	64,324	79,091	77,740	96,619	98,266	119,257	124,806	164,023
Less: Total deferred revenue, beginning of period	(65,913)	(64,324)	(79,091)	(77,740)	(96,619)	(98,266)	(119,257)	(124,806)
Calculated billings	<u>\$ 25,193</u>	<u>\$ 44,194</u>	<u>\$ 31,613</u>	<u>\$ 55,423</u>	<u>\$ 41,508</u>	<u>\$ 65,967</u>	<u>\$ 54,712</u>	<u>\$ 95,391</u>
Year-over-year growth - calculated billings	93%	54%	49%	65%	65%	49%	73%	72%