

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 the Company's historical non-GAAP financial measures to their most directly comparable financial measure 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 will present employer payroll taxes related to employee equity award transactions, which is a cash expense, as a part of stock-based compensation expense. These payroll taxes will be 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. Amortization expense of acquired intangible assets is excluded because these are considered by management to be outside of the Company's 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 the convertible senior notes is 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 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, amortization expense of acquired intangible assets, asset impairment related to facility exit and certain litigation-related expenses. We defined 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, 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.

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 - Fiscal Quarters
(in thousands, except per share amounts)
(unaudited)

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| Revenue | \$ 63,298 | \$ 74,302 | \$ 79,128 | \$ 86,108 | \$ 93,590 | \$ 101,268 | \$ 110,524 | \$ 125,887 |
| Cost of revenue ⁽¹⁾⁽²⁾ | 12,099 | 15,271 | 14,960 | 17,339 | 19,558 | 20,238 | 24,579 | 31,358 |
| Gross profit | 51,199 | 59,031 | 64,168 | 68,769 | 74,032 | 81,030 | 85,945 | 94,529 |
| Operating expenses: | | | | | | | | |
| Sales and marketing ⁽¹⁾⁽²⁾ | 36,545 | 38,756 | 45,295 | 49,317 | 59,411 | 61,621 | 67,727 | 89,222 |
| Research and development ⁽¹⁾⁽²⁾ | 13,186 | 15,071 | 16,499 | 17,213 | 20,271 | 20,706 | 24,117 | 32,785 |
| General and administrative ⁽¹⁾⁽³⁾⁽⁴⁾ | 10,131 | 10,386 | 15,911 | 10,170 | 12,625 | 28,983 | 14,615 | 17,409 |
| Total operating expenses | 59,862 | 64,213 | 77,705 | 76,700 | 92,307 | 111,310 | 106,459 | 139,416 |
| Loss from operations | (8,663) | (5,182) | (13,537) | (7,931) | (18,275) | (30,280) | (20,514) | (44,887) |
| Interest income | 1,590 | 1,924 | 2,081 | 2,135 | 2,022 | 1,855 | 1,528 | 1,072 |
| Interest expense ⁽⁵⁾ | — | — | — | — | — | — | — | (5,025) |
| Other income (expense), net | (188) | 250 | (144) | (247) | (29) | (13) | 70 | (252) |
| Loss before income taxes | (7,261) | (3,008) | (11,600) | (6,043) | (16,282) | (28,438) | (18,916) | (49,092) |
| Provision (benefit) for income taxes | 327 | 547 | 636 | (767) | 794 | 716 | 421 | 457 |
| Net loss | \$ (7,588) | \$ (3,555) | \$ (12,236) | \$ (5,276) | \$ (17,076) | \$ (29,154) | \$ (19,337) | \$ (49,549) |
| Net loss per share, basic and diluted | \$ (0.06) | \$ (0.03) | \$ (0.10) | \$ (0.04) | \$ (0.13) | \$ (0.23) | \$ (0.15) | \$ (0.38) |
| Weighted-average shares used in computing net loss per share, basic and diluted ⁽⁶⁾ | 120,587 | 122,741 | 124,672 | 126,302 | 127,548 | 128,408 | 129,682 | 131,660 |

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

| | | | | | | | | |
|----------------------------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cost of revenue | \$ 503 | \$ 619 | \$ 686 | \$ 1,118 | \$ 1,381 | \$ 1,580 | \$ 1,614 | \$ 2,743 |
| Sales and marketing | 2,801 | 5,517 | 6,459 | 8,341 | 10,039 | 11,943 | 15,119 | 29,438 |
| Research and development | 2,795 | 4,398 | 4,194 | 3,703 | 4,874 | 6,077 | 6,738 | 12,484 |
| General and administrative | 1,487 | 2,693 | 1,936 | (827) | 2,082 | 4,266 | 4,299 | 6,718 |
| Total | \$ 7,586 | \$ 13,227 | \$ 13,275 | \$ 12,335 | \$ 18,376 | \$ 23,866 | \$ 27,770 | \$ 51,383 |

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

| | | | | | | | | |
|--------------------------|-------|--------|--------|--------|--------|--------|--------|----------|
| Cost of revenue | \$ — | \$ 144 | \$ 163 | \$ 205 | \$ 205 | \$ 205 | \$ 348 | \$ 1,272 |
| Sales and marketing | — | — | 3 | 7 | 8 | 8 | 8 | 50 |
| Research and development | 95 | — | — | 291 | 566 | 429 | 285 | — |
| Total | \$ 95 | \$ 144 | \$ 166 | \$ 503 | \$ 779 | \$ 642 | \$ 641 | \$ 1,322 |

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

| | | | | | | | | |
|--|------|------|------|------|------|--------|--------|------|
| | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 316 | \$ 430 | \$ — |
|--|------|------|------|------|------|--------|--------|------|

⁽⁴⁾ Includes litigation-related expenses as follows:

| | | | | | | | | |
|--|----------|----------|----------|----------|----------|-----------|-------|------|
| | \$ 2,174 | \$ 1,768 | \$ 6,164 | \$ 2,973 | \$ 2,007 | \$ 16,334 | \$ 12 | \$ 3 |
|--|----------|----------|----------|----------|----------|-----------|-------|------|

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

| | | | | | | | | |
|--|------|------|------|------|------|------|------|----------|
| | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 4,885 |
|--|------|------|------|------|------|------|------|----------|

⁽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 - Fiscal Quarters***(in thousands, except per share amounts)**(unaudited)*

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| Revenue | \$ 63,298 | \$ 74,302 | \$ 79,128 | \$ 86,108 | \$ 93,590 | \$ 101,268 | \$ 110,524 | \$ 125,887 |
| Cost of revenue | 11,596 | 14,508 | 14,111 | 16,016 | 17,972 | 18,453 | 22,617 | 27,343 |
| Gross profit | 51,702 | 59,794 | 65,017 | 70,092 | 75,618 | 82,815 | 87,907 | 98,544 |
| Operating expenses: | | | | | | | | |
| Sales and marketing | 33,744 | 33,239 | 38,833 | 40,969 | 49,364 | 49,670 | 52,600 | 59,734 |
| Research and development | 10,296 | 10,673 | 12,305 | 13,219 | 14,831 | 14,200 | 17,094 | 20,301 |
| General and administrative | 6,470 | 5,925 | 7,811 | 8,024 | 8,536 | 8,067 | 9,874 | 10,688 |
| Total operating expenses | 50,510 | 49,837 | 58,949 | 62,212 | 72,731 | 71,937 | 79,568 | 90,723 |
| Income from operations | 1,192 | 9,957 | 6,068 | 7,880 | 2,887 | 10,878 | 8,339 | 7,821 |
| Interest income | 1,590 | 1,924 | 2,081 | 2,135 | 2,022 | 1,855 | 1,528 | 1,072 |
| Interest expense | — | — | — | — | — | — | — | (140) |
| Other income (expense), net | (188) | 250 | (144) | (247) | (29) | (13) | 70 | (252) |
| Income before income taxes | 2,594 | 12,131 | 8,005 | 9,768 | 4,880 | 12,720 | 9,937 | 8,501 |
| Provision for income taxes ⁽¹⁾ | 327 | 547 | 636 | 655 | 794 | 716 | 911 | 1,077 |
| Non-GAAP net income | \$ 2,267 | \$ 11,584 | \$ 7,369 | \$ 9,113 | \$ 4,086 | \$ 12,004 | \$ 9,026 | \$ 7,424 |
| Non-GAAP net income per share, diluted | \$ 0.02 | \$ 0.09 | \$ 0.05 | \$ 0.07 | \$ 0.03 | \$ 0.09 | \$ 0.07 | \$ 0.05 |
| Weighted-average shares used in computing non-GAAP net income per share, diluted | 133,845 | 134,246 | 136,538 | 137,545 | 136,860 | 136,663 | 137,873 | 141,465 |

⁽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 - Fiscal Quarters

(in thousands)

(unaudited)

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 (*) | 1/31/2020 (*) | 4/30/2020 (*) | 7/31/2020 (*) |
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$ 42,786 | \$ 67,467 | \$ 54,974 | \$ 78,484 | \$ 69,346 | \$ 76,534 | \$ 124,592 | \$ 141,851 |
| Short-term investments | 271,254 | 272,476 | 297,762 | 286,162 | 308,285 | 308,380 | 266,722 | 1,228,722 |
| Accounts receivable, net | 49,228 | 75,470 | 71,151 | 93,341 | 70,482 | 94,784 | 105,583 | 147,584 |
| Deferred contract acquisition costs | 16,387 | 18,058 | 19,391 | 21,219 | 22,060 | 23,527 | 26,316 | 32,240 |
| Prepaid expenses and other current assets | 11,949 | 12,540 | 12,765 | 16,880 | 18,713 | 19,917 | 28,903 | 31,396 |
| Total current assets | 391,604 | 446,011 | 456,043 | 496,086 | 488,886 | 523,142 | 552,116 | 1,581,793 |
| Property and equipment, net | 24,132 | 25,762 | 31,976 | 41,046 | 48,361 | 52,355 | 63,297 | 75,734 |
| Operating lease right-of-use assets | — | — | — | — | 32,585 | 32,142 | 35,128 | 36,119 |
| Deferred contract acquisition costs, noncurrent | 39,591 | 42,543 | 44,714 | 48,566 | 48,366 | 50,523 | 58,024 | 77,675 |
| Acquired intangible assets, net | 1,621 | 1,477 | 2,211 | 8,708 | 7,929 | 7,287 | 10,146 | 24,024 |
| Goodwill | — | — | 198 | 7,479 | 7,479 | 7,479 | 13,350 | 30,059 |
| Other noncurrent assets | 1,146 | 2,320 | 2,394 | 2,277 | 2,622 | 3,497 | 3,903 | 8,054 |
| Total assets | \$ 458,094 | \$ 518,113 | \$ 537,536 | \$ 604,162 | \$ 636,228 | \$ 676,425 | \$ 735,964 | \$ 1,833,458 |

Liabilities and stockholders' equity

Current liabilities:

| | | | | | | | | |
|--|----------|----------|----------|----------|----------|----------|----------|-----------|
| Accounts payable | \$ 4,573 | \$ 3,459 | \$ 3,585 | \$ 6,208 | \$ 3,784 | \$ 2,675 | \$ 9,392 | \$ 5,233 |
| Accrued expenses and other current liabilities | 16,174 | 14,906 | 12,510 | 12,810 | 12,003 | 13,606 | 14,366 | 16,361 |
| Accrued compensation | 18,686 | 15,541 | 21,845 | 21,544 | 22,926 | 25,019 | 34,215 | 49,444 |
| Deferred revenue | 144,472 | 176,326 | 183,622 | 221,387 | 218,191 | 251,221 | 274,726 | 337,263 |
| Operating lease liabilities | — | — | — | — | 9,413 | 11,142 | 12,939 | 15,600 |
| Total current liabilities | 183,905 | 210,232 | 221,562 | 261,949 | 266,317 | 303,663 | 345,638 | 423,901 |
| Convertible senior notes, net | — | — | — | — | — | — | — | 861,615 |
| Deferred revenue, noncurrent | 20,807 | 29,694 | 27,920 | 29,815 | 27,678 | 28,801 | 26,065 | 32,504 |
| Operating lease liabilities, noncurrent | — | — | — | — | 24,825 | 23,300 | 27,909 | 28,023 |
| Other noncurrent liabilities | 1,204 | 1,114 | 1,475 | 3,840 | 3,356 | 1,497 | 1,558 | 2,586 |
| Total liabilities | 205,916 | 241,040 | 250,957 | 295,604 | 322,176 | 357,261 | 401,170 | 1,348,629 |

Stockholders' equity

| | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|--------------|
| Common stock | 122 | 124 | 126 | 127 | 128 | 129 | 130 | 133 |
| Additional paid-in capital | 455,761 | 483,951 | 505,531 | 532,618 | 555,019 | 589,229 | 623,859 | 823,804 |
| Accumulated other comprehensive income (loss) | (317) | (59) | 101 | 268 | 436 | 491 | 827 | 463 |
| Accumulated deficit | (203,388) | (206,943) | (219,179) | (224,455) | (241,531) | (270,685) | (290,022) | (339,571) |
| Total stockholders' equity | 252,178 | 277,073 | 286,579 | 308,558 | 314,052 | 319,164 | 334,794 | 484,829 |
| Total liabilities and stockholders' equity | \$ 458,094 | \$ 518,113 | \$ 537,536 | \$ 604,162 | \$ 636,228 | \$ 676,425 | \$ 735,964 | \$ 1,833,458 |

(*) On August 1, 2019, 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 prior periods are not comparable to our fiscal 2020 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 - Fiscal Quarters (in thousands) (unaudited)

| Fiscal Reporting Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|--------------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4//30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 1/11/2019 | 2/1/2020 | 5/1/2020 |
| Cash flows from operating activities | | | | | | | | |
| Net loss | \$ (7,588) | \$ (3,555) | \$ (12,236) | \$ (5,276) | \$ (17,076) | \$ (29,154) | \$ (19,337) | \$ (49,549) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | | | | | | | |
| Depreciation and amortization expense | 2,170 | 2,492 | 2,669 | 3,067 | 3,582 | 3,926 | 4,770 | 5,456 |
| Impairment of assets | — | — | — | — | — | 316 | 430 | — |
| Amortization expense of acquired intangible assets | 95 | 144 | 166 | 503 | 779 | 642 | 641 | 1,322 |
| Amortization of deferred contract acquisition costs | 4,324 | 4,457 | 4,724 | 5,146 | 5,535 | 5,890 | 6,248 | 7,249 |
| Amortization of debt discount and issuance costs | — | — | — | — | — | — | — | 4,885 |
| Noncash operating lease costs | — | — | — | — | 2,951 | 3,264 | 3,434 | 3,906 |
| Stock-based compensation expense | 7,586 | 13,227 | 13,275 | 12,335 | 18,376 | 23,866 | 27,770 | 51,383 |
| Deferred income taxes | — | — | — | (1,392) | (49) | 49 | (555) | (617) |
| Amortization (accretion) of investments purchased at a premium (discount) | (493) | (632) | (577) | (479) | (300) | (142) | (21) | 513 |
| Other | 176 | 26 | 42 | 40 | 223 | 25 | 57 | 16 |
| Changes in operating assets and liabilities, net of effects of business acquisitions: | | | | | | | | |
| Accounts receivable | 12,383 | (26,242) | 4,319 | (22,190) | 22,859 | (24,291) | (10,786) | (42,004) |
| Deferred contract acquisition costs | (4,392) | (9,080) | (8,228) | (10,826) | (6,176) | (9,514) | (16,538) | (32,824) |
| Prepaid expenses, other current and noncurrent assets | (1,138) | (1,640) | (583) | (4,281) | (2,471) | (1,510) | (9,384) | (215) |
| Accounts payable | (768) | (18) | 175 | 1,106 | (38) | (565) | 2,526 | (1,061) |
| Accrued expenses, other current and noncurrent liabilities | 2,110 | (1,068) | (2,089) | 711 | (466) | (777) | 1,903 | 1,632 |
| Accrued compensation | (4,707) | (3,145) | 6,304 | (301) | 1,382 | 2,093 | 9,196 | 15,229 |
| Deferred revenue | 1,256 | 40,741 | 5,522 | 39,660 | (5,333) | 34,153 | 20,761 | 68,436 |
| Operating lease liabilities | — | — | — | — | (2,349) | (2,840) | (293) | (2,122) |
| Net cash provided by operating activities | 11,014 | 15,707 | 13,483 | 17,823 | 21,429 | 5,431 | 20,822 | 31,635 |
| Cash flows from investing activities: | | | | | | | | |
| Purchases of property, equipment and other assets | (5,414) | (3,193) | (8,091) | (8,822) | (10,210) | (4,889) | (9,694) | (18,279) |
| Capitalized internal-use software | (356) | (547) | (810) | (1,449) | (1,802) | (2,471) | (2,023) | (2,441) |
| Acquired intangible assets | (1,480) | — | — | — | — | — | — | — |
| 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 | (137,429) | (42,467) | (92,428) | (62,862) | (88,410) | (59,133) | (55,221) | (1,052,865) |
| Proceeds from maturities of short-term investments | 29,333 | 42,270 | 67,758 | 60,355 | 66,796 | 59,217 | 83,212 | 80,560 |
| Proceeds from sale of short-term investments | — | — | — | 14,990 | — | — | 14,084 | 7,008 |
| Net cash provided by (used in) investing activities | (115,346) | (3,937) | (34,394) | (8,397) | (33,626) | (7,276) | 21,440 | (1,018,700) |
| Cash flows from financing activities: | | | | | | | | |
| Payments of offering costs related to initial public offering | (230) | (1,567) | — | — | — | — | — | — |
| Proceeds from issuance of common stock upon exercise of stock options | 9,796 | 5,697 | 8,030 | 6,339 | 3,059 | 3,699 | 5,796 | 9,048 |
| Proceeds from issuance of common stock under the employee stock purchase plan | — | 8,691 | — | 7,745 | — | 5,334 | — | 9,999 |
| 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) |
| Repurchase of unvested common stock | (22) | — | — | — | — | — | — | — |
| Repayment of notes receivable from stockholders | 1,905 | — | — | — | — | — | — | — |
| Net cash provided by (used in) financing activities | 11,449 | 12,821 | 8,030 | 14,084 | 3,059 | 9,033 | 5,796 | 1,004,324 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (92,883) | 24,591 | (12,881) | 23,510 | (9,138) | 7,188 | 48,058 | 17,259 |
| Cash, cash equivalents and restricted cash at beginning of period | 136,147 | 43,264 | 67,855 | 54,974 | 78,484 | 69,346 | 76,534 | 124,592 |
| Cash, cash equivalents and restricted cash at end of period | \$ 43,264 | \$ 67,855 | \$ 54,974 | \$ 78,484 | \$ 69,346 | \$ 76,534 | \$ 124,592 | \$ 141,851 |
| Reconciliation of cash, cash equivalents and restricted cash with condensed consolidated balance sheets: | | | | | | | | |
| Cash and cash equivalents | \$ 42,786 | \$ 67,467 | \$ 54,974 | \$ 78,484 | \$ 69,346 | \$ 76,534 | \$ 124,592 | \$ 141,851 |
| Restricted cash, current | 186 | 96 | — | — | — | — | — | — |
| Restricted cash, non-current | 292 | 292 | — | — | — | — | — | — |
| Total cash, cash equivalents and restricted cash | \$ 43,264 | \$ 67,855 | \$ 54,974 | \$ 78,484 | \$ 69,346 | \$ 76,534 | \$ 124,592 | \$ 141,851 |

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

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| GAAP gross profit | <u>\$ 51,199</u> | <u>\$ 59,031</u> | <u>\$ 64,168</u> | <u>\$ 68,769</u> | <u>\$ 74,032</u> | <u>\$ 81,030</u> | <u>\$ 85,945</u> | <u>\$ 94,529</u> |
| Stock-based compensation expense | 503 | 619 | 686 | 1,118 | 1,381 | 1,580 | 1,614 | 2,743 |
| Amortization expense of acquired intangible assets | — | 144 | 163 | 205 | 205 | 205 | 348 | 1,272 |
| Non-GAAP gross profit | <u>\$ 51,702</u> | <u>\$ 59,794</u> | <u>\$ 65,017</u> | <u>\$ 70,092</u> | <u>\$ 75,618</u> | <u>\$ 82,815</u> | <u>\$ 87,907</u> | <u>\$ 98,544</u> |
| Non-GAAP gross margin | <u>82 %</u> | <u>80 %</u> | <u>82 %</u> | <u>81 %</u> | <u>81 %</u> | <u>82 %</u> | <u>80 %</u> | <u>78 %</u> |
| GAAP sales and marketing expense | <u>\$ 36,545</u> | <u>\$ 38,756</u> | <u>\$ 45,295</u> | <u>\$ 49,317</u> | <u>\$ 59,411</u> | <u>\$ 61,621</u> | <u>\$ 67,727</u> | <u>\$ 89,222</u> |
| Stock-based compensation expense | 2,801 | 5,517 | 6,459 | 8,341 | 10,039 | 11,943 | 15,119 | 29,438 |
| Amortization expense of acquired intangible assets | — | — | 3 | 7 | 8 | 8 | 8 | 50 |
| Non-GAAP sales and marketing expense | <u>\$ 33,744</u> | <u>\$ 33,239</u> | <u>\$ 38,833</u> | <u>\$ 40,969</u> | <u>\$ 49,364</u> | <u>\$ 49,670</u> | <u>\$ 52,600</u> | <u>\$ 59,734</u> |
| Non-GAAP sales and marketing expense as a percentage of revenue | <u>53 %</u> | <u>45 %</u> | <u>49 %</u> | <u>48 %</u> | <u>53 %</u> | <u>49 %</u> | <u>48 %</u> | <u>47 %</u> |
| GAAP research and development expense | <u>\$ 13,186</u> | <u>\$ 15,071</u> | <u>\$ 16,499</u> | <u>\$ 17,213</u> | <u>\$ 20,271</u> | <u>\$ 20,706</u> | <u>\$ 24,117</u> | <u>\$ 32,785</u> |
| Stock-based compensation expense | 2,795 | 4,398 | 4,194 | 3,703 | 4,874 | 6,077 | 6,738 | 12,484 |
| Amortization expense of acquired intangible assets | 95 | — | — | 291 | 566 | 429 | 285 | — |
| Non-GAAP research and development expense | <u>\$ 10,296</u> | <u>\$ 10,673</u> | <u>\$ 12,305</u> | <u>\$ 13,219</u> | <u>\$ 14,831</u> | <u>\$ 14,200</u> | <u>\$ 17,094</u> | <u>\$ 20,301</u> |
| Non-GAAP research and development expense as a percentage of revenue | <u>16 %</u> | <u>14 %</u> | <u>16 %</u> | <u>15 %</u> | <u>16 %</u> | <u>14 %</u> | <u>15 %</u> | <u>16 %</u> |
| GAAP general and administrative expense | <u>\$ 10,131</u> | <u>\$ 10,386</u> | <u>\$ 15,911</u> | <u>\$ 10,170</u> | <u>\$ 12,625</u> | <u>\$ 28,983</u> | <u>\$ 14,615</u> | <u>\$ 17,409</u> |
| Stock-based compensation expense | 1,487 | 2,693 | 1,936 | (827) | 2,082 | 4,266 | 4,299 | 6,718 |
| Litigation-related expenses | 2,174 | 1,768 | 6,164 | 2,973 | 2,007 | 16,334 | 12 | 3 |
| Asset impairment related to facility exit ⁽¹⁾ | — | — | — | — | — | 316 | 430 | — |
| Non-GAAP general and administrative expense | <u>\$ 6,470</u> | <u>\$ 5,925</u> | <u>\$ 7,811</u> | <u>\$ 8,024</u> | <u>\$ 8,536</u> | <u>\$ 8,067</u> | <u>\$ 9,874</u> | <u>\$ 10,688</u> |
| Non-GAAP general and administrative expense as a percentage of revenue | <u>10 %</u> | <u>8 %</u> | <u>10 %</u> | <u>9 %</u> | <u>9 %</u> | <u>8 %</u> | <u>9 %</u> | <u>8 %</u> |
| GAAP total operating expenses | <u>\$ 59,862</u> | <u>\$ 64,213</u> | <u>\$ 77,705</u> | <u>\$ 76,700</u> | <u>\$ 92,307</u> | <u>\$ 111,310</u> | <u>\$ 106,459</u> | <u>\$ 139,416</u> |
| Stock-based compensation expense | 7,083 | 12,608 | 12,589 | 11,217 | 16,995 | 22,286 | 26,156 | 48,640 |
| Litigation-related expenses | 2,174 | 1,768 | 6,164 | 2,973 | 2,007 | 16,334 | 12 | 3 |
| Amortization expense of acquired intangible assets | 95 | — | 3 | 298 | 574 | 437 | 293 | 50 |
| Asset impairment related to facility exit ⁽¹⁾ | — | — | — | — | — | 316 | 430 | — |
| Non-GAAP total operating expenses | <u>\$ 50,510</u> | <u>\$ 49,837</u> | <u>\$ 58,949</u> | <u>\$ 62,212</u> | <u>\$ 72,731</u> | <u>\$ 71,937</u> | <u>\$ 79,568</u> | <u>\$ 90,723</u> |
| Non-GAAP total operating expenses as a percentage of revenue | <u>80 %</u> | <u>67 %</u> | <u>74 %</u> | <u>72 %</u> | <u>78 %</u> | <u>71 %</u> | <u>72 %</u> | <u>72 %</u> |

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| GAAP loss from operations | \$ (8,663) | \$ (5,182) | \$ (13,537) | \$ (7,931) | \$ (18,275) | \$ (30,280) | \$ (20,514) | \$ (44,887) |
| Stock-based compensation expense | 7,586 | 13,227 | 13,275 | 12,335 | 18,376 | 23,866 | 27,770 | 51,383 |
| Litigation-related expenses | 2,174 | 1,768 | 6,164 | 2,973 | 2,007 | 16,334 | 12 | 3 |
| Amortization expense of acquired intangible assets | 95 | 144 | 166 | 503 | 779 | 642 | 641 | 1,322 |
| Asset impairment related to facility exit ⁽¹⁾ | — | — | — | — | — | 316 | 430 | — |
| Non-GAAP income from operations | \$ 1,192 | \$ 9,957 | \$ 6,068 | \$ 7,880 | \$ 2,887 | \$ 10,878 | \$ 8,339 | \$ 7,821 |
| Non-GAAP operating margin | 2 % | 13 % | 8 % | 9 % | 3 % | 11 % | 8 % | 6 % |
| GAAP interest expense | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ (5,025) |
| Amortization of debt discount and issuance costs | — | — | — | — | — | — | — | 4,885 |
| Non-GAAP interest expense | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ (140) |
| Non-GAAP interest expense as a percentage of revenue | — % | — % | — % | — % | — % | — % | — % | — % |
| GAAP net loss | \$ (7,588) | \$ (3,555) | \$ (12,236) | \$ (5,276) | \$ (17,076) | \$ (29,154) | \$ (19,337) | \$ (49,549) |
| Stock-based compensation expense | 7,586 | 13,227 | 13,275 | 12,335 | 18,376 | 23,866 | 27,770 | 51,383 |
| Litigation-related expenses | 2,174 | 1,768 | 6,164 | 2,973 | 2,007 | 16,334 | 12 | 3 |
| Amortization expense of acquired intangible assets | 95 | 144 | 166 | 503 | 779 | 642 | 641 | 1,322 |
| Asset impairment related to facility exit ⁽¹⁾ | — | — | — | — | — | 316 | 430 | — |
| Amortization of debt discount and issuance costs | — | — | — | — | — | — | — | 4,885 |
| Provision (benefit) for income taxes ⁽²⁾ | — | — | — | (1,422) | — | — | (490) | (620) |
| Non-GAAP net income | \$ 2,267 | \$ 11,584 | \$ 7,369 | \$ 9,113 | \$ 4,086 | \$ 12,004 | \$ 9,026 | \$ 7,424 |
| GAAP net loss per share, basic and diluted | \$ (0.06) | \$ (0.03) | \$ (0.10) | \$ (0.04) | \$ (0.13) | \$ (0.23) | \$ (0.15) | \$ (0.38) |
| Stock-based compensation expense | 0.06 | 0.10 | 0.10 | 0.09 | 0.13 | 0.17 | 0.20 | 0.36 |
| Litigation-related expenses | 0.02 | 0.01 | 0.05 | 0.02 | 0.01 | 0.12 | — | — |
| Amortization expense of acquired intangible assets | — | — | — | — | 0.01 | — | — | 0.01 |
| Asset impairment related to facility exit ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Amortization of debt discount and issuance costs | — | — | — | — | — | — | — | 0.03 |
| Provision (benefit) for income taxes ⁽²⁾ | — | — | — | (0.01) | — | — | — | — |
| Adjustment to total fully diluted earnings per share ⁽³⁾ | — | 0.01 | — | 0.01 | 0.01 | 0.03 | 0.02 | 0.03 |
| Non-GAAP net income per share attributable to common stockholders, diluted | \$ 0.02 | \$ 0.09 | \$ 0.05 | \$ 0.07 | \$ 0.03 | \$ 0.09 | \$ 0.07 | \$ 0.05 |
| Weighted-average shares used in computing non-GAAP net income per share, diluted | 133,845 | 134,246 | 136,538 | 137,545 | 136,860 | 136,663 | 137,873 | 141,465 |

⁽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 basic share counts used to calculate the GAAP net loss per share as compared to fully diluted share count used for Non-GAAP net income per share, and due to rounding of individual line 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.

ZSCALER, INC.**Non-GAAP Free Cash Flow and Free Cash Flow Margin - Fiscal Quarter***(in thousands)**(unaudited)*

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|---|-----------------|------------------|-----------------|-----------------|-----------------|-------------------|-----------------|------------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| Non-GAAP Free Cash Flows | | | | | | | | |
| Net cash provided by operating activities | \$ 11,014 | \$ 15,707 | \$ 13,483 | \$ 17,823 | \$ 21,429 | \$ 5,431 | \$ 20,822 | \$ 31,635 |
| Less: Purchases of property, equipment and other assets | (5,414) | (3,193) | (8,091) | (8,822) | (10,210) | (4,889) | (9,694) | (18,279) |
| Less: Capitalized internal-use software costs | (356) | (547) | (810) | (1,449) | (1,802) | (2,471) | (2,023) | (2,441) |
| Free cash flow | <u>\$ 5,244</u> | <u>\$ 11,967</u> | <u>\$ 4,582</u> | <u>\$ 7,552</u> | <u>\$ 9,417</u> | <u>\$ (1,929)</u> | <u>\$ 9,105</u> | <u>\$ 10,915</u> |
| Free Cash Flow Margin | | | | | | | | |
| Net cash provided by operating activities, as a percentage of revenue | 17 % | 21 % | 17 % | 21 % | 23 % | 5 % | 19 % | 25 % |
| Less: Purchases of property, equipment and other assets, as a percentage of revenue | (8)% | (4)% | (10)% | (10)% | (11)% | (5)% | (9)% | (14)% |
| Less: Capitalized internal-use software costs, as a percentage of revenue | (1)% | (1)% | (1)% | (2)% | (2)% | (2)% | (2)% | (2)% |
| Free cash flow margin | <u>8 %</u> | <u>16 %</u> | <u>6 %</u> | <u>9 %</u> | <u>10 %</u> | <u>(2)%</u> | <u>8 %</u> | <u>9 %</u> |

ZSCALER, INC.**Non-GAAP Calculated Billings - Fiscal Quarters***(in thousands)**(unaudited)*

| Fiscal Quarter | Q1 FY19 | Q2 FY19 (*) | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|---|------------------|--------------------|------------------|-------------------|------------------|-------------------|-------------------|-------------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |
| Calculated Billings | | | | | | | | |
| Total revenue | \$ 63,298 | \$ 74,302 | \$ 79,128 | \$ 86,108 | \$ 93,590 | \$ 101,268 | \$ 110,524 | \$ 125,887 |
| Add: Total deferred revenue, end of period | 165,279 | 206,020 | 211,542 | 251,202 | 245,869 | 280,022 | 300,791 | 369,767 |
| Less: Total deferred revenue, beginning of period | (164,023) | (165,279) | (206,020) | (211,542) | (251,202) | (245,869) | (280,022) | (300,791) |
| Calculated billings | <u>\$ 64,554</u> | <u>\$ 115,043</u> | <u>\$ 84,650</u> | <u>\$ 125,768</u> | <u>\$ 88,257</u> | <u>\$ 135,421</u> | <u>\$ 131,293</u> | <u>\$ 194,863</u> |
| Year-over-year growth - calculated billings | 56 % | 74 % | 55 % | 32 % | 37 % | 18 % | 55 % | 55 % |

* Includes one large customer choosing to pay up-front for a multi-year, private cloud subscription of \$11.0 million in Q2 FY19.

ZSCALER, INC.**Change in Non-GAAP Measures Presentation Effective August 1, 2020 (Beginning of Fiscal 2021)****Employer Payroll Taxes Related to Employee Equity Award Transactions***(in thousands)**(unaudited)*

| Fiscal Quarter | Q1 FY19 | Q2 FY19 | Q3 FY19 | Q4 FY19 | Q1 FY20 | Q2 FY20 | Q3 FY20 | Q4 FY20 |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| End of Fiscal Quarter | 10/31/2018 | 1/31/2019 | 4/30/2019 | 7/31/2019 | 10/31/2019 | 1/31/2020 | 4/30/2020 | 7/31/2020 |
| Beginning of Fiscal Quarter | 8/1/2018 | 11/1/2018 | 2/1/2019 | 5/1/2019 | 8/1/2019 | 11/1/2019 | 2/1/2020 | 5/1/2020 |

Employer Payroll Taxes Related to Employee Equity Award Transactions

| | | | | | | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|
| Cost of revenue | \$ 194 | \$ 96 | \$ 73 | \$ 164 | \$ 33 | \$ 68 | \$ 58 | \$ 374 |
| Sales and Marketing | 1,036 | 1,666 | 1,859 | 1,532 | 547 | 1,090 | 676 | 2,616 |
| Research and development | 58 | 26 | 86 | 305 | 180 | 203 | 407 | 974 |
| General and administrative | 71 | 30 | 233 | 305 | 85 | 126 | 171 | 633 |
| Total | <u>\$ 1,359</u> | <u>\$ 1,818</u> | <u>\$ 2,251</u> | <u>\$ 2,306</u> | <u>\$ 845</u> | <u>\$ 1,487</u> | <u>\$ 1,312</u> | <u>\$ 4,597</u> |

Change in the Non-GAAP Measures Presentation

Effective August 1, 2020, the beginning of our fiscal year ending July 31, 2021, we will present employer payroll taxes related to employee equity award transactions, which is a cash expense, as part of stock-based compensation expense. These payroll taxes will be 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.