



Q4 Fiscal Year 2023 Earnings Call

September 5, 2023



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.

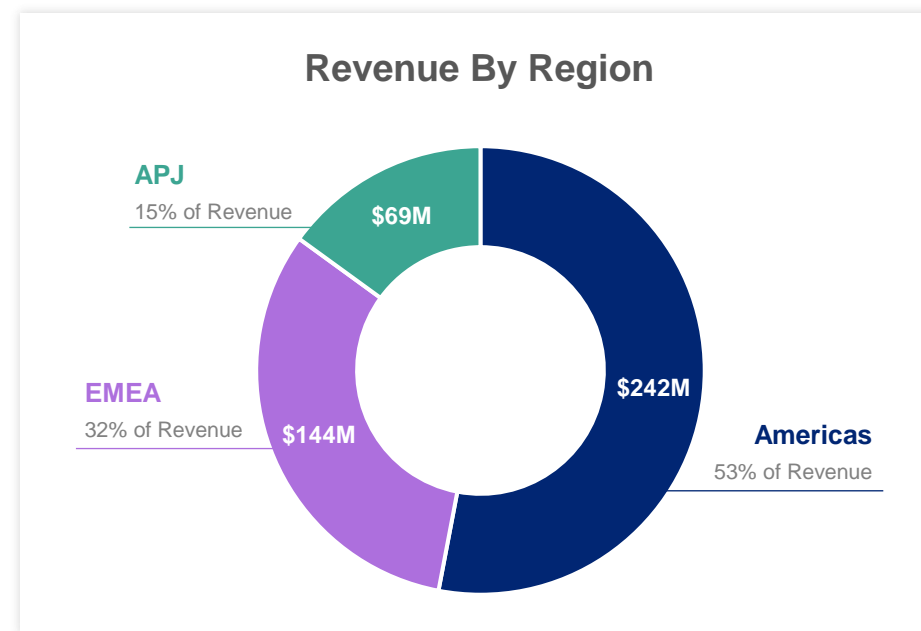
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This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the first quarter of fiscal 2024 and full year fiscal 2024, 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, geopolitical events and the COVID-19 pandemic 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.

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continue,” “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 Q4'23 Results

	Q4 Guidance	Q4 Results
Revenue	\$429M - \$431M 35%-36% y/y	\$455M 43% y/y
Calculated Billings		\$719M 38% y/y
Calculated Current Billings		\$677M 33% y/y
Gross Profit	Approx. 80% margin	\$367M 80.7% margin
Operating Profit	\$69M - \$70M Approx. 16% margin	\$86M 18.9% margin
EPS	\$0.49 96% y/y	\$0.64 156% y/y
Free Cash Flow		\$101M 22.3% margin



121% Dollar-based net retention rate	High 90% Gross retention rate
126% Operating profit Y/Y growth	21% Free cash flow margin for trailing twelve months

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

Fiscal Year 2023 Results

	Initial FY Guidance	FY Results
Revenue	\$1.49B - \$1.50B <i>37% y/y</i>	\$1.617B <i>48% y/y</i>
Calculated Billings	\$1.92B - \$1.94B <i>30%-31% y/y</i>	\$2.036B <i>37% y/y</i>
Calculated Current Billings		\$1.974B <i>37% y/y</i>
Gross Profit		\$1.304B <i>80.6% margin</i>
Operating Profit	\$173M - \$176M <i>11.5%-11.8% margin</i>	\$241M <i>14.9% margin</i>
EPS	\$1.16 - \$1.18 <i>68%-71% y/y</i>	\$1.79 <i>159% y/y</i>
Free Cash Flow		\$334M <i>20.6% margin</i>

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

Multiple new records set during the quarter

\$2B+

ARR
2x in 7 quarters

\$2B

Calculated Billings
FY Fiscal 2023
37% y/y growth

320B+

Daily Transactions
Continues to double
every 18 months

49

**\$1M+ ARR
Customers**
Added this quarter

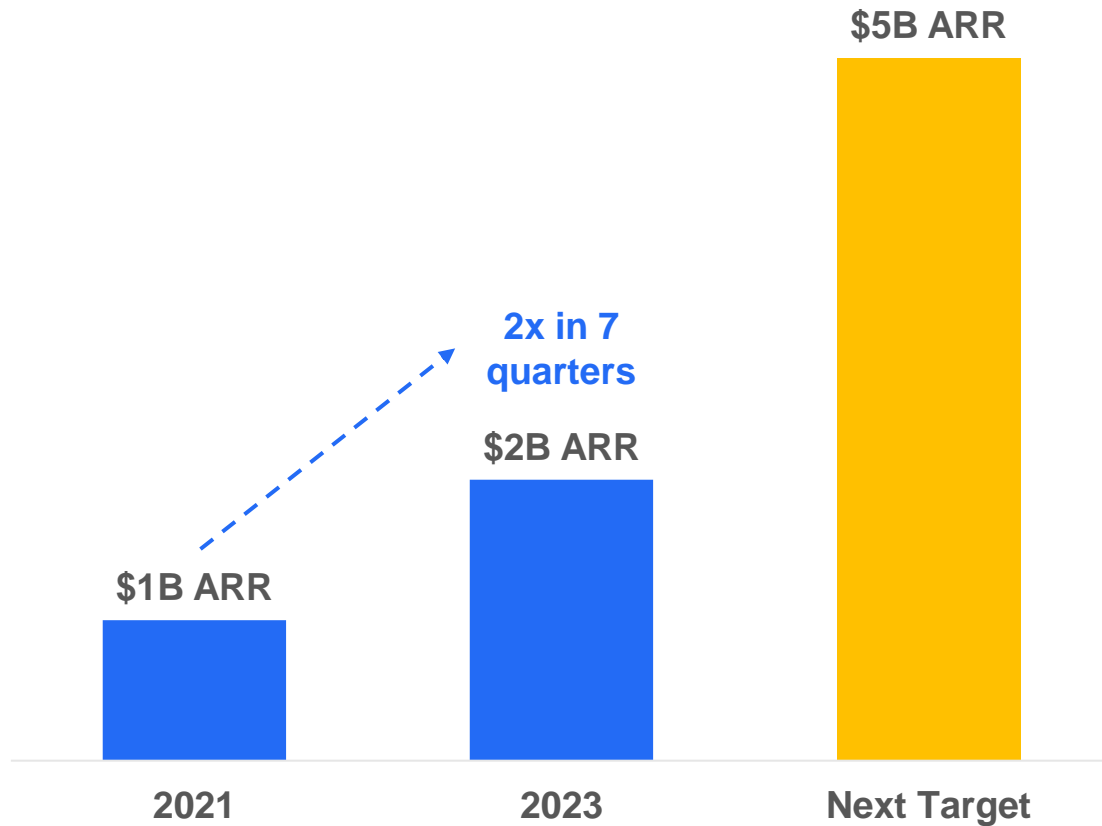
18.9%

Operating Margin
Highest margin to date

**Record \$1M+
ACV Deals**

**Broad strength
across key verticals**

Surpassed \$2B ARR...

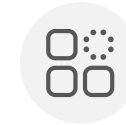


Onwards to \$5B ARR

Take Zero Trust security everywhere



Users



Workloads



B2B



IoT / OT

Build upon our market leading position

- Go-to platform for vendor consolidation, cost savings, increased business agility, and better cyber and data loss protection

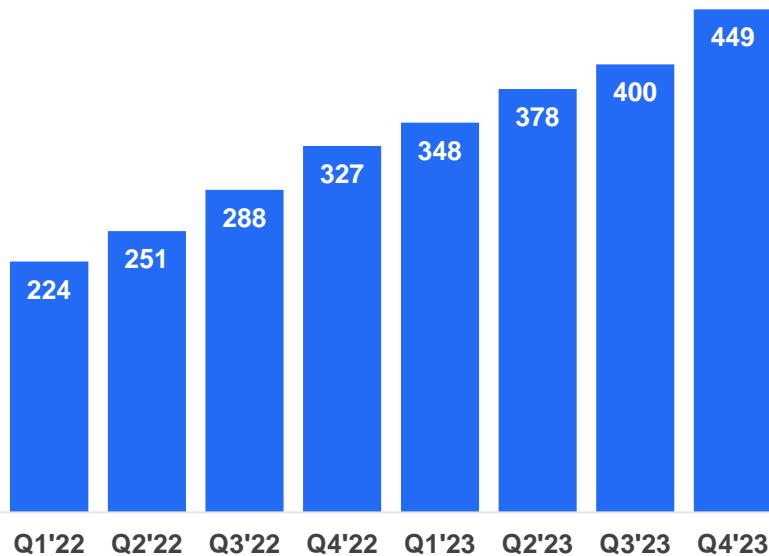
Fast pace of innovation to sustain durable growth

- Strong track record of building and growing new innovations: ZDX, Data Protection, Zero Trust for Workloads
- Leverage trillions of daily telemetry signals to scale AI and business insights across the platform

Large customer momentum

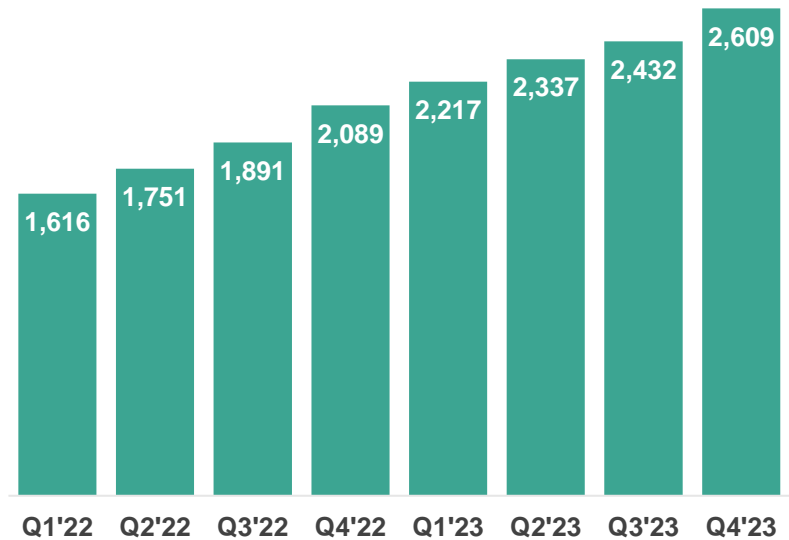
\$1M+ ARR Customers

87% 85% 77% 62% 55% 51% 39% 37%



\$100K+ ARR Customers

53% 48% 44% 41% 37% 33% 29% 25%



40%+

Fortune 500 Customers

30%+

Global 2000 Customers

43

\$5M+ ARR Customers

Comments on the business environment

Complex macro environment



Cyber attacks rapidly growing and evolving

- Cyber is the #1 IT priority
- Generational shift from old network security architectures
- Zero Trust is mainstream – mindsets are changing
- SEC rule – Increasing cybersecurity regulation



Sustained high levels of deal scrutiny

- Tighter budgets available to achieve more
- Legacy network/security point products impeding progress
- Immature offerings not considered for mission critical services



Projects that move forward in this environment

- High priority security modernization
- High ROI vendor consolidation
- Federal deployments moving beyond initial phases

Our strategy to navigate it



Leveraging our maturity and scale

- Our proven experience at scale makes us the partner of choice for Zero Trust
- Repeatable blueprint for delivering greater value to sell our broader Zero Trust platform for users, workloads, IoT/OT, and B2B
- Massive data across an integrated platform to deliver AI/ML innovations



Strong execution and customer-first approach

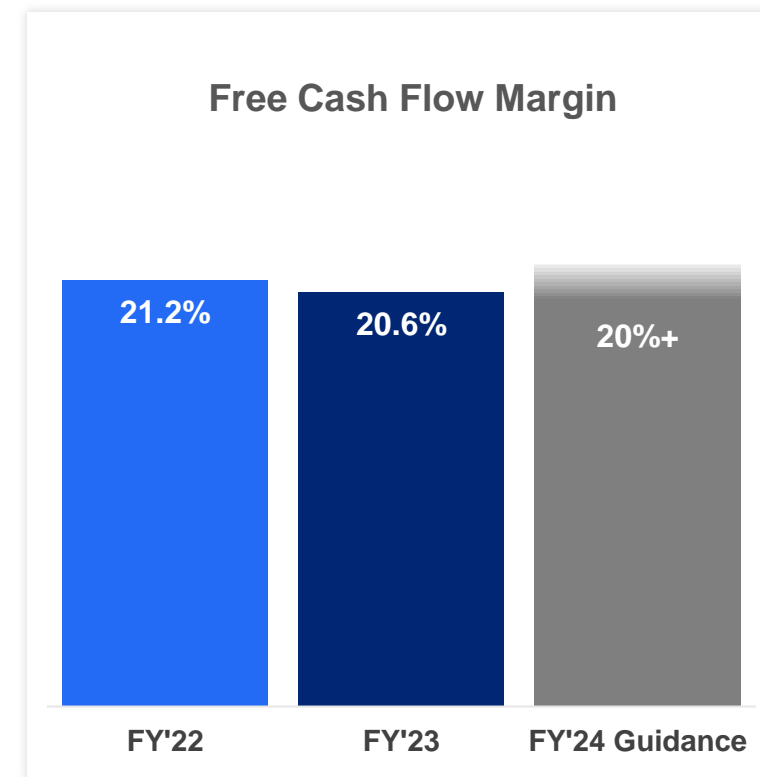
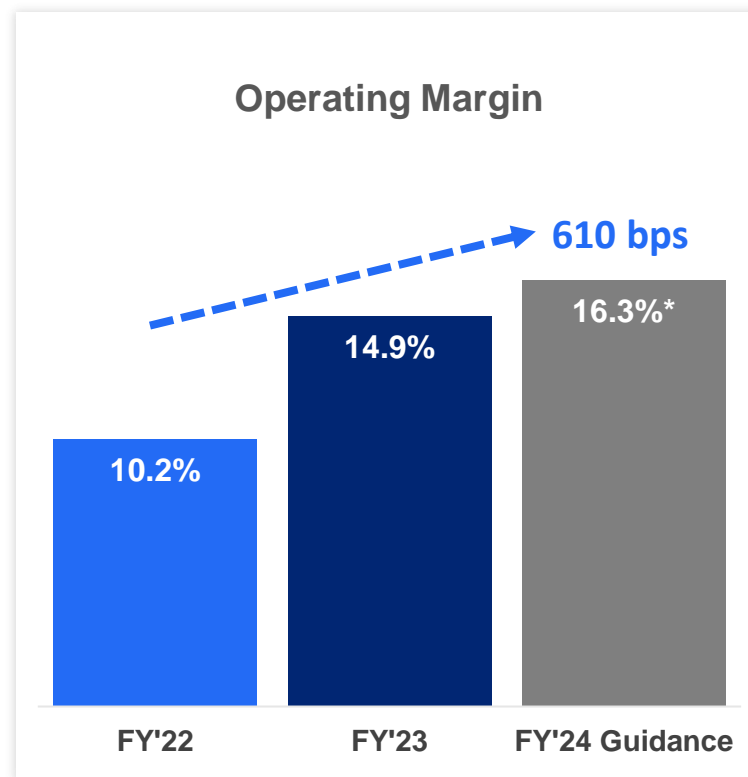
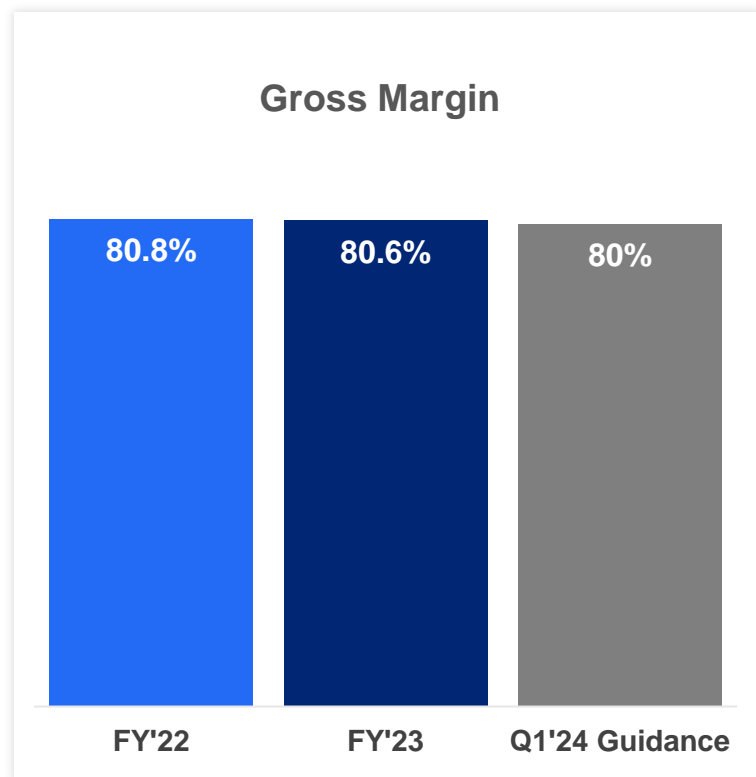
- Our comprehensive platform with high ROI is resonating with customers
- Partnering earlier with CXOs to create CFO-ready business cases
- Doubling-down on customer success to deliver measurable customer value
- Platform innovations to solve customers' real time IT challenges



Operational discipline

- High visibility: 100% recurring revenue model, mature consultative sales process at the c-level, geo and vertical diversification
- Flexible cost structure that enables us to balance growth and profitability based on business momentum

Improving operating efficiency



* Represents mid-point of FY24 operating margin guidance of 16.0-16.5%

Select Q4'23 Deal Highlights



Global IT Services in Asia

New logo, purchased all product pillars

ZIA 300,000 users

ZPA 270,000 users

ZDX 300,000 users

Purchased advanced data protection for 300,000 users, plus workload protection and deception

Why Zscaler

- Large SI partner became a customer to enable work-from-anywhere
- Comprehensive data protection was a major consideration
- Advanced Data Protection contributed 20% of total contract value



Large Telecom Operator

New logo, led by data protection

ZIA 80,000 users

ZPA 80,000 users

ZDX 80,000 users

Zscaler for Users bundle, includes advanced data protection

Why Zscaler

- Data Protection was a key driver
- Customer uncomfortable with security gaps and TLS inspection limitations of firewalls and VPNs
- Consolidating multiple point products
- Expect a 9-month payback period



Fortune 50 Insurance

Upsell, emerging products

ZIA 170,000 users

ZDX 170,000 users

Why Zscaler

- Successful value realization from ZIA
- Purchased ZDX as next phase
- Reduce troubleshooting time
- Improve field agent productivity
- Direct impact to revenue and agents' ability to earn a commission



Fed Cabinet-Level Agency

Multi-year, mid-7-figure ACV task order

ZIA >100,000 users

ZPA >100,000 users

Contract value will be granted over time, based on deployment with the agency's field units

Why Zscaler

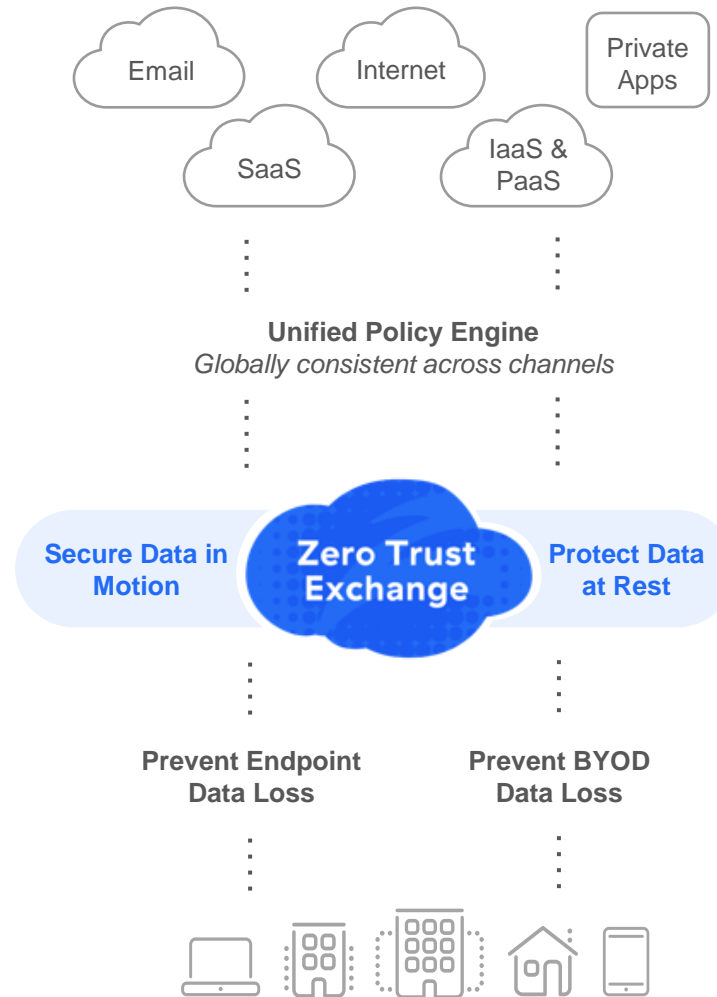
- Chose Zscaler because of cloud native architecture, better security and user experience, while meeting FedRAMP requirement.

Data Protection: An Emerging Pillar of Growth

Approaching
\$250M
 in ARR

60%
 ARR Growth Y/Y

\$10B+
 Market Opportunity*
 Replacing legacy DLP in the largest
 of Fortune 500 companies



Key Components

Data Loss Prevention (DLP)

- Cloud DLP
- Email DLP
- Private App DLP
- Endpoint DLP

Cloud Access Security Broker (CASB)

- Inline and out-of-band CASB
- SaaS Security Posture Management (SSPM)
- SaaS Supply Chain – Zscaler AppTotal
- Broad Spectrum Data Security Platform (BDSP)

Browser Isolation

- BYOD, VDI alternative
- Third-party / contractor access

Workloads

- Integrated Cloud Native App Protection Platform (CNAPP) and Data Security Posture Management (DSPM)

AI-Driven Features

- Data discovery and auto-classification (EDM, IDM, OCR)
- Zero configuration DLP
- Data protection for Generative AI
- AI Total – Risk scoring for exploding ecosystem of AI apps
- Multi-Modal DLP – Image, video, and audio data
- Workflow automation / incident management

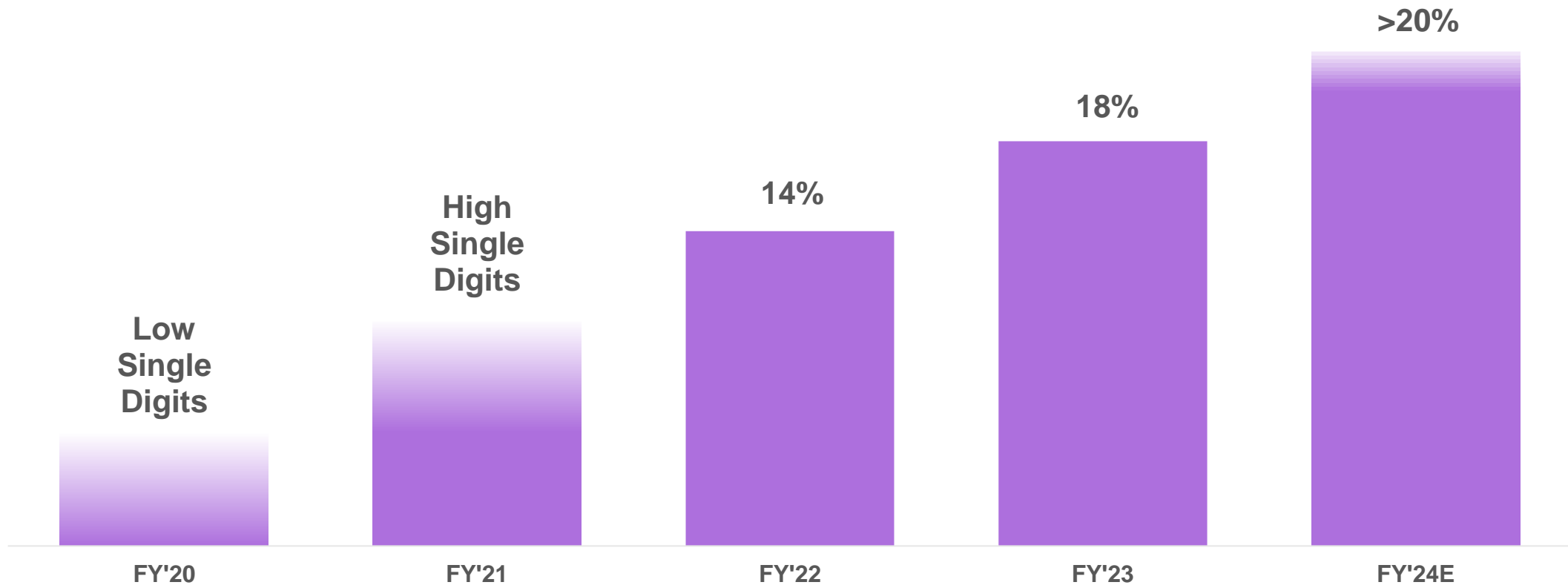
* (i) Gartner forecast for data security and CASB at \$10.9B by 2027, 2Q23 update;

(ii) Zscaler annual pricing model for ZIA Add-ons for 5,000 user seats at \$30 per user, \$10B in total, Zscaler Analyst Day 2021

Strong customer adoption of emerging products continues

Emerging Products

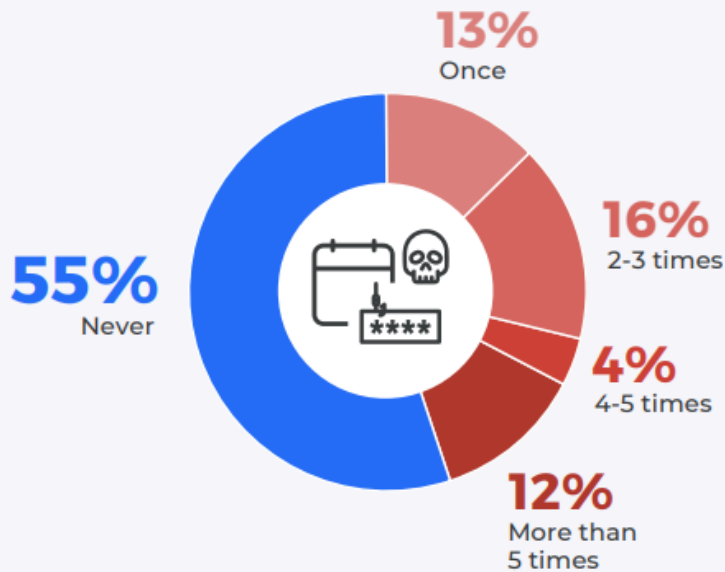
% of New Business



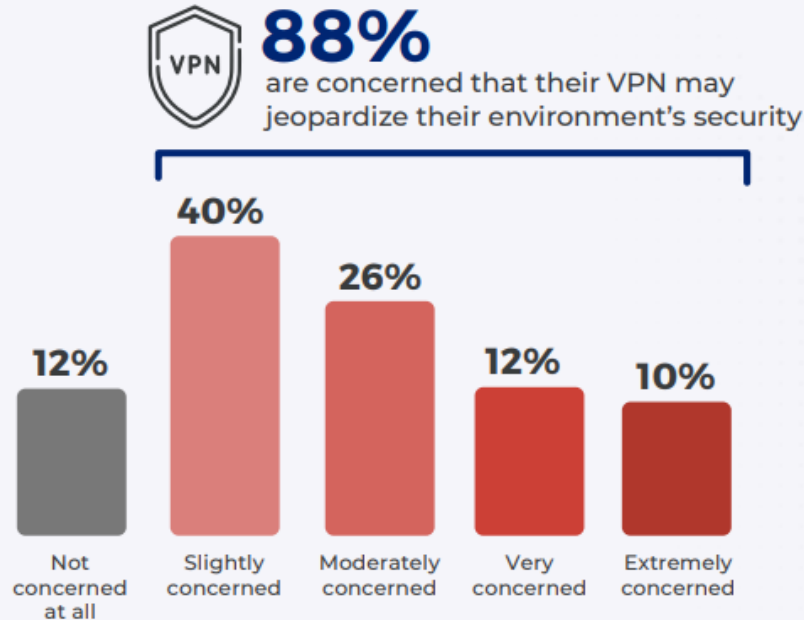
* Emerging products contains newer pillars, including: ZDX, Workload Protection and Business Analytics.

Breaches continue to drive enterprises to Zero Trust

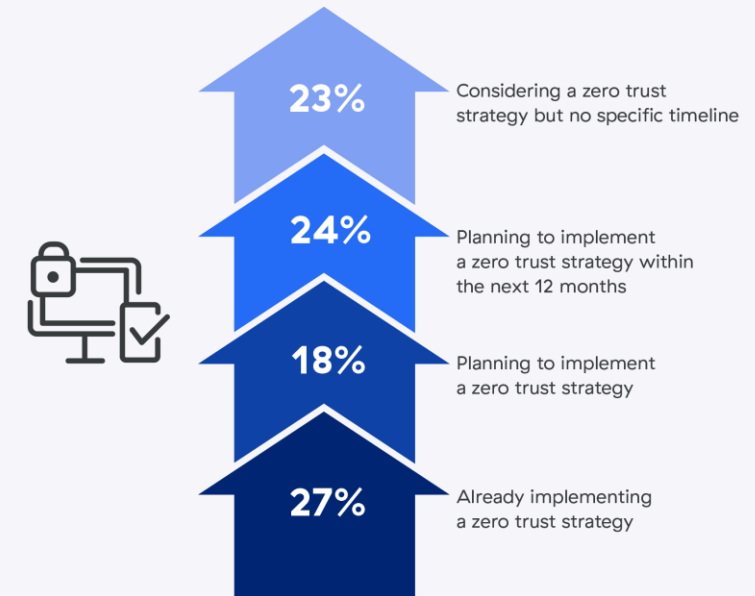
In the last 12 months, has your organization experienced an attack that took advantage of security vulnerabilities in your VPN servers?



How concerned are you that VPN may jeopardize your ability to keep your environment secure?



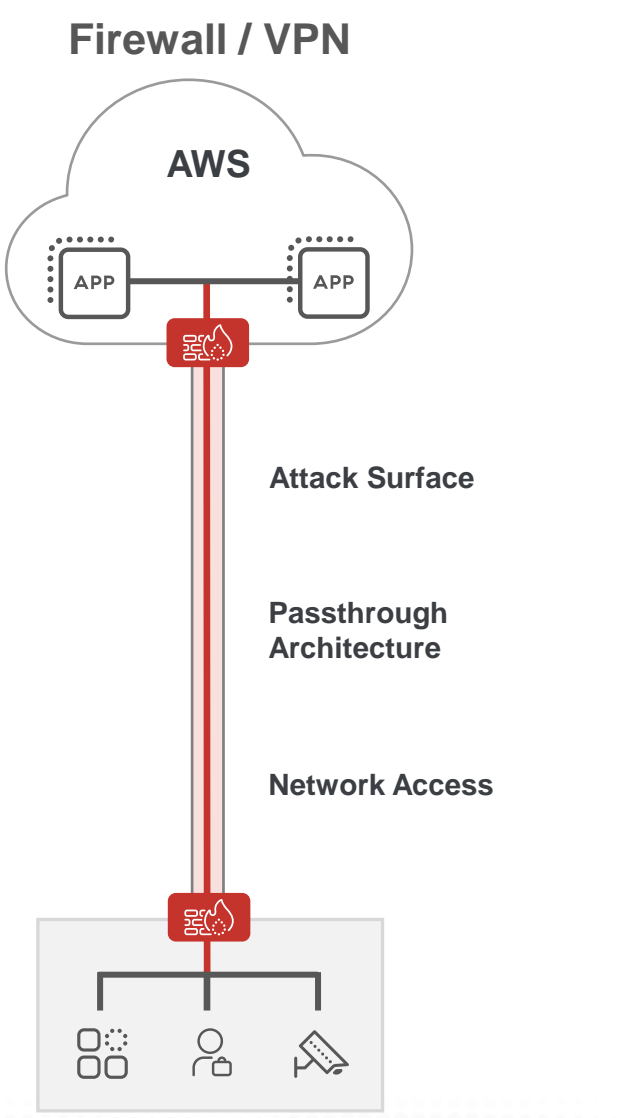
What are your plans for adopting a zero trust strategy for your organization?



Zscaler 2023 VPN Risk Report – Based on survey of 382 IT professionals and cybersecurity experts

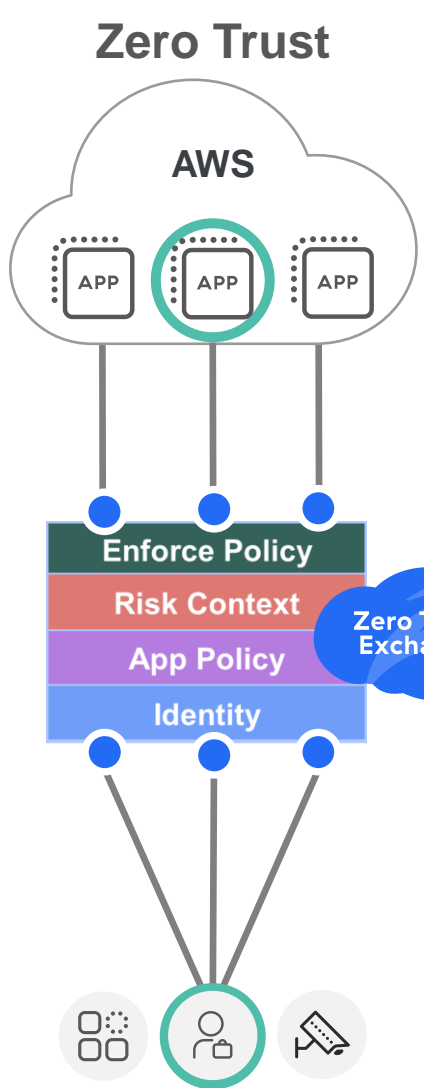
Nearly half of enterprises reported that they have been targeted by cyber attackers who were able to exploit a VPN vulnerability, with **33% falling victim** to ransomware attacks within the past year.

Breaches continue to drive enterprises to Zero Trust



Firewalls and VPNs – whether as appliances or VMs – connect users to the network

True Zero Trust security cannot be built on firewalls and VPNs in the public cloud



Policy enforcement across 150+ data centers worldwide

Connects one-to-one, not the network – a core principle of Zero Trust architecture

This architectural differentiation gives us long-term advantage

AI: Strengthening Our Network Effect

Leveraging our unique architecture, big data, and strategic position as the security policy enforcement engine

Zscaler's Advantage: Key Elements for Enterprise AI

World's Largest Security Cloud

- 320B+ daily transactions, 2x in 18 months,
- 500T+ daily signals, feeding our AI models, powering a network effect



Cloud Scale Data Fabric

- Full inline logs, including encrypted traffic
- Context-rich structured and unstructured data, analyzed in real time



Security Domain Expertise

- First AI investment in 2018
- AI experts, data scientists, and anonymized private data to customize and train LLMs

Available Today

Cyber Protection

Faster time to zero-day threat detection and auto-segmentation

Available in premium bundles

Data Protection

Secure unstructured data with automated classification

Available in premium bundles

Digital Experience (ZDX)

Real-time monitoring of performance issues, higher employee productivity

Emerging Products ACV

Future Roadmap

Risk360

Company-wide risk quantification and steps for risk reduction

Breach Predictor

Leveraging 500T+ daily signals to predict and prevent breaches

Zscaler Navigator

Co-pilot with natural language product interface

...and more to come

Financial Guidance

	Fiscal Q1 2024	Actual Fiscal Year 2023	Guidance Fiscal Year 2024
Revenue	\$472M - \$474M <i>Approx. 33% y/y</i>	\$1.617B <i>48% y/y</i>	\$2.05B - \$2.065B <i>27%-28% y/y</i>
Billings	Approx. 30% y/y growth	\$2.036B <i>37% y/y</i>	\$2.52B - \$2.56B <i>24%-26% y/y</i>
Gross Margins	80%	80.6%	
Operating Profit	\$70M - \$72M	\$241M <i>Margin +466 bps y/y</i>	\$330M - \$340M <i>Margin +100-150 bps y/y</i>
Net Other Income	\$14M	\$56M	
Income Taxes	\$8M	\$19.8M	\$35M
Earnings Per Share	\$0.48 - \$0.49	\$1.79	\$2.20 - \$2.25
Fully Diluted Shares	159M	155.7M	161M

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

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 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 intangible assets acquired in business acquisitions and related income tax effects, if applicable, are excluded because these are considered by management to be outside of our core business operating performance. Restructuring and other charges related to severance and termination benefits in connection with a restructuring plan to streamline operations and to align people, roles and projects to our strategic priorities are excluded because these fluctuate in amounts and frequency and are not reflective of our core business operating performance. Amortization of debt discount and issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. 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.

Key Non-GAAP Financial Measures Included within this Presentation:

- Non-GAAP Gross Profit and Non-GAAP Gross Margin (*)
- Non-GAAP Income (Loss) from Operations and Non-GAAP Operating Margin (*)
- Non-GAAP Net Income (Loss) and Non-GAAP Net Income (Loss) per Share (*)
- Calculated Billings and Calculated Current Billings (*)
- Free Cash Flow and Free Cash Flow Margin (*)

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

Appendix A: Non-GAAP to GAAP Reconciliation

(\$ in thousands)

	Q4'23	Q4'22	FY'23	FY'22
Revenue	\$ 455,006	\$ 318,059	\$ 1,616,952	\$ 1,090,946
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP Gross Profit	\$ 352,324	\$ 249,751	\$ 1,254,120	\$ 848,664
Add: Stock-based compensation expense and related payroll taxes	12,016	7,696	40,297	25,292
Add: Amortization expense of acquired intangible assets	2,765	1,939	9,574	7,975
Non-GAAP Gross profit	\$ 367,105	\$ 259,386	\$ 1,303,991	\$ 881,931
GAAP Gross Margin	77 %	79 %	78 %	78 %
Non-GAAP Gross Margin	81 %	82 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	\$ (44,552)	\$ (82,529)	\$ (234,623)	\$ (327,429)
Add: Stock-based compensation expense and related payroll taxes (1)	126,275	118,315	457,815	430,020
Add: Amortization expense of acquired intangible assets	2,982	2,315	11,060	9,010
Add: Restructuring and other charges, excluding stock-based compensation expenses (1)	1,299	—	6,564	—
Non-GAAP Income from Operations	\$ 86,004	\$ 38,101	\$ 240,816	\$ 111,601
GAAP Operating Margin	(10)%	(26)%	(15)%	(30)%
Non-GAAP Operating Margin	19 %	12 %	15 %	10 %

(1) In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million, which is included in stock-based compensation expense and related payroll taxes

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

(\$ in thousands)

	Q4'23	Q4'22	FY'23	FY'22
Non-GAAP Net Income per Share, Diluted				
GAAP net loss	\$ (30,674)	\$ (97,652)	\$ (202,335)	\$ (390,278)
Stock-based compensation expense and related payroll taxes (1)	126,275	118,315	457,815	430,020
Amortization expense of acquired intangible assets	2,982	2,315	11,060	9,010
Restructuring and other charges, excluding stock-based compensation expense (1)	1,299	—	6,564	—
Amortization of debt discount and issuance costs (2)	975	14,098	3,894	55,141
Benefit for income taxes (3)	—	(682)	—	(2,597)
Non-GAAP Net Income	\$ 100,857	\$ 36,394	\$ 276,998	\$ 101,296
Add: Non-GAAP interest expense related to the convertible senior notes (2)	359	—	1,437	—
Numerator used in computing non-GAAP net income per share, diluted	\$ 101,216	\$ 36,394	\$ 278,435	\$ 101,296
GAAP Net Loss per share, diluted	\$ (0.21)	\$ (0.69)	\$ (1.40)	\$ (2.77)
Stock-based compensation expense and related payroll taxes (1)	0.80	0.81	2.94	2.92
Amortization expense of acquired intangible assets	0.02	0.02	0.07	0.06
Restructuring and other charges, excluding stock-based compensation expense (1)	0.01	—	0.04	—
Amortization of debt discount and issuance costs	0.01	0.10	0.03	0.37
Benefit for income taxes (3)	—	—	—	(0.02)
Non-GAAP interest expense related to the convertible senior notes (2)	—	—	0.01	—
Adjustment to total fully diluted earnings per share (4)	0.01	0.01	0.10	0.13
Non-GAAP Net Loss per share, diluted (2)	\$ 0.64	\$ 0.25	\$ 1.79	\$ 0.69

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

(\$ in thousands)

	Q4'23	Q4'22	FY'23	FY'22
Weighted-average shares used in computing GAAP Net Loss per share, diluted	146,424	142,355	144,942	140,895
Add: Outstanding equity incentive awards	3,265	4,052	3,174	6,357
Add: Convertible senior notes (2)	7,626	208	7,626	2,875
Less: Antidilutive impact of capped call transactions (5)	—	(208)	—	(2,875)
Weighted-average shares used in computing non-GAAP Net Loss per share, diluted (2)	157,315	146,407	155,742	147,252

(1) In connection with a restructuring plan announced in March 2023, we incurred stock-based compensation expense of approximately \$1.0 million, which is included in stock-based compensation expense and related payroll taxes.

(2) Effective August 1, 2022, we adopted ASU 2020-06 using the modified retrospective method under which prior period amounts have not been adjusted. The adoption of this standard resulted in the elimination of the debt discount and related amortization as interest expense and the classification of the portion of the debt issuance costs initially allocated to equity within the carrying amount of the convertible senior notes, which will be recognized as interest expense. Additionally, this standard amended the calculation of diluted earnings per share for certain convertible debt instruments, eliminating the treasury stock method and requiring the use of the if-converted method to compute the underlying potentially diluted shares. Accordingly, to account for the potentially diluted shares related to the convertible senior notes, we are required to add back the non-GAAP interest expense related to the convertible senior notes to our non-GAAP net income and include approximately 7.63 million shares related to the senior convertible notes beginning in our first quarter of fiscal year 2023.

(3) 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 quarters ended January 31, 2022, and July 31, 2022, we recorded a tax benefit of \$0.4 million and \$0.7 million, respectively, associated with intangible assets recognized as a result of our business acquisitions. In the fiscal quarter ended April 30, 2022, we recorded a tax benefit of \$1.5 million associated with a refund of certain foreign withholding taxes relating to the prior fiscal year.

(4) The sum of the fully diluted earnings per share impact of individual reconciling items may not total to fully diluted non-GAAP net income per share due to the weighted-average shares used in computing the GAAP net loss per share differs from the weighted-average shares used in computing the non-GAAP net income per share, and due to rounding of the individual reconciling items. The GAAP net loss per share calculation uses a lower share count as it excludes potentially dilutive shares, which are included in calculating the non-GAAP income per share.

(5) We exclude the in-the-money portion of the convertible senior notes for non-GAAP weighted-average diluted shares as they are covered by our capped call transactions. Our outstanding capped call transactions are antidilutive under GAAP but are expected to mitigate the dilutive effect of the convertible senior notes and therefore are included in the calculation of non-GAAP diluted shares outstanding. No antidilutive impact was reflected in the year ended July 31, 2023, as the average stock price of our common stock in such period was lower than the capped calls' exercise price.

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

(\$ in thousands)

	Q4'23	Q4'22	FY'23	FY'22
Calculated Billings				
Revenue	\$ 455,006	\$ 318,059	\$ 1,616,952	\$ 1,090,946
Add: Total deferred revenue, end of period	1,439,676	1,021,123	1,439,676	1,021,123
Less: Total deferred revenue, beginning of period	(1,175,373)	(818,743)	(1,021,123)	(630,601)
Calculated Billings	\$ 719,309	\$ 520,439	\$ 2,035,505	\$ 1,481,468
Calculated Current Billings				
Revenue	\$ 455,006	\$ 318,059	\$ 1,616,952	\$ 1,090,946
Add: Current deferred revenue, end of period	1,281,143	923,749	1,281,143	923,749
Less: Current deferred revenue, beginning of period	(1,058,901)	(731,904)	(923,749)	(571,286)
Calculated Current Billings	\$ 677,248	\$ 509,904	\$ 1,974,346	\$ 1,443,409
Free Cash Flow				
Net cash provided by operating activities	\$ 135,936	\$ 103,138	\$ 462,343	\$ 321,912
Less: Purchases of property, equipment and other assets	(27,070)	(21,250)	(97,197)	(69,296)
Less: Capitalized internal-use software	(7,565)	(7,117)	(31,527)	(21,284)
Free Cash Flow	\$ 101,301	\$ 74,771	\$ 333,619	\$ 231,332
Free Cash Flow Margin				
Net cash provided by operating activities, as a percentage of revenue	30 %	32 %	29 %	30 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(6)%	(6)%	(6)%	(7)%
Less: Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(2)%	(2)%
Free Cash Flow Margin	22 %	24 %	21 %	21 %