

A Trusted Leader in Email Security

NASDAQ: ZIXI

August 2019

zix[®]

Important Cautions Regarding Forward-Looking Statements

Statements in this presentation that are not purely historical facts or that necessarily depend upon future events, including statements about forecasts of revenue or earnings, or other statements about anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements. All forward-looking statements are based upon information available to Zix at the time of its most recent earnings announcement. This presentation is not an update of, and Zix undertakes no obligation to publicly update or revise, any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks or uncertainties related to how privacy and data security law mandates may affect demand for email encryption, Zix ability to obtain and retain customers, grow revenues and deliver new products. Zix may not succeed in addressing these and other risks. Further information regarding factors that could affect Zix financial and other results can be found in the risk factors section of Zix's most recent filing on Form 10-K with the Securities and Exchange Commission.

Detailed explanations of our non-GAAP financial measures and reconciliations of our adjusting items to the most directly comparable GAAP financial measure can be found at <http://investor.zixcorp.com>.



Company Overview



Leader in small medium business email protection and productivity



Over 100% Net Dollar Retention



100% Subscription Revenue



505 Employees



Headquartered in Dallas, TX



\$194M



Annual Recurring Revenue (ARR)

5.9M



Total Unique Users

Q2 2019

15%



Combined Company Organic Revenue Growth

Q2 2019

80,000+



Total Customers

Q2 2019

Trusted Leader in Securing Business Communications and Ensuring Productivity

Email Encryption

- Industry's leading solution, encrypting and delivering more than 1.5M emails daily
- Patented best method of delivery system combines strong security with convenient user experience
- Only platform to offer a fully transparent solution, eliminating extra steps or passwords for senders or recipients

Advanced Threat Protection

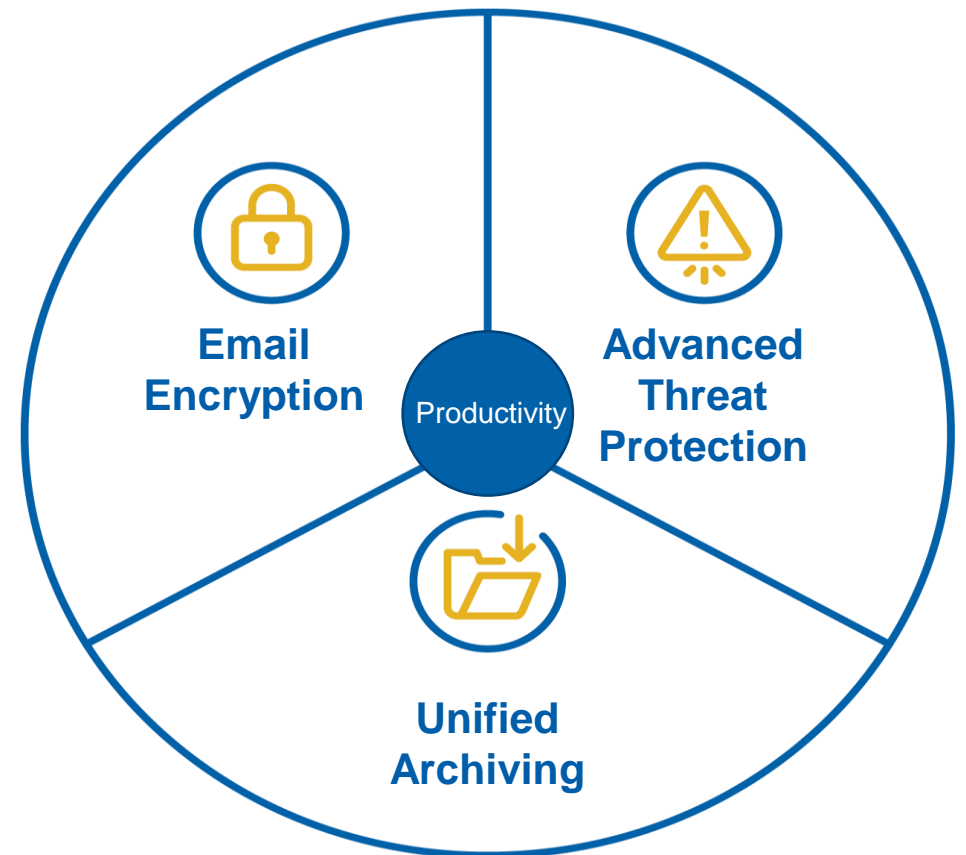
- Defend against malware, ransomware, phishing and business email compromise
- Multi-layered approach delivers 99.5% accuracy
- 30-day business continuity for disaster recovery

Unified Archiving

- Archive and eDiscovery capabilities across more than 50 communication channels
- Provides supervisory and reporting capabilities to meet compliance and enable business
- Cloud-based solution with easy, secure access for auditing and litigation

Productivity

- Microsoft Office 365 Productivity Suite and Secure Hosted Exchange



AppRiver Acquisition Key Takeaways



Significant Scale & Accelerating Growth

- Expected to more than double revenue and adjusted EBITDA
- ARR scaled to more than \$180 million
- Achieved previously discussed \$8 million of cost savings 12 months ahead of plan



Strengthened Position in Cloud-based Email Security Market

- Enhances opportunity to capture more mailboxes undergoing migration to the cloud
- Expanded go-to-market channels with a 4,500 strong Managed Service Provider (MSP) reseller community and Nautical platform
- Bolstered security offering, including adding endpoint anti-virus solution



Attractive Cross-Selling Opportunities

- Significantly expanded customer base with minimal overlap
- Provides opportunity to sell Zix's proprietary security products into AppRiver's 60,000+ customer base
- Provides opportunity to attach AppRiver's O365 solutions to Zix's base



Shareholder Value Creation

- Enables continued profitable growth with opportunity to accelerate growth trajectory
- Provides a platform to drive higher attach rates, customer retention and capture greater share of business communication market

AppRiver Integration Proceeding Rapidly and Ahead of Schedule

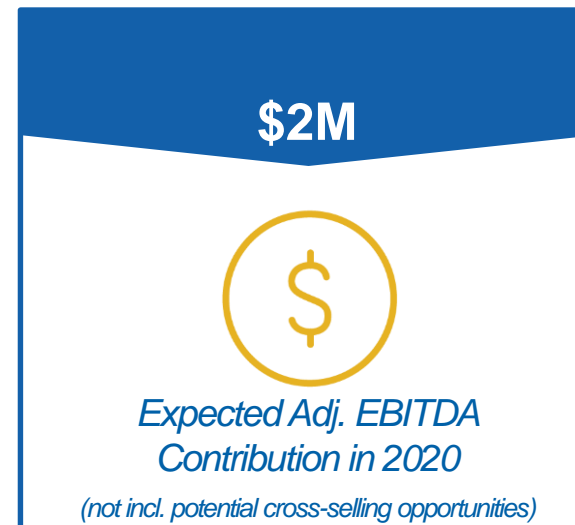
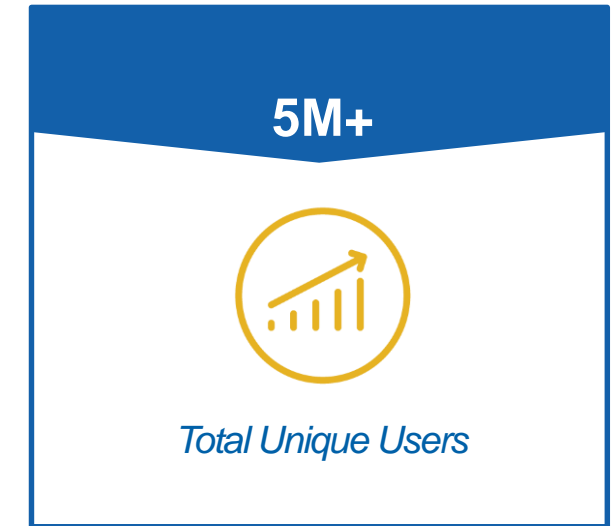
- ✓ **February:** Achieved previously discussed \$8 million of cost savings, **12 months ahead of plan**
- ✓ **March:** Completed network, phone and collaboration platform integration
- ✓ **April:** Rolled out **ZixEncrypt email encryption service** to AppRiver's 4,500+ MSP network, just **64** days after acquisition close and **100 days ahead of schedule**
- ✓ **May:** Rolled out **Office 365 service** to Zix's direct sales teams and partners, ahead of schedule

"That we were able to integrate Zix email encryption into the AppRiver platform in just 64 days speaks to how well-aligned the two companies are and highlights why the acquisition was so powerful." – Dave Wagner

What's New?

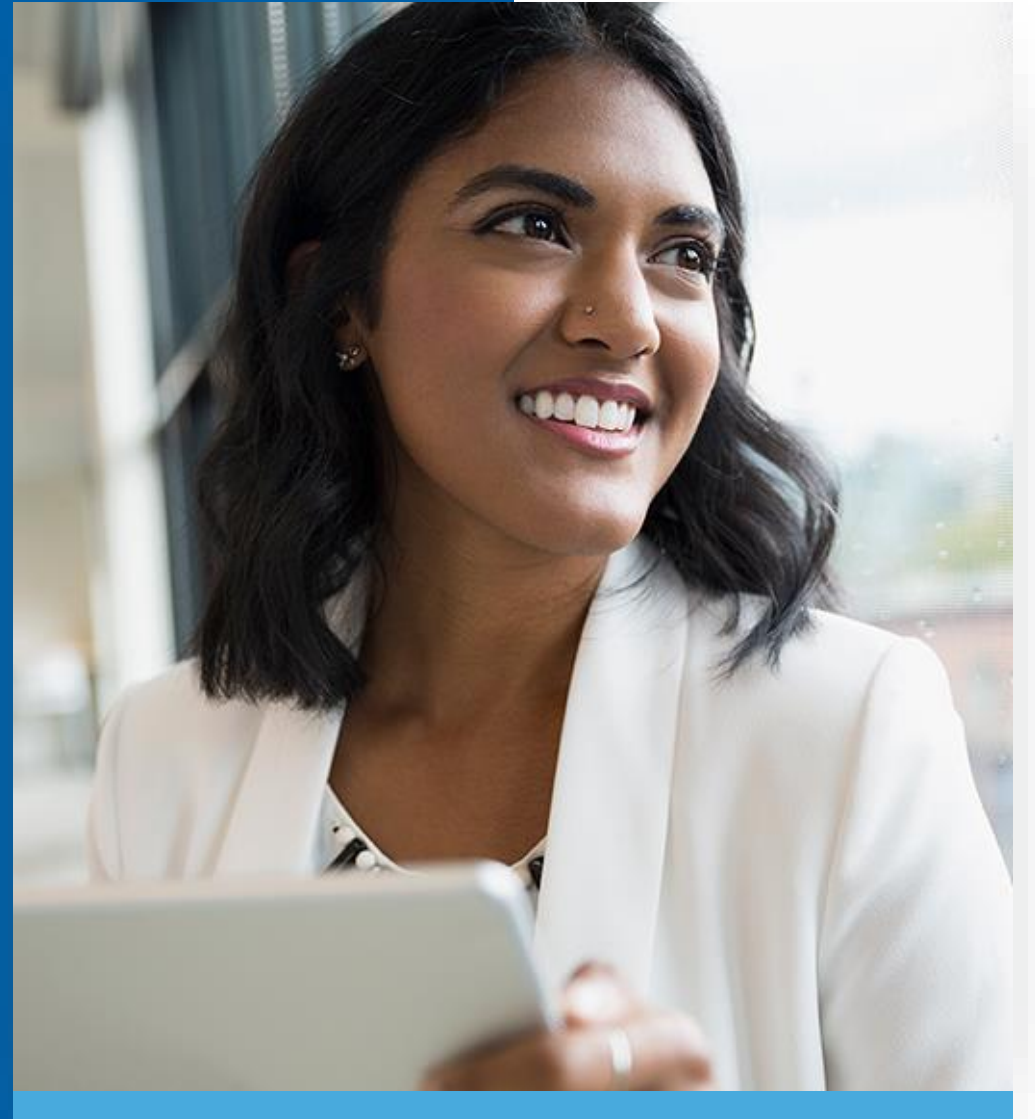
DeliverySlip Asset Acquisition

- **Announced:** May 8, 2019
- **Total cash consideration:** \$14 million
 - Payable in various stages between closing and 2020
- **Strategic Rationale:**
 - ✓ **Expands Zix's product suite and customer base** to include large file transfer and e-signatures capabilities
 - ✓ **Delivers cost savings and improves margin profile** by eliminating the third party royalty payable by AppRiver to DeliverySlip
 - ✓ **Creates additional cross-selling opportunities** by attaching large file transfer and document signing solutions to Zix's installed base
 - ✓ **Eliminates potential disruption to partners and customers** as more than 90% of DeliverySlip's revenue comes from AppRiver



Market & Growth Drivers

zix™



Extrinsic Market Drivers

A Confluence of Market Factors are Aligning that Provide Zix with Powerful Tailwinds



- Expansion of cloud and virtualized business environments increased demand for cloud capable security software solutions

- Proliferation of cybersecurity threats pose new challenges to businesses
- 2,216 confirmed data breaches

- Phishing remains the top cyberattack vector
- Email attacks account for 90% to 95% of successful cyberattacks worldwide

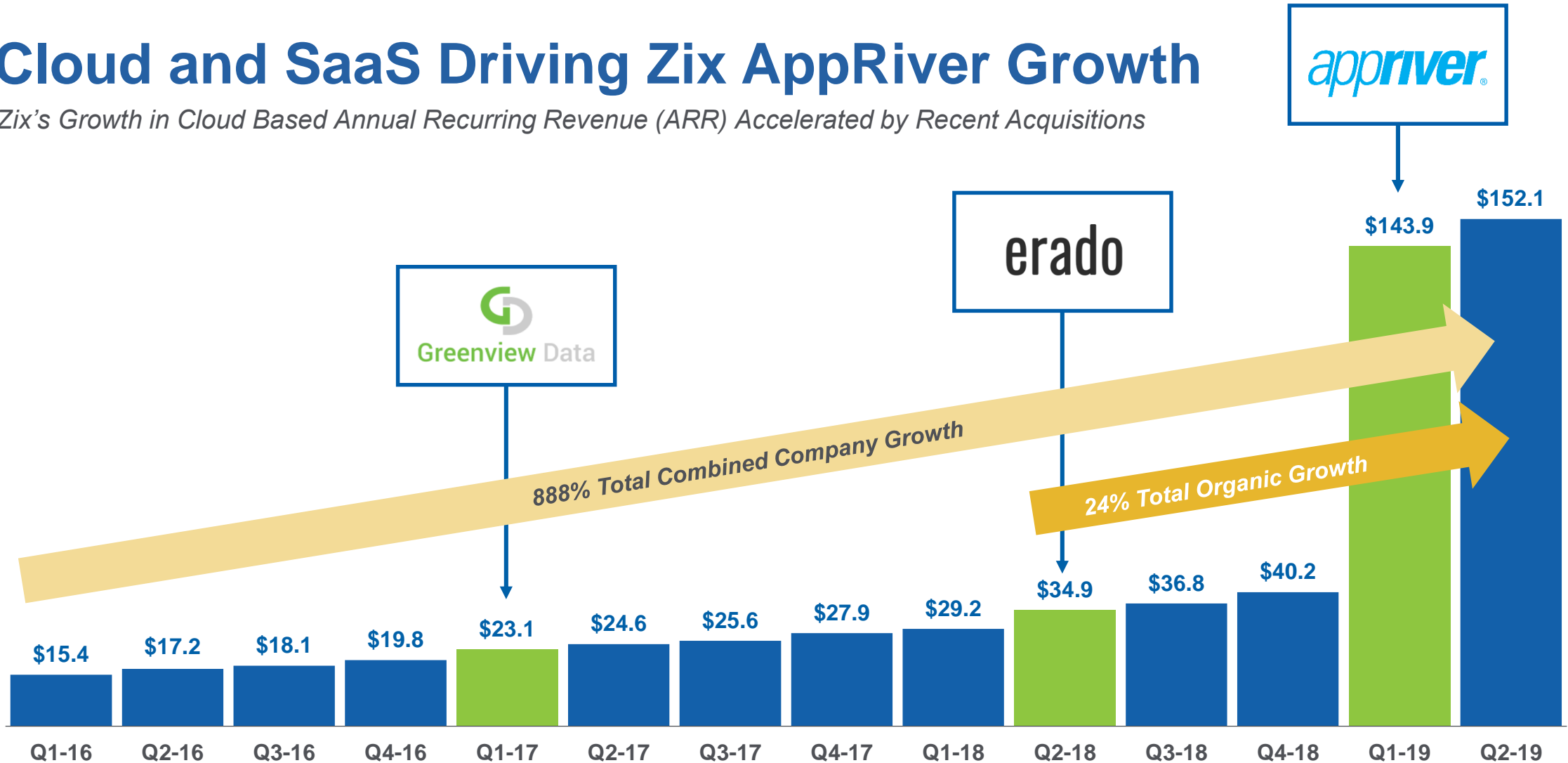
- Increased business use of social media, instant message, video and other channels requires added security and archiving investments

- Increased public scrutiny of business data security
- HIPAA, SEC rules and industry regulations require protection of consumer data

- Large market opportunity driven by the need for specialized security for cloud offerings

Cloud and SaaS Driving Zix AppRiver Growth

Zix's Growth in Cloud Based Annual Recurring Revenue (ARR) Accelerated by Recent Acquisitions



Annual recurring revenue is building momentum with our strategic shift to meet customer demand for hosted security and productivity solutions

Intrinsic Growth Drivers



Key Growth Areas

Execution of the key initiatives to drive profitable growth



New Customer Acquisition



Sales to Existing Customers



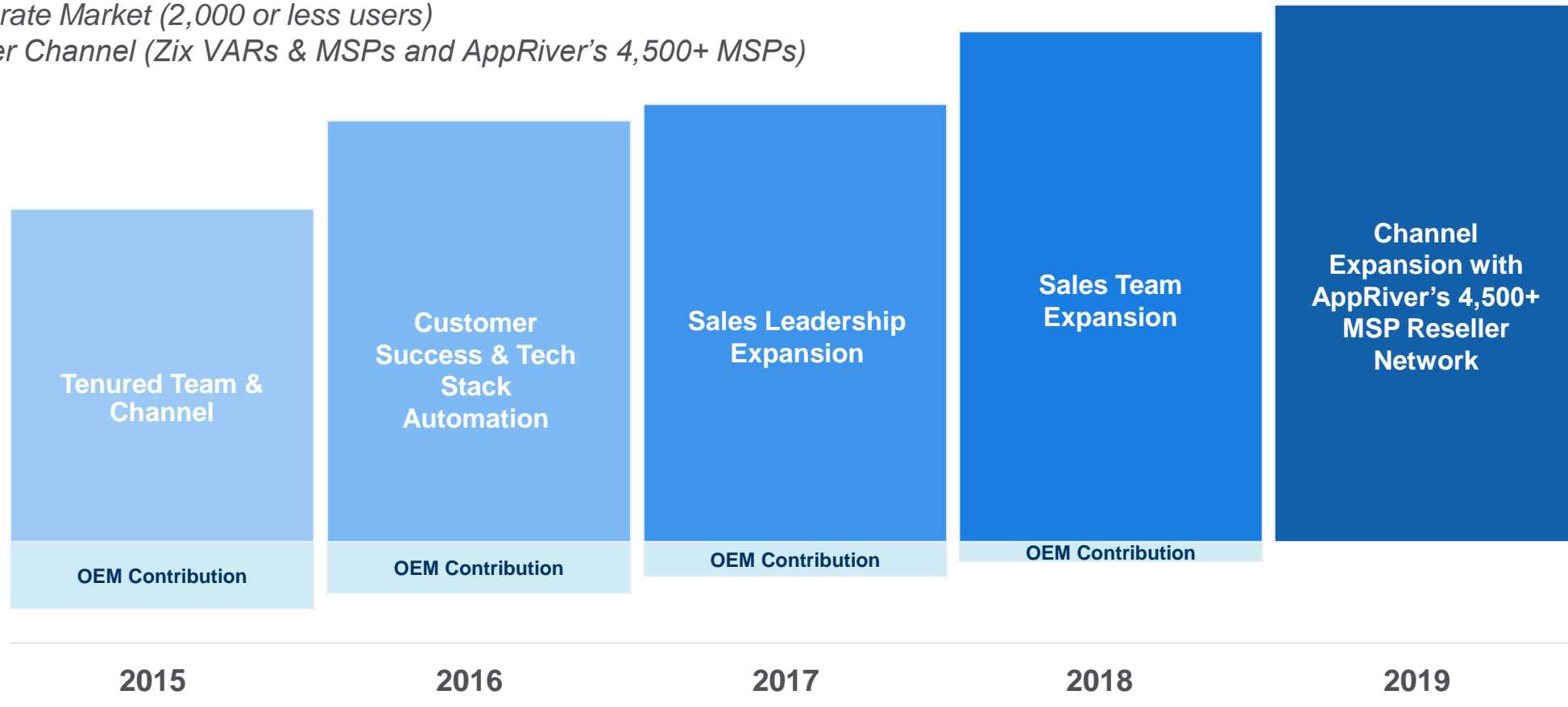
Increase Retention



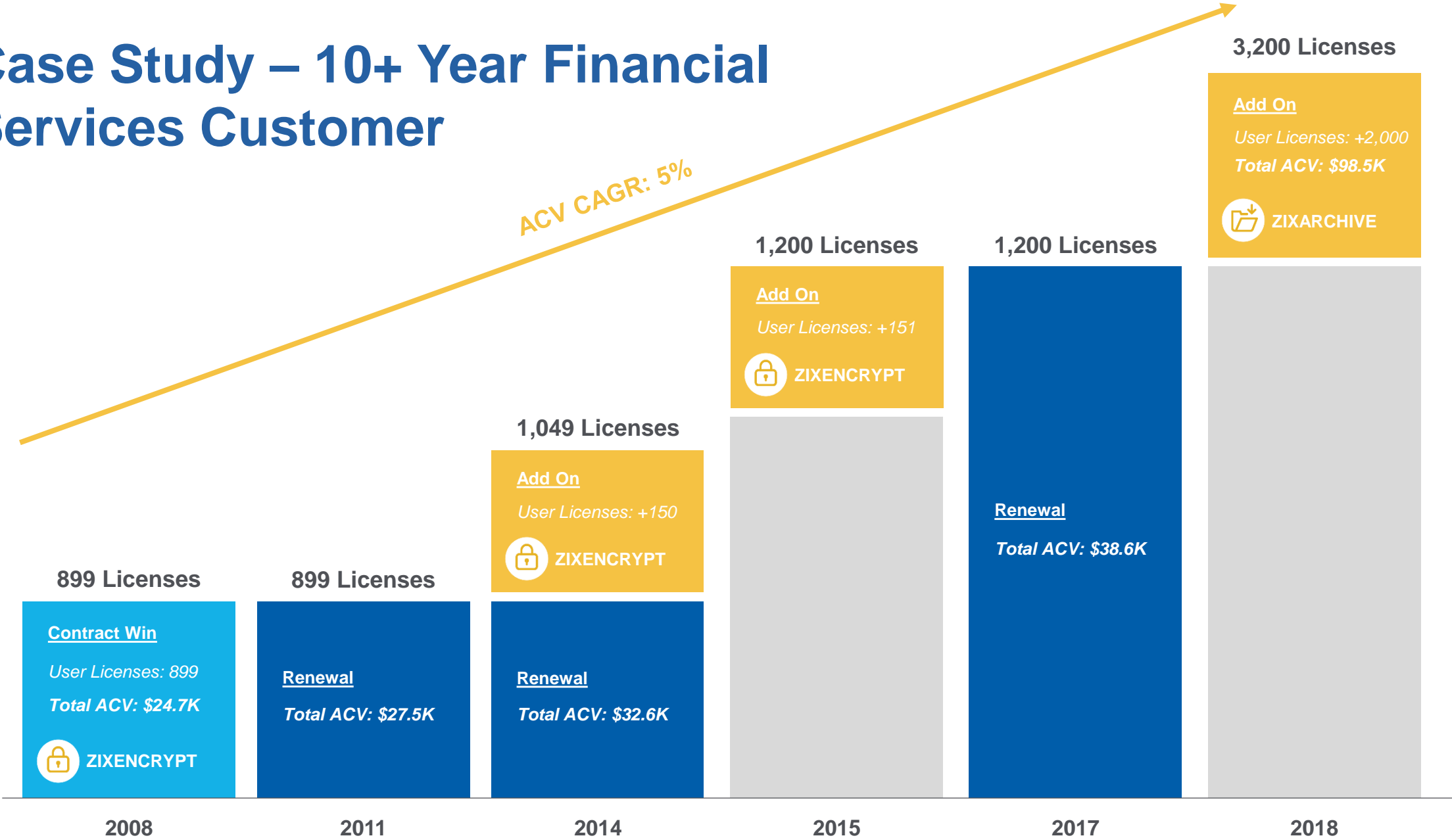
Go to Market Strategy

Team and Technology Transformation Aligned to Maximize Opportunities across:

- Enterprise Market (2,000+ users)
- Corporate Market (2,000 or less users)
- Partner Channel (Zix VARs & MSPs and AppRiver's 4,500+ MSPs)



Case Study – 10+ Year Financial Services Customer

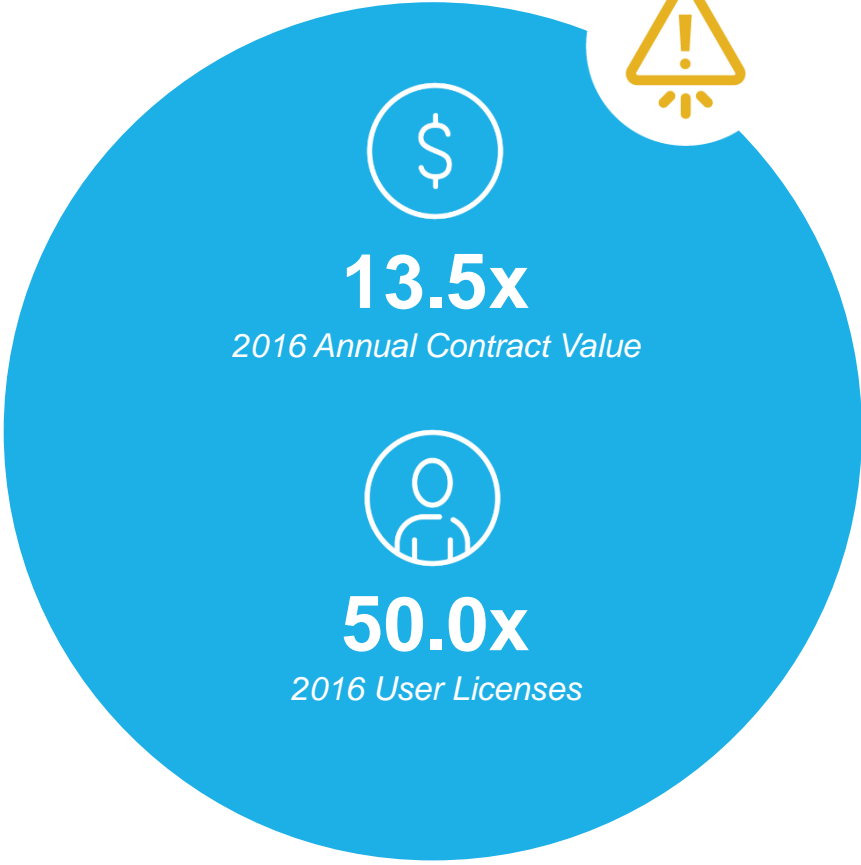
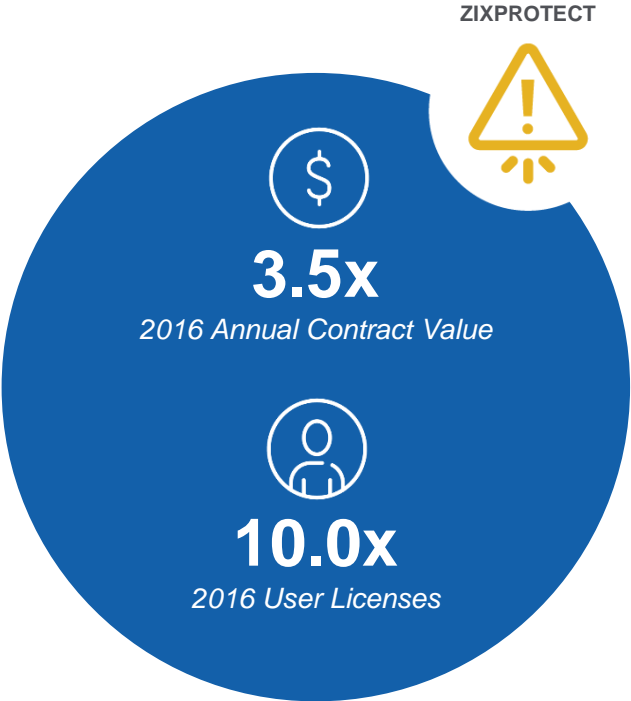


Case Study – 2+ Year Healthcare Customer

ZIXPROTECT



ZIXPROTECT



2016

2017

2018

Financial Information

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Financial Highlights



100%
Subscription Revenue



9+ Years Consistent
Profitability*



No Customer
>1% Revenue



100%+ Net Dollar
Revenue Retention



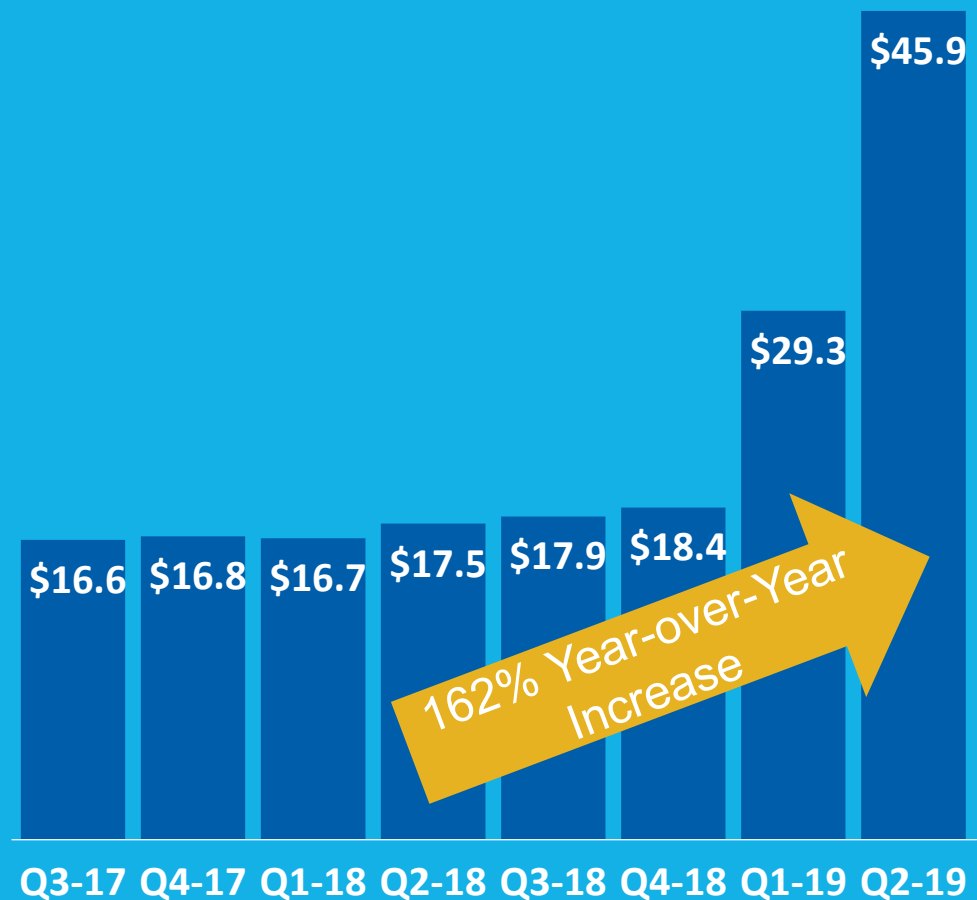
15% Q2 2019
Organic Revenue
Growth

\$233M
NOLs

Q2 2019 Financial Highlights

- **Revenue increased 162%** year-over-year to \$45.9M
 - Standalone Zix revenue increased 7%
 - Total overall organic growth (across Zix and AppRiver) was 15%.
- **ARR increased 162%** year-over-year to \$193.7M
 - Standalone Zix ARR increased 6% to \$78.7 million.
 - Total overall organic ARR growth was 17%.
- **Total billings increased 7%** year-over-year to \$46.3M
- GAAP fully diluted EPS attributable to common stockholders of (\$0.13)
- Non-GAAP fully diluted EPS before deemed dividends excl. deferred tax (benefit) expense of \$0.11
- **\$11.3M** in cash/investments

Quarterly Revenue Growth

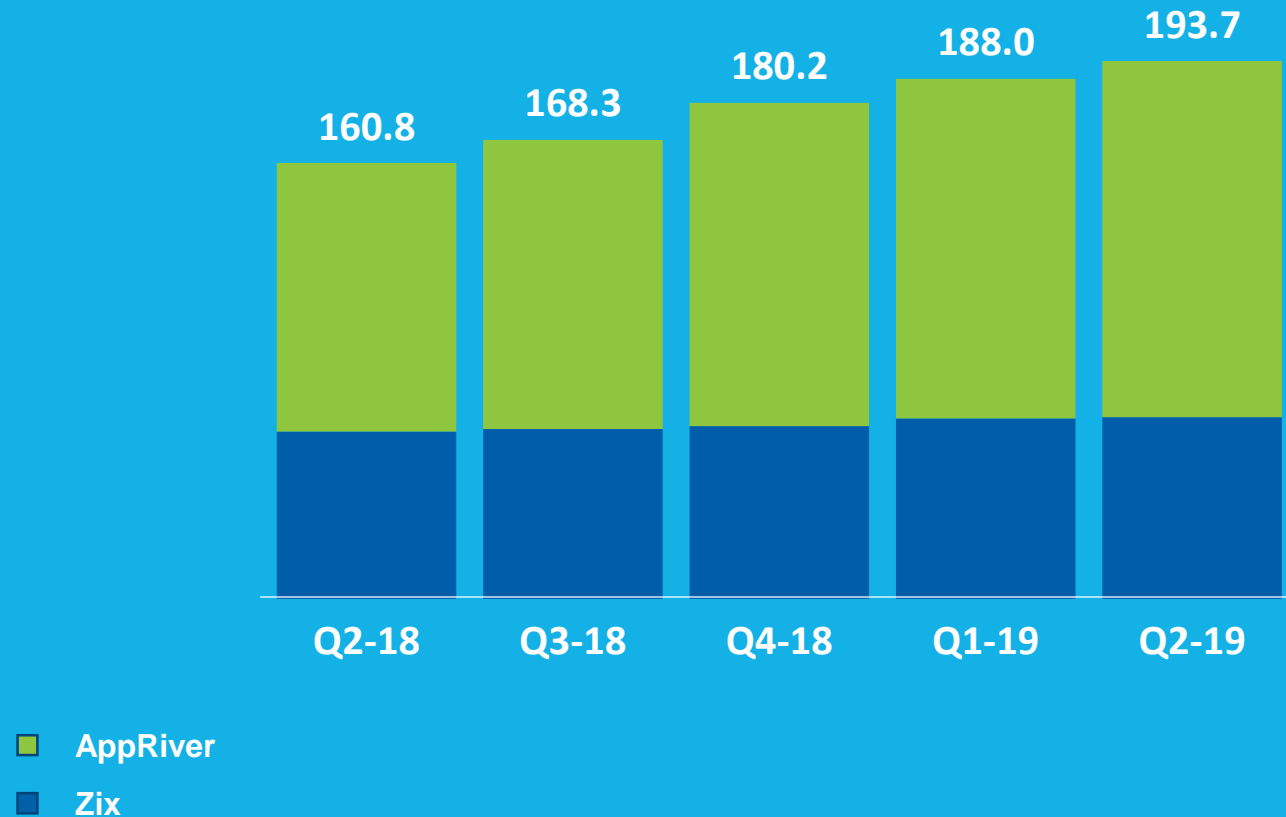


Annual Recurring Revenue (ARR)

- **Total ARR grew 162%** year-over-year in Q1 2019
 - Total overall organic ARR grew 17% year-over-year
- **Standalone Zix ARR grew 6%** year-over-year in Q2 2019
- **Standalone AppRiver ARR grew 26%** in Q2 2019.
- Email security and productivity solutions driving **strong cross-selling activity and ARR growth**
- Cloud-based offerings comprise **79%+ of ARR**



Annual Recurring Revenue

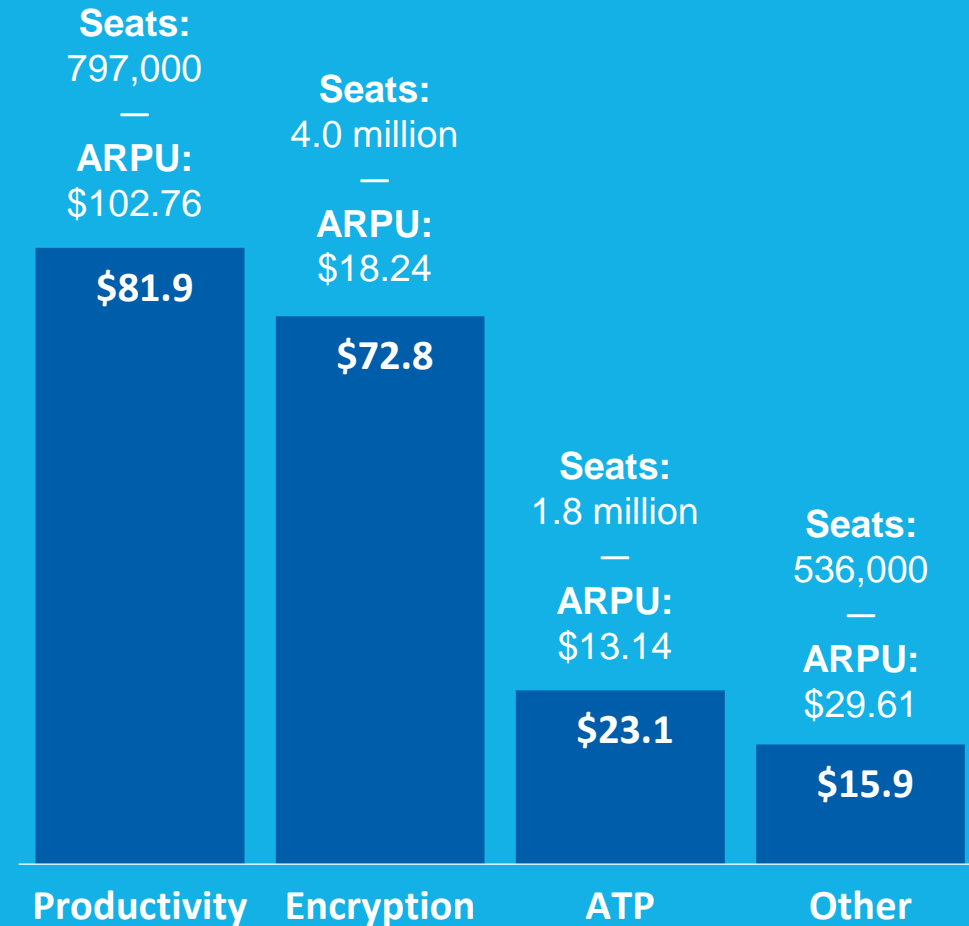


Q2 2019 Consolidated ARR

- Total ARR: \$193.7 million
- Total Unique Users: 5.9 million
- Total Licensed Users: 7.1 million
- Total Licenses per User: 1.2



ARR, Seats and ARPU Breakdown By Solution Category



ARPU = Average Revenue per User
 ATP = Advanced Threat Protection
 Other = Remaining solutions that individual make up less than 10% of total ARR
 Note: Productivity includes Office 365 and Secure Hosted Exchange solutions.

Q3 and FY 2019 Financial Outlook

<i>\$ in millions</i>	2017	2018	Q3 2019 ⁽⁴⁾	2019 ⁽⁵⁾
Revenue	\$65.7	\$70.5	\$47.0 – 47.5	\$170.0 - \$172.0
GAAP EPS	(\$0.15) ⁽¹⁾	\$0.29 ⁽²⁾	(\$0.04) – (\$0.02)	(\$0.24) – (\$0.21)
Adjusted EPS	\$0.29	\$0.33 ⁽³⁾	\$0.12 - \$0.14	\$0.44 - \$0.46 ⁽⁵⁾⁽⁶⁾

Note: Outlook effective only as of August 1, 2019.

1. Due to one-time non-cash charge in Q4 2017 due to the future effect of the lower U.S. corporate income tax rate resulting from the 2017 tax reform legislation (effective Jan. 1, 2018)

2. Includes Q4 2018 \$7.8 million reduction to the Company's deferred tax valuation allowance due to expected profitability

3. Excludes deferred tax (benefit) expense

4. Q3 guidance and Q4 guidance (not given) reflect the nearly final valuation of the AppRiver asset. The overall effect is a deeper discount on the deferred revenue haircut of about \$600,000

5. The Company expects a GAAP net loss in Q3, Q4, and full year 2019, due to higher depreciation and amortization expense as a result of the AppRiver purchase price accounting. As a result, the basic share count is used to calculate expected adjusted EPS for Q3, Q4, and full year 2019. The proper share count is 53.3M in Q3 and 53.5M in Q4.

6. The Company's previous adjusted EPS guidance for full year 2019 was \$0.40 - \$0.42. \$0.03 of the \$0.04 increase is the result of using the basic share count described above, and the other \$0.01 is from the continued strong performance of the business.



Zix Long-term Model

<i>\$ in millions</i>	FY15	FY16	FY17	FY18	Q4'19	Long-term
ARR	\$57	\$62	\$155	\$181	\$204-\$209	\$275-\$350
Adj. Gross Margin	83%	83%	82%	79%	62%	60%-65%
Adj. R&D % Rev.	15%	15%	16%	15%	10%	8%-10%
Adj. S&M % Rev.	32%	31%	29%	27%	20%	16%-18%
Adj. G&A % Rev.	13%	13%	13%	14%	11%	9%-11%
Adj. EBITDA	27%	28%	28%	29%	25%	27-30%

Target Model of \$275-\$350 Million in ARR in 3-5 Years



Note: Columns do not add down to Adjusted EBITDA figures due to operating expenses including depreciation and amortization, which are backed out to arrive at adjusted EBITDA.

Key Takeaways

- **Industry leader** in email security and productivity solutions
- **Broad solution suite** addresses entire business communications market from enterprise to SMB
- **Diversified** customer base of industry leaders with robust go-to-market channels of direct sales teams, VARs, and MSPs
- **100% subscription-based predictable business model** with eight consecutive years of profitability
- **Strong cash flow generation** and more than \$200M in NOLs
- **Strong outlook** for revenue & ARR growth and market share expansion



Note: Outlook effective only as of August 1, 2019.

Revenue



Fully Diluted Non-GAAP Adjusted EPS*



* Before deemed dividends and excluding deferred tax (benefit) expense
For a reconciliation of GAAP to adjusted non-GAAP results, see the company's earnings release on August 1, 2019, which is available on the investor relations Web page at <http://investor.zixcorp.com>

*\$ in millions 23

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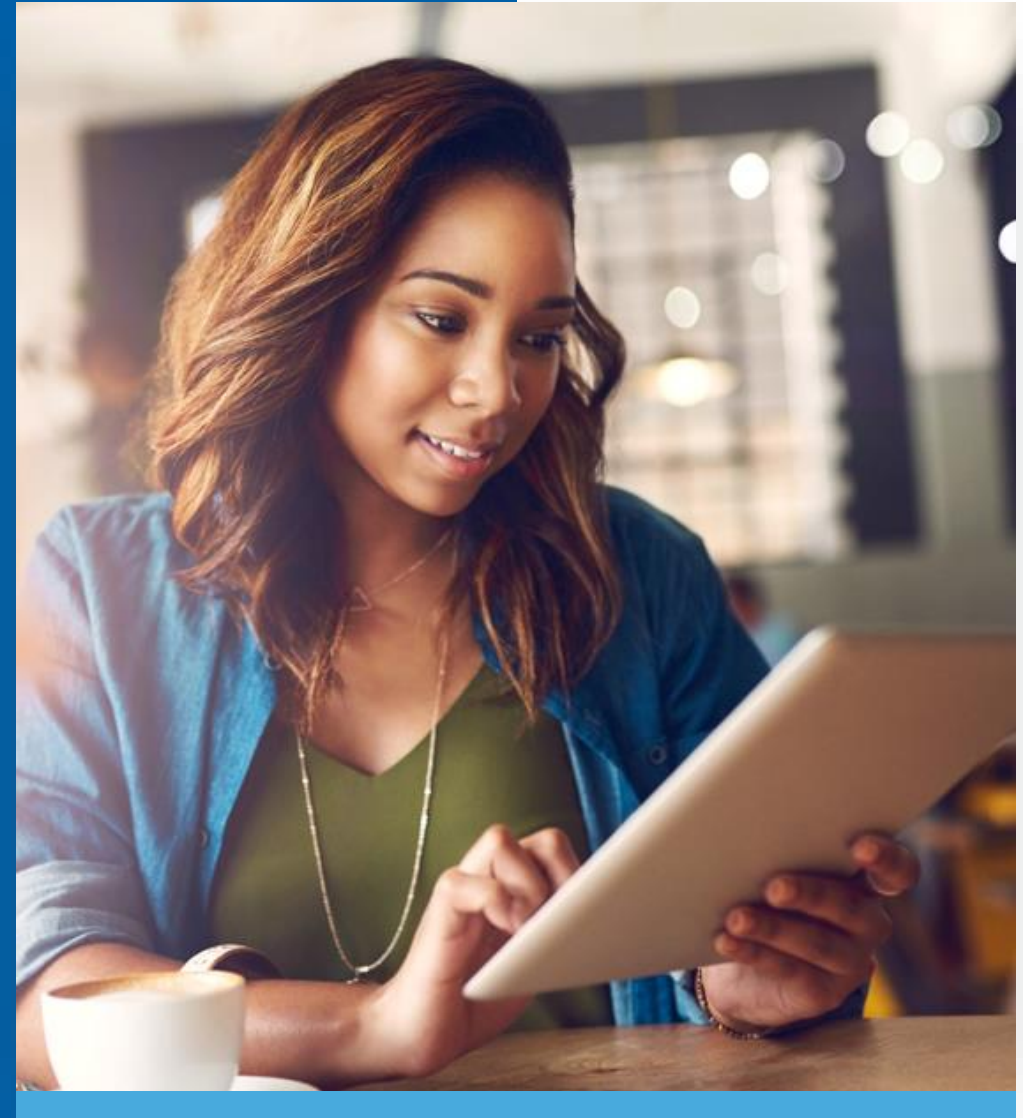
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Appendix

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Reconciliation of GAAP to Non-GAAP Financial Measures

ZIX CORPORATION
Reconciliation of Net income to EBITDA and Adjusted EBITDA
(Unaudited)

	Three Months Ended
	June 30, 2019
Revenue	\$ 45,916,000
Net income	\$ (3,702,000)
Income tax provision	(1,027,000)
Interest expense	3,171,000
Depreciation	1,551,000
Amortization	5,385,000
EBITDA	<u>5,378,000</u>
Adjustments:	
Stock-based compensation charges	1,964,000
Strategic consulting and litigation costs	2,800,000
Corporate separation payment	588,000
Adjusted EBITDA	<u><u>\$ 10,730,000</u></u>
Adjusted EBITDA margin	23.4%

Executive Management Team



David Wagner

President & Chief Executive Officer

- Appointed president and CEO in 2016
- Prior to Zix, held leadership roles at Entrust for 20 years, including most recently as president
- Held various finance and accounting positions at Nortel Networks and Raytheon Systems
- MBA and B.S. in Accounting from The Pennsylvania State University



Dave Rockvam

Chief Financial Officer

- Appointed CFO in 2016
- 20+ years of investor relations, finance and business development experience
- Held several senior leadership positions at Entrust and Nortel Networks
- MBA from The University of Texas at Dallas and an undergraduate degree from Texas Tech University

