



Fiscal Q3 2024 Earnings Call

May 30, 2024



Safe Harbor

FORWARD-LOOKING STATEMENTS

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

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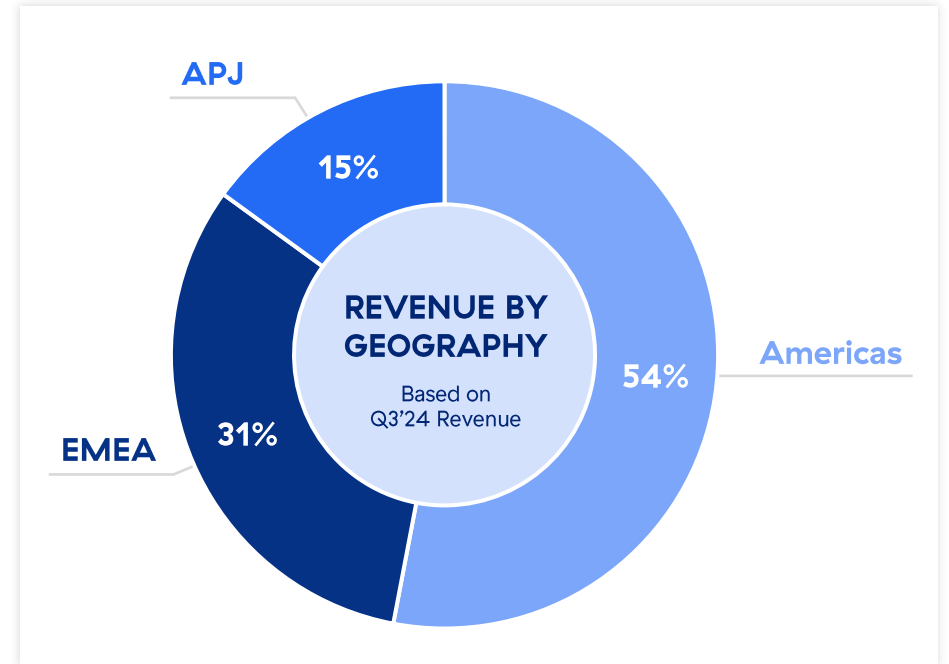
This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the fourth quarter of fiscal 2024 and full year fiscal 2024, our planned products 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 and geopolitical events on our business, operations and financial results and the economy in general; our limited operating history; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new product and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; and general market, political, economic and business conditions. Additional risks and uncertainties that could affect our financial and operating results are included in our most recent filings with the Securities and Exchange Commission (“SEC”). You can locate these reports through our website at <http://ir.zscaler.com> or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “continues,” “contemplate,” “could,” “estimate,” “expect,” “explore,” “intend,” “likely,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

Fiscal Q3'24 Results

	Q3 Guidance	Q3 Results
Revenue	\$534M – \$536M 28% y/y	\$553M 32% y/y
Calculated Billings		\$628M 30% y/y
Calculated Current Billings		\$613M 29% y/y
Gross Profit	80% margin	81.4% margin
Operating Profit	\$98M – \$100M	\$122M 22.0% margin
EPS	\$0.64 – \$0.65	\$0.88 83% y/y
Free Cash Flow		\$123M 22.3% margin

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



116%

Dollar-based net retention rate

523

\$1M+ ARR customers

91%

Operating profit Y/Y growth

27%

Free cash flow margin for trailing twelve months

Attackers have no inertia

91%

of organizations expressed concern about VPNs compromising their IT environment¹

~60%

YoY increase in global phishing attempts²

~400%

YoY increasing in phishing attempts targeted at the finance and insurance industry²

53%

of organizations breached via VPN say that threat actors moved laterally¹

56%

of organizations experienced one or more VPN-related attacks in the last year¹

~400%

YoY increase in IoT malware attacks³

1. Zscaler ThreatLabz 2024 VPN Risk Report — survey of 647 IT and cybersecurity professionals, conducted in April 2024

2. Zscaler ThreatLabz 2024 Phishing Report — reflects transaction data from our cloud

3. Zscaler ThreatLabz 2023 Enterprise IoT and OT Threat Report — reflects transaction data from our cloud

Innovation highlights

OUR PLATFORM EXPANSION IS ACCELERATING ACROSS MULTIPLE PILLARS

AI Co-Pilot for Zscaler Digital Experience (ZDX)

Industry-first AI-powered co-pilot for digital experience monitoring

Data Security Posture Management (DSPM)

Discover, classify, and protect sensitive data in public clouds

GenAI App Security

Provide deep visibility and granular controls for GenAI apps

Zero Trust Network Segmentation

Expands our platform into local area networks inside branches, campuses, and factories

Unified Vulnerability Management (UVM)

AI Cloud solution that proactively identify critical vulnerabilities

Recent innovations increase our \$72B addressable market opportunity **by several billion dollars**

Zscaler + Avalor: Leveraging our platform to AI leadership



400B+

daily transactions



150+

third party integrations

The world's largest security cloud, inline of users, workloads, and devices

Security-centric data fabric



Upon which we are developing multiple applications and functionalities

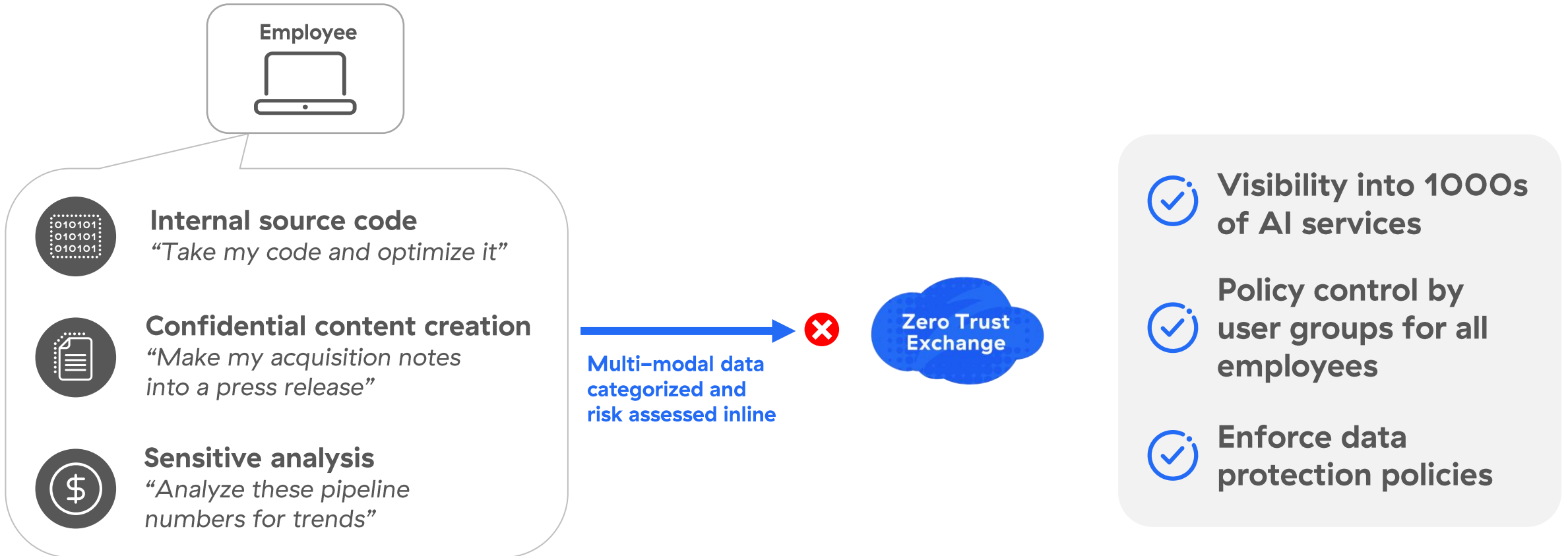
Risk360

Business Insights

Unified Vulnerability Management

...and more

Announced this quarter: GenAI App Security



Announced this quarter: Zero Trust Network Segmentation

BRINGING ZERO TRUST NETWORK SEGMENTATION INSIDE THE BRANCH



Customer locations become like a Starbucks

Eliminates

Branch Appliances



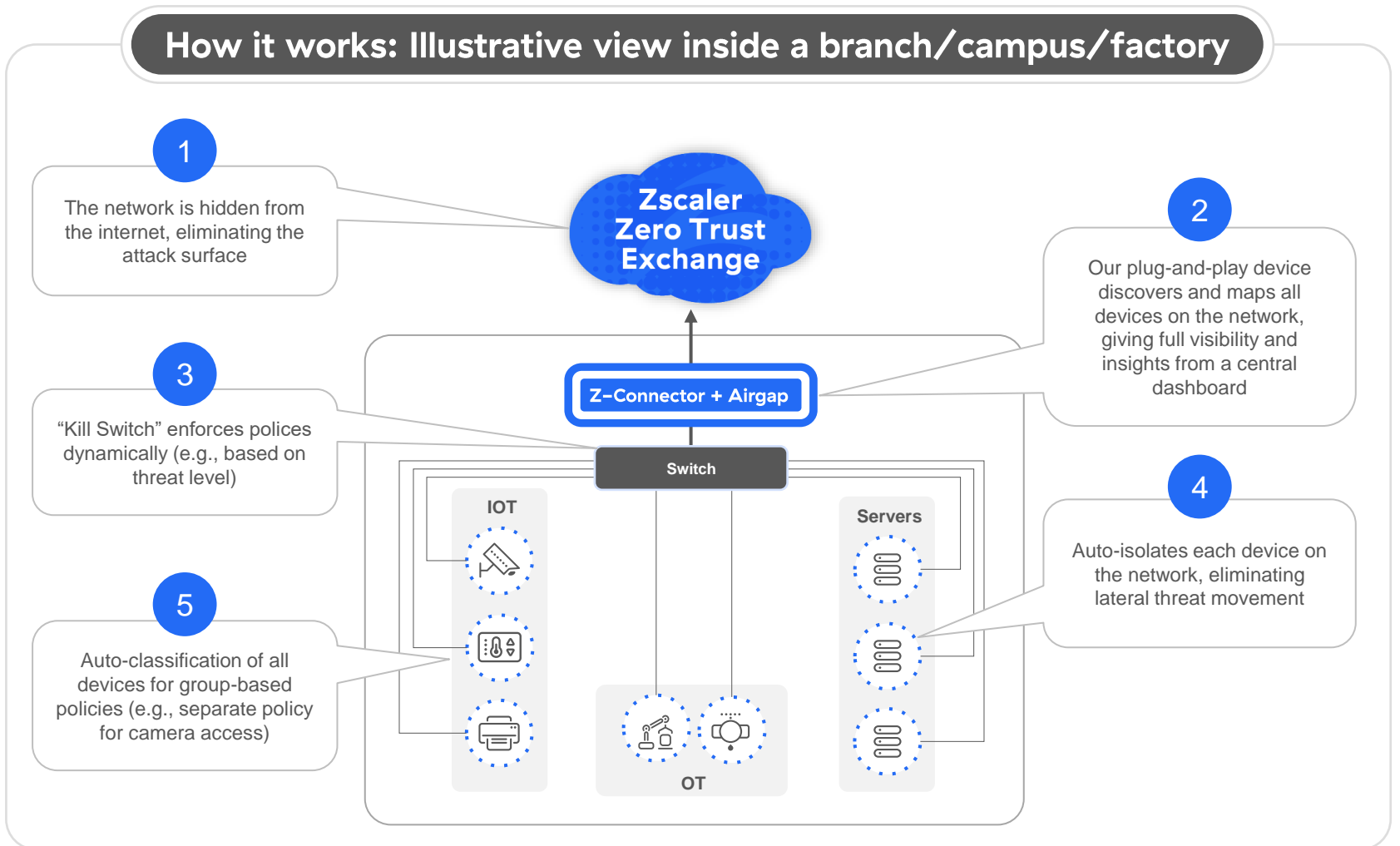
- E-W Firewalls
- NAC appliances

Device Agents



- NAC agents
- Micro-segmentation agents

How it works: Illustrative view inside a branch/campus/factory



Announced this quarter: Data Security Posture Management

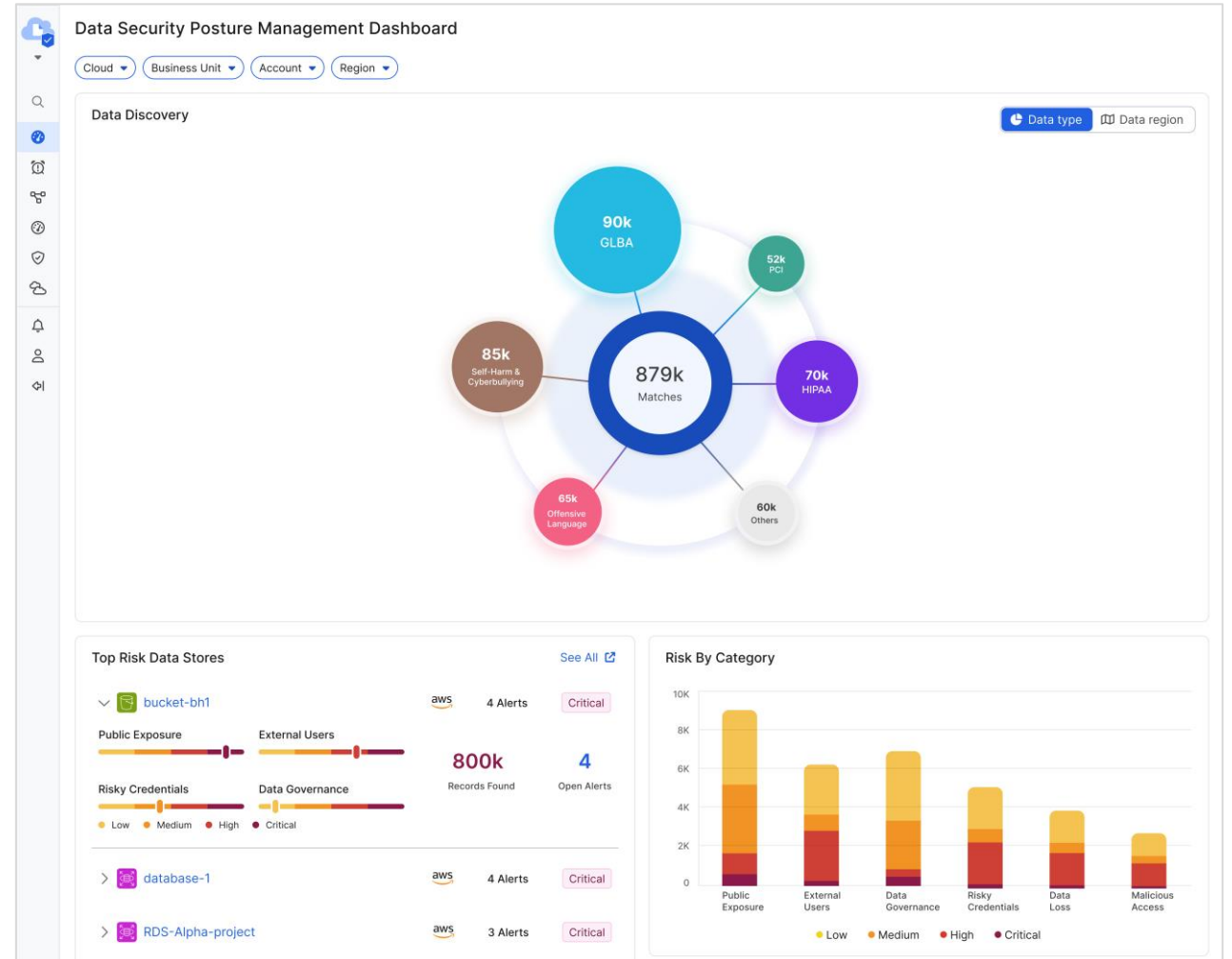
ANALYTICS AND INSIGHTS TO UNDERSTAND THE DATA RISKS IN PUBLIC CLOUDS



Service & Data Discovery
Data stores like S3, VMs, Containers, RDS, Mongo DB

Posture Discovery
Misconfigurations, excessive permissions, vulnerabilities

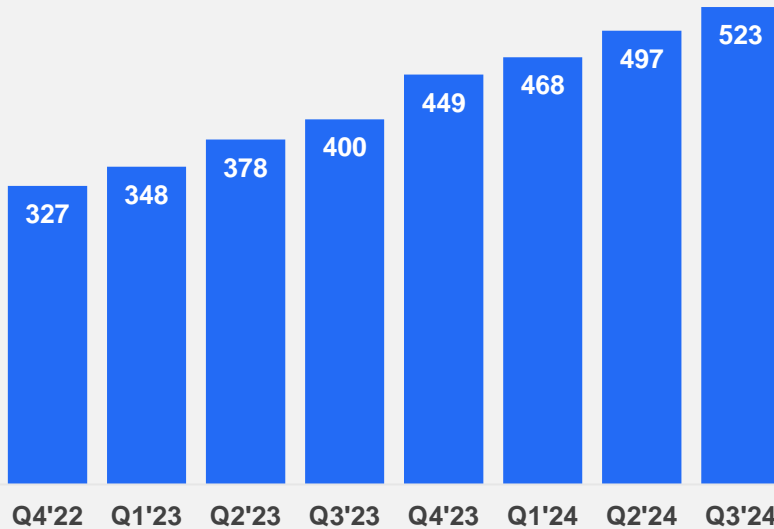
Actionable Insights
Correlate and prioritize risk.
Auto-remediation



Large customer momentum

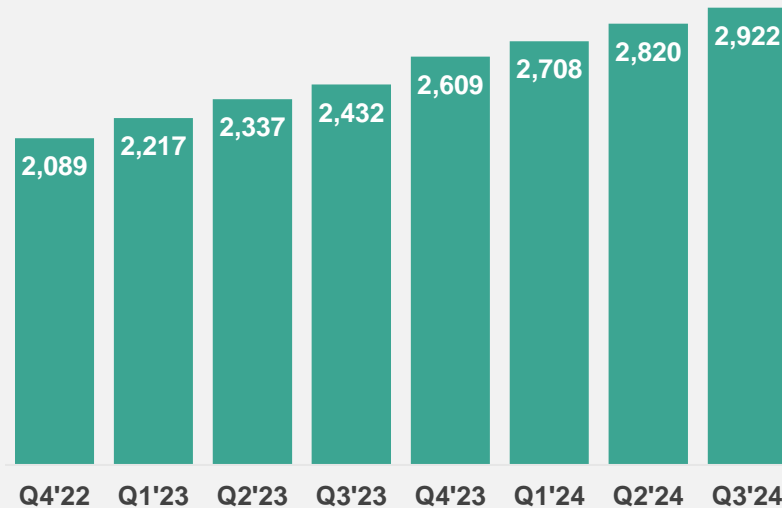
\$1M+ ARR Customers

62% 55% 51% 39% 37% 34% 31% 31%



\$100K+ ARR Customers

41% 37% 33% 29% 25% 22% 21% 20%



>50

\$5M+ ARR Customers

>40%

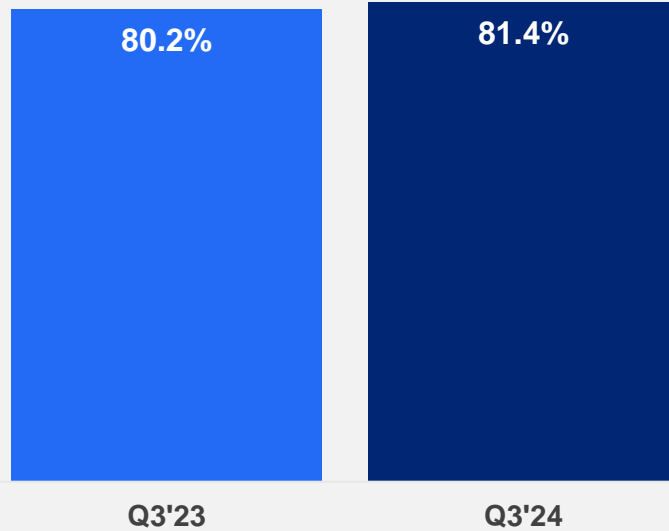
Fortune 500 Customers

>30%

Global 2000 Customers

Improving operating efficiency

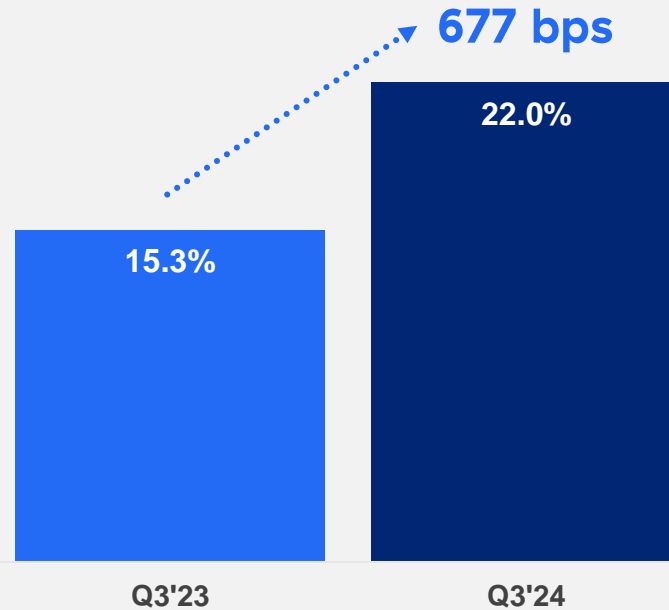
Gross Margin



Key factors

Scale of our purpose-built, multi-tenant cloud
Longer useful life of cloud infrastructure

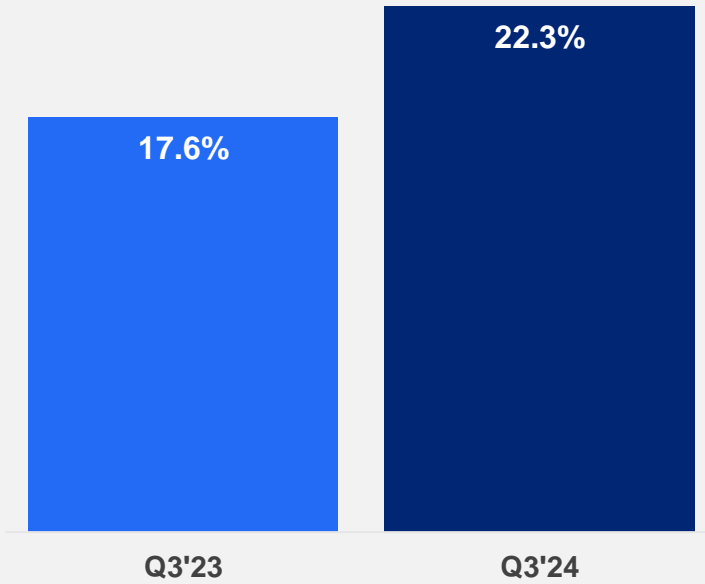
Operating Margin



Key factors

Leverage in our financial model, including 60%+ contribution margins on renewal cohorts in years 2 and 3
Pace of hiring

Free Cash Flow Margin



Key factors

Strong billings collections within the quarter

Select Q3'24 Deal Highlights

SUCCESS IN SELLING THE BROADER PLATFORM



Global 100 Financial Services

Upsell, 7-figure ACV

ZIA	>64,000 users
ZPA	>64,000 users
ZDX	>64,000 users
Data Protection	>64,000 users

Why Zscaler

- Consolidating multiple security point products, including Secure Web Gateway, VPN, and VDI
- Worked closely with one of our GSI partners on this large transformation project



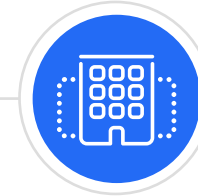
DoD Branch

New logo, 7-figure deal

ZIA	50,000 users
ZPA	50,000 users
ZDX	50,000 users
Data Protection	50,000 users

Why Zscaler

- Implementing Zero Trust, as mandated by the President's Executive Order
- Our proven Zero Trust architecture and DoD IL5 certification were key to winning this deal



Large Financial Services

New logo, 7-figure TCV

ZIA	25,000 users
ZDX	25,000 users
Data Protection	25,000 users

Why Zscaler

- After experiencing a catastrophic cyberattack last year, sought Zero Trust, excluding their current firewall vendors from consideration
- Our superior architecture and strong data protection capabilities were key to winning this deal

Deal traction in our emerging solutions continues

EMERGING PRODUCTS CONTRIBUTED NEARLY A QUARTER OF NEW AND UPSELL BUSINESS IN Q3

Zero Trust for Workloads

AI Cloud Solutions

Zero Trust for Branch

Large APJ Based Financial Services

7-figure ACV deal for Zscaler for Users and initial purchase of many emerging products (nearly 1/3 of deal value)

Zero Trust for Workloads

AI Cloud Solutions

Fortune 500 Technology

First purchase of Zero Trust for Workloads and AI Cloud solutions, increasing ARR by 5x to >\$10M

Largest Workload deal to date

AI Cloud Solutions

Many wins across verticals, including:

- Broadcasting customer
- Consulting customer
- Insurance customer

Zero Trust for Branch

Large retailer in Europe

7-figure ACV deal for Zscaler for Users and Zero Trust for Branch (about a quarter of deal value)

Financial Guidance

	Fiscal Q4'24	Initial FY24	Updated FY24
Revenue	\$565M - \$567M <i>24%-25% y/y</i>	\$2.050B - \$2.065B <i>27%-28% y/y</i>	\$2.140B - \$2.142B <i>Approx. 32% y/y</i>
Calculated Billings		\$2.52B - \$2.56B <i>24%-26% y/y</i>	\$2.603B - \$2.606B <i>Approx. 28% y/y</i>
Gross Margin	80%		
Operating Profit	\$107M - \$109M	\$330M - \$340M <i>Margin +100-150 bps y/y</i>	\$422M - \$424M <i>Margin up to 490 bps y/y</i>
Net Other Income	\$17M		
Income Taxes	\$11M	\$35M	\$32M
Earnings Per Share	\$0.69 - \$0.70	\$2.20 - \$2.25	\$2.99 - \$3.01
Fully Diluted Shares	165M	161M	161M

Initial FY24 guidance provided on September 5, 2023

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

Strong Q3, marching towards our goal of \$5B ARR

- 1** **Strong Q3 performance** driven by continued demand for our Zero Trust architecture, as customers are embracing our platform for better cyber and data protection and point product consolidation.
- 2** **Accelerating our platform expansion** with innovations across multiple pillars, which extends Zscaler into new adjacent markets and **increases our \$72B market opportunity by several billions.**
- 3** Seeing significant deal wins for emerging products*, which contributed **nearly a quarter of new and upsell business in Q3.**
- 4** Landed a **7-figure ACV deal with DoD.** 12 of 15 Cabinet-level agencies are our customers, and we continue to see strong opportunity across the entire Federal market.
- 5** **Building a strong go-to-market team** to scale us to \$5B ARR and beyond. Zscaler is a destination for top talent, and we are hiring experienced leaders and reps to capture our large market opportunity.

*Emerging products includes ZDX, Zscaler for Workloads, AI Cloud Solutions, and Zero Trust for Branch



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 acquired intangible assets and non-recurring income tax expense or benefit associated with business acquisitions are excluded because these are considered by management to be outside of our core business operating performance. Restructuring and other charges includes severance and termination benefits in connection with a restructuring plan to streamline operations and to align people, roles and projects to our strategic priorities. These expenses are excluded because they fluctuate in amount and frequency and are not reflective of our core business operating performance. Amortization of debt issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. 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 from Operations and Non-GAAP Operating Margin^(*)
- Non-GAAP Net Income and Non-GAAP Net Income per Share
- 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

	Q3 24	Q3 23	YTD Q3'24	YTD Q3'23
Revenue	\$ 553,201	\$ 418,800	\$1,574,903	\$1,161,946
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP gross profit	\$ 434,870	\$ 322,951	\$1,227,979	\$ 901,796
Add: Stock-based compensation expense and related payroll taxes	12,487	10,025	38,876	28,281
Add: Amortization expense of acquired intangible assets	2,962	2,695	8,396	6,809
Non-GAAP gross profit	\$ 450,319	\$ 335,671	\$1,275,251	\$ 936,886
GAAP gross margin	79 %	77 %	78 %	78 %
Non-GAAP gross margin	81 %	80 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	\$ (3,013)	\$ (55,746)	\$ (94,527)	\$ (190,071)
Add: Stock-based compensation expense and related payroll taxes	121,465	111,386	399,730	331,540
Add: Amortization expense of acquired intangible assets	3,381	2,975	9,500	8,078
Add: Restructuring and other charges, excluding stock-based compensation expense	—	5,265	—	5,265
Non-GAAP income from operations	\$ 121,833	\$ 63,880	\$ 314,703	\$ 154,812
GAAP operating margin	(1) %	(13) %	(6) %	(16) %
Non-GAAP operating margin	22 %	15 %	20 %	13 %

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

\$ IN THOUSANDS

	Q3 24	Q3 23	YTD Q3'24	YTD Q3'23
Non-GAAP Net Income per Share, Diluted				
GAAP net income (loss)	\$ 19,124	\$ (46,046)	\$ (42,828)	\$ (171,661)
Stock-based compensation expense and related payroll taxes	121,465	111,386	399,730	331,540
Amortization expense of acquired intangible assets	3,381	2,975	9,500	8,078
Restructuring and other charges, excluding stock-based compensation expense	—	5,265	—	5,265
Amortization of debt issuance costs	979	974	2,934	2,919
Benefit for income taxes	(5,123)	—	(1,864)	—
Non-GAAP net income	\$ 139,826	\$ 74,554	\$ 367,472	\$ 176,141
Add: Non-GAAP interest expense related to the convertible senior notes	359	359	1,077	1,078
Numerator used in computing non-GAAP net income per share, diluted	\$ 140,185	\$ 74,913	\$ 368,549	\$ 177,219
GAAP net income (loss) per share, diluted	\$ 0.12	\$ (0.32)	\$ (0.29)	\$ (1.19)
Stock-based compensation expense and related payroll taxes	0.76	0.72	2.51	2.13
Amortization expense of acquired intangible assets	0.02	0.02	0.06	0.05
Restructuring and other charges, excluding stock-based compensation expense	—	0.03	—	0.03
Amortization of debt issuance costs	0.01	0.01	0.02	0.02
Benefit for income taxes	(0.03)	—	(0.01)	—
Non-GAAP interest expense related to the convertible senior notes	—	—	0.01	0.01
Adjustment to total fully diluted earnings per share	—	0.02	0.01	0.09
Non-GAAP net income per share, diluted	\$ 0.88	\$ 0.48	\$ 2.31	\$ 1.14
Weighted-average shares used in computing GAAP net income (loss) per share, diluted	154,081	145,354	148,945	144,442
Add: Outstanding potentially dilutive equity incentive awards	—	2,492	4,306	3,249
Add: Convertible senior notes	7,626	7,626	7,626	7,626
Less: Antidilutive impact of capped call transactions	(2,050)	—	(1,539)	—
Weighted-average shares used in computing non-GAAP net income per share, diluted	159,657	155,472	159,338	155,317

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

\$ IN THOUSANDS

	Q3 24	Q3 23	YTD Q3'24	YTD Q3'23
Calculated billings				
Revenue	\$ 553,201	\$ 418,800	\$ 1,574,903	\$ 1,161,946
Add: Total deferred revenue, end of period	1,577,014	1,175,373	1,577,014	1,175,373
Less: Total deferred revenue, beginning of period	(1,502,175)	(1,111,880)	(1,439,676)	(1,021,123)
Calculated billings	\$ 628,040	\$ 482,293	\$ 1,712,241	\$ 1,316,196
Calculated current billings				
Revenue	\$ 553,201	\$ 418,800	\$ 1,574,903	\$ 1,161,946
Add: Current deferred revenue, end of period	1,376,676	1,058,901	1,376,676	1,058,901
Less: Current deferred revenue, beginning of period	(1,316,416)	(1,000,359)	(1,281,143)	(923,749)
Calculated current billings	\$ 613,461	\$ 477,342	\$ 1,670,436	\$ 1,297,098
Free cash flow				
Net cash provided by operating activities	\$ 173,414	\$ 108,469	\$ 576,289	\$ 326,407
Less: Purchases of property, equipment and other assets	(35,651)	(26,244)	(95,204)	(70,127)
Less: Capitalized internal-use software	(14,637)	(8,339)	(32,453)	(23,962)
Free cash flow	\$ 123,126	\$ 73,886	\$ 448,632	\$ 232,318
Free cash flow margin				
Net cash provided by operating activities, as a percentage of revenue	31 %	26 %	37 %	28 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(6)%	(6)%	(6)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(3)%	(2)%	(3)%	(2)%
Free cash flow margin	22 %	18 %	28 %	20 %