



Fiscal Q4 2024 Earnings Call

September 3, 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.

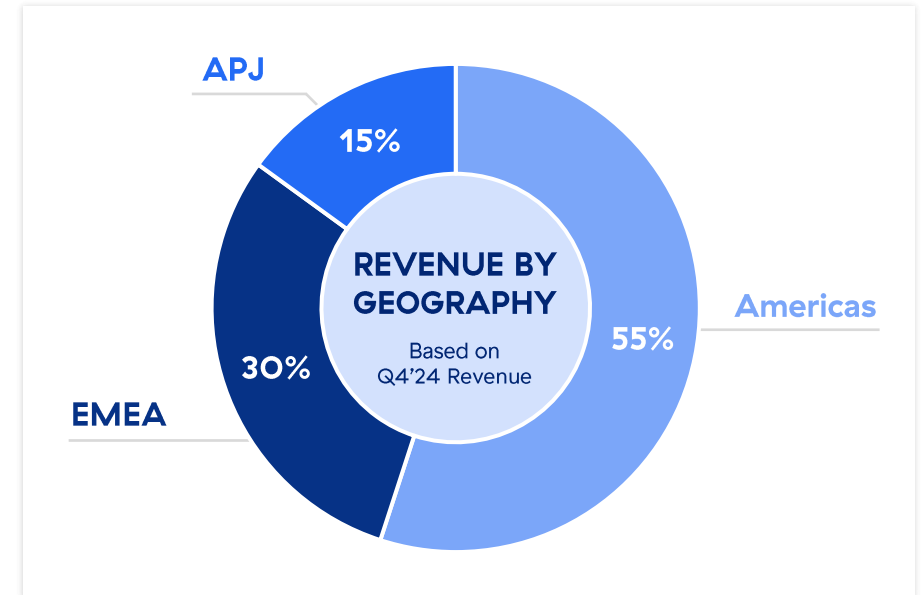
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This presentation contains forward-looking statements. All statements other than statements of historical fact, including statements regarding our future financial and operating performance, including our financial outlook for the first quarter of fiscal 2025 and full year fiscal 2025, 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 Q4'24 Results






	Q4 Guidance	Q4 Results	Results vs. Guidance
Revenue	\$565M – \$567M 24%–25% y/y	\$593M 30% y/y	✓ Exceeded
Calculated Billings		\$911M 27% y/y	
Calculated Current Billings		\$860M 27% y/y	
Gross Margin	80%	81.1%	
Operating Profit	\$107M – \$109M	\$128M 21.5% margin	✓ Exceeded
EPS	\$0.69 – \$0.70	\$0.88 38% y/y	✓ Exceeded
Free Cash Flow		\$136M 23.0% margin	



<p>115%</p> <p>Dollar-based net retention rate</p>	<p>567</p> <p>\$1M+ ARR customers</p>
<p>48%</p> <p>Operating profit Y/Y growth</p>	<p>27%</p> <p>Free cash flow margin for FY24</p>

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 2024 Results

	Initial FY24 Guidance	FY24 Results	Results vs. Initial Guidance
Revenue	\$2.05B – \$2.065B 27%–28% y/y	\$2.17B 34% y/y	 Exceeded
Calculated Billings	\$2.52B – \$2.56B 24%–26% y/y	\$2.62B 29% y/y	 Exceeded
Operating Profit	\$330M – \$340M 15.9%–16.4% margin	\$442M 20.4% margin	 Exceeded
EPS	\$2.20 – \$2.25	\$3.19	 Exceeded
Free Cash Flow Margin	Slightly above 20%	27.0%	 Exceeded

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

Customer adoption of Zscaler platform is **stronger than ever**

\$1B+

Record bookings in Q4

driven by accelerating
new and upsell business

Record

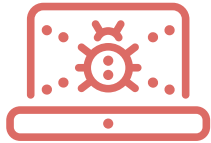
**New and Upsell
Business in Q4**

47M

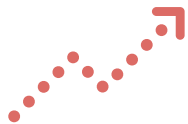
Users on our Platform

across over 8,650 customers

Cyber threats continue to increase in frequency and sophistication



The limitations of firewall and VPN based architectures are being exploited by threat actors



Increasing high profile breaches and volume of sophisticated attacks



Rising adoption of GenAI is exposing new gaps in organizations' security posture

Ransomware attacks continue to accelerate

18%

YoY increase in
ransomware attacks

57%

More ransomware
victims on data leak
sites than last year

144%

More ransomware
payloads

Source: Zscaler Threatlabz Ransomware Report
(April 2023–April 2024)

At the early stages of capturing our large market opportunity

\$96B

Serviceable Addressable Market

\$39B

Zero Trust for Users

\$35B

Zero Trust for Branch and Cloud

\$20B

Data Protection

\$2B

AI-Analytics Solutions



Our market leadership continues to widen

Zscaler = Zenith of Scalability

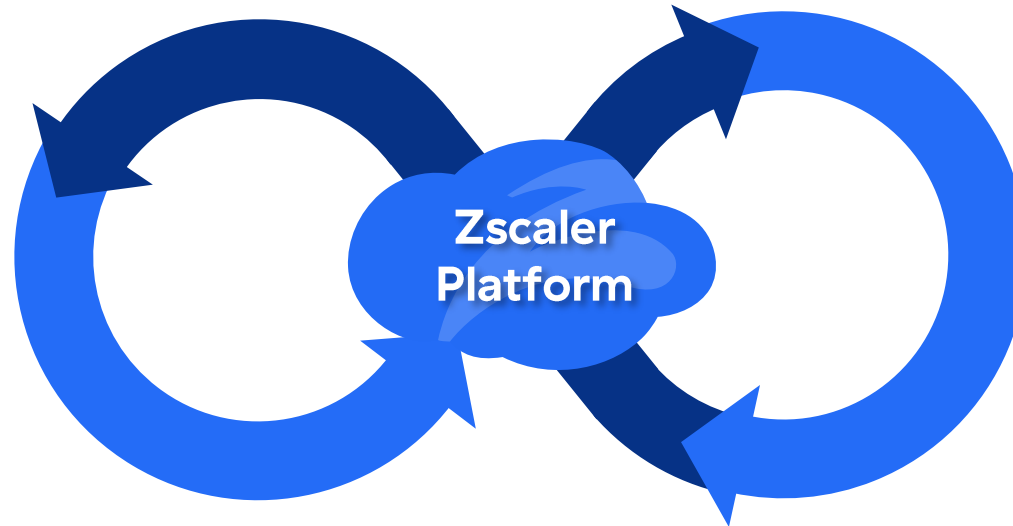
Over half a trillion

Transactions processed daily
in our cloud

Powerful **cloud effect** of better cyber protection

500B+
Daily
transactions

60+
Threat intel
partners



9B+
Daily security /
policy violations
prevented

250K+
Daily cloud
updates

More Data + More Customers = Deeper Insights

AI-Analytics creating new avenues of growth for us

New AI-Analytics Solutions...

- + Unified Vulnerability Management
- + Risk360
- + Business Insights
- + ...and more

...contributing to New and Upsell Growth

3 points

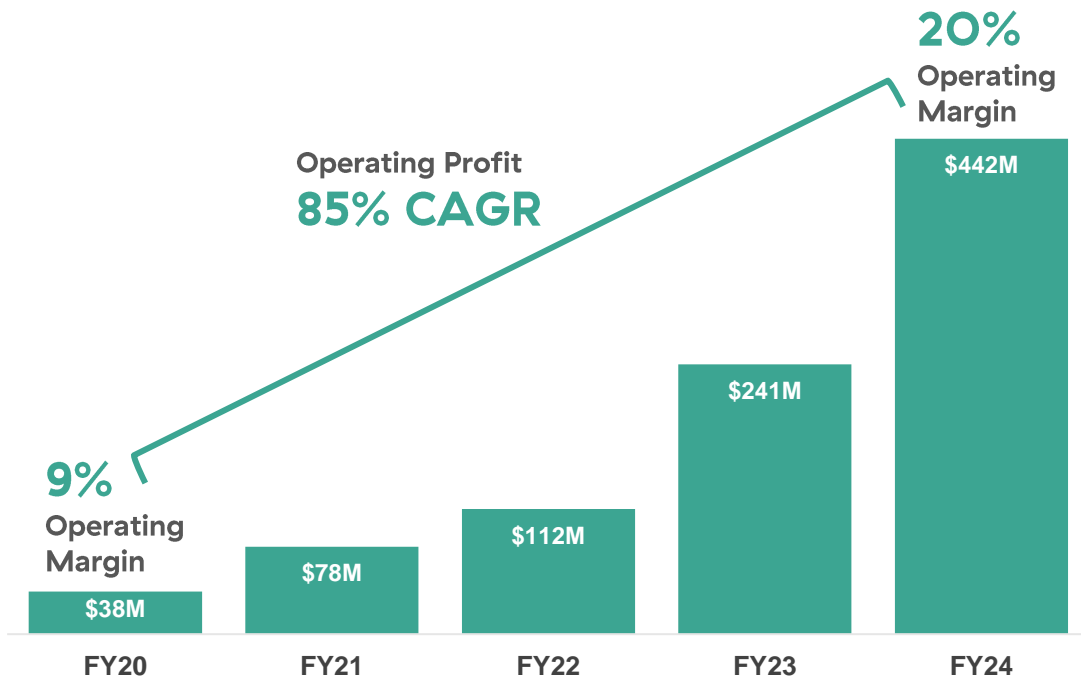
Q4 growth contribution

2 points

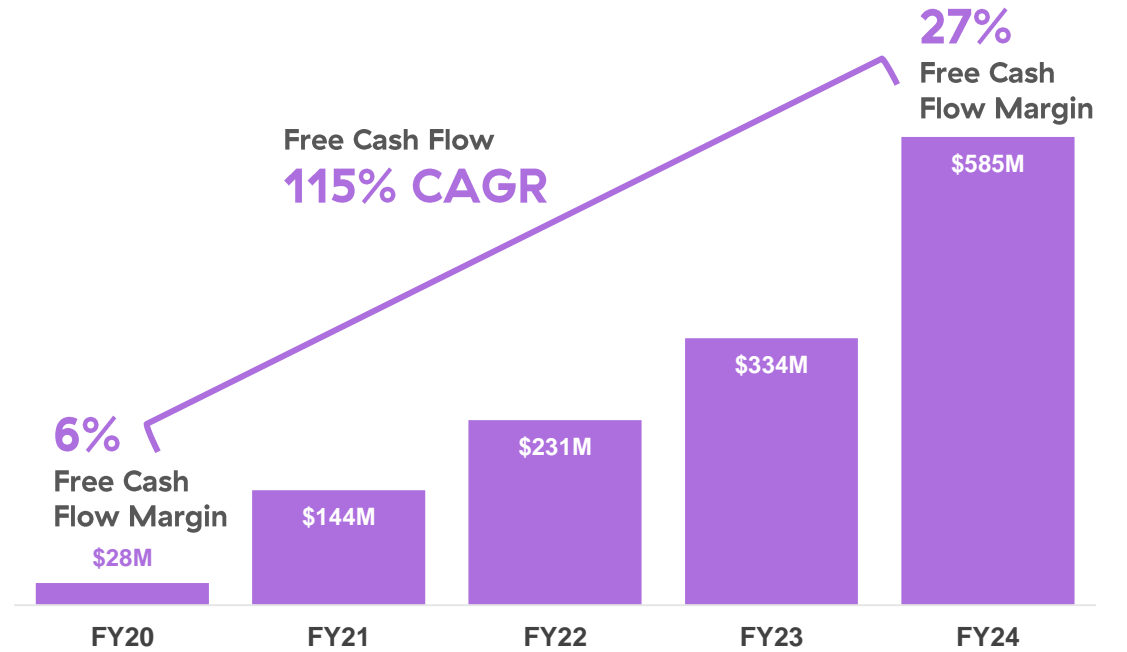
FY24 growth contribution*
(* – partial year contribution as products launched during FY24)

Delivered record...

Profitability

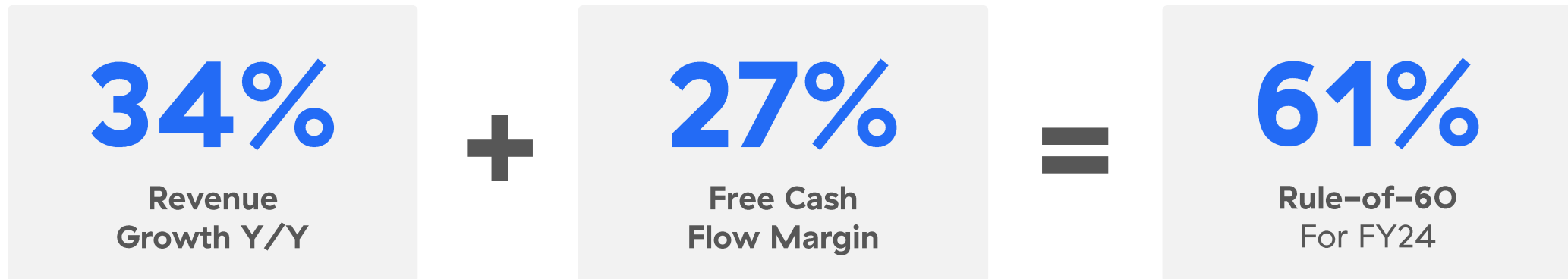


Free Cash Flow



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

Rule-of-60 for the 4th consecutive year

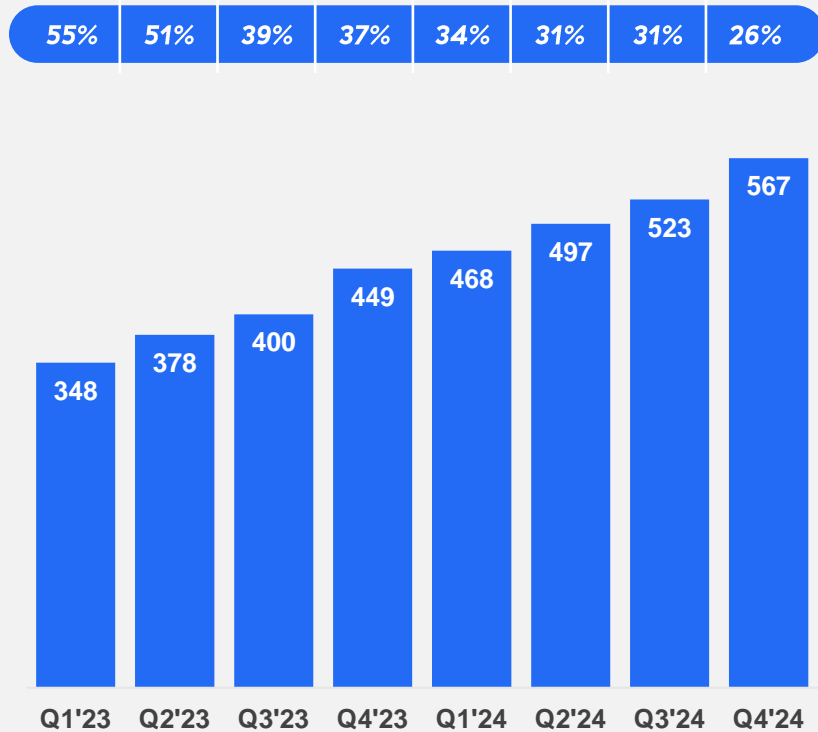


SaaS companies aspire to achieve Rule-of-40

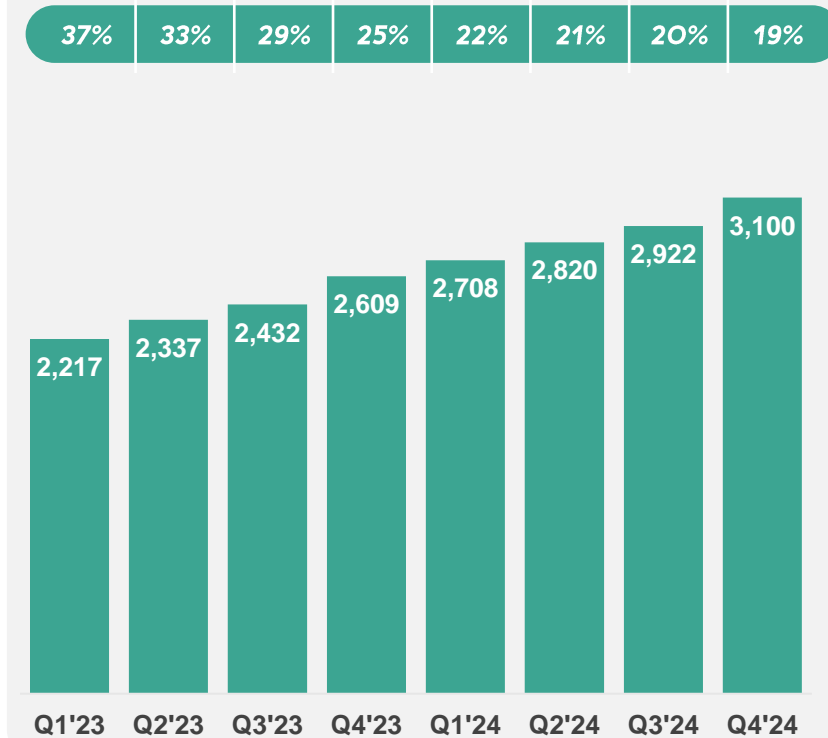
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Large customer momentum

\$1M+ ARR Customers



\$100K+ ARR Customers



>60

\$5M+ ARR Customers

>40%

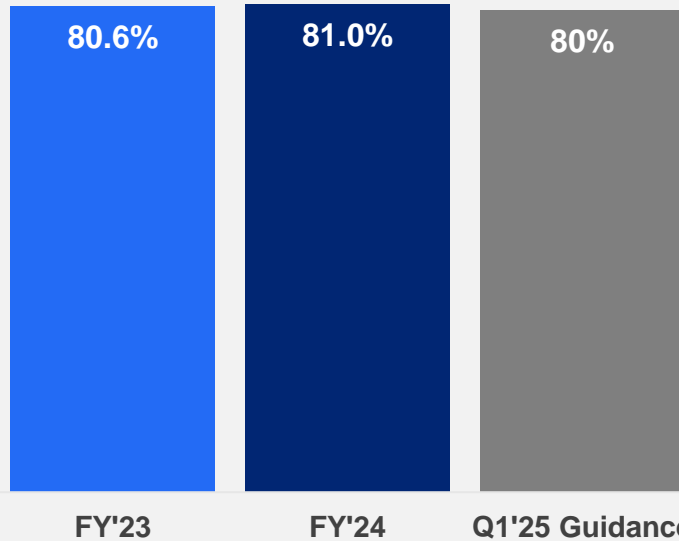
Fortune 500 Customers

~35%

Global 2000 Customers

Improving operating efficiency

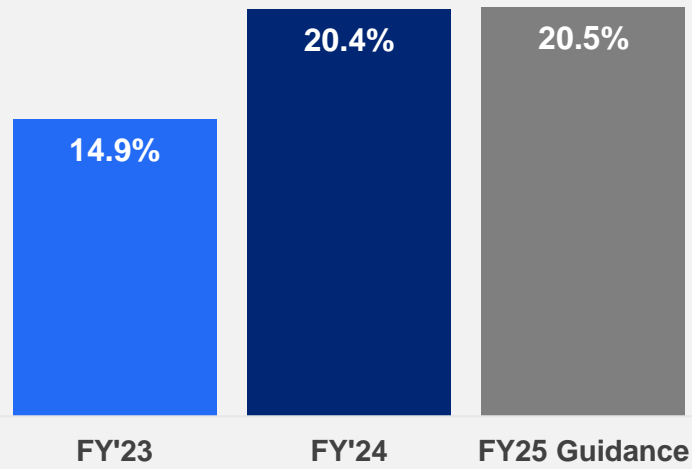
Gross Margin



Key factors

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

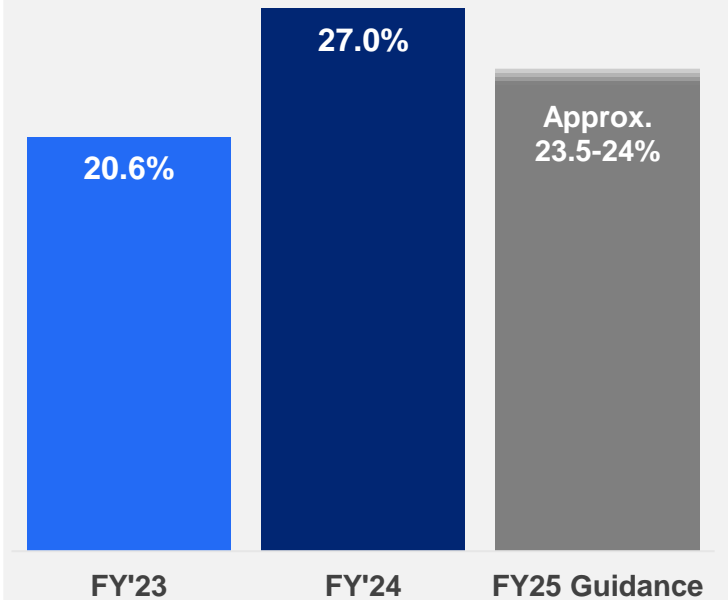
Operating Margin



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 year
Data center capital expenditures as a % of revenue in FY25 guidance approx. 3 points higher compared to FY24

Select Q4'24 Deal Highlights

SUCCESS IN SELLING THE BROADER PLATFORM



Top 10 Industry Machinery*

New logo, 7-figure ACV deal

ZIA	100,000 users
ZPA	100,000 users
ZDX	100,000 users
Data Protection	100,000 users

Why Zscaler

- Previously purchased a firewall-based SASE solution to consolidate firewalls, secure web gateways, and MPLS network spend.
- This solution did not deliver Zero Trust and chose Zscaler to replace.



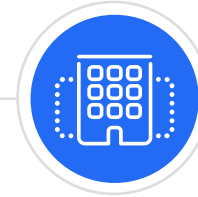
Fortune 200 Financial Services

Upsell, 7-figure deal

ZIA	68,000 users
ZPA	68,000 users
ZDX	68,000 users
Data Protection	68,000 users

Why Zscaler

- After seeing value in securing internet and SaaS access with ZIA, expanded to ZPA and ZDX.
- With this purchase, ARR more than doubled to nearly \$10M.



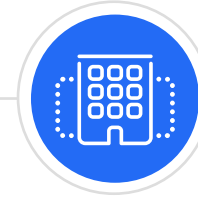
American Healthcare Provider

New logo, 8-figure TCV deal

ZIA	124,000 users
ZDX	124,000 users
Data Protection	124,000 users

Why Zscaler

- Our Data protection pillar was critical to this win due to its comprehensive capabilities in securing all types of data — structured, unstructured, in motion, at rest, and across all channels.



Global System Integrator

New logo, record TCV in services vertical

ZIA	>300,000 users
ZPA	>300,000 users
ZDX	>300,000 users

Why Zscaler

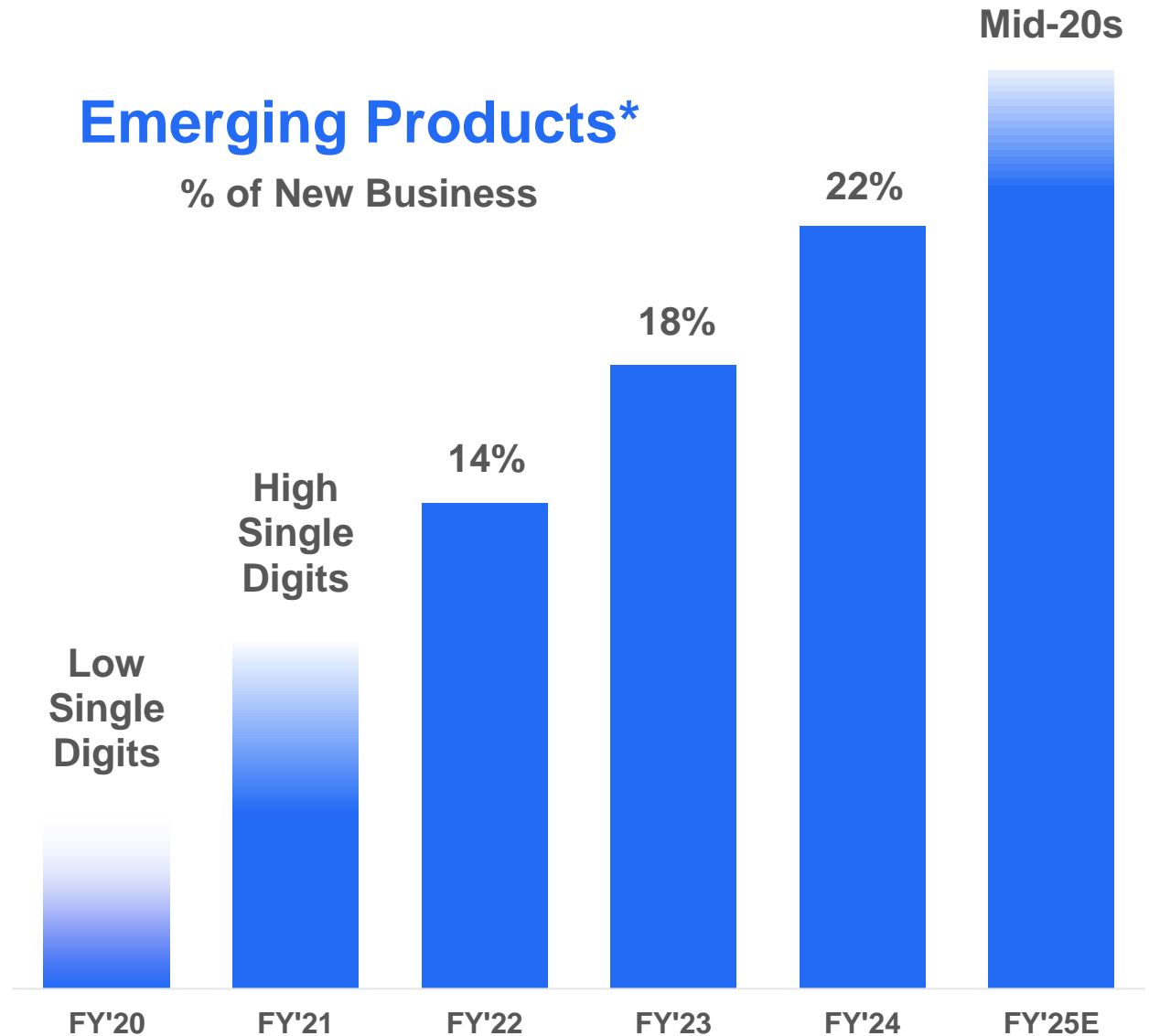
- Consolidating multiple point products, including secure web gateways, load balancers, VPNs, firewalls and MPLS network.
- Expected to deliver 200% ROI.

*Top 10 in Fortune 500 "Industry Machinery" industry categorization

Strong customer adoption of our emerging products continues

*Emerging products includes:

- (a) Zscaler Digital Experience (ZDX)
- (b) Zero Trust for Branch and Cloud (includes Zero Trust SD-WAN, Zero Trust for Workloads, and Zero Trust Segmentation)
- (c) AI-Analytics Solutions (includes Unified Vulnerability Management, Risk360, and Business Insights)



Zero Trust for Branch and Cloud Driving More Meaningful Wins

Zero Trust for Workloads

Fortune 500 Financial Services

Upsell, 7-figure ACV deal

- Zero Trust for Workloads contributed approx. **1/3 of ACV** of this 7-figure ACV deal, which doubled spend of this \$1M+ ARR customer

Zero Trust for SD-WAN

Top 10 Pharmaceutical Company*

Upsell, 7-figure ACV deal

- Protecting over 30 manufacturing sites, eliminating the need for firewalls.
- Zero Trust SD-WAN was nearly **50% of ACV of this 7-figure ACV deal**

Zero Trust for Branch and Cloud includes Zero Trust SD-WAN, Zero Trust for Workloads, and Zero Trust Segmentation

*Top 10 in Global 2000 "Drugs and Biotechnology" industry categorization

Making significant progress in transforming our go-to-market engine

Q4'24



Strong hiring quarter and lower-than-expected attrition



Sales productivity was better-than-expected, driven by acceleration in new and upsell business



Hired leaders experienced in building GSI programs in large enterprises; 8 out of the 10 largest GSIs by revenue are now our customers

Fiscal 2025



Expect to continue hiring reps at a strong pace and for attrition to further improve

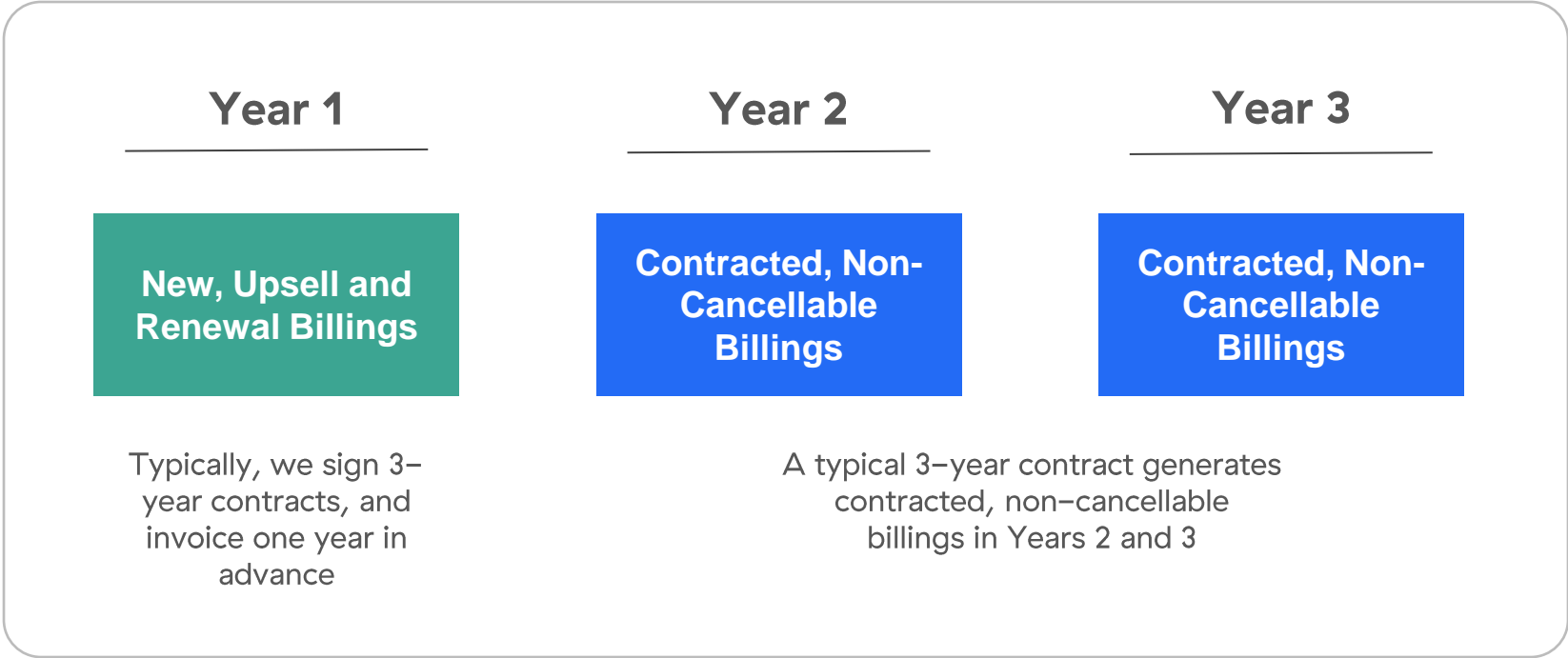


Expect sales productivity to continue to improve, with 2H stronger than 1H



Continue developing mutual go-to-market plans with GSIs that integrate our platform with their customers' digital transformation projects

Illustration of contracted, non-cancellable billings



The timing of **contracted, non-cancellable billings** implies stronger H2 than H1 in FY25 total billings

Calculated billings in a quarter has three key components

New and Upsell Billings

Billings from new and upsell deals closed in the quarter



Renewal Billings

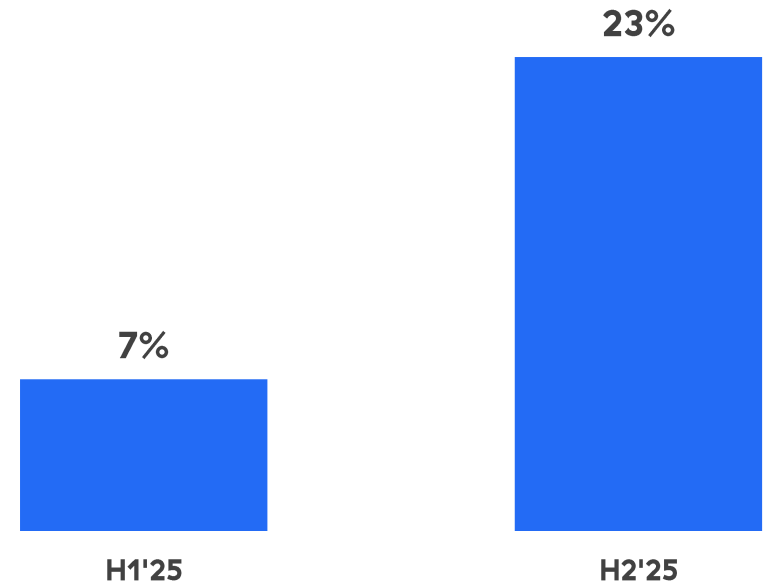
Billings from renewal deals closed in the quarter



Contracted, Non-Cancellable Billings

Scheduled billings from active contracts from prior periods

Contracted, Non-Cancellable Billings Y/Y growth rate is higher in H2 than H1



Financial Guidance

	Q1'25 Guidance	FY24 Results	FY25 Guidance							
Revenue	\$604M - \$606M <i>Approx. 22% y/y</i>	\$2.17B <i>34% y/y</i>	\$2.60B - \$2.62B <i>20%-21% y/y</i>	<table border="1"> <thead> <tr> <th colspan="2">FY25 Mix</th> </tr> </thead> <tbody> <tr> <td>H1</td> <td>39%–39.5%</td> </tr> <tr> <td>Q1</td> <td>Approx. 16.2%</td> </tr> </tbody> </table>	FY25 Mix		H1	39%–39.5%	Q1	Approx. 16.2%
FY25 Mix										
H1	39%–39.5%									
Q1	Approx. 16.2%									
Calculated Billings		\$2.62B <i>29% y/y</i>	\$3.11B - \$3.135B <i>19%-20% y/y</i>							
Gross Margin	80%	81.0%								
Operating Profit	\$114M - \$116M <i>18.8%-19.2% margin</i>	\$442M <i>20.4% margin</i>	\$530M - \$540M <i>20.2%-20.8% margin</i>							
Net Other Income	\$18M									
Income Taxes	\$31M	\$30M	\$140M	<table border="1"> <tbody> <tr> <td>Non-GAAP tax rate of 23% for FY25</td> </tr> </tbody> </table>	Non-GAAP tax rate of 23% for FY25					
Non-GAAP tax rate of 23% for FY25										
Earnings Per Share	\$0.62 - \$0.63	\$3.19	\$2.81 - \$2.87							
Fully Diluted Shares	164M	160M	164M							
Free Cash Flow Margin		27%	Approx. 23.5%-24%	<table border="1"> <tbody> <tr> <td>Data center capital expenditures as a % of revenue in FY25 approx. 3 points higher vs. FY24</td> </tr> </tbody> </table>	Data center capital expenditures as a % of revenue in FY25 approx. 3 points higher vs. FY24					
Data center capital expenditures as a % of revenue in FY25 approx. 3 points higher vs. FY24										

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 Q4, well positioned for Fiscal 2025

1

Customer **adoption of our Zero Trust platform** is stronger than ever, driving strong Q4, with accelerating new/upsell ACV

2

Our cloud, sitting inline, now processes over **half a trillion transactions** daily. We are leveraging this to deliver new **AI-Analytics solutions**, which contributed 3 points to new and upsell growth in Q4.

3

Strong customer adoption of **Emerging Products*** continues. Emerging products contributed 22% of new and upsell business in Fiscal 2024. We expect mid-20s contribution in Fiscal 2025.

4

We have **landed in 13 of 15 cabinet-level agencies**, including the DoD. We're accelerating our public sector go-to-market investments in other nations.

5

Strong **go-to-market engine** with experienced leaders attracting experienced sales reps to Zscaler.

*Emerging products includes (a) Zscaler Digital Experience (ZDX), (b) Zero Trust for Branch and Cloud (including Zero Trust SD-WAN, Zero Trust for Workloads, and Zero Trust Segmentation), and (c) AI-Analytics Solutions (including Unified Vulnerability Management, Risk360, and Business Insights).



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.

Effective August 1, 2024, the beginning of Zscaler’s fiscal year ending July 31, 2025, we are using a long-term projected non-GAAP tax rate of 23% for the purpose of determining our non-GAAP net income and non-GAAP net income per share to provide better consistency across interim reporting periods in fiscal 2025 and beyond. Given the significant growth of our business and non-GAAP operating income, we believe this change is necessary to better reflect the performance of our business. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to change for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations.

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

	Q4 24	Q4 23	FY 24	FY 23
Revenue	\$ 592,868	\$ 455,006	\$ 2,167,771	\$ 1,616,952
Non-GAAP Gross Profit and Non-GAAP Gross Margin				
GAAP Gross Profit	\$ 462,663	\$ 352,324	\$ 1,690,642	\$ 1,254,120
Add: Stock-based compensation expense and related payroll taxes	13,890	12,016	52,766	40,297
Add: Amortization expense of acquired intangible assets	4,483	2,765	12,879	9,574
Non-GAAP Gross profit	\$ 481,036	\$ 367,105	\$ 1,756,287	\$ 1,303,991
GAAP Gross Margin	78 %	77 %	78 %	78 %
Non-GAAP Gross Margin	81 %	81 %	81 %	81 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin				
GAAP loss from operations	\$ (26,950)	\$ (44,552)	\$ (121,477)	\$ (234,623)
Add: Stock-based compensation expense and related payroll taxes	149,370	126,275	549,100	457,815
Add: Amortization expense of acquired intangible assets	5,124	2,982	14,624	11,060
Add: Restructuring and other charges, excluding stock-based compensation expense	—	1,299	—	6,564
Non-GAAP Income from Operations	\$ 127,544	\$ 86,004	\$ 442,247	\$ 240,816
GAAP Operating Margin	(5)%	(10)%	(6)%	(15)%
Non-GAAP Operating Margin	22 %	19 %	20 %	15 %

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

\$ IN THOUSANDS

	Q4 24	Q4 23	FY 24	FY 23
Non-GAAP Net Income per Share, Diluted				
GAAP net loss	\$ (14,878)	\$ (30,674)	\$ (57,706)	\$ (202,335)
Stock-based compensation expense and related payroll taxes	149,370	126,275	549,100	457,815
Amortization expense of acquired intangible assets	5,124	2,982	14,624	11,060
Restructuring and other charges, excluding stock-based compensation expense	—	1,299	—	6,564
Amortization of debt issuance costs	980	975	3,914	3,894
Benefit for income taxes	—	—	(1,864)	—
Non-GAAP Net Income	\$ 140,596	\$ 100,857	\$ 508,068	\$ 276,998
Add: Non-GAAP interest expense related to the convertible senior notes	359	359	1,436	1,437
Numerator used in computing non-GAAP net income per share, diluted	\$ 140,955	\$ 101,216	\$ 509,504	\$ 278,435
GAAP Net Loss per share, diluted				
GAAP Net Loss per share, diluted	\$ (0.10)	\$ (0.21)	\$ (0.39)	\$ (1.40)
Stock-based compensation expense and related payroll taxes	0.93	0.80	3.44	2.94
Amortization expense of acquired intangible assets	0.03	0.02	0.09	0.07
Restructuring and other charges, excluding stock-based compensation expense	—	0.01	—	0.04
Amortization of debt issuance costs	0.01	0.01	0.02	0.03
Benefit for income taxes	—	—	(0.01)	—
Non-GAAP interest expense related to the convertible senior notes	—	—	0.01	0.01
Adjustment to total fully diluted earnings per share	0.01	0.01	0.03	0.10
Non-GAAP Net Income per share, diluted	\$ 0.88	\$ 0.64	\$ 3.19	\$ 1.79
Weighted-average shares used in computing GAAP Net Loss per share, diluted				
Weighted-average shares used in computing GAAP Net Loss per share, diluted	151,497	146,424	149,586	144,942
Add: Outstanding potentially dilutive equity incentive awards	2,699	3,265	4,091	3,174
Add: Convertible senior notes	7,626	7,626	7,626	7,626
Less: Antidilutive impact of capped call transactions	(1,325)	—	(1,486)	—
Weighted-average shares used in computing non-GAAP Net Income per share, diluted	160,497	157,315	159,817	155,742

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

\$ IN THOUSANDS

	Q4 24	Q4 23	FY 24	FY 23
Calculated Billings				
Revenue	\$ 592,868	\$ 455,006	\$ 2,167,771	\$ 1,616,952
Add: Total deferred revenue, end of period	1,894,974	1,439,676	1,894,974	1,439,676
Less: Total deferred revenue, beginning of period	(1,577,014)	(1,175,373)	(1,439,676)	(1,021,123)
Calculated Billings	\$ 910,828	\$ 719,309	\$ 2,623,069	\$ 2,035,505

Calculated Current Billings

Revenue	\$ 592,868	\$ 455,006	\$ 2,167,771	\$ 1,616,952
Add: Current deferred revenue, end of period	1,643,919	1,281,143	1,643,919	1,281,143
Less: Current deferred revenue, beginning of period	1,376,676	1,058,901	1,281,143	923,749
Calculated Current Billings	\$ 860,111	\$ 677,248	\$ 2,530,547	\$ 1,974,346

Free Cash Flow

Net cash provided by operating activities	\$ 203,557	\$ 135,936	\$ 779,846	\$ 462,343
Less: Purchases of property, equipment and other assets	(49,384)	(27,070)	(144,588)	(97,197)
Less: Capitalized internal-use software	(17,855)	(7,565)	(50,308)	(31,527)
Free Cash Flow	\$ 136,318	\$ 101,301	\$ 584,950	\$ 333,619

Free Cash Flow Margin

Net cash provided by operating activities, as a percentage of revenue	34%	30%	36%	29%
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(8)%	(6)%	(7)%	(6)%
Less: Capitalized internal-use software, as a percentage of revenue	(3)%	(2)%	(2)%	(2)%
Free Cash Flow Margin	23%	22%	27%	21%