Fiscal Q2 2025 Earnings Call

March 5, 2025

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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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.

Q2 exceeds guidance on all metrics

	Q2 Guidance	Q2 Results	Q2 Results vs. Guidance
Revenue	$633M – $635M *~21% y/y*	$648M *23% y/y*	*Exceeded*
Calculated Billings	No Guidance	$743M *18% y/y*	
Calculated Current Billings	No Guidance	$711M *19% y/y*	
Gross Margin	~80%	80.4%	*Exceeded*
Operating Profit	$126M – $128M *~20% margin*	$140M *21.7% margin*	*Exceeded*
EPS	$0.68 – $0.69	$0.78 *24% y/y*	*Exceeded*
Free Cash Flow	No Guidance	$143M *22% 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.

Key business metrics sustain growth momentum

Driving profitable growth at scale

Revenue Growth Y/Y
23%+
Strong growth across all geos

Operating Margin
22%
Operating Profit growth +36% Y/Y

Free Cash Flow Margin
22%
Free Cash Flow growth +42% Y/Y

Increasing customer commitments with Zscaler

RPO[1]
$4.6B+
RPO growth +28% Y/Y

Annual Recurring Revenue (ARR)[2]
$2.7B+
ARR growth +23% Y/Y

$1M+ ARR Customers
620
+25% Y/Y growth

Latest innovations resonating with customers

Emerging Products ARR Y/Y Growth
>2x
core products ARR Y/Y growth

AI-Analytics[3]
~2x
NU ACV Y/Y

Data Protection
>40%
NU ACV Y/Y growth

1. Remaining Performance Obligations (RPO).
2. To establish ARR for a customer, we use the total amount of each order booked to compute the annual recurring value of revenue that we would recognize if the customer continues to renew all contractual subscriptions.
3. AI-Analytics includes Risk360, Unified Vulnerability Management, Business Insights, and others.

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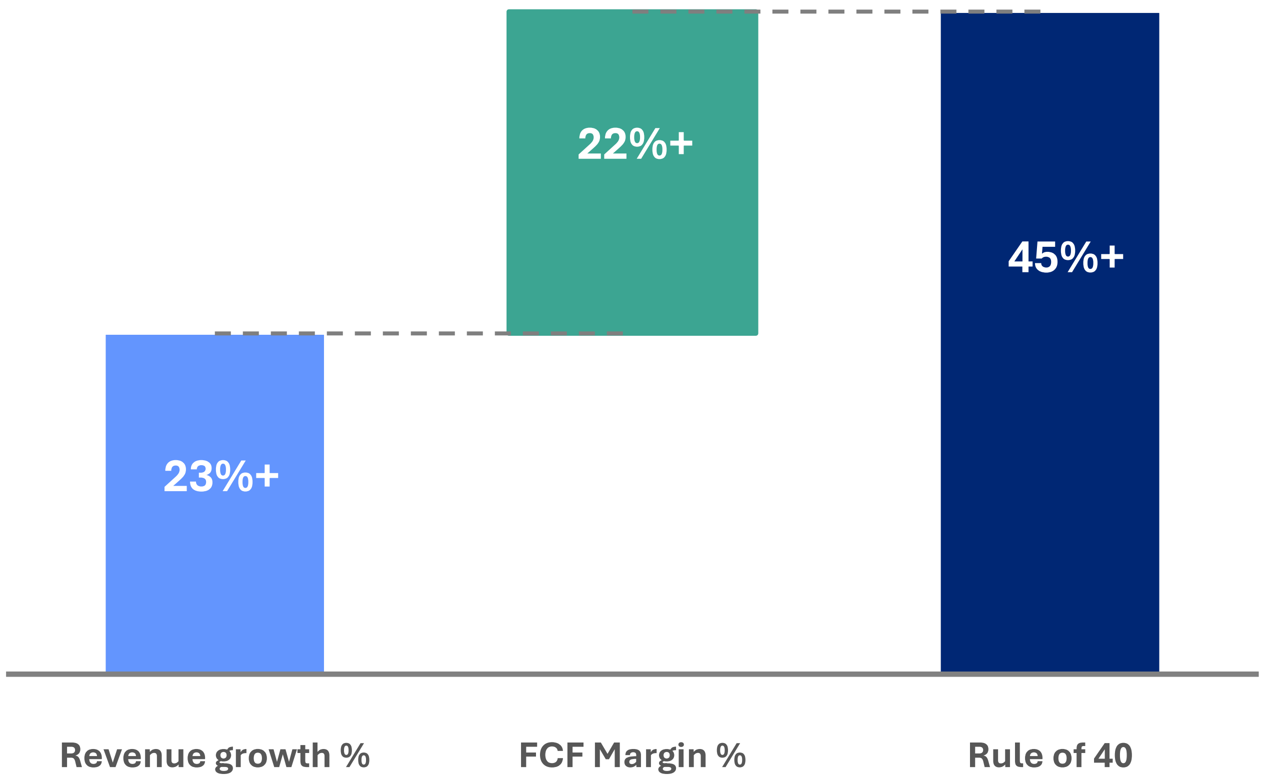
Above rule-of-40 for 5+ years; Improved NRR in Q2

Rule-of-45+ in Q2'25



115%

Q2'25 Dollar-based NRR

increased from Q1'25

In a rarefied category among large publicly traded SaaS companies

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Driving the "Zero Trust Everywhere"[1] transformation

Our expanded platform enables customers to implement
Zero Trust Everywhere[1]

Zero Trust Users

ZIA / ZPA

Any User, anywhere — Any App, anywhere

Zero Trust Cloud

Workload Protection

Any Workload or App — Any Workload or App

Zero Trust Branch

Segmentation

Branch, Device, or Factory — Branch, Device, Factory or App

Better security, lower costs

- Reduce Attack Surface
- Eliminate Lateral Propagation
- 200%+ Return on Investment[2]

Eliminate legacy security stack

- ✖ Firewall
- ✖ MPLS
- ✖ VPN
- ✖ VDI
- ✖ DDoS
- ✖ NAC

...and more

Secure | **Simplify** | **Transform**

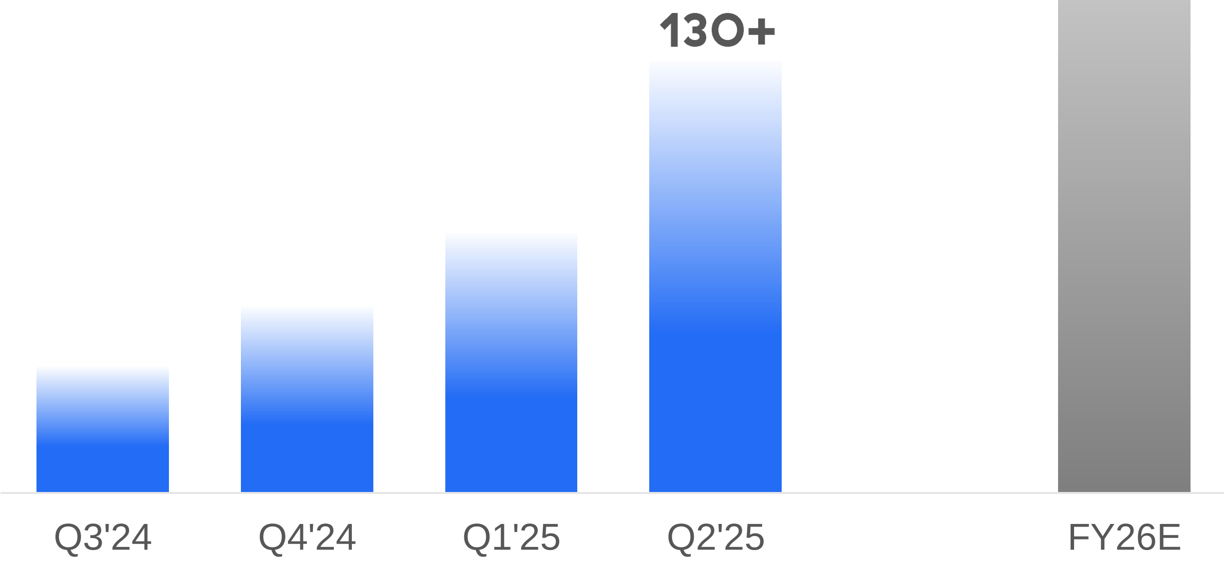
1. "Zero Trust Everywhere" customers are customers that purchased components of Zero Trust Users, Zero Trust Cloud and Zero Trust Branch solutions.
2. 200% ROI is a potential customer outcome as shown in the Zenith Live Innovations Briefing, June 15, 2023. Not indicative of every deployment.

Increasing adoption of Zero Trust among customers

- Launched surgical field campaigns to enable more “Zero Trust Everywhere”[1] customers

- Customers can leapfrog into Zero Trust by skipping the appliance refresh cycle, freeing themselves from firewalls and other legacy appliances forever

Goal: 3x “Zero Trust Everywhere”[1] enterprises[2] in 18 months



Graph is illustrative, not to scale.

1. “Zero Trust Everywhere” customers are customers that purchased components of Zero Trust Users, Zero Trust Cloud and Zero Trust Branch.
2. Enterprises are customers with 1,500 or more employees.

Zero Trust Branch is a core component of "Zero Trust Everywhere"[1]

Zero Trust Branch

- Segments branches, factories and campuses from the internet
- Within branches, segments OT & IoT devices
- Reduces firewall sprawl and complexity of legacy security
- Eliminates lateral threat movement across assets

Branch deal

G2K manufacturing

Upsell, 7-figure ACV deal

- Customer purchased Zero Trust Branch to secure their critical manufacturing sites
- Branch solution was 100% of deal value, adding to their existing ZIA, ZPA and Workloads subscriptions

Branch deal

Large comm equipment

Upsell, 7-figure TCV deal

- Customer purchased Zero Trust Branch to phase out their existing SD-WAN
- Branch solution was 100% of deal value, adding to their existing ZIA, ZPA and Workloads subscriptions

New logos contributed 57% of Zero Trust Branch purchases in Q2

"Zero Trust Branch" eliminates

- Firewall
- SD-WAN
- NACs
- MPLS
- Switches
- Routers

...and more

Select Q2'25 deal highlights

SUCCESS IN SELLING THE BROADER PLATFORM

G2K Retailer

Upsell, 7–figure deal

ZIA	30,000 users
ZPA	30,000 users
ZDX	30,000 users
Data Protection	30,000 users

Key features:

- Existing DLP vendor displaced for entire org. Further plans to eliminate their existing VPN vendors
- Cost savings exceed ZS' annual cost to the customer, while the transition enhances both security & user experience

Fortune 500 Energy & Utilities

New, 7–figure deal

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

Key features:

- Legacy SWG and VPN replacement; ZPA chosen for VDI displacement & M&A simplification
- *"We should have just selected Zscaler instead of wasting our time evaluating other vendors. We basically wasted a year. We now know that Zscaler is the best vendor and the best fit for our organization."*

G2K Financial Services

Upsell, 7–figure deal

ZIA	100,000 users
ZPA	100,000 users
ZDX	Future Upsell Opportunity
Data Protection	100,000 users

Key features:

- Regulatory requirements drove the need for an excellent DP solution
- Displaced incumbent CASB vendor, consolidation to ZS DP platform
- Data Protection 7–figure NU ACV; Customer is now a $5M+ ARR account

Govt. agency outside US

Upsell, 7–figure deal

ZIA	120,000 users
ZPA	120,000 users
ZDX	120,000 users
Data Protection	120,000 users

Key features:

- Adoption of Zero trust architecture amidst digitization of public services and cyber attacks
- Zscaler the vendor of choice over FW incumbent, illustrating the architectural difference between true zero–trust and firewall–based solutions

Data Protection driving consolidation and simplification

40%+

Data Protection
New and Upsell Growth

Data Protection module adoption

>85%

Of $1M+ ARR customers have 2 or more DP modules

65%

Of $1M+ ARR customers have 3 or more DP modules

Data Protection Modules

- Cyber Isolation
- Inline DLP
- SaaS Security
- Classification & Encryption
- DP Isolation
- Endpoint DLP
- Email DLP — New*
- DSPM — New*

** – Launched in the last 12 months*

Momentum in a broad range of verticals

Finance & Insurance	Technology
Manufacturing	Government
Healthcare	Retail & Wholesale
Services	Arts, Media & Entertainment

"New" modules defined as generally available modules in the last 12 months.

Leading in AI Security, on multiple fronts

Rapid adoption of AI means the tech stack must also evolve with a higher priority on security

Security for AI	zscaler
Software for AI	OpenAI, ANTHROP\C, Google DeepMind
Infrastructure for AI	Azure, aws, Google Cloud
Hardware for AI	NVIDIA

This is a representative group as of March 5, 2025.

Zscaler's in-line proxy cloud is uniquely positioned to drive AI adoption and AI-powered security

① Driving **AI adoption** by securing the use of AI apps

Secure use of Public-AI apps
such as ChatGPT, DeepSeek

Secure use of Private-AI apps[1]
such as chatbots, agents

AI deal win example: Securing Public-AI apps
- 7-Figure TCV deal with G2K manufacturing customer
- Customer purchased AI-powered data protection platform
- Data Protection made up ~100% of the deal value

② AI-powered Automated Digital Experience

ZDX Copilot
ZDX AI-Agents
..and more

ZDX Advanced Plus bookings grew >45% Y/Y to nearly $50M

③ AI-powered Security Products

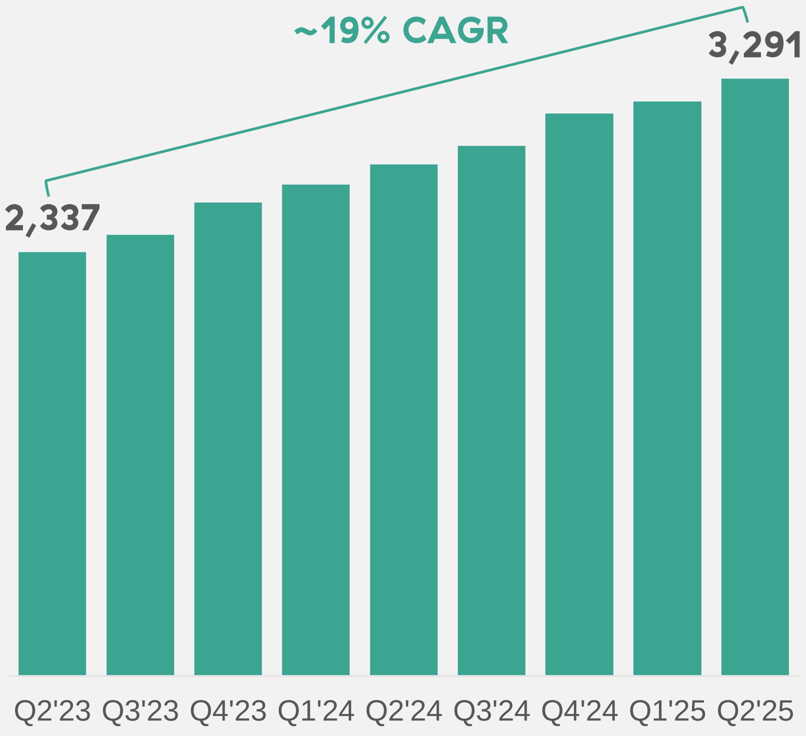
CAASM
Vulnerability Prioritization
..and more

AI-Analytics NU ACV nearly 2x vs. last year

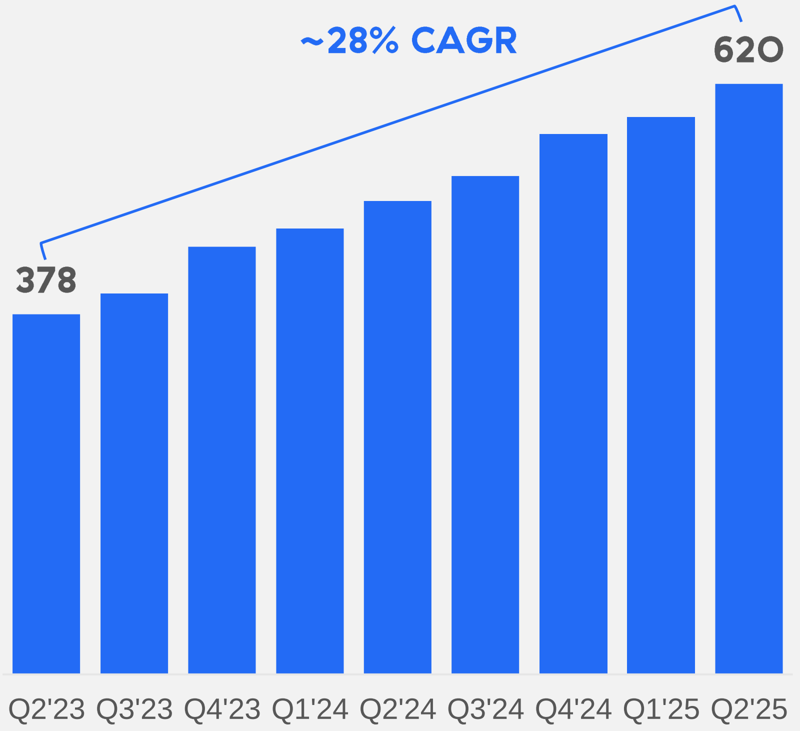
1. On roadmap

Large customer momentum

$100K+ ARR Customers



$1M+ ARR Customers



>70
$5M+ ARR Customers

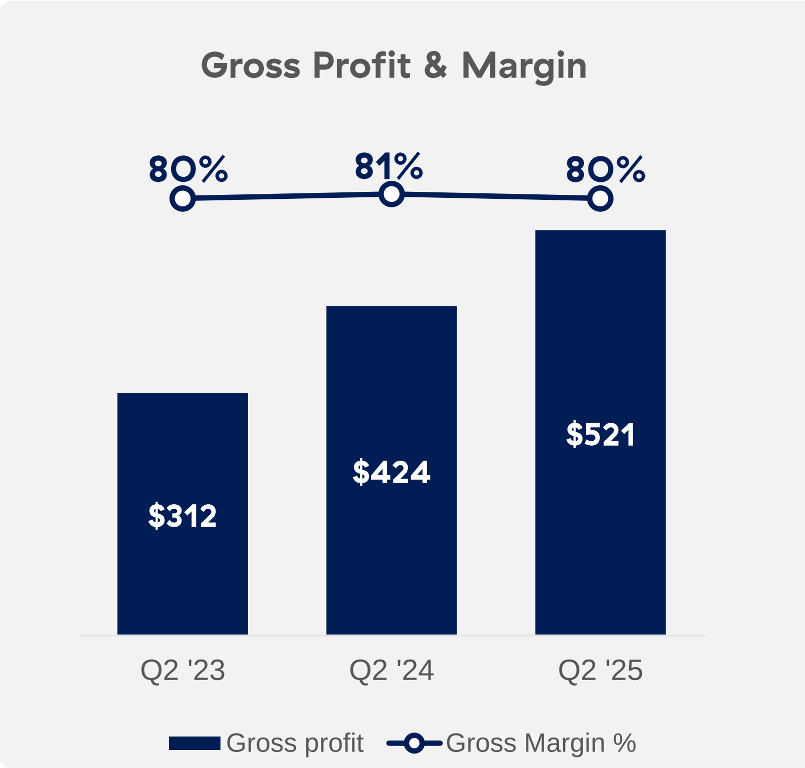
~45%
Fortune 500 Customers

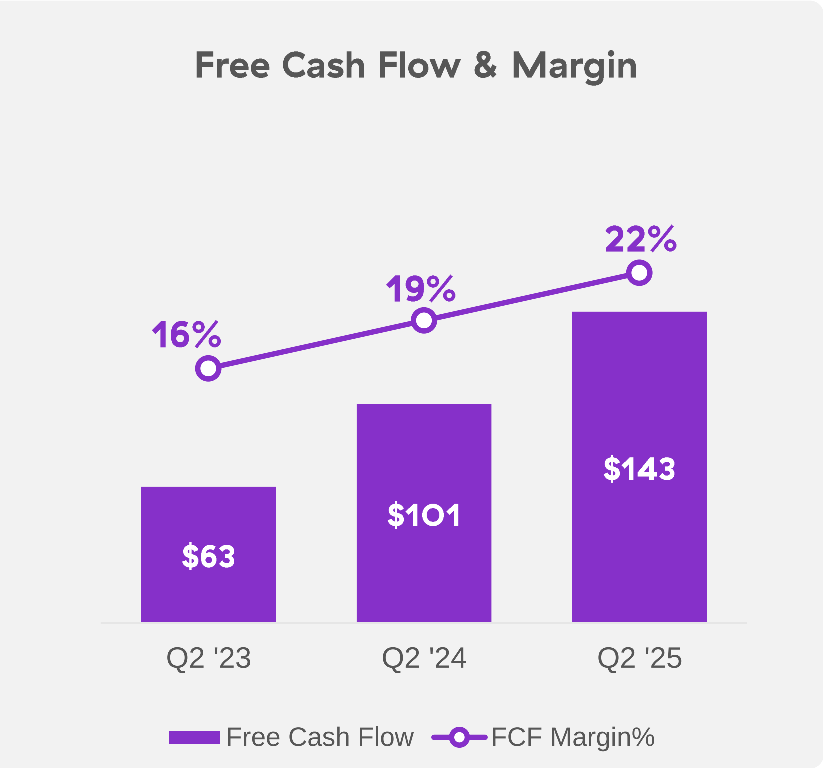
>35%
Global 2000 Customers

Fortune 500 and Forbes Global 2000 customer count based on June 2024 rankings.

Improving operating efficiency, profitability & cash flow

(in $ M)





Key factors

- New products use public clouds and are optimized for faster go–to–market than gross margins
- As the new products scale, we will optimize them for margins

Key factors

- Leverage in our financial model
- Pace of hiring & improving attrition

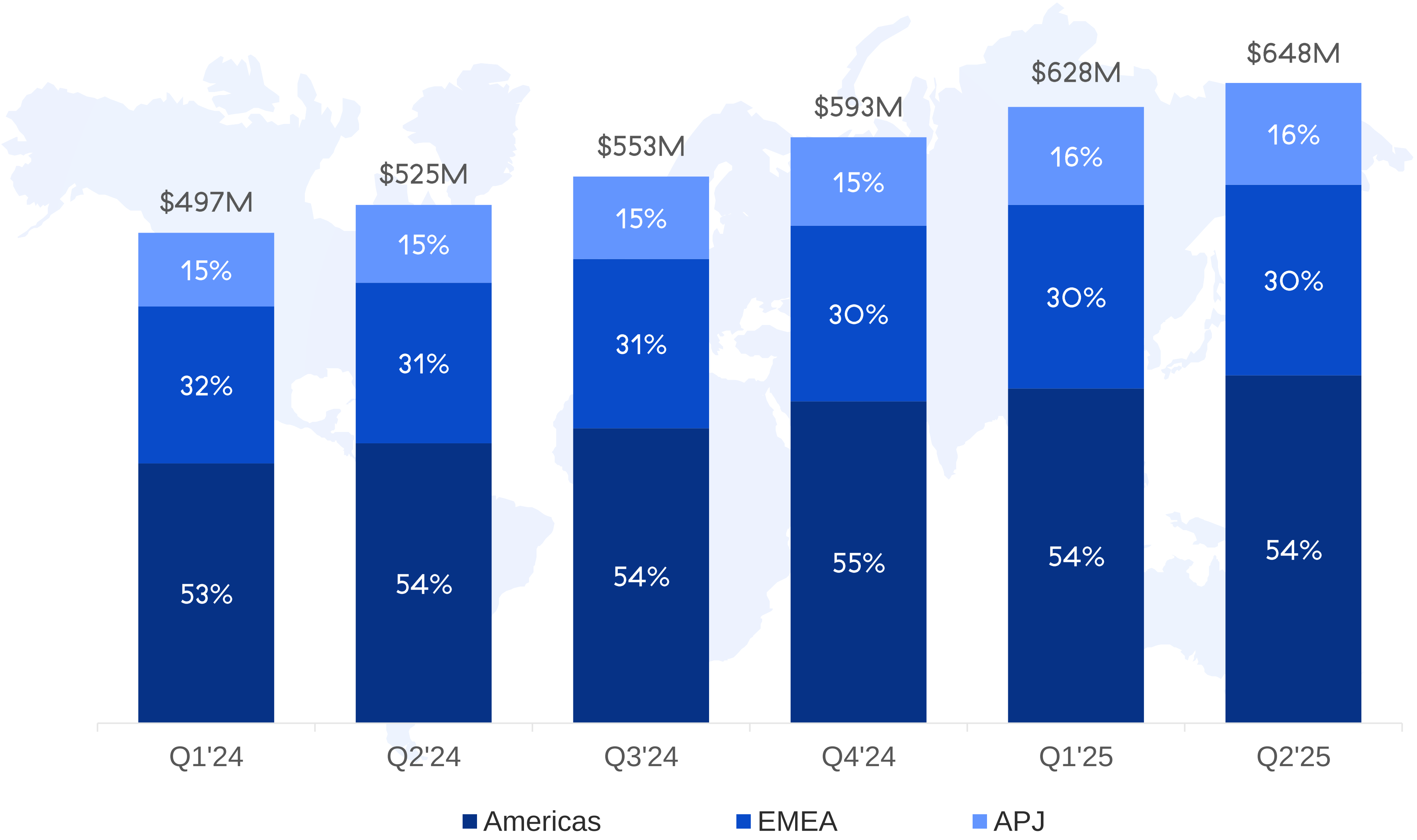
Key factors

- Strong billings collections in the quarter
- Data center capital expenditures as a % of revenue

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

Growing across all geographies

Revenue mix by geographies



In early stages of capturing our large market opportunity

$96B

Serviceable Addressable Market

$39B	**$35B**
Zero Trust for Users[1]	Zero Trust for Cloud[2] and Branch[3]
$20B	**$2B**
Data Protection[1]	AI-Analytics Solutions[4]

1. Based on Zscaler's analysis of worldwide organization and employee data from ZoomInfo. User SAM multiplies 335 million users by Zscaler's aggregate average revenue per user (ARPU) of approximately $45 for ZIA Transformation bundle, $60 for Data Protection, $45 for ZPA and $25 for ZDX from customers purchasing 5,000 seats.
2. Based on Zscaler's analysis of workload market forecast for 2020 from 650 Research. Workload SAM multiplies 150 million workloads by Zscaler's aggregate average revenue per workload of approximately $40 for CSPM, $60 for Workload segmentation and $55 for Workload Communication solutions in the ZCP family.
3. Based on Zscaler's analysis of IoT market forecast from Gartner.
4. Zscaler's estimate of potential B2B Users is based on assuming a similar number of users as total worldwide workforce. We consider B2B users to include third-party vendors and customers of our customer.

FY25 guidance

	Prior FY25 Guidance	New FY25 Guidance	New vs. Prior FY25 Guidance
Revenue	$2.623B – $2.643B *21%–22% y/y*	$2.640B – $2.654B *~22% y/y*	↑ **Increased**
Calculated Billings	$3.124B – $3.149B *19%–20% y/y*	$3.153B – $3.168B *20%–21% y/y*	↑ **Increased**
Operating Profit	$549M – $559M *~21% margin*	$562M – $572M *21%–22% margin*	↑ **Increased**
Earnings Per Share	$2.94 – $2.99	$3.04 – $3.09	↑ **Increased**
Free Cash Flow Margin	23.5%–24.0%	24.5%–25.0%	↑ **Increased**

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Entering H2 with three key drivers

"Zero Trust Everywhere" transformation expanding as customers reassess aging firewalls

- Seeing growing opportunities to retire our customers' legacy security stack ahead of appliance-refreshes
- Ambitious goal to triple the number of "Zero Trust Everywhere" enterprise from 130+ in next 18 months
- Tremendous customer interest in Zero Trust Branch both from new and existing customers

AI providing tailwinds in both demand and product development

- Enabling secure adoption of Public-AI apps with Gen-AI SKUs
- Emerging opportunities in Private-AI apps security with LLM proxy to prevent prompt injection activities
- Strong demand for AI-powered Digital Experience driving growth in ZDX Advanced Plus
- ACV from AI-Analytics portfolio nearly doubled Y/Y

Increasing salesforce productivity

- Sales productivity grew in Q2 and expect improvement in H2
- Sales attrition rate improved in Q2 for a second quarter in a row
- GSI motions contributing to large deal wins

zscaler™

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 incentive 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 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.

Effective August 1, 2024, the beginning of our 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. 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 changes 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. Prior period amounts have been recast to reflect this change.

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: GAAP to Non-GAAP Reconciliation

$ IN THOUSANDS, EXCEPT PERCENTAGES

	Q2 25	Q2 24	Q2 23
Revenue	$ 647,900	$ 524,999	$ 387,598
Non-GAAP Gross Profit and Non-GAAP Gross Margin			
GAAP gross profit	$ 499,402	$ 407,800	$ 299,994
Add: Stock-based compensation expense and related payroll taxes	17,619	13,434	9,595
Add: Amortization expense of acquired intangible assets	3,815	2,717	2,175
Non-GAAP gross profit	$ 520,836	$ 423,951	$ 311,764
GAAP gross margin	77 %	78 %	77 %
Non-GAAP gross margin	80 %	81 %	80 %
Non-GAAP Income from Operations and Non-GAAP Operating Margin			
GAAP loss from operations	$ (40,140)	$ (45,457)	$ (65,238)
Add: Stock-based compensation expense and related payroll taxes	176,356	145,536	111,518
Add: Amortization expense of acquired intangible assets	4,245	3,083	2,551
Non-GAAP income from operations	$ 140,461	$ 103,162	$ 48,831
GAAP operating margin	(6) %	(9) %	(17) %
Non-GAAP operating margin	22 %	20 %	13 %

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

$ IN THOUSANDS, EXCEPT PER SHARE AMOUNTS

	Q225	Q224
Non-GAAP Net Income per Share, Diluted		
GAAP net loss	$ (7,724)	$ (28,469)
Add: GAAP provision for (benefit from) income taxes	(8,813)	7,964
GAAP loss before income taxes	(16,537)	(20,505)
Add:		
Stock-based compensation expense and related payroll taxes	176,356	145,536
Amortization expense of acquired intangible assets	4,245	3,083
Amortization of debt issuance costs	982	978
Non-GAAP net income before taxes	165,046	129,092
Non-GAAP provision for income taxes	37,965	29,691
Non-GAAP Net Income	$ 127,081	$ 99,401
Add: Non-GAAP interest expense, net of tax related to the convertible senior notes	276	276
Numerator used in computing non-GAAP net income per share, diluted	$ 127,357	$ 99,677
GAAP net loss per share, diluted	$ (0.05)	$ (0.19)
Stock-based compensation expense and related payroll taxes	1.09	0.91
Amortization expense of acquired intangible assets	0.03	0.02
Amortization of debt issuance costs	0.01	0.01
Income tax and other tax adjustments	(0.29)	(0.14)
Non-GAAP interest expense related to the convertible senior notes	—	—
Adjustment to total fully diluted earnings per share	(0.01)	0.02
Non-GAAP net income per share, diluted	$ 0.78	$ 0.63
Weighted-average shares used in computing GAAP net loss per share, diluted	153,672	148,951
Add: Outstanding potentially dilutive equity incentive awards	2,988	4,670
Add: Convertible senior notes	7,626	7,626
Less: Antidilutive impact of capped call transactions	(1,769)	(2,093)
Weighted-average shares used in computing non-GAAP net income per share, diluted	162,517	159,154

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

$ IN THOUSANDS, EXCEPT PERCENTAGES

	Q225	Q224	Q223
Calculated Billings			
Revenue	$ 647,900	$ 524,999	$ 387,598
Add: Total deferred revenue, end of period	1,878,505	1,502,175	1,111,880
Less: Total deferred revenue, beginning of period	(1,783,720)	(1,399,544)	(1,005,713)
Calculated Billings	$ 742,685	$ 627,630	$ 493,765
Calculated Current Billings			
Revenue	$ 647,900	$ 524,999	$ 387,598
Add: Current deferred revenue, end of period	1,595,780	1,316,416	1,000,359
Less: Current deferred revenue, beginning of period	(1,533,080)	(1,244,528)	(913,104)
Calculated Current Billings	$ 710,600	$ 596,887	$ 474,853

	Q225	Q224	Q223
Free Cash Flow			
Net cash provided by operating activities	$ 179,433	$ 142,069	$ 89,481
Less: Purchases of property, equipment and other assets	(15,018)	(30,894)	(18,681)
Less: Capitalized internal-use software	(20,987)	(10,387)	(7,982)
Free Cash Flow	$ 143,428	$ 100,788	$ 62,818
Free Cash Flow Margin			
Net cash provided by operating activities, as a percentage of revenue	27 %	27 %	23 %
Less: Purchases of property, equipment and other assets, as a percentage of revenue	(2)%	(6)%	(5)%
Less: Capitalized internal-use software, as a percentage of revenue	(3)%	(2)%	(2)%
Free Cash Flow Margin	**22 %**	**19 %**	**16 %**