BOSTON KOREA INVESTMENT GROUP

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Zscaler

ZS-US (NASDAQ)

Buy

Target Price:	**$275.61**
Current Price(12/17):	$226.43
Upside Potential:	21.72%

52 Week Range	$154.78 ~ $336.99
Beta	1.41
P/Sales	22.16
P/FCF	98.66
EV/Sales	23.49
Market Cap	$47,121.71(M)
Enterprise Value	$37,700.78 (M)
Diluted Shares	9.45 (M)

Profitability (1M/3M/6M/1Y)

-4.59% / -14.43% / +4.18% / -10.00%

Major Shareholders

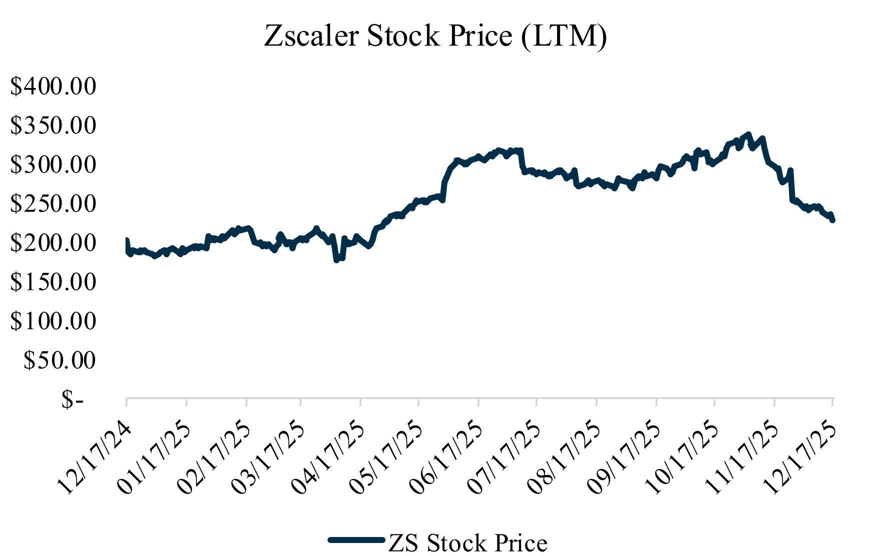
Mangal Ajay	18.37%
Chaudhry Singh	16.98%
Vanguard Group	6.65%
BlackRock	3.27%

Company Overview

Zscaler is a cloud security company based in San Jose, California, founded in 2007 by Jay Chaudhry. Zscaler provides a cloud security platform Zero Trust Exchange, which implements Zero Trust principles to securely connect users, devices, applications and workloads, including AI agents, without relying on traditional hub-and-spoke network architecture and firewall-centric security. The core philosophy is "never trust, always verify." No user or device is implicitly trusted, even inside the network. Access is granted only for what is absolutely needed, and verified continuously.

Valuation

Zscaler target price is determined to be $275.61 based on the two valuation models (Comparable Analysis and Discounted Cash Flow Model), current economic situation, and more. Given the disconnect between the intrinsic value and the current market price, which is depressed by external factors, this report issues a strong Buy recommendation.



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Industry Analysis

- Industry Growth
- SWOT Analysis

Industry Analysis

Industry

1. Cybersecurity Industry

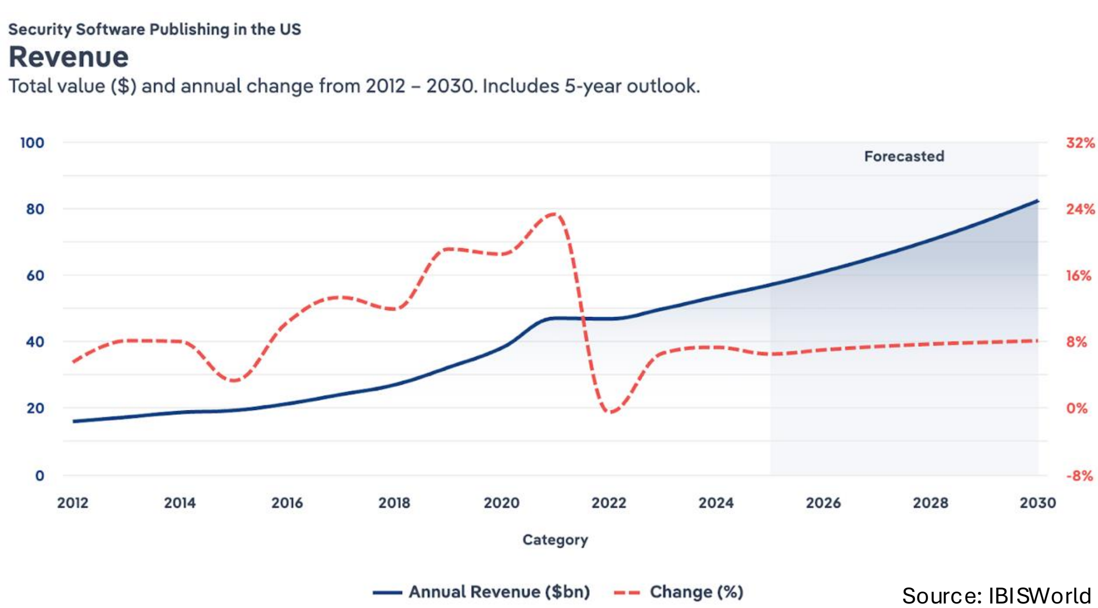
The world of corporate security is undergoing a fundamental change. Companies are moving their applications and data to the cloud (like Microsoft 365, AWS, and SaaS(software as a service) and employees are working from anywhere.

2. Obsolete Firewall and VPN

The old security models such as VPN and firewall are now obsolete. Security must now follow the user and the application, not the physical office building. Firewalls and VPNs create a perimeter around the corporate network and everything inside the perimeter is implicitly trusted. This is one of the root causes of ransomware attacks. Zscaler offers a solution to this issue via their distinctive cloud security platform *Zero Trust Exchange.*

3. Industry Growth

The market for this cloud-centric security is generating revenue of $57 billion, which recorded a 8.4% growth in revenue between 2020 and 2025, and is expected to grow 7.6% for the next five years. The industry has been showing a constant growth since 2012, however, the growth is slowing down as you can see the percent change in revenue reaches a steady state at 8%, beginning in 2023.



Source: IBISWorld

Industry Analysis

SWOT Analysis

5. SWOT Analysis

Strength

Cybersecurity spending is a non-discretionary expenditure, ensuring high and stable demand regardless of economic cycles. The IP-heavy, SaaS-based nature of the industry leads to high gross profit margins compared to other software sectors.

Weakness

The industry is highly fragmented, leading to fierce competition and making it difficult for all but the largest firms to achieve rapid market share gains. Developing cutting-edge solutions requires immense R&D investment and a scarce, expensive talent pool, resulting in high capital requirements.

Opportunity

The shift to cloud and remote work, combined with the continuous rise in data breaches, guarantees continuous, double-digit revenue growth through 2030. Global regulatory mandates, such as GDPR, force companies to implement new compliance-focused security software solutions.

Threat

Threat actors constantly evolve their attack techniques, requiring vendors to continuously adapt and risking rapid product obsolescence if innovation slows.

6. Industry Summary and Predictions

Internet security remains crucial for remote work, protecting data as employees connect from different locations. Companies are investing heavily in VPNs and advanced network security tools, driving this segment to nearly a third of the industry's revenue as digital threats keep rising.

Security teams are leaning on AI to respond to cyber threats faster than ever before. By automating threat detection and analysis, AI allows organizations to stay ahead of hackers, steadily boosting security management solutions' revenue share.

Commercial clients are the driving force behind security software revenue, making up nearly two-thirds of the market. Healthcare, finance, IT and manufacturing businesses need advanced solutions to safeguard sensitive data and meet strict regulations, especially as their profit and digital footprints expand.

Company Overview

- Company Summary
- Revenue
- Market Share
- SWOT Analysis

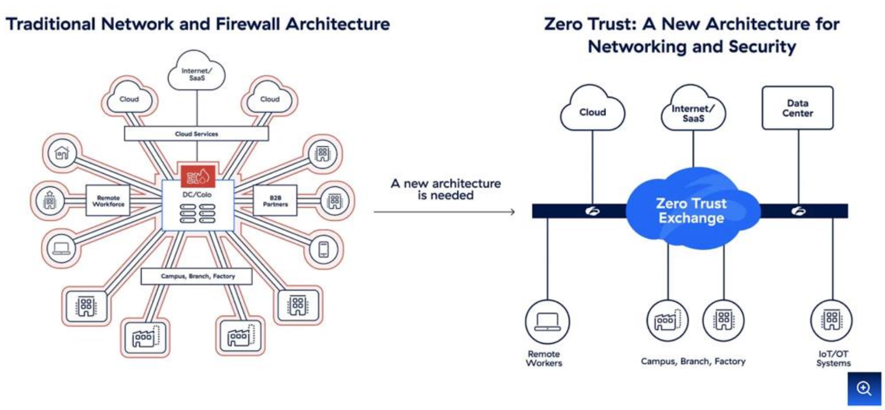
Company Overview

Summary

Company Overview

Zscaler is a cloud security company based in San Jose, California, founded in 2007 by Jay Chaudhry. Zscaler provides a cloud security platform Zero Trust Exchange, which implements Zero Trust principles to securely connect users, devices, applications and workloads, including AI agents, without relying on traditional hub-and-spoke network architecture and firewall-centric security.

Zscaler Zero Trust Exchange platform: The core philosophy is "never trust, always verify." No user or device is implicitly trusted, even inside the network. Access is granted only for what is absolutely needed, and verified continuously.



Key Advantages

Zero Trust platform offers a cloud security platform that prevents lateral attack movement that happened frequently in the traditional Firewall and VPN architectures. This system minimizes risk because it connects users directly to the apps that are requested access, not endangering the entire system even one entity is attacked.

Company Overview

Profitability & Market Share

1. Revenue and Gross Profit Growth

Zscaler recorded revenue of $1617.0 million in 2023 to $2167.8 million in 2024 to $2673.1 million in 2025, making a revenue growth of 34% and 23%, respectively. Gross Profit also indicated a positive growth as it marked $1254.5 million in 2023 to $1688.1 million in 2024 to $2053.5 million in 2025, making 34.6% and 21.7% growth, respectively.

	JUL '25	JUL '24	JUL '23
Sales	2673.1	2167.8	1617.0
COGS	619.6	479.7	362.5
Gross Income	2053.5	1688.1	1254.5
SG&A Expense	2173.2	1812.0	1469.9
EBIT	-119.7	-123.9	-215.4
Nonoperating income	117.1	107.8	47.0
Interest Expense	9.3	13.1	6.8
Unusual Expense	6.5	0.0	7.3
Pretax Income	-18.3	-29.2	-182.6
Income Taxes	23.2	28.5	19.8
Consolidated Net Income	-41.5	-57.7	-202.3
Net Income	-41.5	-57.7	-202.3

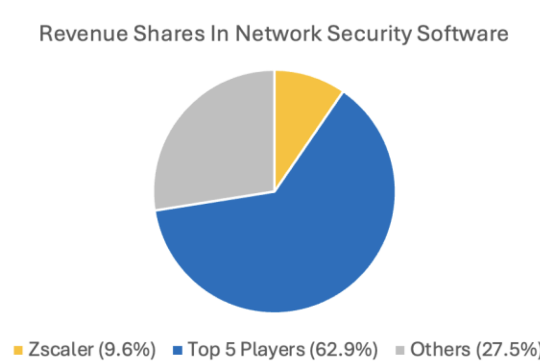
Source: Factset

2. Profitability

Despite a positive, stable growth in revenue and gross profit, Zscaler has experienced a net loss in the past fiscal years, making a loss of -$202.3 million in 2023 to -$57.7 million in 2024 to -$41.5 million in 2025. Information worthwhile to note is that the amount of net loss has been diminishing, offering a hopeful prediction that it will turn positive in the coming years, sooner or later.

3. Market Share

Zscaler is not a major player in the cybersecurity industry. Per diagram, it shows that Zscaler takes up about 9.6% of the total industry size. However, it definitely has a room to grow. According to Zscaler's 10-K reported in 2025, Zscaler has over 9,400 corporate customers across all major geographies, and providing its service to 40% of the Forbes Global 2000 and 45% of Fortune 500 companies



Source: Factset

Company Overview

Competition & Risk

4. Competition

Zscaler is a small to mid-size firm compared to the major players of the market. The below table shows the Top 5 companies in the industry, Palo Alto and CrowdStrike leading the industry with the highest market value. Realistically, the company that Zscaler can focus on competing seems to be Fortinet, Check Point Software, and Akamai Technologies, which have similar size and revenues.

Top 5 by Revenue in Network Security Software

	% of Revenue	Revenue	Market Value (M)	1 Yr Pr Trend
Zscaler, Inc.	**100.00**	**2,673**	**50,808**	
Palo Alto Networks, Inc.	53.94	4,974	146,989	
Fortinet, Inc.	67.95	4,047	64,535	
CrowdStrike Holdings, Inc.	95.14	3,761	136,896	
Check Point Software Technologies Lt	80.20	2,057	21,379	
Akamai Technologies, Inc.	51.18	2,043	10,469	

Showing up to 6 of 73 companies | Values in USD

Values are estimated based on FactSet's Revere Industry Classification System

Source: Factset

5. Risk

Zscaler faces several core risks, primarily stemming from the intense competition in the evolving cybersecurity market from large, well-funded players like Crowd Strike and Palo Alto, which could erode its market share. Additionally, the company faces internal challenges related to achieving sustained GAAP profitability due to heavy spending on expanding its global infrastructure and sales force, while simultaneously managing the complexity of long sales cycles and relying heavily on the continued services of its key executive leadership and technical staff. The business is also under constant threat from rapidly evolving cyberattack techniques and changes in global data privacy regulations that could increase compliance costs.

Company Overview

SWOT Analysis

Strength

Zscaler is recognized as a pioneer in the Zero Trust Architecture and is a leading player in the Secure Access Service Edge (SASE) market. This market leadership provides a first-mover advantage and strong brand recognition. In addition, the company maintains high customer retention rates and a strong dollar-based net retention rate, indicating customers are highly satisfied and expanding their usage of the platform over time.

Weakness

Despite high revenue growth, the company continues to incur losses as it invests heavily in expanding its platform, infrastructure, and global sales force, indicating a lack of sustained GAAP profitability. The sales process for its large, integrated platform deals can be long, often taking many months, and involves significant time and expense. This makes revenue forecasting complex and results less predictable.

Opportunity

The widespread and ongoing adoption of permanent hybrid and remote work models necessitates a cloud-centric security model like Zero Trust, pushing enterprises away from legacy network perimeter defenses. Continued strong growth potential in international markets, particularly in regions that are still in the early stages of adopting Zero Trust and SASE compared to the US market.

Threat

Zscaler faces direct competition from large, established technology companies that have broader portfolios, deeper financial resources, and extensive customer bases. The constant and rapid evolution of cyber threats, sophisticated attack techniques, and nation-state actors requires continuous, costly, and fast innovation to maintain effective security protection.

Company Analysis

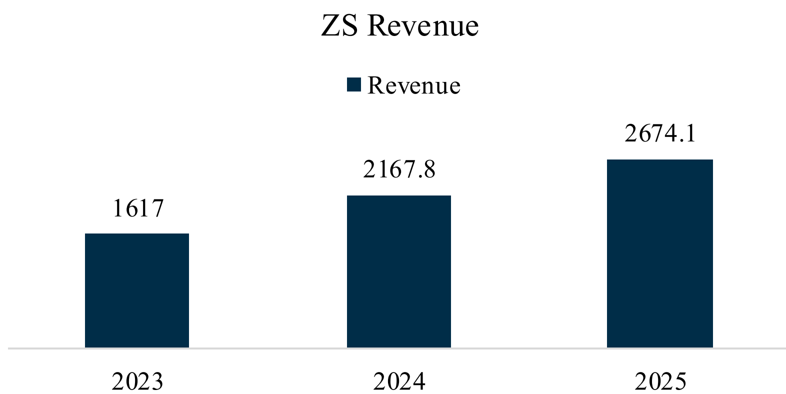
- Revenue Growth
- Profitability & Margin Trends
- Operating Expense Structure
- Cash Flow
- Other Balance Sheet related accounts

Revenue Growth

Revenue

Revenue

Zscaler, Inc.'s last three fiscal years place the company in the category of a high-growth software firm, but it is beginning to show the natural deceleration. For the fiscal year ended July 31, 2025. Zscaler reported revenue of $2,673.1 million, up from $2,167.8 million in 2024 and $1,617 million in 2023. That translates to year-over-year growth of 23% in 2025, following 34% in 2024. Management notes that the $505.3 million increase in 2025 revenue was driven primarily by increased usage and additional subscriptions from existing customers and the addition of new customers, with the overall customer base growing 9% year over year.



This pattern is heavily driven by expansion within existing customers, which suggests strong product-market fit with large enterprise customers and a business that is not purely dependent on constantly finding new logos. At the same time, the decrease in growth from the mid-30% range toward the low-20% range signals that Zscaler is moving into a more mature phase of its growth curve. For a potential investor, the key question will be whether the company can sustain revenue growth in the high-10% to low-20% range over the medium term while continuing to expand margins and free cash flow.

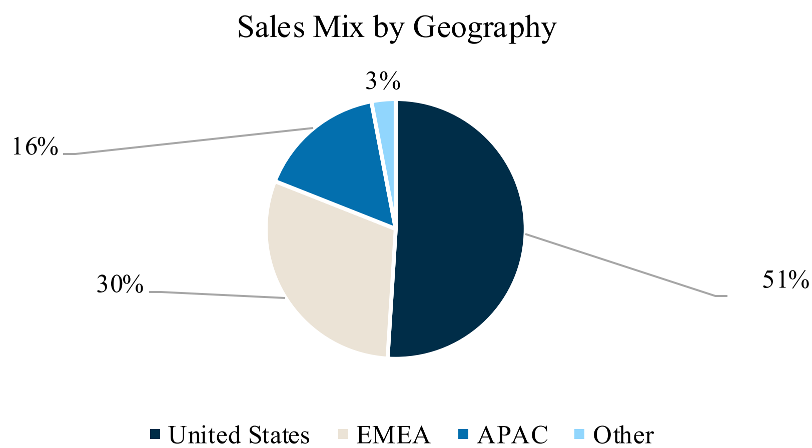
Revenue

Revenue Mix

1.1 Revenue mix by geography

Zscaler's revenue base is globally diversified but still mainly targeted in the United States. The company discloses revenue by region as follows:

- United States: $1,359.3 million in 2025, 51% of total revenue (vs. 50% in 2024 and 2023)
- Europe, Middle East and Africa (EMEA): $792.8 million in 2025, 30% of total revenue (vs. 31% in 2024 and 32% in 2023)
- Asia Pacific (APAC): $423.8 million in 2025, 16% of total revenue (vs. 15% in 2024 and 2023)
- Other: $97.2 million in 2025, 3% of total revenue (vs. 4% in 2024 and 3% in 2023)



This geographic revenue distribution indicates useful information. First, Zscaler is not overly dependent on a single non-U.S. region: EMEA and APAC account for about half the business, but each region individually remains below one-third of total revenue. Second, the mix is relatively stable over time, with the U.S. consistently around 50% and EMEA in the low-30% range. APAC has increased from 15% to 16%, which suggests early but meaningful traction in the region. From an investor's perspective, this mix presents a balanced global distribution with room for international expansion with no immediate red flag of geographic concentration risk.

Revenue

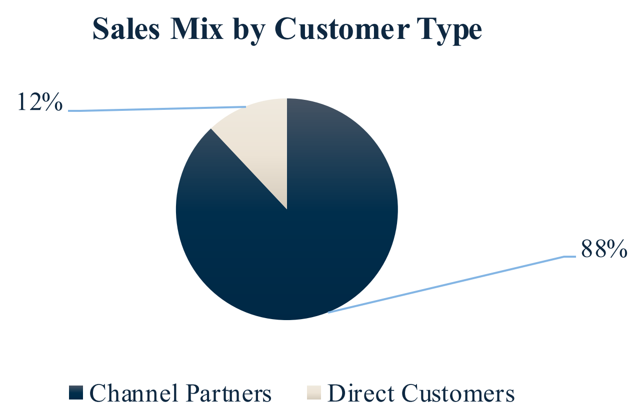
Revenue Mix

1.2 Revenue mix by customer type and channel

In addition to geography, Zscaler provides a useful composition of revenue by customer type: channel partners vs. direct customers.

For fiscal 2025:

- Channel partners accounted for $2,360.2 million, 88% of total revenue
- Direct customers accounted for $312.9 million, 12% of total revenue



These shares are consistent with prior years (91% / 9% in 2024 and 92% / 8% in 2023). The reliance on channel partners reflects Zscaler's strategy of leveraging large system integrators, resellers, and other intermediaries to reach global enterprises. This business model can be efficient in scaling distribution and accessing large customers, but it introduces dependency risk: if major channel partners underperform or decide to prioritize competing solutions, Zscaler's growth could be impacted.

However, from a revenue quality perspective, this structure does not appear problematic. The company emphasizes that no single customer accounted for 10% or more of total revenue, and that even the concentration in accounts receivable is limited to one large channel partner. This composition alludes that the revenue base is diversified across many end-customers, even if most are reached indirectly.

Revenue

Revenue Model

1.3 Subscription model and recurring revenue

Zscaler's business model is strongly subscription-driven. The company states that subscription and support revenue represented about 98% in 2025 and 97% of total revenue in both 2024 and 2023. Subscription and support contracts are typically for one to three years, and are usually non-cancellable over the contract term, except in the case of Zscaler's failure to perform. This classic SaaS structure has several implications:

High revenue visibility: With multi-year contracts and a large base of existing customers, a substantial portion of future revenue is already contracted
Reduced short-term volatility: Unless there is a dramatic wave of cancellations or pricing pressure, revenue tends to be smoother and more predictable than in one-time license business
Embedded growth potential: The company can expand revenue from the same customers over time via seat expansions, additional product "pillars," and higher-value bundles

The strength of Zscaler's recurring revenue is reinforced by two metrics: deferred revenue and remaining performance obligations (RPO). Deferred revenue was $2,468 million as of July 31 2025, increased from $1,895 million in 2024. The current portion was about $2,054.4 million with $413.6 million as noncurrent RPO totaled $5,780.1 million as of July 31. 2025. Management expects to recognize 46% of the amount within the next 12 months and 90% within the next three years. These figures present a large and growing backlog of contracted revenue, which supports the view that Zscaler's growth is grounded in signed customer commitments.

Profitability & Margin Trends

Profitability

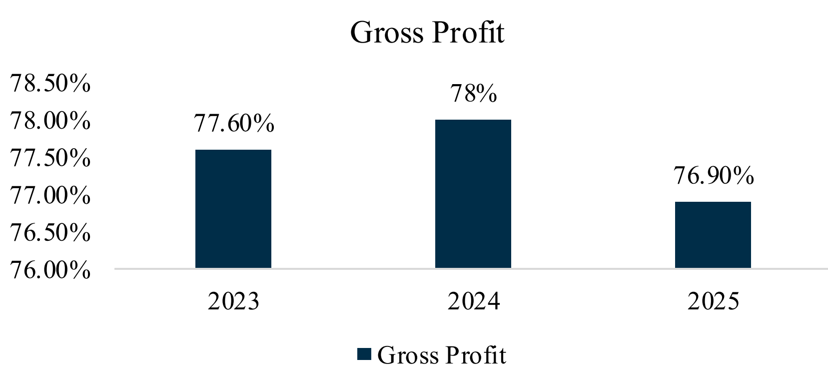
Profitability

While Zscaler's revenue figures are impressive, investment attractiveness requires a careful look at profitability. The company is still reporting net losses under GAAP, but the underlying margin trends and cash metrics reveal that the company is steadily improving its economics.

2.1 Gross margin: a stable, high-margin SaaS business

Zscaler's GAAP gross margin has been consistently high:

- 2025: $2,054.9 million gross profit, 76.9% gross margin
- 2024: $1,690.6 million gross profit, 78% gross margin
- 2023: $1,254.1 million gross profit, 77.6% gross margin



In 2025, the gross margin slightly declined from 78% to 77%. Management attributes the decline primarily to:

- Higher data center and equipment related costs
- Increased employee-related costs including stock-based compensation, in support and cloud operations teams
- Additional hardware costs associated with a one-time large private cloud deployment

A gross margin around high-70% is very strong and typical of successful cloud software providers. Zscaler reports non-GAAP gross margins of 80 to 81% over the last three years, excluding stock-based compensation, amortization of acquired intangibles, and restructuring charges. This reinforces the perspective that the core economic drive of the business is highly profitable once fixed infrastructure and support costs are spread over a large and growing revenue base.

Operating Expense Structure

Expense

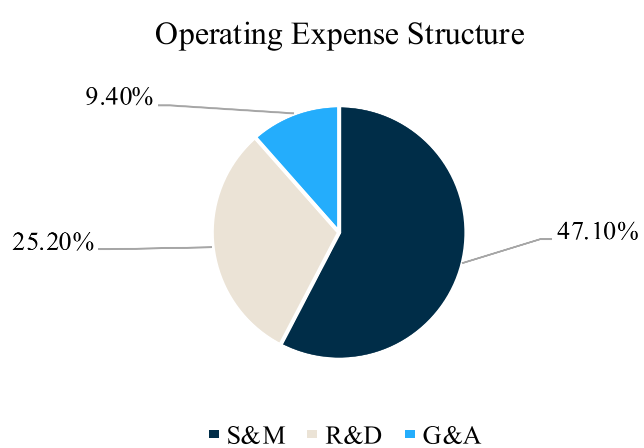
Operating Expense Structure

Operating expenses are categorised into Sales and Marketing (S&M), Research and Development (R&D). and General and Administrative (G&A). In absolute dollars, all three categories continue to grow as Zscaler scales. However, as a percentage of revenue, the trends reveal increasing operating leverage, especially in sales and marketing.

For fiscal 2025:

- S&M: $1,259.2 million, 47.1% of revenue (down from 50.8% in 2024 and 59.3% in 2023)
- R&D: $672.5 million, 25.2% of revenue (up from 23.1% in 2024 and 21.7% in 2023)
- G&A: $251.8 million, 9.4% of revenue (down from 9.8% in 2024 and 11.1% in 2023)

Total operating expenses were $2,183.4 million in 2025, up 20% from 2025, but declining as a percentage of revenue from 92% in 2023 to about 82% in 2025.



S&M expenses increased by $158.9 million year over year, driven primarily by:

- $116.4 million higher employee-related costs
- $29.5 million higher stock-based compensation

Additional spending on marketing programs, travel, facilities, IT services, and professional services. Despite the increase in dollar amounts, S&M as a percentage of revenue fell by nearly 4%, indicating improved efficiency in customer acquisition and expansion.

Operating Expense Structure

R&D

R&D Expense

R&D expenses increased by $172.7 million, driven by:

- Significant headcount growth in engineering and product teams
- Higher stock-based compensation

Increased facility, software, and equipment costs tied to platform development

Partially offsetting this, Zscaler capitalized more internal-use software development costs (up by about $31.3 million), reflecting investments in infrastructure that are recognized as assets rather than immediate expenses. The rise in R&D as a percentage of revenue suggests that the company is reinventing in product innovation and platform breadth, which is consistent with its competitive positioning strategy in a rapidly evolving cybersecurity market.

Cash Flow Generation

Operating Cash Flow

Cash Flow Generation

One of the most compelling aspects of Zscaler's financial data is its cash flow profile. The company generates substantial cash from operations and posts strong free cash flow margins, even though it remains unprofitable under GAAP. This gap between GAAP earnings and cash flow is a core point in evaluating the quality and sustainability of Zscaler's earnings.

3.1 Operating cashflow: strong and growing

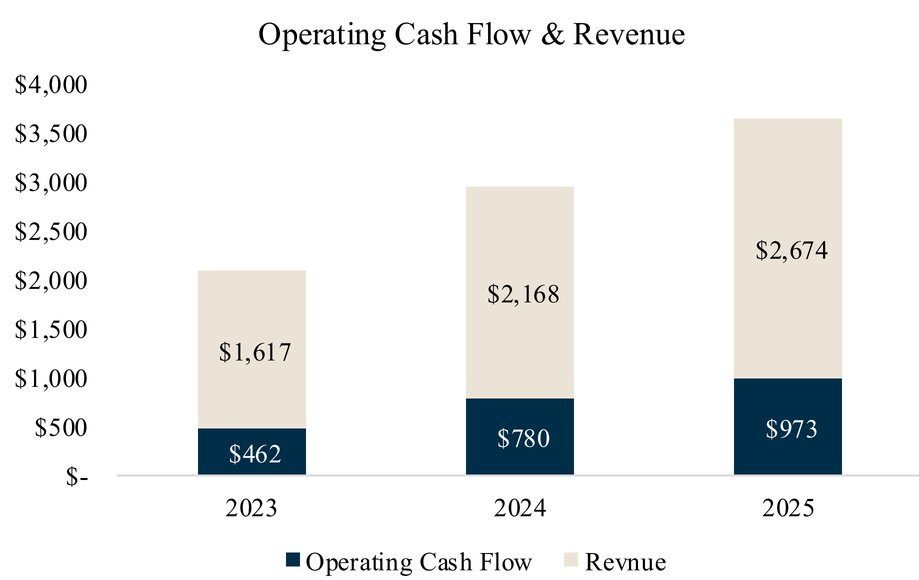
Net cash provided by operating activities was:

- $462.3 million in fiscal 2023
- $779.8 million in fiscal 2024
- $972.5 million in fiscal 2025

Expressed as a percentage of revenue, operating cash flow margins were

- 28.6% in 2023
- 36% in 2024
- 36.4% in 2025

These numbers show robust growth in operating cash flow, outpacing revenue growth and indicating that the company is converting an increasing portion of its sales into cash.



Cash Flow Generation

Operating Cash Flow

The reconciliation from net loss to operating cash flow highlights several contributing factors:

- Large non-cash expenses including:
  - Depreciation and amortization
  - Amortization of deferred contract acquisition costs of $166.3 million in 2025
  - Non-cash lease costs of about $63 million
  - Stock-based compensation of $661.4 million
- Working capital dynamics:
  - Growth in deferred revenue of $573.1 million in 2025 (vs. $450/3 million in 2025 and $418.6 million in 2023), reflecting upfront billing and prepayments by customers
  - Changes in accounts receivable, contract costs, and other accruals.

The combination of high recurring revenue, upfront billings, and non-cash expenses allows Zscaler to generate substantial cash even though GAAP net income is negative.

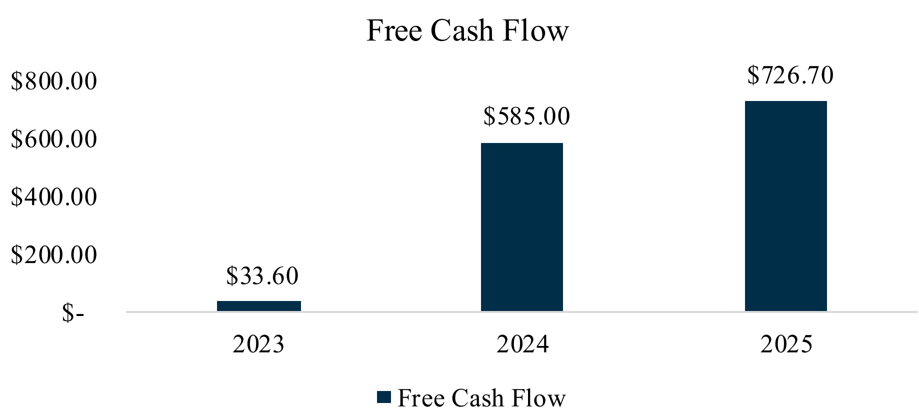
Cash Flow Generation

Free Cash Flow

3.2 Free cash flow and capital intensity

Zscaler defines free cash flow as operating cash flow minus purchases of property, equipment, and other assets, and minus capitalized internal-use software. Under this definition:

- 2023 FCF: $33.6 million, 20.6% FCF margin
- 2024 FCF: $585.0 million, 27.0% FCF margin
- 2025 FCF: $726.7 million, 27.2% FCF margin



The capital investments include:

- Purchases of property, equipment and other assets of $97.2 million (2023), $144.6 million (2024), and $164.3 million (2025). These reflect spending on data centers, network infrastructure, and office facilities
- Capitalized internal-use software development costs of $31.5 million (2023), $50.3 million (2024), and $81.5 million (2025)

Despite the increase of capex and capitalized software, FCF margins have expanded and stabilized in the high-20% range. This signals that Zscaler's business model is not capital-intensive and that most incremental revenue falls to the bottom line on a cash basis after covering fixed infrastructure and operating expenses. For investors, a company that has double-digit revenue growth, high gross margins, and sustained FCF margins above 25% is generally seen as attractive.

Cash Flow Generation

3.3 Quality of earnings: sustainability and risks

While Zscaler's cash flow numbers are impressive, evaluating the quality and sustainability of these earnings requires unpacking the drivers:

- Reliance on deferred revenue

A meaningful portion of operating cash flow comes from increases in deferred revenue. This is typical for SaaS business and reflects healthy customer demand. However, it also means that if renewal rates drop or customers demand shorter billing cycles, the cash flow benefit from deferred revenue growth could moderate.

- Contribution of stock-based compensation

Stock-based compensation is a major non-cash adjustment in the operating cash flow reconciliation. While it does not directly consume cash, it represents an economic cost to shareholders by dilution. A business can show strong FCF today while issuing substantial equity, effectively shifting the economic burden to future shareholders. Investors need to look at both FCF and share count growth to assess genuine value creation.

- Capitalized internal-use software

Capitalizing internal-use software pushes some R&D costs into the balance sheet rather than expensing them immediately. This is consistent with accounting standards and common in cloud infrastructure businesses. Still, it means that part of the company's R&D and infrastructure investment shows up in investing cash flows rather than operating expenses, which can make current period operating margins and FCF look stronger. The key question is whether these investments are genuinely creating long term value or simply deferring costs.

- Stability of FCF margins

The fact that FCF margins have remained around 27% in 2024 and 2025, despite continued heavy investment, suggests that Zscaler's cash generation is not a temporary fluke. Unless there is a major shift in billing practices, competitive dynamics, or cost structure, the company may appear capable of generating substantial FCF.

Quality of Earnings

Balance Sheet Strength

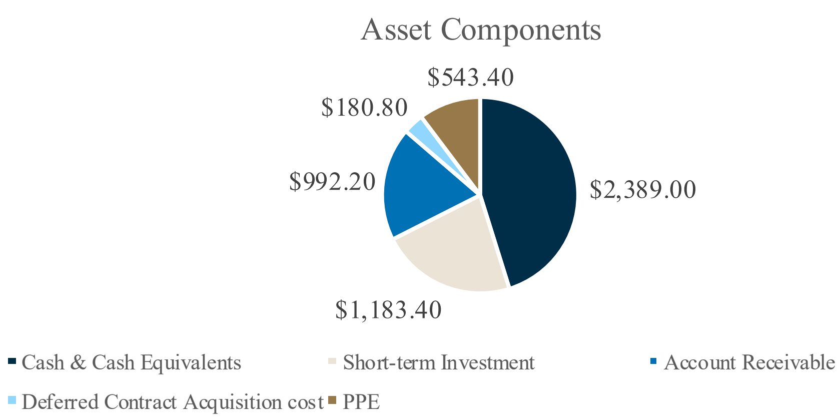
Asset & Liquidity

4.1 Asset base and liquidity position

As of July 31, 2025, Zscaler reported total assets of $6,419.9 million, up from $4,705.0 million in 2024. The largest components of the asset base are:

- Cash and cash equivalents: $2,389.0 million (vs. $1,423.1 million in 2024)
- Short-term investments: $1,183.4 million (vs. $986.6 million in 2024)
- Accounts receivable, net: $992.2 million (vs. $736.5 million in 2024)
- Deferred contract acquisition costs: $180.8 million
- Property and equipment, net: $543.4 million (vs. $383.1 million)
- Operating lease right-of-use assets and goodwill round out the asset base

Combining cash and short-term investments, Zscaler holds about $3.57 billion in highly liquid assets, primarily invested in money market funds, U.S. treasuries, government agency securities, certificates of deposit, and high-grade corporate debt.



On the liability side, current liabilities totaled roughly $2.43 billion in 2025 (down from about $3.11 billion in 2024, mainly because the 2025 convertible notes moved out of current liabilities after repayment). The largest items are:

- Deferred revenue (current): $2,054.4 million
- Operating lease liabilities (current), accrued compensation, accounts payable, and other current liabilities

This structure signals that Zscaler's current assets exceed current liabilities, which yields a healthy working capital composition. The company has ample liquidity to meet its short-term obligations, fund day-to-day operations, and continue investing in growth.

Balance Sheet Strength

Asset & Liquidity

4.2 Deferred revenue and contract liabilities

As noted earlier, deferred revenue is a core feature of Zscaler’s balance sheet:

- Total deferred revenue: $2,468.0 million as of July 31, 2025 (current & noncurrent), up from $1,895.0 million in 2024
- Noncurrent deferred revenue: $413.6 million (vs. $251.1 million in 2024), representing revenue to be recognized beyond one year.

These numbers represent cash already collected for services yet to be recognized. They contribute positively to both liquidity and revenue visibility. The growth in deferred revenue is consistent with the company’s strong top-line performance and indicates that customers are continuing to make multi-year contracts and pay in advance.

From an investor’s standpoint, a high deferred revenue balance is generally a positive signal, continuing to grow and not accompanied by worrying trends. Although there is no evidence in the 10-K of unusual discounting or deterioration in contract quality, the large and growing remaining performance obligation balance reinforces the health of Zscaler’s contract portfolio.

Balance Sheet Strength

Convertible Notes

4.3 Convertible senior notes and leverage

Zscaler's primary debt consists of convertible senior notes:

- In July 2025, the company issued $1,725.0 million aggregate principal amount of 0% convertible Senior Notes due 2028 ("2028 Notes"). After underwriting discounts and issuance costs, net proceeds were about $1,700 million
- The 2028 Notes carry no regular cash interest, and the principal does not accrete. They mature on July 15, 2028, unless converted, redeemed, or repurchased earlier
- The initial conversion rate is about 2.2752 shares per $1,000 principal, which corresponds to an initial conversion price of $439.52 per share, implying potential issuance of around 3.9 million shares upon full conversion
- The net carrying amount of the 2028 Notes as of July 31, 2025 was about $1,700.7 million, after deducting unamortized issuance costs.

At the same time, Zscaler fully retired its older 0.125% Convertible Senior Notes due 2025 ("2025 Notes"), which had an original principal amount of $1,150 million. The company repaid the principal entirely in cash and settled the premium through issuing 3.8 million new shares of common stock, while receiving 2.4 million shares from the related capped call transactions. As a result, the 2025 Notes no longer appear on the balance sheet.

Zscaler also entered into capped call transactions designed to reduce potential dilution and/or offset cash payments above principal that might be required upon conversion. These calls cost about $196.8 million and have an initial strike price aligned with the conversion price of the 2028 Notes, with a higher cap price. Essentially, they function as a hedge against share dilution or cash outflows if the stock price rises significantly.

From a leverage standpoint, it is important to note:

- The 2028 Notes bear no cash interest, which limits their impact on the income statement to non-cash amortization of issuance costs
- Zscaler's cash and short-term investments exceed the net carrying value of the 2028 Notes, meaning that the company is in a net cash position, not net debt
- The notes do introduce potential future equity dilution if the stock trades well above the conversion price and holders elect to convert.

Balance Sheet Strength

Equity

4.4 Equity, accumulated deficit, and dilution considerations

One the equity side of the balance sheet, as of fiscal 2025:

- Common stock issued and outstanding: 158.3 million shares, up from 152.5 million in 2024
- Additional paid-in capital: $2,980.6 million, reflecting cumulative equity financing and stock-based compensation
- Accumulated deficit: -$1,189.6 million, net losses since inception
- Accumulated other comprehensive income: small positive balances due to movements in available-for-sale securities and cash flow hedges.

The increase in share count is driven by:

- Equity grants and exercises
- Shares issued to settle the premium on the 2025 Notes
- Ongoing equity incentives to employees and executives

Zsclare also discloses significant shares reserved for future issuance, including for outstanding awards, the equity incentive plans, employee stock purchase plan, and settlement of the 2028 Notes. This confirms that dilution will remain a persistent feature of the capital structure.

For a potential investor, the key points are:

- Balance sheet risk is low: the company is well-capitalized, with substantial cash and investments and manageable, convertible debt
- Dilution risk is real: continued high stock-based compensation and the potential conversion of the 2028 Notes will increase share count over time, potentially diluting per-share metrics unless growth in revenue and free cash flow compensates for it.

Valuation

- Comparable Analysis
- Discounted Cash Flow Model

Comparable Analysis

Comparable

As mentioned in the industry analysis, Zscaler is in the cybersecurity industry. It is important to look at their performance against relevant comparables. We have therefore selected a set of comparable companies to analyze Zscaler's standing within the current market. These companies are the following: Datadog, MongoDB, Atlassian, Workday, CrowdStrike, and Palo Alto Networks. To understand Zscaler's competitive landscape and strategic position, it is essential to conduct a comparable company analysis. Based on our research, we have decided that the most relevant companies for this benchmarking exercise are: CrowdStrike and Palo Alto Networks (as direct cybersecurity competitors), and Datadog, MongoDB, Atlassian, and Workday (as high-growth, cloud-focused, SaaS technology companies).

Comparable

FactSet, Date: 12/2/2025										FY 25	
Company	**Ticker**	**Share Price**	**Fully Dilutive Shares Outstanding**	**Equity Value**	**(-) Cash**	**(+) Gross Debt**	**(+) Non-Controlling Interest**	**Enterprise Value**	**Revenue**	**Gross Income**	**Free Cash Flow**
Zscaler	ZS	241.68	169.00	40,843.92	(3,321.30)	1,699.90	0.00	39,222.52	2,833.30	2,168.80	847.40
Datadog - A	DDOG	156.38	370.60	57,954.43	(4,140.30)	982.40	0.00	54,796.53	3,211.70	2,566.60	939.80
MongoDB - A	MDB	401.99	86.60	34,812.33	(2,305.80)	0.00	0.00	32,506.53	2,317.10	1,652.10	354.60
Atlassian - A	TEAM	153.91	280.80	43,217.93	(2,778.40)	988.10	0.00	41,427.63	5,460.10	4,533.20	1,501.80
Workday - A	WDAY	213.06	278.90	59,422.43	(6,852.00)	2,986.00	0.00	55,556.43	9,205.00	6,955.00	2,585.00
CrowdStrike	CRWD	516.55	261.30	134,974.52	(4,972.40)	744.70	38.00	130,784.82	4,341.10	3,212.60	1,037.90
Palo Alto Networks	PANW	189.88	746.40	141,726.43	(4,219.00)	0.00	0.00	137,507.43	9,556.70	7,021.20	3,690.80
Maximum				141,726.43	(2,305.80)	2,986.00	38.00	137,507.43	9,556.70	7,021.20	3,690.80
75th Percentile				116,086.49	(3,118.88)	986.68	0.00	111,977.72	8,268.78	6,349.55	2,314.20
Median				**58,688.43**	**(4,179.65)**	**863.55**	**0.00**	**55,176.48**	**4,900.60**	**3,872.90**	**1,269.85**
25th Percentile				46,902.05	(4,784.05)	186.18	0.00	44,769.85	3,494.05	2,728.10	964.33
Minimum				34,812.33	(6,852.00)	0.00	0.00	32,506.53	2,317.10	1,652.10	354.60

Comparable Analysis

Multiples

Multiple Selection

The multiples that we decided to use to evaluate the value of the company are Enterprise Value (EV) / Sales, EV/Gross Income, and EV/Free Cash Flow.

- EV / Sales Rationale: This is a crucial metric for high-growth technology and SaaS (Software as a Service) companies like Zscaler. Relevance for growth: Companies like Zscaler, which is a high-growth company, tend to have negative income. Therefore, using sales as a metric is key to evaluating a high-growth company.
- EV/Gross Income Superior measure to EV/Sales, especially within the SaaS industry. Gross Profit accounts for the Cost of Goods Sold, which is essential for understanding the company's main operational efficiency and business model quality.
- EV/FCF Considered the most fundamental and least manipulated valuation metric. FCF shows how the company is actually earning cash and using cash. FCF is less susceptible to non-cash accounting items and accruals.

Valuation Statistics	Ticker	Share Price	Fully Dilutive Shares Outstanding	Equity Value	(-) Cash	(+) Gross Debt	(+) Non-Controlling Interest	Enterprise Value	EV/ Revenue	EV / Gross Income	EV/ Free Cash Flow
Zscaler	ZS	241.68	169.00	40,843.92	(3,321.30)	1,699.90	0.00	39,222.52	13.84x	18.08x	46.29x
Datadog - A	DDOG	156.38	370.60	57,954.43	(4,140.30)	982.40	0.00	54,796.53	17.06x	21.35x	58.31x
MongoDB - A	MDB	401.99	86.60	34,812.33	(2,305.80)	0.00	0.00	32,506.53	14.03x	19.68x	91.67x
Atlassian - A	TEAM	153.91	280.80	43,217.93	(2,778.40)	988.10	0.00	41,427.63	7.59x	9.14x	27.59x
Workday - A	WDAY	213.06	278.90	59,422.43	(6,852.00)	2,986.00	0.00	55,556.43	6.04x	7.99x	21.49x
CrowdStrike	CRWD	516.55	261.30	134,974.52	(4,972.40)	744.70	38.00	130,746.82	30.13x	40.71x	126.01x
Palo Alto Networks	PANW	189.88	746.40	141,726.43	(4,219.00)	0.00	0.00	137,507.43	14.39x	19.58x	37.26x
Maximum				141,726.43	(2,305.80)	2,986.00		137,507.43	30.13x	40.71x	126.01x
75th Percentile				116,086.49	(3,118.88)	986.68		111,949.22	16.39x	20.93x	83.33x
Median				58,688.43	(4,179.65)	863.55		55,176.48	14.21x	19.63x	47.78x
25th Percentile				46,902.05	(4,784.05)	186.18		44,769.85	9.20x	11.75x	30.00x
Minimum				34,812.33	(6,852.00)	0.00		32,506.53	6.04x	7.99x	21.49x

Comparable Analysis

Conclusion

Result of Comparable Analysis

- EV/ Revenue: The EV/Revenue multiples for this comparable group exhibit a wide range from a minimum of 6.04x to a maximum of 30.13x, with a median of 14.21x, indicating that investors are currently paying an average enterprise value premium of approximately $14.21 for every dollar of the peers' revenue.
- EV/ Gross Income: The EV/Gross Income multiples for this comparable group exhibit a wide range from a minimum of 7.99x to a maximum of 40.71x, with a median of 19.63x, indicating that investors are currently paying an average enterprise value premium of approximately $19.63 for every dollar of the peers' revenue.
- EV/ Free Cash Flow: The EV/Free Cash Flow multiples for this comparable group exhibit a wide range from a minimum of 21.49x to a maximum of 126.01, with a median of 47.78x, indicating that investors are currently paying an average enterprise value premium of approximately $47.78 for every dollar of the peers' revenue.

Multiples	Maximum	75th Percentile	Median	25th Percentile	Minimum
Public Company Comparables:					
EV/Revenue	**30.13x**	**16.39x**	**14.21x**	**9.20x**	**6.04x**
EV/Gross Income	**40.71x**	**20.93x**	**19.63x**	**11.75x**	**7.99x**
EV/FCFF	**126.01x**	**83.33x**	**47.78x**	**30.00x**	**21.49x**

Conclusion on Comparable Analysis

Using median multiples above, we conclude that Zscaler's implied share price is between $247.81 ~ $261.51. Comparing with the current share price ($243.66 as of December 3), Zscaler has a potential upside of 7.34%.

EV Calculations based on Peer Multiples	Minimum	25th Percentile	Median	75th Percentile	Maximum
EV/Revenue	17,100.28	26,059.98	40,257.74	46,447.13	85,359.15
EV/Gross Income	17,324.34	25,483.81	42,574.08	45,395.93	88,291.76
EV/FCFF	18,212.19	25,424.70	40,490.21	13,891.68	106,780.09

Implied Share Price Calculations	Minimum	25th Percentile	Median	75th Percentile	Maximum
EV/Revenue	110.78	163.80	247.81	284.43	514.68
EV/Gross Income	112.10	160.39	261.51	278.21	532.03
EV/FCFF	117.36	160.04	249.18	91.79	641.43

Discounted Cash Flow

Income Statement Projection

Determining revenue growth rate is a key factor in the discounted cash flow model. Based on our comprehensive industry and company-specific analysis, we have projected revenue growth rates of 25%, 20%, 18%, 15%, and 10% for FY 2026 through 2030, respectively. Furthermore, utilizing the margin method, we have derived the projected net income for FY 2030, reflecting the anticipated convergence toward long-term profitability.

		Actuals				Projections		
$ in thousands	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Income Statement								
Revenues	1,616,952	2,167,771	2,673,115	3,341,394	4,009,673	4,731,414	5,441,126	5,985,238
Cost of Revenue	(362,832)	(477,129)	(618,178)	(752,650)	(801,935)	(898,969)	(979,403)	(1,017,490)
Selling General	(1,137,957)	(1,312,291)	(1,507,896)	(2,086,397)	(2,205,320)	(2,483,992)	(2,720,563)	(2,902,840)
R&D	(350,786)	(499,828)	(672,485)	(778,643)	(934,372)	(946,283)	(1,088,225)	(1,197,048)
Depreciation & Amortization	(773)	0	(1,700)	(2,043)	(2,454)	(2,935)	(3,476)	(4,047)
Earning from Operations	**(234,623)**	**(121,477)**	**(127,144)**	**(278,340)**	**65,592**	**399,236**	**649,459**	**863,813**
Net Non Operating Income	53,921	95,998	115,842	179,175	(39,355)	(199,618)	(259,784)	(172,763)
Other Inocme Expense	(1,862)	(3,750)	(6,989)	(5,601)	1,230	6,240	8,120	5,400
Income Taxes	(19,771)	(28,477)	(23,187)	(46,488)	10,955	66,680	108,472	144,273
Net income	**(202,335)**	**(57,706)**	**(41,478)**	**(151,254)**	**38,422**	**272,538**	**506,268**	**840,724**
Margins /Growth Rates								
-								
Revenue Growth Rate	48.22%	34.07%	23.31%	25.00%	20.00%	18.00%	15.00%	10.00%
Cost of Revenue as a % of Revenue	22.44%	22.01%	23.13%	22.53%	20.00%	19.00%	18.00%	17.00%
Seeling General as a % of Revenue	70.38%	60.54%	56.41%	62.44%	55.00%	52.50%	50.00%	48.50%
R&D as % of Revenue	21.69%	23.06%	25.16%	23.30%	23.30%	20.00%	20.00%	20.00%
Net Non Operating Income as % of Revenue	22.98%	79.03%	91.11%	64.37%	60.00%	50.00%	40.00%	20.00%
Other Income Expense	0.79%	3.09%	5.50%	3.13%	3.13%	3.13%	3.13%	3.13%
Tax Rate	8.43%	23.44%	18.24%	16.70%	16.70%	16.70%	16.70%	16.70%

Discounted Cash Flow

Free Cash Flow Projection & WACC

Free Cash Flow Projection

Using the EBIT that we conducted in the income statement project, we could calculate the Free Cash Flow of Zscaler. While the company is expected to face negative cash flows in the early years (FY 2026–2028) due to aggressive CapEx and initial operating losses, a significant turnaround is projected starting in FY 2029. This shift to positive FCF demonstrates the company's transition toward a self-sustaining business model as operating leverage begins to take full effect.

	Projections				
$ in thousands	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
EBIT	(278,340.16)	65,592.18	399,235.62	649,459.00	863,812.56
Tax expense	(46,488.20)	10,955.16	66,680.08	108,472.23	144,273.43
EBIT (1-T)	(324,828.35)	54,637.02	332,555.54	540,986.77	719,539.14
Depreciation	2,042.77	2,453.82	2,934.53	3,476.07	4,046.97
Operating Cash Flow	**(322,785.58)**	**57,090.84**	**335,490.07**	**544,462.84**	**723,586.10**
Change in NWC	(39,335.46)	(16,378.69)	145,586.28	7,097.12	5,441.13
CapEx	(300,725.44)	(360,870.53)	(425,827.22)	(489,701.30)	(538,671.43)
Free Cash Flow	**(584,175.56)**	**(287,400.99)**	**(235,923.43)**	**47,664.42**	**179,473.54**
PV of Free Cash Flows	**(536,519.82)**	**(242,422.56)**	**(182,767.19)**	**33,912.81**	**117,276.87**

WACC

Using fully diluted share outstanding, the current stock price of ZS, and total debt, provided by FactSet, the debt-to-equity ratio (market value) came out to be 4.44% and debt to value came out to be 1.19%. The cost of debt (5.43%) is calculated based on Professor Damodaran's credit rating spread of A2-, which was 0.85% and the risk-free rate of 4.58% (S&P Global, 2025). The beta value is conducted from FactSet. Using all the information above, the WACC came out to be 8.88%

WACC		
Market Cap		41,097,290.40
Fully Diluted Shares Outstanding		168,930.00
Price	$	243.28
Total Debt (Approximated with Book Value)		1,797,000.00
D+E		42,894,290.40
D/E		0.044
D/(D+E)		4.19%
Corporate Tax Rate		21.00%
Cost of Debt		5.43%
Credit Rating		A2
Credit Spread		0.85%
Risk Free Rate		4.58%
Market Risk Premium		4.33%
Beta		1.04
E/(D+E)		95.81%
Cost of Equity		9.08%
WACC		**8.88%**

Discounted Cash Flow

Terminal Value & Implied Share Price

Terminal Value (Exit Multiple Method)

To determine Zscaler's terminal value, we employed the Exit Multiple Method, utilizing the median EV/Sales multiple derived from our comparable company analysis. This methodology was selected because it captures prevailing market sentiment and provides a valuation benchmarked against how the market currently prices peer companies. Given Zscaler's leadership in the high-growth cybersecurity sector, an exit multiple more accurately reflects the industry-specific risk-return profile compared to the Perpetual Growth Method. Applying the WACC as the discount rate, we arrived at a terminal value of $55.22 billion (represented as $55,224,024.49 in thousands) within our Enterprise Value calculation.

EXIT Multiple	
Median EV/Sales	14.12x
ZS Sales	5,985,238.14
Enterprise Value	84,511,562.55
PV of Enterprise Value	55,224,024.49
Enterprise Value	54,413,504.60

Implied Share Price Computation

Using the present value of FCFF of 2026 to 2030 and the terminal value, the enterprise value of Zscaler was $54,413,504.6 thousand. By adding back the net debt and dividing the value by fully diluted shares outstanding, the implied share price of ZS comes out to be $332.62. The discounted cash flow model shows that ZS has an upside of 46.89% (current price of 226.43 as of December 17). The implied share price comes out to be extremely higher than the current stock price, the sensitivity analysis is need to see the approximate implied share price if the assumption of WACC and terminal growth rate changes.

Enterprise Value	
Sum of PV FCFF	(810,519.9)
PV of TV	55,224,024.5
Enterprise Value	54,413,504.6
Net Debt	(1,775,400.0)
Equity Value	56,188,904.6
Diluted Share #	168,930.0
Implied Pice	332.62

Discounted Cash Flow

DCF Sensitivity Analysis

The sensitivity analysis shows the changes in implied share price if WACC (range from6.00% to 10.00%) and Exit Sales Multiple (range from 11x to 15x) changes. The sensitivity analysis shows that if WACC was 8.00% and the Exit Sales Multiple was 13x, the implied share price will be $298.12, which shows that the stock has an upside of 31.66%.

Sensitivity Analysis

		WACC				
		6.00%	7.00%	8.00%	9.00%	10.00%
	11.00x	$275.79	$262.48	$249.90	$238.00	$226.74
EXIT	12.00x	$302.27	$287.74	$274.01	$261.02	$248.74
Sales	13.00x	$328.74	$313.00	$298.12	$284.05	$270.74
Multiple	14.00x	$355.22	$338.26	$322.24	$307.08	$292.74
	15.00x	$381.69	$363.52	$346.35	$330.11	$314.73

Conclusion

Conclusion based on valuation models

Conclusion & Recommendations

Conclusion

Conclusion on two valuation models: Comparable Analysis, Discounted Cash Flow

Our valuation analysis for Zscaler yielded an implied share price of $261.51 from the Comparable Analysis and $332.62 from the DCF model. While a variance exists between the two methodologies, both consistently indicate a significant valuation upside from current market levels. The discrepancy primarily stems from the different perspectives each model captures: the Comparable Analysis reflects current market pricing benchmarks, whereas the DCF model captures Zscaler's intrinsic long-term cash-generation potential driven by its scaling operating margins through 2030. Using the average of two models, the final implied share price came out $275.61.