Important Disclosures Regarding the Analyst and Investor Day Materials

This presentation and the accompanying oral presentation contain forward-looking statements, including, among other things, statements regarding our growth prospects; our ability to attract and retain customers to use our products; our ability to innovate and provide a superior customer experience; our ability to successfully expand in our existing markets and into new markets; and our ability to effectively manage our growth and future expenses. The words such as “may,” “should,” “will,” “believe,” “expect,” “anticipate,” “target,” “project,” and similar phrases that denote future expectation or intent regarding our financial results, operations and other matters are intended to identify forward-looking statements. You should not rely upon forward-looking statements as predictions of future events.

The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to differ materially, including: (i) adverse changes in general economic or market conditions; (ii) our ability to adapt our customer service platform to changing market dynamics and customer preferences or achieve increased market acceptance of our platform; (iii) our expectation that the future growth rate of our revenues will decline, and that as our costs increase, we may not be able to generate sufficient revenues to achieve or sustain profitability; (iv) our limited operating history, which makes it difficult to evaluate our prospects and future operating results; (v) our ability to effectively manage our growth and organizational change; (vi) the market in which we operate is intensely competitive, and we may not compete effectively; (vii) the development of the market for software as a service business software applications; (viii) our ability to sell our live chat software as a standalone service and more fully integrate our live chat software with our customer service platform; (ix) our ability to integrate We Are Cloud SAS with our existing corporate operations, to sell our analytics software as a standalone service and to integrate our analytics software with our customer service platform; (x) breaches in our security measures or unauthorized access to our customers’ data; (xi) service interruptions or performance problems associated with our technology and infrastructure; (xii) real or perceived errors, failures, or bugs in our products; (xiii) our substantial reliance on our customers renewing their subscriptions and purchasing additional subscriptions; and (xiv) our ability to effectively expand our sales capabilities.

The forward-looking statements contained in this presentation and the accompanying oral presentation are also subject to additional risks, uncertainties, and factors, including those more fully described in our filings with the Securities and Exchange Commission, including our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 5, 2016. Further information on potential risks that could affect actual results will be included in the subsequent periodic and current reports and other filings that we make with the Securities and Exchange Commission from time to time.

Forward-looking statements represent our management’s beliefs and assumptions only as of the date such statements are made. We undertake no obligation to update any forward-looking statements made in this presentation to reflect events or circumstances after the date of this presentation, to reflect new information or the occurrence of unanticipated events, or for any other reason, except as required by law.

This presentation and the accompanying oral presentation include certain non-GAAP financial measures as defined by the Securities and Exchange Commission rules. These non-GAAP financial measures are in addition to, and not as a substitute for or superior to measures of financial performance prepared in accordance with GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. For example, other companies may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. As required by Regulation G, we have provided a reconciliation of those measures to the most directly comparable GAAP measures, which is available in the Appendix.

This presentation and the accompanying oral presentation include a number of operating metrics that Zendesk uses to evaluate its business, measure performance, identify trends, formulate business plans, and make strategic decisions. These operating metrics include the number of paid customer accounts for its customer service platform and live chat software, dollar-based net expansion rate, monthly recurring revenue represented by its churned customers, and the percentage of its monthly recurring revenue originating from customers with more than 100 agents. Please see the Appendix for details regarding the definition and calculation of these operating metrics.

This presentation utilizes certain trademarks and service marks for reference purposes. All such trademarks and service marks are and remain the property of their respective owners.

Any unreleased services or features referenced in this or other presentations, press releases or public statements are not currently available and may not be delivered or released on time or at all. Customers who purchase our services should make their purchase decisions based upon features that are currently available.

Appendix to the Analyst and Investor Day Materials

Non-GAAP to GAAP Reconciliation

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Revenue	$ 42,234	$ 25,092
Cost of revenue	14,290	8,995
Gross profit	27,944	16,097
Operating expenses:		
Research and development	13,259	5,178
Sales and marketing	23,403	14,287
General and administrative	10,127	6,384
Total operating expenses	46,789	25,849
Operating loss	(18,845)	(9,752)
Other expense, net	(230)	(458)
Loss before provision for income taxes	(19,075)	(10,210)
Provision for income taxes	93	49
Net loss	(19,168)	(10,259)
Accretion of redeemable convertible preferred stock	—	(12)
Net loss attributable to common stockholders	$ (19,168)	$ (10,271)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.25)	$ (0.45)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	76,338	22,762

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Reconciliation of gross profit and gross margin:		
GAAP gross profit	$ 27,944	$ 16,097
Plus: Share-based compensation	891	90
Plus: Employer tax related to equity transactions	76	2
Plus: Amortization of purchased intangibles	347	41
Plus: Amortization of share-based compensation capitalized in internal-use software	203	21
Non-GAAP gross profit	$ 29,461	$ 16,251
GAAP gross margin	66%	64%
Non-GAAP adjustments	4%	1%
Non-GAAP gross margin	70%	65%
Reconciliation of operating expenses:		
GAAP research and development	$ 13,259	$ 5,178
Less: Share-based compensation	(4,064)	(310)
Less: Employer tax related to equity transactions	(132)	—
Non-GAAP research and development	$ 9,063	$ 4,868
GAAP research and development as percentage of revenue	31%	21%
Non-GAAP research and development as percentage of revenue	21%	19%
GAAP sales and marketing	$ 23,403	$ 14,287
Less: Share-based compensation	(2,432)	(490)
Less: Employer tax related to equity transactions	(125)	(1)
Less: Amortization of purchased intangibles	(88)	(11)
Non-GAAP sales and marketing	$ 20,758	$ 13,785
GAAP sales and marketing as percentage of revenue	55%	57%
Non-GAAP sales and marketing as percentage of revenue	49%	55%
GAAP general and administrative	$ 10,127	$ 6,384
Less: Share-based compensation	(2,842)	(934)
Less: Employer tax related to equity transactions	(158)	—
Less: Transaction costs related to acquisition	—	(649)
Non-GAAP general and administrative	$ 7,127	$ 4,801
GAAP general and administrative as percentage of revenue	24%	25%
Non-GAAP general and administrative as percentage of revenue	17%	19%
Reconciliation of operating loss and operating margin:		
GAAP operating loss	$ (18,845)	$ (9,752)
Plus: Share-based compensation	10,229	1,824
Plus: Employer tax related to equity transactions	491	3
Plus: Amortization of purchased intangibles	435	52
Plus: Transaction costs related to acquisition	—	649
Plus: Amortization of share-based compensation capitalized in internal-use software	203	21
Non-GAAP operating loss	$ (7,487)	$ (7,203)
GAAP operating margin	(45)%	(39)%
Non-GAAP adjustments	27%	10%
Non-GAAP operating margin	(18)%	(29)%
Reconciliation of net loss attributable to common stockholders:		
GAAP net loss attributable to common stockholders	$ (19,168)	$ (10,271)
Plus: Share-based compensation	10,229	1,824
Plus: Employer tax related to equity transactions	491	3
Plus: Amortization of purchased intangibles	435	52
Plus: Transaction costs related to acquisition	—	649
Plus: Amortization of share-based compensation capitalized in internal-use software	203	21
Non-GAAP net loss attributable to common stockholders	$ (7,810)	$ (7,722)

Reconciliation of net loss per share attributable to common stockholders, basic and diluted:		
GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.25)	$ (0.45)
Non-GAAP adjustments to net loss	0.15	0.11
Non-GAAP adjustment to weighted-average shares used to compute net loss per share	—	0.20
Non-GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.10)	$ (0.14)
Reconciliation of weighted-average shares used to compute net loss per share attributable to common stockholders:		
GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	76,338	22,762
Conversion of preferred stock	—	34,323
Non-GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	76,338	57,085

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue	$ 48,227	$ 29,506	$ 90,461	$ 54,598
Cost of revenue	16,162	11,731	30,452	20,726
Gross profit	32,065	17,775	60,009	33,872
Operating expenses:				
Research and development	14,227	10,499	27,485	15,677
Sales and marketing	27,242	20,339	50,645	34,626
General and administrative	11,536	8,315	21,663	14,699
Total operating expenses	53,005	39,153	99,793	65,002
Operating loss	(20,940)	(21,378)	(39,784)	(31,130)
Other expense, net	(343)	(450)	(574)	(909)
Loss before provision for (benefit from) income taxes	(21,283)	(21,828)	(40,358)	(32,039)
Provision for (benefit from) income taxes	199	(85)	292	(36)
Net loss	(21,482)	(21,743)	(40,650)	(32,003)
Accretion of redeemable convertible preferred stock	—	(6)	—	(18)
Net loss attributable to common stockholders	$ (21,482)	$ (21,749)	$ (40,650)	$ (32,021)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.25)	$ (0.48)	$ (0.50)	$ (0.93)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	86,390	45,760	81,390	34,325

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Reconciliation of gross profit and gross margin:				
GAAP gross profit	$ 32,065	$ 17,775	$ 60,009	$ 33,872
Plus: Share-based compensation	1,114	1,010	2,004	1,100
Plus: Employer tax related to equity transactions	32	11	108	12
Plus: Amortization of purchased intangibles	359	377	707	418
Plus: Amortization of share-based compensation capitalized in internal-use software	281	147	484	167
Non-GAAP gross profit	$ 33,851	$ 19,320	$ 63,312	$ 35,569
GAAP gross margin	66%	60%	66%	62%
Non-GAAP adjustments	4%	5%	4%	3%
Non-GAAP gross margin	70%	65%	70%	65%
Reconciliation of operating expenses:				
GAAP research and development	$ 14,227	$ 10,499	$ 27,485	$ 15,677
Less: Share-based compensation	(4,446)	(4,168)	(8,510)	(4,478)
Less: Employer tax related to equity transactions	(128)	(71)	(260)	(71)
Non-GAAP research and development	$ 9,653	$ 6,260	$ 18,715	$ 11,128
GAAP research and development as percentage of revenue	30%	36%	30%	29%
Non-GAAP research and development as percentage of revenue	20%	21%	21%	20%
GAAP sales and marketing	$ 27,242	$ 20,339	$ 50,645	$ 34,626
Less: Share-based compensation	(3,937)	(3,268)	(6,369)	(3,758)
Less: Employer tax related to equity transactions	(126)	(43)	(251)	(44)
Less: Amortization of purchased intangibles	(78)	(98)	(167)	(109)
Non-GAAP sales and marketing	$ 23,101	$ 16,930	$ 43,858	$ 30,715
GAAP sales and marketing as percentage of revenue	56%	69%	56%	63%
Non-GAAP sales and marketing as percentage of revenue	48%	57%	48%	56%
GAAP general and administrative	$ 11,536	$ 8,315	$ 21,663	$ 14,699
Less: Share-based compensation	(3,890)	(2,537)	(6,731)	(3,471)
Less: Employer tax related to equity transactions	(80)	(25)	(238)	(25)
Less: Transaction costs related to acquisition	—	—	—	(649)
Non-GAAP general and administrative	$ 7,566	$ 5,753	$ 14,694	$ 10,554
GAAP general and administrative as percentage of revenue	24%	28%	24%	27%
Non-GAAP general and administrative as percentage of revenue	16%	19%	16%	19%

Reconciliation of operating loss and operating margin:				
GAAP operating loss	$ (20,940)	$ (21,378)	$ (39,784)	$ (31,130)
Plus: Share-based compensation	13,387	10,983	23,614	12,807
Plus: Employer tax related to equity transactions	366	150	857	152
Plus: Amortization of purchased intangibles	437	475	874	527
Plus: Transaction costs related to acquisition	—	—	—	649
Plus: Amortization of share-based compensation capitalized in internal-use software	281	147	484	167
Non-GAAP operating loss	$ (6,469)	$ (9,623)	$ (13,955)	$ (16,828)
GAAP operating margin	(43)%	(72)%	(44)%	(57)%
Non-GAAP adjustments	30%	40%	29%	26%
Non-GAAP operating margin	(13)%	(33)%	(15)%	(31)%

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	$ 55,661	$ 33,910	$ 146,122	$ 88,508
Cost of revenue	17,039	11,684	47,491	32,410
Gross profit	38,622	22,226	98,631	56,098
Operating expenses:				
Research and development	16,031	9,550	43,517	25,227
Sales and marketing	29,079	21,548	79,725	56,174
General and administrative	12,319	8,940	33,982	23,639
Total operating expenses	57,429	40,038	157,224	105,040
Operating loss	(18,807)	(17,812)	(58,593)	(48,942)
Other income (expense), net	145	(343)	(428)	(1,252)
Loss before provision for (benefit from) income taxes	(18,662)	(18,155)	(59,021)	(50,194)
Provision for (benefit from) income taxes	262	(236)	554	(272)
Net loss	(18,924)	(17,919)	(59,575)	(49,922)
Accretion of redeemable convertible preferred stock	—	—	—	(18)
Net loss attributable to common stockholders	$ (18,924)	$ (17,919)	$ (59,575)	$ (49,940)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.22)	$ (0.25)	$ (0.71)	$ (1.07)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	87,777	71,732	83,536	46,751

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Reconciliation of gross profit and gross margin:				
GAAP gross profit	$ 38,622	$ 22,226	$ 98,631	$ 56,098
Plus: Share-based compensation	1,131	591	3,136	1,691
Plus: Employer tax related to equity transactions	33	6	142	18
Plus: Amortization of purchased intangibles	352	381	1,058	799
Plus: Amortization of share-based compensation capitalized in internal-use software	269	103	753	270
Non-GAAP gross profit	$ 40,407	$ 23,307	$ 103,720	$ 58,876
GAAP gross margin	69%	66%	67%	63%
Non-GAAP adjustments	4%	3%	4%	4%
Non-GAAP gross margin	73%	69%	71%	67%
Reconciliation of operating expenses:				
GAAP research and development	$ 16,031	$ 9,550	$ 43,517	$ 25,227
Less: Share-based compensation	(4,974)	(3,052)	(13,484)	(7,530)
Less: Employer tax related to equity transactions	(87)	(30)	(348)	(101)
Non-GAAP research and development	$ 10,970	$ 6,468	$ 29,685	$ 17,596
GAAP research and development as percentage of revenue	29%	28%	30%	29%
Non-GAAP research and development as percentage of revenue	20%	19%	20%	20%
GAAP sales and marketing	$ 29,079	$ 21,548	$ 79,725	$ 56,174
Less: Share-based compensation	(3,786)	(4,877)	(10,154)	(8,635)
Less: Employer tax related to equity transactions	(50)	(25)	(301)	(69)
Less: Amortization of purchased intangibles	(77)	(99)	(243)	(207)
Non-GAAP sales and marketing	$ 25,166	$ 16,547	$ 69,027	$ 47,263
GAAP sales and marketing as percentage of revenue	52%	64%	55%	63%
Non-GAAP sales and marketing as percentage of revenue	45%	49%	47%	53%
GAAP general and administrative	$ 12,319	$ 8,940	$ 33,982	$ 23,639
Less: Share-based compensation	(3,551)	(2,298)	(10,283)	(5,769)
Less: Employer tax related to equity transactions	(76)	(22)	(314)	(47)
Less: Transaction costs related to acquisition	(290)	—	(290)	(649)
Non-GAAP general and administrative	$ 8,402	$ 6,620	$ 23,095	$ 17,174
GAAP general and administrative as percentage of revenue	22%	26%	23%	27%
Non-GAAP general and administrative as percentage of revenue	15%	20%	16%	19%

Reconciliation of operating loss and operating margin:				
GAAP operating loss	$ (18,807)	$ (17,812)	$ (58,593)	$ (48,942)
Plus: Share-based compensation	13,442	10,818	37,057	23,625
Plus: Employer tax related to equity transactions	246	83	1,105	235
Plus: Amortization of purchased intangibles	429	480	1,301	1,006
Plus: Transaction costs related to acquisition	290	—	290	649
Plus: Amortization of share-based compensation capitalized in internal-use software	269	103	753	270
Non-GAAP operating loss	$ (4,131)	$ (6,328)	$ (18,087)	$ (23,157)
GAAP operating margin	(34)%	(53)%	(40)%	(55)%
Non-GAAP adjustments	27%	34%	28%	29%
Non-GAAP operating margin	(7)%	(19)%	(12)%	(26)%
Reconciliation of net loss attributable to common stockholders:				
GAAP net loss attributable to common stockholders	$ (18,924)	$ (17,919)	$ (59,575)	$ (49,940)
Plus: Share-based compensation	13,442	10,818	37,057	23,625
Plus: Employer tax related to equity transactions	246	83	1,105	235
Plus: Amortization of purchased intangibles	429	480	1,301	1,006
Plus: Transaction costs related to acquisition	290	—	290	649
Plus: Amortization of share-based compensation capitalized in internal-use software	269	103	753	270
Non-GAAP net loss attributable to common stockholders	$ (4,248)	$ (6,435)	$ (19,069)	$ (24,155)
Reconciliation of net loss per share attributable to common stockholders, basic and diluted:				
GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.22)	$ (0.25)	$ (0.71)	$ (1.07)
Non-GAAP adjustments to net loss	0.17	0.16	0.48	0.55
Non-GAAP adjustment to weighted-average shares used to compute net loss per share	—	—	—	0.14
Non-GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.05)	$ (0.09)	$ (0.23)	$ (0.38)

Reconciliation of weighted-average shares used to compute net loss per share attributable to common stockholders:				
GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	87,777	71,732	83,536	46,751
Conversion of preferred stock	—	—	—	17,602
Non-GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	87,777	71,732	83,536	64,353

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Revenue	$ 62,646	$ 38,541	$ 208,768	$ 127,049
Cost of revenue	19,693	13,637	67,184	46,047
Gross profit	42,954	24,904	141,584	81,002
Operating expenses:				
Research and development	19,098	11,176	62,615	36,403
Sales and marketing	34,328	21,701	114,052	77,875
General and administrative	13,920	9,230	47,902	32,869
Total operating expenses	67,346	42,107	224,569	147,147
Operating loss	(24,393)	(17,203)	(82,985)	(66,145)
Other expense, net	(302)	(282)	(729)	(1,533)
Loss before provision for (benefit from) income taxes	(24,694)	(17,485)	(83,714)	(67,678)
Provision for (benefit from) income taxes	(216)	9	338	(263)
Net loss	(24,478)	(17,494)	(84,052)	(67,415)
Accretion of redeemable convertible preferred stock	—	—	—	(18)
Net loss attributable to common stockholders	$ (24,478)	$ (17,494)	$ (84,052)	$ (67,433)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.27)	$ (0.24)	$ (0.99)	$ (1.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	89,073	73,295	84,926	53,571

	Three Months Ended December 31,		Year Ended December 31,	
	2015	2014	2015	2014
Reconciliation of gross profit and gross margin:				
GAAP gross profit	$ 42,954	$ 24,904	$ 141,584	$ 81,002
Plus: Share-based compensation	1,405	773	4,541	2,464
Plus: Employer tax related to employee stock transactions	31	10	175	29
Plus: Amortization of share-based compensation capitalized in internal-use software	312	132	1,065	402
Plus: Amortization of purchased intangibles	832	369	1,890	1,167
Non-GAAP gross profit	$ 45,534	$ 26,188	$ 149,255	$ 85,064
GAAP gross margin	69%	65%	68%	64%
Non-GAAP adjustments	4%	3%	3%	3%
Non-GAAP gross margin	73%	68%	71%	67%
Reconciliation of operating expenses:				
GAAP research and development	$ 19,098	$ 11,176	$ 62,615	$ 36,403
Less: Share-based compensation	(5,930)	(3,388)	(19,414)	(10,918)
Less: Employer tax related to employee stock transactions	(69)	(28)	(415)	(129)
Non-GAAP research and development	$ 13,099	$ 7,760	$ 42,786	$ 25,356
GAAP research and development as percentage of revenue	30%	29%	30%	29%
Non-GAAP research and development as percentage of revenue	21%	20%	20%	20%
GAAP sales and marketing	$ 34,328	$ 21,701	$ 114,052	$ 77,875
Less: Share-based compensation	(4,604)	(2,045)	(14,759)	(10,680)
Less: Employer tax related to employee stock transactions	(174)	(245)	(474)	(314)
Less: Amortization of purchased intangibles	(103)	(96)	(346)	(303)
Non-GAAP sales and marketing	$ 29,447	$ 19,315	$ 98,473	$ 66,578
GAAP sales and marketing as percentage of revenue	55%	56%	55%	61%
Non-GAAP sales and marketing as percentage of revenue	47%	50%	47%	52%
GAAP general and administrative	$ 13,920	$ 9,230	$ 47,902	$ 32,869
Less: Share-based compensation	(3,559)	(2,308)	(13,842)	(8,077)
Less: Employer tax related to employee stock transactions	(73)	(65)	(387)	(113)
Less: Transaction costs related to acquisition	(708)	—	(998)	(649)
Non-GAAP general and administrative	$ 9,580	$ 6,857	$ 32,675	$ 24,030
GAAP general and administrative as percentage of revenue	22%	24%	23%	26%
Non-GAAP general and administrative as percentage of revenue	15%	18%	16%	19%
Reconciliation of operating loss and operating margin:				
GAAP operating loss	$ (24,393)	$ (17,203)	$ (82,985)	$ (66,145)
Plus: Share-based compensation	15,498	8,514	52,556	32,139
Plus: Employer tax related to employee stock transactions	347	348	1,451	585
Plus: Amortization of share-based compensation capitalized in internal-use software	312	132	1,065	402
Plus: Amortization of purchased intangibles	935	465	2,236	1,470
Plus: Transaction costs related to acquisition	708	—	998	649

Non-GAAP operating loss	$ (6,593)	$ (7,744)	$ (24,679)	$ (30,900)
GAAP operating margin	(39%)	(45%)	(40%)	(52%)
Non-GAAP adjustments	28%	25%	28%	28%
Non-GAAP operating margin	(11%)	(20%)	(12%)	(24%)
Reconciliation of net loss attributable to common stockholders:				
GAAP net loss attributable to common stockholders	$ (24,478)	$ (17,494)	$ (84,052)	$ (67,433)
Plus: Share-based compensation	15,498	8,514	52,556	32,139
Plus: Employer tax related to employee stock transactions	347	348	1,451	585
Plus: Amortization of share-based compensation capitalized in internal-use software	312	132	1,065	402
Plus: Amortization of purchased intangibles	935	465	2,236	1,470
Plus: Transaction costs related to acquisition	708	—	998	649
Non-GAAP net loss attributable to common stockholders	$ (6,678)	$ (8,035)	$ (25,746)	$ (32,188)
Reconciliation of net loss per share attributable to common stockholders, basic and diluted:				
GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.27)	$ (0.24)	$ (0.99)	$ (1.26)
Non-GAAP adjustments to net loss	0.20	0.13	0.69	0.66
Non-GAAP adjustment to weighted-average shares used to compute net loss per share	—	—	—	0.12
Non-GAAP net loss per share attributable to common stockholders, basic and diluted	$ (0.07)	$ (0.11)	$ (0.30)	$ (0.48)
Reconciliation of weighted-average shares used to compute net loss per share attributable to common stockholders:				
GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	89,073	73,295	84,926	53,571
Conversion of preferred stock	—	—	—	13,071
Non-GAAP weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	89,073	73,295	84,926	66,642
Computation of free cash flow:				
Net cash provided by operating activities	$ 10,281	$ 2,107	$ 5,333	$ 2,090
Less: purchases of property and equipment	(8,758)	(2,544)	(22,989)	(21,665)
Less: internal-use software development costs	(1,157)	(1,745)	(4,705)	(8,013)
Free cash flow	$ 366	$ (2,182)	$ (22,361)	$ (27,588)

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenue	$ 68,459	$ 42,234
Cost of revenue	21,516	14,290
Gross profit	46,943	27,944
Operating expenses:		
Research and development	21,597	13,259
Sales and marketing	36,172	23,403
General and administrative	15,861	10,127
Total operating expenses	73,630	46,789
Operating loss	(26,687)	(18,845)
Other expense, net	(70)	(230)
Loss before provision for income taxes	(26,757)	(19,075)
Provision for income taxes	414	93
Net loss	$ (27,171)	$ (19,168)
Net loss per share, basic and diluted	$ (0.30)	$ (0.25)
Weighted-average shares used to compute net loss per share, basic and diluted	90,519	76,338

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Reconciliation of gross profit and gross margin:		
GAAP gross profit	$ 46,943	$ 27,944
Plus: Share-based compensation	1,633	891
Plus: Employer tax related to equity transactions	90	76
Plus: Amortization of purchased intangibles	831	347
Plus: Amortization of share-based compensation capitalized in internal-use software	458	203
Non-GAAP gross profit	$ 49,955	$ 29,461
GAAP gross margin	69%	66%
Non-GAAP adjustments	4%	4%
Non-GAAP gross margin	73%	70%
Reconciliation of operating expenses:		
GAAP research and development	$ 21,597	$ 13,259
Less: Share-based compensation	(6,627)	(4,064)
Less: Employer tax related to equity transactions	(295)	(132)
Non-GAAP research and development	$ 14,675	$ 9,063
GAAP research and development as percentage of revenue	32%	31%
Non-GAAP research and development as percentage of revenue	21%	21%
GAAP sales and marketing	$ 36,172	$ 23,403
Less: Share-based compensation	(5,439)	(2,432)
Less: Employer tax related to equity transactions	(227)	(125)
Less: Amortization of purchased intangibles	(102)	(88)
Non-GAAP sales and marketing	$ 30,404	$ 20,758
GAAP sales and marketing as percentage of revenue	53%	55%
Non-GAAP sales and marketing as percentage of revenue	44%	49%
GAAP general and administrative	$ 15,861	$ 10,127
Less: Share-based compensation	(3,996)	(2,842)
Less: Employer tax related to equity transactions	(195)	(158)
Non-GAAP general and administrative	$ 11,670	$ 7,127
GAAP general and administrative as percentage of revenue	23%	24%
Non-GAAP general and administrative as percentage of revenue	17%	17%
Reconciliation of operating loss and operating margin:		
GAAP operating loss	$ (26,687)	$ (18,845)
Plus: Share-based compensation	17,695	10,229
Plus: Employer tax related to equity transactions	807	491
Plus: Amortization of purchased intangibles	933	435
Plus: Amortization of share-based compensation capitalized in internal-use software	458	203
Non-GAAP operating loss	$ (6,794)	$ (7,487)
GAAP operating margin	(39)%	(45)%
Non-GAAP adjustments	29%	27%
Non-GAAP operating margin	(10)%	(18)%

	Three Months Ended March 31,	
	2016	2015
Reconciliation of net loss:		
GAAP net loss	$ (27,171)	$ (19,168)
Plus: Share-based compensation	17,695	10,229
Plus: Employer tax related to equity transactions	807	491
Plus: Amortization of purchased intangibles	933	435
Plus: Amortization of share-based compensation capitalized in internal-use software	458	203
Non-GAAP net loss	$ (7,278)	$ (7,810)
Reconciliation of net loss per share, basic and diluted:		
GAAP net loss per share, basic and diluted	$ (0.30)	$ (0.25)
Non-GAAP adjustments to net loss	0.22	0.15
Non-GAAP net loss per share, basic and diluted	$ (0.08)	$ (0.10)
Weighted-average shares used to compute net loss per share, basic and diluted	90,519	76,338
Computation of free cash flow:		
Net cash provided by (used in) operating activities	$ 4,589	$ (5,195)
Less: purchases of property and equipment	(3,249)	(3,356)
Less: internal-use software development costs	(1,351)	(1,317)
Free cash flow	$ (11)	$ (9,868)

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Zendesk's results, the following non-GAAP financial measures were disclosed: non-GAAP gross profit and gross margin, non-GAAP operating expenses, non-GAAP operating loss and operating margin, non-GAAP net loss, non-GAAP net loss per share, basic and diluted, non-GAAP weighted-average shares used to compute net loss per share, basic and diluted, and free cash flow.

Specifically, Zendesk excludes the following from its historical and prospective non-GAAP financial measures, as applicable:

Share-based Compensation and Amortization of Share-based Compensation Capitalized in Internal-use Software: Zendesk utilizes share-based compensation to attract and retain employees. It is principally aimed at aligning their interests with those of its stockholders and at long-term retention, rather than to address operational performance for any particular period. As a result, share-based compensation expenses vary for reasons that are generally unrelated to financial and operational performance in any particular period.

Employer Tax Related to Employee Stock Transactions: Zendesk views the amount of employer taxes related to its employee stock transactions as an expense that is dependent on its stock price, employee exercise and other award disposition activity, and other factors that are beyond Zendesk's control. As a result, employer taxes related to its employee stock transactions vary for reasons that are generally unrelated to financial and operational performance in any particular period.

Amortization of Purchased Intangibles and Acquisition Related Expenses: Zendesk views amortization of purchased intangible assets, including the amortization of the cost associated with an acquired entity's developed technology, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are evaluated for impairment regularly, amortization of the cost of purchased intangibles is an expense that is not typically affected by operations during any particular period. Zendesk views acquisition related expenses as events that are not necessarily reflective of operational performance during a period. In particular, Zendesk believes the consideration of measures that exclude such expenses can assist in the comparison of operational performance in different periods which may or may not include such expenses.

Zendesk provides disclosures regarding its free cash flow, which is defined as net cash from operating activities, less purchases of property and equipment and internal-use software development costs. Zendesk uses free cash flow, among other measures, to evaluate the ability of its operations to generate cash that is available for purposes other than capital expenditures and capitalized software development costs. Zendesk believes that information regarding free cash flow provides investors with an important perspective on the cash available to fund ongoing operations.

Zendesk uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. Zendesk's management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. Zendesk presents such non-GAAP financial measures in reporting its financial results to provide investors with an additional tool to evaluate Zendesk's operating results. Zendesk believes these non-GAAP financial measures are useful because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making. This allows investors and others to better understand and evaluate Zendesk's operating results and future prospects in the same manner as management.

Zendesk's management believes it is useful for itself and investors to review, as applicable, both GAAP information that may include items such as share-based compensation expense, amortization of share-based compensation capitalized in internal-use software, amortization of purchased intangibles, transaction costs related to acquisitions, and the non-GAAP measures that exclude such information in order to assess the performance of Zendesk's business and for planning and forecasting in subsequent periods. When Zendesk uses such a non-GAAP financial measure, it provides, when determinable without unreasonable effort, a reconciliation of the non-GAAP financial measure to the most closely comparable GAAP financial measure. When such reconciliation is not determinable without unreasonable effort, Zendesk provides the reconciling information that is determinable without unreasonable effort and identifies the information that would need to be added or subtracted from the non-GAAP measure to arrive at the most directly comparable GAAP measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure as detailed above.

About Operating Metrics

Zendesk reviews a number of operating metrics to evaluate its business, measure performance, identify trends, formulate business plans, and make strategic decisions. These include the number of paid customer accounts for its customer service platform and live chat software, dollar-based net expansion rate, monthly recurring revenue represented by its churned customers, and the percentage of its monthly recurring revenue originating from customers with more than 100 agents.

Zendesk defines the number of paid customer accounts at the end of any particular period as the sum of the number of accounts on its customer service platform, exclusive of its Starter plan, free trials or other free services, and the number of accounts using its live chat software, exclusive of free trials or other free services, each as of the end of the period and as identified by a unique account identifier. Use of Zendesk's customer service platform and live chat software requires separate subscriptions and each of these accounts are treated as a separate paid customer account. Existing customers may also expand their utilization of our customer service platform or live chat software by adding new accounts and a single consolidated organization or customer may have multiple accounts across each of Zendesk's customer service platform and live chat software to service separate subsidiaries, divisions, or work processes. Each of these accounts is also treated as a separate paid customer account. Zendesk does not currently incorporate accounts using its analytics software into the determination of the number of paid customer accounts. Accounts that subscribe to Zendesk's Essential plan are included in the determination of the number of paid customer accounts.

Zendesk's dollar-based net expansion rate provides a measurement of its ability to increase revenue across its existing customer base through expansion of authorized agents associated with a paid customer account, upgrades in subscription plan, and the purchase of additional features on Zendesk's customer service platform, such as voice subscriptions, as offset by churn, contraction in authorized agents associated with a paid customer account, and downgrades in subscription plans. Zendesk's dollar-based net expansion rate is based upon monthly recurring revenue for a set of paid customer accounts on its customer service platform and live chat software. Monthly recurring revenue for a paid customer account is a legal and contractual determination made by assessing the contractual terms of each paid customer account, as of the date of determination, as to the revenue Zendesk expects to generate in the next monthly period for that paid customer account, assuming no changes to the subscription and without taking into account any one-time discounts or any platform usage above the subscription base, if any, that may be applicable to such subscription. Monthly recurring revenue is not determined by reference to historical revenue, deferred revenue or any other United States generally accepted accounting principles, or GAAP, financial measure over any period. It is forward-looking and contractually derived as of the date of determination.

Zendesk calculates its dollar-based net expansion rate by dividing the retained revenue net of contraction and churn by Zendesk's base revenue. Zendesk defines its base revenue as the aggregate monthly recurring revenue of the paid customer accounts on Zendesk's customer service platform and live chat software as of the date one year prior to the date of calculation. Zendesk defines the retained revenue net of contraction and churn as the aggregate monthly recurring revenue of the same customer base included in the measure of base revenue at the end of the annual period being measured. The dollar-based net expansion rate is also adjusted to eliminate the effect of certain activities that we identify involving the transfer of agents between paid customer accounts, consolidation of customer accounts, or the split of a single paid customer account into multiple paid customer accounts. In addition, the dollar-based net expansion rate is adjusted to include paid customer accounts in the customer base used to determine retained revenue net of contraction and churn that share common corporate information with customers in the customer base that is used to determine the base revenue. Giving effect to this consolidation results in Zendesk's dollar-based net expansion rate being calculated across approximately 66,500 customers, as compared to the approximately 75,600 total paid customer accounts as of March 31, 2016. For the effect of this consolidation on Zendesk's dollar-based net expansion in prior periods, please see the earnings press releases for such prior periods. To the extent that Zendesk can determine that the underlying customers do not share common corporate information, Zendesk does not aggregate paid customer accounts associated with reseller and other similar channel arrangements for the purposes of determining its dollar-based net expansion rate. While not material, Zendesk believes the failure to account for these activities would otherwise skew the dollar-based net expansion metrics associated with customers that maintain multiple paid customer accounts on its customer service platform or live chat software and paid customer accounts associated with reseller and other similar channel arrangements.

Starting in the quarter ended March 31, 2016, Zendesk began incorporating operating metrics associated with its live chat software into its dollar-based net expansion rate. Zendesk does not currently incorporate operating metrics associated with its analytics software into its measurement of dollar-based net expansion rate.

For a more detailed description of how Zendesk calculates its dollar-based net expansion rate, please refer to Zendesk's periodic reports as filed with the Securities and Exchange Commission.

Zendesk calculates its monthly recurring revenue represented by its churned customers on an annualized basis by dividing base revenue associated with paid customer accounts on Zendesk's customer service platform that churn, either by termination of the subscription or failure to renew, during the annual period being measured, by Zendesk's base revenue. Zendesk's monthly recurring revenue represented by its churned customers excludes expansion or contraction associated with paid customer accounts on Zendesk's customer service platform and the effect of upgrades or downgrades in subscription plan. The monthly recurring revenue represented by its churned customers is adjusted to exclude paid customer accounts that churned from the customer base used that share common corporate information with customer accounts that did not churn from the customer base during the annual period being measured. While not material, Zendesk believes the failure to make this adjustment could otherwise skew the monthly recurring revenue represented by its churned customers as a result of customers that maintain multiple paid customer accounts on its customer service platform.

Zendesk's percentage of monthly recurring revenue that is generated by customers with 100 or more agents is determined by dividing the monthly recurring revenue for paid customer accounts with more than 100 agents on its customer service platform as of the measurement date by the monthly recurring revenue for all paid customer accounts on its customer service platform as of the measurement date. Zendesk determines the customers with 100 or more agents as of the measurement date based on the number of activated agents at the measurement date and includes adjustments to aggregate paid customer accounts that share common corporate information.

Zendesk determines the annualized value of a contract by annualizing the monthly recurring revenue for such contract.

Zendesk does not currently incorporate operating metrics associated with its live chat software or its analytics software into its measurement of monthly recurring revenue represented by its churned customers or percentage of monthly recurring revenue that is generated by customers with 100 or more agents.

Zendesk's freemium plans include its Starter plan for its customer service platform, its Lite plan for its live chat software, and its Inbox service for facilitating and simplifying email collaboration on group email aliases. Zendesk believes these services provide exposure to its brand and establish a relationship that can facilitate further adoption of its customer service platform and live chat software as organizations grow in size and their service needs grow more complex. A customer account on Zendesk's freemium plans is considered active based on whether functionality of the service has been utilized within the 90-day period preceding the measurement date. A single consolidated organization or customer may have multiple freemium customer accounts across each of Zendesk's customer service platform, live chat software, Inbox service. Each of these accounts is treated as a separate customer account on our freemium products.