INVESTOR & ANALYST EVENT

MAY 22, 2019
Introduction
This presentation includes forward-looking statements, including, among other things, statements regarding Zendesk’s future financial performance, its continued investment to grow its business, and progress towards its long-term financial objectives. The words such as “may,” “should,” “will,” “believe,” “expect,” “anticipate,” “target,” “project,” and similar phrases that denote future expectation or intent regarding Zendesk’s 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 Zendesk’s actual results, performance, or achievements to differ materially, including (i) adverse changes in general economic or market conditions; (ii) Zendesk’s ability to adapt its products to changing market dynamics and customer preferences or achieve increased market acceptance of its products; (iii) Zendesk’s ability to effectively expand its sales capabilities; (iv) Zendesk’s ability to effectively market and sell its products to large enterprises; (v) Zendesk’s expectation that the future growth rate of its revenues will decline, and that, as its costs increase, Zendesk may not be able to generate sufficient revenues to achieve or sustain profitability; (vi) the intensely competitive market in which Zendesk operates and the difficulty that Zendesk may have in competing effectively; (vii) Zendesk’s ability to introduce and market new products and to support its products on a shared services platform; (viii) Zendesk’s ability to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions; (ix) Zendesk’s ability to effectively manage its growth and organizational change, including its international expansion strategy; (x) potential breaches in Zendesk’s security measures or unauthorized access to its customers’ data; (xi) Zendesk’s ability to comply with privacy and data security regulations; (xii) the development of the market for software as a service business software applications; (xiii) potential service interruptions or performance problems associated with Zendesk’s technology and infrastructure; (xiv) real or perceived errors, failures, or bugs in its products; (xv) Zendesk’s substantial reliance on its customers renewing their subscriptions and purchasing additional subscriptions; and (xvi) Zendesk’s ability to accurately forecast expenditures on third-party managed hosting services.

The forward-looking statements contained in this presentation are also subject to additional risks, uncertainties, and factors, including those more fully described in Zendesk’s filings with the Securities and Exchange Commission, including its Quarterly Report for the quarter ended March 31, 2019 and its Annual Report on Form 10-K for the year ended December 31, 2018. Further information on potential risks that could affect actual results will be included in the subsequent periodic and current reports and other filings that Zendesk makes with the Securities and Exchange Commission from time to time.

Forward-looking statements represent Zendesk’s management’s beliefs and assumptions only as of the date such statements are made. Zendesk undertakes no obligation to update any forward-looking statements made in this presentation to reflect events or circumstances after the date of this presentation or to reflect new information or the occurrence of unanticipated events, 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, dollar-based net expansion rate, and the percentage of its annual recurring revenue from Zendesk Support originating from customers with more than 100 agents on Zendesk Support. Please see the Appendix for details regarding the definition and calculation of these operating metrics.

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Rising customer expectations drive high demand across all organizations globally

Expanding family of customer experience products fuels growth

The Sunshine platform approach, open and on the cloud, is the future of CX

Consistently deliver high-growth and scale

Zendesk is leading CRM innovation
Agenda

Mikkel Svane, Founder, CEO
THE FUTURE OF CUSTOMER EXPERIENCE

Adrian McDermott, President of Products
Shawna Wolverton, SVP Product
PLATFORM & PRODUCTS FOR THE FUTURE OF CUSTOMER EXPERIENCE

Tom Keiser, COO
Norman Gennaro, SVP Worldwide Sales
Colleen Berube, CIO
ORGANIZATIONS TRANSFORMING THEIR CUSTOMER EXPERIENCES

Elena Gomez, CFO
SCALING TO BE A MULTIBILLION-DOLLAR REVENUE COMPANY

Q&A
MIKKEL SVANE

Founder & CEO, Zendesk

The future of customer experience
Welcome to the Showcase. Ain’t no conference like a Zendesk conference...

Zendesk Showcase

New York City
May 22, 2019

1200 ATTENDEES
16 SESSIONS
PRESENTING COMPANIES

Betterment
Bombas
Freshly
Hello Alfred
Vimeo
Spartan
The best customer experiences are built with Zendesk
More customers want to engage

Annual unique requesters

2014 2015 2016 2017 2018

5X increase

778M

Annual unique requesters reflect the number of unique requestor IDs within a customer account and have not been de-duped across multiple customer accounts or de-duped across years.
Interactions on the rise

Annual solved tickets

5X increase
Self-service skyrockets

Knowledge base article views

13X increase

2018: 3.9B
2017: 2B
2016: 1B
2015: 0B
2014: 0B
What’s exceptional today will be mundane tomorrow
Multibillion-dollar journey

ANNUAL REVENUE

May 2014*

IPO

*Annual revenue run rates for May 2014 and today

Reached $100M annual revenue run rate with 3/31/14 quarterly results and exceeded $700M annual revenue run rate with 3/31/19 quarterly results.

FUTURE

$1B

$700M

2020

May 2014* IPO

Today*
KEY GROWTH DRIVERS

**Expanding TAM**
driven by market trends and Zendesk’s broader reach in CRM

**Product innovation**
opens up adjacent markets and new opportunities

**Enterprise & SMB**
momentum is strong
Your CRM platform, not theirs.
Sunshine sets you free

Open and flexible

Developer friendly

Lives in the public cloud
Connecting data of every kind
Software companies joining the movement

- ATLASIAN
- ZAIUS
- qualtrics
- Segment
- EZ Office Inventory
- pagerduty
- Magento
- Stella CONNECT
- moltin
- narvar
- Particular
- vidyard
- oomnitza
- pendo
- DOMO
- Cloud Solutions SET
Partners seeing the light
1,000+ customers flipped the switch

More than a thousand customers have turned on access to explore Sunshine.
Hey there — I had a quick question about the sizing of the wool sweaters and I need some help.

Yeah for sure! You do this, this and this.

Thanks,
Sam
OF ALL SMARTPHONE USERS NOW USE MESSAGING APPS

75%
Zendesk acquires Smooch

We put a ring on it!
Messaging open for business

SOCIAL

I am totally in love with this month's subscription box 😍😊

We're so glad to hear Sarah! We do put a lot of love into it.

EMBEDDED

Acme Hotel Co.

Certainly, here's an expertly curated list of the best things to do in Boston.

Scandinave Getaway
Enjoy massage treatments situated in a serene natural forest with an on-site bistro serving healthy local fare.

Learn more

Brewery Tour
Explore Boston's vibrant craft beer scene and taste your way through these guided tours.

Check availability

Acme Food Co.

Which basket do you recommend for a family of 4?

I strongly recommend our Family Basket. It's made just for people like you.

Subscribe

Learn more
ADRIAN MCDERMOTT
President of Products

SHAWNA WOLVERTON,
SVP Product

Platform & products for the future of customer experience
OUR GROWTH IS FUELED BY OUR PRODUCT INVESTMENTS

Powering every customer-facing conversation for our customers
- Messaging
- Omnichannel

Redefining CX through our open CRM platform
- Sunshine

Extending our footprint in support and beyond
- Explore
- Sell
- Support

Leveraging smarter, faster technologies to enable better CX
- Answer Bot/AI
- Guide
Powering every customer-facing conversation for our customers

- Messaging
- Omnichannel
Start messaging

**SOCIAL**
Switch channels, stay tuned

**WEB AND MOBILE**
Create more natural conversations

**MULTI-PARTY**
Bring everyone in
Hi, I am staying at the JH in Palo Alto and learned that your property uses WhatsApp for chat?

That is correct!

Amazing. I think you are one of the first in the world!

That’s very kind of you!

Please let us know if we can assist you with any question about our property.
ZENDESK AGENT WORKSPACE

Powers the Suite for omnichannel conversations with customers

CONVERSATIONAL INTERFACE

OMNICHANNEL COMPOSER

CUSTOMER CENTRICITY

Chat with Maggie Chung
- Active now · 📞 via Whatsapp

Conversations
- Okay, thank you. Bye!

Session restored

Maggie Chung · via whatsapp
9:00 AM
Me again! Can you email me my latest order receipt? I lost mine

Agent Joe · via email
9:08 AM
To: mchung@gmail.com
Hi Maggie. Here's the info you requested. Looks like your a...

Maggie Chung · via whatsapp
< 1 minute ago
I got the email, thanks!

Whatsapp · Email · Call

Reply via Whatsapp

Send

4 interactions

Chat with Maggie Chung
- Active now

Refund Policy
- 5 mins ago

Refund for bag order
- Feb 12 · 7 comments

Where is my bag?
- Nov 5, 2017 · 5 comments
Web and mobile messaging is growing rapidly

31% of Zendesk Support customers are using web messaging*

6,155 apps have used the Zendesk SDK to embed messaging

79 Million+ conversations over mobile apps

Source: Zendesk usage data

*As measured by the number of active web widgets in the past 30 days.
MUL Ti-PARTY MESSAGING

RESTAURANT

We substituted your pot stickers for spring rolls

CUSTOMER

You're right out front. I’ll buzz you up.

FOOD DELIVERY SERVICE

Sorry about, Adrian. Here’s $10 off your next order

DELIVERY PERSON

Hey it’s Adrian. I can’t find your apt.
Redefining CX through our open CRM platform

Sunshine
Your support platform should be open, flexible, and powered by connected customer data.

70% of customers expect businesses to have context on their prior interactions so they don’t have to repeat themselves.

Source: The Zendesk Customer Experience Trends Report 2019
Get a complete view of your customer experience

Profiles
Build complete customer profiles with information from internal and third-party apps

Objects
Store and connect new data sources, from purchase history to asset management

Events
Capture every customer interaction, like shopping cart or web activity
Enhancing the customer experience with better context

**Manage Customer Orders and Products**
Connect data about products, services, warranties and returns

**Track All Customer Interactions**
Track interactions across store, website and mobile app all through Sunshine

**Be Proactive With Connected Devices**
Use Sunshine to create proactive experiences triggered by data from their assets or connected devices.
100% of Zendesk customers have been migrated to cloud infrastructure.

Sunshine being built on AWS gives us a leg up:

- Scalable
- Reliable
- Flexible
- Secure
- Compliant
- Developer Friendly
Developers love building on Zendesk

- **36k** # of engaged developers using Developer portal and Slack group
- **72%** APIs support customers have integrations with APIs
- **222k** apps and integrations, public and private app installs
We’ll continue to enhance our Sunshine Platform in 2019

**MAKE IT EASIER TO GET DATA IN AND OUT**
Build AWS connectors to enable new use cases and leverage strategic partnerships for easier data integration

**DO MORE WITH SUNSHINE DATA**
Extend Sunshine to other product areas, starting with reporting on Custom Objects in Explore

**CREATE WORLD-CLASS DEVELOPER EXPERIENCES**
Engage developer community with improved portal and apps marketplace; better content, training, and events; and expanded point-and-click functionality
Extending our footprint in support and beyond

Explore

1. **Analytics are driving objective decision making**
2. **Connected customer data is improving CX**
3. **Interactions are becoming conversational**
Last year we launched best practice dashboards and custom reporting with Explore.

Approximately 100k dashboards created and 35%+ sales-assisted attach rate.

*For Support professional and enterprise subscriptions.
Scalability and Availability Improvements
Sharing and Collaboration Improvements
Real-Time Dashboards
Extending our footprint in support and beyond

- Explore
- Sell

- INTERACTIONS ARE BECOMING CONVERSATIONAL
- CONNECTED CUSTOMER DATA IS IMPROVING CX
- ANALYTICS ARE DRIVING OBJECTIVE DECISION MAKING
- ALIGNED SALES AND SUPPORT TEAMS CREATE BETTER SERVICE
Sales performance Dashboards

Surface, learn from, and act on your sales data.
Extending our footprint in support and beyond

- Explore
- Sell
- Support

- Interactions are becoming conversational
- Connected customer data is improving CX
- Analytics are driving objective decision making
- Aligned sales and support teams create better service
- Solving problems requires a team effort
COLLABORATION ADD-ON

Involve teams outside your support org to help solve problems

Communicate with teams outside Zendesk using Slack
Leveraging smarter, faster technologies to enable better CX

Answer Bot/AI

- Automation is making CX better
- Interactions are becoming conversational
- Connected customer data is improving CX
- Analytics are driving objective decision making
- Aligned sales and support teams create better service
- Solving problems requires a team effort
Answer Bot everywhere

Automatically respond conversationally to customer queries in every channel
Ease of resolution is the #1 factor that influences CSAT.

For the best teams, AI is used to drive faster and more seamless support experiences through self-service.

- 1.8M Answer Bot resolutions
- 356K Agent hours saved
- 4,500 years given back to customers

Source: The Zendesk Customer Experience Trends Report 2019
Leveraging smarter, faster technologies to enable better CX

- Answer Bot/AI
- Guide

- Interactions are becoming conversational
- Connected customer data is improving CX
- Analytics are driving objective decision making
- Aligned sales and support teams create better service
- Solving problems requires a team effort
- Automation is making CX better
- Self-service has become the preferred channel
Customers increasingly turn to self-service for support.

How do you typically resolve your issues with a company?

Source: The Zendesk Customer Experience Trends Report 2019
Keep knowledge up-to-date

Content Cues
Update the best content and archive the worst

Article Events: Verification
Keep content up-to-date with an assigned owner and scheduled verification

Article Events: Publishing
Schedule content to be published in advance
Deliver multi-brand, product and service experiences

Theming Enhancements
Uniquely brand knowledge base levels with multiple templates and easy integration with GitHub

Search Enhancements
Provide strong search functionality for better results

Flexible Hierarchies
Organize knowledge so it’s easy for customers to find exactly what they need when they need it
Powering every customer-facing conversation for our customers

Redefining CX through our open CRM platform

Extending our footprint in support and beyond

Leveraging smarter, faster technologies to enable better CX
Organizations transforming their customer experiences

MARC CABI
VP, Strategy & Head of Investor Relations

NORM GENNARO
SVP, Worldwide Sales

COLLEEN BERUBE
Chief Information Officer

TOM KEISER
Chief Operating Officer
Scaling to be a multibillion-dollar revenue company
WE ARE SCALING TO BE A high-growth, multibillion-dollar revenue company
Multibillion-dollar journey

ANNUAL REVENUE

*Annual revenue run rates for May 2014 and today
*Reached $100M annual revenue run rate with 3/31/14 quarterly results and exceeded $700M annual revenue run rate with 3/31/19 quarterly results.

FUTURE

$1B

2020

$700M

Today*

$100M

May 2014* IPO

$100M

Today*

$700M

2020

$1B
*Midpoint of guidance provided on April 30, 2019. These objectives are forward-looking and subject to significant risks and uncertainties. See the Safe Harbor for additional information.


Free cash flow is a non-GAAP measurement. See appendix for discussion of non-GAAP measurements.
Non-GAAP gross margin in 2018 impacted by duplicated infrastructure costs as we migrated customers to cloud infrastructure while maintaining co-located data centers.

Long-term non-GAAP gross margin target >78% to be driven by:

- Shutdown of co-located data centers
- AWS optimization
- Customer Success
- Scale and operating efficiency

• Omnichannel is a key competitive advantage
• Broader product adoption
• Great traction in SMB
• Opens up strategic conversation with mid-market and enterprise
Multiproduct is fueling our growth

ARR from logos with:

- 2 products > 1.5x growth*
- 3 products > 4.0X growth*
- 4+ products > 15% ARR mix

*Growth comparison for Q1'19 vs. Q1'17.
Enterprise customers are fueling our growth

- Enterprise ARR growth faster than average growth rate
- Small & midsized ARR growth remains strong
- Both businesses important and growing

Support ARR from customers with 100+ Support agents

100+ AGENTS
Q1 2019

See appendix for a description of this operating metric.
Dollar-Based Net Expansion Rate

See appendix for a description of this operating metric.
In Q1-2019

RPO grew 54% y/y

- Short-term +47% y/y
- Long-term +83% y/y

Remaining Performance Obligation (RPO)
in $ millions

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Short-term RPO</th>
<th>Long-term RPO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1'18</td>
<td>$235</td>
<td>$52</td>
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<tr>
<td>Q2'18</td>
<td>$266</td>
<td>$60</td>
</tr>
<tr>
<td>Q3'18</td>
<td>$290</td>
<td>$69</td>
</tr>
<tr>
<td>Q4'18</td>
<td>$329</td>
<td>$78</td>
</tr>
<tr>
<td>Q1'19</td>
<td>$346</td>
<td>$95</td>
</tr>
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</table>
**Strong Global Growth and Reach**

**Revenue Growth by Geographic Area**

- Outside the US: +41%
- US: +39%

**Revenue Mix by Geographic Area**

- Outside the US: 48%
- US: 52%

**Employee Mix**

- Outside the US: 48%
- US: 52%

---

For the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018
EXPANDING IN ADJACENT CUSTOMER EXPERIENCE MARKETS

$13.2B
Customer Service Application (2022)

$10.4B
Contact Center (2022)

$15.6B
Sales Applications (2022)

$18.2B
Marketing Applications (2022)

 Zendesk estimates
>$20B opportunity

Path to multibillion-dollar revenue

$1B (2020)

- Land & Expand / Move Upmarket
- Beyond Support
- Platform
- Partners
Please see appendix for a discussion of Non-GAAP financial measures.
KEY GROWTH DRIVERS

Expanding TAM
driven by market trends and Zendesk’s broader reach in CRM

Product innovation
opens up adjacent markets and new opportunities

Enterprise & SMB
momentum is strong
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## APPENDIX - RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

### Non-GAAP Results

(Thousands)

The following table shows Zebra's GAAP results reconciled to non-GAAP results.

<table>
<thead>
<tr>
<th>Year ended December 31</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td><strong>Reconciliation of non-GAAP and GAAP results</strong></td>
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<tr>
<td><strong>Non-GAAP</strong></td>
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<td>Revenue</td>
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<td>Gross profit</td>
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<td>Operating income</td>
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<td>Net income</td>
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<td><strong>Reconciliation of operating expenses</strong></td>
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<td><strong>GAAP</strong></td>
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<td>Sales and marketing</td>
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<td>General and administrative expenses</td>
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<td><strong>Non-GAAP</strong></td>
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<tr>
<td>Net income</td>
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### Notes

Appendix - 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 income (loss) and operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per share, basic and diluted, free cash flow, and free cash flow margin.

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: 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.

Acquisition-Related Expenses: Zendesk views acquisition-related expenses, such as transaction costs, restructuring costs, and acquisition-related retention payments, including amortization of acquisition-related retention payments capitalized in internal-use software, 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.

Amortization of Debt Discount and Issuance Costs: In March 2018, Zendesk issued $575 million of convertible senior notes due in 2023, which bear interest at an annual fixed rate of 0.25%. The imputed interest rate of the convertible senior notes was approximately 5.26%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity, and debt issuance costs, which reduce the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. The expense for the amortization of debt discount and debt issuance costs is a non-cash item, and we believe the exclusion of this interest expense will provide for a more useful comparison of our operational performance in different periods.

Income Tax Effects: Zendesk utilizes a fixed long-term projected tax rate in its computation of non-GAAP income tax effects to provide better consistency across interim reporting periods. In projecting this long-term non-GAAP tax rate, Zendesk utilizes a financial projection that excludes the direct impact of other non-GAAP adjustments. The projected rate considers other factors such as Zendesk's current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where Zendesk operates. For the year ended December 31, 2019, Zendesk has determined the projected non-GAAP tax rate to be 21%. Zendesk will periodically re-evaluate this tax rate, as necessary, for significant events, based on relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

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. Free cash flow margin is calculated as free cash flow as a percentage of total revenue. Zendesk uses free cash flow, free cash flow margin, and 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 and free cash flow margin provides investors with an important perspective on the cash available to fund ongoing operations.

Zendesk has not reconciled each of free cash flow and free cash flow margin to net cash from operating activities for the year ending December 31, 2019 because Zendesk does not provide guidance on the reconciling items between net cash from operating activities and each of free cash flow and free cash flow margin as a result of the uncertainty regarding, and the potential variability of, these items. The actual amount of such reconciling items will have a significant impact on Zendesk's free cash flow and free cash flow margin and, accordingly, a reconciliation of net cash from operating activities to each of free cash flow and free cash flow margin for the year ending December 31, 2019 is not available without unreasonable effort.
Zendesk does not provide a reconciliation of its non-GAAP operating margin guidance to GAAP operating margin for future periods beyond the current fiscal year because Zendesk does not provide guidance on the reconciling items between GAAP operating margin and non-GAAP operating margin for such periods, as a result of the uncertainty regarding, and the potential variability of, these items. The actual amount of such reconciling items will have a significant impact on Zendesk’s non-GAAP operating margin and, accordingly, a reconciliation of GAAP operating margin to non-GAAP operating margin guidance for such periods is not available without unreasonable effort. Zendesk’s disclosures regarding its expectations for its non-GAAP gross margin include adjustments to its expectations for its GAAP gross margin that exclude share-based compensation and related expenses in Zendesk’s cost of revenue, amortization of purchased intangibles primarily related to developed technology, and acquisition-related expenses. The share-based compensation and related expenses excluded due to such adjustments are primarily comprised of the share-based compensation and related expenses for employees associated with Zendesk’s infrastructure and customer experience organization.

Zendesk does not provide a reconciliation of its non-GAAP gross margin guidance to GAAP gross margin for future periods because Zendesk does not provide guidance on the reconciling items between GAAP gross margin and non-GAAP gross margin, as a result of the uncertainty regarding, and the potential variability of, these items. The actual amount of such reconciling items will have a significant impact on Zendesk’s non-GAAP gross margin and, accordingly, a reconciliation of GAAP gross margin to non-GAAP gross margin guidance for the period is not available without unreasonable effort.

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.
Appendix - 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 on Zendesk Support, Zendesk Chat, and its other products, dollar-based net expansion rate, and the percentage of its annual recurring revenue from Support originating from customers with 100 or more agents on Support.

Zendesk defines the number of paid customer accounts at the end of any particular period as the sum of (i) the number of accounts on Support, exclusive of its legacy Starter plan, free trials, or other free services, (ii) the number of accounts using Chat, exclusive of free trials or other free services, and (iii) the number of accounts on all of its other products, exclusive of free trials and other free services, each as of the end of the period and as identified by a unique account identifier. In the quarter ended June 30, 2018, Zendesk began to offer an omnichannel subscription which provides access to multiple products through a single paid customer account, The Zendesk Suite. All of the Suite paid customer accounts are included in the number of accounts on all of Zendesk’s other products and are not included in the number of paid customer accounts using Support or Chat. Existing customers may also expand their utilization of Zendesk’s products by adding new accounts and a single consolidated organization or customer may have multiple accounts across each of Zendesk’s products to service separate subsidiaries, divisions, or work processes. Other than usage of Zendesk’s products through its omnichannel subscription offering, each of these accounts is also treated as a separate paid customer account.

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 plans, and the purchase of additional products 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 annual recurring revenue for a set of paid customer accounts on its products. Zendesk determines the annual recurring revenue value of a contract by multiplying the monthly recurring revenue for such contract by twelve. 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 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 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 annual recurring revenue across its products for customers with paid customer accounts 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 annual recurring revenue across its products for 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 Zendesk identifies involving the 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 are used to determine the base revenue. Giving effect to this consolidation results in Zendesk’s dollar-based net expansion rate being calculated across approximately 102,200 customers, as compared to the approximately 145,600 total paid customer accounts as of March 31, 2019.

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 across its products and paid customer accounts associated with reseller and other similar channel arrangements.

Zendesk does not currently incorporate operating metrics associated with its legacy analytics product, its legacy Outbound product, Sell, its legacy Starter plan, free trials, or other free services 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 filed with the Securities and Exchange Commission.
Appendix - About Operating Metrics

Zendesk’s percentage of annual recurring revenue from Support that is generated by customers with 100 or more agents on Support is determined by dividing the annual recurring revenue from Support for paid customer accounts with 100 or more agents on Support as of the measurement date by the annual recurring revenue from Support for all paid customer accounts on Support as of the measurement date. Zendesk determines the customers with 100 or more agents on Support as of the measurement date based on the number of activated agents on Support at the measurement date and includes adjustments to aggregate paid customer accounts that share common corporate information. For the purpose of determining this metric, Zendesk builds an estimation of the proportion of annual recurring revenue from Suite attributable to Support and includes such portion in the annual recurring revenue from Support.

Zendesk does not currently incorporate operating metrics associated with products other than Support into its measurement of the percentage of annual recurring revenue from Support that is generated by customers with 100 or more agents on Support.

Zendesk determines its annual revenue run rate by multiplying the revenue generated over its most recently completed quarter by four.