Ready for design
This design is very similar to our May 2019 investor day. I'm fine with it, but wanted to point it out in case you want to change it.
This presentation contains forward-looking statements, including, among other things, statements regarding Zendesk's future financial performance, its continued investment to grow its business, and progress toward its long-term financial objectives. 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 larger 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 maintain and develop its strategic relationships with third parties; (ix) Zendesk's ability to prevent, mitigate, and respond effectively to both historical and future data breaches and to securely maintain customer data; (x) Zendesk's ability to effectively manage its growth and organizational change, including its international expansion strategy; (xi) Zendesk's substantial reliance on its infrastructure; (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) the development of the market for software as a service business software applications; (xv) real or perceived errors, failures, or bugs in its products; (xvi) Zendesk's ability to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions; (xvii) Zendesk's ability to comply with privacy and data security regulations; (xviii) potential service interruptions or performance problems associated with Zendesk's technology and infrastructure; and (xix) any other factors or risks that are described from time to time in Zendesk's filings 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 shareholder letter to reflect events or circumstances after the date of this shareholder letter 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 and 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.
Zendesk is leading CRM innovation

- Customer experience is the best way for organizations to truly differentiate
- Our modern, service-first CRM solutions transform customer experiences and drive high demand
- The Sunshine platform approach, open and on the public cloud, is the future of CX
- Consistently deliver high-growth and scale
Agenda

Mikkel Svane, Founder + CEO
Our evolution to service-first CRM

Adrian McDermott, President of Products
Shawna Wolverton, SVP Product
Leading in CRM innovation

Tom Keiser, COO
Transforming customer experiences

Norm Gennaro, President of Sales
Differentiating for the enterprise

Elena Gomez, CFO
Scaling to be a multibillion-dollar revenue company

Q&A
Transforming customer experiences

Marc Cablé
VP, Strategy & Head of IR,
Zendesk

Tom Keiser
Chief Operating Officer,
Zendesk
Differentiating for the enterprise

NORM GENNARO
President of Worldwide Sales,
Zendesk
The service-first CRM
Service-first CRM solutions

Grounded in customer experience

Powerfully easy

Open and flexible

Data rich

Best total cost of ownership
Trusted by 157,000 customers of all different sizes and industries in 160+ countries and territories
Enterprise is a significant part of our business and driving high growth

% ARR from 100+ Support Agent Seats

43%
Up 3pts y/y*

RPO Growth

+40% current RPO*
+57% total RPO*

*Reflects a year-over-year comparison of the periods ended December 31, 2018 and December 31, 2019. See appendix for a discussion of this operating metric.
Growing our enterprise business

Product

Team

Partners
The CX solution for enterprise: omnichannel

The Zendesk Suite* omnichannel bundle drives:

- Strategic conversations
- Multiproduct adoption
- Higher average deal sizes
- Lower sales friction

*The Zendesk Suite includes Support, Chat, Talk, and Guide.
Expand the conversation
Messaging is the future of communication
Advise customers on their CX journeys

Powerfully easy
Simple implementations for quick results

Service-first modern CRM
Sophisticated transformations
Serving as strategic CX advisor
Partner ecosystem

Capabilities to extend the scope and depth of market reach
Partner momentum

1,200+
Partners in global ecosystem*
(excludes technology only partners)

+50%
Y/Y increase in partners**

+95%
Y/Y growth in partner bookings**

*As of December 31, 2019.
**(Reflects a year-over-year comparison of the periods ended December 31, 2018 and December 31, 2019.)
SMB consistently delivers strong growth

Top Priorities

- Product innovation
- Self-serve
- Partners
- Global approach
Scaling to be a multibillion-dollar revenue company

ELENA GOMEZ
Chief Financial Officer,
Zendesk
**Multibillion-dollar journey**

Revenue

- **$83M**
  - IPO May 2014*
  - Reflects the twelve month period ended March 31, 2014.

- **$430M**
  - 2017**
  - Reflects the twelve month period ended December 31, 2017.

- **$1.06B**
  - 2020***
  - Reflects the midpoint of full year 2020 revenue guidance provided on February 6, 2020. These objectives are forward-looking and subject to significant risks and uncertainties. See the Safe Harbor for additional information.

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*Reflects the twelve month period ended March 31, 2014.
**Reflects the twelve month period ended December 31, 2017.
***Reflects the midpoint of full year 2020 revenue guidance provided on February 6, 2020. These objectives are forward-looking and subject to significant risks and uncertainties. See the Safe Harbor for additional information.
Expanding in adjacent customer experience markets

$14.9B

CUSTOMER SERVICE APPLICATION (2023)

$11.9B

CONTACT CENTER (2023)

Estimates

>$25B opportunity

$17.6B

SALES APPLICATIONS (2023)

$20.9B

MARKETING APPLICATIONS (2023)

Delivering high growth and scale

Revenue in $ millions

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<td></td>
<td>$127</td>
<td>$209</td>
<td>$313</td>
<td>$430</td>
<td>$599</td>
<td>$816</td>
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Non-GAAP operating margin

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<tr>
<td></td>
<td>-24%</td>
<td>-12%</td>
<td>-5%</td>
<td>-2%</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
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</tbody>
</table>

45% CAGR (2014-2019)

*Reflects the midpoint of the guidance provided on February 6, 2020 for full year 2020 revenue. These objectives are forward-looking and subject to significant risks and uncertainties. See the Safe Harbor for additional information.

Non-GAAP gross margin opportunity

2019 Non-GAAP gross margin improved approximately 2 percentage points driven by:

- completion of our migration to 100% public cloud
- cloud usage optimization

Long-term non-GAAP gross margin target of high 70’s percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Non-GAAP Gross Margin (%)</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>67</td>
</tr>
<tr>
<td>2015</td>
<td>71</td>
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<td>2016</td>
<td>74</td>
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<td>2017</td>
<td>74</td>
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<tr>
<td>2018</td>
<td>73</td>
</tr>
<tr>
<td>2019</td>
<td>75</td>
</tr>
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</table>

Investing in growth while achieving operating leverage

Driving growth with innovation in R&D

Non-GAAP Research and Development

- 2014: 20%
- 2019: 19%

Realizing leverage in S&M and G&A

Non-GAAP Sales and Marketing

- 2014: 52%
- 2019: 41%

Non-GAAP General and Administrative

- 2014: 19%
- 2019: 12%

Each year presented reflects the twelve-month period ended December 31.
Land-and-expand strategy driving high growth

Dollar-based net expansion rate

See appendix for a discussion of this operating metric.
RPO growth reflects progress in signing long-term and strategic deals

**Q4 2019**

RPO +57% y/y
Current RPO +40% y/y
Long-term RPO +132% y/y

Remaining performance obligations (RPO)

- **Current RPO**
  - Q4 18: $329
  - Q1 19: $346
  - Q2 19: $390
  - Q3 19: $404
  - Q4 19: $460

- **Long-term RPO**
  - Q4 18: $78
  - Q1 19: $95
  - Q2 19: $136
  - Q3 19: $154
  - Q4 19: $181

*$Reflects a year-over-year comparison of the periods ended December 31, 2018 and December 31, 2019.*
2020 guidance impacted by change in invoicing methodology

- New invoicing methodology implemented
- Factors to consider for your models:
  - 30-day impact
  - Renewal rate
  - Mix of invoiced customers

Free cash flow in $ millions*

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<tbody>
<tr>
<td></td>
<td>-$28</td>
<td>-$22</td>
<td>$18</td>
<td>$36</td>
<td>$42</td>
<td>$45</td>
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</tr>
</tbody>
</table>

*Reflects the midpoint of the guidance provided on February 6, 2020 for full year 2020 revenue. 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 a discussion of non-GAAP measurements.
Key growth levers

- Enterprise growth
- Differentiated products with Sunshine at the core
- Partner ecosystem
- International
Strong unit economics with enterprise class companies

Enterprise companies as reflected in this slide indicate those who have more than 1,000 employees.

See appendix for a discussion of this operating metric.
Enterprise customers are fueling our growth

- Enterprise ARR growth faster than average growth rate
- SMB ARR growth remains strong

Support ARR from customers with 100+
Support agents

100+ agents
Q4 2019

See appendix for a discussion of this operating metric.
Strong growth in multiproduct adoption

Percent of logos with multiple Zendesk products

Q4 16: 9%
Q1 17: 9%
Q2 17: 9%
Q3 17: 9%
Q4 17: 9%
Q1 18: 12%
Q2 18: 14%
Q3 18: 16%
Q4 18: 18%
Q1 19: 20%
Q2 19: 22%
Q3 19: 24%
Q4 19: 29%
Product and platform launches announced today

**SERVICE**

- zendesk support suite
- New Agent Workspace + Social Messaging

**SALES**

- zendesk sales suite

**PLATFORM**

- sunshine
- Full availability
Expansion potential with multiproduct and platform adoption

Sunshine Platform

Talk
Chat
Guide
Messaging
Explore
Sell

~3.5x

Support

Support

Plus additional opportunities with usage-based products and platform:

Answer Bot
Sunshine Conversations

*Based on current list price for enterprise level plans. Note drawings are not to scale.
Sunshine expands ARR opportunity

A real sample customer

- Support plus add-ons
- Non-Support
- Sunshine (if monetized)*

Potentially 15% - 40% Uplift

Zendesk didn’t charge customers for Sunshine during 2019. Calculation is based on Sunshine enterprise pricing. Each year presented reflects the twelve-month period ended December 31.
Each year presented reflects the twelve-month period ended December 31.
Strong global growth and reach

Revenue growth by geographic area*

- 38% US
- 35% Outside the US

Revenue mix by geographic area

- 52% US
- 48% Outside the US

Employee mix

- 48% US
- 52% Outside the US

160+ countries and territories

*Reflects a year-over-year comparison of the periods ended December 31, 2018 and December 31, 2019.
Path to multibillion-dollar revenue

- $1B+ 2020
- Enterprise
- Differentiated products with Sunshine at the core
- Partner ecosystem
- International
# Framework for long-term planning

<table>
<thead>
<tr>
<th>Annual revenue growth</th>
<th>Accelerated Growth</th>
<th>High Growth</th>
<th>Mature Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 35%</td>
<td>30% - 35%</td>
<td>&lt; 30%</td>
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</table>

| Annual Non-GAAP Operating Margin Improvement | 1% - 3% | 3% - 5% | 5% |

Please see appendix for a discussion of Non-GAAP financial measures.
Well-positioned for continued strong growth

Expanding TAM driven by rising customer expectations and Zendesk's broader reach in CRM

Product innovation opens up adjacent markets and new opportunities

Enterprise & SMB momentum is strong
Q&A

MIKKEL SVANE
Founder, CEO

ELENA GOMEZ
Chief Financial Officer

TOM KEISER
Chief Operating Officer

ADRIAN MCDERMOTT
President of Products

NORM GENNARO
President of Sales

SHAWNA WOLVERTON
SVP, Product

MARC CABI
VP, Strategy & Head of IR
Zendesk is leading CRM innovation

- Good customer experience is the best way for organizations to truly differentiate
- Our modern, service-first CRM solutions transform customer experiences and drive high demand
- The Sunshine platform approach, open and on the public cloud, is the future of CX
- Consistently deliver high-growth and scale
Appendix
### Appendix - reconciliation of non-GAAP financial measures

#### Non-GAAP Results

(In thousands)
The following table shows Zendesk’s GAAP results reconciled to non-GAAP results.

<table>
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<tr>
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<tbody>
<tr>
<td><strong>Reconciliation of gross profit and gross margin</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>GAAP gross profit</td>
<td>$582,134</td>
<td>$417,491</td>
<td>$202,743</td>
<td>$219,844</td>
<td>$141,684</td>
<td>$81,092</td>
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<tr>
<td>Plus: Share-based compensation</td>
<td>26,858</td>
<td>14,835</td>
<td>9,040</td>
<td>7,045</td>
<td>4,641</td>
<td>2,494</td>
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<tr>
<td>Plus: Employer tax related to employee stock transactions</td>
<td>1,374</td>
<td>1,036</td>
<td>550</td>
<td>382</td>
<td>175</td>
<td>25</td>
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<tr>
<td>Plus: Amortization of purchased intangibles</td>
<td>7,732</td>
<td>3,789</td>
<td>3,205</td>
<td>3,362</td>
<td>1,893</td>
<td>1,167</td>
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<tr>
<td>Plus: Amortization of share-based compensation capitalized in internal-use software</td>
<td>1,711</td>
<td>1,467</td>
<td>1,774</td>
<td>1,821</td>
<td>1,065</td>
<td>402</td>
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<tr>
<td>Plus: Acquisition-related expenses</td>
<td>3,667</td>
<td>4,762</td>
<td>3,826</td>
<td>3,707</td>
<td>3,382</td>
<td>2,703</td>
<td>1,659</td>
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<td><strong>Non-GAAP gross profit</strong></td>
<td>$614,001</td>
<td>$438,062</td>
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<td>$231,555</td>
<td>$145,255</td>
<td>$83,694</td>
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<tr>
<td><strong>GAAP gross margin</strong></td>
<td>73%</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
<td>68%</td>
<td>64%</td>
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<tr>
<td>Non-GAAP adjustments</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
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<tr>
<td><strong>Non-GAAP gross margin</strong></td>
<td>76%</td>
<td>74%</td>
<td>74%</td>
<td>74%</td>
<td>71%</td>
<td>67%</td>
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#### Reconciliation of operating expenses

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<tbody>
<tr>
<td>GAAP research and development</td>
<td>$207,568</td>
<td>$160,260</td>
<td>$115,291</td>
<td>$91,087</td>
<td>$82,815</td>
<td>$59,435</td>
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<tr>
<td>Less: Share-based compensation</td>
<td>(64,955)</td>
<td>(61,385)</td>
<td>(29,570)</td>
<td>(27,593)</td>
<td>(19,416)</td>
<td>(19,613)</td>
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<tr>
<td>Less: Employer tax related to employee stock transactions</td>
<td>(1,292)</td>
<td>(3,884)</td>
<td>(1,671)</td>
<td>(1,559)</td>
<td>(4,155)</td>
<td>(1,292)</td>
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<td>Less: Acquisition-related expenses</td>
<td>(15,155)</td>
<td>(2,355)</td>
<td>(830)</td>
<td>(830)</td>
<td>(830)</td>
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<tr>
<td><strong>Non-GAAP research and development</strong></td>
<td>$94,818</td>
<td>$61,976</td>
<td>$55,969</td>
<td>$50,655</td>
<td>$39,423</td>
<td>$27,339</td>
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<tr>
<td>GAAP research and development as percentage of revenue</td>
<td>23%</td>
<td>27%</td>
<td>27%</td>
<td>27%</td>
<td>26%</td>
<td>23%</td>
<td></td>
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<tr>
<td>Non-GAAP research and development as percentage of revenue</td>
<td>19%</td>
<td>19%</td>
<td>19%</td>
<td>20%</td>
<td>20%</td>
<td>20%</td>
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<tr>
<td>GAAP sales and marketing</td>
<td>$356,514</td>
<td>$291,688</td>
<td>$211,918</td>
<td>$161,883</td>
<td>$114,052</td>
<td>$77,875</td>
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<tr>
<td>Less: Share-based compensation</td>
<td>(53,964)</td>
<td>(57,982)</td>
<td>(24,279)</td>
<td>(22,093)</td>
<td>(14,759)</td>
<td>(19,620)</td>
<td></td>
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<tr>
<td>Less: Employer tax related to employee stock transactions</td>
<td>(2,788)</td>
<td>(2,158)</td>
<td>(1,164)</td>
<td>(1,342)</td>
<td>(674)</td>
<td>(314)</td>
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<tr>
<td>Less: Amortization of purchased intangibles</td>
<td>(2,533)</td>
<td>(875)</td>
<td>(485)</td>
<td>(418)</td>
<td>(349)</td>
<td>(303)</td>
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<td>Less: Acquisition-related expenses</td>
<td>(1,864)</td>
<td>(1,208)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
<td>(120)</td>
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<tr>
<td><strong>Non-GAAP sales and marketing</strong></td>
<td>$233,256</td>
<td>$199,364</td>
<td>$163,210</td>
<td>$137,206</td>
<td>$95,473</td>
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<td>GAAP sales and marketing as percentage of revenue</td>
<td>49%</td>
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<td>49%</td>
<td>52%</td>
<td>55%</td>
<td>61%</td>
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<td>Non-GAAP sales and marketing as percentage of revenue</td>
<td>41%</td>
<td>42%</td>
<td>43%</td>
<td>44%</td>
<td>47%</td>
<td>52%</td>
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<td>GAAP general and administrative</td>
<td>$141,028</td>
<td>$103,491</td>
<td>$81,680</td>
<td>$64,371</td>
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<td>Less: Share-based compensation</td>
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<td>(2,612)</td>
<td>(1,153)</td>
<td>(1,184)</td>
<td>(1,957)</td>
<td>(1,153)</td>
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<td>Less: Acquisition-related expenses</td>
<td>(1,644)</td>
<td>(3,073)</td>
<td>(566)</td>
<td>(566)</td>
<td>(566)</td>
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<td><strong>Non-GAAP general and administrative</strong></td>
<td>$61,929</td>
<td>$52,582</td>
<td>$40,813</td>
<td>$30,992</td>
<td>$23,105</td>
<td>$15,857</td>
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<td>GAAP general and administrative as percentage of revenue</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>18%</td>
<td>19%</td>
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<tr>
<td>Non-GAAP general and administrative as percentage of revenue</td>
<td>12%</td>
<td>12%</td>
<td>14%</td>
<td>14%</td>
<td>16%</td>
<td>19%</td>
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#### Reconciliation of operating loss and operating margin

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<tr>
<td>GAAP operating loss</td>
<td>$156,001</td>
<td>$137,205</td>
<td>$106,145</td>
<td>$99,147</td>
<td>$82,950</td>
<td>$69,145</td>
<td></td>
</tr>
<tr>
<td>Plus: Share-based compensation</td>
<td>26,858</td>
<td>14,835</td>
<td>9,040</td>
<td>7,045</td>
<td>4,641</td>
<td>2,494</td>
<td></td>
</tr>
<tr>
<td>Plus: Employer tax related to employee stock transactions</td>
<td>1,374</td>
<td>1,036</td>
<td>550</td>
<td>382</td>
<td>175</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Plus: Amortization of purchased intangibles</td>
<td>7,732</td>
<td>3,789</td>
<td>3,205</td>
<td>3,362</td>
<td>1,893</td>
<td>1,167</td>
<td></td>
</tr>
<tr>
<td>Plus: Acquisition-related expenses</td>
<td>11,244</td>
<td>6,019</td>
<td>2,150</td>
<td>999</td>
<td>649</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus: Amortization of share-based compensation capitalized in internal-use software</td>
<td>1,711</td>
<td>1,467</td>
<td>1,774</td>
<td>1,821</td>
<td>1,065</td>
<td>402</td>
<td></td>
</tr>
<tr>
<td><strong>Non-GAAP operating loss</strong></td>
<td>$26,873</td>
<td>$2,645</td>
<td>$1,950</td>
<td>$1,5247</td>
<td>$2,679</td>
<td>$3,950</td>
<td></td>
</tr>
<tr>
<td>GAAP operating margin</td>
<td>(29%)</td>
<td>(22%)</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(28%)</td>
<td>(29%)</td>
<td></td>
</tr>
<tr>
<td>Non-GAAP adjustments</td>
<td>23%</td>
<td>24%</td>
<td>23%</td>
<td>26%</td>
<td>26%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td><strong>Non-GAAP operating margin</strong></td>
<td>(6%)</td>
<td>(4%)</td>
<td>(7%)</td>
<td>(9%)</td>
<td>(12%)</td>
<td>(14%)</td>
<td></td>
</tr>
</tbody>
</table>

#### Computation of free cash flow

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital cash flow</td>
<td>$89,261</td>
<td>$76,620</td>
<td>$42,229</td>
<td>$24,066</td>
<td>$5,033</td>
<td>$2,090</td>
<td></td>
</tr>
<tr>
<td>Less: purchases of property and equipment</td>
<td>(59,140)</td>
<td>(55,323)</td>
<td>(18,394)</td>
<td>(29,647)</td>
<td>(22,909)</td>
<td>(21,493)</td>
<td></td>
</tr>
<tr>
<td>Less: internal-use software development costs</td>
<td>(7,344)</td>
<td>(7,055)</td>
<td>(7,851)</td>
<td>(6,161)</td>
<td>(4,155)</td>
<td>(3,613)</td>
<td></td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$23,777</td>
<td>$3,252</td>
<td>$1,083</td>
<td>$5,396</td>
<td>$3,074</td>
<td>$2,394</td>
<td></td>
</tr>
</tbody>
</table>

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, integration 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 ending 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. 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 free cash flow guidance to net cash from operating activities for the year ending December 31, 2020 because Zendesk does not provide guidance on the reconciling items between net cash from operating activities and free cash flow, 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, accordingly, a reconciliation of net cash from operating activities to free cash flow for the year ending December 31, 2020 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 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.

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 and related expenses, amortization of debt discount and issuance costs, amortization of purchased intangibles, and acquisition-related expenses, 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 with respect to historical periods, it provides a reconciliation of the non-GAAP financial measure to the most closely comparable GAAP financial measure. When Zendesk uses such a non-GAAP financial measure in a forward-looking manner for future periods, and a 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.
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, annual recurring revenue represented by its churned customers, 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, Zendesk Suite and in the quarter ended June 30, 2019, Zendesk began to offer a subscription which provides access to Sell and Support through a single paid customer account, Zendesk Duet. All of the Suite paid customer accounts are included in the number of paid customer accounts on products other than Support and Chat and are not included in the number of paid customer accounts on Support or Chat. For the quarters ended June 30, 2019 and September 30, 2019, each Duet paid customer account was included in the number of paid customer accounts on Support, but not included in the number of paid customer accounts on products other than Support and Chat. For the quarter ended December 31, 2019, each Duet paid customer account is included once in the number of paid customer accounts on Support and once in the number of paid customer accounts on products other than Support and Chat in order to more accurately reflect how Zendesk’s management views such metric. The effect of this change in methodology did not have a material impact on either the number of paid customer accounts on products other than Support and Chat or the total number of paid customer accounts for the quarter ended December 31, 2019. 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 does not currently include in its number of paid accounts the number of accounts on Sunshine Conversations, its Sunshine platform messaging product, Zendesk Gather, its community forum software, or its legacy Smooch product.

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. Beginning with the quarter ended June 30, 2019, we excluded the impact of revenue that we expect to generate from fixed-term contracts that are each associated with an existing account, are solely for additional temporary agents, and are not contemplated to last for the duration of the primary contract for the existing account from our determination of monthly recurring revenue. 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.

Appendix - About Operating Metrics
Appendix - About Operating Metrics

Giving effect to this consolidation results in Zendesk’s dollar-based net expansion rate being calculated across approximately 106,300 customers, as compared to the approximately 157,000 total paid customer accounts as of December 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, Sunshine Conversations, Gather, its legacy Smooch product, 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.

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’s annual revenue run rate is based on its revenue for the most recently completed fiscal quarter. Zendesk annualized such results to estimate its annual revenue run rate by multiplying the revenue for the most recently completed fiscal quarter by four. Zendesk’s annual revenue run rate is not a comprehensive statement of its financial results for this period and should not be viewed as a substitute for full annual or interim financial statements prepared in accordance with GAAP. In addition, Zendesk’s annual revenue run rate is not necessarily indicative of the results to be achieved in any future period.

Zendesk’s LTV/CAC ratio reflects an illustrative calculation of the average lifetime value of its customers, or LTV, divided by an average acquisition cost, or CAC. Zendesk calculates LTV by multiplying average churn rate of a cohort of customers during a particular period by its average monthly recurring revenue during such period by its overall gross margin percentage during such period. Zendesk calculates its CAC by dividing its total sales and marketing expenses during a particular period, by its total number of acquired customers during the period.

The number of Zendesk customers who have flipped the switch reflects the number of Zendesk customers who have accessed the Zendesk Sunshine platform. Some of the Zendesk Sunshine features and functionality were part of an early access program up until the date of this presentation. From the date of this presentation, certain Zendesk Sunshine features and functionality will be generally available, while other features will continue to be part of an early access program.

The number of unique requesters reflects the number of unique requesters across Zendesk’s products during a twelve-month period. Each requester of a Zendesk customer is given a unique requester identification number. To the extent that a single requester initiates requests from multiple Zendesk customers, such requester will receive a unique requester identification number for their requests from each Zendesk customer.