

Zscaler

NASDAQ: ZS



Zscaler Inc. Is an American leading provider of cloud-based cybersecurity solutions from San Jose , California. The company specializes in Zero Trust architecture (a never trust, always verify system), offering secure access to applications and data regardless of user location. Spanning over various countries and regions, with a major focus on larger organizations across all major industries

FINANCIALS

CURRENT PRICE: \$219.90

TARGET SHARE PRICE : \$270

STOP LOSS : \$197.91 (%10)

Investment

- Relative valuation
- DCF modelling
- Analysis of KPIs against industry benchmarks
- Financial fundamentals

Roughly 3-5 % investment from the fund

Thesis: Thesis: Zscaler's leadership in cloud-native cybersecurity, combined with the Zero Trust architecture and AI-driven innovation, positions it to capitalise on the global shift toward secure hybrid work, scalable digital infrastructure, cloud services, mobile access and rising demand for real-time threat detection.

Growth, Competition and Child Stages

- Capitalised early on Zero Trust, which helped it gained a competitive edge through cloud native solutions
- Differentiated products suite with Zscaler Internet Access and Zscaler Private Access
- Successful IPO boosted visibility and trust, attracting new investors and entities from various industries i.e. finance and healthcare
- Strong AI integration and continuous innovation, enhancing its products/services, as well as winning awards in the industry
- 150+ global data centers reflect strong infrastructure maturity
- Unified, all-in-one platform reduces complexity, removing the need for the patching legacy hardware based solutions, unlike the competition i.e. CISCO & PANW

Governance and Environmental stability

- Maintained MSCI rating of AA in 2023 and maintained it ever since
- 150 centers around the globe, all using 100% renewable energy, ensuring low latency for its product and services
- Promotes responsible AI usage through governance framework, part of the CoSAI working with industry leaders to create best practices for secure AI.
- Zero Trust Platforms comply with global AI regulations i.e EU AI Act, GDPR and NIST AI Risk management Framework, providing real time monitoring, automated consent management and bias detection

Future-Plans & Growth:

- Achieve net zero emissions by the end of 2025.
- Analyst are forecasting a 16% annual revenue growth, a 26% increase in EPS, and operating profitability by FY2027.
-anticipates a 2.6% revenue increase in Q3 FY2025
- All this due to ZS enhancing the zero-trust approach by integrating AI for real time risk scoring, automatic policy adjustments and proactive security measures
- ZS is also expanding into operational technology to protect critical infrastructure and align with industry trends prioritising OT security

Intro/company background:

Zscaler:

Founded – 2007

Founders - Jay Chaudhry (current CEO), K. Kailash

Headquarters – San Jose

Business Model:

The company offers a range of security services including web security, cloud firewall, sandboxing, email security, and more. Zscaler follows a subscription-based model, meaning customers pay monthly or annually for their services. They offer a range of different subscriptions all differing price depending on the number of users, band-with and level of security required.

Core Operations:

- **Zscaler Internet Access**
- Secures user access to internet and SaaS apps
- **Zscaler Private Access**
-Provides Zero Trust Remote Access to internal apps
- **Zscaler Digital Experience**
-Monitors and improves user experience for remote applications
- **Zscaler Deception and Cloud Protection**
-Newer modules for advanced threat detection and securing cloud works

Revenue:

Zscaler generates the vast majority of its revenue from subscription services, subscription fees are computed on a per-user basis. They report subscription and support revenue throughout the contract's term, which is typically one to three years. They also produce revenue for other professional services, most notably, mapping, work design, and training.

Geographical Reach:

- Asian Pacific - AU, IN, JP, and SG (9% of total revenue)
- EMEA – Saw a rise in revenue of 40% leading to being 40% of total revenue
- America – Main operations, where 49% of total revenue is made

Customer Basis:

- Large enterprises, government agencies, and multinational corporations.
- Over 7700 companies, including 600 Global 2000 companies.
- Looking to undergo digital transformation.
- Across many sectors, but mostly financial, healthcare, and government.

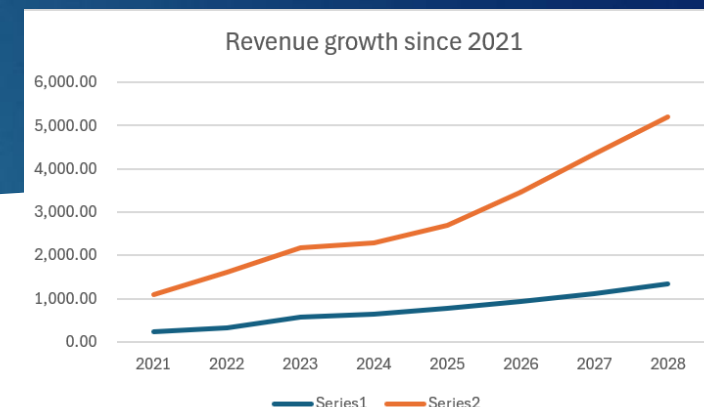
DCF evaluation & financials

	Actual year 2021	Actual year 2022	Actual year 2023	Actual year 2024
free cash flow	231.00	334.00	585.00	652.00
Annual free cash flow % growth		0.44	0.75	0.11
Free CF per share	1.50	2.17	3.80	4.23
Free CF margin	21%	21%	27%	28%
Net income	(390.00)	(202.00)	(58.00)	(36.00)
Annual Net income % growth		N/A	N/A	N/A
Net income per share	(2.53)	(1.31)	(0.37)	(0.24)
Net profit margin	-36%	-13%	-3%	-2%
Revenue	1,091.00	1,617.00	2,168.00	2,299.00
Annual Revenue % growth		48%	34%	6%
Revenue per share	7.08	10.50	14.08	14.93

Metric	Value	Industry Avg.
EV to Assets	6.95	3.06
EV/CFO	39.21	21.03
EV to Debt	28.11	118.53
EV/EBIT	5,225.29	135.39
EV/EBITDA	595.43	46.77
EV/FCF	50.1	33.44
EV to Market Cap	0.99	35.15
EV/Rev	14.37	28.9
P/B	21.85	4.16
P/E	-2,261.7	-24.24

- ▶ **Investors are paying nearly 7 times the value of Zscaler's assets – due to very high market expectations**
- ▶ Both EV/CFO and EV to debt suggest strong future growth/ scalability possibly due to a strong balance sheet – boosting investor confidence.
- ▶ The DCF model doesn't work on Zscaler as it can rely too much on FCF along with high discount rates. Resulting in an invalid predicted price.
- ▶ Strong and recurring revenue growth each year increasing at a high-double digit rate
- ▶ The high gross margins suggest strong unit economics in the long-term vs short

Implied Share Price Calculation	
Sum of PV of FCF	21941
Growth Rate	4.00%
WACC	8.00%
TERMINAL Value	14354
PV of Terminal Value	10141
Enterprise Value	32082
(+) Cash	
(-) Debt	611
(-) Minority Interest	
Equity Value	31471
Diluted Shares Outstanding (mm)	152
Implied Share Price	207.0461
Current Share Price	227.32
% Change	-8.92%
Value investing share price :	74.56 (-133%)
https://valueinvesting.io/ZS/valuation/dcf-growth-exit-5y	
gurufocus share price :	\$103.44 (-120.31%)
https://gurufocus.com/stock/ZS/dcf	



Series1: FCF Series2: Revenue

- Implied share price of \$207.05 (-8.92%)
- Not abnormal for a high price to sales ratio in SAAS and cybersecurity companies
- Unlike other price to sales ratios (CrowdStrike at 26.13 and Palantir at 90.97) Zscaler is seen as high value but not irrational (14.32) – preventing expectations to not be met.
- Zscaler depends heavily on the cybersecurity growth (Zero-trust architecture) for the attractiveness of the stock.
- Zscaler is currently seen as a high-growth, high-expectation bucket – losing money currently but growing fast.
- The Companies evaluation depends heavily on Peer comparison analysis and looking at it's financial fundamentals

Risks Management

SWOT analysis

- ▶ Strengths – Leader in cloud-native cybersecurity with strong Zero Trust architecture. SaaS model allows recurring revenue and scalability
- ▶ Weaknesses – High valuation relative to earnings and heavily dependent on enterprise clients
- ▶ Opportunities – Cyber threats growing and companies moving away from traditional network-based security.
- ▶ Threats - Competition from giants like Palo Alto and Cisco. Data Breach could shake client confidence

ESG Integration

Environmental:

- Operates a cloud native platform that is more energy-efficient than traditional on-premise infrastructure
- Partner with hyperscalers like AWS and Azure

Social and Governance:

- Prioritizes data privacy and compliance, with certifications like FedRAMP and ISO 27001
- Independent board and transparent in ESG disclosures

Porter's 5 Forces

Competitive Rivalry – High:

- Highly competitive and fast-evolving with several strong players and constant innovation

Threat of New Entrants – Moderate:

- Barriers to entry high, new niche startups continue to emerge

Bargaining Power of Suppliers – Low:

- Builds most of its own software therefore less dependency on suppliers

Bargaining Power of Customers – Moderate to High:

- Large enterprises have negotiating power due to long sales cycles and high contract values

Threat of Substitutes– Low to Moderate:

- Zero trust approach offers a unique value proposition that is not easily replicated

Any questions?