



zuora

ASC 606 TRANSITION MATERIALS

MAY 30, 2019

Disclaimer

This presentation contains non-GAAP financial measures. You can find the reconciliation of these measures to the most directly comparable GAAP financial measure in the Appendix at the end of this presentation. The non-GAAP financial measures disclosed by Zuora should not be considered a substitute for, or superior to, the financial measures prepared in accordance with GAAP. Please refer to “Explanation of Non-GAAP Financial Measures” in the Appendix for a detailed explanation of the adjustments made to the comparable GAAP measures, the ways management uses the non-GAAP measures and the reasons why management believes the non-GAAP measures provide investors with useful supplemental information.

This presentation is intended to assist investors in understanding the impact of our implementation of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASC 606), and to assist with comparing our historical results against our future results on an ASC 606 basis. Our historical results prepared under GAAP for fiscal years 2018 and 2019 can be found in Zuora’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on April 18, 2019. Zuora’s FY19 Form 10-K and other SEC filings are available free of charge on Zuora’s Investor relations website at investor.zuora.com and on the SEC’s website at www.sec.gov.

ASC 606 IMPACT TO ZUORA COMPARED TO ASC 605 FOR FY 2019

Revenue

- Immaterial impact to total revenue
- Subscription revenue lower by \$4.0M
- Professional services revenue higher by \$3.8M
- Impacts primarily due to an increased number of allocations of consideration between subscription and professional services and changes in the recognition of legacy on-prem contracts inherited in the Leeyo acquisition

Operating Loss

- Improvement in operating loss of \$5.4M
- All incremental costs to obtain customer contracts, which primarily consist of commissions, will be amortized over a period of benefit of generally five years

Cash Flow

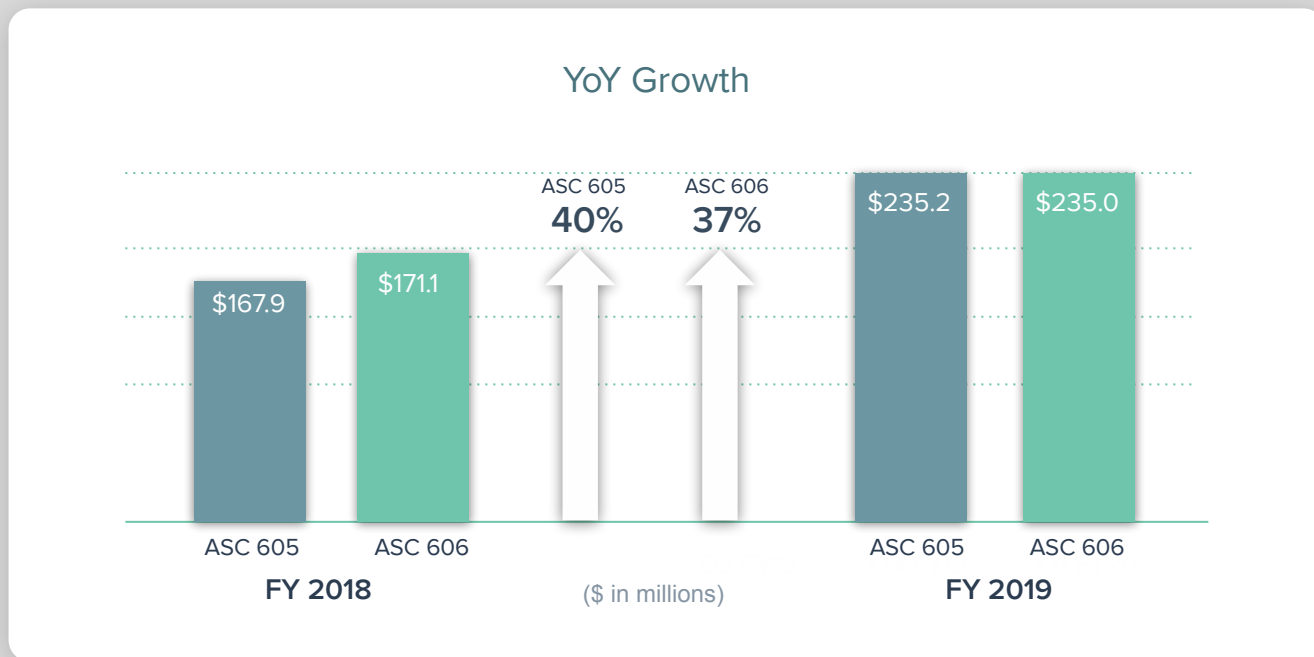
- No net operating or free cash flow impact

Other

- Adoption date of February 1, 2019
- Adoption approach is fully retrospective (FY 2018 and FY 2019 as adjusted)

Note: All quarterly and annual financial data and other data presented are unaudited.

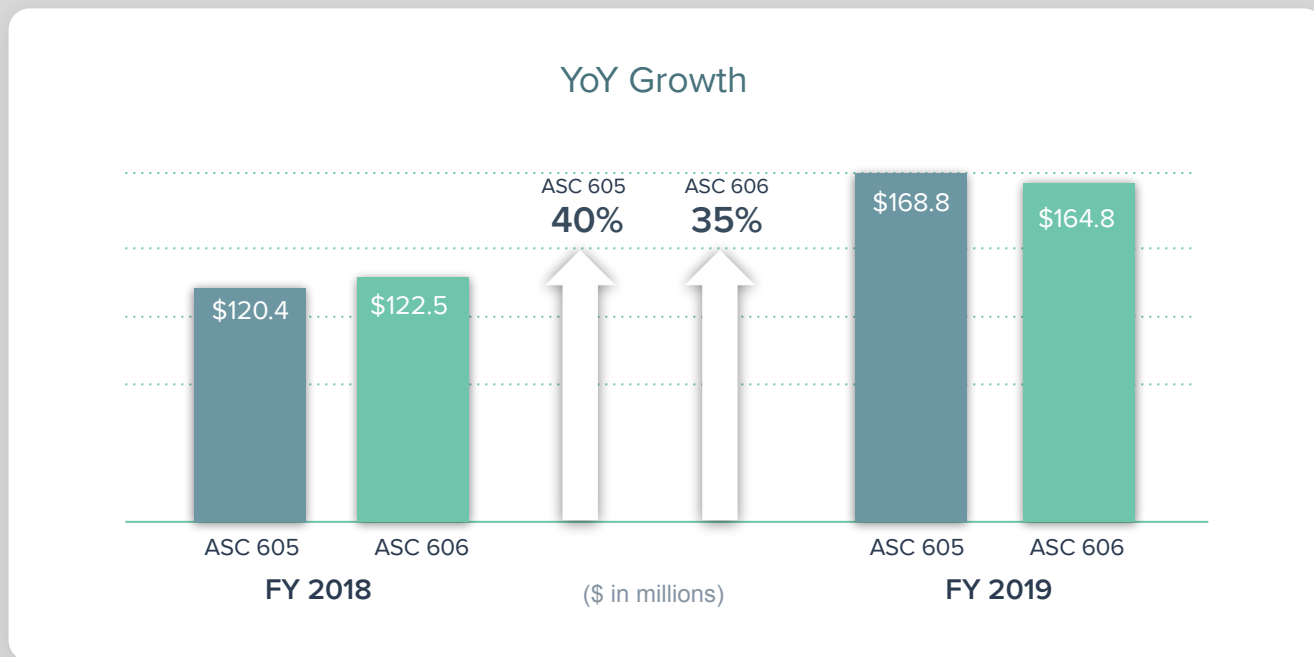
TOTAL REVENUE IMPACT - FY 2018 & FY 2019



TOTAL REVENUE IMPACT - DETAIL

Total Revenue (\$ in millions)	FY 2018	FY 2019				
	FY'18	Q1'19	Q2'19	Q3'19	Q4'19	FY'19
As Reported under ASC 605	\$ 167.9	\$ 51.7	\$ 57.8	\$ 61.6	\$ 64.1	\$ 235.2
As Adjusted under ASC 606	171.1	52.4	57.8	61.4	63.3	235.0
Impact	3.2	0.7	-	(0.2)	(0.8)	(0.2)

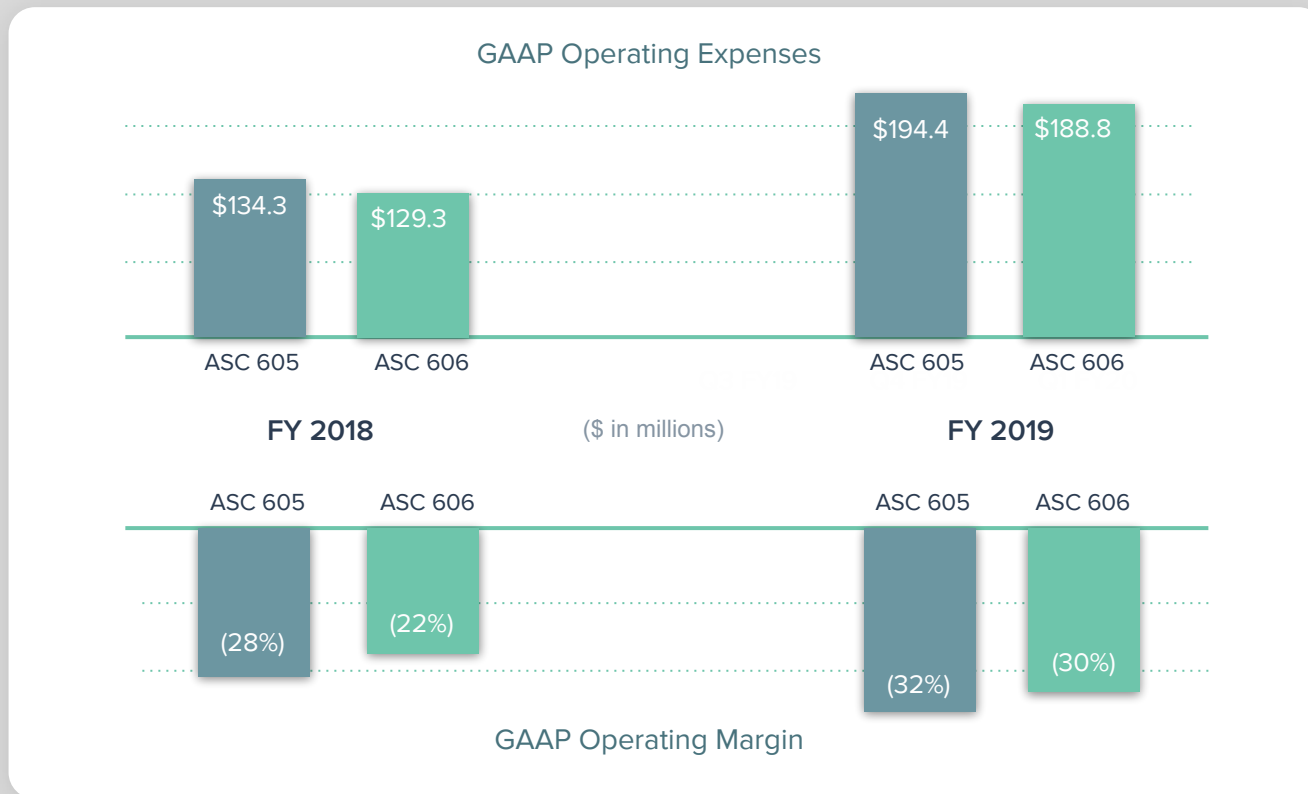
SUBSCRIPTION REVENUE IMPACT - FY 2018 & FY 2019



SUBSCRIPTION REVENUE IMPACT - DETAIL

Subscription Revenue (\$ in millions)	FY 2018	FY 2019				
	FY'18	Q1'19	Q2'19	Q3'19	Q4'19	FY'19
As Reported under ASC 605	\$ 120.4	\$ 36.1	\$ 41.5	\$ 44.5	\$ 46.7	\$ 168.8
As Adjusted under ASC 606	122.5	35.9	40.9	43.1	45.0	164.8
Impact	2.1	(0.2)	(0.6)	(1.4)	(1.7)	(4.0)

GAAP OPERATING EXPENSES & MARGIN IMPACT - FY 2018 & FY 2019

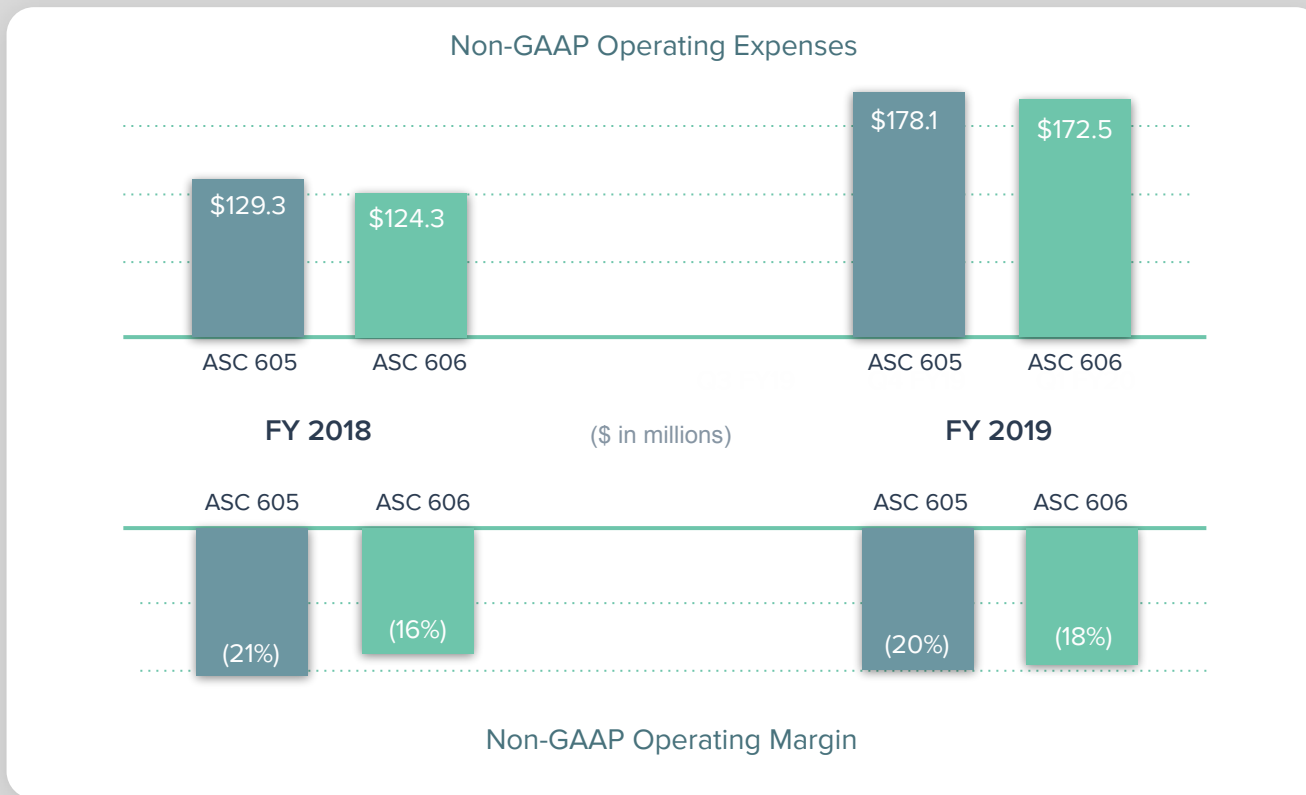


GAAP OPERATING EXPENSES & MARGIN IMPACT - DETAIL

	FY 2018	FY 2019				
	FY'18	Q1'19	Q2'19	Q3'19	Q4'19	FY'19
As Reported under ASC 605						
Total Operating Expenses	\$ 134.3	\$ 44.3	\$ 47.3	\$ 49.8	\$ 53.0	\$ 194.4
Operating Loss	(46.3)	(18.6)	(18.2)	(18.3)	(20.7)	(75.8)
Operating Margin	(28%)	(36%)	(32%)	(30%)	(32%)	(32%)
As Adjusted under ASC 606						
Total Operating Expenses	\$ 129.3	\$ 43.3	\$ 46.3	\$ 48.7	\$ 50.6	\$ 188.8
Operating Loss	(38.1)	(16.8)	(17.1)	(17.5)	(19.0)	(70.4)
Operating Margin	(22%)	(32%)	(30%)	(29%)	(30%)	(30%)
Impact						
Total Operating Expenses	\$ (5.0)	\$ (1.0)	\$ (1.0)	\$ (1.1)	\$ (2.4)	\$ (5.6)
Operating Loss	8.2	1.8	1.1	0.8	1.7	5.4
Operating Margin	6%	4%	2%	1%	2%	2%

(\$ in millions)

NON-GAAP OPERATING EXPENSES & MARGIN IMPACT - FY 2018 & FY 2019



NON-GAAP OPERATING EXPENSES & MARGIN IMPACT - DETAIL

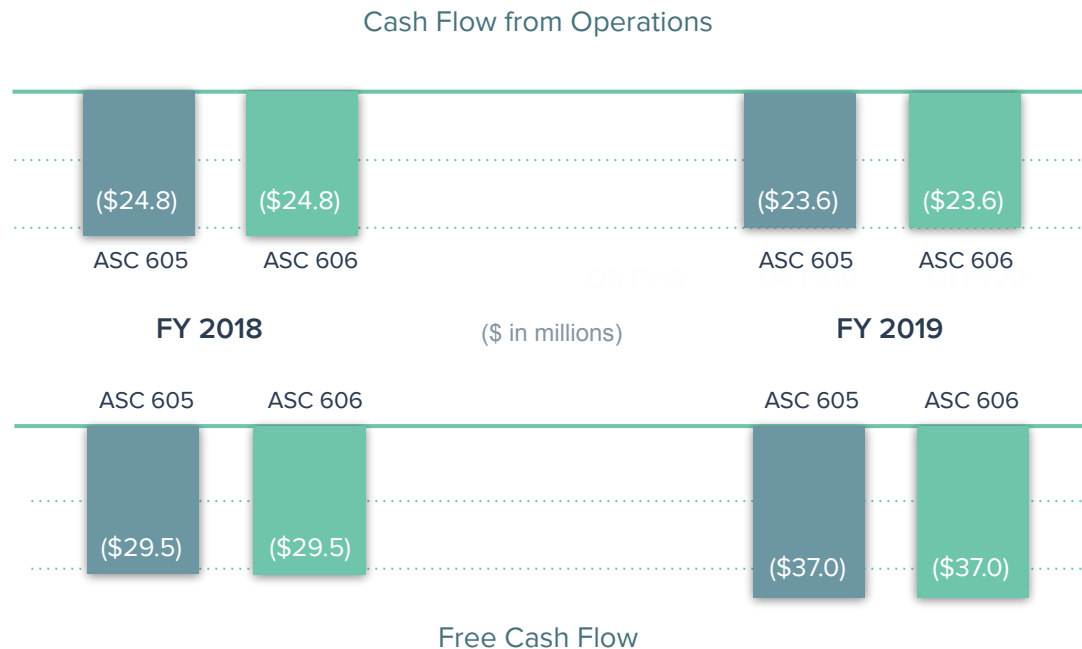
	FY 2018	FY 2019				
	FY'18	Q1'19	Q2'19	Q3'19	Q4'19	FY'19
As Reported under ASC 605						
Total Operating Expenses	\$ 129.3	\$ 41.7	\$ 44.2	\$ 45.2	\$ 47.2	\$ 178.1
Operating Loss	(35.2)	(13.6)	(12.3)	(10.6)	(11.6)	(48.2)
Operating Margin	(21%)	(26%)	(21%)	(17%)	(18%)	(20%)
As Adjusted under ASC 606						
Total Operating Expenses	\$ 124.3	\$ 40.6	\$ 43.1	\$ 44.1	\$ 44.7	\$ 172.5
Operating Loss	(27.0)	(11.9)	(11.2)	(9.8)	(9.9)	(42.8)
Operating Margin	(16%)	(23%)	(19%)	(16%)	(16%)	(18%)
Impact						
Total Operating Expenses	\$ (5.0)	\$ (1.1)	\$ (1.1)	\$ (1.1)	\$ (2.5)	\$ (5.6)
Operating Loss	8.2	1.7	1.1	0.8	1.7	5.4
Operating Margin	5%	3%	2%	1%	2%	2%

(\$ in millions)

SELECTED BALANCE SHEET IMPACT

	FY 2018			FY 2019		
	ASC 605	ASC 606	Impact	ASC605	ASC 606	Impact
Assets						
Prepaid expenses and other current assets	\$ 9.3	\$ 13.6	\$ 4.3	\$ 10.4	\$ 14.6	\$ 4.2
Deferred commissions, current portion	-	6.7	6.7	-	8.6	8.6
Deferred commissions, net of current portion	-	14.9	14.9	-	18.7	18.7
Liabilities						
Deferred revenue, current portion	\$ 66.1	\$ 62.0	\$ (4.1)	\$ 90.6	\$ 86.8	\$ (3.8)
Deferred revenue, net of current portion	0.3	0.2	(0.1)	0.4	0.1	(0.3)

NO NET OPERATING OR FREE CASH FLOW IMPACT



APPENDIX

Financial Statements With ASC 606 Adjustments

ASC 606 CONSOLIDATED GAAP INCOME STATEMENTS

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	FY 2018	FY 2019
Revenue										
Subscription	\$26.1	\$30.7	\$31.6	\$34.0	\$35.9	\$40.9	\$43.1	\$45.0	\$122.5	\$164.8
Professional Services	5.9	10.2	16.5	16.0	16.6	17.0	18.3	18.4	48.6	70.2
Total Revenue	32.0	41.0	48.2	50.0	52.4	57.8	61.4	63.3	171.1	235.0
Cost of Revenue										
Subscription	6.0	8.1	8.2	8.8	9.9	10.4	11.0	11.7	31.1	43.0
Professional Services	6.8	12.6	13.9	15.6	16.2	18.2	19.2	20.0	48.8	73.6
Total Cost of Revenue	12.8	20.6	22.1	24.4	26.0	28.6	30.2	31.7	79.9	116.6
Gross Profit										
Total Gross Profit	19.2	20.3	26.1	25.6	26.4	29.2	31.2	31.6	91.2	118.4
Operating Expense										
Sales & Marketing	14.6	17.5	17.1	18.9	21.8	24.4	24.8	24.2	68.1	95.2
Research & Development	7.9	9.8	10.0	11.0	12.1	13.3	14.3	14.8	38.6	54.4
General & Administrative	4.7	5.6	5.6	6.8	9.4	8.6	9.6	11.7	22.6	39.2
Total Operating Expense	27.2	32.8	32.6	36.7	43.3	46.3	48.7	50.6	129.3	188.8
Loss from Operations	(8.0)	(12.5)	(6.5)	(11.1)	(16.8)	(17.1)	(17.5)	(19.0)	(38.1)	(70.4)
Interest and Other (Expense) Income, Net	0.0	(0.4)	0.4	(0.3)	0.7	1.2	(0.6)	(0.8)	(0.3)	0.4
Loss before income tax	(8.0)	(12.1)	(7.0)	(10.8)	(17.5)	(18.2)	(16.9)	(18.2)	(37.8)	(70.8)
Income Tax Provision / (Benefit)	0.2	0.3	0.2	0.9	0.3	0.3	0.3	1.0	1.6	1.9
Net Loss	(\$8.2)	(\$12.4)	(\$7.1)	(\$11.7)	(\$17.8)	(\$18.5)	(\$17.2)	(\$19.2)	(\$39.4)	(\$72.7)
EPS	(\$0.33)	(\$0.47)	(\$0.24)	(\$0.39)	(\$0.40)	(\$0.18)	(\$0.16)	(\$0.18)	(\$1.48)	(\$0.80)
Weighted average shares outstanding	25.0	26.4	29.3	30.3	44.9	105.1	106.0	107.4	26.6	91.3

ASC 606 CONSOLIDATED BALANCE SHEETS

Assets	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Current assets:					
Cash and cash equivalents	\$ 48.2	\$ 202.5	\$ 179.2	\$ 77.9	\$ 67.9
Short-term investments	-	-	-	97.0	107.9
Accounts receivable, net of allowance for doubtful accounts	49.8	45.4	42.1	51.4	58.3
Restricted cash, current portion	-	0.2	1.8	4.4	0.4
Deferred commissions	6.7	7.1	7.6	8.0	8.6
Prepaid expenses and other current assets	13.6	13.3	13.0	13.8	14.6
Total current assets	118.3	268.5	243.6	252.4	257.8
Property and equipment, net	10.2	10.9	16.9	18.4	19.6
Restricted cash, net of current portion	5.2	4.9	4.9	2.1	1.7
Purchased intangibles, net	9.6	9.0	8.4	7.9	7.4
Deferred commissions, net of current portion	14.9	15.6	16.2	16.9	18.7
Goodwill	17.4	17.4	17.6	17.6	17.6
Other assets	0.8	2.8	2.7	2.5	3.3
Total assets	\$ 176.5	\$ 329.2	\$ 310.3	\$ 317.8	\$ 326.0
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	\$ 2.6	\$ 3.5	\$ 2.8	\$ 2.7	\$ 1.5
Accrued expenses and other current liabilities	24.5	27.8	14.7	13.5	14.2
Accrued employee liabilities	17.7	17.4	21.0	24.5	22.6
Debt, current portion	2.9	4.2	5.0	1.9	3.0
Deferred revenue, current portion	62.0	63.0	64.4	72.3	86.8
Lease obligation, current portion	1.1	1.0	1.6	2.3	-
Total current liabilities	110.7	116.8	109.6	117.1	128.1
Debt, net of current portion	12.1	10.8	9.6	11.5	10.5
Deferred revenue, net of current portion	0.2	0.3	0.3	0.4	0.1
Lease obligation, net of current portion	0.3	0.2	1.5	-	-
Other long-term liabilities	2.5	3.2	3.4	4.8	5.6
Total liabilities	125.8	131.3	124.4	133.9	144.2
Stockholders' equity:					
Preferred stock					
Convertible Preferred	0.0	-	-	-	-
Class A common stock	-	0.0	0.0	0.0	0.0
Class B common stock	0.0	0.0	0.0	0.0	0.0
Additional paid-in capital	286.2	455.6	461.8	472.1	488.8
Related party receivable	(1.3)	(5.6)	(5.7)	-	-
Accumulated other comprehensive income	0.5	0.4	0.8	0.1	0.5
Accumulated deficit	(234.7)	(252.5)	(271.0)	(288.3)	(307.5)
Total stockholders' equity	50.6	197.9	185.9	183.9	181.8
Total liabilities and stockholders' equity	\$ 176.5	\$ 329.2	\$ 310.3	\$ 317.8	\$ 326.0

NON-GAAP RECONCILIATIONS

ASC 606 NON-GAAP RECONCILIATIONS

	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Cost of Revenue								
Cost of subscription revenue								
GAAP cost of subscription revenue	\$ 6.0	\$ 8.1	\$ 8.2	\$ 8.8	\$ 9.9	\$ 10.4	\$ 11.0	\$ 11.7
Stock-based compensation	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.6)	(0.7)
Amortization of acquired intangibles	(0.2)	(0.5)	(0.7)	(0.7)	(0.7)	(0.6)	(0.5)	(0.5)
Internal-use software	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)	(0.4)
Non-GAAP cost of subscription revenue	\$ 5.5	\$ 7.1	\$ 7.0	\$ 7.6	\$ 8.6	\$ 9.1	\$ 9.6	\$ 10.2
Cost of professional services revenue								
GAAP cost of professional services revenue	\$ 6.8	\$ 12.6	\$ 13.9	\$ 15.6	\$ 16.2	\$ 18.2	\$ 19.2	\$ 20.0
Stock-based compensation	(0.1)	(0.4)	(0.7)	(0.9)	(1.0)	(1.4)	(1.7)	(1.8)
Internal-use software	-	-	-	-	-	-	-	0.0
Non-GAAP cost of professional services revenue	\$ 6.6	\$ 12.2	\$ 13.2	\$ 14.7	\$ 15.1	\$ 16.8	\$ 17.5	\$ 18.3
Gross profit								
GAAP gross profit	\$ 19.2	\$ 20.3	\$ 26.1	\$ 25.6	\$ 26.4	\$ 29.2	\$ 31.2	\$ 31.6
Stock-based compensation	0.2	0.5	1.0	1.1	1.4	1.8	2.2	2.4
Amortization of acquired intangibles	0.2	0.5	0.7	0.7	0.7	0.6	0.5	0.5
Internal-use software	0.3	0.3	0.2	0.2	0.3	0.3	0.3	0.3
Non-GAAP gross profit	\$ 19.9	\$ 21.7	\$ 28.0	\$ 27.7	\$ 28.7	\$ 31.9	\$ 34.3	\$ 34.9
Gross margin								
GAAP gross margin	60%	50%	54%	51%	50%	50%	51%	50%
Non-GAAP gross margin	62%	53%	58%	55%	55%	55%	56%	55%
Subscription gross margin								
GAAP subscription gross margin	77%	74%	74%	74%	73%	75%	74%	74%
Non-GAAP subscription gross margin	79%	77%	78%	78%	76%	78%	78%	77%

ASC 606 NON-GAAP RECONCILIATIONS

	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Operating expenses								
Research and development								
GAAP research and development	\$ 7.9	\$ 9.8	\$ 10.0	\$ 11.0	\$ 12.1	\$ 13.3	\$ 14.3	\$ 14.8
Stock-based compensation	(0.3)	(0.5)	(0.7)	(0.8)	(1.0)	(1.4)	(1.9)	(2.0)
Internal-use software	0.2	0.2	0.4	0.4	0.6	0.7	0.6	0.3
Non-GAAP research and development	\$ 7.7	\$ 9.5	\$ 9.6	\$ 10.7	\$ 11.6	\$ 12.6	\$ 13.0	\$ 13.1
Sales and marketing								
GAAP sales and marketing	\$ 14.6	\$ 17.5	\$ 17.1	\$ 18.9	\$ 21.8	\$ 24.4	\$ 24.8	\$ 24.2
Stock-based compensation	(0.4)	(0.6)	(1.0)	(0.7)	(1.6)	(1.5)	(2.2)	(2.1)
Non-GAAP sales and marketing	\$ 14.2	\$ 16.9	\$ 16.0	\$ 18.2	\$ 20.2	\$ 22.9	\$ 22.6	\$ 22.1
General and administrative								
GAAP general and administrative	\$ 4.7	\$ 5.6	\$ 5.6	\$ 6.8	\$ 9.4	\$ 8.6	\$ 9.6	\$ 11.7
Stock-based compensation	(0.2)	(0.2)	(0.3)	(0.4)	(0.6)	(0.9)	(1.1)	(1.2)
Internal-use software	(0.0)	-	-	-	-	-	-	-
Charitable Donations	-	-	-	-	-	-	-	(1.0)
Non-GAAP general and administrative	\$ 4.5	\$ 5.3	\$ 5.2	\$ 6.4	\$ 8.8	\$ 7.7	\$ 8.5	\$ 9.5

ASC 606 NON-GAAP RECONCILIATIONS

	Q1 FY18	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19
Operating loss								
GAAP operating loss	\$ (8.0)	\$ (12.5)	\$ (6.5)	\$ (11.1)	\$ (16.8)	\$ (17.1)	\$ (17.5)	\$ (19.0)
Stock-based compensation	1.2	1.8	3.0	3.0	4.6	5.7	7.5	7.6
Amortization of acquired intangibles	0.2	0.5	0.7	0.7	0.7	0.6	0.5	0.5
Internal-use software	0.2	0.1	(0.1)	(0.1)	(0.3)	(0.4)	(0.3)	0.0
Charitable Donations	-	-	-	-	-	-	-	1.0
Non-GAAP operating loss	\$ (6.5)	\$ (10.0)	\$ (3.0)	\$ (7.5)	\$ (11.9)	\$ (11.2)	\$ (9.8)	\$ (9.9)
Net loss								
GAAP net loss	\$ (8.2)	\$ (12.4)	\$ (7.1)	\$ (11.7)	\$ (17.8)	\$ (18.5)	\$ (17.2)	\$ (19.2)
Stock-based compensation	1.2	1.8	3.0	3.0	4.6	5.7	7.5	7.6
Amortization of acquired intangibles	0.2	0.5	0.7	0.7	0.7	0.6	0.5	0.5
Internal-use software	0.2	0.1	(0.1)	(0.1)	(0.3)	(0.4)	(0.3)	0.0
Charitable Donations	-	-	-	-	-	-	-	1.0
Non-GAAP net loss	\$ (6.7)	\$ (9.9)	\$ (3.5)	\$ (8.2)	\$ (12.8)	\$ (12.7)	\$ (9.5)	\$ (10.0)
Net loss per share								
GAAP net loss per share	\$ (0.33)	\$ (0.47)	\$ (0.24)	\$ (0.39)	\$ (0.40)	\$ (0.18)	\$ (0.16)	\$ (0.18)
Non-GAAP net loss per share	\$ (0.27)	\$ (0.38)	\$ (0.12)	\$ (0.27)	\$ (0.29)	\$ (0.12)	\$ (0.09)	\$ (0.10)

Explanation of Non-GAAP Financial Measures

In addition to financial measures prepared in accordance with U.S. generally accepted accounting principles (GAAP), these materials and the accompanying tables contain non-GAAP financial measures, including non-GAAP cost of subscription revenue, non-GAAP cost of professional services revenue, non-GAAP gross profit, non-GAAP subscription gross margin, non-GAAP total gross margin, non-GAAP sales and marketing expense, non-GAAP research and development expense, non-GAAP general and administrative expense, non-GAAP loss from operations, non-GAAP net loss, non-GAAP net loss per share attributable to common stockholders, and free cash flow. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP.

We use these non-GAAP measures in conjunction with GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance. We believe these non-GAAP measures provide investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our operating results. We believe these non GAAP measures are useful in evaluating our operating performance compared to that of other companies in our industry, as they generally eliminate the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance.

We exclude the following items from one or more of our non-GAAP financial measures:

Stock-based compensation expense. We exclude stock-based compensation expense, which is a non-cash expense, from certain of our non-GAAP financial measures because we believe that excluding this item provides meaningful supplemental information regarding operational performance. In particular, stock-based compensation expense is not comparable across companies given it is calculated using a variety of valuation methodologies and subjective assumptions.

Explanation of Non-GAAP Financial Measures

Amortization of acquired intangible assets. We exclude amortization of acquired intangible assets, which is a noncash expense, from certain of our non-GAAP financial measures. We exclude these amortization expenses because we do not believe these expenses have a direct correlation to the operation of our business.

Internal-use software. We exclude capitalization and the subsequent amortization of internal-use software, which is a non-cash expense, from certain of our non-GAAP financial measures. We capitalize certain costs incurred for the development of computer software for internal use and then amortize those costs over the estimated useful life. Capitalization and amortization of software development costs can vary significantly depending on the timing of products reaching technological feasibility and being made generally available. Moreover, because of the variety of approaches taken and the subjective assumptions made by other companies in this area, we believe that excluding the effects of capitalized software costs allows investors to make more meaningful comparisons between our operating results and those of other companies.

Charitable donations. We exclude expenses associated with the charitable donation of our common stock from certain of our non-GAAP financial measures. We believe that excluding this non-recurring and non-cash expense allows investors to make more meaningful comparisons between our operating results and those of other companies.

Additionally, Zuora's management believes that the free cash flow non-GAAP measure is meaningful to investors because management reviews cash flows generated from operations after taking into consideration capital expenditures as these expenditures are considered to be a necessary component of ongoing operations.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. The non-GAAP measures we use may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We compensate for these limitations by providing specific information regarding the GAAP items excluded from these non-GAAP financial measures.

zuora