

A Trusted Leader in Email Security

NASDAQ: ZIXI

May 2020



Important Cautions Regarding Forward-Looking Statements



Statements in this presentation that are not purely historical facts or that necessarily depend upon future events, including statements about forecasts of revenue or earnings, or other statements about anticipations, beliefs, expectations, hopes, intentions or strategies for the future, may be forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Readers are cautioned not to place undue reliance on forward-looking statements. All forward-looking statements are based upon information available to Zix at the time of its most recent earnings announcement. This presentation is not an update of, and Zix undertakes no obligation to publicly update or revise, any forward-looking statements, whether as a result of new information, future events or otherwise. Any forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from the events or results described in the forward-looking statements, including risks or uncertainties related to how privacy and data security law mandates may affect demand for Zix's products, and Zix's ability to obtain and retain customers, grow revenues and deliver new products, whether organically or through acquisitions. Zix may not succeed in addressing these and other risks. Further information regarding factors that could affect Zix financial and other results can be found in the risk factors section of Zix's most recent filing on Form 10-K with the Securities and Exchange Commission.

Detailed explanations of our non-GAAP financial measures and reconciliations of our adjusting items to the most directly comparable GAAP financial measure can be found at <http://investor.zixcorp.com>.

Company Overview



Leader in small medium business email protection and productivity



100% Subscription Revenue



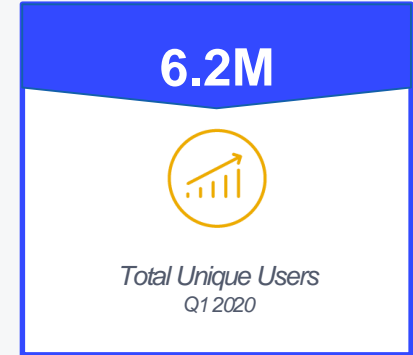
Over 100% Net Dollar Retention



571 Employees



Headquartered in Dallas, TX



Software Resiliency Model



- **Digital Transformation:** Strategically positioned to benefit from several software industry trends, including digital transformation and broader cloud adoption, particularly as companies adapt their business models to accommodate remote workforces
- **Collaboration:** Companies migrating to the cloud are looking for partners to facilitate that transition — Zix's 4,393 monthly transacting MSP partners support this thesis and growth opportunity
- **Diversified Customer Base:** Diversified footprint of SMB customers with less than 15% of customer base comprised of enterprise customers (2,000+ users) — Zix's core vertical market, Healthcare, is experiencing increasing needs for security and HIPAA compliance
- **Small Avg. Deal Size:** Smaller deal sizes across a large customer base provide revenue diversity and stickiness as we provide mission critical applications of the email box and surrounding security
- **Resilient Business Model:** Subscription model with 100%+ net dollar retention and 90%+ gross dollar retention
- **Cash Flow Generation:** Strong, unlevered free cash flow generation positions Zix favorably versus debt obligations

Trusted Leader in Securing Business Communications and Ensuring Productivity



Email Encryption

- Industry's leading solution, encrypting and delivering more than 1.5M emails daily
- Patented best method of delivery system combines strong security with convenient user experience
- Only platform to offer a fully transparent solution, eliminating extra steps or passwords for senders or recipients

Advanced Threat Protection

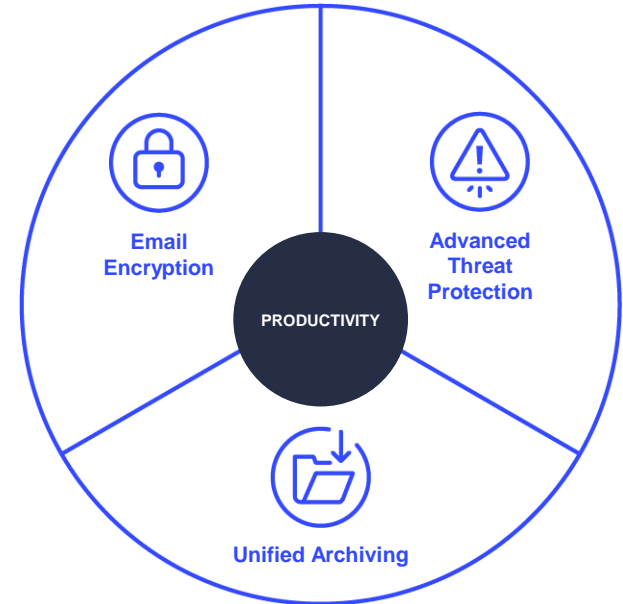
- Defend against malware, ransomware, phishing and business email compromise
- Multi-layered approach delivers 99.5% accuracy
- 30-day business continuity for disaster recovery

Unified Archiving

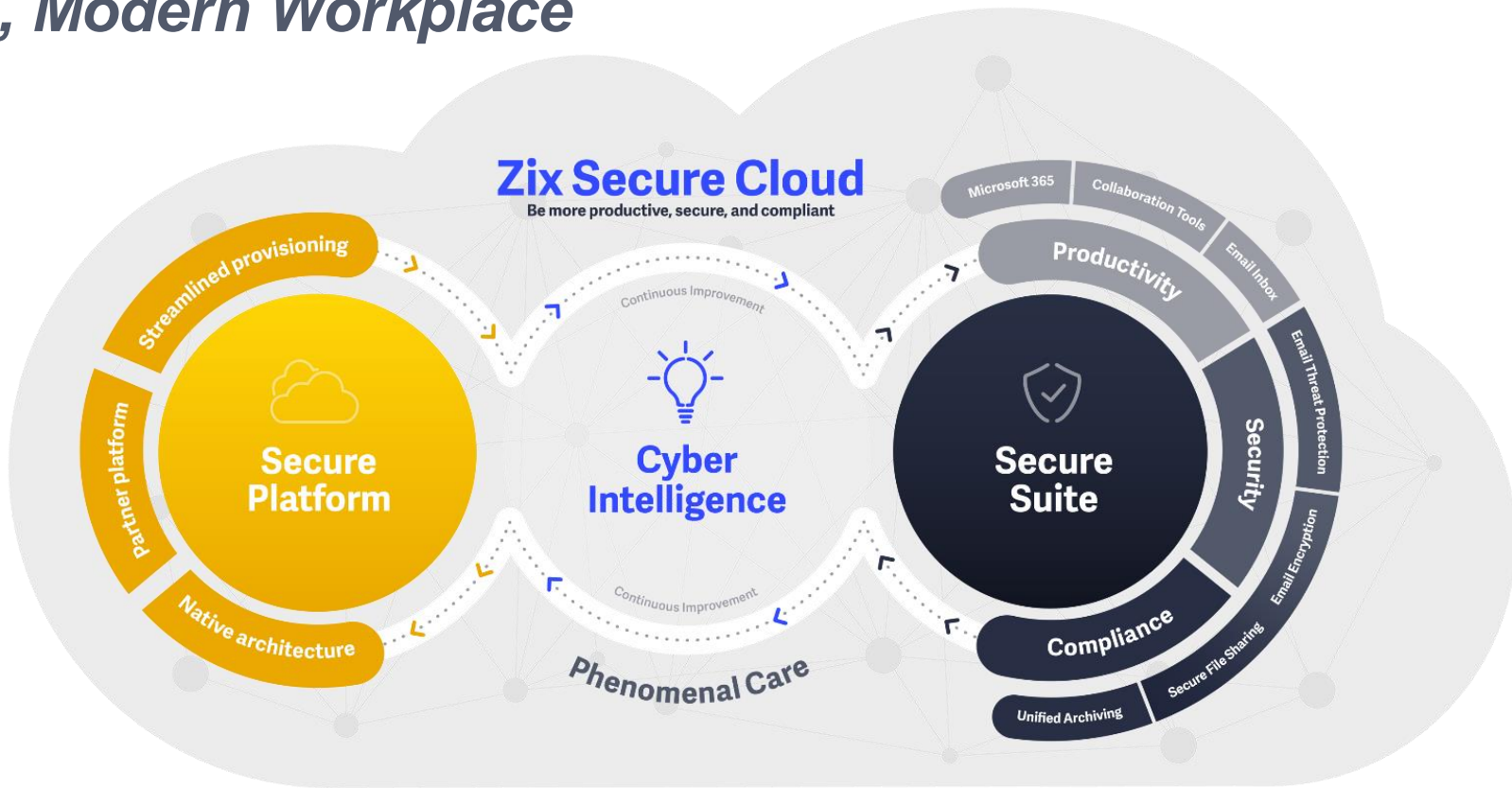
- Archive and eDiscovery capabilities across more than 50 communication channels
- Provides supervisory and reporting capabilities to meet compliance and enable business
- Cloud-based solution with easy, secure access for auditing and litigation

Productivity

- Microsoft Office 365 Productivity Suite and Secure Hosted Exchange



Zix Secure Cloud, a Secure, Modern Workplace



AppRiver Acquisition Key Takeaways



Significant Scale & Accelerating Growth

- More than doubled revenue and adjusted EBITDA
- ARR scaled to more than \$214 million
- Achieved previously discussed \$8 million of cost savings 12 months ahead of plan



Strengthened Position in Cloud-based Email Security Market

- Enhances opportunity to capture more mailboxes undergoing migration to the cloud
- Expanded go-to-market channels with a 4,500 strong Managed Service Provider (MSP) reseller community and Nautical platform
- Bolstered security offering, including adding endpoint anti-virus solution



Attractive Cross-Selling Opportunities

- Significantly expanded customer base with minimal overlap
- Provides opportunity to sell Zix's proprietary security products into AppRiver's 60,000+ customer base
- Provides opportunity to attach AppRiver's O365 solutions to Zix's base



Shareholder Value Creation

- Enables continued profitable growth with opportunity to accelerate growth trajectory
- Provides a platform to drive higher attach rates, customer retention and capture greater share of business communication market

AppRiver Integration Proceeding Rapidly and Ahead of Schedule

- **February 2019:** Achieved previously discussed \$8 million of cost savings, **12 months ahead of plan**
- **April 2019:** Rolled out **ZixEncrypt email encryption service** to AppRiver's 4,500+ MSP network, just **64** days after acquisition close and **100 days ahead of schedule**
- **May 2019:** Rolled out **Office 365 service** to Zix's direct sales teams and partners, ahead of schedule and **acquired DeliverySlip encryption, large file transfer and e-signature capabilities**
- **Q2-19 – Q1-20:** Added **~22,000 O365 mailboxes** to the Zix installed **customer base**; AppRiver direct customers MSPs started over **1,600+ trials** of ZixEncrypt and ZixArchive with an over **80% conversion rate** to paying customers
- **April 2020:** **Launched Secure Cloud**, a new, secure modern workplace platform to empower customers and partners to deliver business value in the digital workplace

“That we were able to integrate Zix email encryption into the AppRiver platform in just 64 days speaks to how well-aligned the two companies are and highlights why the acquisition was so powerful.”

– Dave Wagner

Market & Growth Drivers



Extrinsic Market Drivers



➤ A Confluence of Market Factors are Aligning that Provide Zix–AppRiver with Powerful Tailwinds



- Expansion of cloud and virtualized business environments increased demand for cloud capable security software solutions

- Proliferation of cybersecurity threats pose new challenges to businesses
- 2,216 confirmed data breaches

- Phishing remains the top cyberattack vector
- Email attacks account for 90% to 95% of successful cyberattacks worldwide

- Increased business use of social media, instant message, video and other channels requires added security and archiving investments

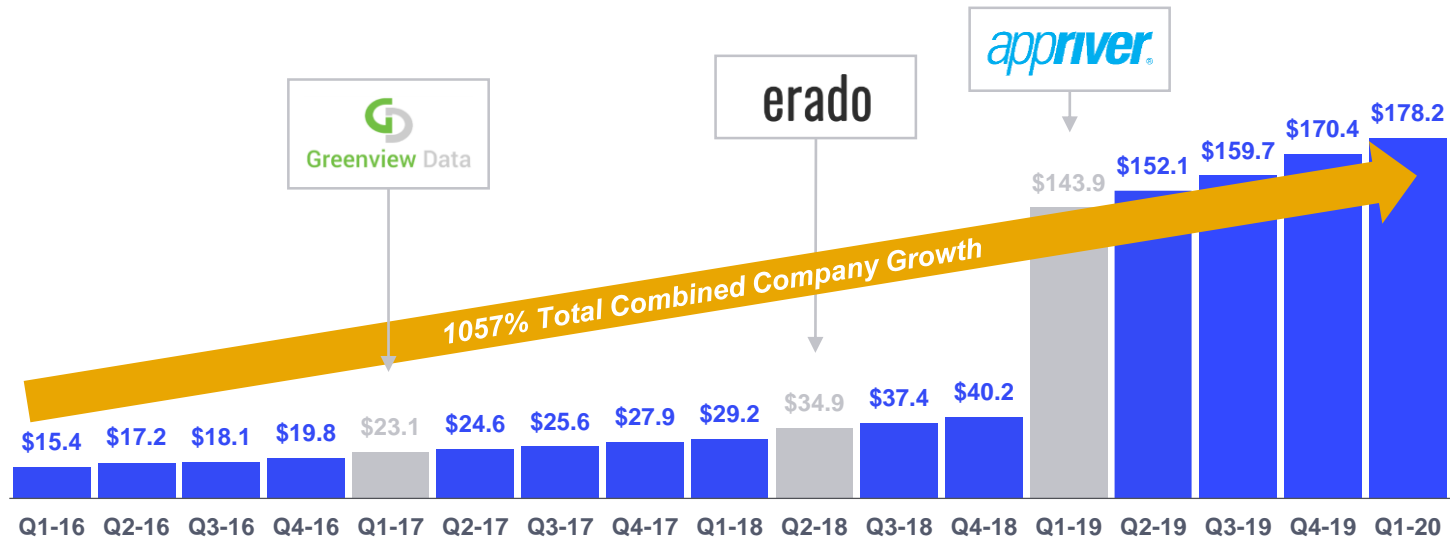
- Increased public scrutiny of business data security
- HIPAA, SEC rules and industry regulations require protection of consumer data

- Large market opportunity driven by the need for specialized security for cloud offerings

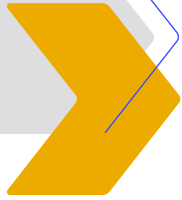
Cloud & SaaS Driving Zix|AppRiver Growth



➤ Zix's Growth in Cloud Based Annual Recurring Revenue (ARR) Accelerated by Recent Acquisitions



Annual recurring revenue is building momentum with our strategic shift to meet customer demand for hosted security and productivity solutions

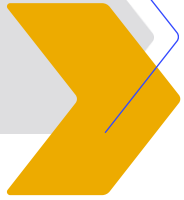


Intrinsic Growth Drivers



Future Trajectory		<i>Strategic expansion of our TAM and focus on the cloud positions the Company to better exploit market trends and participate in the secular growth of cloud-based email security market</i>
Expanded Product Offering and Cross-Selling Opportunities (Acquisitions)		<i>Bundled email security solution driving higher cross-selling activity</i>
Expanded Product Offering (R&D)		<i>Cloud platform investments driving adoption of our core multi-tenant solution</i>
Prioritized Direct Sales & Channel Investments		<i>Growing direct sales team and strengthening VAR and MSP partner relationships (especially with AppRiver) expand reach and opportunities to sell bundled offering</i>
Consistent Customer Satisfaction		<i>Net Promoter Score exceeds competition, demonstrating the value of Zix's solution and support and the opportunity to attach more</i>





Key Growth Areas



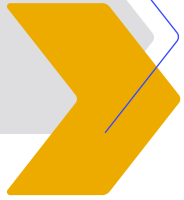
**New Customer
Acquisition**



**Sales Existing
Customers**



**Increase
Retention**



Go to Market Strategy



- *Team and Technology Transformation Aligned to Maximize Opportunities across:*
- *Enterprise Market (2,000+ users)*
 - *Corporate Market (2,000 or less users)*
 - *Partner Channel (Zix VARs & MSPs and AppRiver's 4,300+ MSPs)*



Financial Information

zix

Financial Highlights



**Strong Healthcare & Financial Customers Focused on Compliance
Mission Critical Applications for the SMB ~ Email Box & Surrounding Security**



**100%
Subscription Revenue**



**10+ Years
Consistent Profitability***



**No Customer
>1% Revenue**



**100%+ Net Dollar
Revenue Retention**



**15% Q1 2020
Organic Revenue Growth**

**\$239M
NOLs**

*Zix profitability defined as non-GAAP adjusted net income excluding deferred tax (expense) benefit

Q1 2020 Financial Highlights



- **Revenue increased 79% year-over-year** to record \$52.4M
 - Total overall organic growth (across Zix and AppRiver) was 15%
- **ARR increased 15% organically** year-over-year to record \$214.3M
- GAAP fully diluted EPS attributable to common stockholders of (\$0.06)
- Non-GAAP fully diluted EPS before deemed dividends excl. deferred tax (benefit) expense of \$0.12
- **\$16.3M** in cash/investments



Annual Recurring Revenue (ARR)



- **Total overall organic ARR grew 15% year-over-year**
- Email security and productivity solutions driving **strong cross-selling activity and ARR growth**
- Cloud-based offerings comprise **83%+ of ARR**

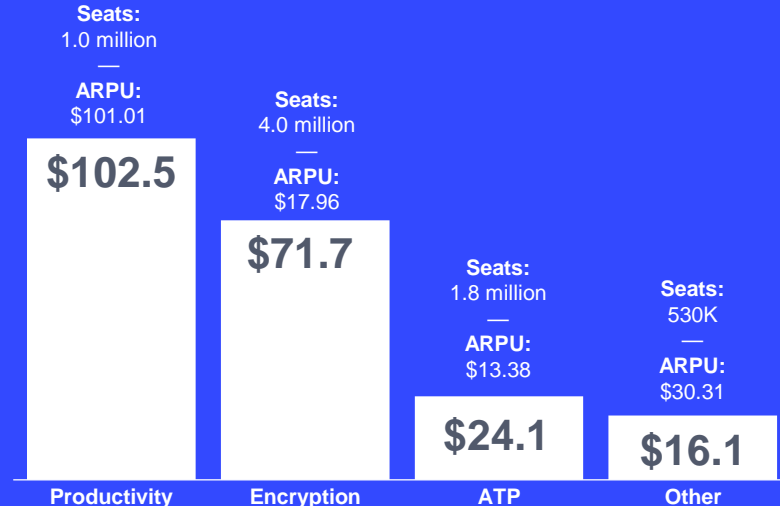


Q1 2020 Consolidated ARR



- **Total ARR:** \$214.3 million
- **ARPU:** \$29.21
- **Total Unique Users:** 6.2 million
- **Total Licensed Users:** 7.3 million
- **Avg. Licenses per User:** 1.2

ARR, Seats and ARPU Breakdown by Solution Category



*\$ in millions

ARPU = Average Revenue per User

ATP = Advanced Threat Protection

Other = Remaining solutions that individually make up less than 10% of total ARR

Note: Productivity includes Office 365 and Secure Hosted Exchange solutions.

Note: Most sales are made as bundle offers. As a result, the solution breakdown involves management estimate of value by solution. This information is not used to operate the business, but is informational.

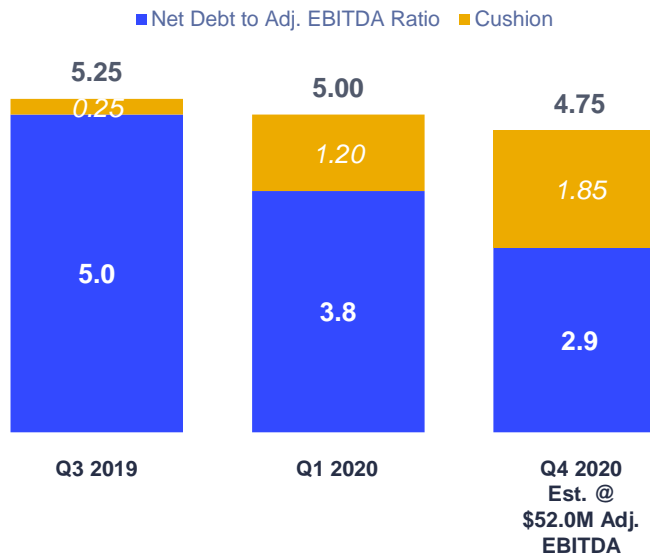
Balance Sheet & Capital Structure



Strong, unlevered free cash flow generation positions Zix favorably versus debt obligations

- **Cash: \$16.3M¹**
- **Total Debt: \$186M¹** (due Feb. 20, 2024)
 - 5-Year Term Loan: \$168.1M (@ 5.77%)
 - Delayed Draw Term Loan: \$9.9M (@ 5.12%)
 - Revolving Facility: \$8.0M¹
- **Adjusted EBITDA (FY20): \$51M-\$53M²**

Leverage Ratio vs. Debt Covenant Schedule³



Maximum Total Net Leverage Ratio by Quarter⁴

Date	Maximum Total Net Leverage Ratio
September 30, 2019	5.25:1.00
December 31, 2019	5.00:1.00
March 31, 2020	5.00:1.00
June 30, 2020	5.00:1.00
September 30, 2020	4.75:1.00
December 31, 2020	4.75:1.00
March 31, 2021	4.75:1.00
June 30, 2021	4.50:1.00
September 30, 2021	4.50:1.00
December 31, 2021	4.50:1.00
March 31, 2022 and thereafter	4.25:1.00

1. Balance sheet data as of March 31, 2020
2. Outlook effective only as of May 6, 2020
3. Leverage ratios based on adjusted EBITDA calculations for the trailing four quarters in each period as previously disclosed in quarterly results press releases and 8K filings
4. Maximum Total Net Leverage Ratio by Quarter⁴ as stated in Zix's credit agreement dated Feb. 20, 2019 and filed under an 8K on Feb. 22, 2019.

Q2 and FY 2020 Financial Outlook



<i>\$ in millions</i>	2018	2019	Q2 2020	2020
Revenue	\$70.5	\$173.4	\$52.0 – \$53.0	\$210.0 – \$217.0
GAAP EPS	\$0.29 ⁽¹⁾	(\$0.46)	(\$0.07) – (\$0.06) ⁽³⁾	(\$0.13) – (\$0.09) ⁽⁴⁾
Adjusted EPS	\$0.33 ⁽²⁾	\$0.43	\$0.12 – \$0.14 ⁽³⁾	\$0.56 – \$0.58 ⁽⁴⁾

Note: Outlook effective only as of May 6, 2020

1. Includes Q4 2018 \$7.8 million reduction to the Company's deferred tax valuation allowance due to expected profitability

2. Before deemed dividends and excluding deferred tax (benefit) expense

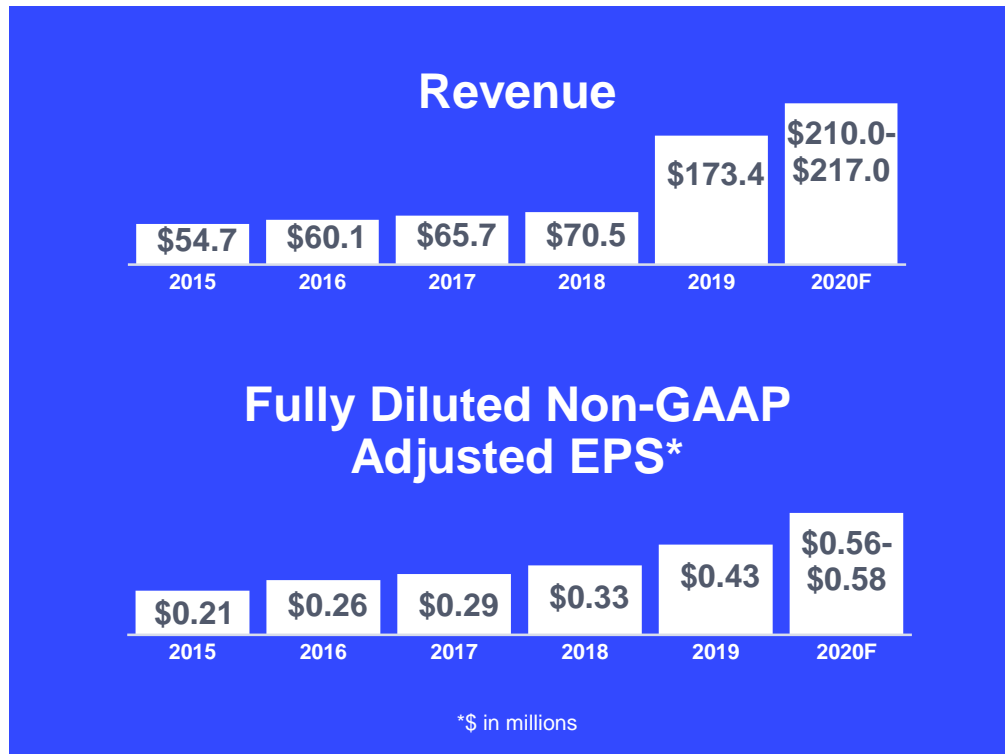
3. Based on 53.7 million shares outstanding

4. Based on 54.0 million shares outstanding

Key Takeaways



- **Industry leader** in email security and productivity solutions
- **Broad solution suite** addresses entire business communications market from enterprise to SMB
- **Diversified** customer base of industry leaders with robust go-to-market channels of direct sales teams, VARs, and MSPs
- **100% subscription-based predictable business model** with eight consecutive years of profitability
- **Strong cash flow generation** and \$200M+ in NOLs
- **Strong outlook** for adjusted EBITDA dollar growth and market share expansion



Note: Outlook effective only as of May 6, 2020.

* Before deemed dividends and excluding deferred tax (benefit) expense
For a reconciliation of GAAP to adjusted non-GAAP results, see the company's earnings release on May 6, 2020, which is available on the investor relations Web page at <http://investor.zixcorp.com>

Contact Us

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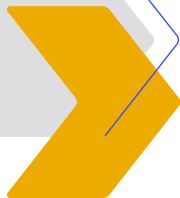
Gateway Investor Relations

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Appendix

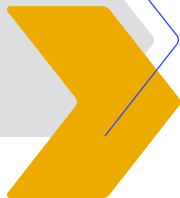


Reconciliation of GAAP to Non-GAAP Financial Measures

1st Quarter 2020 (Unaudited)



	Three Months Ended	
	March 31,	
	2020	2019
Revenue:		
GAAP revenue	\$ 52,434,000	\$ 29,300,000
Cost of revenue		
GAAP cost of revenue	\$ 26,079,000	\$ 11,139,000
Stock-based compensation charges (1)	(A) (172,000)	(104,000)
Strategic consulting and litigation costs (2)	(B) (58,000)	(29,000)
Intangible Amortization (3)	(C) (2,607,000)	(634,000)
Corporate separation payment (4)	(D) -	(49,000)
Non-GAAP adjusted cost of revenue	\$ 23,242,000	\$ 10,323,000
Gross profit:		
GAAP gross profit	\$ 26,355,000	\$ 18,161,000
Stock-based compensation charges (1)	(A) 172,000	104,000
Strategic consulting and litigation costs (2)	(B) 58,000	29,000
Intangible Amortization (3)	(C) 2,607,000	634,000
Corporate separation payment (4)	(D) -	49,000
Non-GAAP adjusted gross profit	\$ 29,192,000	\$ 18,977,000
Research and development expense		
GAAP research and development expense	\$ 5,386,000	\$ 4,147,000
Stock-based compensation charges (1)	(A) (337,000)	(175,000)
Strategic consulting and litigation costs (2)	(B) (106,000)	(171,000)
Intangible Amortization (3)	(C) (76,000)	(76,000)
Non-GAAP adjusted research and development expense	\$ 4,867,000	\$ 3,464,000
Selling and marketing expense		
GAAP selling and marketing expense	\$ 14,341,000	\$ 9,934,000
Stock-based compensation charges (1)	(A) (544,000)	(432,000)
Strategic consulting and litigation costs (2)	(B) (39,000)	(401,000)
Intangible Amortization (3)	(C) (3,119,000)	(1,141,000)
Non-GAAP adjusted selling and marketing expense	\$ 10,639,000	\$ 7,482,000
General and administrative expense		
GAAP general and administrative expense	\$ 5,688,000	\$ 10,330,000
Stock-based compensation charges (1)	(A) (938,000)	(518,000)
Strategic consulting and litigation costs (2)	(B) (177,000)	(6,417,000)
Corporate separation payment (4)	(D) -	(240,000)
Non-GAAP adjusted general and administrative expense	\$ 4,573,000	\$ 3,155,000



Reconciliation of GAAP to Non-GAAP Financial Measures

1st Quarter 2020 (Unaudited)



	Three Months Ended March 31,	
	2020	2019
Operating income:		
GAAP operating income	\$ 940,000	\$ (6,250,000)
Stock-based compensation charges (1)	(A) 1,991,000	1,229,000
Strategic consulting and litigation costs (2)	(B) 380,000	7,018,000
Intangible Amortization (3)	(C) 5,802,000	1,851,000
Corporate separation payment (4)	(D) -	1,028,000
Non-GAAP adjusted operating income	<u>\$ 9,113,000</u>	<u>\$ 4,876,000</u>
Adjusted Operating Margin	17.4%	16.6%
Net income:		
GAAP net (loss) income	\$ (853,000)	\$ (6,265,000)
Stock-based compensation charges (1)	(A) 1,991,000	1,229,000
Strategic consulting and litigation costs (2)	(B) 380,000	7,018,000
Intangible Amortization (3)	(C) 5,802,000	1,851,000
Corporate separation payment (4)	(D) -	1,028,000
Non-GAAP adjusted net income	<u>\$ 7,320,000</u>	<u>\$ 4,861,000</u>
Deferred tax (benefit) expense	(633,000)	(1,104,000)
Non-GAAP adjusted net income excluding deferred tax (benefit) expense	<u>\$ 6,687,000</u>	<u>\$ 3,757,000</u>
Deemed and accrued dividends on preferred stock	(2,229,000)	(2,433,000)
Adjusted Net income attributable to common stockholders	<u>\$ 4,458,000</u>	<u>\$ 1,324,000</u>
Diluted net income per common share:		
GAAP net income per share before deemed dividends	\$ (0.02)	\$ (0.12)
Adjustments per share	(A-D) \$ 0.16	\$ 0.21
Non-GAAP adjusted net income per share before deemed dividends	<u>\$ 0.14</u>	<u>\$ 0.09</u>
Deferred tax (benefit) expense impact to Non-GAAP adjusted net income before deemed d (E)	\$ (0.01)	\$ (0.02)
Non-GAAP adjusted net income before deemed dividends per share excluding deferred tax (benefit)	<u>\$ 0.12</u>	<u>\$ 0.07</u>
Deemed dividends per share impact to Non-GAAP adjusted net income	\$ (0.04)	\$ (0.04)
Adjusted Net income per share attributable to common stockholders	<u>\$ 0.08</u>	<u>\$ 0.03</u>
Shares used to compute Non-GAAP adjusted net income per share - diluted	<u>53,496,042</u>	<u>52,713,576</u>



Reconciliation of GAAP to Non-GAAP Financial Measures

1st Quarter 2020 (Unaudited)



Reconciliation of Net income to EBITDA and Adjusted EBITDA:

Net income
Income tax provision
Interest expense
Depreciation
Amortization
EBITDA

Adjustments:

Stock-based compensation charges (1)
Strategic consulting and litigation costs (2)
Corporate separation payment (4)

Adjusted EBITDA

Adjusted EBITDA margin

(1) Stock-based compensation charges are included as follows:

Cost of revenues
Research and development
Selling and marketing
General and administrative

(2) Strategic consulting, acquisition, integration and litigation costs are included as follows:

Cost of revenues
Research and development
Selling and marketing
General and administrative

(3) Intangible Amortization is included as follows:

Cost of revenues
Research and development
Selling and marketing

(4) Corporate separation payment is included as follows:

Cost of revenues
Research and development
Selling and marketing
General and administrative

(5) Net Income tax components:

Current tax (benefit)/expense
Deferred tax (benefit)/expense

	Three Months Ended	
	March 31,	
	2020	2019
(F)		
	\$ (853,000)	\$ (6,265,000)
	(870,000)	(1,148,000)
	2,648,000	1,255,000
	1,312,000	685,000
	<u>6,481,000</u>	<u>2,005,000</u>
	8,718,000	(3,468,000)
(A)	1,991,000	1,229,000
(B)	380,000	7,018,000
(D)	-	1,028,000
	<u>\$ 11,089,000</u>	<u>\$ 5,807,000</u>
	21.1%	19.8%
	\$ 172,000	\$ 104,000
	337,000	175,000
	544,000	432,000
	<u>938,000</u>	<u>518,000</u>
	\$ 1,991,000	\$ 1,229,000
	58,000	29,000
	106,000	171,000
	39,000	401,000
	<u>177,000</u>	<u>6,417,000</u>
	\$ 380,000	\$ 7,018,000
	2,607,000	634,000
	76,000	76,000
	<u>3,119,000</u>	<u>1,141,000</u>
	\$ 5,802,000	\$ 1,851,000
	-	49,000
	-	261,000
	-	478,000
	-	240,000
	<u>\$ -</u>	<u>\$ 1,028,000</u>
	(237,000)	(44,000)
	<u>(633,000)</u>	<u>(1,104,000)</u>
	\$ (870,000)	\$ (1,148,000)

Executive Management Team



David Wagner

President & Chief Executive Officer

- Appointed president and CEO in 2016
- Prior to Zix, held leadership roles at Entrust for 20 years, including most recently as president
- Held various finance and accounting positions at Nortel Networks and Raytheon Systems
- MBA and B.S. in Accounting from The Pennsylvania State University

Dave Rockvam

Chief Financial Officer

- Appointed CFO in 2016
- 20+ years of investor relations, finance and business unit general manager experience
- Held several senior leadership positions at Entrust and Nortel Networks
- MBA from The University of Texas at Dallas and an undergraduate degree from Texas Tech University