



Operator

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I would now like to hand the conference over to your speaker today, Kim Watkins, SVP, Investor Relations and Strategic Finance.



Kim Watkins SVP of Investor Relations and Strategic Finance, Zscaler

10s

Good afternoon, and thank you for joining us today. Welcome to Zscaler's fourth quarter fiscal 2026 earnings conference call. On the call with me today are Jay Chaudhry, Chairman and CEO, and Kevin Rubin, CFO. Please note that we posted our earnings release, shareholder letter, and a supplemental financial schedule to our investor relations website. Unless otherwise noted, all numbers we talk about today will be on an adjusted non-GAAP basis. You will find a reconciliation of GAAP to the non-GAAP financial measures in our earnings release.



Kim Watkins SVP of Investor Relations and Strategic Finance, Zscaler

43s

Before we get started, I'd like to remind you that today's discussion will contain forward-looking statements, including, but not limited to, the company's anticipated future revenue, annual recurring revenue, net new annual recurring revenue, operating margin, gross margin, operating profit, net other income, earnings per share, and free cash flow margin, our customer response to our products, our expectations regarding AI and its impact on our business and customers, and our market share and market opportunity, and our objectives and outlook. These statements and other comments are not guarantees of future performance, but rather are subject to risk and uncertainty, some of which are beyond our control. These forward-looking statements apply as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call.



Kim Watkins SVP of Investor Relations and Strategic Finance, Zscaler

1m 39s

For a more complete discussion of the risks and uncertainties, please see our filings with the SEC, as well as in today's earnings release. I also want to inform you that we'll be attending the following conferences this quarter: Citi 2026 Global TMT Conference on September 9th, Goldman Sachs Communacopia + Technology Conference on September 9th, Wolfe Research TMT Conference 2026 on September 9th, and JP Morgan 2026 Software Forum on October 1st. With that, I'll turn the call over to Jay.



Jay Chaudhry Chairman and CEO, Zscaler

2m 15s

Thank you, Kim. Good afternoon, everyone. We delivered a strong finish to the fiscal year with 25% ARR growth and a non-GAAP operating margin of 24%. We are seeing significant positive trends in net new ARR, with growth excluding Red Canary accelerating to 17% in Q4. These results reflect increasing market adoption of our Zero Trust platform. AI is quickly becoming the largest tailwind we've ever seen, driving demand for our Zero Trust Everywhere data security and Security for AI solutions. Our customers are relying on us to both combat the threats created by agentic AI and safely deploy AI agents and models at scale. Since our last earnings call, new AI models have become more powerful, more autonomous, and more dangerous from a cybersecurity perspective.



Jay Chaudhry Chairman and CEO, Zscaler

3m 17s

The ability of these new frontier AI and open weight models to uncover previously unknown vulnerabilities at a rapid pace has become even more apparent. Organizations simply do not have enough time or resources to fix the unprecedented number of software vulnerabilities that

are being discovered. The time between vulnerabilities being discovered and exploited is also shrinking. You cannot win a patching race against AI. This is leaving organizations exposed and likely leads to more breaches. Over the past few months, our team has conducted hundreds of frontier AI risk assessments for global enterprises to help them assess their cyber resilience posture to minimize potential breaches. The takeaways have been incredibly revealing. Over 90% of organizations had AI applications, models, and other servers exposed to the internet, and more than one-third had known exploitable vulnerabilities.



Jay Chaudhry Chairman and CEO, Zscaler

4m 29s

At the same time, the threat landscape has been compounded by the ability of new AI models to power ungoverned autonomous agents. We are now seeing the impact of fully autonomous AI attacks. There have already been multiple high-profile incidents from three leading frontier model companies where agents went rogue and took unauthorized actions. This includes the recent Hugging Face incident, where a swarm of agents went to extreme lengths to break out of a sandbox training environment, get onto the corporate network, and move laterally to conduct a sophisticated attack. This is driving urgency at the highest levels, and Zscaler is uniquely equipped to meet the moment. CEOs and boards are looking to us as their trusted partner to address three essential business challenges. First, how do we secure our environment when we can't patch security vulnerabilities fast enough?



Jay Chaudhry Chairman and CEO, Zscaler

5m 35s

Our Zero Trust Exchange makes applications, AI models, and data invisible. An attacker, human or agent, cannot breach what it cannot reach. Second, how do we minimize the impact of a potential breach? Our Zero Trust Exchange connects users, workloads, branches, and agents directly to the applications they need without placing them on the network. This eliminates lateral threat movement, containing the impact of a breach. Third, how do we take advantage of all the benefits of AI without introducing significant new risks? Zscaler has a full portfolio of data security and Security for AI solutions that prevents data exfiltration, provides guardrails to prevent abuse or misuse of AI applications, and enables secure agentic communication. Because of these advantages, customers trust us to secure their business-critical environments. We are also differentiated by our scale, operating the world's largest distributed inline security cloud, processing more than 750 billion transactions per day.



Jay Chaudhry Chairman and CEO, Zscaler

6m 56s

This scale provides unmatched high-fidelity telemetry that continuously improves our AI-powered security capabilities. In the AI era, Zero Trust is now an imperative, and we are not alone in this belief. Anthropic published a white paper in late May encouraging adoption of a Zero Trust architecture for AI agents, emphasizing the importance of treating every agent like an untrusted entity and making sure it only has access to authorized data and applications. This is why customers are expanding their investments with us to secure their agentic infrastructure and why we are confident our platform is uniquely equipped to address the risks companies face in this new world. In addition to protecting companies from the threats created by agentic AI, we are also enabling organizations to safely deploy AI agents and models.



Jay Chaudhry Chairman and CEO, Zscaler

8m 4s

Our AI solutions are key to providing enterprise visibility, governing what data and applications agents can access, and what actions they are permitted to perform. We are often asked why our solutions are needed alongside identity for AI security. While identity solutions answer who is requesting access, our in-line exchange determines what that user or agent should be allowed to do and enforces that policy in real time. Put simply, identity is only the starting point for securing AI. Greater visibility and control is needed for organizations to trust agents accessing sensitive

data, interacting with applications, and taking action on behalf of users. Earlier this year, we introduced the industry's most comprehensive Security for AI solution designed for exactly that reason. We are seeing strong, proactive inbound interest from both new and existing customers, and we are seeing no budget constraints.



Jay Chaudhry Chairman and CEO, Zscaler

9m 18s

Security for AI bookings increased more than 50% sequentially in Q4 on top of a strong Q3. Our Security for AI solution provides new logo opportunities by offering organizations an integrated way to secure AI use at scale. At our Zenith Live conference in June, we unveiled the latest additions to our Security for AI lineup, including our Zero Trust Exchange for Agents and Endpoint AI Security, both of which we expect to scale in the second half of fiscal 2027. Both products are in early access, and we are seeing tremendous interest from customers. These new solutions will provide organizations the ability to enforce AI policy, both at our exchange and the endpoint, enabling policy enforcement at the optimal location. We continue to innovate in this area at a rapid pace. Next week, we are announcing the next major innovation on our platform with our new Agentic SecOps solution.



Jay Chaudhry Chairman and CEO, Zscaler

10m 33s

Just as AI is increasing the threat surface, it is also stressing the human-driven traditional SOC approach where remediation can take days or weeks. In contrast, our AI-first approach brings together our proprietary telemetry and Red Canary's decades plus of experience in managed detection and response, or MDR. Our Agentic SecOps solution enables security teams to prioritize real threats and leverage specialized AI agents to detect, investigate, and respond to threats at machine speed. We are driving closed-loop remediation in real time by integrating our Agentic SecOps with our Zero Trust Exchange, enabling customers to move with speed as the time between detection and exploitation has decreased from months to minutes. We will be launching our new Agentic SecOps solution with a webcast on September 9th, which will be streamed on our website. Our approach for securing users and non-users and ensuring safe adoption of AI is resonating.



Jay Chaudhry Chairman and CEO, Zscaler

11m 51s

This is increasingly evident in my conversations with customers and partners and is illustrated with a few customer examples. First, we had a notable seven-figure upsell Z-Flex win with a Fortune 500 transportation customer who deployed our Security for AI portfolio to secure their full AI life cycle. Our Security for AI solution provides an integrated approach to secure AI use at scale. This includes discovery and management of all AI assets, including shadow AI and enforcement of safe access to approved apps. It also includes real-time prompt and response inspection to stop data leaks and threats like prompt injections and continuous red teaming assessments. This customer selected our Security for AI solution over two major platform competitors, and with this win, the customer's ARR grew to nearly \$10 million.



Jay Chaudhry Chairman and CEO, Zscaler

12m 57s

In another seven-figure Z-Flex upsell, a Fortune 500 semiconductor manufacturer expanded its adoption of the Zscaler platform to secure a company-wide rollout of Cloud Cowork. After assessing several vendors, this client determined Zscaler's Security for AI was the only solution capable of securing the customer's AI adoption, including its endpoints, secure agent-to-agent communication, and model usage in private and public environments. This is a great example of how our customers are expanding the use of Zero Trust Exchange to safely deploy AI agents and models as well as combat the threats created by agentic AI. While we are in the early innings of Security for AI, these deals give us tremendous confidence in our ability to expand this offering

significantly over time. Next, our leadership in data security is a powerful tailwind for our Security for AI business.



Jay Chaudhry Chairman and CEO, Zscaler

14m 7s

As enterprises embrace gen AI and agentic AI, they're confronting a new wave of data exfiltration risks, including data abuse and over-privileged access to data. Our inline architecture, coupled with our endpoint DLP and now Endpoint AI Security, enhances our ability to enforce data loss prevention in the cloud as well as on the endpoint. Securing data and AI go hand-in-hand, as evidenced by the fact that 70% of our Security for AI deals this quarter included our data security solution. In Q4, we also closed a seven-figure Z-Flex upsell win with a large global asset management firm. The customer selected Zscaler's Data Security Posture Management solution over a privately held DSPM vendor. This customer chose Zscaler to address gaps related to sensitive data discovery across its multi-cloud environment and data governance.



Jay Chaudhry Chairman and CEO, Zscaler

15m 14s

With this upsell, the annual spend of this customer increased by nearly 40%, reaching an ARR of \$5 million plus. We are also seeing continued traction across our Zero Trust SASE solutions, including customers expanding their Zero Trust SASE deployments. For example, this quarter, we signed a seven-figure Z-Flex upsell with a Global 2000 financial services customer who upgraded to Zscaler Private Access with AI-powered app segmentation for 120,000 users, increasing their ARR by nearly 50%. We are also driving new logos. We closed a seven-figure new logo Z-Flex win with a Fortune 500 life sciences company that is deploying our Zero Trust SASE and Security for AI platform across 75,000 users and displacing a legacy firewall-based SASE platform.



Jay Chaudhry Chairman and CEO, Zscaler

16m 17s

This customer, led by a newly appointed CISO, who is a three-time repeat Zscaler customer, chose us for our ability to deliver unified visibility and control across both enterprise security and gen AI. This is a great example of a new logo purchasing the entire Zscaler platform. Customers are also increasingly starting their Zero Trust journey by securing non-user environments. For example, we closed a seven-figure new logo win with a Global 2000 healthcare equipment manufacturer to deploy our Zero Trust Branch solution across the critical production sites to secure its OT environment, displacing an existing long-time legacy vendor. This is an example of a sizable opportunity Zscaler has within factories and warehouses to secure IoT/OT and provide Zero Trust device segmentation. Zero Trust Branch simplifies customers' branch deployments by eliminating traditional branch firewalls, SD-WAN, and MPLS networks, reducing operational complexity.



Jay Chaudhry Chairman and CEO, Zscaler

17m 35s

It also minimizes the impact from an infected machine in a branch or a manufacturing plant by limiting lateral movement across the environment and therefore containing the breach. In another known user deal win, we closed a seven-figure upsell with a Fortune 500 aerospace customer. This customer was going through a divestiture and expanded its Zero Trust Cloud deployment between its on-prem and public cloud environments to securely migrate workloads. With this deal, the ARR of this customer grew by more than 30% to over \$5 million. We're seeing tremendous momentum with Zero Trust Cloud. This quarter, we extended the solution by offering a managed service through Google Cloud, which can be configured in under 10 minutes, reducing the deployment time and operational costs significantly. This expands on our existing offering for AWS and enables multi-cloud flexibility.



Jay Chaudhry Chairman and CEO, Zscaler

18m 45s

The strength we're seeing in Zero Trust Branch and in Zero Trust Cloud is translating to meaningful momentum with Zero Trust Everywhere enterprises, those that have purchased Zero Trust users, Zero Trust Branch, and Zero Trust Cloud. We exited Q4 with more than 950 Zero Trust Everywhere enterprises versus over 700 in Q3 and over 350 at the end of fiscal 2025. To summarize, AI represents one of the most significant opportunities in Zscaler's history. Our platform was built for this moment. Zscaler has always secured interactions between every user and applications, and now Zscaler secures interaction between every user, every agent, and every AI model. We have a large and growing market. Adoption of our platform is expanding, and we are continuing to innovate across Zero Trust SASE, Agentic SecOps, data security, and Security for AI.



Jay Chaudhry Chairman and CEO, Zscaler

19m 55s

We are well-positioned to extend our leadership as the cybersecurity platform for the AI era, drive durable growth, and create long-term shareholder value. Now, I will hand it over to Kevin to walk through the financials.



Kevin Rubin CFO, Zscaler

20m 12s

Thanks, Jay. We delivered strong Q4 results with revenue and ARR both growing 25% year over year, net new ARR growing 24%, and non-GAAP operating margin reaching a record 24.3%. For full year fiscal 2026, revenue also grew 25%, and when combined with 23% free cash flow margin, our performance exceeded the Rule of 40, landing at approximately 49%. Our growth engine continues to broaden beyond users with increasing contribution from non-seat-based solutions, continued Z-Flex momentum, record large deal activity, and improved sales productivity. ARR momentum remained strong in Q4. Excluding the contribution from our acquisition of Red Canary, net new ARR was \$232 million, up 17% year over year, and total ARR was up 20%. Importantly, this marks a continued acceleration in net new ARR growth from 7% in fiscal 2025 to 10% in the first half of fiscal 2026 and to 17% in Q4.



Kevin Rubin CFO, Zscaler

21m 27s

Red Canary exited Q4 with \$141 million of ARR. Total net new ARR was \$246 million, up 24%, bringing total ARR to \$3.8 billion, up 25% year over year. Performance was broad-based with strength across Americas, EMEA, and APJ. We also continued to deepen enterprise adoption. In Q4, we closed with a record number of \$1 million-plus new ACV deals, and the number of \$10 million+ ARR customers nearly doubled year over year. We ended the quarter with 785 customers generating over \$1 million in ARR and 4,182 customers generating more than \$100,000 in ARR, growing 18% and 20% year over year respectively. As our platform expands beyond users to protect branches, workloads, AI applications, and AI agents, our monetization model is also expanding. In Q4 and for the full year, our non-seat-based metered usage solutions delivered approximately 30% of new and upsell ACV.



Kevin Rubin CFO, Zscaler

22m 40s

ARR tied to these offerings grew more than 100% year over year. Turning to revenue, Q4 revenue was \$898 million, up 25% year over year and 6% sequentially, exceeding the high end of our guidance. Growth was broad-based across the geographies. The Americas accounted for 57% of revenue and grew approximately 30% year over year. EMEA accounted for 27% of revenue and grew approximately 17%, and APJ accounted for 16% of revenue and grew 23%. For full fiscal 2026, revenue of \$3.4 billion grew 25% year over year. Excluding Red Canary, revenue of \$3.2 billion grew 20% year over year. Red Canary contributed \$144 million of revenue in fiscal 2026. The Americas accounted for 57% of revenue and grew approximately 31%. EMEA accounted for 28% of revenue and grew approximately 16%, and APJ accounted for 15% of revenue and grew approximately 23%.



Kevin Rubin CFO, Zscaler

23m 55s

Remaining performance obligation, or RPO, of approximately \$7.4 billion grew approximately 27%, with approximately 45% classified as current RPO. Turning to go-to-market, we are pleased with the continued strong sales execution. In Q4, we delivered double-digit sales productivity growth and achieved our highest quarterly productivity ever and the highest annual productivity since 2022. This reflects continued improvement in our account-centric sales motion and our ability to drive broader platform adoption with customers. Entering fiscal 2027, our priorities are focused on deepening relationships with existing customers, accelerating platform adoption, improving new logo execution, expanding coverage in key segments, and increasing partner-led contribution. These priorities are especially important as the rapid proliferation of frontier AI models increases customer engagement at senior levels of the organization, as Jay discussed earlier. To support new logo growth, we are expanding coverage through both direct and partner-led motions.



Kevin Rubin CFO, Zscaler

25m 8s

For example, we recently expanded our partnership with Carahsoft to further penetrate the commercial and SMB segments in the U.S. through 100% channel-led motion. We are also adding dedicated new logo sales executives focused specifically on pursuing new enterprise customer opportunities. Z-Flex remains an important part of our go-to-market strategy. It provides customers with multi-year commitments the flexibility to activate or swap modules without starting a new procurement cycle, while also providing premium deployment assistance and support. We saw strong momentum again this quarter with Z-Flex, driving meaningful upsell, shorter sales cycles, and greater forward visibility. In Q4, Z-Flex generated over \$770 million in TCV, up more than 60% quarter-over-quarter. For fiscal 2026, Z-Flex customers saw an ARR uplift averaging nearly 30%. For fiscal 2026, Z-Flex generated more than \$1.7 billion in TCV, underscoring customers' long-term commitment to Zscaler. Two recent examples illustrate the value of this model.



Kevin Rubin CFO, Zscaler

26m 21s

In a five-year, eight-figure Z-Flex deal, a Global 2000 services customer increased its ARR by nearly 90%, crossing \$5 million this quarter and driven by expansion with existing products and adoption of new products, including our Security for AI and Zero Trust Cloud solutions. In another example, an existing seven-figure ARR Global 2000 retail and wholesale customer increased its annual spend with us by 140% in a three-year, eight-figure Z-Flex deal. This customer expanded adoption across nine existing modules and adopted six new modules, including our Security for AI solution. Turning to operating performance, we delivered strong profitability while continuing to invest in the business. Non-GAAP gross margin was 80.2%, compared to 79.3% a year ago. The year-ago period included a one-time deployment of a large private cloud in a government

customer's data center, which included a hardware component that carried a lower gross margin profile.



Kevin Rubin CFO, Zscaler

27m 32s

We also delivered significant operating leverage in the quarter. Non-GAAP operating income was \$218 million, up \$60 million or 37% compared to \$159 million last year. Non-GAAP operating margin was 24.3%, up 220 basis points year-over-year. For the full year, non-GAAP gross margin was 80.3%, up 20 basis points year-over-year. Non-GAAP operating margin was 22.9%, up 120 basis points year-over-year. This performance reflects the strength of our business model, disciplined execution, and our ability to deliver durable growth with expanding profitability while continuing to invest in the significant market opportunity ahead. Turning to the balance sheet, we ended the quarter with approximately \$3.5 billion in cash equivalents, and short-term investments, and \$1.7 billion of debt. In Q4, we generated \$279 million in operating cash flow, and CapEx was \$200 million, or 22% of revenue.



Kevin Rubin CFO, Zscaler

28m 44s

This brought our full-year CapEx to \$277 million, or 8% of revenue, and coupled with capitalized internal use software of \$73 million, resulted in free cash flow of \$779 million for the full fiscal 2026, or a free cash flow margin of 23%, down from 27% last year. The year-over-year declines reflect the timing of cash collections and CapEx expenditures. Looking ahead, I want to provide an update on our expectations for capital expenditures to support our growth. As I shared last quarter, we are seeing higher prices and tighter availability for memory, storage, and processors. These components support our data center infrastructure and our Zero Trust Branch appliances. In Q4, we opportunistically accelerated certain purchases where data center equipment was available.



Kevin Rubin CFO, Zscaler

29m 39s

As a result, fiscal 2026 CapEx was 8% of revenue, consistent with the expectations we provided last quarter for CapEx of high single digits as a percentage of revenue. We expect CapEx to remain elevated during fiscal 2027 due to higher component pricing, especially memory. We will continue to monitor our costs and share regular updates about the impact. To provide additional capacity to support our AI and growth initiatives, we are strategically reallocating resources through a workforce restructuring. This action is expected to affect approximately 3% of employees and result in restructuring charges of approximately \$30 million- \$33 million. Turning to guidance. Let me provide our outlook for Q1 and full year fiscal 2027. As a reminder, these numbers are all on a non-GAAP basis. For the first quarter, we expect revenue of \$935 million- \$939 million, approximately 19% year-over-year growth. Gross margin of approximately 80%.



Kevin Rubin CFO, Zscaler

30m 46s

Operating profit of \$215 million- \$217 million, up approximately 25%-26% year-over-year, representing a 23% operating margin. Net other income of approximately \$33 million. Earnings per share of approximately \$1.15- \$1.16 per share, assuming a 21% tax rate and 170 million fully diluted shares. For the full year fiscal 2027, we expect ARR of \$4.396 billion- \$4.426 billion, or year-over-year growth of approximately 16.6%-17.4%. For net new ARR seasonality, we expect approximately 37% of net new ARR in the first half of fiscal 2027, with 15% in Q1 fiscal 2027. Revenue of \$3.908 billion- \$3.938 billion, reflecting year-over-year growth of 16.6%-17.5%. Gross margin of approximately 80%. Operating profit of \$924 million- \$932 million, up approximately 21% year-over-year, and equating to an operating margin of approximately 23.7%. Net other income approximately \$140 million- \$142 million.



Kevin Rubin CFO, Zscaler

32m 18s

Earnings per share of \$4.86- \$4.90, assuming a 21% tax rate and approximately 173 million fully diluted shares. Free cash flow margin of approximately 23%-23.5%, reflecting CapEx not including internal use software in the low teens as a percentage of revenue. We expect free cash flow margin to be seasonally stronger in Q1 and Q4, reflecting timing of CapEx and cash collections. Looking ahead, we are excited by the opportunities we see to continue scaling our rapidly expanding AI security portfolio, accelerating Zero Trust Everywhere adoption, and growing our data security revenue. In summary, we are pleased with the results we delivered in fiscal 2026. We achieved 25% year-over-year ARR growth, record operating income, and operating margin. We also saw continued momentum with Z-Flex and closed an all-time record number of \$1 million+ ARR deals.



Kevin Rubin CFO, Zscaler

33m 24s

I am excited about the substantial opportunity ahead in fiscal 2027. We are confident in our ability to continue to drive profitable growth across multiple vectors, including product innovation, go-to-market, and customer expansion, and creating value for our shareholders. To learn more about our strategy and plans for the future, please join us at our upcoming Investor Day on October 6th in New York City. I want to thank our employees, customers, and partners for their continued support. With that, operator, you may now open the call for questions. Thank you.

Operator

34m 0s

Thank you. As a reminder, to ask a question, please press star one one on your telephone and wait for your name to be announced. To withdraw your question, please press star one one again. Please limit yourself to one question. Our first question comes from Saket Kalia with Barclays. You may proceed.



Saket Kalia Analyst, Barclays

34m 22s

Okay, great. Hey, guys. Thanks for taking my question here, and nice close to the year. I will keep it to one, but maybe address it to both you, Jay and Kevin. It is great to see the higher growth rate for next year in ARR. Maybe the question is, how are we thinking about the impact of some of the sales churn here that we talked about last quarter in terms of productivity, and do we feel like the sales churn here is stabilized as we go into 2027?



Jay Chaudhry Chairman and CEO, Zscaler

34m 53s

Let me start. Over the past few quarters, we have gone through transformation of our sales organization, where we expanded from opportunity-led sales to account-focused sales. The strong results of Q4 show that the transformation, the changes we have driven are working well. If you look at the sales productivity, actually, the sales productivity in Q4 was the highest. I think we are very well-positioned with a strong sales team, with good channel partnership, and a very strong product portfolio as we enter fiscal 2027. Kevin?



Kevin Rubin CFO, Zscaler

35m 35s

Yeah. Thanks, Jay and Saket. Maybe just to reemphasize the point. So Q4 marked the highest productivity quarter that we have ever seen, and fiscal 2026 was the highest annual sales productivity in four years. So I think we are really positioned and set up well going into fiscal 2027. Just as a reminder, we did have two sales leaders depart last quarter. One was a geo leader and the other was a vertical leader. We backfilled and internally promoted the vertical leader. Since then, a new leader has accepted the offer for the geo position. Just keep in mind that certain geos may take longer to onboard than others. Finally, as we think about the shape of the transition, we

expect that the leadership transition will play out in the first half of this fiscal, and that is reflected in our guidance.



Kevin Rubin CFO, Zscaler

36m 30s

I am excited about how this leadership team is coming together as we think about augmenting our existing team into this year.



Saket Kalia Analyst, Barclays

36m 39s

Very helpful. Thanks, guys.



Kevin Rubin CFO, Zscaler

36m 41s

Thanks, Saket.

Operator

36m 44s

Thank you. Our next question comes from Fatima Boolani with Citi. You may proceed.



Fatima Boolani Analyst, Citi

36m 51s

Good afternoon. Thank you for taking my question. I was hoping to have you unpack some of the discrete drivers of that organic net new acceleration in the quarter. Provided that this is your fourth fiscal quarter, it is an abundant period of renewals and expansionary behavior from customers. So I would love to have you stack rank between some of those inputs. How did you feel and think about your new logo activity in the quarter? Just wanted to get a sense of the most sensitive drivers of upside and strength there relative to what we were looking for. Thank you.



Jay Chaudhry Chairman and CEO, Zscaler

37m 31s

I will start. I am Jay Chaudhry. Q4 was a very strong quarter from almost all measurements. You saw all the metrics. We did very well. Our product portfolio has become pretty broad. Zero Trust Everywhere has been driving a lot of our sales. AI security fears are growing out there, and one of the things AI security needs is zero trust architecture and zero trust solutions. Our solution, like Zscaler Zero Trust Branch, did extremely well. Data security drove a big part of business, and even the young offerings of Security for AI has grown very nicely. So all the products actually did very well. Kevin?



Kevin Rubin CFO, Zscaler

38m 21s

Yeah, thanks. So maybe just a couple other points to emphasize. We did have broad-based strength in the quarter, so I think that is number one to reflect. NRR, although it is not a metric that we provide each and every quarter, it was consistent each quarter this year at 115%. So we have seen very consistent performance in terms of our upsell motion that I think is important to appreciate. Maybe one other comment I will make is, as Jay mentioned, the early success with our Securing AI. Obviously, it had a strong performance in the quarter, but another optimistic point of view is that we also saw a 75% increase in pipeline in Security for AI as we think about what that sets up for 2027.



Jay Chaudhry Chairman and CEO, Zscaler

39m 17s

If I may add two more points. From new logo point of view, our Fortune 500 penetration moved up from 45%- 50%. That is pretty remarkable. Also worth noting is the million-dollar-plus deals with a record quarter for new million ACV deals.



Kevin Rubin CFO, Zscaler

39m 37s

Fatima, my reference to the increase in the pipeline relative to AI was quarter-over-quarter sequential, not year-over-year.



Fatima Boolani Analyst, Citi

39m 46s

I appreciate it. Thank you very much.



Jay Chaudhry Chairman and CEO, Zscaler

39m 51s

Thank you.

Operator

39m 53s

Thank you. Our next question comes from Roger Boyd with UBS. You may proceed.



Roger Boyd Analyst, UBS

39m 57s

Awesome. Thanks for taking the questions. Jay, I wanted to touch on the competitive environment you are seeing with some of these AI security wins. I want to maybe pick on the seven-figure upsell you called out with an airline company where you won over two other platform competitors. Can you just talk about what you are seeing in these bake-offs? Presumably, companies are taking these decisions pretty seriously and trying to make strategic bets on which layer of security they see as best positioned to secure AI. I would be curious to see what you are seeing and what is causing you to win these large deals. Thanks.



Jay Chaudhry Chairman and CEO, Zscaler

40m 28s

Yeah. AI security is in demand, and there are probably lots and lots of AI security companies, probably tons of startups as well. One of the things we see out there is our customers tell us that they do not want one more or three more AI security products. They are looking for an integrated solution, not only for AI security, but also that works with the rest of security as well. This transformation customers that we highlighted, they are a Zscaler customer for Zero Trust Everywhere. It is natural for them to say, "If I need to expand into AI security, and tomorrow I need to be ready for my agent communication, where Zero Trust Exchange should be able to ensure policy for agents," we were the natural choice for that to happen.



Jay Chaudhry Chairman and CEO, Zscaler

41m 25s

Every company is offering AI security, but they all come from different sides of it. Our differentiation is we have an integrated solution for asset management to communication to us actually relationship, figuring out the access graph, as well as agentic communication. That is really what is setting us apart.



Roger Boyd Analyst, UBS

41m 47s

Thanks for taking the question.

Operator

41m 50s

Thank you. Our next question comes from Richard Poland with Wells Fargo. You may proceed.



Richard Poland Analyst, Wells Fargo

41m 58s

Thanks for taking my question. I just wanted to get a sense for unpacking some of the verticals in the quarter. I guess when we think about federal, I know last year federal was a little bit softer than we would have hoped for. But just as we think about this quarter and heading into fiscal year-end for federal, anything to keep in mind there? Thanks.



Kevin Rubin CFO, Zscaler

42m 23s

Yeah, I'll take that quickly. Look, the federal business contributed high single digits to new ACV in 2026. That was very similar to 2025. Expectations for fiscal 2027 are similar. There's nothing in particular that I would point out. Obviously, earlier in the year with Dodge, it was a difficult environment, but we've seen it perform fairly consistently with the last several years.



Richard Poland Analyst, Wells Fargo

42m 55s

Thank you.

Operator

42m 59s

Thank you. Our next question comes from Joseph Gallo with Jefferies. You may proceed.



Joseph Gallo Analyst, Jefferies

43m 6s

Hey, guys. Thanks for the question and nice job on the quarter. I was just hoping if you could break out the Symmetry contribution to net new ARR in F4Q. As a part of that really strong strength in non-seats in fiscal 2026, what are the expectations as we go into fiscal 2027? Because you are obviously offering more and more there. Does Zscaler expect larger mix of the new business coming from that non-seat? Thank you.



Jay Chaudhry Chairman and CEO, Zscaler

43m 33s

Symmetry is a very innovative technology that essentially connects the dot between different entities accessing different data sources. As we have seen proliferation of AI agents, this innovative technology becomes extremely important. This was essentially acquired as a technology company with very little revenue for it, but it is becoming an important part of Zero Trust Exchange, not only for agents, but zero trust cloud workloads and zero trust devices, because understanding relationships of entities to what they access is foundational piece. That is where it is fitting in. Regarding non-seat, at a broader level, the comment I will make is, while early on our products like ZIA for users, ZPA for users, were largely user-centric, a lot of our offerings subsequently have not been user-centric. For example, Zero Trust for cloud workloads, it is all about workloads. It is essentially consumption-based.



Jay Chaudhry Chairman and CEO, Zscaler

44m 39s

Zero Trust Branch, which is largely about branch devices, IoT/OT devices communicating, is all about non-seats. Data security. Some of the modules are seat-based, others are data volume based. Almost all of our AI security products or Security for AI products are essentially consumption based, linked to queries. Essentially, it translates to token consumption, fundamentally. Kevin?



Kevin Rubin CFO, Zscaler

45m 8s

Yeah. With respect to Symmetry, again, to Jay's point, it really was a technology and talent acquisition, and provided the access graph technology for us. The results are immaterial to our results and nothing else to call out there.



Joseph Gallo Analyst, Jefferies

45m 26s

Thank you.

Operator

45m 30s

Thank you. Our next question comes from John DiFucci with Guggenheim Securities. You may proceed.



John DiFucci Analyst, Guggenheim Securities

45m 39s

Thank you. I apologize. I have a three-part question, but I promise it's all related. You said you're adding new enterprise reps to go after enterprise accounts while also restructuring, and that's going to affect 3% of your employees. Can you give more color around this? One, what kind of employees will be affected, and what will be the net employee count effect? Also, where are these new reps needed? Is it specialized sales, or will it be broadly across your geos and product? Finally, what's driving this? Is it an inflection point in demand that Jay talks about AI? Or is it just as you also said here, you're seeing very good sales productivity, so now is just the time to be hiring more to keep on growing. Thanks.



Jay Chaudhry Chairman and CEO, Zscaler

46m 25s

Yeah. Let me start. First of all, the reduction you pointed out, it's essentially rebalancing, reallocation of some of our resources with better leverage and also better investments in the AI area we are looking at. That's fairly straightforward. If you look at adding our sales resources, when a company is growing at a pretty good pace, it's natural to add resources. We have essentially almost always done it. Now the question is: where do we add the most resources? We do have specialty teams and we have account execs. Our specialty teams have been making a pretty meaningful contribution. I'm extremely proud of it. Our CRO, Mike Rich, and his team evolved the idea of takeoff teams that we had started about three years ago. It has become a very good specialty team, and we are adding resources to specialty teams.



Jay Chaudhry Chairman and CEO, Zscaler

47m 25s

But also in geos too, a number of account execs are being added. One of the areas for addition of account execs is probably the enterprise. If you look at the top end of the enterprise, we're pretty well covered. As you come down in the enterprise market, our coverage has been thinner. We are making that coverage. We are also investing on some of the channel resources because channel is helping us expand in the mid-market and wide. Kevin?



Kevin Rubin CFO, Zscaler

47m 54s

Yeah, John, the only thing I would add is the restructuring is about 3%, so it's modest, about \$30 million-\$33 million in restructuring charges. Maybe just to also double down on what Jay mentioned. Mike is adding people to the organization, both to address opportunities we have with new logos as well as upsell. We have about 4,600 of 20,000 targeted companies, so there's a big opportunity just with new logos alone. Mike does see an opportunity to do that through dedicated new logo hunters, along with reps that hold both existing customers and prospecting territories. So there's opportunity for us to continue to expand across both of those dimensions.



John DiFucci Analyst, Guggenheim Securities

48m 51s

So just to be clear, guys, and thank you for that detail, it's more about, hey, listen, our sales force is getting really good and productivity's gone up. So in order to continue to grow, and you're bigger too, the law of large numbers, you just need to hire more salespeople. But it's more that than it is when Jay talked about AI changing demand for security out there. Am I reading you right?



Kevin Rubin CFO, Zscaler

49m 20s

I don't think it's either/or, to be honest. We certainly are seeing strong tailwinds with respect to AI broadly, whether it's specific to Security for AI or just broad-based interest in zero trust and our existing core Zero Trust Exchange. I wouldn't limit the discussion to simply just generally continuing to hire, to grow. I think there is a unique momentum at the moment with respect to this AI tailwind.



John DiFucci Analyst, Guggenheim Securities

49m 55s

Perfect. Thank you, Kevin. Thank you, Jay.



Jay Chaudhry Chairman and CEO, Zscaler

49m 58s

Thank you.

Operator

50m 1s

Thank you. Our next question comes from Brian Essex with JP Morgan. You may proceed.



Brian Essex Analyst, JPMorgan

50m 7s

Great. Good afternoon. Thanks for taking the question. I guess I want to take the other side of the coin, relative to what Fatima asked, and I want to ask about the health of the Red Canary business. I know when you entered the year, there was some question of what the renewal experience would be on that platform, and you've now had a year worth of renewal experience. I think it's performed relatively well. But you also commented, I think at the beginning of the year, that some of those customers aren't your typical Zscaler customers. So now that you've had a year of experience, what is your expectation for the growth of that business? I totally understand the rationale behind the IP acquisition and the value that's going to provide to the products being released very shortly.



Brian Essex Analyst, JPMorgan

50m 53s

I just want to get a baseline of what is your view of the health of that customer base, the renewals and growth of that base business going forward, so we can gauge how to interpret the outlook for fiscal 2027. Thank you.



Jay Chaudhry Chairman and CEO, Zscaler

51m 10s

I will start with a broader comment. Acquisition of Red Canary was number one, to make sure we have agentic technology that could become part of our SecOps platform. Number two, we don't have any SecOps expertise. Red Canary had 10 years experience about understanding how a SecOps runs, and that was important for us. In that area, we've done a pretty good job integrating their technology with our technology, and that's becoming an important part of our SecOps solution. Regarding financials, Kevin?



Kevin Rubin CFO, Zscaler

51m 45s

Look, fiscal 2026 was really focused on integrating the Red Canary technology into our Agentic SecOps solution that is launching next week. When we closed the acquisition a year ago, we did not know what portion of their business was going to be durable. We took a conservative approach in how we picked up ARR. Quite frankly, we are pleased with the ability to maintain the book of business while going through the integration. As I mentioned last quarter, as we think about fiscal 2027, we are integrating their technology. It is a combined integrated offering that launches next week. As it relates to Red Canary, we are not expecting any net new ARR contribution. All of that will show up in the integrated solution going forward.



Brian Essex Analyst, JPMorgan

52m 37s

Very helpful. Do you think the churn is pretty much in the rearview mirror at this point, in terms of any churn on that platform that may happen?



Kevin Rubin CFO, Zscaler

52m 46s

We have talked, I think, ad nauseam about the different churn rates that MDR businesses experience, discretely different from ours. That played out that way. We did see elevated churn in Red Canary's business in 2026. Despite that, we were able to continue to maintain its book of business, as I mentioned. I would expect that as it relates to accounts that are up for renewal, that we will continue to see the higher, more traditional churn rates of an MDR business. Not our rates, but that has all been contemplated in the guide.



Brian Essex Analyst, JPMorgan

53m 23s

Very helpful. Thank you very much.



Jay Chaudhry Chairman and CEO, Zscaler

53m 26s

Thank you.

Operator

53m 28s

Thank you. Our next question comes from Meta Marshall with Morgan Stanley. You may proceed.



Meta Marshall Analyst, Morgan Stanley

53m 35s

Great, thanks. I wanted to ask a question about the Z-Flex traction that you're seeing. As you continue to expand the platform with AI security and Agentic SecOps, do you envision mandating flex plans more with some of these new products? How is it impacting sales cycles relative to the traditional sales approach? Thanks.



Jay Chaudhry Chairman and CEO, Zscaler

54m 0s

I'll start. Z-Flex is not about mandating. Z-Flex is about providing flexibility. As our platform is getting bigger, many times our customers will look at evaluating product A or B or C or D, and they're not sure which one do they want, and this will take longer time. By giving them the flexibility that you can start with certain number of products, you can swap other products without going through, again, typical procurement level. This was one of the biggest thing they needed. Sometimes they wanted the ability to ramp, because if they bought six products rather than three of them, they want some ability to ramp. That became part of the Z-Flex deal. They also wanted longer duration. The customer engagement with us are not transactional. They're generally long-term. Once they deploy us, they invest.



Jay Chaudhry Chairman and CEO, Zscaler

54m 52s

They want to stay with us for the longer time. They also want the ability to buy additional product from us to base card. All those things are very good for business, for customers, good for us as well. It's true, as our platform becomes bigger, all the products will be available as a part of our Z-Flex offering.



Kevin Rubin CFO, Zscaler

55m 12s

Yeah. One of the other advantages, it was in my prepared remarks, is it eliminates the need to go through new procurement cycles every time a customer wants to adopt and implement new modules or features on the platform. You go through that discussion once. They have the complete flexibility to choose what's appropriate for them to use with their business at different points in time. These are longer term commitments, so we can offer that level of flexibility. We've been very pleased with the momentum, with Z-Flex, and as I mentioned, we ended fiscal 2026 with more than \$1.7 billion in Z-Flex bookings. It's been very well received.



Meta Marshall Analyst, Morgan Stanley

55m 57s

Great. Thanks.

Operator

56m 0s

Thank you. Our next question comes from Shrenik Kothari with Baird. You may proceed. Shrenik, your line is now open. Our next question comes from Ittai Kidron with Oppenheimer & Co. You may proceed.



Ittai Kidron Analyst, Oppenheimer & Co

56m 27s

Thanks, and a solid finish for the year, guys. Kevin, I want to dig into your outlook for fiscal 2027, specifically on the ARR front. I would love if you can give us a little bit more insights into the puts and takes that you've taken into account into that ARR guide. Clearly, you've had very good momentum here with net new ARR. If my math is right, that declines to 4%, the midpoint for your guide for fiscal 2027. So would love to get a little bit more color as to what's included, with respect to the go-to-market, the new products, and any other components that you think it's important to call out. Appreciate it.



Kevin Rubin CFO, Zscaler

57m 8s

Yeah. Thanks, Ittai. Maybe at the highest level, what I would say is we're very optimistic with the momentum that we do carry into 2027, especially after a 17% net new ARR growth in Q4, excluding Red Canary. I am considering the time it will take for the sales transition that we've talked about, both in terms of the geo and the verticals, as well as the pace of the uptake of the integrated SecOps solution. In addition to that, look, as I mentioned, we have had consistent NRR. I mentioned each of the quarters of fiscal 2026, it was 115%. So I do expect that to continue. We also have an opportunity to accelerate new logo growth, which we've talked about. We're adding dedicated new logo sales executives, specifically focused on enterprise customers.



Kevin Rubin CFO, Zscaler

58m 2s

We also have, from a product point of view, a larger opportunity to land new logos with a variety of products. Very different than was the case years ago. I'm pretty optimistic in terms of the different dimensions that we think about, for 2027, and opportunities for us to continue growing.



Jay Chaudhry Chairman and CEO, Zscaler

58m 26s

AI security is adding further tailwinds as well.



Kevin Rubin CFO, Zscaler

58m 30s

That's right.



Ittai Kidron Analyst, Oppenheimer & Co

58m 32s

Very good. Is the AI security contemplated materially into your outlook? Because a lot of that portfolio still needs to come.



Kevin Rubin CFO, Zscaler

58m 40s

Yeah. We haven't specifically called out the contributions from Security for AI in the guidance. But as I mentioned, AI is very quickly becoming a strong and durable tailwind for the business. It is driving demand not just for Security for AI solutions, but Zero Trust Everywhere and data security. We expect that these drivers will persist in 2027.



Ittai Kidron Analyst, Oppenheimer & Co

59m 5s

Appreciate it. Good luck.

Operator

59m 9s

Thank you. Our next question comes from Gregg Moskowitz with Mizuho. You may proceed.



Gregg Moskowitz Analyst, Mizuho

59m 17s

Great. Thank you for taking the question. Jay, as you mentioned, you are hosting a launch event for Agentic SecOps next Wednesday. Quite frankly, a lot of time has passed since you acquired Red Canary, and now that the day is upon us or almost upon us, it would be helpful to hear just a bit more from you as to what might be unique about your Agentic SecOps and what it will unlock for your customers. Thanks.



Jay Chaudhry Chairman and CEO, Zscaler

59m 40s

Yeah, very good question. Our customers have been talking to us for the last few years. They are telling us that we have the best data, best telemetry across the network. It is because sitting in line from endpoint, it is sitting on the endpoint and cloud as it is sitting on cloud workloads as well. This is resulting in over 750 billion transaction logs per day. That is a starting point of really good SecOps. Our customers are saying, "We have to send this data to another vendor. You got the data right here. Why can't you give us more meaningful information that is needed for SecOps?" Which is natural. We should be doing that. That was number one driver. Number two was we observed over the years that there was a first generation of SecOps solution. Then second generation came where they are still human-centric, but automation driven.



Jay Chaudhry Chairman and CEO, Zscaler

1h 0m

They are essentially human driven. We saw the opportunity to really build a SecOps solution, truly agent native, where agents are driving, detecting, and able to investigate this thing at machine speed versus a traditional solution. I think it's an opportunity to disrupt traditional SecOps solution, even the one that they call themselves next gen SecOps. The last factor was closed loop remediation. These days, the time between a vulnerability being discovered and exploitation is shrinking. Typically it takes days or weeks for a typical SecOps solution to get all the telemetry, do all the detection and finding, and really take an action. With Zscaler, since we

have most of the data, we could do it within minutes. Those were the big drivers for us. We have a large number of customers who are waiting for our solution to really be deployed. We are pretty excited about it.



Jay Chaudhry Chairman and CEO, Zscaler

1h 1m

I think we'll have a meaningful opportunity for us. In the first half of the year, it's going to take some time to take off, but it should start contributing in second half and then fiscal 2028.



Gregg Moskowitz Analyst, Mizuho

1h 1m

Very helpful. Thank you.

Operator

1h 1m

Thank you. I would now like to turn the call back over to Jay Chaudhry for any closing remarks.



Jay Chaudhry Chairman and CEO, Zscaler

1h 2m

Thank you all for joining us today. We hope to see you at one of our investor conferences. Thank you again.

Operator

1h 2m

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect. Goodbye.