

Q1 Fiscal 2027 Shareholder Letter

November 23, 2026

Forward-Looking Statements

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to non-GAAP financial measures is in the appendix of this shareholder letter.

This shareholder letter has been prepared by Zscaler, Inc. ("Zscaler") for informational purposes only and not for any other purpose. Nothing contained in this shareholder letter is, or should be construed as, a recommendation, promise or representation by the presenter or Zscaler or any officer, director, employee, agent or advisor of Zscaler. This shareholder letter does not purport to be all-inclusive or to contain all the information you may desire.

This shareholder letter contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our future financial and operating performance, including our financial outlook for the second quarter of fiscal 2027 and full year fiscal 2027. There are a significant number of factors that could cause actual results to differ materially from statements made in this shareholder letter, including but not limited to: macroeconomic influences and instability, geopolitical events, operations and financial results and the economy in general; risks related to the use of AI in our platform; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new products and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; useful lives of our assets and other estimates; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial and operating results are included in our most recent filings with the Securities and Exchange Commission ("SEC"). You can locate these reports though our website at http://ir.zscaler.com or on the SEC website at www.sec.gov.

In some cases, you can identify forward-looking statements by terms such as "anticipate," "believe," "continues," "contemplate," "could," "estimate," "expect," "explore," "intend," "likely," "may," "plan," "potential," "predict," "project," "should," "target," "will" or "would" or the negative of these terms or other similar words. Zscaler based these forward-looking statements largely on its current expectations and projections about future events that it believes may affect its business. Actual outcomes and results may differ materially from those contemplated by these forward-looking statements. All forward-looking statements in this message are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

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From our CEO



We delivered a strong start to the fiscal year with **net new ARR growth of 22%,** adjusting for the impact of the Red Canary acquisition in the first quarter of fiscal 2026. **We also delivered strong ARR growth of 21%, revenue growth of 20%, and non-GAAP operating margin of 24.3%.**

I am delighted with our performance this quarter. AI is creating a heightened sense of urgency for organizations of all sizes, leading to the most significant tailwinds we've seen.

Q1'27

Revenue Growth Y/Y	Operating Margin	Free Cash Flow Margin
20%	**24.3%**	**~44%**
Exceeded high end of our guidance	Operating income growth of 34% Y/Y	Delivering Rule of 64

Annual Recurring Revenue	Customer Commitments	Z-Flex ARR
~$3.9B	**~$7.3B**	**$550M+**
ARR growth of 21% Y/Y	RPO grew 23% Y/Y	Z-Flex ARR grew 21% Q/Q

See the Financial Appendix of this shareholder letter for definitions of non-GAAP financial measures and reconciliation.

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Zero Trust Architecture for the AI Era

Our Zero Trust architecture was essential for the shift to cloud and mobility, but in the agentic AI era, it is non-negotiable. Every day, there is new evidence of how dramatically AI is reshaping the threat landscape. AI is rapidly uncovering hidden vulnerabilities while enabling malicious actors to execute automated exploits at unprecedented speed and scale. Take the critical PHP vulnerabilities disclosed last month. Frontier models uncovered flaws in PHP, the programming language used by 70% of the world's websites. **Within 48 hours of the PHP vulnerabilities surfacing, Zscaler's global distributed decoy mesh observed nearly 1,200 unique attempted attacks on applications using PHP language.**

The emergence of this vulnerability underscores that the real risk lies in the gap between how quickly attackers can weaponize a flaw and how slowly enterprises are able to patch. These critical software vulnerabilities are emerging at a staggering rate; roughly half of the critical vulnerabilities ever uncovered were surfaced in 2026, and approximately 5% were reported in the month of October alone. Meanwhile, large software companies are releasing more than one thousand patches at a time, which is contributing to widespread system outages and instability.

These mounting risks are reshaping how CEOs and Boards think about security as they race to capture AI efficiencies. While human users used to be the weakest link in cybersecurity, **agents are rapidly becoming the new weakest link and they are far more dangerous than users.** Their identities are dynamic and ephemeral, they operate 24/7 at machine speed, and their numbers are exploding. The result is a fundamentally broader and more complex security equation: more threats that enterprises must defend against, and more data and applications to protect.

Amid these new vulnerabilities, network outages, rogue agents, and so much more, many Zscaler customers have told me they are relieved that Zscaler's Zero Trust Exchange hides their applications, and therefore they can't be discovered or targeted; **if you are reachable, you are breachable.** Simply adding more resources to fix software vulnerabilities while continuing to rely on legacy perimeter-based security is not the answer. **A different architectural approach is needed to provide enterprises immediate protection and resilience. This is driving demand for our Zero Trust architecture and creating significant opportunities for Zscaler.**

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Zscaler's comprehensive and unified platform

As we shared, we have been conducting frontier AI risk assessments with current and prospective customers to help them identify vulnerabilities in their environments. **We have uncovered four key focus areas to help companies strengthen their cybersecurity posture:**

- **First, and foremost, eliminating the attack surface, and if threat actors infiltrate the environment, preventing them from moving laterally.** The best mitigation is deploying Zero Trust SASE Everywhere, which reduces the attack surface by hiding applications and devices behind our Exchange. It also eliminates lateral movement by treating all networks as untrusted. In addition, our virtual patching protects applications where vulnerabilities have not been remediated.
- **Second, understanding what AI models and agents employees are using.** Our Security for AI solution offers full visibility, associated risk, and protection for every model, agent, and AI asset.
- **Third, preventing data loss.** Our comprehensive data security solution sits inline, inspects content leaving the enterprise, and enforces policies to prevent data exfiltration.
- **And finally, catching agentic attackers red handed.** Our Agentic SecOps use honey pots, also known as decoys or deception solutions, to catch agentic attacks by triggering alerts if a bad actor or rogue agent has infiltrated the environment.

At the same time, following network outages in recent weeks, businesses are prioritizing the need for 100% availability and resilience. We are seeing significant interest in our business continuity cloud solution - the first of its kind for cybersecurity - which ensures seamless uninterrupted operations with 100% uptime for critical applications.

For all of these reasons and more, **customers are increasingly recognizing the need to adopt our Zero Trust platform**, which unifies Zero Trust SASE Everywhere, Security for AI, Data Security, and Agentic SecOps on one architecture.

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New logo lands across our Zero Trust Platform

European Government Agency

New Logo,
7-figure deal win



- **Deployed approximately 140,000 users on Zscaler's sovereign cloud as the customer embraced Zero Trust security.**
- Zscaler displaced the customer's legacy security solution, satisfying a government mandate to adopt sovereign solutions that provide greater data privacy, confidentiality, and control, while also addressing the risks exposed by frontier models.
- This deployment enables zero trust segmentation and eliminates the expanding attack surface, while **reducing annual infrastructure costs by 80%.**

G2K Pharmaceutical Company

New Logo,
8-figure deal win



- **Deployed Zscaler's entire Zero Trust platform.**
- Mythos accelerated the urgent need to protect against new AI threats and shortened the customer's timeline to adopt Zero Trust and replace legacy security infrastructure such as firewalls, VPNs, and secure web gateways that allow lateral movement.
- Our integrated architecture and ability to provide comprehensive Zero Trust protection, including Secure AI Access, Deception, and Zero Trust Browser, set us apart.

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Sustained strength in Zero Trust Branch

With Zero Trust Branch, customers are increasingly choosing Zscaler's Zero Trust architecture to secure branch locations to eliminate lateral movement, this replaces SD-WAN infrastructure while reducing cost and complexity, and enhancing cyber posture with nearly effortless deployment.

US Federal Agency

Upsell,
7-figure deal win



- Standardized on our Zero Trust Branch architecture **across 50+ branch and data center locations.**
- As part of a broader zero-trust strategy to modernize and simplify its network and improve its security posture, the agency is replacing legacy firewalls with our Zero Trust device segmentation to protect IOT/OT devices.

US Healthcare Provider

Z-Flex New Logo,
8-figure deal win



- Purchased Zero Trust Branch to secure its hospitals, data centers, and clinics.
- Following a data breach, the customer - **led by a newly appointed CISO who is a two-time repeat Zscaler customer - chose our platform over three major platform competitors** as part of an urgent Board-level mandate.
- This customer also deployed Zscaler's Security for AI solutions to safely deploy AI, DSPM for data discovery and classification, and Zero Trust Browser to tightly secure third-party and unmanaged access.

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Zero Trust Cloud continues to grow

Zero Trust Cloud is rapidly becoming the enterprise standard for workload security across multi-cloud environments as customers replace costly virtual firewalls with our Zero Trust Cloud solution to secure both north-south and east-west traffic and eliminate lateral movement.

We believe Zero Trust Cloud is primed to capture exploding AI traffic, giving customers the confidence to scale AI across their business while maintaining seamless, high-throughput Zero Trust security.

G2K Financial Institution

Z-Flex Upsell,
7-figure deal win



- **Significantly expanded its Zero Trust Cloud deployment, as its cloud workload traffic expanded nearly fivefold to 140 terabytes per month.**
- To stay ahead of strict regulatory requirements, the customer needed to replace legacy firewalls that lacked adequate visibility and created unpredictable costs as their data volume grew.

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Security for AI momentum continues to build

Our Security for AI solution offers complete protection for customers looking to securely deploy AI at scale. This includes discovering every model, agent, and AI asset - sanctioned or unsanctioned - and mapping its access to various data sources. We have also extended our Zero Trust Exchange everywhere to secure every AI interaction across users, agents, and applications. And finally, our automated red-teaming scans AI applications for vulnerabilities, before these applications reach production.

We continue to see strong demand for our solution. **Notably, Q1 accounted for 4 of our 5 largest Security for AI deals in our history, and 6 of our top 10 deals during the quarter included Security for AI.**

This traction is particularly encouraging as the majority of our Security for AI solutions have been in the market for less than three quarters. For example, there is already strong interest in Endpoint AI Security, which entered general availability this month. This solution stops AI threats across browsers, plugins, and local AI tools that traditional solutions miss, providing superior AI agent visibility and robust runtime protection. We see significant potential to scale adoption as it can be deployed effortlessly across our more than 55 million customer endpoints.

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Strong traction in Security for AI wins

F500 Pharmaceutical Company

Z-Flex Upsell,
8-figure deal win



- Selected the entire Zscaler Security for AI solution in **our largest Security for AI win to date.**
- The customer sought a unified platform to safely deploy home grown AI models and agents while simultaneously defending against emerging AI-powered threats. Zscaler's unified platform and differentiated functionality stood out in a crowded field of AI security start-ups and legacy vendors.

Large Asset Management Firm

Upsell,
7-figure deal win



- Added our Security for AI solution, including Endpoint AI Security, Secure AI Access, and AI Asset Management.
- **Notably, this win followed the customer's adoption of our DSPM solution last quarter, demonstrating the complementary nature of our leadership in Data Security and AI Security to drive demand, and illustrating the power of our platform.**

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AI accelerating the need for Data Security

This quarter 65% of our Security for AI deals included Data Security, which reinforces the increasingly tight connection between AI security and data security. AI creates more sensitive data, expands access to it, and introduces new risks around how it is used. At the same time, attackers are using AI to launch phishing attacks and steal sensitive data faster, all at a far greater scale. **Our ThreatLabz Research team recently reported a nearly 300% increase in exfiltrated data volume for the year ending March 2026**, accelerating significantly from over a 90% increase the prior year, as AI-assisted attackers pivot to massive data theft.

F500 Healthcare Company

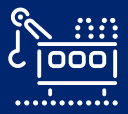
Z-Flex Upsell,
8-figure deal win



- **Adopted Zscaler's Data Security and Security for AI solutions.**
- This customer was looking to govern AI agent activity, prevent sensitive data leakage into AI models, and remediate the sprawl of sensitive PII across its hybrid environment.

F500 Energy Company

New Logo,
7-figure deal win



- Chose our solution over a privately-held DSPM vendor for its ability to trace data lineage across complex multi-cloud environments.
- This approach to data governance established a foothold, and **has already generated new pipeline for our Security for AI solution.**

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Introducing Agentic SecOps

Finally, in Q1, we launched our new integrated Agentic SecOps offering, which includes exposure management, threat management, and deception. This can be bought as a product or a managed detection and response service, and later this year we'll be upgrading our MDR to our new Agentic SecOps solution. This offering leverages telemetry that we collect from our multiple vantage points across network, endpoint, and cloud to identify, investigate, and mitigate malicious activities. While still early, we are pleased with customer interest since launch.

US Healthcare Provider

Upsell,
7-figure deal win



- **Selected Zscaler Exposure Management to secure 165,000 assets.**
- Facing an overwhelming backlog of vulnerabilities, risks exposed by Mythos, and an internal audit mandate, its lean security team urgently needed to close critical security gaps, reducing exposure before full remediation can be done.
- The customer **bypassed a proof-of-concept** to rapidly secure its vital clinical operations with Zscaler, reflecting its trust in our platform.

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Built to win in the AI Era

Across all my conversations, one thing is clear: customers have increased urgency to protect against frontier models and AI agent risk by embracing Zero Trust now more than ever before, making Zscaler even more critical. Our comprehensive platform creates a meaningful opportunity to both land new logos and expand with existing customers. And as you heard at our Investor Day, we have built a durable go-to-market engine, deep customer relationships, and an expanding partner ecosystem that gives us more ways to win.

Our expanded platform gives us a broader set of opportunities to land with new customers. This includes Zero Trust Branch, Zero Trust Cloud, and most recently, Security for AI and Agentic SecOps. This compares to just Zero Trust for Users a few years ago. While other vendors are working to solve the best way to offer security for users through a collection of legacy point products, we are offering a comprehensive platform built around our unified Zero Trust architecture.



In closing, **we have a significant opportunity ahead as we capitalize on the powerful tailwinds from AI**. Our performance reflects strong execution, and we have multiple engines that we expect to drive a reacceleration of growth in the years ahead.

- Jay Chaudhry

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From our CFO



We delivered exceptionally **strong Q1 results highlighted by 21% ARR growth, 20% revenue growth, and a non-GAAP operating margin of 24.3% that matched Q4's record high.**

This performance reflects strong new logo growth, increasing contributions from our non-seat-based solutions, continued Z-Flex momentum, record large-deal activity, and improved sales productivity.

	Q1 Guidance	Q1 Results	*Q1 Results vs. Guidance*
Revenue	**$935M - $939M** ~19% y/y	**$949M** 20% y/y	***Exceeded***
Gross Margin	**~80%**	**~81%**	***Exceeded***
Operating Profit	**$215M - $217M** ~25% y/y -~26% y/y	**$230M** 34% y/y	***Exceeded***
EPS	**$1.15 - $1.16**	**$1.23**	***Exceeded***

All numbers presented on an adjusted, non-GAAP basis. See appendix of this shareholder letter for a reconciliation of GAAP to non-GAAP financial measures.

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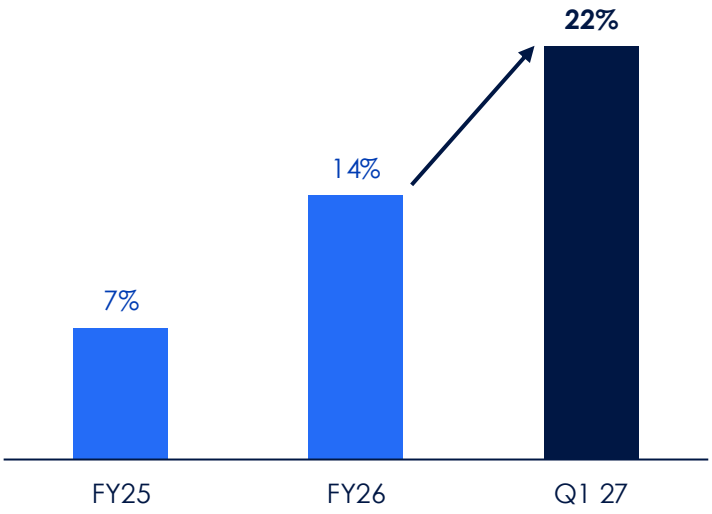
Accelerating Net New ARR growth

- ARR momentum accelerated in Q1. **Net new ARR was $111 million, up 22% year-over-year** adjusting for the $98 million net new ARR contribution from the acquisition of Red Canary in the first quarter of fiscal 2026. This marks a continued acceleration in net new ARR growth from 7% in fiscal 2025, to 14% in fiscal 2026, to 22% in Q1.
- **ARR for our growth engines, which includes Zero Trust SASE for Branch and Cloud, Data Security, and Security for AI grew more than 65% in Q1.** This reflects broad-based growth across all of these categories.
- We also continued to deepen enterprise adoption. In Q1, **we closed with a record number of $1 million plus new ACV deals for a Q1,** and the number of $10 million plus ARR customers nearly doubled year-over-year. We ended the quarter with 802 customers generating over $1 million in ARR and 4,247 customers generating more than $100,000 in ARR, growing 15% and 13% year-over-year, respectively.

Net New ARR (ex-RC) growth accelerated in Q1 27



Non-seat-based solutions New & Upsell ACV contribution

~40%

Q1 27

ARR growth Y/Y for non-seat-based solutions

60%+

Q1 27

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Strong start to FY27

Robust revenue growth

- Turning to revenue, **Q1 revenue was $949 million, up 20% year-over-year and 6% sequentially,** exceeding the high end of our guidance.
- Looking across geographies, the Americas accounted for 57% of revenue and grew approximately 19% year-over-year. EMEA accounted for 27% of revenue and grew approximately 22%, and APJ accounted for 16% percent of revenue and grew 25%.
- Remaining performance obligations, or **RPO, of approximately $7.3 billion increased 23% year-over-year,** with approximately 45% classified as current RPO.

Executing on our GTM priorities

- Turning to go-to-market. As we shared at our October Investor Day, our priorities in fiscal 2027 are focused on deepening relationships with existing customers, accelerating platform adoption, taking advantage of new entry points across our platform, improving new logo execution, expanding coverage in key segments, and increasing partner-led contributions. We made good progress against these priorities in Q1, supported by the continued improvement in our account-centric sales motion and our success in driving broad platform adoption with customers.
- In Q1, **we delivered double-digit sales productivity growth, and achieved our highest productivity for a Q1 in four years.** We are seeing early signs that our focus on new logo execution is working with 4 of our top 10 deals in Q1 from new logos. **New logo ACV grew over 40% year-over-year with strong double-digit growth in all regions.** This performance benefitted from a broader set of opportunities to land with new customers. During Q1, 30% of new logo ACV came from solutions aside from Zero Trust SASE for Users, up from 18% in fiscal 2025.

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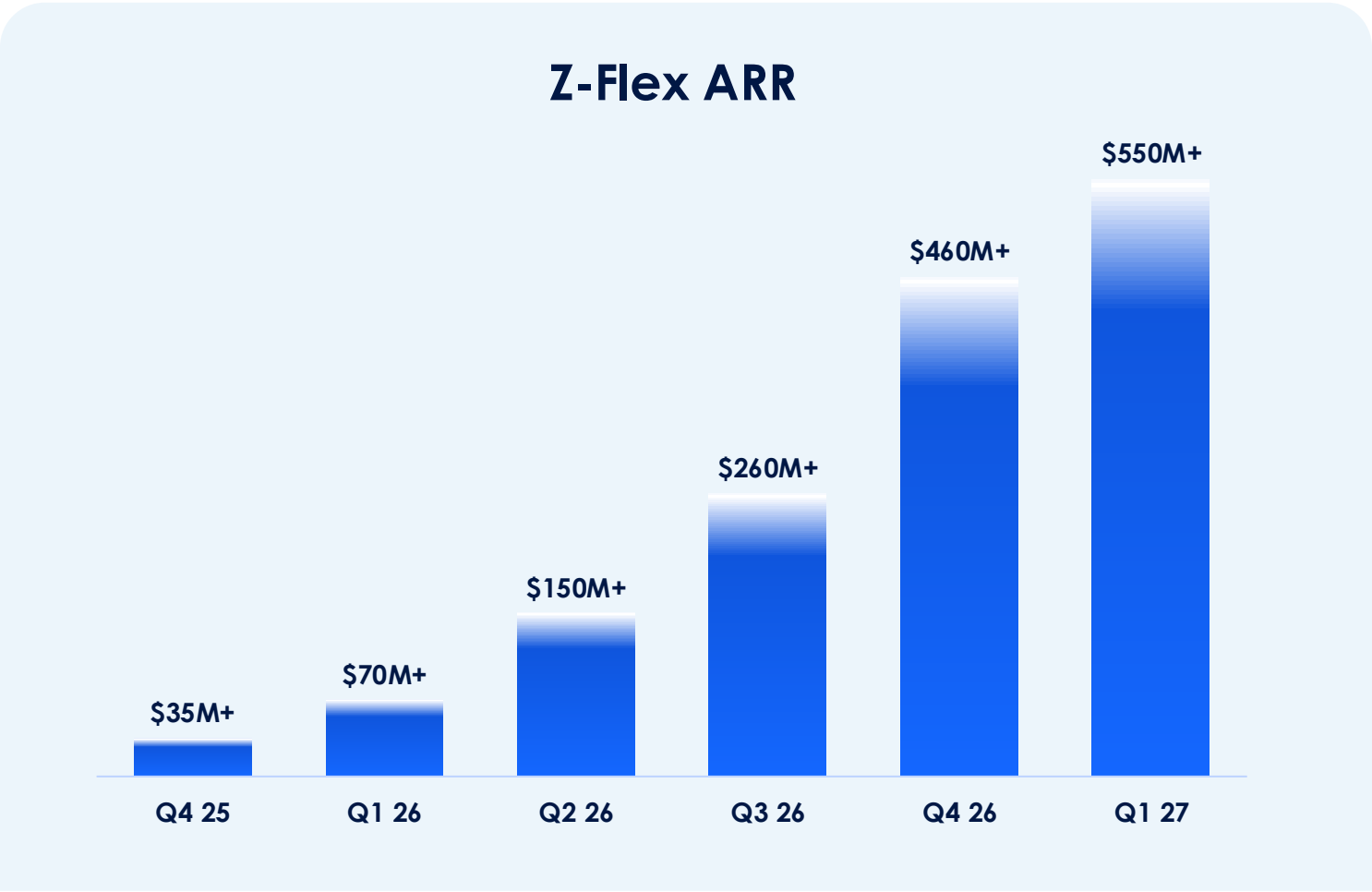
Z-Flex momentum continues

Z-Flex remains an important part of our go-to-market strategy. Ultimately, it allows customers to do larger and longer-term deals with us, to test newer offerings, and to swap products at their own pace, all without starting a new procurement cycle. This is leading to more strategic engagements with customers and prospects.

We saw strong momentum again this quarter, with **Z-Flex ARR surpassing $550 million, up 21% quarter-over-quarter.** As we shared at our Investor Day, we are now reporting Z-Flex on an ARR rather than TCV basis.



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Z-Flex deal wins in Q1

F500 Pharmaceutical Company

Z-Flex Upsell, 4-year, 8-figure deal



- The customer **signed its second Z-Flex deal in less than a year** to quickly scale its AI defenses without a lengthy procurement cycle.
- **This increased the customer's ARR by more than 30%** through the adoption of multiple new products across our Security for AI and Zero Trust Browser solutions.

G2K Food & Beverage Customer

Z-Flex Upsell, 5-year, 7-figure deal



- **Nearly doubled its annual spend with us.**
- Expanding adoption across 5 existing products and adopting 13 new products across Security for AI, Agentic SecOps, and Zero Trust Cloud.

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Operating performance

- Turning to operating performance, we delivered strong profitability while continuing to invest in the business. **Non-GAAP gross margin was 80.8%,** up 90 basis points year-over-year. We also delivered significant operating leverage in the quarter. Non-GAAP operating income was $230 million, up $58 million, or 34%, compared to $172 million last year. **Non-GAAP operating margin was 24.3%, up 240 basis points year-over-year.**

- Our ability to deliver strong profitability underscores the strength of our business model and our disciplined execution, positioning us to continue driving durable growth over the long-term as we capture the significant market opportunity ahead.

Working capital and cash flow

- Turning to the balance sheet, we ended the quarter with approximately $3.9 billion in cash, cash equivalents, and short-term investments, and $1.7 billion of debt. In Q1, we generated $541 million in operating cash flow and capex was $107 million, or 11% of revenue. Coupled with internal-use software of $18 million, this resulted in **free cash flow of $416 million,** up 1% from last year. The slight year-over-year increase reflects the timing of cash collections partially offset by higher expected capital expenditures due to higher memory and component costs.

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In summary, we are off to a strong start in fiscal 2027. We achieved 21% year-over-year ARR growth and record operating income. We made good progress on new logo execution, and also saw continued momentum with Z-Flex.

I'm excited about the substantial opportunity ahead. I want to thank our employees, customers, and partners for their continued support.

Thank you.

- Kevin Rubin

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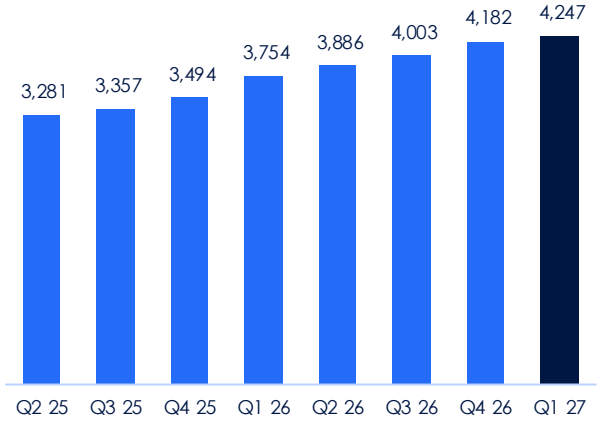
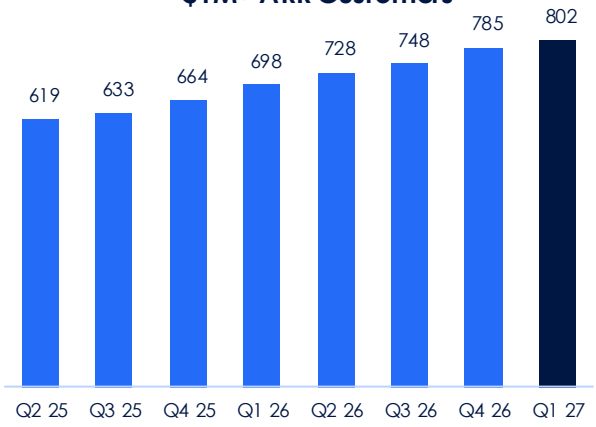
Other key business and financial metrics

$100K+ ARR Customers[2]



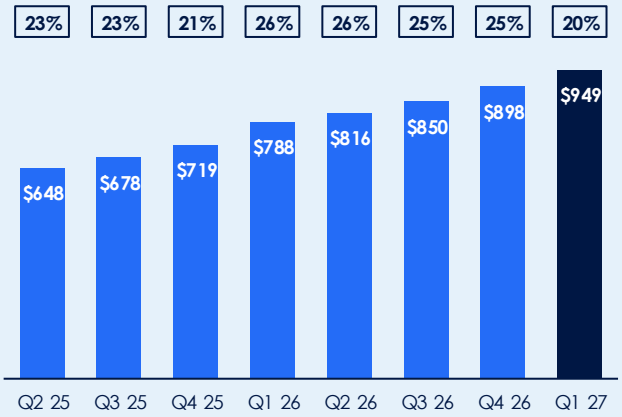
$1M+ ARR Customers[2]



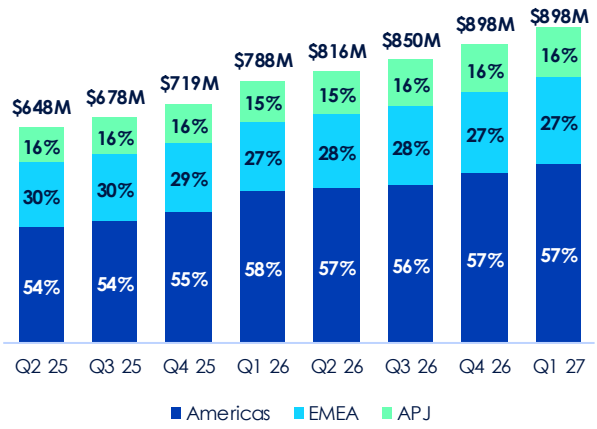
Annual Recurring Revenue (ARR[1]), $M



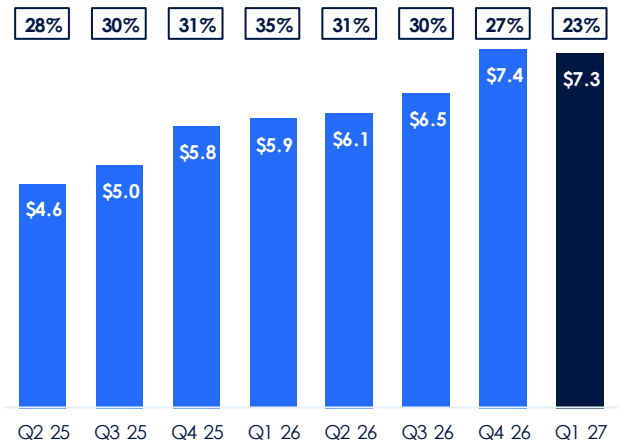
Quarterly Revenue ($M); Y/Y growth



Geographic Revenue, $M; % of revenues



RPO ($B); Y/Y growth



1. Zscaler Annual Recurring Revenue (ARR) refers to the next 12 months of revenue from subscription contracts as of the measurement date. To establish ARR for a customer, we assume that any contract expiring during the next 12 months will be renewed under the existing terms, excluding Red Canary's subscription contracts expiring in fiscal year 2026.
2. ARR information has been updated to reflect our current ARR definition.

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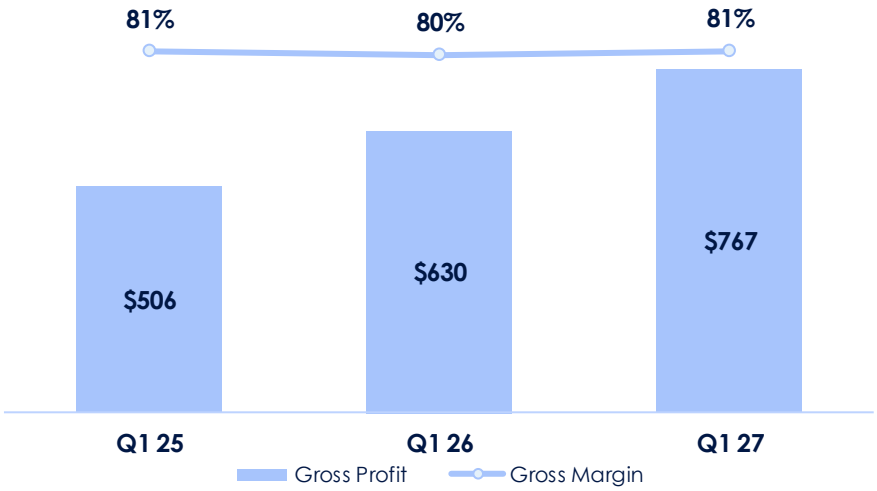
Other key business and financial metrics

Gross Profit & Margin

Key factors

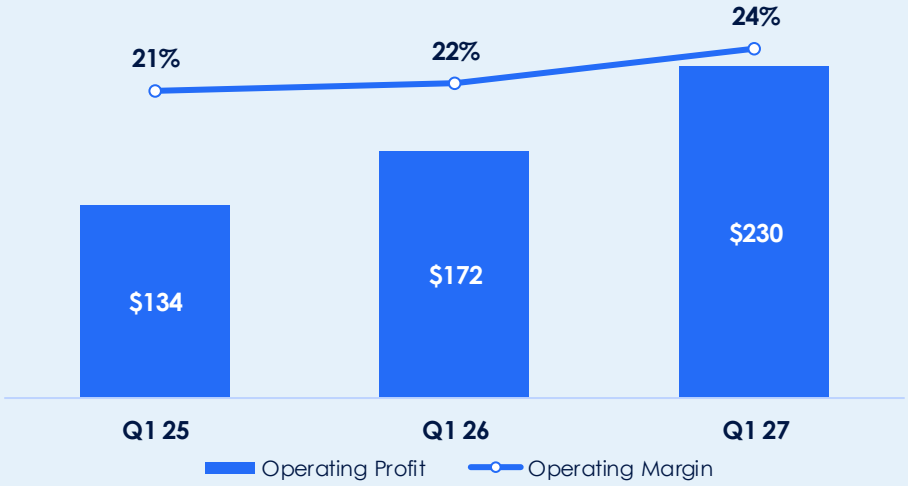
- Gross margins were broadly in-line with expectations



Operating Profit & Margin

Key factors

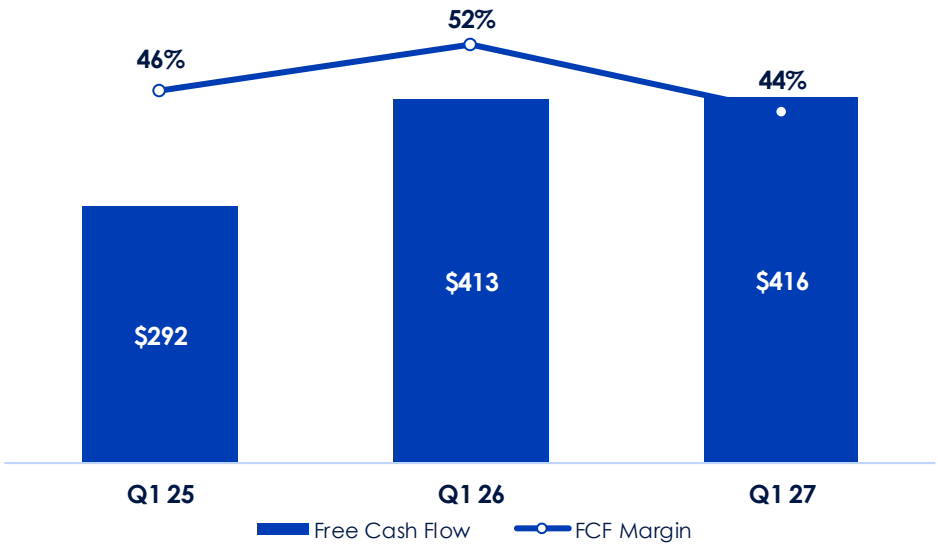
- Leverage in our financial model
- Improving sales productivity



Free Cash Flow & Margin

Key factors

- Timing of collections
- Capital expenditures as a % of revenue



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Financial Appendix



zscaler™

Explanation of Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States of America ("GAAP"), we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, as it has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In particular, free cash flow is not a substitute for cash provided by operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In addition, other companies, including companies in our industry, may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation of our historical non-GAAP financial measures to their most directly comparable financial measures stated in accordance with GAAP has been included in this press release. There is no GAAP measure that is comparable to ARR, so we have not reconciled the ARR data included to any GAAP measure. Investors are cautioned that there are a number of limitations associated with the use of non-GAAP financial measures and key metrics as analytical tools. Investors are encouraged to review these reconciliations, and not to rely on any single financial measure to evaluate our business.

Expenses Excluded from Non-GAAP Measures

Stock-based compensation expense is excluded primarily because it is a non-cash expense that management believes is not reflective of our ongoing operational performance. Employer payroll taxes related to stock-based compensation, which is a cash expense, are excluded because these are tied to the timing and size of the exercise or vesting of the underlying equity incentive awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. Amortization expense of acquired intangible assets and amortization of debt issuance costs from the convertible senior notes are excluded because these are non-cash expenses and are not reflective of our ongoing operational performance. Acquisition-related expenses incurred with business acquisitions are excluded because these are not reflective of our ongoing operational performance. Restructuring and other charges includes severance and termination benefits in connection with a restructuring plan to streamline operations and to align people, roles and projects to our strategic priorities. These expenses are excluded because they fluctuate in amount and frequency and are not reflective of our core business operating performance.

Effective August 1, 2025, the beginning of our fiscal 2026, we have adopted a long-term projected non-GAAP tax rate of 21%, reduced from the previous rate of 23%. This adjustment aligns with the enactment of the One Big Beautiful Bill Act. The revised tax rate will apply prospectively. We will continue to assess the appropriate non-GAAP tax rate on a regular basis, which could be subject to changes for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix, or other changes to our strategy or business operations.

Explanation of Non-GAAP Financial Measures

Non-GAAP Gross Profit and Non-GAAP Gross Margin(*)

Non-GAAP Income from Operations and Non-GAAP Operating Margin(*)

Non-GAAP Net Income and Non-GAAP Net Income per Share

Free Cash Flow and Free Cash Flow Margin(*)

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Definitions of Non-GAAP Financial Measures

Non-GAAP Gross Profit and Non-GAAP Gross Margin. We define non-GAAP gross profit as GAAP gross profit excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets and restructuring and other charges. We define non-GAAP gross margin as non-GAAP gross profit as a percentage of revenue.

Non-GAAP Income from Operations and Non-GAAP Operating Margin. We define non-GAAP income from operations as GAAP loss from operations excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, restructuring and other charges, acquisition-related expenses and litigation related expenses. We define non-GAAP operating margin as non-GAAP income from operations as a percentage of revenue.

Non-GAAP Net Income per Share, Diluted. We define non-GAAP net income as GAAP net loss excluding stock-based compensation expense and related employer payroll taxes, amortization expense of acquired intangible assets, restructuring and other charges, amortization of debt issuance costs, acquisition-related expenses, litigation related expenses, and the non-GAAP provision for income taxes adjustment. We define non-GAAP net income per share, diluted, as non-GAAP net income plus the applicable non-GAAP interest expense related to the convertible senior notes divided by the weighted-average diluted shares outstanding. The weighted-average diluted shares outstanding includes the effect of potentially diluted common stock equivalents outstanding during the period and the anti-dilutive impact of the capped call transactions entered into in connection with the convertible senior notes.

Annual Recurring Revenue. ARR refers to the next 12 months of revenue from subscription contracts as of the measurement date. To establish ARR for a customer, we assume that any contract expiring during the next 12 months will be renewed under the existing terms. ARR reported during the period August 1, 2025 through July 31, 2026 excludes Red Canary subscription contracts expiring in fiscal 2026.

Free Cash Flow and Free Cash Flow Margin. We define free cash flow as net cash provided by operating activities less purchases of property, equipment and other assets and capitalized internal-use software. We define free cash flow margin as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our operations that, after the investments in property, equipment and other assets and capitalized internal-use software, can be used for strategic initiatives.

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Appendix A

($ in thousands, except percentages)

Non-GAAP Gross Profit and Non-GAAP Gross Margin	Q1 27	Q1 26	Q1 25
GAAP gross profit	$731,734	$603,359	$486,493
Add:			
Stock-based compensation expense and related payroll taxes	25,741	19,982	15,793
Amortization expense of acquired intangible assets	8,342	5,692	3,675
Restructuring and other charges	899	750	—
Non-GAAP gross profit	**$720,785**	**$570,103**	**$481,036**
GAAP gross margin	77 %	76 %	78 %
Non-GAAP gross margin	**80 %**	**79 %**	**81 %**
Non-GAAP Income from Operations and Non-GAAP Operating Margin			
GAAP loss from operations	$(33,242)	$(36,362)	$(30,667)
Add:			
Stock-based compensation expense and related payroll taxes	237,884	193,761	160,574
Amortization expense of acquired intangible assets	12,604	8,633	4,240
Restructuring and other charges [1]	12,881	4,741	—
Acquisition-related expenses	—	1,083	—
Litigation-related expenses	90	—	—
Non-GAAP income from operations	**$230,217**	**$171,856**	**$134,147**
GAAP operating margin	(4)%	(5)%	(5)%
Non-GAAP operating margin	24 %	22 %	21 %

(1) Excludes restructuring-related stock-based compensation expense of $6.1 million for three months ended October 31, 2026 and nil for the three months ended October 31, 2025, which are included under stock-based compensation expense and related payroll taxes.

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Appendix A (cont.)

($ in thousands, except percentages)

Non-GAAP Net Income and Non-GAAP Net Income per Share, Diluted	Q1 27	Q1 26	Q1 25
GAAP net loss	$(27,435)	$(11,615)	$(12,051)
Add: GAAP provision for income taxes	25,779	3,241	7,637
GAAP loss before income taxes	(1,656)	(8,374)	(4,414)
Add:			
Stock-based compensation expense and related payroll taxes	237,884	193,761	160,574
Amortization expense of acquired intangible assets	12,604	8,633	4,240
Restructuring and other charges [1]	12,881	4,741	—
Acquisition-related expenses	—	1,083	—
Litigation-related expenses	90	—	—
Amortization of debt issuance costs	2,048	2,038	981
Non-GAAP net income before taxes	263,851	201,882	161,381
Non-GAAP provision for income taxes	55,409	42,395	37,118
Non-GAAP net income	**$208,442**	**$159,487**	**$124,263**
Non-GAAP net income	$208,442	$159,487	$124,263
Add: Non-GAAP interest expense, net of tax related to the convertible senior notes	—	—	276
Numerator used in computing non-GAAP net income per share, diluted	**$208,442**	**$159,487**	**$124,539**
GAAP net loss **per share, diluted**	**$(0.17)**	**$(0.07)**	**$(0.08)**
Stock-based compensation expense and related payroll taxes	1.40	1.16	1.00
Amortization expense of acquired intangible assets	0.07	0.05	0.03
Restructuring and other charges	0.08	0.03	—
Acquisition-related expenses	—	0.01	—
Litigation-related expenses	—	—	
Amortization of debt issuance costs	0.01	0.01	0.01
Income tax and other tax adjustments	(0.17)	(0.24)	(0.18)
Non-GAAP interest expense, net of tax related to the convertible senior notes	—	—	—
Adjustment to total fully diluted earnings per share [2]	0.01	0.01	(0.01)
Non-GAAP net income per share, diluted	**$1.23**	**$0.96**	**$0.77**
Weighted-average shares used in computing GAAP net loss per share, diluted	163,121	158,596	152,557
Add: Outstanding potentially dilutive equity incentive awards	2,681	3,994	2,348
Add: Convertible senior notes	3,925	3,925	7,626
Less: Antidilutive impact of capped call transactions [3]	—	—	(1,235)
Weighted-average shares used in computing non-GAAP net income per share, diluted	**169,727**	**166,515**	**161,296**

(1) Excludes restructuring-related stock-based compensation expense of $6.1 million for three months ended October 31, 2026 and nil for the three months ended October 31, 2025, which are included under stock-based compensation expense and related payroll taxes.

(2) The sum of the fully diluted earnings per share impact of individual reconciling items may not total to fully diluted non-GAAP net income per share due to the weighted-average shares used in computing the GAAP net loss per share differs from the weighted-average shares used in computing the non-GAAP net income per share, and due to rounding of the individual reconciling items. The GAAP net loss per share calculation uses a lower share count as it excludes potentially dilutive shares, which are included in calculating the non-GAAP net income per share.

(3) We exclude the in-the-money portion of the convertible senior notes for non-GAAP weighted-average diluted shares as they are covered by our capped call transactions. Our outstanding capped call transactions are antidilutive under GAAP but are expected to mitigate the dilutive effect of the convertible senior notes and therefore are included in the calculation of non-GAAP diluted shares outstanding. The capped calls have an antidilutive impact when the average stock price of our common stock in a given period is higher than their exercise price.

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Appendix A (cont.)

($ in thousands, except percentages)

Free Cash Flow & Margin	Q1 27	Q1 26	Q1 25
Free Cash Flow			
Net cash provided by operating activities	$541,043	$448,280	$331,335
Less:			
Purchases of property, equipment and other assets	(106,885)	(17,311)	(17,025)
Capitalized internal-use software	(17,674)	(17,673)	(22,429)
Free cash flow	**$416,484**	**$413,296**	**$291,881**

Free Cash Flow Margin	Q1 27	Q1 26	Q1 25
Net cash provided by operating activities, as a percentage of revenue	57 %	57 %	53 %
Less:			
Purchases of property, equipment and other assets, as a percentage of revenue	(11)%	(2)%	(3)%
Capitalized internal-use software, as a percentage of revenue	(2)%	(3)%	(4)%
Free cash flow margin	**44 %**	**52 %**	**46 %**

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Glossary

Product/Solution	Description
Agentic SecOps	
Exposure Management	Continuously discovers, correlates, and prioritizes security weaknesses across an organization's entire attack surface including assets, vulnerabilities, and identity risks using business context and AI-driven workflows to focus remediation on the greatest real-world risks. Includes Asset Exposure Management, Unified Vulnerability Management (UVM), and Identity Threat Detection and Response (ITDR).
SOC Workbench	An AI-powered security operations platform (Agentic SOC) built on the Data Fabric for Security that correlates Zscaler and third-party alerts into unified threat narratives enriched with business context, enabling security teams to automate triage, accelerate investigations, and execute guided inline containment.
Deception	Decoy assets like fake systems, credentials, and data across the network to detect attackers early by luring them into interacting with traps that no legitimate user would ever touch.
ZS Threat Hunting	24/7 expert-led threat hunting that proactively searches for hidden attackers, anomalous behavior, and sophisticated threats that automated tools may miss.
MDR - Managed Detection & Response	A managed service that delivers Zscaler's threat detection and response capabilities (SOC WB + Threat Hunting) as an outsourced, expert-staffed service. Zscaler's analysts continuously monitor, investigate, and respond to threats on the customer's behalf, rather than the customer operating these tools in-house.
Data Security	**One of Zscaler's three key growth engines.** Protects sensitive data at rest, in motion, and in use across web, SaaS, endpoint, and cloud environments using AI-driven classification to ensure compliance and prevent data loss. The solution encompasses Inline DLP, Endpoint DLP, Email DLP, SaaS Security, Data Security Posture Management (DSPM), as well as Classification & Encryption.
Security for AI	**One of Zscaler's three key growth engines.**
AI Asset Management	Provides continuous, enterprise-wide discovery and visibility into all AI applications, models, and agents in use, including unsanctioned shadow AI, so organizations can inventory and govern their full AI footprint.
AI Access	Governs workforce access to public and private generative AI applications by enforcing identity-based, acceptable-use controls, blocking unsanctioned AI tools, and ensuring safe employee adoption.
AI Red Teaming	Continuously tests AI models and applications for vulnerabilities throughout the development lifecycle and in production, enabling organizations to identify and fix AI-specific security weaknesses before they can be exploited.
AI Guard for Apps	Protects AI infrastructure and applications running in cloud environments by inspecting traffic between AI workloads, enforcing access policies, and detecting threats targeting AI pipelines.

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Glossary

Product/Solution	Description
Security for AI	**One of Zscaler's three key growth engines.**
AI Endpoint Security	Provides deep visibility and runtime governance over local AI applications and autonomous AI agents on user endpoints, enforcing process-level policies to block unauthorized or malicious agent actions.
AI Access Graph	Maps relationships and risk across an organization's AI ecosystem applications, models, users, and data flows to provide continuous visibility and prioritization of AI-related exposure.
AI Gateway	Acts as a secure control point for AI traffic, providing visibility into large language model usage and enforcing policy across AI agent interactions and model communication protocols (MCP).
Zero Trust SASE for Users	Securely connects employees and third parties to the internet and SaaS applications (ZIA) and private applications (ZPA) without placing them on the corporate network, replacing legacy VPN with identity-based, least-privilege access. Includes ZDX for end-to-end visibility into user, application, and network performance to rapidly identify and resolve connectivity and latency issues.
Zero Trust Browser	Isolates web browsing and private application access in a secure cloud environment, preventing malware and data loss by rendering content remotely and enforcing controls such as read-only access, clipboard restrictions, and file scanning.
Zero Trust SASE for Branch & Cloud	**One of Zscaler's three key growth engines.**
Zero Trust Branch - ZT Branch	Extends Zero Trust security to physical locations such as offices, factories, and campuses by replacing traditional branch networking hardware with cloud-managed connectivity and built-in device segmentation for IoT and OT environments.
Zero Trust Cloud - ZT Cloud	Secures cloud workload traffic end-to-end: between workloads, to the internet, and to SaaS applications, eliminating implicit trust inside cloud environments through workload security and micro-segmentation.
Zero Trust SASE Everywhere Platform Enterprises	Are customers with >=1500 employees who have adopted all of the following: ZIA, ZPA, Zero Trust Branch and Zero Trust Cloud.
Zero Trust Exchange	Zscaler's security cloud that securely connects users, devices, workloads, and AI agents to the internet, SaaS applications, private applications, and LLMs enforcing identity and business policy at every connection, without placing any user or workload on the network.
Z-Flex	Zscaler's flexible licensing model enables customers to adopt, scale, and change modules based on agreed pricing and fixed rate cards, simplifying the procurement process.

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