Zscaler Q4 2025 Earnings Call – September 2, 2025

Forward-Looking Statements

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to the non-GAAP financial measures is included in our earnings release.

This document 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 first quarter of fiscal 2026 and full year fiscal 2026, and the expected impact of the Red Canary acquisition. There are a significant number of factors that could cause actual results to differ materially from statements made in this press release, 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 subscriptions 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 results are included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth from time to time in our filings and reports with the Securities and Exchange Commission ("SEC"), including our Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2025, filed on May 29, 2025, as well as future filings and reports by us, copies of which are available on our website at ir.zscaler.com and on the SEC's website at www.sec.gov. You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this press release 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.

CEO Commentary

We had an outstanding Q4, and I'm very pleased to share our strong growth which once again exceeded our guidance. Our revenue grew 21% year-over-year, and operating margin exceeded 22%, which is a quarterly record for us. We are seeing growing demand for our large and expanding platform which provides best-in-class cyber and AI security, while eliminating complexity and reducing cost. We are seeing significant customer interest in our powerful AI security solutions, including our new AI Guard and GenAI security offerings. An increasing number of enterprises are choosing Zscaler because of our technology leadership and platform scale. I'm pleased to share that our platform now secures nearly 40% of the Global 2000 and over 45% of the Fortune 500 companies. Driven by this strong customer demand, our Annual Recurring Revenue or ARR increased about 22% year-over-year and surpassed $3 billion dollars, making us one of the only two, pure-play SaaS security vendors to achieve this milestone. For fiscal year 2025, with our revenue growth of 23% and Free Cash Flow margin of 27%, we operated at rule of 50. While many public SaaS companies strive for Rule-of-40 results, we have consistently exceeded this sought-after industry benchmark.

Heading into fiscal 2026, we are accelerating our platform innovations across three growth vectors - AI-Security, Zero Trust Everywhere and Data Security Everywhere, which together surpassed $1 billion dollars in ARR in Q4.

Let me share more details on our innovations in these three areas, **starting with AI-Security.** We have entered an era of omnipresent AI, which is fundamentally transforming enterprises and is leading to an explosive growth of AI/ML traffic. The scale of this transformation is truly remarkable: Our ThreatLabz report revealed that AI/ML transactions on our cloud increased 3,500% in the past year. The adoption of AI at this breakneck pace is creating new security challenges, such as model jailbreaking, prompt injection, model poisoning, and more. The growth in AI also increases complexity and creates new cyber risks. To address these emerging security challenges, we are innovating in two primary areas,

- **First, Security for AI applications.** We have delivered solutions to secure AI apps and access to those apps, whether by users or AI agents.
  - To secure AI Apps from traditional cyber and emerging intent-based attacks, and to battle the new security challenges I just referenced, we recently launched Zscaler AI Guard which is being tested by a significant number of large customers.
  - We are already the leading vendor for Zero Trust communication between users, workloads, devices and B2B. Agent-to-Agent communication is a natural extension of our proven Zero Trust platform. We are developing Zero Trust solutions to secure agent-to-agent and agent-to-application communication. As an increasing number of software vendors are introducing their own agents, enterprises are looking for a proven vendor-agnostic platform like Zscaler to secure agentic communication using standard protocols like MCP or A2A.
- **Our second area of AI innovations is Agentic Operations,** which includes Agentic SecOps and Agentic IT-Ops. I'm pleased to see continued strong demand for our Agentic Operation products, and I expect this portfolio to surpass $400 million dollars in ARR in fiscal year 26.

In addition, we are delivering several innovations to continue driving growth in these areas. For example:

- o **For security operations,** we are building an AI-Powered SoC solution to simplify customers' operations, reduce alert fatigue, automatically hunt for threats, discover vulnerabilities, and predict breaches, while reducing cost and complexity, and eliminating legacy-SIEMs. We are combining our highly differentiated Data Fabric - with the recently acquired Red Canary's agentic AI technology - to deliver a truly AI-Powered SoC. During the quarter, we saw strong demand for our solutions, which drove over 85% year-over-year growth in SecOps ARR.

- o **For IT operations**, we are introducing several Zscaler Digital Experience or ZDX innovations to enable faster resolution of IT tickets. To share an example, we are introducing an AI-powered endpoint remediation solution which will further reduce resolution time of IT tickets. Our current innovations like the ZDX Copilot are resonating with customers and drove 58% year-over-year growth in the bookings of ZDX-Advanced-Plus SKU in fiscal 25.

Our second growth vector, **Zero Trust Everywhere**, which includes Zero Trust Users, Zero Trust Branch, and Zero Trust Cloud, is exceeding our expectations. Two quarters ago, we shared our goal of securing 390 enterprises with Zero Trust Everywhere by the end of fiscal 26. As of the end of fiscal 25, we are already close to reaching this goal with over 350 Zero Trust Everywhere enterprises. Let me share an example of an enterprise that embraced Zero Trust Everywhere:

- In a 7-figure ACV win, an existing Zero Trust Users and Zero Trust Cloud enterprise purchased Zero Trust Branch to secure over 120 manufacturing plants and become a Zero Trust Everywhere enterprise. Zero Trust Branch enables this Global 2000 enterprise to replace legacy SD-WAN, firewall-based VPNs, and existing OT security solutions, and they expect to realize more than 60% cost savings.

Customers are leaning into our vision of a café-like branch by eliminating north-south firewalls and SD-WANs. Furthermore, they are deploying Zero Trust security inside branches, factories and campuses and eliminating legacy point products such as network access control and east-west firewalls. With our over 350 Zero Trust Branch enterprise customers, we are just beginning to benefit from the massive opportunity to replace legacy solutions in millions of branches across a wide range of verticals, including finance, insurance, services, retail, healthcare, education and more. To give you an example:

- In Q4, we signed our largest ever branch deal with a leading higher-ed institution. They purchased our Zero Trust Device Segmentation to secure around 150,000 devices across more than 400 locations in a 7-figure new logo ACV deal.

We are also seeing strong demand for our **Zero Trust Cloud**, the third component of Zero Trust Everywhere. Zero Trust Cloud secures workload-to-workload and workload-to-the-internet communication and provides workload segmentation by design. This eliminates the need for VPNs, north-south and east-west virtual firewalls, Express Routes, and Direct Connects. The proliferation of AI is driving an urgency to secure the large footprint of enterprise workloads, and I believe our Zero Trust Cloud is the best solution for it. We are seeing strong demand for

Zero Trust Cloud, which resulted in an acceleration of its ARR in Q4. To share a customer example:

- In a 7-figure ACV win, an existing Fortune 10 healthcare enterprise expanded their workload protection from public cloud workloads to datacenter workloads. This large enterprise chose Zscaler to implement Zero Trust security and eliminate east-west firewalls. This is our fourth workload expansion deal with this customer, highlighting the large upsell opportunity we have for Zero Trust Cloud.
Zero Trust Cloud enables enterprises to safely adopt Agentic AI technologies that require workload communication between cloud and data centers, particularly in special Retrieval Augmented Generation or RAG implementations.

To drive faster adoption of Zero Trust Cloud, we recently introduced an innovative cloud gateway solution, which reduces the deployment time to under ten minutes. By simplifying connectivity for distributed workloads across hyper-scalers, we are helping customers achieve Zero Trust at global scale, which accelerates their cloud and AI initiatives. With the ongoing growth in AI workloads and the need to secure them, I expect Zero Trust Cloud to continue its strong growth in fiscal 26.

Our third growth vector, **Data Security Everywhere**, is seeing strong demand as enterprises are consolidating multiple data security point products on our platform. I'm pleased to share that Data Security Everywhere ARR grew to approximately $425 million dollars. Our comprehensive data security capabilities, including data discovery, classification, posture management, and data loss prevention, are driving large deal wins. For example:

- An existing Fortune 500 services enterprise, that is also a key Global System Integrator partner, adopted our Data Security solution in a 7-figure ACV deal for 350,000 users. This customer adopted Isolation, Email DLP, Endpoint DLP, Data classification and Encryption, and Gen AI security, enabling them to consolidate multiple point products.

I'm very pleased with the pace of our platform innovations for Zero Trust Everywhere, Data Security Everywhere and AI-Security, and I expect our strong growth in these areas to continue.

To accelerate the adoption of our broader platform, we introduced our Z-Flex program less than two quarters ago. In Q4, this program generated over $100 million dollars in TCV bookings, representing over 50% sequential growth. Our Z-Flex program is becoming the preferred motion for strategic, multi-year deals, as it enables seamless adoption of new product modules by our customers. To share an example:

- In a 5-year, 8-figure TCV deal, a large enterprise energy customer chose our Z-Flex program to increase the number of modules adopted from 14 to 19, including Zero Trust Branch for 100s of locations. This purchase resulted in an over 100% increase in ARR with us.

Customer interest in Z-Flex continues to grow and I expect it to be a meaningful growth driver in fiscal 26.

In conclusion, our expanding platform and a stronger go-to-market engine position us well to benefit from the tailwinds of Zero Trust and AI security. With the accelerating pace of our Zero

Trust and AI innovations, we are still in the early innings of disrupting a large $100 billion dollars security market.

CFO Commentary

Our Q4 results represent a strong finish to FY '25, reinforcing the demand for our solutions and our operational scale. We operated at Rule of 50 in FY'25, demonstrating our commitment to profitable growth.

We ended FY '25 with over $3.0 billion in ARR, a milestone that reflects approximately 22% year-over-year growth. Notably, we are one of only two pure-play SaaS security companies to surpass this level of ARR. ARR represents the next 12 months' revenue from existing customer contracts active at the end of the period. For modeling purposes, quarterly ARR figures from prior year periods are included in the supplemental materials accompanying our Q4 results.

Q4 revenue was $719 million, growing 21% year-over-year, 6% sequentially, and exceeding the high end of our guidance. Geographically, the Americas accounted for 55% of revenue, EMEA for 29%, and APJ for 16%. For the full fiscal year, total revenue reached $2.7 billion, representing 23% year-over-year growth and surpassing our guidance. Our Remaining Performance Obligation, or RPO, grew approximately 31% year-over-year to $5.8 billion, with approximately 46% classified as current RPO.

We closed FY '25 with over 9,400 customers, including 664 customers generating over $1 million in ARR and 3,494 customers exceeding $100,000 in ARR. We now serve nearly 40% of the Global 2000 and over 45% of Fortune 500 companies, demonstrating the strategic role we play in customers' digital transformation journeys.

Turning to the rest of our Q4 financial performance, our gross margin was 79.3% as compared to 81.1% last fiscal year Q4. Our Q4 gross margin this quarter is lower than our historical target of 80% due to a one-time deployment of a large private cloud in a government customers' data center, which included a hardware component that carries lower gross margin. Given the one-time nature of this shipment, we expect gross margin to move back up to 80% in Q1.

Operating expenses increased 3% sequentially and 16% year-over-year, reaching $411 million. Operating margin was 22.1%, exceeding our long-term range and growing by approximately 60 basis points year-over-year. Since Q1 '23, operating margin has expanded by over a thousand basis points, underscoring the leverage in our model.

Our free cash flow margin for Q4 was 24%, including data center CapEx at 8% of revenue. For FY '25, data center CapEx represented 6% of revenue, approximately 60 basis points lower than last year due to investment timing. We ended the quarter with $3.6 billion in cash, cash equivalents, and short-term investments, including net proceeds of $1.7 billion from the convertible note we issued during the quarter.

Next, let me provide key assumptions driving our fiscal 2026 guidance.

- On August 1, we successfully closed the acquisition of Red Canary. We recognized approximately $83 million of ARR at close. Our full year ARR guidance assumes $95 million contribution from Red Canary, and our full year revenue guidance assumes approximately $90 million contribution from Red Canary. Our Red Canary ARR guidance assumes no contribution from customer contracts up for renewal in fiscal 2026.
- Looking ahead, we are shifting our focus from Billings to full-year ARR as our primary growth metric. Regarding seasonality, we anticipate Net New ARR will remain weighted toward the second half of the year, with approximately 46.5 - 47% in the first half, including the contribution from Red Canary and consistent with historical trend.
- Finally, we are assuming the macro environment to be relatively unchanged in fiscal 26.

With that, let me provide our guidance for Q1 and full year fiscal 2026. As a reminder, these numbers are all non-GAAP.

For the first quarter:
- We expect revenue in the range of $772 million to $774 million, reflecting a year-over-year growth of approximately 23%.
- Gross margins to be approximately 80%. I would like to remind investors that we are introducing new products that are experiencing strong growth and are optimized for faster go-to-market rather than margins. This will continue to influence our gross margins. We plan to optimize new products for margins over time as they scale.
- Operating profit in the range of $166 million to $168 million.
- Net other income of approximately $18 million
- Earnings per share in the range of $0.85 to $0.86, assuming a 23% tax rate and 167 million fully diluted shares.

For the full year fiscal 2026:
- ARR in the range of $3.676 billion to $3.698 billion, reflecting a year-over-year growth of 21.9% to 22.7%.
- Revenue in the range of $3.265 billion to $3.284 billion, reflecting a year-over-year growth of approximately 22% to 23%.
- Operating profit in the range of $728 million to $736 million.
- Earnings per share in the range of $3.64 to $3.68, assuming a 23% tax rate and approximately 169 million fully diluted shares.
- Free cash flow margin to be approximately 26.0%-26.5%.

With a large market opportunity and customers increasingly adopting the broader platform, we will invest aggressively to position us for long-term growth and profitability.