

Zscaler Q3 2025 Earnings Call – May 29, 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 fourth quarter of fiscal 2025 and full year fiscal 2025. There are a significant number of factors that could cause actual results to differ materially from statements made in this document, 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 limited operating history; 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 Annual Report on Form 10-K for the fiscal quarter ended July 31, 2024, filed on June 7, 2024, 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 document 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

Our strong Q3 results demonstrate growing demand for our platform and continued improvement in our sales productivity. More customers are adopting Zscaler's comprehensive solutions with platform-wide deals for our Zero Trust security. Driven by this strong demand, we achieved two significant milestones: First, we achieved our best Q3 with TCV bookings of over \$1 billion dollars, and second, our remaining performance obligations or RPO are now nearly \$5 billion dollars. New logo ACV had strong growth of over 40% year-over-year. Total New ACV was up double-digits year-over-year once again in the quarter. Our Annual Recurring Revenue or ARR was approximately \$2.9 billion dollars, representing the third straight quarter of 23% year-over-year growth. We remain on track to reach \$3 billion dollars or more in ARR by the end of this quarter.

We are proud of achieving these strong top-line results at scale, while delivering strong profitability. Our year-to-date fiscal 25 revenue growth of 24% combined with our Free Cash Flow margin of 28% resulted in Rule-of-52 performance. While many SaaS companies struggle to achieve Rule-of-40 performance, we have exceeded this industry benchmark for each of the last 21 quarters.

Moving on to discussion of our platform, I'm very pleased to share that our platform now secures over 50 million users, another significant milestone. This milestone gives us several competitive advantages:

- **First, more users deliver powerful network effect and strengthen our market leadership.** Zscaler's Zero Trust Exchange platform sits in-line for enterprise communications. Every time we secure a user from a new attack, we apply that protection for all users of our platform, creating a flywheel for improving security. The magnitude of this effect is staggering. Last year alone, our Exchange processed over 100 trillion transactions, blocked over 60 billion threats and enforced over 5 trillion policies. This unique network effect differentiates Zscaler from other vendors trying to pursue this market segment and delivers unparalleled cyber security to our customers. Hence more and more enterprises are selecting Zscaler as the partner of choice.
- **Second, more users mean more high-quality data for our AI solutions.** The millions of users, workloads and IoT/OT devices on our platform result in over 500 billion transactions, generating over 20 petabytes of high-fidelity data per day. As you know, AI is only as good as the data that powers it, and I believe we have the best data. There are two unique aspects to our proprietary data: 1) its vast quantity, and 2) its high-fidelity, both of which we utilize to train our models and deliver highly effective AI solutions.
- **Third, the large volume of proprietary data I just talked about empowers us to deliver cutting-edge solutions for security operations.** By leveraging our data fabric technology and correlating our logs with third-party data, we have introduced Exposure Management and Threat Management solutions which deliver a new level of actionable insights for our customers' security operations.

Leveraging our scale, we are building new Security Operations solutions, Copilots and Agentic AI solutions that will be showcased at our upcoming Zenith Live conferences.

With our Zero Trust Exchange platform, we fundamentally transformed cyber security from firewall-based model to Zero Trust architecture. Firewall-based security creates trusted and untrusted networks. Once a user or a threat actor gets on the trusted network, they are then blindly trusted and can move unchecked across the enterprise network. That is what makes ransomware and other cyber-attacks so dangerous.

With Zscaler's Zero Trust architecture, there is no concept of trusted networks. Every user, every workload, every IoT/OT device, and every AI Model, is untrusted. With Zero Trust, we connect only the authorized party to the authorized application. While legacy vendors are attempting to cobble together disjointed point products and calling it a platform, we are constantly expanding our core Zero Trust Exchange by integrating new functionality to solve more and more of our customers' security concerns. Our industry leading capabilities are recognized by our customers, partners, and leading third-party analyst firms. Of note, I'm thrilled to share that Gartner once again recognized Zscaler as a leader in their SSE Magic Quadrant, extending our status as a leader in the MQ for user security for over a decade.

Moving on to the macro environment, customers remain cautious about their IT spending due to ongoing economic uncertainty. While customers are still prioritizing cyber and data protection, return on investment and the value delivered remain important to customers. A couple of quarters ago, we launched our Cost Take-Out program to help customers identify and eliminate legacy security and networking products such as Firewalls, VPNs, VDIs, and more. We are seeing great success with our program as more and more customers are embracing it to reduce cost and complexity, while improving security.

Additionally, to help our customers unlock more cost savings, we launched a new purchasing program in Q3 called Z-Flex. Z-Flex allows customers to flexibly scale their adoption of our platform to meet the constantly evolving organizational demands for cyber and data protection. Customers can seamlessly adopt, scale and change modules based on agreed pricing, which simplifies the procurement process. Since its recent launch, Z-Flex commitments contributed over \$65 million dollars in TCV bookings.

To give you an example:

- An existing Fortune 500 technology customer made a multi-year commitment under the Z-Flex program, increasing their ARR by over 40% to approximately \$19 million dollars. As part of the flex commitment, the customer added Managed Threat Hunting, Micro Segmentation, Identity Threat Detection, Gen-AI protection, and several data security modules. This win also demonstrates our growing capabilities in the SoC and Zero Trust Cloud.

I expect the contribution from Z-Flex to grow meaningfully in the next fiscal year.

Moving to products, we are seeing significant growth drivers in three categories:

- **Zero Trust Everywhere,**
- **Data Security Everywhere, and**
- **Agentic Operations**

Each of these categories is growing significantly faster than our overall ARR, and their combined ARR is approaching \$1 billion dollars. Let me cover each of these categories in more detail.

On our last earnings call, we introduced Zero Trust Everywhere, which highlights our unique ability to take Zero Trust security beyond Users - Zero Trust for Cloud workloads and Zero Trust for Branches.

In Q3, 59% of customers who bought Zero Trust Branch were new logo customers. Many of these new logo customers are starting their branch journey by securing a small number of branches, which creates significant upsell opportunities for us. We are enhancing our Zero Trust Branch functionality with several innovations. For example:

- In Q3, we launched our new “Unified Appliance” for branch that brings together Zero Trust Branch Connectivity and Zero Trust Device Segmentation into a single plug-and-play appliance. This solution dramatically simplifies branch infrastructure, eliminating the need for SD-WAN, Firewall, NAC, and legacy segmentation. I expect Zero Trust Branch to be a significant growth contributor in fiscal 26.

Another key pillar of our Zero Trust Everywhere strategy is Zero Trust Cloud which enables secure communication from workload-to-workload and from workload-to-the-internet. Initially our customers leveraged Zero Trust Cloud to secure a small number of workloads to get comfortable with this innovative approach that requires no east-west firewalls, no north-south firewalls, no virtual private networks, no Express Routes, and no Direct Connects. Now, we are seeing larger deals for Zero Trust Cloud to secure a larger number of workloads, resulting in acceleration of Zero Trust Cloud ARR. To share an example:

- An existing financial services customer made their initial purchase of Cloud workload protection to secure all their internal workload traffic. This is an impressive 7-figure ACV land deal for workload protection.

We are seeing tremendous success as more customers are becoming Zero Trust Everywhere enterprises by embracing Zero Trust for Users, Branches and Cloud. Last quarter, we shared our goal to triple the number of Zero Trust Everywhere customers from over 130 to over 390 by the end of fiscal 26. I’m pleased to share that we ended Q3 with over 210 Zero Trust Everywhere enterprises, which is over 60% quarter-over-quarter growth. With this strong momentum, we remain on track to achieve our target.

The second category driving our growth is Data Security Everywhere. We have the most comprehensive data security capabilities to secure all types of data - whether structured or unstructured; data in motion or data at rest; and data across all channels, including GenAI apps,

web, email, endpoint, SaaS, DSPM, and more. Our comprehensive data security capabilities are resonating with customers and helping us win large deals. To give you an example:

- In a 7-figure ACV deal, an existing Fortune 50 automotive customer added our endpoint DLP module and privileged remote access or PRA, while expanding Zero Trust Users with more ZPA seats. This customer now has six of our eight data security modules, including Inline DLP, SaaS Security, Cyber Isolation, Data Isolation, Classification & Encryption, and Endpoint DLP. With this deal, the customer's annual spend with us increased by over 50% to well over \$10 million dollars.

Historically, data security was an important consideration for data-heavy regulated industries such as finance and healthcare. With the increasing adoption of GenAI and SaaS applications, data security is now becoming important to all industries. To give you an example:

- In a 7-figure ACV deal, a new logo Fortune 100 food and beverage company adopted Zero Trust for users and multiple data security modules.

Moving to Agentic Operations, our third category of growth. Our Agentic Operations are expanding rapidly in two areas: ITops and SecOps. For ITops, we delivered ZDX Copilot last year as an embedded feature in our ZDX Advanced Plus package. Since the launch of ZDX Copilot a year ago, bookings for "ZDX Advanced Plus" grew over 70% year-over-year to nearly \$75 million dollars. ZDX Copilot helps lower the mean time-to-resolution of service tickets, and its capabilities are becoming a key differentiator for us. To give you an example:

- An existing US-based large health care customer purchased ZDX Advanced Plus for 140,000 users in a 7-figure ACV deal. ZDX Copilot was an important consideration for this win.

Moving on to the second area of Agentic Operations – SecOps, where we have several modules, including Risk360, Business Insights, Unified Vulnerability Management, Identity Threat Detection, and Cyber Asset Attack Surface Management or CAASM. Our SecOps solution, built on the Data Fabric technology we acquired last year, is gaining traction and it drove over 120% year-over-year growth in SecOps ACV. To share a customer example:

- An existing US-based healthcare customer purchased Unified Vulnerability management for 400,000 assets in a 7-figure ACV deal. The customer told me that UVM gave them an accurate asset inventory within 2 hours, which is a dramatic reduction from the 6 months it would have taken them otherwise.

We will continue to expand our SecOps solution. The acquisition of Red Canary will allow us to expand into SoC categories of managed detection, and response or MDR, and Threat Intel. We expect to close this transaction in August 2025.

In addition to developing AI-powered solutions, we are enabling customers to safely adopt AI. Our Gen-AI data security module is enabling enterprises to securely use public-GenAI apps such as Microsoft 365 Copilot, DeepSeek, ChatGPT and more. In Q3, many customers, including:

- An existing Global 2000 Tech company,
- A leading fleet management company,

- A large federal customer, and more, purchased our Gen-AI data security module.

In addition to securing public AI apps, we are introducing solutions to secure customers' private-AI apps, such as AI models, chatbots, and inference engines. We are expanding the functionality of our Zero Trust Exchange with an LLM proxy to:

- analyze prompt queries to detect and prevent prompt injections and other malicious activities, and
- analyze responses to prevent data leakage and enforce the right access

I believe these cutting-edge innovations will position Zscaler to be a market leader in the AI security space.

Our customer obsession, employee dedication to our mission, and our customers' trust in our platform, are driving us to deliver innovations that solve our customers' most critical security challenges. With a strong go-to-market machine and strong momentum in Zero Trust Everywhere and AI security, I'm more excited than ever about our continued growth to \$5 billion dollars or more in ARR.

CFO commentary

Our Q3 results exceeded our guidance on growth and profitability, even with ongoing customer scrutiny of large deals. Revenue was \$678 million, up 23% year-over-year and up 5% sequentially. From a geographic perspective, Americas represented 54% of revenue, EMEA was 30%, and APJ was 16%.

Our Annual Recurring Revenue or ARR exiting Q3 was approximately \$2.9 billion. ARR growth was approximately 23% year-over-year. Remaining performance obligations, or RPO, grew 30% from a year ago to \$4.978 billion. Current RPO was approximately 48% of the total RPO.

Total calculated billings grew 25% year-over-year to \$785 million. Our Unscheduled Billings, comprised of new, upsell and renewal billings, grew in the high-20 percent year-over-year, driven by increasing customer demand for our platform. Our calculated current billings grew 24% year-over-year.

We ended Q3 with 642 customers with over \$1 million in ARR, and 3,363 customers with over \$100,000 in ARR. This continued strong growth of large customers speaks to the strategic role we play in our customers' digital transformation journeys. Our 12-month trailing dollar-based net retention rate was 114%. While good for our business, our increased success in selling bigger bundles, selling multiple pillars from the start, and faster upsells within a year, can reduce our dollar-based net retention rate in the future. There could be variability in this metric on a quarterly basis due to the factors I just mentioned.

Turning to the rest of our Q3 financial performance, total gross margin of 80.3% compares to 81.4% in the year-ago quarter. Our total operating expenses increased 5% sequentially and 21% year-over-year to \$397 million. Operating margin of approximately 22% was comparable year-over-year. Our free cash flow margin was 18%, including data center CapEx at 11% of revenue. We ended the quarter with approximately \$3.0 billion in cash, cash equivalents and short-term investments. As a reminder, our convertible debt reaches final maturity in July. We intend to settle the outstanding convertible debt in cash and equity in Q4. Also, we will use \$675 million in cash in Q1 of fiscal 26 for the acquisition of Red Canary, which we announced on May 27.

Next, let me provide our guidance for Q4 and full year fiscal 2025. As a reminder, these numbers are all non-GAAP.

For the fourth quarter:

- We expect revenue in the range of \$705 million to \$707 million, reflecting a year-over-year growth of approximately 19%.

- 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 \$152 million to \$154 million.
- Net other income of \$16 million.
- Earnings per share in the range of \$0.79 to \$0.80, assuming a 23% tax rate and 164 million fully diluted shares.

Based on our strong Q3 performance, we are increasing our full year guidance across all metrics. For the full year fiscal 2025:

- Billings in the range of \$3.184 billion to \$3.189 billion, reflecting a year-over-year growth of approximately 21% to 22%
- Revenue in the range of \$2.659 billion to \$2.661 billion, reflecting a year-over-year growth of approximately 23%.
- Operating profit in the range of \$573 million to \$575 million.
- Earnings per share in the range of \$3.18 to \$3.19, assuming a 23% tax rate and approximately 163 million fully diluted shares
- Free cash flow margin to be approximately 25.5%-26.0%

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.