

# Q2 Fiscal 2026 Shareholder Letter

February 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 third quarter of fiscal 2026 and full year fiscal 2026, and the expected impact of the acquisitions of Red Canary, SPLX and SquareX. 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 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 and operating results are included in our most recent filings with the Securities and Exchange Commission ("SEC"). You can locate these reports through our website at <http://ir.zscaler.com> or on the SEC website at [www.sec.gov](http://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.

# Strong Q2 results with revenue and operating income above guidance<sup>1</sup>

## Growth at scale with strong profitability

Revenue Growth Y/Y

**~26%**

Strong growth across all geos

## Customers increasing commitments

Annual Recurring Revenue

**~\$3.4B**

ARR growth of 25% Y/Y

Operating Margin

**22%**

Operating income growth of 29% Y/Y

Customer Commitments<sup>2</sup>

**~\$6.1B**

RPO grew 31% Y/Y

Free Cash Flow Margin

**~21%**

Free Cash Flow growth of ~18% Y/Y

Z-Flex Bookings<sup>3</sup>

**\$290M+**

+65% Q/Q in Z-Flex Bookings

1. See the Financial Appendix of this shareholder letter for definitions of non-GAAP financial measures and reconciliation.  
2. Remaining Performance Obligations (RPO).  
3. Bookings refer to the total customer contract over its entire duration. This includes all recurring subscription fees committed for the full term.

## From Our CEO



### Fellow Shareholders,

We delivered **strong Q2 results**, and I couldn't be more proud of the team's execution. ARR grew 25%, reflecting continued strong demand for our platform. We are confident in our outlook for the second half of fiscal 2026, and as a result, we are **increasing our guidance across the board**.

## Zscaler is the security platform for the AI era

I'd like to zoom out for a moment and talk about what's on everyone's mind, **AI**.

AI is the single most transformative technology of our time, and its mass adoption is only just beginning. We believe **Zscaler is the security platform for the AI era**, because **we already protect users, data, and applications across clouds and the internet, at scale**. Just as we enabled customers to securely accelerate digital transformation and cloud adoption, we believe **we're uniquely positioned to secure the AI transformation**, driving continued demand for our platform.

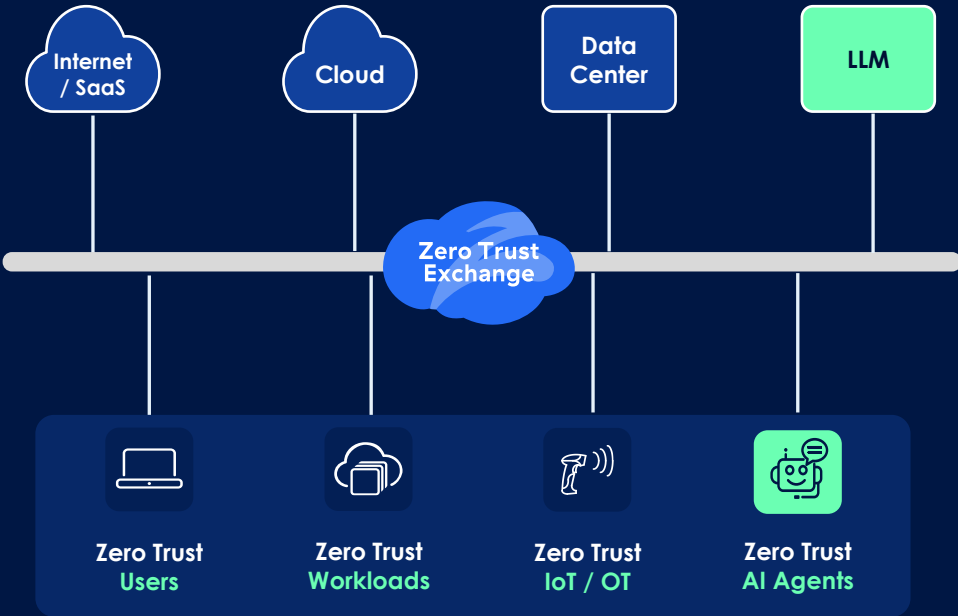
Organizations are rapidly adopting **AI** to drive productivity and innovation, but doing so is creating new vulnerabilities, significantly **expanding the attack surface and increasing cyberthreats in scale, sophistication, and speed** — recasting AI from a productivity engine into a dangerous security threat. During my conversations with more than 100 CEOs and CIOs, including many at the World Economic Forum in Davos last month, the urgency of securing AI is one of the top concerns on their minds.

# Extending Zero Trust from User to AI Agents

This is the opportunity for Zscaler's industry-leading Zero Trust Exchange, which enables our customers to securely scale AI for the agentic era and beyond. Zscaler minimizes the attack surface and limits lateral movement with our unique Zero Trust architecture that enables direct, one-to-one communication among users, applications, and AI agents.

- I started Zscaler with an initial focus on securing users with Zero Trust.
- Then we extended our platform to deliver Zero Trust for workloads, branches, and devices, which has increased our TAM significantly and extended our technology lead from other vendors who are still trying to build a SASE solution for user security.
- Now we are extending our global Zero Trust Exchange to secure AI applications, AI agent communication, and agentic workflows at scale. As AI agents are unleashed within the enterprise, it won't be long before billions of AI agents interacting with each other will have access to mission-critical applications and sensitive data.

## Zero Trust meets AI



## Uniquely positioned to secure AI workflows

Just like users, *an organization's AI agents are also becoming the weakest link in cybersecurity.* Imagine a threat actor hijacking even one of an organization's AI agents, resulting in a serious breach. AI agents shift the threat landscape and operate autonomously at speeds far exceeding humans, exponentially increasing agentic traffic while compressing the time to prevent, detect, and respond to threats. This is becoming even more acute as AI agents or apps exposed to the internet can be scanned and targeted in seconds. *Securing this new reality requires inline policy enforcement at massive scale. This is what Zscaler is built to deliver: Zscaler stands for Zenith of scalability.*

Effective AI security requires a proven, global Zero Trust Exchange infrastructure, and we believe Zscaler is the only cybersecurity platform for the AI age that is able to secure at this unprecedented speed and scale, creating a durable advantage. We have *15+ years of experience operating our own cloud across 160+ data centers worldwide, offering real-time security services with 99.999% reliability.* This global infrastructure is critical to secure AI agent communication. Our software is present on millions of end user devices, servers, as well as in the cloud and branch offices and it enables us to get agentic traffic to our Zero Trust Exchange, giving us a unique advantage. With our AI platform capabilities, *we processed nearly 1 trillion AI transactions in calendar 2025. We are also processing millions of MCP requests through our Exchange on a monthly basis, up from literally nothing a couple of quarters ago.*

- As an example, *a large Fortune 100 financial services customer* is using our Zero Trust Exchange to enforce policy for their software development agents.
- In another example, *a CISO of a Fortune 500 entertainment company*, a Zscaler customer, shared with me that with little deployment effort, he was able to turn on Zscaler Exchange to enforce policy for AI traffic, and is securing over 4 million prompts per week.

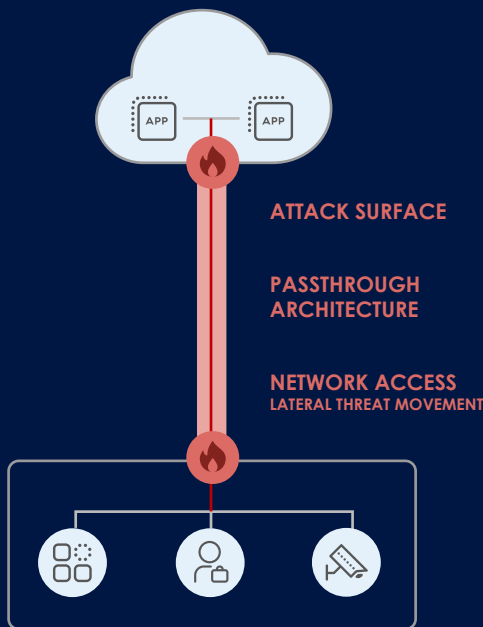
# Architectural advantage driving demand

Our Zero Trust Exchange is fundamentally different from competitive firewall-based security architecture that connects users or AI agents to a network and then allows them to roam free, dramatically increasing the risk of cyber breaches.

We expect these advantages, including significant architectural differentiation and our large customer base, to drive short-term and long-term demand for our platform.

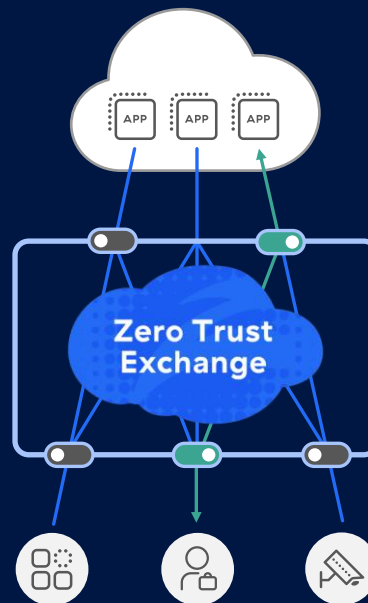
## Firewalls are like bridges

Connects to a network, where everything is trusted, even attackers



## Zscaler is like a switchboard

Securely connects one-to-one based on policies, not to the network

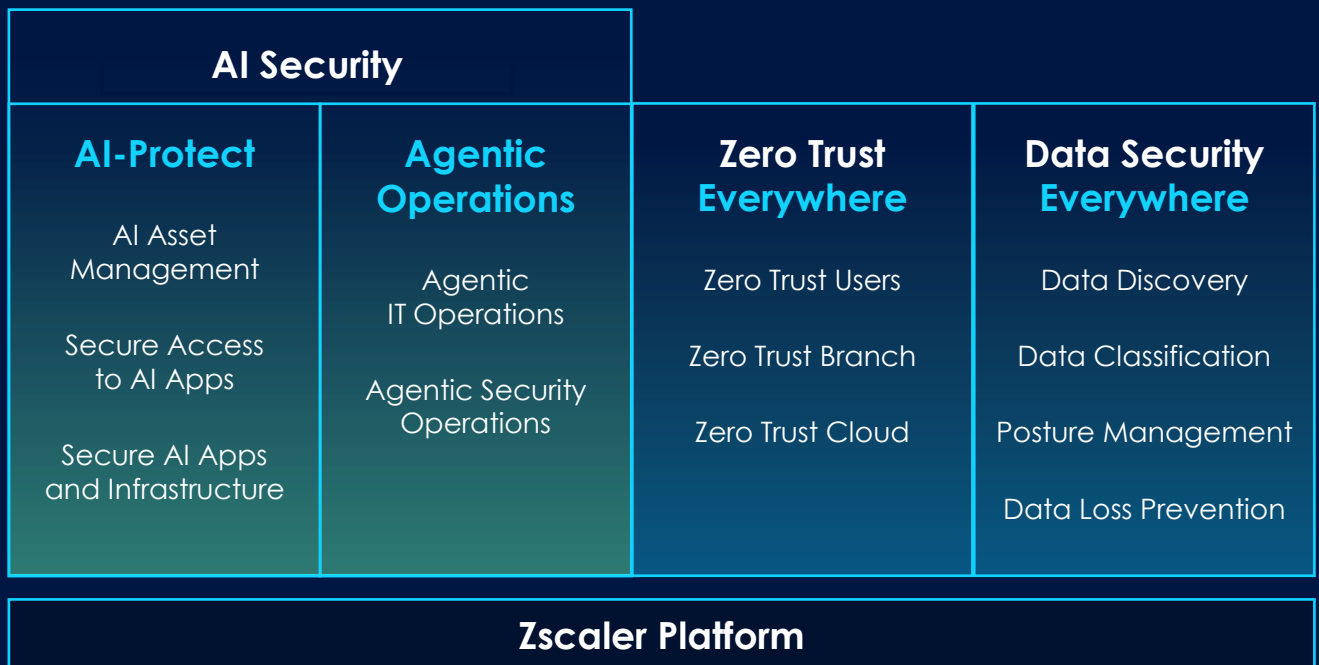


# Robust demand across all three growth pillars

Turning back to the quarter, our results reflect robust demand across all **three of our growth pillars:**

- **AI-Security,**
- **Zero Trust Everywhere, and**
- **Data Security Everywhere.**

## Comprehensive Platform Solutions



# Comprehensive portfolio of AI-Security solutions

I'll start with **AI-Security**, which includes two product areas: **AI Protect**, our recently-introduced solution to secure the use of AI, and **Agentic Operations**.

## AI-Protect

I'll begin with **AI-Protect** which secures the full spectrum of enterprise AI adoption and solves a range of cyber and data loss challenges.

- **Zscaler Threatlabz**<sup>1</sup> research found that in calendar 2025, AI application use within our customer base expanded to over 3,400, a quadrupling in the last 12 months alone, with data transfers to AI apps exceeding 18,000 terabytes. Many of these apps have serious vulnerabilities.
- Zscaler AI Protect gives customers a single, integrated way to secure AI at scale by discovering and **managing all AI assets including 'shadow AI' usage**, enforcing safe access to approved apps, and inspecting every prompt and response in real time to stop data leaks and attacks like prompt injection.
- For customers building their AI models and applications, our AI Red Teaming solution performs continuous security assessment. **This quarter we integrated our AI Red Teaming and our Guardrail products to provide true closed-loop security.**



**3,400+**

AI applications within our customer base



**>4x**

Number of AI applications quadrupled in last 12 months



**18,000TB**

Data transferred to AI/ML apps

1. Source: Zscaler ThreatLabz 2026 AI Security Report

# Growing demand for AI-Protect solutions

While our Zscaler AI-Protect solution is new, we see demand rapidly accelerating including landing new logos, representing a **massive future growth opportunity**.

**Fortune 500  
Semiconductor  
Manufacturer**



**New logo, 8-figure  
deal win**

- This customer expanded its use of our platform to include AI Protect and Data Security solutions, to block access to unsanctioned applications, prevent public LLM data leakage, and provide visibility into prompts.
- **Zscaler's integrated AI-Protect solution**, spanning the entire AI lifecycle, was a key differentiator for this new logo win.

**Global 2000  
Construction  
Company**



**Upsell, 7-figure TCV  
deal win**

- This customer, which is securing users with Zscaler, added our AI Protect solution, to prevent data leakage and enforce acceptable-use controls for access to GenAI applications.

# Driving innovation in Agentic Operations

The second product area of our AI Security is **Agentic Operations**, which includes our **Agentic SecOps** and **Agentic IT Ops solutions**.

- We are significantly advancing our **Agentic SecOps** capabilities by integrating Red Canary's agent framework with the deep security insights we generate from the Zscaler Zero Trust Exchange which processes more than 500 billion transactions every day, more than twenty times the number of daily Google searches. This fusion of capabilities simplifies customer operations, automates threat hunting, and provides more accurate, actionable threat prioritization.

## Agentic SecOps

### Deal Wins, Q2'26

- Leading AI software and research organization
  - Global 2000 utilities energy company
  - Global 2000 oil & gas company
- In **Agentic IT operations**, our innovations include Zscaler Digital Experience, or ZDX CoPilot, which combines agentic technology with a conversational interface to troubleshoot and resolve performance issues of applications, and network and endpoint devices.

## ZDX Advanced Plus Bookings<sup>1</sup>

**\$100M+ (+80% Y/Y)**

- We are soon **launching an AI Agent for ZDX** that will automate multiple troubleshooting tasks, resulting in faster diagnosis and resolution of performance issues.

Overall, I'm very pleased to see growing demand and continued momentum for our AI Security solutions.

1. Bookings for ZDX Advanced Plus, which includes our ZDX Copilot product, crossed \$100 million over the last 12 months, growing more than 80% year-over-year. Bookings refer to the total customer contract over its entire duration. This includes all recurring subscription fees committed for the full term.

# Strong upsell momentum within Zero Trust Everywhere

Our next growth pillar is **Zero Trust Everywhere**, which includes revenue from customers who are more broadly adopting our Zero Trust architecture by purchasing all of the following: Zero Trust Users, Zero Trust Branch, and Zero Trust Cloud.

- We pioneered the Zero Trust Users market by disrupting the traditional proxy and VPN markets, and we are a clear market leader.
- With our Zero Trust Branch, we are disrupting branch firewalls, Software Defined networks or SD WAN, and MPLS networks.
- With Zero Trust Cloud, we are disrupting virtual firewalls in the cloud.

We are seeing ARR from Zero Trust Branch and Zero Trust Cloud growing significantly as we dramatically reduce cost and complexity. The number of **Zero Trust Everywhere enterprises**<sup>1</sup> has grown at a rapid pace and **now sits at over 550, up from over 130 a year ago.**

The pricing of Zero Trust Branch and Zero Trust Cloud are based upon the number of devices, the number of workloads, and the amount of traffic, which keeps growing. This expansion also creates a flywheel effect, generating follow-on demand for our Data Security and AI Security offerings.

## Zero-Trust Everywhere Flywheel Effect



1. "Zero Trust Everywhere" enterprises are customers with 1,500 or more employees that purchased components of Zero Trust Users, Zero Trust Cloud and Zero Trust Branch.

# Zero Trust Branch

- In Q2, 45% of the total customers who bought our Zero Trust Branch solution were new logos, demonstrating that Zero Trust Branch is helping us grow our new logos.
- This is also clear proof that for better cyber protection, customers want each branch to become like an internet café and replace SD WAN, which is often sold by SASE vendors.

**Fortune 500  
Retailer  
subsidiary**



**Upsell, 7-figure  
deal win**

- One of our largest ever Zero Trust Branch deals.
- This customer significantly expanded its deployment of Zero Trust Branch to over 1,000 sites.
- The use cases were frictionless M&A integration and rapidly bringing both newly acquired and greenfield sites online.
- This order also included our AI Protect solution to secure sensitive data from GenAI apps.

**Large opportunity with millions of branches**  
yet to transform to Zero Trust across industries

Zero Trust Branch  
Upsell journey



**Start with small, initial rollouts**

# Zero Trust Cloud

- Another important part of our Zero Trust Everywhere solution is **Zero Trust Cloud**, which reduces cost and operational complexity by eliminating virtual firewalls in data center and cloud environments, and can be **deployed in 10 minutes**. We are seeing tremendous momentum for Zero Trust Cloud. Zero Trust Cloud is priced based on traffic, creating a natural path for ARR to grow as customer traffic grows.
- With significant wins, we are proving that for better cyber protection, **customers want each cloud workload to become like an island** and communicate only through our Zero Trust Exchange and displace virtual firewalls. **Our opportunity is to secure millions of workloads.**

**Global 200  
Financial  
Services**

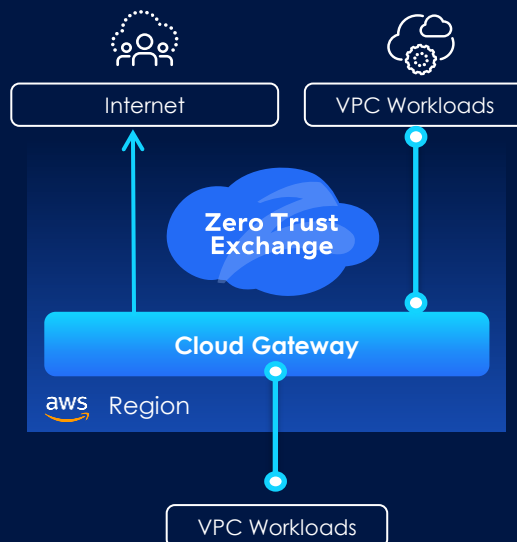


**Upsell, 7-figure  
deal win**

- One of our largest ever Zero Trust Cloud wins, increasing the customer's ARR to more than \$5 million, up over 40%.
- This deployment will eliminate a large number of virtual firewalls in their multiple cloud environments, which significantly reduces the operational burden of managing firewalls in multiple clouds and improves cyber posture by preventing lateral threat movement.

## Zero Trust Cloud Gateway

Zscaler Cloud Gateway reduces the deployment time to **10 minutes**



# Enterprise traction driving Data Security Everywhere

- Our third growth pillar is **Data Security Everywhere** which has eight modules, providing data discovery, data classification, posture management, and data loss prevention.
- We are seeing significant traction driven by enterprises consolidating their data security point products onto our integrated platform and simplifying deployments. The growing use of AI apps is making data protection essential, generating strong demand for our solution.

## Global 2000 Financial Services



Upsell, 8-figure deal win

- Customer expanded its adoption of our platform by purchasing additional data security modules, strengthening protection for sensitive data across its organization.
- This customer selected us over well-known competitors to replace multiple legacy point products, due to our unified policy for various data sources and channels.
- **With this purchase, the ARR for this customer increased nearly 5x.**

## Zscaler Data Security Solutions

Cyber Isolation

Inline DLP

SaaS Security

Classification & Encryption



DP Isolation

Endpoint DLP

Email DLP

DSPM

## Strategic partnerships with GSI partners aiding growth

- We are continuing to expand and deepen our relationships with Global System Integrators, or GSIs, who position the Zscaler platform to reduce cost and complexity by replacing legacy point products while creating service opportunities for them.
- Our investments are paying off, with **strong ACV growth in GSI influenced wins in fiscal Q2.**

### Leading Medical Services Provider

Upsell, 7-figure deal win

- Our partner was instrumental in helping the customer move away from traditional firewall and VPN technology with a Zero Trust architecture that enhanced their security posture.

### Leading Health System

Upsell, 7-figure deal win

- Our GSI partner helped us replace legacy data protection point products.
- Our partner's ability to provide secure end-to-end support via a managed service from implementation to Day 1 operations was critical to winning the deal.

We believe Zscaler is incredibly well-positioned to secure the AI era. As the number of agents expands, the unique Zero Trust architecture becomes even more crucial—minimizing attack surfaces and limiting lateral movement by enabling direct, one-to-one communication. In summary:

- Our **growth opportunity is straightforward**: traffic flowing through our Zero Trust Exchange for secure communication expands our revenue opportunity. In the agentic AI era, the traffic from Zscaler's more than 50 million users, servers, cloud workloads, branch locations, and AI agents will grow exponentially, driven by billions of autonomous agents.
- We believe that Zero Trust communication will be the only real way to provide the real time protection customers need to adopt AI safely and securely. **We run the largest in-line globally distributed security cloud platform in the world, processing more than 500 billion transactions every day, more than twenty times the number of daily Google searches.** This proprietary anonymized data is used to train our AI engine, a powerful differentiator to stop ever changing threats at speed and scale. We provide the global infrastructure which enables our customers to secure communication and apply policies in real time at wire speed.
- Today we are trusted by **more than 45%<sup>1</sup> of Fortune 500 companies**, and we expect to continue expanding our partnerships over time. In addition, with just **4,400<sup>2</sup> of more than 20,000<sup>3</sup> largest enterprises in the world as Zscaler customers today**, we have a significant opportunity ahead. This gives us a significant, durable runway for long-term growth, from both upsell and new logo opportunities

**Protecting AI is not just a job or task for Zscaler, it is our mission. We believe Zscaler is the cybersecurity platform for the AI age.**

**- Jay Chaudhry**

1. Forbes Global 2000 and Fortune 500 customers as of July 31, 2025; Forbes and Fortune list as of July 31, 2024; 2. Enterprises are customers with 1,500 or more employees; 3. Zscaler estimates of total number of orgs (ex-China) with 1,500+ employees, using the ZoomInfo database.

## From Our CFO

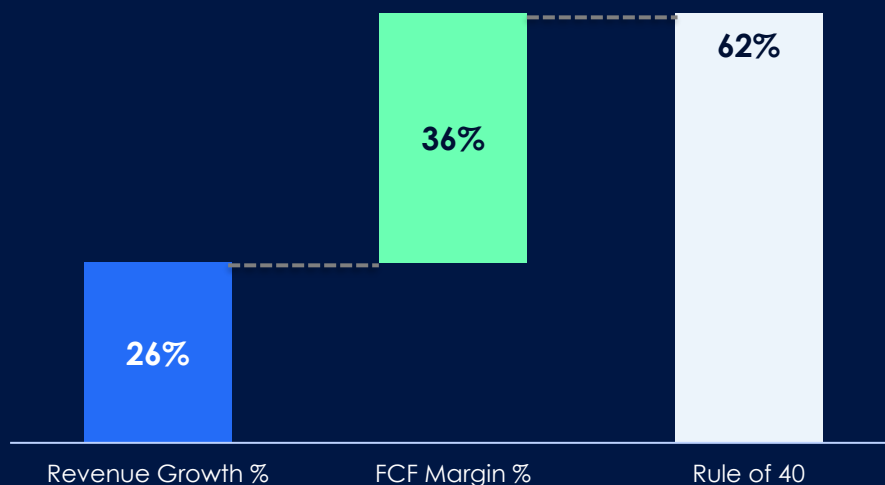


We delivered strong Q2 26 results, exceeding our targets while investing with discipline. With 26% revenue growth and a 36% free cash flow margin, we achieved **Rule of 62 performance in the first half of the year**, placing us among the elite companies that consistently outperform the Rule of 40.

	Q2 Guidance	Q2 Results	Q2 Results vs. Guidance
<b>Revenue</b>	\$797M - \$799M ~23% y/y	\$816M ~26% y/y	<b>Exceeded</b>
<b>Gross Margin</b>	~80%	80%	<b>Achieved</b>
<b>Operating Profit</b>	\$172M - \$174M ~22% margin	\$181M 22% margin	<b>Exceeded</b>
<b>EPS</b>	\$0.89 - \$0.90	\$1.01 29% y/y	<b>Exceeded</b>

## Rule of 62

Revenue Growth + FCF Margin 1H 26

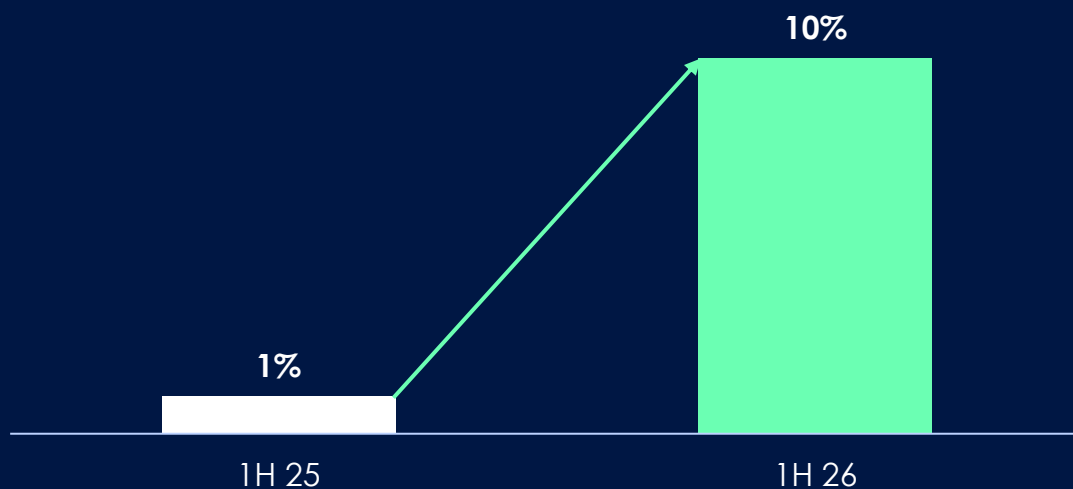


All numbers presented on an adjusted, non-GAAP basis. See appendix of this shareholder letter for a reconciliation of GAAP to non-GAAP financial measures.

## Strong net new ARR<sup>1</sup> with (and without) Red Canary

- Our Q2 26 net new ARR was \$156 million, up 19%, bringing total ARR to \$3.4 billion, up 25% year-over-year. Net new ARR benefited from strength in large deals and volume of deals. In particular, the Americas closed twice the number of \$1 million dollar plus deals this year as compared to last year.
- Excluding the contribution from our acquisition of Red Canary, net new ARR was \$139 million, up 7% year-over-year and total ARR, up 21%. These results compare to an exceptionally strong 24% net new ARR growth last year. Red Canary exited Q2 with \$114 million of ARR.
- For the first half of the year, net new ARR excluding Red Canary, grew 10% year-over-year, accelerating from 1% last year.

### Net New ARR (ex-RC) growth accelerated in 1H 26



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.

# Organic growth remains healthy

- This quarter our Zero Trust Internet Access, or ZIA, and Zero Trust Private Access, or ZPA, ARR remained healthy, and grew in the mid-teens.
- We have steadily expanded our Zero Trust platform beyond users to protect branches, workloads, AI applications, and now AI agents. We believe AI agents will drive a meaningful increase in machine-to-machine and agent-to-agent interactions over time.
- In Q2, our non-seat-based, metered-usage solutions delivered just over a quarter of new ACV, and the ARR tied to those offerings grew more than 100% year-over-year.

**25%+**

**Non-seat-based solutions  
Q2 New ACV contribution**

**100%+**

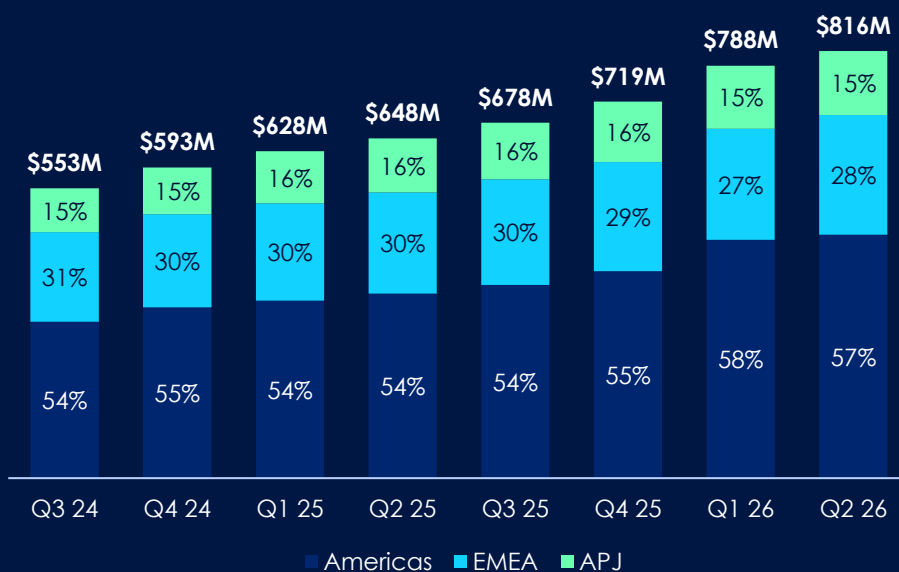
**ARR growth Y/Y for non-  
seat-based solutions**

## Robust deal momentum drives revenue

- Revenue of \$816 million, grew 26% year-over-year and 4% sequentially, exceeding the high end of our guidance.
- We closed Q2 with 728 customers generating over \$1 million ARR and 3,886 customers exceeding \$100,000 ARR, both growing 18% year-over-year.
- We also set a record \$1 million plus new ACV deals for a Q2.
- On a geographic basis, we saw strong growth from the Americas, which accounted for 57% of revenue, up approximately 31% year-over-year. EMEA accounted for 28% of revenue, up approximately 18% and APJ for 15%, up approximately 23%.
- Remaining performance obligation, or RPO, of \$6.1 billion, grew approximately 31%, including approximately 47% classified as current RPO.

### Strong revenue growth across all geographies

Revenue mix by geographies



## Improved sales productivity driven by record pipeline conversion for a Q2

- We are pleased with the **strong execution** in our account-centric sales motion, which is strengthening our position as a long-term strategic partner and driving deeper customer adoption over time.
  - In Q2, we again delivered **double-digit sales productivity growth**, reflecting continued improvement in our go-to-market execution with meaningful headroom ahead.
  - We also achieved **record pipeline conversion for a Q2**, signaling stronger pipeline quality and improved visibility.
- 

## Continued traction in Z-Flex deals

We continued to build strong momentum this quarter with our recently launched Z-Flex program.

- Z-Flex gives customers with multi-year commitments the flexibility to activate or swap modules without starting a new procurement cycle, along with premium deployment assistance and support. This program is driving meaningful upsell, shorter sales cycles, and greater forward visibility.
- In Q2, Z-Flex generated more than \$290 million in TCV, up over 65% quarter over quarter.
- Since launching a year ago, we have delivered approximately \$650 million in TCV at an average four-year term, underscoring customers' long-term commitment to Zscaler.

# Z-Flex Deal Wins in Q2

## Finance & Insurance Company



Upsell, 5-year, 8-figure deal win

- The customer **nearly tripled its annual spend**, by expanding its module adoption across 11 existing modules and adopting 5 new modules, including our AI security solution.

## Fortune 500 Retail Customer



New logo, 5-year 8-figure deal win

- This customer purchased 11 modules and adopted all of our Zero Trust Solutions, including Zero Trust Users, Cloud, and Branch, landing as a Zero Trust Everywhere customer.

## Z-Flex Bookings<sup>1</sup>



1. Bookings refer to the total customer contract over its entire duration. This includes all recurring subscription fees committed for the full term.

## M&A integration and performance

Turning to [M&A](#), I'd like to start with some color on our recent acquisitions.

- On February 5th, we closed the acquisition of [SquareX](#) which extends our Zero Trust capabilities into any browser, enabling organizations to leverage standard browsers like Chrome and Edge to secure access on unmanaged devices — without requiring a separate third-party enterprise browser, or using outdated and costly virtual desktop infrastructure.
- Next, [Red Canary](#). On February 1st, we executed the next phase of integrating the Red Canary teams with the respective Zscaler teams. Red Canary was primarily a technology and talent acquisition.
  - As we shared when we closed this acquisition, churn for MDR businesses is higher than we experience in our Zscaler business. Post-acquisition, Red Canary's churn has been elevated.
  - We'll be providing Red Canary ARR in Q3 and Q4.

## Strong operating metrics and free cash flow

- Non-GAAP gross margin was 80.2% compared to 80.4% a year ago.
- Non-GAAP operating income of \$181 million grew \$41 million or 29%, as compared to \$140 million last year. Non-GAAP operating margin of 22.2% increased 50 basis points year-over-year, reflecting the sales productivity improvements, demonstrating leverage on sales and marketing.
- Turning to the balance sheet, we ended the quarter with \$3.5 billion in cash, cash equivalents, and short-term investments, and \$1.7 billion of debt. In Q2, we generated \$204 million in operating cash flow, up 14% year-over-year, and capex was \$18 million, or 2% of revenue.
- Free cash flow margin was 20.7% this quarter, down from 22.1% last year, driven by the timing of cash collections.

## Raise FY26 Revenue and ARR Guide<sup>1</sup>

Let me provide our guidance for Q3 and full-year fiscal 2026. As a reminder, these numbers are all on a non-GAAP basis.

- For the second half of FY26, we expect approximately 40% of total net new ARR to be recognized in Q3.
- FY26 ARR guidance implies net new ARR growth excluding Red Canary of approximately 9.5%. For Red Canary, we expect ARR of approximately \$130 million in FY26, up from our prior guidance of \$95 million, with net new ARR of approximately \$6 million in Q3 and \$10 million in Q4. This includes all the business expected in each period, including FY26 renewals, upsells, and new logos.
- We expect Red Canary revenue of approximately \$125 million in FY26, up from our prior guidance of \$90 million.
- FY26 capex in the mid-single digits as a % of revenue.

	Q3 26 Guidance	FY26 Guidance
<b>Revenue</b>	\$834M - \$836M ~23% y/y	\$3,309M - \$3,322M 23.8% y/y – 24.3% y/y
<b>ARR</b>		\$3,730M - \$3,745M ~24% y/y
<b>Gross Margin</b>	~80%	
<b>Operating Profit</b>	\$187M - \$189M 22.4% to 22.6% margin	\$742M - \$748M ~22% to 23% margin
<b>Net Other Income</b>	~\$25M	
<b>Taxes</b>	21% tax rate	21% tax rate
<b>Earnings Per Share</b>	\$1.00 - \$1.01	\$3.99 - \$4.02
<b>Free Cash Flow Margin</b>		~26.5% to 27%

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. There is no GAAP measure that is comparable to ARR, so we have not reconciled the ARR data included to any GAAP measure.

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

I'd like to spend a minute addressing the recent increase in [memory, storage, and processor prices and availability](#). So far, we haven't seen a meaningful impact to our operations. However, it could become a factor in the future, as we purchase equipment for our data centers and Zero Trust Branch appliances. We'll continue to monitor our costs, and adjust customer pricing if needed.

We are very pleased with the results we delivered in the first half of fiscal 2026. We achieved 25% year-over-year ARR growth and record operating income. Excluding Red Canary, our net new ARR growth accelerated to 10% in the first half of the year, up from 1% in the same period last year. We also saw continued momentum with Z-Flex and closed a record number of \$1 million-plus ARR deals for a Q2.

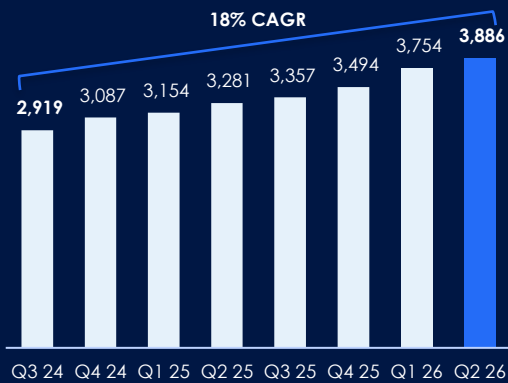
Looking ahead to the second half of the year, we believe we are well positioned to build on this momentum. We will do this by scaling our rapidly expanding AI Security portfolio, expanding Zero Trust Everywhere adoption, and growing our Data Security Everywhere revenue. Ultimately, we remain focused on driving durable, profitable growth with strong cash generation.

I want to thank our employees, customers, and partners for their continued support.

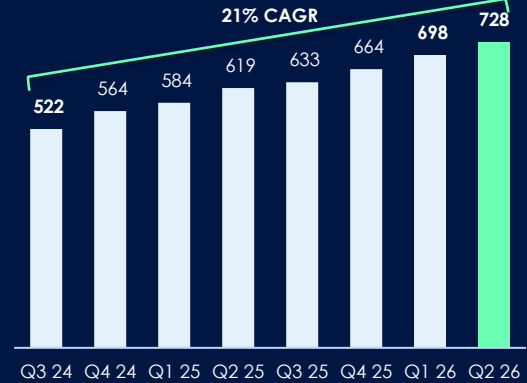
**- Kevin Rubin**

# Other key business and financial metrics

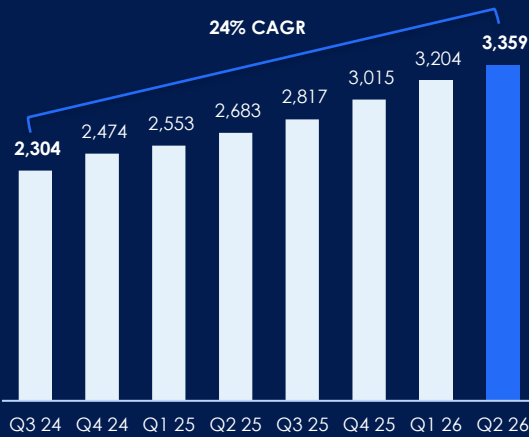
\$100K+ ARR Customers<sup>2</sup>



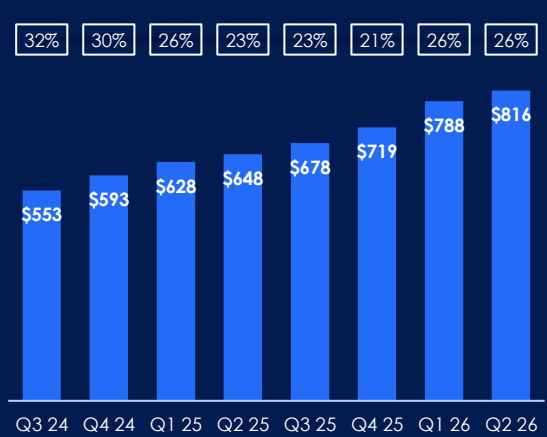
\$1M+ ARR Customers<sup>2</sup>



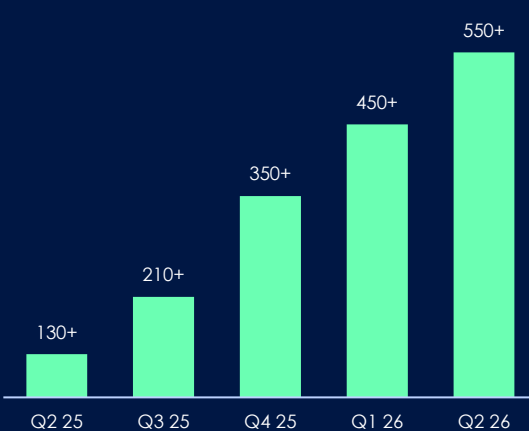
Annual Recurring Revenue (ARR<sup>1</sup>), \$M



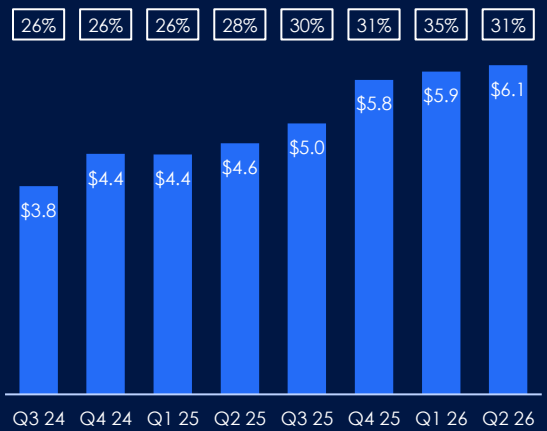
Quarterly Revenue (\$M); Y/Y growth



Zero Trust Everywhere Customers<sup>3</sup>



RPO (\$B); Y/Y growth



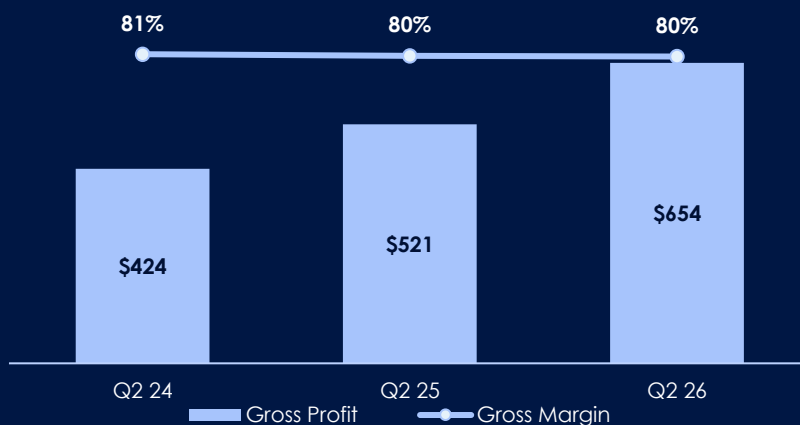
1) Zscaler Annual Recurring Revenue (ARR) refers to the next 12 months of revenue from subscription contracts as of the measurement date. To establish ARR for a customer, we assume that any contract expiring during the next 12 months will be renewed under the existing terms, excluding Red Canary's subscription contracts expiring in fiscal year 2026.  
 2) ARR information has been updated to reflect our current ARR definition.  
 3) Zero Trust Everywhere" customers are customers that purchased components of Zero Trust Users, Zero Trust Cloud and Zero Trust Branch. Enterprises are customers with 1,500 or more employees. Graph is illustrative and not to scale.

# Other key business and financial metrics

## Gross Profit & Margin

### Key factors

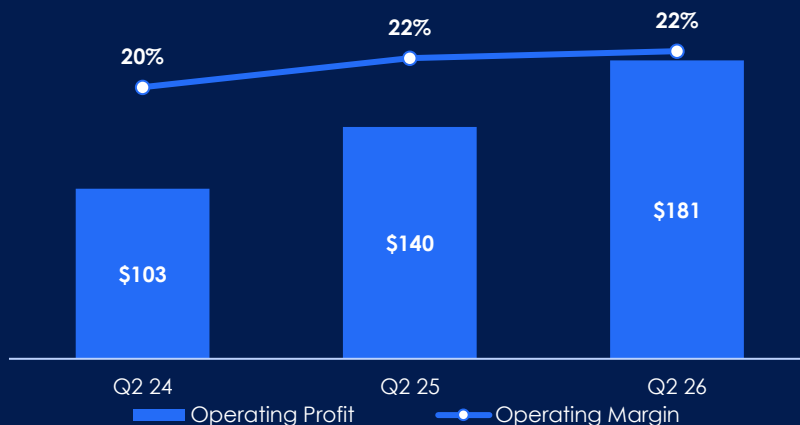
- Gross margins were in-line with our guidance and long-term targets



## Operating Profit & Margin

### Key factors

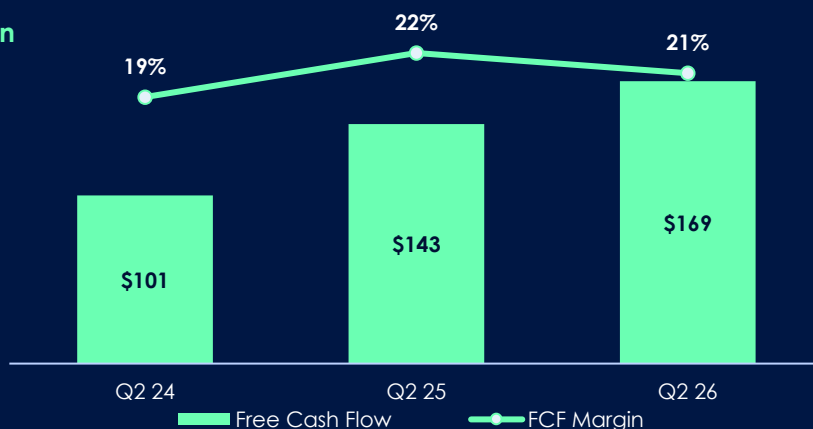
- Leverage in our financial model
- Improving sales productivity
- Pace of hiring & growth investments



## Free Cash Flow & Margin

### Key factors

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



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.

# Financial Appendix



## 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 that the presentation of non-GAAP financial information provides important supplemental information to management and investors regarding financial and business trends relating to our financial condition and results of operations. However, non-GAAP financial information is presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. 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.

Effective August 1, 2025, the beginning of our first quarter of 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<sup>(\*)</sup>
- Non-GAAP Income from Operations and Non-GAAP Operating Margin<sup>(\*)</sup>
- Non-GAAP Net Income and Non-GAAP Net Income per Share
- Free Cash Flow and Free Cash Flow Margin<sup>(\*)</sup>

<sup>\*</sup>Non-GAAP to GAAP reconciliations shown on the following pages.

## 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, and amortization expense of acquired intangible assets. 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 and acquisition-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, amortization of debt issuance costs, acquisition-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, excluding Red Canary's subscription contracts expiring in fiscal year 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.

## Appendix A

(\$ in thousands, except percentages)

Gross Profit & Margin	Q2 26	Q2 25	Q2 24
GAAP gross profit	\$ 624,491	\$ 499,402	\$ 407,800
Add:			
Stock-based compensation expense and related payroll taxes	22,880	17,619	13,434
Amortization expense of acquired intangible assets	6,917	3,815	2,717
<b>Non-GAAP gross profit</b>	<b>\$ 654,288</b>	<b>\$ 520,836</b>	<b>\$ 423,951</b>
GAAP gross margin	77 %	77 %	78 %
Non-GAAP gross margin	80 %	80 %	81 %
Operating Profit & Margin			
GAAP loss from operations	\$ (51,773)	\$ (40,140)	\$ (45,457)
Add:			
Stock-based compensation expense and related payroll taxes	220,413	176,356	145,536
Amortization expense of acquired intangible assets	11,114	4,245	3,083
Acquisition-related expenses	1,212	—	—
<b>Non-GAAP income from operations</b>	<b>\$ 180,966</b>	<b>\$ 140,461</b>	<b>\$ 103,162</b>
GAAP operating margin	(6)%	(6)%	(9)%
Non-GAAP operating margin	22 %	22 %	20 %

## Appendix A (cont.)

(\$ in thousands, except percentages)

<b>Non-GAAP Net Income and Non-GAAP Net Income per Share, Diluted</b>	<b>Q2 26</b>	<b>Q2 25</b>	<b>Q2 24</b>
GAAP net loss	\$ (34,312)	\$ (7,724)	\$ (28,469)
Add: GAAP provision for (benefit from) income taxes	13,014	(8,813)	7,964
GAAP income before income taxes	(21,298)	(16,537)	(20,505)
Add:			
Stock-based compensation expense and related payroll taxes	220,413	176,356	145,536
Amortization expense of acquired intangible assets	11,114	4,245	3,083
Acquisition-related expenses	1,212	—	—
Amortization of debt issuance costs	2,040	982	978
Non-GAAP net income before taxes	213,481	165,046	129,092
Non-GAAP provision for income taxes	44,830	37,965	29,691
<b>Non-GAAP net income</b>	<b>\$ 168,651</b>	<b>\$ 127,081</b>	<b>\$ 99,401</b>
Add: Non-GAAP interest expense, net of tax related to the convertible senior notes	—	276	276
<b>Numerator used in computing non-GAAP net income per share, diluted</b>	<b>\$ 168,651</b>	<b>\$ 127,357</b>	<b>\$ 99,677</b>
<b>GAAP net loss per share, diluted</b>	<b>\$ (0.21)</b>	<b>\$ (0.05)</b>	<b>\$ (0.19)</b>
Stock-based compensation expense and related payroll taxes	1.32	1.09	0.91
Amortization expense of acquired intangible assets	0.07	0.03	0.02
Acquisition-related expenses	0.01	—	—
Amortization of debt issuance costs	0.01	0.01	0.01
Income tax and other tax adjustments	(0.19)	(0.29)	(0.14)
Non-GAAP interest expense, net of tax related to the convertible senior notes	—	—	—
Adjustment to total fully diluted earnings per share	—	(0.01)	0.02
<b>Non-GAAP net income per share, diluted</b>	<b>\$ 1.01</b>	<b>\$ 0.78</b>	<b>\$ 0.63</b>
<b>Weighted-average shares used in computing GAAP net loss per share, diluted</b>	<b>159,683</b>	<b>153,672</b>	<b>148,951</b>
Add: Outstanding potentially dilutive equity incentive awards	2,780	2,988	4,670
Add: Convertible senior notes	3,925	7,626	7,626
Less: Antidilutive impact of capped call transactions	—	(1,769)	(2,093)
<b>Weighted-average shares used in computing non-GAAP net income per share, diluted</b>	<b>166,388</b>	<b>162,517</b>	<b>159,154</b>

## Appendix A (cont.)

(\$ in thousands, except percentages)

Free Cash Flow & Margin	YTD Q2 26	Q2 26	Q2 25	Q2 24
Net cash provided by operating activities	\$ 652,353	\$ 204,073	\$ 179,433	\$ 142,069
Less:				
Purchases of property, equipment and other assets	(35,066)	(17,755)	(15,018)	(30,894)
Capitalized internal-use software	(34,862)	(17,189)	(20,987)	(10,387)
<b>Free Cash Flow</b>	<b>\$ 582,425</b>	<b>\$ 169,129</b>	<b>\$ 143,428</b>	<b>\$ 100,788</b>

Free Cash Flow Margin				
Net cash provided by operating activities, as a percentage of revenue	41 %	25 %	27 %	27 %
Less:				
Purchases of property, equipment and other assets, as a percentage of revenue	(3)%	(2)%	(2)%	(6)%
Capitalized internal-use software, as a percentage of revenue	(2)%	(2)%	(3)%	(2)%
<b>Free Cash Flow Margin</b>	<b>36 %</b>	<b>21 %</b>	<b>22 %</b>	<b>19 %</b>

# Glossary

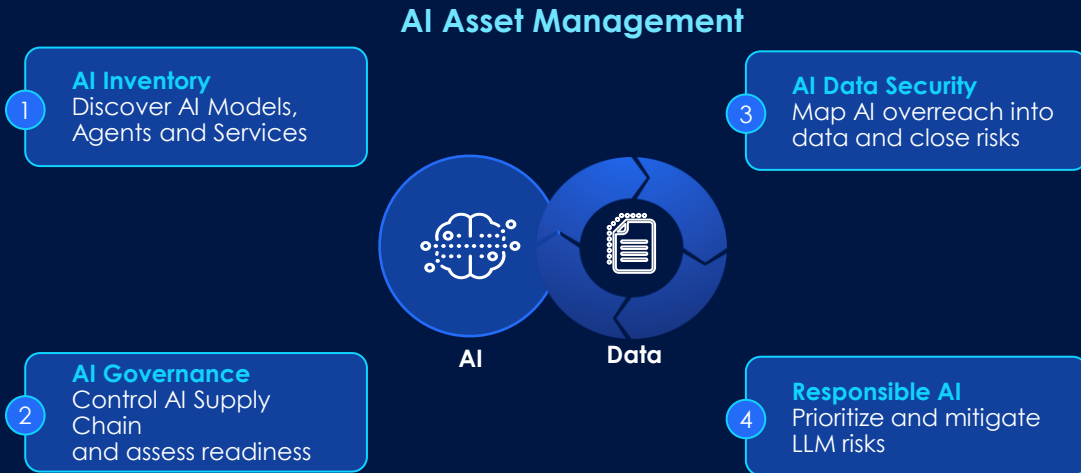
Product/Solution	Description
<b>AI-Security</b>	One of Zscaler's three growth pillars. Includes AI-Protect and Agentic Operations.
<b>Agentic Operations</b>	Leverages AI to provides solutions for IT Operations and Security Operations. Includes Agentic IT Ops and Agentic SecOps.
<ul style="list-style-type: none"> <li>• <b>Agentic IT Operations</b></li> </ul>	Accelerates the identification and resolution of applications and network performance issues. Products include Zscaler Digital Experience (ZDX) and ZDX's copilot capability.
<ul style="list-style-type: none"> <li>• <b>Agentic SecOps</b></li> </ul>	Provides exposure management and threat management solutions by leveraging real-time data from the Zero Trust Exchange, third-party data from our Data Fabric technology, and Red Canary's agentic AI capabilities to create an AI-powered security operations platform. Includes Risk360, Business Insights, UVM, Identity Threat Detection, Cyber Asset Attack Surface Management, Red Canary and Zscaler SOC solution.
<b>AI-Protect</b>	Secures usage of generative AI, prevents sensitive data leakage to AI models, and monitors the security of AI applications and infrastructure, by protecting the organization from new threats like AI poisoning, jailbreaking, and toxic AI behavior.
<ul style="list-style-type: none"> <li>• <b>AI Asset Management</b></li> </ul>	Provides full visibility into an organization's AI stack, including applications, models, and agents to eliminate shadow AI and ensure security compliance.
<ul style="list-style-type: none"> <li>• <b>AI Guardrail</b></li> </ul>	Provides guardrails for AI usage by inspecting and classifying every prompt and response to prevent sensitive data leakage and block adversarial threats like prompt injection and jailbreaking.
<ul style="list-style-type: none"> <li>• <b>AI Red Teaming</b></li> </ul>	Provides continuous protection by identifying vulnerabilities in AI models and applications throughout the development process as well as in production.
<b>Data Security Everywhere</b>	One of Zscaler's three growth pillars. Includes eight modules across Cyber Isolation, DP Isolation, In-line DLP, Endpoint DLP, E-mail DLP, SaaS Security, DSPM, and Classification & Encryption. Uses AI-powered classification mechanisms to identify and prevent sensitive information leakage, whether for data at rest (e.g., data sitting in a folder), in motion (as it travels across the web) and in use across web, SaaS, endpoints, and public clouds.
<b>ZIA (Zscaler Internet Access)</b>	Provides secure user access to the internet and SaaS applications, without exposing users to the network.
<b>ZDX (Zscaler Digital Experience)</b>	Provides end-to-end visibility into user, app, workload performance, to identify and resolve connectivity or latency issues across any device or network.

# Glossary

Product/Solution	Description
<b>ZDX Advanced Plus</b>	Leverages AI-powered insights and 24/7 monitoring to resolve performance. It includes ZDX Copilot, which enables IT teams to instantly troubleshoot and optimize digital experiences through natural language queries, and will leverage agents to automate multiple troubleshooting tasks.
<b>ZPA (Zscaler Private Access)</b>	Provides secure and direct access to private internal applications, without VPN.
<b>Zero Trust Everywhere</b>	One of Zscaler's three growth pillars. Zero Trust Everywhere enterprises are defined as customers $\geq 1500$ employees, who have adopted all of the following Zero Trust Users, Zero Trust Branch and Zero Trust Cloud.
<ul style="list-style-type: none"><li>• <b>Zero Trust Branch</b></li></ul>	Extends Zero Trust connectivity to IoT/OT devices in physical locations like offices, factories and campuses. Includes our ZT SD-WAN and Device Segmentation solution (acquired through Airgap acquisition).
<ul style="list-style-type: none"><li>• <b>Zero Trust Cloud</b></li></ul>	Secures workload traffic end-to-end between workload-to-workload, workload-to-internet, and workload-to-SaaS. Includes Workload Security and Microsegmentation solutions.
<ul style="list-style-type: none"><li>• <b>Zero Trust Users</b></li></ul>	Includes Core ZIA and Core ZPA solutions that securely connect employees and third parties to the internet, SaaS, and private applications.
<b>Zero Trust Exchange Platform</b>	Zscaler's security cloud that acts as an intelligent switchboard, securely connecting users, devices, workloads and AI agents to the internet, SaaS applications, private applications and LLMs based on identity and business policy.
<b>Z-Flex</b>	Zscaler's flexible licensing model that enables customers to adopt, scale, and change modules based on agreed pricing and fixed rate card, simplifying the procurement process.

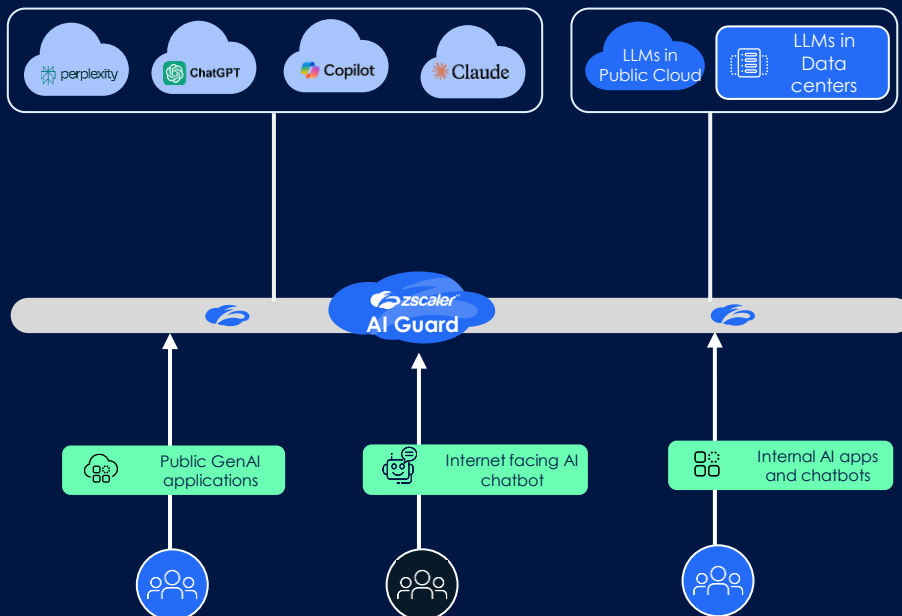
# Glossary

## AI-Protect: AI Asset Management



With the acquisition of **SPLX**, we are extending these capabilities by unifying discovery of LLMs, workflows, and MCP servers

## AI Protect: AI Guardrails



# Glossary

## AI Protect: Red Teaming

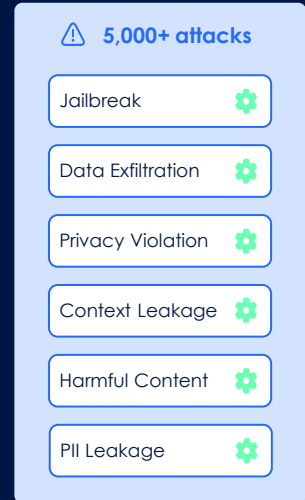
Support broad range of AI Dev Environments



Variety of Red Teaming tests

<b>Security</b>	
Context Leakage <input checked="" type="checkbox"/>	Data Exfiltration <input checked="" type="checkbox"/>
RAG Poisoning <input checked="" type="checkbox"/>	Jailbreak <input type="checkbox"/>
<b>Safety</b>	
Bias <input type="checkbox"/>	Privacy Violation <input checked="" type="checkbox"/>
PII Leakage <input checked="" type="checkbox"/>	Harmful Content <input checked="" type="checkbox"/>
<b>Hallucination &amp; Trustworthiness</b>	
RAG Precision <input checked="" type="checkbox"/>	URL Check <input checked="" type="checkbox"/>
Paranoid Protection <input checked="" type="checkbox"/>	Q&A <input type="checkbox"/>
<b>Business Alignment</b>	
Competitor Check <input checked="" type="checkbox"/>	Off Topic <input checked="" type="checkbox"/>
Legally Binding <input checked="" type="checkbox"/>	Intentional Misuse <input type="checkbox"/>

Library of simulated attacks



AI Summarizes the results and tells what needs to be fixed

With SPLX, we now deliver AI red teaming to enable automated and continuous testing of AI apps at scale