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# EDITED TRANSCRIPT

ZS.OQ - Q4 2025 Zscaler Inc Earnings Call

EVENT DATE/TIME: SEPTEMBER 02, 2025 / 8:30PM GMT

**OVERVIEW:**

Company Summary

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**Kevin Rubin** *Zscaler Inc - Chief Financial Officer*

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**Mike Cikos** *Needham & Company LLC - Analyst*

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**Joshua Tilton** *Wolfe Research LLC - Equity Analyst*

**Andrew Nowinski** *Wells Fargo Securities LLC - Analyst*

**Fatima Boolani** *Citibank Cameroon SA - Analyst*

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## PRESENTATION

### Operator

Hello, and welcome to Zscaler fourth quarter 2025 earnings call. (Operator Instructions) I would now like to turn the conference over to Ashwin Kesireddy, Vice President of Investor Relations and Strategic Finance. Sir, you may begin.

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### Ashwin Kesireddy - Zscaler Inc - IR Contact Officer

Good afternoon, everyone, and welcome to the Zscaler fourth quarter fiscal year 2025 earnings conference call. On the call with me today are Jay Chaudhry, Chairman and CEO; and Kevin Rubin, CFO. Please note, we have posted our earnings release and a supplemental financial schedule to our Investor Relations website.

Unless otherwise noted, all numbers we talk about today will be on an adjusted non-GAAP basis. You will find the reconciliation of GAAP to the non-GAAP financial measures in our earnings release. I'd like to remind you that today's discussion will contain forward-looking statements, including but not limited to, the company's anticipated future revenue, annual recurring revenue, calculated billings, operating performance, gross margin, operating expenses, operating income, net income, free cash flow, dollar-based net retention rate, future hiring decisions, remaining performance

obligations, income taxes, earnings per share, our objectives and outlook, our customer response to our products and our market share and market opportunity.

These statements and other comments are not guarantees of future performance, but rather are subject to risks and uncertainties, some of which are beyond our control. These forward-looking statements apply as of today and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call. For a more complete discussion of the risks and uncertainties, please see our filings with the SEC as well as in today's earnings release.

I also want to inform you that we'll be attending the following conferences: Citi Global TMT Conference on September 4, Truist Securities Technology Symposium on September 4, Goldman Sachs Communacopia plus Technology Conference on September 10, Wolfe Research TMT Conference on September 10. Now, I'll turn the call over to Jay.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

Thank you, Ashwin. We had an outstanding Q4, and I am 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 am pleased to share that our platform now secures nearly 40% of the Global 2000 and over 45% of the Fortune 500 companies.

Driven by the strong customer demand, our Annual Recurring Revenue, or ARR, increased about 22% year-over year and surpassed \$3 billion, 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 the 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 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're 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're 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 am pleased to see continued strong demand for our Agentic Operation products, and I expect this portfolio to surpass \$400 million in ARR in fiscal year '26.

In addition, we're delivering several innovations to continue driving growth in these areas. For example: For security operations, we're 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.

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 factor, 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're 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're 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 seven-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, ExpressRoutes, and Direct Connects. The proliferations 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 data center 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 10 minutes. By simplifying connectivity for distributed workloads across hyperscalers, we are helping customers achieve Zero Trust at global scale, which accelerates the 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. 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's 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 E-mail 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 adoption of our broader platform, we introduced our Z-Flex program less than two quarters ago. In Q4, this program generated over \$100 million 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 hundreds 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're still in the early innings of disrupting a large \$100 billion security market. Now I'd like to turn over the call to Kevin for our financial results.

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**Kevin Rubin** - Zscaler Inc - Chief Financial Officer

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

We ended fiscal '25 with over \$3 billion in ARR, a milestone that reflects approximately 22% year-over-year growth. Notably, as Jay mentioned, 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 fiscal '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 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 customer's 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 1,000 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 fiscal '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 contributions from customer contracts up for renewal in fiscal '26.

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 towards the second half of the year, with approximately 46.5% to 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 '26. 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 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 '26, ARR in the range of \$3.676 billion to \$3.698 billion, reflecting year-over-year growth of 21.9% to 22.7%. Revenue in the range of \$3.265 billion to \$3.284 billion, reflecting 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% to 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. With that, operator, you may now open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Saket Kalia, Barclays.

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### Saket Kalia - Barclays Services Corp - Analyst

Okay. Great. Hey Jay, hey Kevin, thanks for taking my question here and nice finish to the year. Jay, maybe for you, there were times when SASE was a healthy space in the past despite firewalls being healthy as well. But now it seems like firewall appliance growth is starting to slow.

And you touched on this a little bit in your prepared remarks. But to what extent do you think SASE is replacing firewall appliances? I think we all know that it's replacing secure web gateway points. But what does the velocity look like on firewall appliances?

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### Jay Chaudhry - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

So Saket, a very good question. First of all, I basically said that if you want Zero Trust, you can't depend on firewalls for security. So firewalls have to go. Some of these old boxes take a lot longer to go sometimes than we want them to.

First, I think these firewall appliances in the branch are the first to go. And the launch of Zero Trust Branch by Zscaler has been playing an important role. And since we introduced our unified Zero Trust Branch, which combines at the segmentation, air-gap segmentation with elimination of firewalls and the like, the interest has gone through the roof. In fact, the only two products that Zscaler has seen that don't require any demand generation because there's so much demand out there, one is Zero Trust Branch and the second is AI Security.

Now, branch will go first. I think data center firewalls will be impacted second, and the virtual firewalls will be the third and last. I think it's a matter of time when firewalls are going to become like mainframes.

Now, I'm talking about SASE. Unfortunately, SASE is one of those terms which means anything and everything. SASE includes firewalls, SASE includes SD-WAN. That's why we don't even like to use the term SASE too much. Or if we do, we like to use the term Zero Trust SASE.

With the momentum we are seeing, I think you'll see acceleration in the elimination of branch firewalls with Zero Trust architecture. If you see Zero Trust security, we need to go in Zero Trust all the way. I hope it helps.

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**Operator**

Brad Zelnick, Deutsche Bank.

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**Brad Zelnick** - *Deutsche Bank AG - Analyst*

Excellent. Thank you so much for taking my question and Jay, Kevin, unbelievable. Congrats on a strong close to the year and a very healthy outlook for fiscal '26. Jay, I wanted to ask about Z-Flex. 50% sequential growth in TCV bookings, clearly a vehicle for getting more strategic with your customers.

Can you talk about how your sales force will use Flex to exceed their goals in fiscal '26? Is it available broadly to everybody in the field? And maybe more generally, what's Mike Rich's playbook coming out of sales kickoff this year?

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Z-Flex is an important program that's built upon two very important foundational pieces we put in place before. The first thing was to really eliminate the bunch of point products. We end up doing architectural workshops that identify what all should go out.

Two, our business value assessment team quantifies if those pieces are moved, when can they move, and how much cost can be saved. Then Z-Flex comes on top of that and says, how do we make pricing flexible to meet the needs of the customer? For example, the customer may select to use, say, six modules. They're not sure if they can use three of them upfront or two, and when they'll use the last one.

We give them flexibility to use the modules they need to use. There's a term on the deal, which could be three years and often five years, and their ability to add more modules within the window, or we have a rate card to really buy more.

So it gives the flexibility for the customers and allows the deal to fit in the budget. So a combination of our architecture, business value, and our Z-Flex makes it easier for us to do larger and better deals. And that's what we're driving. This program is relatively new, only about 4, 4.5 months old. And we started with a smaller set of larger customers. Now we're expanding to the next level of customers as well as our partners.

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**Operator**

Mike Cikos, Needham.

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**Mike Cikos** - *Needham & Company LLC - Analyst*

Hey guys, thanks for taking the questions here and I'll echo my congrats on the quarter. I wanted to circle back to the Zero Trust Everywhere stat that we have around customer growth. And Jay, I think you're going to need to update that 390-plus target pretty soon.

But wanted to get a sense first, can you help us think about -- I know you've given some customer examples, but what does the average customer look like when they are deemed a Zero Trust Everywhere customer? How does spend materially change? What is the number of modules they're taking on versus the remaining cohort of customers?

And then secondly, do sales reps have quota set against the Zero Trust Everywhere metric? Or is this more just -- the market is coming to Zscaler in this fashion? I would just like to parse out those different elements.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Sure. Very good question. So first of all, as you know, to do full security, you need to make sure you're able to implement Zero Trust not just for users but also your branches, where each branch becomes like an internet café, as well as cloud workloads where you can have Zero Trust communication among workloads.

Our customers early on started with Zero Trust for users. We've done a very good job in that. The next natural thing for customers to worry about is our branches. That's where we're going with Zero Trust Branch, and that's actually eliminating a lot of firewalls and SD-WAN out there.

And cloud is the next big thing. And with AI workloads building up, we see more demand, more adoption of Zero Trust in the cloud. So it's a natural part of the journey. We are seeing what we expected. So that's the adoption part.

Now, what kind of impact can we have? We're seeing a large number of deals where ARR has gone to 2x or 3x and sometimes higher. And as you know, with time, workloads will grow even though users may not grow over time. So we expect this trend to be a very good thing.

From an incentive point of view, we don't really give our sales team targets for each product. What we do give them is additional incentive from time to time for certain new products or new logos type of stuff. But it is true that the demand is pretty good in these areas, and our customer with Zero Trust Users, Zero Trust Branch, and Zero Trust Cloud becomes a Zero Trust Everywhere customer. And we're excited with the opportunity we have to take a large installed base of users to the next two pillars. I hope that helps.

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**Operator**

Meta Marshall, Morgan Stanley.

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**Meta Marshall** - *Morgan Stanley - Analyst*

A question for you on the AI Security front. When customers start looking towards the AI Security product adoption, just where are they looking for first? Kind of the security for AI with some of the Data Security or agentic solutions, or that AI for security kind of on the security ops side?

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Sure. Thank you. Our customers first started to have secure use of public AI such as ChatGPT, Gemini of the world. We offered the solution starting about 18 months ago. It's fairly well deployed. The goal is to make sure we secure the data so it doesn't leak out to public applications.

The next piece became how about securing my private applications, my private models that are sitting in a data center or my public cloud. For them, we recently launched an offering. We call it AI Guardrails. It's early stage, but it is having tremendous interest.

From a futuristic point of view, the next big interest is coming from agent-to-agent communication. Zero Trust communication with all these agents, and we've got a serious amount of effort going on in this area. It's a natural area for us to work with. We have been doing Zero Trust communication on workloads, users, branches, and devices. This is a natural thing, and we expect it to be a sizable opportunity for us. Thank you.

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**Operator**

Josh Tilton, Wolfe Research.

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**Joshua Tilton** - Wolfe Research LLC - Equity Analyst

Congrats on a great end to the year. I guess what I'm trying to just get a better handle on is, it looks like if you strip out Red Canary from the guide for next year, that you guys are guiding to net new ARR growth which does scream like it's strong.

But I guess what I'm just trying to understand is, is there any way you can give us a sense of what net new ARR grew this year so we can kind of gauge where you're guiding from? Like are you guiding to an acceleration? Are you guiding to a deceleration? Is there anything you could help us understand for the trajectory of the net new ARR that you're guiding to for next year?

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**Kevin Rubin** - Zscaler Inc - Chief Financial Officer

Yeah. Thank you for the question. We are guiding for a high single-digit net new ARR growth in fiscal '26 on an organic basis.

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**Operator**

Andy Nowinski, Wells Fargo.

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**Andrew Nowinski** - Wells Fargo Securities LLC - Analyst

Okay. Congratulations on a strong finish to fiscal '25. I wanted to ask you guys about the Data Security portfolio. I know \$425 million was pretty impressive from an ARR perspective. I think you added about \$75 million this quarter alone.

And I know that's a standalone suite of solutions, but it seems like those products go hand in hand with the Zero Trust Everywhere solution. So I'm just wondering if you're seeing customers possibly buying both solutions or if they will, maybe you'll see more of that trend this coming year?

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

So we are seeing Data Security being bought along with Zero Trust Everywhere, and many times even without that. For example, you may have Zero Trust Users, and if you don't have data security, you could add data security on top of that. Or in many deals, the customer says, I need to save more money and remove a lot of boxes in their branches, in their cloud, and my data security.

So we have done deals where customers are moving to embrace data security and cloud and branch. And now within data security, we have about eight modules, and there's an opportunity. So many times, customers go from zero to four or two to five or seven, and that module count is going up.

To give you a little bit of a quantitative idea, only 30% of our data security customers have more than three or more modules, and only 10% have four or more modules. That means that quite a few customers who have bought inline DLP have the opportunity to do 7 additional modules.

So we are excited. We think we will have a pretty good growth rate for data security. In fact, if data security business we have were an independent company, standalone company, it would probably be one of the largest data security companies out there.

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**Operator**

Fatima Boolani, Citi.

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**Fatima Boolani** - Citibank Cameroon SA - Analyst

Kevin, this one is for you. It's a little bit more tactical with respect to Z-Flex. So about 4, 4.5 months of learning under your belt. But could you clarify for us if this is a vehicle or a conduit for attracting new customers? Or is it principally being pitched to existing customers? Whereby, if you can sort of talk to us about what the downstream impact on some of your KPIs would necessarily or hypothetically be, say from a net retention rate perspective, from a billings perspective.

So anything you can help us there with regards to Z-Flex's impact on the financial model, whether it's through new customers or existing customers porting over to the Z-Flex program?

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**Kevin Rubin** - Zscaler Inc - Chief Financial Officer

Thanks for the question. The truth is that Z-Flex is available and applicable to both new logo and existing customers. I think we actually spoke on the last conference call about the fact that Z-Flex is not fundamentally changing the financial model in any way.

As Jay mentioned, it does have the result of significantly increasing potential deal sizes as customers have the flexibility to deploy multiple modules and have price visibility as well. But there isn't any direct consequence to any of the financial metrics as a result of tactically purchasing Z-Flex.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

If I may add, so we're not dependent on consumption that's unknown. It's a known amount, TCV over a certain amount of time. The flexibility we're giving is, for example, there may be some pricing built in if the modules are adopted on a given time. That's number one point. Two, the modules, they can be predefined rates kind of stuff. But overall, it's increasing our TCV as well as our ARR.

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**Operator**

Gray Powell, BTIG.

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**Gray Powell** - BTIG LLC - Analyst

Great. Congratulations on the good results. So yeah, I want to follow up on the earlier questions on Zero Trust Everywhere. If I just look at like the components of that pillar, so there's Zero Trust for users and cloud. Those are more mature components. I would guess they are like the larger part of it.

And then there's Zero Trust Branch, which is new. It sounds like it's getting a lot of traction. So just like how exciting can we get on the potential there? And then is that demand -- is it being driven more by like SD-WAN replacement? Is it the segmentation piece or just is it something else? I just want to make sure I'm thinking about that correctly.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

Yeah. So thank you. Yes, it is true that user is more mature. Cloud, it started out it's small deployments and customers are saying I've never seen anything like Zero Trust Cloud. What is this? Because we are the pioneers, we really introduced the notion in the cloud and that's growing very nicely.

And the branch, we needed to offer a plug-and-play solution, and then with a few capabilities which we basically evolved over time. Now we are very mature, wonderful solution. And I mentioned earlier, this is an area where I don't need to do any demand gen because the demand is exceeding all our expectations.

So where is it coming from? Customers have a lot of SD-WANs already deployed. On SD, they're finding that they are not easy to manage. There's a lot of operational overhead, roundtable management. But more importantly, SD-WAN enables lateral tech movement, a single infected machine in one branch shoppers can reverse the whole network. It's a mesh network and bring all other things down. That's the biggest problem we fixed.

That's what our customers are looking for. So we replaced SD-WAN or replace whatever old school network they have in place. It's an exciting area for us. I have been personally passionate about eliminating all these firewalls and all these branches. I think we're getting closer to it.

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**Operator**

Eric Heath, KeyBanc.

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**Eric Heath** - KeyBanc Capital Markets Inc - Equity Analyst

I'll echo my congrats as well. Maybe just to follow on your comments regarding, Gray's question on the branch. One thing I wanted to ask you, Jay, is there was a lot of strength in the retail sector coming out of COVID buying branch firewalls.

Could you just talk about your exposure to retail and specifically as we think about fiscal '26, calendar '26. How are you thinking about the opportunity for Zero Trust Branch in the retail segment, as we kind of come up on that five-year depreciation life cycle in that sector.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

Yes. Retail is a great segment. In fact, if you look at where our customers are going, they want to start from the smaller branches, then to larger, and then to plants and factories. Here is a typical dialogue that goes for me with a customer. Let's start with a simple branch.

What's the difference between with you sitting at branch office or you sitting at home? The answer typically is nothing. Second question, do you have an SD-WAN at home? No. Do you have in the branch office? Yes. Do you have a corporate firewall at home? No. You have it in the branch office? Yes. Why? The only reason is we've always done it that way.

So we are starting with the low-end firewalls, which are relatively easy than we were to the next level. Retail is a fairly easy and simple segment. Yes, there are some very large stores out there, but lots and lots of retail stores are straightforward and simple. They're very similar to each other.

So the deployment rollout becomes easier. So we're counting on retail among other areas on our business growth for Zero Trust Branch in FY26.

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**Operator**

Patrick Colville, Scotiabank.

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**Patrick Colville** - Scotiabank GBM - Equity Analyst

This one is for Jay or Kevin. When I look at the metrics you disclosed around the proportion of net new ACV from ZPA, ZIA, and then emerging products, for me, one of the kind of big standouts this fiscal year was the kind of inflection up in emerging products, if I got it right, going from 22% of new ACV to 27%.

Can you, I guess, just double-click on where you think that might go in fiscal '26? And then also, it seems like there's just a lot of health left in ZPA and ZIA. So just talk about like where that continued momentum from those core products is coming from?

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

Yeah. Very good question. We have been very pleased with the contribution of emerging products. We delivered good results, very pleased with it. But as we move forward, I think we are shifting our focus on three significant growth factors to better package rather than leave them as one bucket of emerging products, AI Security is one, Zero Trust Everywhere being two and Data Security being three.

And these three areas for us are actually \$1 billion in ARR. So we'll be tracking each of these three segments for us to grow. We already talked about Data Security growing at a very good pace at scale. AI security is somewhat smaller, but we expect it to grow at a faster pace as well.

ZPA is the heart of all the Zero Trust communication. And so overall strength of ZPA will be good. We added some of the Zero Trust segmentation, micro-segmentation offerings for workloads for ZPA. We expect ZPA to give us good growth as well.

So overall, I think our portfolio is growing very rapidly. The main thing, I'm personally is focused on is to sure the sales execution, which we did very well in fiscal '25, keep on getting better and better in fiscal '26.

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**Operator**

Joseph Gallo, Jefferies.

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**Joseph Gallo** - Jefferies LLC - Analyst

I wanted to follow up on Josh's earlier question. Kevin, I appreciate all the guidance color given this is your first fiscal year guidance, can you just talk through your methodology maybe relative to Zscaler's historical approach? Any changes to process? And then just any considerations for macro or Fed in your guidance?

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**Kevin Rubin** - Zscaler Inc - Chief Financial Officer

Yeah. Thank you for the question. Look, there is no fundamental shift in guidance philosophy. I think we have historically been prudent with how we've set our guidance, and I expect to continue that. Fed in particular was about high single digits as a percentage of the business in '25, we're expecting similar performance going forward.

But fundamentally, you should not expect anything any philosophical or shifts in methodology with respect to guidance. The only obvious change is we are moving from billings to ARR going forward as we believe that's a better -- that metric is better aligned to our go-to-market and how we're running the business today.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

If I may add, regarding the macro, we don't expect any meaningful change in macro. Macro pretty much has kind of remain the way it is. So no changes assumed in that.

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**Operator**

Brian Essex, JPMorgan.

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**Brian Essex** - JPMorgan Chase & Co - Analyst

Jay, I appreciate the comments on Agentic SecOps and Agentic IT Ops. I would love if you could maybe peel back a layer and help us understand some of the conversations that you're having with customers particularly from the perspective of are they primarily focused on what you've done combining like Avalor and Red Canary for more of a streaming-based analytics platform, particularly on the SecOps side. Or are they leveraging that to address AI?

Or are they leveraging that to target more kind of like legacy SIEM business? I know everyone's kind of pointing their fingers displacing Splunk and QRadar type business. Would love to hear a little bit more about your conversations and how you're leveraging into that space.

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**Jay Chaudhry** - Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board

Yes. So Agentic Operation for us are in to broad buckets. One is security operations. Here, we are combining a number of products to build unified vulnerability management that Avalor brought to us, asset exposure management we built on our Data Fabric platform. And then we basically are building the SecOps, taking Agentic technology from Red Canary together.

We think this is going to accelerate us to become a leading player in the area where in the new world, we don't think customers should be paying for building these data base. I think customers should be paying for outcomes and that's the model we're building force based on outcomes don't charge in based on how many gigabytes of data is coming to you. That's one part.

The second part, what we call it Agentic IT operations. AI and agents can help us to bigger performance issues and they fall in two buckets. One is, user performance. Here to be taken on ZDXproduct, added a bunch of Agentic technology to make sure we can identify and troubleshoot those things very quickly.

Next, we are expanding our ZDX to down Q1 entities. That's machine-to-machine because as more and more of these agents and models will talk to each other, their detection of performance, latency issues will become important. And we are in a good position to detect and identify them.

So both areas are big opportunities for us, traditional security operations disruption as well as performance and troubleshooting that is needed for a lot of these applications and users. I hope that helps.

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**Operator**

Shrenik Kothari, Baird.

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**Shrenik Kothari** - *Robert W. Baird & Co Inc - Analyst*

Again, congrats on the great execution. So Jay, just to double click on to AI security, right? You mentioned, of course, cloud are key focus areas, securing agentless workloads and user to agent. Again, that's quite distinct from the legacy posture.

Since AI is evolving fast and the new \$1 billion opportunity, just how -- can you elaborate how that plays into the new logo focus now, right, that you highlighted, seen it live. And now in light of this new AI security opportunity, just can you elaborate on how are you adjusting go-to-market as well across new logo and platform?

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

So first of all, we have both big opportunities. We have new logos, sitting at about 45% of Fortune 500 or nearly 40% of Global 2000. There's plenty of market on the high end of the market where we do it really well. But the platform is so big that we can keep on upselling and upselling. So both opportunities are big.

So with that, we don't really focus and say, you've got to do new logos. We do provide some financial incentive for new logos. Now, when it comes to solution like AI security or some of the new solutions we do, generally, not always, generally, our customer base is much easier to sell because we've got so much credibility. We've got relationship with the CIO and the CISO level. So we're able to go.

In fact, we are able to build some of these solutions with some of these customers has designed partners with us. So if I just tell you, most of the new stuff that we bring in, majority of that will come from upsell opportunities but there are many solutions that are opening doors for new logos as well.

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**Operator**

Todd Weller, Stephens.

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**Todd Weller** - *Stephens Inc - Analyst*

Yes, good afternoon. Thanks for taking the question. Jay, just to follow up on the SecOps piece of Agentic Operations, when do you anticipate kind of having that full-fledged next-gen SOC platform available? And then what's your take on filtering pipeline capabilities at Zenith One of your SI partners did a presentation where they combined Data Fabric with Cribl to upgrade a customer to a next-gen platform. And obviously, CrowdStrike just made a move there, so curious to your thoughts on that.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

So, it's a good question. We look at the overall big picture in the data area in two main buckets. Exposure management is one of them, and security operations and threat management is the second one. First of all, this exposure management is a fragmented market today. No one really dominates the market out there.

This is where a number of our products built on top of our Data Fabric are offering good opportunities for us. And this is where your unified vulnerability management comes in. This is where your asset exposure management, attack surface management, as well as our Risk360 comes in. That's one bucket, fairly well differentiated, unified, offered by one vendor rather than five different point product vendors.

Now moving to the right side, which is the security operations area. Yes, this has been done in a traditional way. Here's my massive data lake or delta lake, and here are my tools on top of that. Our Data Fabric approach allows us to bring in logs, but synthesize them and really create entity relationships. So I don't really need to keep all these logs.

My security analysts don't need to go against 1 billion logs a day, so architecturally they're very different. We're going in an incremental fashion, and I think over the coming few quarters we'll be able to say we take the whole thing. So it's kind of a journey. Even if I had everything today, a customer will take a few quarters to get out of where they need to. But we are moving towards pretty rapidly to offer a solution where you can replace whatever PC you need to replace. But having said that, we are not against the notion that if I got, say, 100 terabytes of data sitting in my old school SIEM, if I can take out 50 terabytes of it in the first three or four months, I'm going to cut the cost in to half to start with. And it will take a couple of quarters to renew the rest of it.

So we look at it as a phased meaningful approach work through the customers as a partner. And Red Canary starts playing an important role. I was talking to the CISO, a very large customer, a Zscaler customer who, a couple of quarters ago, bought Red Canary. In fact, they need Red Canary, he said, my current SIEM solution can't find some of the threats I can find with the help of Red Canary. So Red Canary can play a very good complementary role as well. So we think we all got all the key pieces to execute in this market, which is ready to be disrupted.

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**Operator**

Adam Borg, Stifel.

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**Adam Borg** - *Stifel, Nicolaus & Company Inc - Analyst*

Maybe just building off the last question on Red Canary. So obviously, great to see the acquisition close, big part of the Agentic Operations opportunity. Maybe you could just remind us of the top R&D and sales and marketing priorities as we play out this year.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Sorry, can you repeat the last statement you made?

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**Adam Borg** - *Stifel, Nicolaus & Company Inc - Analyst*

Sure. Just the top R&D and sales and marketing priorities for fiscal '26.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Overall for Zscaler?

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**Adam Borg** - *Stifel, Nicolaus & Company Inc - Analyst*

Specifically for Red Canary.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Okay. So number one, the acquisition we made was driven by technology. Our teams are working well together to make sure we can take the agentic technology. And they have very sophisticated agentic technology for detection and investigation. That gets integrated with our Data Fabric, so we build a strong solution that can be taken new market, number one.

Number two, Red Canary sales team is acting like a specialist team for the security operations and getting leverage from Zscaler wider sales team that can uncover opportunities. And Red Canary team is a specialist team that can close deals and grow business.

MDR remains an important part of the business for us at Red Canary and we keep on focused on serving those customers. Now the data gets better, the brand gets better, opening door gets better. So we are expecting good results on both product integration side as well as go-to-market execution side. And all is going very well so far.

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**Operator**

Andrew DeGasperi, BNP Paribas.

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**Andrew DeGasperi** - *Exane Bnp Paribas - Analyst*

And congrats on the \$3 billion milestone that's something to be proud of. One question I had is on the guidance for Red Canary contribution for this year. I think on the last earnings call, you said that were contributed about half of the \$140 million of ARR. I think now you're saying it's about \$95 million. I'm just wondering, is that 35% increase driven by anything or is that what the asset is growing at? Or are you doing something different based on the -- to the last question you just made.

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**Kevin Rubin** - *Zscaler Inc - Chief Financial Officer*

Yeah. Thanks for the question. So the commentary on the last call was with respect to how much we would anticipate recognizing at the close. What we ultimately determined at the closing is that we recognized \$83 million of ARR. We are assuming low double-digit growth in the Red Canary business for '26. And so for the guidance for '26, we've assumed \$95 million in contribution from Red Canary.

The last thing I would just keep in mind is MDR providers have historically had higher churn rate than our business, and this is a new business segment for us. So while we are engaging very closely with Red Canary customers, and considering all the different moving parts here, we are taking a prudent approach to how we're treating their ARR.

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**Operator**

Thank you. Ladies and gentlemen, due to the interest of time, I would now like to turn the call back over to Jay for closing remarks.

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**Jay Chaudhry** - *Zscaler Inc - Co-Founder, President, CEO & Chairman of the Board*

Thank you all for your interest in Zscaler. We look forward to seeing you in many of the investor conferences we plan to attend. Thank you for your time.

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**Operator**

Ladies and gentlemen, that concludes today's conference call. Thank you for your participation. You may now disconnect. Goodbye.

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