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ZS.OQ - Q3 2026 Zscaler Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to Zscaler's third quarter 2026 earnings conference call. (Operator Instructions)

I would now like to hand the call over to Kim Watkins, SVP of Investor Relations. Please, go ahead.

Kim Watkins - *Zscaler, Inc. - Senior Vice President, Investor Relations and Strategic Finance*

Good afternoon, and thank you for joining us today. Welcome to Zscaler's Third Quarter Fiscal 2026 Earnings Conference Call. On the call with me today are Jay Chaudhry, Chairman and CEO; and Kevin Rubin, CFO. Please note that we posted our earnings release, shareholder letter, 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 a reconciliation of GAAP to the non-GAAP financial measures in our earnings release.

Before we get started, 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, net new annual recurring revenue, operating margin, gross margin, operating profit, net other income, earnings per share and free cash flow margin, our customer response to our products, our expectations regarding AI and its impact on our business and customers and our market share and market opportunity and our objectives and outlook. These statements and other comments are not guarantees of future performance, but rather are subject to risk and uncertainty, 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 this quarter: the Baird Global Consumer Technology & Services Conference on June 2, the Bank of America Global Technology Conference on June 3 and the FBN Virtual Technology Conference on June 15.

And with that, I'll turn the call over to Jay.

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

Thanks, Kim, and thanks to everyone for joining us today. We delivered strong Q3 results, ARR grew 25% and non-GAAP operating margin hit an all-time high at 23%. AI is changing the nature of cybersecurity in real time, and Zscaler is the cybersecurity platform for the AI era. This is evident in our results and the reason we are so confident in our long-term potential. We offer the industry's only complete Zero Trust SASE solution, a singular Zero Trust platform across users, across cloud workloads and across branches.

Our architecture is purpose built to address the limitations of firewall-based SASE solutions and has several key differentiators. First, we hide applications and data behind our Zero Trust Exchange, making them invisible from the Internet and eliminating the attack surface. An attacker can breach what it can reach. Hence, this architecture provides far superior cybersecurity protection for our customers.

Second, we eliminate lateral movement of attackers with our Zero Trust Architecture. We only allow authorized users and workloads to access specific applications. This reduces the blast radius of a potential breach providing better security to our customers. This stands in stark contrast to competitors with firewall-based SASE architecture that connect users to the corporate network and once a malicious actor gains a foothold on the network it can roam freely and systematically attempt to compromise critical applications or steal data. This is how most ransomware attacks happen.

Finally, scale matters, and our cloud-native Zero Trust Exchange is the largest distributed in-line security platform in the world that spans across 160 public exchanges, processing more than 500 billion transactions per day. This gives us the best quality and quantity of telemetry data.

Simply put, no other cybersecurity vendor has access to data sets with comparable fidelity and breadth. This high-fidelity telemetry fuels our AI-powered security capabilities, continuously improving how we detect, prevent, and stop threats.

These differentiators are especially important at a time when organizations are aggressively deploying AI applications and models with growing interest in AI agents at scale. We expect it won't be long before millions of AI agents have access to organizations, mission-critical applications, and sensitive data.

Today, users are the weakest link in cybersecurity. But soon, agents will be the weakest link because they operate at far greater speed and have far less oversight. Even a single compromise agent can move from discovery to data attack in minutes, inflicting catastrophic damage on enterprises, making it even more challenging. New powerful frontier AI models like Mythos are finding security vulnerabilities in software at machine speed, significantly diminishing the efforts, skill and time needed to breach enterprises.

All enterprises already have thousands of known vulnerabilities that they haven't been able to patch. Frontier models are multiplying these unremediated vulnerabilities by as much as 10x and even more powerful models that are currently being developed will undoubtedly make it worse. Enterprises don't have the capacity to do patch and update existing vulnerabilities. So backlogs are piling up faster than organizations can address them.

To tackle this challenge, the market needs to take a different approach. We provide the two most important defenses against these vulnerabilities: one, hiding applications from attackers; and two, eliminating lateral movement at scale. This validates the architecture we pioneered. Zscaler was built for this moment. We started with Zero Trust security for users, so users can safely access applications from anywhere. Then we expanded our exchange to provide zero Trust security to branches, workloads and connected IoT OT devices.

Now we are expanding our exchange to secure AI agents. An important element of agentic security is to understand which agents, users and other identities are communicating with which models, applications, and data sources.

On May 21, we announced our intent to acquire Symmetry Systems a company that solved this difficult problem. Symmetry provides an access graph that maps how identities, applications and other data sources connect across the enterprise. We are integrating its Access Graph Technology with our Zero Trust Exchange. We are excited to share more about this at our Zenith Live User Conference in Las Vegas next month. We are also partnering with Anthropic on Project Glasswing and with OpenAI as part of its Daybreak program, formerly known as trusted access for cyber or tech which allows us to access frontier models to proactively harden our systems and deliver better security and resilience to our customers.

Against this backdrop, investors have asked us where is the ideal place to guard against AI threats. We are in the enviable position of having strong visibility and control across three critical vantage points for superior security, network, cloud, and endpoint. This is indispensable in enforcing real-time policy decisions. It is a powerful advantage for our customers and an important differentiator for Zscaler.

We are enhancing our go-to-market engine across multiple dimensions to help highlight this differentiated approach. For example, we continue to deepen our partnership with global system integrators or GSIs who play a meaningful role in expanding the reach of the Zscaler platform. We are seeing strong growth in bookings through our GSI partners.

We recently announced the launch of Project AI Guardian, a strategic collaboration with key GSI partners, which will help our partners extend the Zero Trust architecture to AI assets, including AI agents. GSIs will be able to leverage Zscaler's AI for tech portfolio to build specialized AI discovery and risk mitigation services. We are also continuing to expand our cloud marketplace motion.

For fiscal 2026 year-to-date, we transacted approximately \$900 million in TCV through our cloud marketplaces, which more than doubled year-over-year. This is becoming a more important route to market as cloud marketplaces simplify procurement, align well with enterprise cloud commitments, and increasingly support larger strategic engagements. These investments are helping expand our reach and Zscaler's unique architecture and approach for safe adoption of AI is resonating. This is evident in my conversations with customers and partners and why I believe AI is a catalyst for our business.

Let me illustrate our progress with a few customer examples. In a seven-figure upsell deal, a Fortune 500 financial technology company chose Zscaler to secure rapid enterprise adoption of AI with our AI protect solution, which we introduced in January. AI Protect includes AI asset discovery, AI guardrails and continuous red teaming. Zscaler AI Protect provides this customer a single, integrated way to discover and manage all AI assets, including shadow AI uses and forcing safe access to approved apps and inspecting every prompt and response in real time to stop data leaks and attacks like prompt injection. This customer faced a complex challenge of securing both employee interactions with public AI apps and their own suite of custom-built AI solutions.

With our AI red teaming and AI Guard capabilities, the customer moved from a manual reactive effort to an automated proactive approach to harden the growing number of AI applications for customers building their own AI models and applications. Our AI red teaming solution performs continuous security assessment. Our unified user interface and deep integration of multiple products is a key differentiator. Our AI Protect solution is resonating with customers with bookings crossing \$100 million over the past 12 months. We are seeing inbound requests from across our customer base, and our pipeline is robust and growing.

In another customer example, we closed a seven-figure upsell with a federal agency that previously migrated from a legacy VPN architecture last year to Zscaler's Zero Trust platform. This agency is deploying Zscaler to modernize and unify its data security strategy, gaining broad

coverage without the overhead of managing additional endpoint agents or the operational complexity of stitching together various data security products.

With this expansion, that customer is now using six of Zscaler's eight data security modules across data classification, e-mail DLP, endpoint DLP and in-line DLP along with our GenAI security solution. The expansion underscores our broader momentum in data security, which crossed \$500 million ARR, up over 30% year-over-year as AI adoption accelerates and sensitive data increasingly resides across multiple locations, customers are reducing cost and complexity by consolidating onto our data security solution.

Turning to another customer example. During Q3, we signed the largest branch deal in Zscaler history, an eight-figure upsell with a leading healthcare system to deploy our unified Zero Trust branch solution across 2,000 sites. Zero Trust Branch disrupts branch firewalls, software-defined wide area networks, or SD-WAN and MPLS networks. With this win, we are displacing both a major firewall incumbent and a legacy VPN incumbent. With Zscaler, the customer is eliminating laterals tech movement in their health clinics at roughly half the cost of its prior legacy solution. We are seeing particular momentum with Zero Trust branch, where ARR has approximately tripled year-over-year.

The next customer I'll highlight is a seven-figure new logo win with the leading healthcare technology company for a platform-wide adoption. This deal illustrates why customers choose Zscaler over incumbent final vendors, the stickiness offers Zero Trust approach with CIOs and CSOs and our ability to convert a limited initial request into a comprehensive platform win. We received an inbound request for this particular customer after a senior technology leader joined from another customer, where he had a great experience deploying Zscaler. We fully understood the difference between Zero Trust SASE and firewall-based SASE. While the initial discussions started around securing users, the company's top priority quickly became securing cloud workloads. The deal quickly grew into a comprehensive platform win, including Zero-trust cloud Zero Trust Branch and four data security modules.

The last customer win I'll highlight is a large automotive manufacturer that adopted our Zero Trust cloud solution in a seven-figure upsell deal. This is a long-time Zscaler customer, whose ARR is up tenfold in the last seven years. This quarter, the customer extended its existing Zscaler Zero Trust SASE footprint by expanding its deployment of Zero Trust cloud, improving its security posture, and securing its massive multi-cloud environment. The customer can now inspect encrypted traffic and enforce granular security policies across hundreds of previously ungoverned cloud workloads.

The deal also highlights the benefits of our Zero Trust cloud solution which was configured in under 10 minutes during the customer's proof of concept. Zero Trust cloud eliminates virtual firewalls in data centers and cloud environments reducing cost and operational complexity. The strength we are seeing in Zero Trust Cloud and Zero Trust Branch is driving the growth of our Zero Trust Everywhere enterprises that purchase each of our Zero Trust users, Zero Trust Branch and Zero Trust Cloud. We exited Q3 with more than 700 Zero Trust Everywhere enterprises versus over 550 in Q2.

Customers are recognizing that it is no longer enough to just secure their users, and our platform is the industry's only complete Zero Trust SASE solution across users, across cloud workloads and across branches. In summary, we are confident Zscaler is the cybersecurity platform for the AI era. We expect AI and Mythos-like frontier models to be one of the strongest tailwinds our business has ever seen.

Our Zero trust SASE solution enables us to hide applications and make them invisible to attackers while also eliminating lateral movement. These attributes, along with our scale, are true competitive differentiators for Zscaler. With frontier models, uncovering vulnerabilities at unfathomable speeds and AI agents becoming the weakest link in cybersecurity, these differentiators have never been more important than they are today.

Our approach is resonating and helping to drive significant wins that demonstrate our ability to attract new customers and further penetrate our installed base of more than 9,400 customers. Among those, we serve just 4,500 enterprises out of potential 20,000 enterprises in our primary target market. We are confident that our innovative approach to staying ahead of threat actors will help to buy further share gains. With the significant long-term growth potential, we are well positioned to continue creating significant value for shareholders.

Now I'll hand it over to Kevin to walk through the financials.

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Thanks, Jay. We delivered strong Q3 '26 results, growing revenue 25%, while investing with discipline. Year-to-date, with 26% revenue growth and a 29% free cash flow margin, we achieved Rule of 55 performance. Our Q3 '26 net new ARR was \$166 million, up 24%, bringing total ARR to \$3.5 billion, up 25% year-over-year. Net new ARR benefited from strength in the public sector vertical, which includes state, local and federal government, and healthcare, including an approximate eight-digit upsell at a federal agency.

Net new ARR also benefited from strength of large deals in APJ, where the deal value from \$1 million-plus deals increased more than 150% year-over-year. Excluding the contribution from our acquisition of Red Canary, net new ARR was \$153 million, up 14% year-over-year, and total ARR was also up 21%.

Red Canary exited Q3 with \$127 million of ARR. 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 Q3, our non-seat-based metered usage solutions delivered just over 30% of new ACV and the ARR tied to those offerings grew more than 100% year-over-year.

Revenue of \$850 million grew 25% year-over-year and 4% sequentially, exceeding the high end of our guidance. We closed Q3 with 748 customers generating more than \$1 million of ARR and 4,003 customers exceeding \$100,000 of ARR, growing 18% and 19% year-over-year, respectively. We also set a record \$1 million plus new ACV deals for Q3. On a geographic basis, we saw strong growth from the Americas, which accounted for 56% of revenue, up approximately 31% year-over-year.

EMEA accounted for 28% of revenue, up approximately 16% and APJ for 16%, up approximately 23%. Remaining performance obligation, or RPO, of approximately \$6.5 billion grew approximately 30%, including approximately 46% classified as current RPO. Our go-to-market strategy is a key growth lever enabling us to deepen customer relationships, accelerate platform adoption and expand multiyear engagements.

Building on Jay's earlier comments on enhancements to our go-to-market engine, we are continuing to strengthen our position as a long-term strategic partner and driving deeper customer adoption over time through our account-centric sales motion. We saw strong momentum this quarter with Z-Flex. Z-Flex gives customers with multiyear 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 Q3, Z-Flex generated just over \$480 million in TCV, up more than 60% quarter-over-quarter. We have delivered over \$1 billion in Z-Flex TCV over the last 12 months in an average four-year term, underscoring customers' long-term commitment to Zscaler.

To share a couple of customer examples, in a five-year, eight-figure Z-Flex deal, a Fortune 500 finance and insurance customer that spends more than \$5 million with us annually, increased their ARR by nearly 50% expanding module adoption across four existing modules and adopting six new modules, including our AI Protect solution.

In another example, an existing seven-figure ARR Global 2000 semiconductor manufacturing customer increased their annual spend with us by 60% in a three-year, eight-figure Z-Flex deal. This customer expanded adoption across six existing modules and adopted six new modules, including our AI Protect and Zero Trust branch solutions.

Turning to operating performance. Non-GAAP gross margin was 80.7% compared to 80.3% a year ago. Non-GAAP operating income of \$196 million grew \$49 million or 34% as compared to \$147 million last year. Non-GAAP operating margin of 23% increased 140 basis points year-over-year, 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 Q3, we generated \$198 million in operating cash flow, and CapEx was \$42 million or 5% of revenue. This equates to a free cash

flow margin of 16% this quarter down from 18% last year, reflecting the timing of cash collections and a free cash flow margin of 29% year-to-date.

Looking ahead, I'd like to spend a minute and provide an update on increasing memory storage and processor prices and availability. As a reminder, we purchased equipment for our data center and Zero Trust branch appliances. To mitigate costs, we put through a price increase on our branch appliance earlier this calendar year, which we expect to flow through in the next several months. We are also being opportunistic in taking advantage of delivery of data center equipment where we can get it to lock in today's prices ahead of potential increases in the future.

This is pulling forward some of the investments we expected to make in fiscal '27 into Q4. As a result, we expect higher CapEx in Q4 taking fiscal '26 CapEx to the high single digits as a percentage of revenue, up from our prior expectation of mid-single digits. Looking ahead to fiscal '27 based on higher prices we see in the market today, we expect CapEx as a percentage of revenue to increase up to 200 basis points compared to fiscal '26 levels.

We'll continue to monitor our costs and share regular updates about the impact. Turning to guidance. At the end of the third quarter, two sales leaders departed the company. We already appointed a replacement for one of these leaders, and we are in the late stages of hiring a leader for the other role. However, we are taking a prudent approach to our guidance during this transition.

Let me provide our outlook for Q4 and full year fiscal '26. As a reminder, these numbers are all on a non-GAAP basis. For the fourth quarter, we expect revenue of \$875 million to \$878 million, reflecting approximately 22% year-over-year growth, gross margin of approximately 80%. Operating profit of \$206 million to \$208 million, up to approximately 30% to 31% year-over-year. Net other income of approximately \$24.5 million, and earnings per share of approximately \$1.08 to \$1.09 per share, assuming a 21% tax rate and 168 million fully diluted shares.

For the full year fiscal 2026, we expect ARR of \$3.740 billion to \$3.749 billion or year-over-year growth of approximately 24%. This guidance implies net new ARR growth, excluding Red Canary of approximately 9.5%. For Red Canary, we expect ARR of approximately \$137 million in fiscal '26, up from our prior guidance of \$130 million with net new ARR of approximately \$10 million in Q4. This includes all the business expected in each period, including fiscal '26 renewals, upsells and new logos.

Revenue of \$3.3295 billion to \$3.3325 billion, reflecting year-over-year growth of 24.6% to 24.7%, we expect Red Canary revenue of approximately \$137 million in fiscal '26, up from our prior guidance of \$125 million. Operating profit of \$755 million to \$757 million, up approximately 30% year-over-year, up from our prior guidance of \$742 million to \$748 million.

Earnings per share of \$4.10 to \$4.11, assuming a 21% tax rate and approximately 168 million fully diluted shares and free cash flow margin of approximately 22.8% to 23.3%, down from our prior expectations of 26.5% to 27% reflecting CapEx in the high single digits as a percentage of revenue.

Looking to fiscal 2027, I'd like to provide some early perspectives to better align expectations heading into our second year with ARR as our primary growth metric and following the acquisition of Red Canary. Sitting here today, our view is for total ARR and revenue growth for fiscal '27 of 16% to 17%. Looking ahead, we are excited by the opportunities we see to continue scaling our rapidly expanding AI security portfolio, accelerating Zero Trust Everywhere adoption and growing our data security revenue.

In summary, we are pleased with the results we delivered year-to-date in fiscal '26. We achieved 25% year-over-year ARR growth and record operating income. We also saw continued momentum with Z-Flex and closed a record number of \$1 million plus ARR deals for Q3. The opportunity ahead of us is substantial, and we are confident in our ability to continue driving profitable growth across multiple vectors, including product innovation, go-to-market and customer expansion and creating value for our shareholders.

I want to thank our employees, customers, and partners for their continued support. With that, operator, you may now open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Brad Zelnick, Deutsche Bank.

Brad Zelnick - Deutsche Bank AG - Analyst

Great. A lot of strong proof points in these results. Maybe a compound question since you're limiting me to one for both Jay and Kevin. I'm just trying to better understand the sales leadership turnover that you highlighted. Jay, if you can comment at all whether these positions, the turnover was voluntary or involuntary, how senior they were and why this could have an impact when you have such a mature and resilient sales organization?

And then maybe for Kevin, on the same topic, is the pipeline there and you're just assuming a lower close rate, what would your guidance have been if these leaders were still in place?

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

So regarding the sales leaders changes, these two leaders are part of our CRO, Mike's team. And it is true that Mike has built a strong bench. He has built a strong sales engine. We just want to be prudent that as these changes are made, it could have impact in the short term, and that's what we're keeping in mind. Kevin?

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. Thanks, Jay, and thanks, Brad. Yes, I don't have much more to offer other than we are taking a prudent approach. We do recognize when leaders of this nature change that it can have some disruptive nature to those organizations. So I'm just taking a prudent approach to how we think about those changes.

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

And the only other thing I'll add, Brad, is that there will be changes in leadership from time to time. And regarding these 2, we have already appointed an internal replacement for one of these. And the second one, we are making progress and we expect to close that in the near future as well.

Operator

Saket Kalia, Barclays.

Saket Kalia - Barclays Capital Inc. - Analyst

Okay. Great. Kevin, maybe for you. Can we just speak to how big the eight-figure federal deal was here in Q3. I guess the question is, if we exclude that deal, how do we maybe feel about the underlying flow business, right, whether it's new or renewals, again, excluding that large deal, which was great to see. I'm just curious how you look at the business if we exclude it, if we could size that.

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. Thanks, Saket. I mean, look, at the highest levels, we delivered a strong Q3, and I think we're very pleased with the results of the business. As it relates to the eight-figure upsell that I called out, keep in mind that these contract wins, as you see them get reported, first of all, it is TCV. And second, that part of the -- along with the upsell was also a large part of that deal was renewal. So that's already preexisting in ARR as you think about that particular deal that you were querying.

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

And Saket, if I may add, you've seen in the past, is these are unusually large, we point them out. So nothing unusual about this yes.

Operator

Joshua Tilton, Wolfe Research.

Joshua Tilton - Wolfe Research LLC - Analyst

Appreciate the early look for the numbers next year. When you look at the growth and kind of what it implies for net new ARR, you guys are kind of calling flat on an organic basis from the guide for this year. Can you kind of help us maybe think about the moving pieces between where that's coming from, whether that's the traditional Zscaler business or Red Canary. Or just any color to help us think about the trajectory of organic net new ARR next year in that guide?

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. I'll go ahead and start, and Jay can append. This is how I thought about the different components as we were giving you guys an early look. And I just want to call out, we don't typically provide this type of guidance this early in the year going into the following, but we thought it was important to give you an understanding of what we're seeing.

So first of all, we have a pretty strong track record of upsells and I expect that, that is going to continue into '27. You may recall that we shared we had a net retention of 115% in Q1, and that has been fairly stable the last several quarters. The area that we haven't been performing as well as we'd like is new logo. It certainly is a large priority for us. But I did take a tempered view of new logos going into '27.

And then lastly, as we think about Red Canary and its contributions, we will be rolling out the integrated SecOps solution that will be available, we would expect in '27. What I don't know is the pace of uptake amongst the existing customers for that. So as a result, as we think about Red Canary, we are expecting Red Canary's net new ARR to grow at a slower rate than the overall business at '27 as you think about modeling. And also keep in mind that Red Canary will be included in our results going into next year as it will be fully baked into '26. So we will not be providing a separate disclosure of Red Canary in '27.

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

If I may add, look, we already covered the fact that sales leadership transition has been part of our thinking to make sure you understand that it may have some impact. But if you look at the overall market opportunity, Mythos has shed some more light on it. Every CIO, every CSO I talk to is talking about protecting against Mythos.

An interesting part is while Mythos is about finding new software vulnerabilities and fixing them, people already have - enterprise already have tons of vulnerabilities. The number 1 protection they're looking at doing is hiding their attack surface; number two, they're trying to do

is Zero Trust access, and we fairly uniquely provide those things. So while we were prudent in our forecast, the need for Zscaler today, especially for [speed] Mythos, is probably far greater than it has ever been.

Operator

Gregg Moskowitz, Mizuho.

Gregg Moskowitz - Mizuho Securities USA LLC - Analyst

You did very well this quarter in the Americas and APJ, although growth in Europe slowed. What are you guys seeing in Europe? And then just wondering if you have any commentary on the competitive environment, both in the Americas and in Europe.

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

So if you think of the overall competitive environment, I don't think things are very different in Europe and the rest of the world. You have seen us from time to time, GEO A may do better in a given quarter and GEO B may do better. But I think we know some of the areas of execution we need to improve. We are focused on it and I'm pretty sure that will turn around and make EMEA, again, a high growth area.

Operator

Gabriela Borges, Goldman Sachs.

Gabriela Borges - Goldman Sachs Group Inc - Analyst

Kevin, you mentioned something interesting there when you were talking about the outlook for next year, which is that new logo growth may be tempered. And so either for yourself or for Jay, maybe just give us a sense, when you dig beneath what's going on with the sales relationships with the customer pipeline, why do you think new logo growth is temporary?

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. Thanks, Gabriela. Just to clarify, I was not trying to suggest that new logo growth is tempering. What I was intending to convey is that my expectations relative to the early look for next year, took a tempered approach to how we thought about the contributions of new logos. New logos is a strategic focus of ours, and as we go into '27, it will continue to be. But again, I'm driving an early look here far earlier than we would normally do. And so as I looked at what we had in front of us in terms of the different components of the business, that was one area where I think we can do better.

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

If I may add, there's a sizable new logo opportunity for us. We have 4,500 enterprises as our customers and those enterprises are customers with over two thousand user seats. Out of the 20,000, 4,500 are customers, that's worth 23%. That means a sizable market for us to go after.

Operator

Brian Essex, JPMorgan.

Brian Essex - JPMorgan Chase & Co - Analyst

Jay, if I could maybe ask you to peel back the layers a little bit on the impact of methods and open AI models. What we're hearing from maybe some of the channel providers is that this C-suite executives that enterprises are maybe to use their words freaking out over the emergence of these models and the realization of how robust they are.

So when you comment about some of the tailwinds in your business on the back of the emergence of these foundation models, how do you see that materializing in your pipeline? It sounds like the consultants are very busy right now. But given the typical sales cycles that you have and maybe the architectural decisions that are involved with adopting your Zero Trust platform, when might we expect to see some kind of impact to pipeline revenue, billings and so forth? And how is this materializing with your conversations and how your pipeline might be materializing?

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

It's a very important question, Brian. We've never seen so many inbound calls coming in so quickly. I got so many calls that I decided to say we will reach out to them and figure out a programmatic way of engaging with them. I don't need to dig into the detail of the concern. We all know they're very concerned and they're looking for help. So it is interesting that most of the customers and vendors are taking the approach to that, let me help you find more and more vulnerabilities and try to patch them. While patching is the reasonable approach, we do not think the primary focus needs to be patching because, you will never be done patching. So our recommendations on very clean. Hiding your applications that I talked about, Zero Trust access. Those are fundamental things that need to be done, and that's what we're helping our customers with.

Now we also know that this is an area where we need to help our customers and not do ambulance chasing, okay? So we're not rushing to create opportunities. We are actually engaging with our customers in a consolidated fashion, to help them get out of the tough situations. So they can really keep the Board and CEOs apprised of what's going on. Now obviously, there are areas these customers need to worry about. We aren't really factoring in any meaningful impact of the new opportunities for Q4.

But I do believe it will have impact in fiscal '27 the short term impact. If I were to give you a couple of specifics. Number one, many customers have ZIA for all users. But Zscaler Private Access is only for a subset of users. Now they want Zero Trust access for everyone from every location even from the headquarters. So it's increasing interest for ZPA upsell.

We have very cool deception technology. It's decoy technology. Customers want this technology because they know that, with all this happening, there will be more breaches and they want to catch them red-handed using deception like stuff. So that's why I said sometimes I feel like it's a forward like movement. Zero Trust has never been more important before.

Operator

Meta Marshall, Morgan Stanley.

Meta Marshall - Morgan Stanley & Co Ltd - Analyst

Maybe building on a couple of the questions. Just as we think about kind of signposts that you guys are looking at for improvements on the new logo side. Will that come from some of the GSI channel outreach that you guys are -- expansion that you guys are doing. Will that come with some of the new leadership, flexible pricing. Just trying to get a sense of what you think is kind of the most incremental to improve the measures that you laid out to improve the new logos?

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

Yes. Meta, thank you. So we have very specific plans. We are formulating and there will be important part of our fiscal '27 plan. Number one, we have had limited coverage in the lower end of the market. When I say lower end of the enterprise market, it's generally between 2,000 and 10,000 users. As you know, the high end, our coverage is pretty strong. So adding more salespeople in that, that part of the market with coverage is that's number one.

Number two, that channel, especially the [VAR] channel plays an important role in the market, so we are creating specific programs and incentives for new logo in that area. Number three, on the GSIs have been good partners, GSI is a generally good partners for large enterprises. So we are teaming with them for this area. You heard about AI Guardian program. We launched with them. That's a natural extension of the work we're doing. Number four, we have a program for major accounts.

We're going to make sure we do some more focus on those teams to get new logos in addition to working on upsell. I think we feel pretty good about the opportunities to engage and do this stuff. And a little bit more incentive to new logo versus we haven't done a whole lot in the past. This will probably make a difference.

Operator

Ittai Kidron, Oppenheimer & Company.

Ittai Kidron - Oppenheimer & Co Inc - Analyst

Kevin, I just want to make sure I get my bearings right around the ARR and the commentary there. Taking into account your revised guidance for the year and your preliminary view into next year, it looks like your fourth Q net new ARR again is decelerating quite substantially, and it's probably also in the going back to mid-single-digit growth only into next year, so another deceleration.

I just want to get my hands around outside of the sales leadership that you've talked about, are there any other elements to take into account here. With respect to this, you guys have made a lot of work over the last couple of years kind of turning around the sales force. I understand that when two leaders leave, clearly, some disruption can happen. I'm just wondering if that has -- is the only element impacting the net new ARR here or there are other things to take into account.

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. Thanks for the question. I mean look, the two factors that I think are important. You certainly mentioned one in terms of the two leaders under Mike that we commented on. It's just a reality when you have leaders that do depart that you do. You may see some disruption. And so I'm just taking a prudent approach to that potential disruption.

The other thing that I commented on is just the pace of uptake with the integrated Sec Ops products. So as we think about how that rolls out and what that pace of uptake is, I'm also taking a prudent approach there. As it relates to Q4, so the guide implies 9.5% net new ARR growth on an organic basis, excluding Red Canary. And just keep in mind, that's still an acceleration over what we put up last year. So keeping everything in perspective.

Operator

Erik Suppiger, B. Riley Securities.

Erik Suppiger - *B. Riley Securities Holdings Inc - Analyst*

On that outlook for fiscal I think you had commented last quarter that the ZIA, ZPA core products were growing in the mid-teens. What growth assumption are you assuming as you look out to 2027 on those core products?

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

Yes. Thanks for the question. I mean it's a little bit early, and that's a fairly granular element. What I can say is that we've continued to see consistent performance this year within the ZIA, ZPA product lines, but we didn't provide that level of granularity into next year.

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

If I may add, quite often question that I asked about core products versus non-core products as it had two separate buckets all together. I think as we have been saying, our customers are asking for Zero Trust Everywhere. We started with Zero Trust for users, with ZIA, ZPA, ZDX, that was part 1.

Now, they're all moving towards Zero Trust for cloud workflows and then Zero Trust Branches and IoT/OT devices. So our number 1 push is to work with customers to do Zero Trust Everywhere. That's a big differentiation for us and opportunities to sell bigger deals, while others who claim to say, we do what Zscaler does are barely trying to build Zero Trust users which we matured over the last many, many years.

Operator

Adam Borg, Stifel.

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

Awesome. Maybe just on Symmetry Systems, I'd love to learn a little bit more about what that brings to you that you couldn't do previously around securing AI agents. And given their access graph, technology, how you're thinking about the movement identity security more broadly? And maybe just as a quick follow-up. Any color on Symmetry, even SquareX in terms of contribution to revenue and ARR.

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

So first of all, Symmetry has built very innovative technology. So what's the problem statement. It's not really basic identity. We believe the identity of agents will really come from companies such like hyperscalers or large software companies who are actually providing platform to build agents they're the natural player to build identity. So trying to be an identity company for agents for someone outside these big guys will be a hard thing.

We have always taken the approach of being a Switzerland where we will take identity from different parties. So then what Symmetry, Symmetry pioneered identity mapping to data sources. So think of this in way, in a large enterprise, all these on entities, maybe users, workloads, maybe other machines. They access data sources that may be sitting out there somewhere.

How do you know who is accessing what, when, where information sets and reach application logs. Symmetry pulls that information and creates a very cool visual access graph. This was a hard problem to solve. So this was solved by a bunch of PhDs. Once you understand who talks to who, this this thing can be used to enforce policy for agentic exchange that we're building.

So it's very complementary, forward-looking technology, this is the kind of stuff most companies aren't thinking about. So Zscaler has always taken pride in being innovative and coming with solutions that no one else has built. So our zero Trust Exchange, got extended to Zero

Trust Exchange for agents, and this becomes a very useful piece to highly differentiate our exchange and provide value for data governance and policy enforcement on our customers. Did I answer your question?

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

That's really helpful. And just, Kevin, any color just on top line for Symmetry and SquareX.

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

Yes, of course, of course. So as Jay mentioned, just the level set, Symmetry is a technology and talent acquisition. ARR is immaterial and is in the low single digits. I think you also asked about SquareX that was also incredibly immaterial.

Operator

Fatima Boolani, Citi.

Fatima Boolani - *Citi Investment Research (US) - Analyst*

Kevin, just on some of the commentary with respect to the opportunities, the step on the gas pedal vis-a-vis new logo acquisition and in the context of the sales leadership transitions, can you give us a quantified and quantification of sales productivity this year and some of your expectations as you think about the complexion of the 16% to 17% guide, again, largely tied to some of your comments earlier around building out more of a capacity presence with the lower end of the enterprise, would love a little bit more quantitative color on some of the sales productivity sales attrition and sales hiring quantum that you're thinking about in terms of pipeline build and conversion and productivity assumptions?

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

Yes. Thank you for the question. Look, for Q3, this was our sixth straight quarter of sales productivity growth even on the back of some tough compares. So I think we've done -- I think we're very pleased with the level of productivity that we've seen continued improvement in. I would expect going forward into fiscal '27 that we'll continue to see success in driving productivity and capacity. I just caution that it's a bit early to provide quantification of how that rolls into an early look for '27.

Operator

Gray Powell, BTIG.

Gray Powell - *BTIG LLC - Analyst*

Great. Maybe just one on the competitive front. So just from a technology perspective, how are you staying ahead of the firewall vendors who are increasingly trying to upsell Secure Service Edge into your installed base? And when you do have displacements of legacy vendors, is there like a common driver? Is it like a particular set of features? Or is it just the overall platform and just that your technology is better. Anything you could say on that to would be helpful.

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

This is pretty simple. If you care about real cyber protection, you know that you need zero trust architecture. Firewalls create trusted network, trusted networks enable lateral movement. So our customers understand that. They started with Zero Trust for users, now they want Zero Trust for branch so that each branch becomes an island like a cafe, firewalls don't do that. They want Zero Trust device, firewalls don't do that. They want Zero Trust on workloads, workloads have been secured traditionally by 30-year-old firewall technology, the east-west north-south firewall routes. We do it in Zero Trust Fashion. So we are, on a roll to take our customers to Zero Trust everywhere. That is our biggest differentiator. It's not feature A or feature B, It's an architectural difference.

Operator

Andrew DeGasperi, BNP Paribas.

Andrew DeGasperi - BNP Paribas Securities Corp. North America - Analyst

I wanted to ask about the comments on the CapEx guide. And really, what I wanted to touch on is, given you've put together a price increase earlier this year and now these costs have gone even higher, are you considering potentially doing the same maybe at the same time next year?

Kevin Rubin - Zscaler, Inc. - Chief Financial Officer

Yes. Thanks for the question. I'll start. Look, we are constantly looking at the balance between pricing, margin, and market prices and feel pretty good at where we are. We did push through a price increase earlier this year and have not seen any implications of that. I think the world is recognizing that hardware costs have gone up. But we do periodically review pricing and where we have opportunity to increase. So we do take advantage of that. I don't know that I would want to sit here today and say at this time next year, there will be another price change. It is something we look at more dynamically than that.

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

But this situation you're talking about is fairly unique. It's created by these Data centers that's causing such as a shortage in so many parts. But as Kevin said, we'll look at it from time to time, but this became a special factor that all of us recognize and adjusting accordingly for it.

Operator

I would now like to turn the conference back to Jay Chaudhry for closing remarks. Sir?

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

Thank you for joining us for our earnings call. We look forward to seeing you at one of the upcoming investor conferences. Thank you again.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Goodbye.

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