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ZS.OQ - Q4 2026 Zscaler, Inc. Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Zscaler fourth quarter 2026 earnings call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Kim Watkins, SVP, Investor Relations and Strategic Finance.

Kim Watkins *- Zscaler, Inc. - SVP, Investor Relations and Strategic Finance*

Good afternoon, and thank you for joining us today. Welcome to Zscaler's fourth 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 risks 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 Citi 2026 Global TMT Conference on September 9; Goldman Sachs Communacopia and Technology Conference on September 9; Wolfe Research TMT Conference 2026 on September 9; and JPMorgan 2026 Software Forum on October 1.

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

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

Thank you, Kim. Good afternoon, everyone. We delivered a strong finish to the fiscal year with 25% ARR growth and a non-GAAP operating margin of 24%. We are seeing significant positive trends in net new ARR growth, excluding Red Canary, accelerating to 17% in Q4. These results reflect increasing market adoption of our Zero Trust platform.

AI is quickly becoming the largest tailwind we have ever seen driving demand for our Zero Trust Everywhere data security and security for AI solutions. Our customers are relying on us to both combat the threats created by Agentic AI and safely deploy AI agents and models at scale. To safely deploy AI agents and models at scale.

Since our last earnings call, new AI models have become more powerful, more autonomous and more dangerous from a cybersecurity perspective. The ability of these new frontier AI and open weight models to uncover previously unknown vulnerabilities at a rapid pace has become even more apparent. Organizations simply do not have enough time or resources to fix the unprecedented number of software vulnerabilities that are being discovered. The time between a vulnerability being discovered and exploited is also shrinking. You cannot win a patching race against AI.

This is leaving organizations exposed and likely leads to more breaches. Over the past few months, our team has conducted hundreds of frontier AI risk assessments for global enterprises to help them assess their cyber resilience posture to minimize potential breaches. The takeaways have been incredibly revealing. Over 90% of organizations had AI applications, models and other servers exposed to the Internet and more than 1/3 had known exploitable vulnerabilities.

At the same time, the threat landscape has been compounded by the ability of new AI models to power ungoverned autonomous agents. We are now seeing the impact of fully autonomous AI attacks. There have already been multiple high-profile incidents from three leading frontier model companies where agents went rogue and took unauthorized actions. This includes the recent Hugging Face incident where a swarm of agents went to extreme lengths to break out of a sandbox training environment, get onto the corporate network and move laterally to conduct a sophisticated attack. This is driving urgency at the highest levels and Zscaler is uniquely equipped to meet the moment.

CEOs and boards are looking to us as their trusted partner to address three essential business challenges. First, how do we secure an environment when we can't patch security vulnerabilities fast enough, our Zero Trust Exchange makes applications, AI models and data invisible.

An attacker, human or agent, cannot breach what it cannot reach. Second, how do we minimize the impact of a potential breach. Our Zero Trust Exchange connects users, workloads, branches and agents directly to the applications they need without placing them on the network. This eliminates lateral threat movement containing the impact of a breach. Third, how do we take advantage of all the benefits of AI without introducing significant new risk.

Zscaler has a full portfolio of data security and security for AI solutions that prevents data exfiltration, provides guardrails to prevent abuse or misuse of AI applications and enables secure agenetic communication. Because of these advantages, customers trust us to secure their business-critical environments. We are also differentiated by our scale, operating the world's largest distributed in-line security cloud, processing more than 750 billion transactions per day. This scale provides unmatched high-fidelity telemetry that continuously improves our AI-powered security capabilities.

In the AI era, Zero Trust is now an imperative and we're not alone in this belief. Anthropic published a white paper in late May encouraging adoption of a Zero Trust architecture for AI agents emphasizing the importance of treating every agent like an untrusted entity and making sure it only has access to authorized data and applications. This is why customers are expanding their investments with us to secure their Agentic infrastructure and why we are confident our platform is uniquely equipped to address the risks companies face in this new world. In addition to protecting companies from the threats created by Agentic AI, we are also enabling organizations to safely deploy AI agents and models. Our AI solutions are key to providing enterprise visibility, governing what data and applications agents can access and what actions they are permitted to perform?

We are often asked why our solutions are needed alongside identity for AI security. While Identity Solutions answer who is requesting access our in-line exchange determines what that user or agent should be allowed to do and enforces that policy in real time. Put simply, identity is only the starting point for securing AI. Greater visibility and control is needed for organizations to trust agents accessing sensitive data, interacting with applications and taking action on behalf of users. Earlier this year, we introduced the industry's most comprehensive security for AI solutions designed for exactly that reason.

We are seeing strong proactive inbound interest from both new and existing customers, and we have seen no budget constraints.

Security for AI bookings increased more than 50% sequentially in Q4 on top of a strong Q3. Our security for AI solution provides new logo opportunities by offering organizations an integrated way to secure AI use at scale. At our Zenith Live Conference in June, we unveiled the latest additions to our security for AI lineup including our Zero Trust Exchange for agents and endpoint AI security, both of which we expect to scale in the second half of fiscal 2027. Both products are in early access, and we're seeing tremendous interest from customers. These new solutions will provide organizations the ability to enforce AI policy, both at our exchange and the endpoint, enabling policy enforcement at the optimal location.

We continue to innovate in this area at a rapid pace.

Next week, we are announcing the next major innovation on our platform with our new Agentic SecOps solution. Just as AI is increasing the threat surface, it is also stressing a human-driven traditional SOC approach, where remediation can take days or weeks. In contrast, our AI first approach brings together our proprietary telemetry and Red Canary's decade-plus of experience in managed detection and response or MDR. Our Agentic SecOps solution enables security teams to prioritize real threats and leverage specialized AI agents to detect, investigate and respond to threats at machine speed. We're driving closed loop remediation in real time by integrating our Agentic SecOps with our Zero Trust Exchange, enabling customers to move with speed as the time between detection and exploitation has decreased from months to minutes. we will be launching our new Agentic SecOps solution with a webcast on September 9, which will be streamed on our website.

Our approach for securing users and known users and ensuring safe adoption of AI is resonating. This is increasingly evident in my conversations with customers and partners and is illustrated with a few customer examples. First, we had a notable 7-figure upsell Z-Flex win with a Fortune 500 transportation customer who deployed our security for AI portfolio to secure their full AI life cycle. Our security for AI solution provides an integrated approach to secure AI use at scale. This includes discovery and management of all AI assets including shadow AI and enforcement of safe access to approved apps.

It also includes real-time prompt and response inspection to stop data leaks and threats like prompt injections and continuous red-teaming assessments. This customer selected our security for AI solution over two major platform competitors and with this win, the customers ARR grew to nearly $10 million.

In another 7-figure Z-Flex upsell, a Fortune 500 semiconductor manufacturer expanded its adoption of the Zscaler platform to secure a company-wide rollout of cloud cohort. After assessing several vendors, this client determined Zscaler security for AI was the only solution capable of securing the customers AI adoption, including its endpoints secure agent to agent communication and model usage in private and public environments. This is a great example of how our customers are expanding the use of Zero Trust Exchange to safely deploy AI agents and models as well as combat threats created by Agentic AI. While we're in the early innings of security for AI, these deals give us tremendous confidence in our ability to expand this offering significantly over time.

Next, our leadership in data security is a powerful tailwind for our security for AI business. As enterprises embrace Gen AI and agent AI, they're confronting a new wave of data exfiltration risks, including data abuse and overprivileged access to data. Our in-line architecture, coupled with our endpoint DLP and our Endpoint AI Security enhances our ability to enforce data loss prevention in the cloud as well as on the end point securing data and AI go hand-in-hand as evidenced by the fact that 70% of our security for AI deals this quarter included our data security solution. In Q4, we also closed a 7-figure ZFlex upsell win with a large global asset management firm. The customer selected Zscaler's data security posture management solution over a privately held DSPM vendor.

This customer chose Zscaler to address gaps related to sensor data discovery across its multi-cloud environment and data governance.

With this upsell, the annual spend of this customer increased by nearly 40%, reaching an ARR of $5 million plus. We're also seeing continued traction across our Zero Trust SSE solutions including customers expanding their Zero Trust SASE deployments. For example, this quarter, we signed a 7-figure flex upsell with a Global 2000 financial services customer who upgraded to Zscaler private access to AI-powered app segmentation for 120,000 users, increasing their ARR by nearly 50%. We are also driving new logos. We closed a 7-figure new logo Flex win with a Fortune 500 life sciences company that is deploying our Zero Trust and security for AI platform across 75,000 users and displacing a legacy fiber-based SaaS platform.

This customer led by a newly appointed CISO who is a 3 times repeat Zscaler customer chose us for our ability to deliver unified visibility and control across both enterprise security and Gen AI.

This is a great example of a new logo purchasing the entire Zscaler platform. Customers are also increasingly starting the Zero journey by securing nonuser environments. For example, we closed a 7-figure new logo win with a Global 2000 health care equipment manufacturer to deploy our Zero Trust branch solution across the critical production sites to secure its OT environment displacing an existing long-term legacy vendor. This is an example of a sizable opportunity Zscaler has within factories and warehouses to secure IoT OT and provide zero trust device segmentation. Zero Trust branch simplifies customers branch deployments by eliminating traditional branch firewalls, SD-WAN and MPLS networks, reducing operational complexity.

It also minimizes the impact from an infected machine in a branch or a manufacturing plant by limiting lateral movement across the environment and therefore, containing the breach.

In another nonuser deal win, we closed a 7-figure upsell with a Fortune 500 aerospace customer. This customer was going through a divestiture and expanded its Zero Trust cloud deployment between its on-prem and public cloud environments to securely migrate workloads. With this deal, the ARR of this customer grew by more than 30% to over $5 million. We're seeing tremendous momentum with Zero Trust Cloud, this quarter, we extended the solution by offering a managed service through Google Cloud, which can be configured in under 10 minutes, reducing the deployment time and operational costs significantly. This expands on our existing offering for AWS and enables multi-cloud flexibility.

The strength we are seeing in Zero Trust branch and Zero Trust Cloud is translating to meaningful momentum with Zero Trust Everywhere enterprises, those that have purchased zero trust users, Zero Trust branch and Zero Trust Cloud. We exited Q4 with more than 950 Zero Trust enterprises versus over 700 in Q3 and over 350 at the end of fiscal 2025.

To summarize, AI represents one of the most significant opportunities in Zscaler's history. Our platform was built for this moment. Zscaler has always secured interactions between every user and applications and now Zscaler secures interaction between every user, every agent and every AI model. We have a large and growing market. Adoption of our platform is expanding and we are continuing to innovate across Zero Trust SASE, Agentic SecOps, data security and security for AI.

We are well positioned to extend our leadership as the cybersecurity platform for the AI era, drive durable growth and create long-term shareholder value.

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

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

Thanks, Jay. We delivered strong Q4 results with revenue and ARR both growing 25% year-over-year, net new ARR growing 24% and non-GAAP operating margin reaching a record 24.3%. For full year fiscal '26, revenue also grew 25% and when combined with 23% free cash flow margin, our performance exceeded the rule of 40, landing at approximately 49%. Our growth engine continues to broaden beyond users with increasing contribution from non-seat-based solutions, continued Z-Flex momentum, record large deal activity and improved sales productivity. ARR momentum remains strong in Q4.

Excluding the contribution from our acquisition of Red Canary, net new ARR was $232 million, up 17% year-over-year, and total ARR was up 20%. Importantly, this marks a continued acceleration in net new ARR growth from 7% in fiscal '25 to 10% in the first half of fiscal '26 and to 17% in Q4. Red Canary exited Q4 with $141 million of ARR.

Total net new ARR was $246 million, up 24% bringing total ARR to $3.8 billion, up 25% year-over-year. Performance was broad-based with strength across the Americas, EMEA and APJ. We also continued to deepen enterprise adoption. In Q4, we closed with a record number of $1 million plus new ACV deals and the number of $10 million-plus ARR customers nearly doubled year-over-year. We ended the quarter with 785 customers generating over $1 million in ARR and 4,182 customers generating more than $100,000 in ARR growing 18% and 20% year-over-year, respectively.

As our platform expands beyond users to protect branches, workloads, AI applications and AI agents, our monetization model is also expanding.

In Q4 and for the full year, our non-seat-based metered usage solutions delivered approximately 30% of new and upsell ACV. ARR tied to these offerings grew more than 100% year-over-year. Turning to revenue. Q4 revenue was $898 million, up 25% year-over-year and 6% sequentially, exceeding the high end of our guidance. Growth was broad-based across the geographies.

The Americas accounted for 57% of revenue and grew approximately 30% year-over-year. EMEA accounted for 27% of revenue and grew approximately 17% and APJ accounted for 16% of revenue and grew 23%. For full fiscal '26, revenue of $3.4 billion grew 25% year-over-year.

Excluding Red Canary, revenue of $3.2 billion grew 20% year-over-year. Red Canary contributed $144 million of revenue in fiscal '26. The Americas accounted for 57% of revenue and grew approximately 31% EMEA accounted for 28% of revenue and grew approximately 16% and APJ accounted for 15% of revenue and grew approximately 23%. Remaining performance obligation, or RPO, of approximately $7.4 billion grew approximately 27% with approximately 45% classified as current RPO.

Turning to go-to-market. We are pleased with the continued strong sales execution. In Q4, we delivered double-digit sales productivity growth and achieved our highest quarterly productivity ever and the highest annual productivity since 2022. This reflects continued improvement in our account-centric sales motion and our ability to drive broader platform adoption with customers. Entering fiscal '27, our priorities are focused on deepening relationships with existing customers, accelerating platform adoption, improving new logo execution, expanding coverage in key segments and increasing partner-led contribution.

These priorities are especially important as the rapid proliferation of frontier AI models increases customer engagement at senior levels of the organization as Jay discussed earlier.

To support new logo growth, we are expanding coverage through both direct and partner-led motions. For example, we recently expanded our partnership with Carahsoft to further penetrate the commercial and SMB segments in the US through 100% channel-led motion. We are also adding dedicated new logo sales executives focused specifically on pursuing new enterprise customer opportunities. Z-Flex remains an important part of our go-to-market strategy.

It provides customers with multiyear commitments, the flexibility to activate or swap modules without starting a new procurement cycle while also providing premium deployment assistance and support. We saw strong momentum again this quarter with Z-Flex, driving meaningful upsell, shorter sales cycles and greater forward visibility. In Q4, Zflex generated over $770 million in TCV up more than 60% quarter-over-quarter.

For fiscal '26, Flex customers saw an ARR uplift averaging nearly 30%. For fiscal '26, flex generated more than $1.7 billion in TCV, underscoring customers long-term commitment to Zscaler. Two recent examples illustrate the value of this model. In a 5-year, 8-figure Z-Flex deal, a Global 2000 services customer increased its ARR by nearly 90%, crossing $5 million this quarter, driven by expansion with existing products and adoption of new products, including our security for AI and Zero Trust cloud solutions. In another example, an existing 7-figure ARR Global 2000 retail and wholesale customer increased its annual spend with us by 140% in a three year 8-figure Z-Flex deal.

This customer expanded adoption across nine existing modules, and adopted six new modules, including our security for AI solution.

Turning to operating performance. We delivered strong profitability while continuing to invest in the business. Non-GAAP gross margin was 80.2% compared to 79.3% a year ago. The year ago period included a onetime deployment of a large private cloud in a government customer's data center, which included a hardware component that carried a lower gross margin profile. We also delivered significant operating leverage in the quarter.

Non-GAAP operating income was $218 million, up $60 million or 37% compared to $159 million last year. Non-GAAP operating margin was 24.3%, up 220 basis points year-over-year.

For the full year, non-GAAP gross margin was 80.3%, up 20 basis points year-over-year. Non-GAAP operating margin was 22.9%, up 120 basis points year-over-year. This performance reflects the strength of our business model, disciplined execution and our ability to deliver durable growth with expanding profitability while continuing to invest in the significant market opportunity ahead.

Turning to the balance sheet. We ended the quarter with approximately $3.5 billion in cash, cash equivalents and short-term investments and $1.7 billion of debt. In Q4, we generated $279 million in operating cash flow, and CapEx was $200 million or 22% of revenue. This brought our full year CapEx to $277 million or 8% of revenue and coupled with capitalized internal use software of $73 million resulted in free cash flow of $779 million for the full fiscal '26 or a free cash flow margin of 23%, down from 27% last year.

The year-over-year declines reflect the timing of cash collections and CapEx expenditures. Looking ahead, I want to provide an update on our expectations for capital expenditures to support our growth. As I shared last quarter, we are seeing higher prices and tighter availability for memory, storage and processors. These components support our data center infrastructure and our Zero Trust branch appliances. In Q4, we opportunistically accelerated certain purchases where data center equipment was available.

As a result, fiscal '26 CapEx was 8% of revenue consistent with the expectations we provided last quarter for CapEx of high single digits as a percentage of revenue. We expect CapEx to remain elevated during fiscal '27 due to higher component pricing, especially memory. We'll continue to monitor our costs and share regular updates about the impact.

To provide additional capacity to support our AI and growth initiatives, we are strategically reallocating resources through a workforce restructuring. This action is expected to affect approximately 3% of employees and result in restructuring charges of approximately $30 million to $33 million.

Turning to guidance. Let me provide our outlook for Q1 and full year fiscal '27. As a reminder, these numbers are all on a non-GAAP basis. For the first quarter, we expect revenue of $935 million to $939 million, approximately 19% year-over-year growth. Gross margin of approximately 80% operating profit of $215 million to $217 million, up approximately 25% to 26% year-over-year, representing a 23% operating margin.

Net other income of approximately $33 million and earnings per share of approximately $1.15 to $1.16 per share, assuming a 21% tax rate and 170 million fully diluted shares. For the full year fiscal '27, we expect ARR of $4.396 billion to $4.426 billion or year-over-year growth of approximately 16.6% to 17.4%. For net new ARR seasonality, we expect approximately 37% of net new ARR in the first half of fiscal '27 with

15% in Q1 fiscal '27. Revenue of $3.908 billion to $3.938 billion, reflecting year-over-year growth of 16.6% to 17.5%. Gross margin of approximately 80%, operating profit of $924 million to $932 million, up approximately 21% year-over-year and equating to an operating margin of approximately 23.7%.

Net other income, approximately $140 million to $142 million. Earnings per share of $4.86 to $4.90, assuming a 21% tax rate and approximately 173 million fully diluted shares and free cash flow margin of approximately 23% to 23.5%, reflecting CapEx, not including internal use software in the low teens as a percentage of revenue.

We expect free cash flow margin to be seasonally stronger in Q1 and Q4, reflecting timing of CapEx and cash collections. 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 in fiscal '26. We achieved 25% year-over-year ARR growth, record operating income and operating margin. We also saw continued momentum with Z-Flex and closed an all-time record number of $1 million plus ARR deals. I'm excited about the substantial opportunity ahead in fiscal '27. We are confident in our ability to continue to drive profitable growth across multiple vectors, including product innovation, go-to-market and customer expansion and creating value for our shareholders.

To learn more about our strategy and plans for the future, please join us at our upcoming Investor Day on October 6 in New York City.

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) Saket Kalia with Barclays.

Saket Kalia - *Barclays Services Corp - Analyst*

A nice close to the year. I'll keep it to one, but maybe address it to both you, Jay and Kevin. It's great to see the higher growth rate for next year in ARR. Maybe the question is, how are we thinking about the impact of some of the sales churn here that we talked about last quarter in terms of productivity, and do we feel like the sales churn here has stabilized as we go into '27?

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

Okay. Let me start. Over the past few quarters, we have gone through transformation of our sales organization where we expanded from opportunity-led sales to account focused sales, the strong results of Q4 kind of show that the transformation, the changes we have driven, are working well. If you look at the sales productivity, actually, the sales productivity in Q4 was the highest I think we are very well positioned with a strong sales team with good channel partnership and a very strong product portfolio as we enter fiscal '27. Kevin?

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

Yes. Thanks, Jay and Saket. Maybe just to reemphasize the point. So Q4 marked the highest productivity quarter that we've ever seen and fiscal '26 was the highest annual sales productivity in four years. So I think we're really positioned and set up well going into fiscal '27.

Just as a reminder, we did have two sales leaders depart last quarter. One was a geo leader and the other was a vertical leader. We backfilled and internally promoted the vertical leader. Since then, a new leader has accepted the offer for the GEO position. Just keep in mind that certain geos may take longer to onboard than others.

And finally, as we think about the shape of the transition, we expect that the leadership transition will play out in the first half of this fiscal, and that is reflected in our guidance. And I am excited about how this leadership team has come together as we think about augmenting our existing team into this year.

Operator

Fatima Boolani with Citi.

Fatima Boolani - *Citibank Cameroon SA (Douala Branch) - Analyst*

I was hoping to have you unpack some of the discrete drivers of that organic net new acceleration in the quarter. Provided that this is your fourth fiscal quarter, it's an abundant period of renewals and expansionary behavior from customers. So I'd love to kind of how you stack rank between some of those inputs. And how did you feel and think about your new logo activity in the quarter. Just wanted to get a sense of the most sensitive drivers of upside and strength there relative to what we were looking for.

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

I'll start and Kevin. Q4 was a very strong quarter from almost all measurements. You saw all the metrics. We did very well. Our product portfolio has become pretty broad.

Zero Trust everywhere has been driving a lot of our sales. AI security fears are growing out there. And one of the things AI security needs zero-trust architecture, Zero Trust solutions. Our solution like Zero Trust Branch did extremely well. Data security drove a big part of our business.

And even the young offerings of security for AI has grown very nice so. All products actually did very well. Kevin?

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

Yes. So maybe just a couple of other points to emphasize. We did have broad-based strength in the quarter. So I think that's number one to reflect. NRR, although it's not a metric that we provide each and every quarter, it was consistent each quarter this year at 115%.

So we've seen very consistent performance in terms of our upsell motion that I think is important to appreciate. Maybe one other comment I'll make is, as Jay mentioned, the early success with our securing AI, obviously, it had a strong performance in the quarter. But another optimistic point of view is that we also saw a 75% increase in pipeline in security for AI as we think about what that sets up for '27.

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

If I may add two more points from a new logo point of view, our fortune 500 penetration moved up from 45% to 50%. That's pretty remarkable. And also worth noting is the million-dollar-plus deals. We had a record quarter for New $1 million ACV teams.

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

And Fatima, my reference to the increase in the pipeline relative to AI was quarter-over-quarter sequential, not year-over-year.

Operator

Roger Boyd with UBS.

Roger Boyd - *UBS AG - Analyst*

Awesome. Jay, I wanted to touch on the competitive environment you're seeing with some of these AI security wins. And I want to maybe pick on the 7-figure upsell you called out with an airline company where you won over two other platform competitors. Can you just talk about what you're seeing in these bake-offs? Presumably, companies are taking these decisions pretty seriously and trying to make strategic bets on which layer of security they see as best positioned to secure AI, but I'd be curious to see what you're seeing and what's causing you to win these large deals?

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

Yes. AI security is in demand and they're lots and lots of AI security companies, probably tons of startups as well. So one of the things we see out there is our customers tell us that they don't want one more or three more AI security products. They're looking for an integrated solution, not only for AI security, but also that works with the rest of security as well. So this transformation customers that we highlighted.

They are a Zscaler customer for Zero Trust everywhere. And it is natural for them to say, if I need to expand into AI security. And tomorrow, I need to be ready for my agentic communication where zero to exchange to be able to ensure policy for agents. We were the natural choice for that to happen. And yes, every company is offering AI security, but they all come from different sides of it.

Our differentiation is we have an integrated solution for asset management through communication to us actually relationship figuring out the access graph as well as agentic communication. That’s really what’s setting us apart.

Operator

Richard Poland with Wells Fargo.

Richard Poland - *Wells Fargo Securities LLC - Equity Analyst*

I just wanted to get a sense for unpacking some of the verticals in the quarter. I guess when we think about federal, I know last year, federal was a little bit softer than we would have hoped for. But just as we think about this quarter and heading into fiscal year end, for federal, anything to keep in mind there?

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

Yes. I'll take that quickly. look, the federal business contributed high single digits to new ACV in '26. That was very similar to '25. Expectations for fiscal '27 are similar.

There's nothing in particular that I would point out. Obviously, earlier in the year with DOGE, it was a difficult environment, but we've seen it perform fairly consistently with the last several years.

Operator

Joseph Gallo with Jefferies.

Joseph Gallo - *Jefferies LLC - Analyst*

On a quarter. I was just hoping if you could break out the Symmetry contribution to net new ARR in F 4Q, and then just as a part of that really strong strength in non-seat in fiscal '26, what are the expectations as we go into fiscal '27? Because you're obviously offering more and more there. So is it fair to expects a larger mix of the new business comes from that non-seat.

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

Symmetry is a very innovative technology that essentially connects the dot between different entries accessing different data sources. As we have seen proliferation of AI agents. This innovative technology becomes extremely important. This was essentially acquired as a technology company with very little revenue for it. But it's becoming an important part of Zero Trust Exchange not only for agents, but Zero Trust for cloud workloads and Zero Trust for devices because understanding relationships of entities to what they access is foundational piece. That's where it's fitting in. Regarding non-seat at a broader level, the comment I'll make is, while early on, our products like ZIA for users, ZPA for users, were largely user-centric. A lot of our offerings subsequently have not been user-centric. For example, Zscaler for cloud workloads. It's all about workloads. It's essentially consumption-based. Zero Trust Branch which is largely about branch devices, IoT/OT devices communicating is all about non-seats.

Data security, some of the modules are user seat-based. Others are data volume based. And almost all of our AI security products or security for AI products are essentially consumption based linked to queries, essentially transferred to token consumption fundamentally.

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

Yes. So with respect to Symmetry again, to Jay's point, it really was a technology and talent acquisition and provided the access graph technology for us. The results are immaterial to our results. And nothing else to call out there.

Operator

John DiFucci with Guggenheim Securities.

John DiFucci - *Guggenheim Securities LLC - Analyst*

I have a three-part question, but I promise, it's all related. You said you're adding new enterprise reps to go after enterprise accounts while also restructuring, and that's going to affect 3% of your employees. Can you give more color around this one, what kind of employees will be affected and what will be the net employee count effect? And then also, where are these new reps needed?

Is it specialized sales? Or will it be broadly across your geos and product. And finally, what's driving this? Is it an inflection point in demand that Jay talks about AI? Or is it just as you said, you also said here, you're seeing very good sales productivity.

So now it's just the time to be hiring more to keep on growing.

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

Let me start. So first of all, the reduction you pointed out, it's essentially rebalancing, reallocation of some of our resources with better leverage and also better investments in the AI area we are looking at. That's fairly straightforward. And if you look at adding our sales resources, when a company is growing at a pretty good pace, it's natural to add resources. We have essentially almost always done it.

Now the question is where do we add most of the resources.

We do have specialty teams and we have account execs. Our specialty teams have been making a pretty meaningful contribution. I'm extremely proud of it. Our CRO, Mike Rich and his team evolved the idea of take-up teams that we just started about three years ago. It has become a very good specialty team and we are adding resources in specialty teams.

But also in geos too, a number of accounts execs are being added. One of the areas for addition of account execs is probably the enterprise, if you look at the top end of the enterprise, we're pretty well covered. As you come down in the enterprise market, our coverage has been thinner. We are making the coverage. We are also investing more in some of the channel resources because channel is helping us expand in the mid-market and like.

Kevin?

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

Yes, John, the only thing I would add is the restructuring is about 3%. So it's modest, about $30 million to $33 million in restructuring charges. Maybe just to also double down on what Jay mentioned Mike is adding people to the organization, both to address opportunities we have with new logos as well as upsell. We have about 4,600 of 20,000 targeted companies. So there's a big opportunity just with new logos alone.

And so Mike does see an opportunity to do that through dedicated new logo hunters along with reps that hold both existing customers and prospecting territories. So there's opportunity for us to continue to expand across both of those dimensions.

John DiFucci - *Guggenheim Securities LLC - Analyst*

So just to be clear, guys, and thank you for that detail. It's more about, hey, listen, our sales force is getting really good and productivity has gone up. So in order to continue to grow, you're bigger to the law of large numbers you just need to hire more salespeople. But it's more of that than it is when Jay talked about AI changing demand for security out there. Is that, am I reading you right?

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

I don't think it's either or, to be honest. I mean we certainly are seeing strong tailwinds with respect to AI broadly, whether it's specific to security for AI or just broad-based interest in Zero Trust and our existing kind of core Zero Trust Exchange. So I wouldn't limit the discussion to simply just generally continuing to hire to grow. I think there is a unique momentum at the moment with respect to kind of this AI tailwind.

Operator

Brian Essex with JPMorgan.

Brian Essex - *JPMorgan Chase & Co - Analyst*

I guess I want to take the other side of the coin. Relative to what Fatima asked. And I want to ask about the health of the Red Canary business? I know when you entered the year, there was some question of what the renewal experience would be on that platform, and you've now had a year worth of renewal experience, I think it's performed relatively well. But you also commented on the thing at the beginning of the year that some of those customers aren't your typical Zscaler customers.

So now that you've kind of like had a year of experience, what is your expectation for the growth of that business, and I totally understand the rationale behind the IP acquisition and the value that's going to provide to the products being released very shortly. But I just want to kind of get a baseline of what is your view of the health of that customer base, the renewals and growth of that base business going forward. So we can kind of gauge how to interpret the outlook for fiscal '27?

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

I will start with a broader comment. Acquisition of Red Canary was number one to make sure we have agenetic technology that could become part of our SecOps platform. Number two, we don't have any SecOps expertise. Red Canary had 10 years experience about understanding our SecOps runs, and that was important for us. In that area, we've done a pretty good job of integrating their technology with our technology, and that's becoming an important part of our SecOps solution.

Regarding financials, Kevin.

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

So look, fiscal '26 was really focused on integrating the Red Canary technology into our Agentic SOC solution that's launching next week. When we closed the acquisition a year ago, we did not know what portion of their business was going to be durable. So we took a conservative approach in how we picked up ARR quite frankly, we're pleased with the ability to maintain the book of business while going through the integration. As I mentioned last quarter, as we think about fiscal '27, we are integrating their technology. It is a combined integrated offering that launches next week.

And so as it relates to Red Canary, we're not expecting any net new ARR contribution, all of that will show up in the integrated solution going forward.

Brian Essex - *JPMorgan Chase & Co - Analyst*

Very helpful. Do you think the churn is pretty much in the rearview mirror at this point in terms of any churn on that platform that may happen?

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

I mean, look, we've talked, I think, ad nauseam about the different churn rates that MDR businesses experience discretely different from ours. And that was, played out that way. We did see elevated churn in Red Canary's business in '26. Despite that, we were able to continue to maintain its book of business, as I mentioned. I would expect that as it relates to accounts that are up for renewal that we'll continue to see the higher, more traditional churn rates of an MDR business, not our rates, but that has all been contemplated in the guide.

Operator

Meta Marshall with Morgan Stanley.

Meta Marshall - *Morgan Stanley - Analyst*

Great. I wanted to ask a question about the ZFlex traction that you're seeing. And just as you continue to expand the platform with AI security and agentic SOC, do you envision kind of mandating Flex plans more with some of these new products? And just how is it impacting sales cycles relative to the traditional sales approach?

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

So ZFlex is not a mandate. ZFlex is about providing flexibility as our platform is getting bigger. Many times, our customers will look at evaluating product A or B or C or D and they're not sure which one do they want, and this will take longer time. By giving them the flexibility then, you can start with a certain number of products, you can swap other products without going through again, typical procurement level. This is one of the biggest things they needed.

And sometimes, they wanted the ability to ramp because if they bought 6 products rather than three of them. They want some capacity to ramp that became part of ZFlex deals, and they also want a longer duration.

The customer engagement with us are not transactional. They're generally long term, once they deploy us, they invest, they want to stay with us for the longer time. and they also want the ability to buy additional products from us to rate card. All those things are very good for business, what customers are good for us as well. But it's true as our platform becomes bigger, all the products will be available as a part of our Zflex offering.

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

Yes. And one of the other advantages it was in my prepared remarks, is it does it eliminates the need to go through new procurement cycles every time a customer wants to adopt and implement new modules or features on the platform. So you go through that discussion once they have to complete flexibility to choose what's appropriate for them to use with their business at different points in time. And these are longer-term commitments, so we can offer that level of flexibility. So we've been very pleased with the momentum with Z Flex.

And as I mentioned, we ended fiscal '26 with more than $1.7 billion in ZFlex bookings. So it's been very, very well received.

Operator

Ittai Kidron with Oppenheimer & Company.

Ittai Kidron - *Oppenheimer & Co Inc - Analyst*

And a solid finish for the year guys. Kevin, I want to dig into your outlook for fiscal 2017, specifically on the ARR front, I love if you can give us a little bit more insight into the puts and takes that you've taken into account into that ARR guide. Clearly, you've had very good momentum here with net new ARR. If my math is right, that declines to 4%, the midpoint for your guide for fiscal '27. So we'll have to kind of get a little bit more kind of color as to what's included with respect to the go-to-market, the new products and any other components that you think it's important to call out.

Appreciate it.

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

Yes. Thanks, Ittai. Maybe at the highest level, what I would say is we're very optimistic with the momentum that we do carry into '27, especially after a 17% net ARR growth in Q4, excluding Red Canary. I am considering the time it will take for the sales transition that we've talked about, both in terms of the geo and the verticals as well as the pace of the uptake of the integrated SecOp solution. In addition to that, look, as I mentioned, we have had consistent NRR.

I mentioned each of the quarters of fiscal '26, it was 115%, so I do expect that to continue. We also have an opportunity to accelerate new logo growth, which we've talked about. We're adding dedicated new logo sales executives, specifically focused on enterprise customers. We also have, from a product point of view, a larger opportunity to land new logos with a variety of products, very different than was the case years ago.

And so I'm pretty optimistic in terms of the different dimensions that we think about for '27 and opportunities for us to continue to grow.

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

And AI security is adding furhter tailings.

Ittai Kidron - *Oppenheimer & Co Inc - Analyst*

Is the AI security contemplated materially into your outlook? Because a lot of that portfolio still needs to come?

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

Yes. We haven't specifically called out the contributions from security for AI in the guidance. But as I mentioned, AI is very quickly becoming a strong and durable tailwind for the business. And it is driving demand, not just for security for AI solutions, but Zero Trust Everywhere and data security. And we expect that these drivers will persist in '27.

Operator

Gregg Moskowitz with Mizuho.

Gregg Moskowitz - *Mizuho Securities USA LLC - Analyst*

Jay, as you mentioned, you're hosting a launch event for agentic SecOps next Wednesday, quite frankly, a lot of time has passed since you acquired Red Canary and now that the day is upon us or almost upon us, it would be helpful to hear just a bit more from you as to what might be unique about your Agentic SecOps and what it will unlock for your customers?

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

Yes. Very good question. So our customers have been talking to us for the last few years, they're telling us that we have the best data, best telemetry across the network is because sitting in line from endpoint to sitting on the endpoint and cloud as we're sitting on cloud workloads as well. This is resulting in over 750 billion transaction loss per day. That's a starting point of really good SecOps.

So our customers are saying, we have to send this data to another vendor. You've got the data right here. Why can't you give us more meaningful information that's needed for SecOps, which is natural, we should be doing that. That was number one driver.

Number two was, we observed over the years that, there was a first generation of SecOps solution. Then second generation came where they are still human-centric but automation driven. They're essentially human driven. We saw the opportunity to really build a SecOps solution truly agent-native where agents are driving, detecting and able to investigate this thing,at machine speed versus a traditional solution. I think it's an opportunity to disrupt traditional SecOps solution, even the one that they call themselves next-gen SecOps. And the last factor was closed loop remediation. These days the time between a vulnerability being discovered and exploitation is shrinking. Typically take days or weeks for a typical SecOps solution to get all the telemetry do all the detection and finding and take an action.

With Zscaler, since we have most of the data, we could do it within minutes. Those were the big drivers for us. We have a large number of customer waiting for our solution to really be deployed. So we are pretty excited about it. I think we'll have a meaningful opportunity for us.

In the first half of the year, it's going to take some time to take off, but it should start contributing in second half and then fiscal '28.

Operator

Thank you. I would now like to turn the call back over to Jay Chaudhry for any closing remarks.

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

Thank you all for joining us today. We hope to see you at one of our investor conferences. Thank you again.

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.
