

Constructive on fundamentals but disciplined on valuation

1 | KEY RESULTS VS. CONSENSUS

Metric	Reported	Consensus	vs. Cons.
Revenue	\$1.4709 billion	\$1.44 billion	+2.1%
Adjusted Operating Income	\$371.6 million	\$348.7 million	+6.6%
SEGMENT REVENUE			
Subscription revenue	\$1.4003 billion	\$1.37 billion	+2.2%
Professional services revenue	\$70.6 million	\$69.8 million	+1.1%
COMPANY METRICS			
Ending ARR	\$5.84 billion	\$5.79 billion	+0.9%
Net New ARR	\$332.8 million	\$285.9 million	+16.4%
Free Cash Flow	\$377.4 million	\$352 million	+7.2%

2 | GUIDANCE AND OUTLOOK

FY27 revenue guidance rose to \$5.99 billion to \$6.01 billion from \$5.91 billion to \$5.96 billion, and adjusted operating income to \$1.50 billion to \$1.51 billion from \$1.45 billion to \$1.48 billion. Net new ARR growth guidance rose to 34% from 27.7% (1,150 basis points above the initial outlook); adjusted EPS guidance rose to \$1.25 to \$1.26. The at-least-30% full-year free-cash-flow margin was reaffirmed. Q3 guidance implies 29% to 31% net new ARR growth and an approximately 24.5% operating margin, below Q2’s approximately 25.3%.

3 | EARNINGS ANALYSIS

SUBSCRIPTIONS DROVE THE BEAT. Almost all of the revenue surprise came from recurring subscriptions rather than services. Net new ARR reached \$332.8 million, beating consensus by 16.4%, while growth accelerated from 32% to 51%. Recognized revenue growth improved only from approximately 25.6% to 25.8%: the sharper acceleration is in incremental commitments, not yet recognized revenue. Professional services were the counterweight: growth slowed from approximately 23% to 7%, gross margin fell to 29.8%, and gross profit fell approximately 7.1%.

GAAP ECONOMICS REMAIN WEAKER. Non-GAAP operating profit contrasted with a \$33.2 million GAAP operating loss. Stock-based compensation and related employer payroll taxes were \$399.0 million, 27.1% of revenue and up 44.2% year over year. GAAP net income of \$5.3 million depended on nonoperating income and a tax benefit. Quarterly stock-based compensation of approximately \$376.9 million illustrates the gap between reported free cash flow and fully expensed shareholder economics. Moderate dilution does not eliminate the cost of equity awards.

SELLING EFFICIENCY DROVE LEVERAGE. Non-GAAP operating margin increased to approximately 25.3% from 21.8%, with non-GAAP sales and marketing expense growing approximately 13.3%, below revenue. R&D expense grew approximately 31.1%, so leverage coexisted with aggressive product investment. Subscription gross margin reached approximately 81%; Q3 does not assume uninterrupted leverage. The FY29 subscription gross-margin target remains 82% to 85%, but AI inference, telemetry and data retention can increase costs alongside revenue.

CASH GENERATION REQUIRES QUALIFICATION. Free cash flow reached \$377.4 million, a 25.7% margin. Property and equipment purchases were \$124.4 million, approximately 4.1x the year-earlier level; cash conversion declined from approximately 85% to 71%. Liquidity remained strong: \$5.014 billion of cash against approximately \$746 million of reported debt. Acquisition spending and repurchases mean free cash flow is not cash remaining after the capital-allocation program.

AIDR MONETIZATION IS SEPARATE. AIDR is separately priced, with token-based pricing and extra packs through Flex. Existing-agent deployment reduces friction. Absolute ARR, pricing and product profitability remain undisclosed.

4 | KEY READ-THROUGHS

SENTINELONE FACES A MORE DIFFICULT COMPETITIVE ENVIRONMENT
SentinelOne (S) | Negative competitive | Moderate potential fundamental significance
Falcon’s broader platform commitments increase the risk of lower win rates, discounting and weaker expansion for endpoint competitors. Every top-10 deal used Flex, with average conversion uplift exceeding 40%. Separately priced AI protection extends the decision beyond endpoint security. No unnamed displaced vendor can be identified as SentinelOne: the conclusion is competitive pressure, not an earnings miss.

VULNERABILITY-MANAGEMENT INCUMBENTS FACE PRICING AND RETENTION PRESSURE
Tenable Holdings (TENB), Qualys (QLYS) | Negative | Potentially moderate
Bundling exposure management with endpoint controls can lower customers’ perceived incremental cost and weaken standalone renewal pricing. CrowdStrike reported incumbent replacements and sequential acceleration; XM Cyber adds capability but no ARR or revenue. Tenable’s 8.6% and Qualys’s 11% reported revenue growth and raised outlooks are material counterevidence. Both already offer broader exposure-management platforms, not static scanners.

SIEM ECONOMICS CREATE A RENEWAL-PRICING HEADWIND FOR SPLUNK
Cisco Systems (CSCO), through Splunk | Negative | Moderate potential business-level significance
Next-generation SIEM ARR exceeded \$695 million, growing approximately 60%. Native Falcon telemetry reduces implementation burden and incremental analytics cost, pressuring ingestion spending, renewal pricing and expansion without full displacement. The unnamed acquired SIEM was not identified as Splunk. Cisco’s already-reported security revenue grew 14%; the implication is a higher future competitive hurdle, with limited consolidated significance.

PALO ALTO NETWORKS BENEFITS FROM VALIDATION OF A BROADER SECURITY-MODERNIZATION CYCLE
Palo Alto Networks (PANW) | Positive demand validation | Moderate potential fundamental significance
Separately priced AI protection validates willingness to pay for AI deployment controls. Cloud, Cortex, Prisma AIRS, network enforcement and acquired CyberArk identity exposure give Palo Alto multiple routes to larger contracts. Its previously reported 28% organic next-generation security ARR growth makes this corroboration, not a new thesis. Stronger demand coexists with greater competition and does not establish a precise near-term earnings upgrade.