

Strong quarter; durable, dilution-adjusted shareholder returns remain critical

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$3.410 billion	\$3.35 billion	+1.8%
Operating Income (vs. Year Ago)	\$172 million	\$497 million	-65.4%
Diluted EPS (non-GAAP)	\$1.02	98c	+4.1%
SEGMENT REVENUE			
Product revenue	\$738 million	\$678.8 million	+8.7%
Subscription and Support revenue	\$2.672 billion	\$2.68 billion	-0.3%

2 | GUIDANCE AND OUTLOOK

Initial FY2027 guidance: revenue \$14.10 billion-\$14.20 billion, NGS ARR \$11.075 billion-\$11.175 billion, RPO \$25.2 billion-\$25.4 billion, non-GAAP EPS \$4.16-\$4.19 and non-GAAP operating margin 29.5%. Adjusted free cash flow margin is guided to 38%, below FY2026's 38.4%; the FY2028 40% target is reaffirmed. Q1 guidance is revenue \$3.300 billion-\$3.310 billion, NGS ARR \$9.54 billion-\$9.56 billion and non-GAAP EPS \$0.96-\$0.98. Management expects cloud-hosting costs to grow faster than revenue; Network and AI Security growth moderates to low double digits from 17%.

3 | EARNINGS ANALYSIS

PRODUCT DROVE THE SURPRISE. Product revenue accounted for approximately the entire consolidated revenue surprise; subscription and support was approximately \$8 million below consensus despite 36% growth. Product is not synonymous with hardware, which represents approximately 10% of company revenue. NGS ARR beat consensus by 2.7%, but included at least \$100 million from a large Chronosphere customer migration. The approximately \$970 million of net new NGS ARR does not establish that legacy organic net additions nearly doubled.

CASH AND DILUTION MATTER. FY2026 adjusted free cash flow rose 25.9% to \$4.414 billion, but operating cash flow less capital expenditures grew 18.6% to \$4.113 billion. Its margin fell to 35.8% from 37.6%, so adjusted-margin improvement does not establish better cash conversion. Q4 non-GAAP net income increased 26.7%, while adjusted diluted shares rose approximately 17.7%, limiting EPS growth to 7.4%. The operating-income reconciliation excluded \$487 million of share-based compensation-related charges, an important economic cost despite their exclusion from adjusted results. Cash adjustments rose to \$301 million from \$38 million, including \$164 million of acquisition-related payments. Repeated acquisitions make this distinction particularly relevant.

GROSS-MARGIN PRESSURE IS REAL. Q4 non-GAAP gross margin fell 100 basis points to 74.8%, primarily because faster-growing SASE and cloud offerings have not reached mature margins. Non-GAAP operating margin recovered to 29.6% from 27.1% sequentially, but remained below 30.3% a year earlier. FY2027's 29.5% operating-margin target requires expense leverage and acquisition synergies to more than offset gross-margin pressure. The target represents only 30 basis points of annual expansion. Platform breadth may improve retention and selling efficiency while increasing variable delivery costs.

PLATFORM EXPANSION HAS SUBSTANCE. Customers exceeding \$5 million of NGS ARR increased 45%, and those exceeding \$10 million increased 50%, excluding CyberArk and Chronosphere. Approximately 220 net new platformizations set a quarterly record. These disclosures provide more persuasive evidence of expanding commitments than acquisition-inflated consolidated growth. **CAPACITY DOES NOT SETTLE VALUATION.** Fiscal year-end cash was \$2.514 billion, with \$557 million of short-term and \$4.835 billion of long-term investments; the approximately \$7.9 billion total is not all short-term liquidity. Convertible notes were carried at \$1.774 billion, while annual capital expenditures were \$440 million. Financial capacity remains strong. The conclusion is favorable on competitive positioning, more measured on normalized growth and cautious on valuation. The investment case ultimately rests on migration-adjusted growth, sustainable gross profit and cash flow earned per diluted share.

4 | KEY READ-THROUGHS

OBSERVABILITY SOFTWARE: COMPETITIVE PRESSURE IS INCREASING
Datadog (DDOG), Dynatrace (DT) | Negative | Potentially material within Datadog's largest AI-native accounts; less immediate for Dynatrace
Chronosphere exceeded \$500 million of ARR, with at least \$100 million of Q4 net additions from a large LLM migration. Workload moves and lower effective pricing threaten incumbent expansion. Datadog already incorporated reduced largest-customer usage into guidance, so another assumed loss risks double counting; the customer and displaced vendor were unidentified. Chronosphere's current AI-native restriction makes Dynatrace's threat less immediate. Management claims pricing is "30% or 40% cheaper," not independently verified.

ZSCALER FACES A HIGHER COST OF DEFENDING ITS INSTALLED BASE
Zscaler (ZS) | Negative | Moderate potential company-level impact
Approximately \$450 million of annual competitive displacement TCV included approximately \$250 million in Q4. Existing firewalls, policies and agents reduce migration friction, potentially forcing discounting or greater selling effort. Losing vendors were unidentified, and TCV is not ARR. Zscaler's subsequent 20% ARR growth excluding Red Canary and record approximately 24% non-GAAP operating margin limit the bearish conclusion. Zscaler also has its own platform-consolidation proposition.

FORTINET RECEIVES DEMAND CONFIRMATION, WITH A HARDWARE-COST OFFSET
Fortinet (FTNT) | Positive | Moderate relevance to the core business
AI infrastructure and operational technology expand inspection and segmentation needs, supporting durable firewall demand. Palo Alto's software-firewall ARR grew 29%. Fortinet had already reported approximately 26% revenue growth and 52% product growth, so this confirms demand rather than predicts an unreported acceleration. Persistent memory and storage inflation offsets volume strength; product revenue is not a pure hardware measure.

MACHINE AND AGENT GOVERNANCE EXPAND SAILPOINT'S ADDRESSABLE SPENDING
SailPoint (SAIL) | Positive | Moderate strategic significance; unquantified near-term earnings impact
Agents require identities, scoped permissions and auditable actions, broadening governance beyond employee counts. Palo Alto reported 50% growth in identity transactions exceeding \$5 million of TCV. SailPoint can monetize wider governance scope and module adoption, not necessarily every agent. Cross-platform complexity supports demand, but Palo Alto's CyberArk acquisition also strengthens a competitor; the call establishes neither SailPoint's market share nor pricing power.