

Execution improved, reacceleration unproven: guidance implies slower organic additions and cash conversion lags

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Consensus	vs. Cons.
Revenue	\$898.2 million	\$877.2 million	+2.4%
Adjusted EPS	\$1.19	\$1.09	+9.2%
Operating Income, Adjusted (vs. Year Ago)	\$218.4 million	\$158.9 million	+37.5%
RECURRING REVENUE AND CASH			
Annual Recurring Revenue	\$3.771 billion	\$3.74 billion	+0.8%
Net New ARR, Organic (vs. Year Ago)	\$232 million	\$198 million	+17%
Free Cash Flow (vs. Year Ago)	\$60.8 million	\$171.9 million	-64.7%
Deferred Revenue (vs. Year Ago)	\$2.93 billion	\$2.46 billion	+19%

2 | GUIDANCE AND OUTLOOK

Fiscal 2027 revenue guidance of \$3.908 billion to \$3.938 billion implies 16.6% to 17.5% growth; ARR guidance of \$4.396 billion to \$4.426 billion implies 16.6% to 17.4%. Both sit modestly above the preliminary May framework of 16% to 17% growth. Adjusted EPS guidance of \$4.86 to \$4.90 is approximately 5.9% above consensus at the midpoint; revenue guidance is only about 0.3% above. First quarter guidance: revenue \$935 million to \$939 million, adjusted EPS \$1.15 to \$1.16, with 37% of fiscal 2027 net new ARR expected in the first half.

3 | EARNINGS ANALYSIS

THE BEAT WAS OPERATING, WITH NON-OPERATING HELP. Revenue of \$898.2 million exceeded consensus by 2.4% and the top of prior guidance by \$20.2 million. Adjusted operating income rose 37.5% to \$218.4 million, a record 24.3% margin, with about 33% of incremental revenue converting to operating profit. The EPS beat was broader than operations: of the \$0.10 upside to prior guidance, about \$0.054 came from operating income, \$0.037 from higher net other income, and \$0.011 from a lower share count, and the adjusted tax rate fell to 21% from 23%.

NET NEW ARR ACCELERATED; THE BASE DID NOT. Organic net new ARR grew 17%, improving from 10% in the first half and 14% in Q3, and about 94% of the quarter's \$246 million of total additions came from outside Red Canary. But organic ending ARR growth slowed to 20% from 21%, net revenue retention was 115% in every quarter of fiscal 2026 without moving higher, and fiscal 2027 guidance implies only about 4% growth in organic net new ARR at the midpoint. Customers above \$1 million of ARR rose 18% to 785, and Fortune 500 penetration reached 50%.

CASH CONVERSION IS THE PRINCIPAL QUALIFICATION. Fourth quarter free cash flow fell 64.7% to \$60.8 million as cash purchases of equipment jumped to \$199.8 million, and full-year free cash flow rose only 7.2% against 25.4% revenue growth, cutting the margin to 23.2% from 27.2%. Fiscal 2027 guidance embeds the pressure rather than reversing it: capital spending at a low-teens percentage of revenue and a free cash flow margin of 23% to 23.5%. Stock-based compensation of \$821.9 million exceeded full-year free cash flow of \$779.1 million.

AI DEMAND IS REAL, UNQUANTIFIED, AND BACK-WEIGHTED. Security for AI bookings rose more than 50% sequentially, the pipeline grew 75%, and 70% of those transactions included Data Security. Management called AI the largest tailwind the company has ever seen, but did not quantify the AI contribution inside guidance. The Zero Trust Exchange for agents and Endpoint AI Security remain in early access and are expected to scale in the second half of fiscal 2027, and Agentic SecOps is expected to contribute in the second half and fiscal 2028. Cash and short-term investments of about \$3.47 billion against about \$1.7 billion of debt fund the build-out.

4 | KEY READ-THROUGHS

MEMORY PRICING POWER EXTENDS INTO SECURITY INFRASTRUCTURE
Micron Technology (MU), SK hynix (000660) | Positive | Moderate incremental confirmation of industry pricing power
Management reported higher prices and tighter availability for memory, storage, and processors, and expects fiscal 2027 capital spending to stay elevated because of memory pricing. Zscaler spent about \$200 million on capital equipment and bought opportunistically. The pressure reaches enterprise security infrastructure, including Zero Trust Branch appliances, not only AI systems, supporting broader, more durable pricing power.

INFRASTRUCTURE SOFTWARE: CASH COSTS ARRIVE BEFORE MARGIN COSTS
Cloudflare (NET) | Negative | Moderate sensitivity for infrastructure and cash assumptions
Zscaler's adjusted operating margin reached 24.3% while free cash flow fell about 65%, because equipment purchases consume cash now and reach earnings only through depreciation. A company running its own network faces the same sequence: capacity costs more before margins show it. Cloudflare's cash conversion had improved, so this is a sensitivity, not a guidance cut.

AI SECURITY SPENDING SUPPORTS INTEGRATED PLATFORMS
Palo Alto Networks (PANW), CrowdStrike (CRWD) | Positive | Moderate fundamental corroboration; limited near-term estimate impact
Buyers are folding AI requirements into broader platform purchases rather than adding products: Security for AI bookings rose more than 50% sequentially, and 70% of deals included Data Security. Vendors with distribution, telemetry, and flexible contracts can attach new capabilities inside existing relationships. Zscaler's cautious fiscal 2027 outlook reflects its own sales transition and product timing, not a sector demand slowdown.

ZERO TRUST EXPANSION THREATENS THE APPLIANCE MODEL AT THE BRANCH
Fortinet (FTNT), Cisco Systems (CSCO) | Negative | Moderate structural pressure for Fortinet; lower consolidated impact for Cisco
A Global 2000 healthcare manufacturer replaced its vendor with Zero Trust Branch for production sites and operational technology, and a Fortune 500 life sciences company replaced a SASE platform across 75,000 users. Zero Trust Everywhere enterprises rose to more than 950 from more than 350 a year earlier. Each conversion removes an appliance purchase plus attached support and subscriptions, pressuring branch revenue at renewal.