

Zscaler, Inc. (NASDAQ: ZS)

Initial coverage | Data as of 28 September 2026 | Price of record \$193.05 (close, 25 September 2026)

Verdict Watchlist	Price \$193.05	Fair value (probability-weighted) \$186	Price of interest \$160
Investment Score 64 / 100	FY27 revenue guide \$3.908-3.938bn	EV / FY27 revenue 7.6x	P/E on FY27 EPS guide 39.6x

Summary. Zscaler is a high-quality security platform going through a growth reset. Revenue rose 25% in fiscal 2026 to \$3.35bn, but management has guided fiscal 2027 to about 17% for both revenue and ARR, and the organic pace excluding the Red Canary acquisition was already near 17% in the fourth quarter. The stock has recovered from \$114.62 in June to \$193.05, carried mostly by a sector-wide rally in cybersecurity shares rather than by new company information. On 24 September the company said its Chief Revenue Officer is stepping down, the third senior sales change this year, and the shares fell 10% the next day on more than twice normal volume.

Verdict: Watchlist. At \$193.05 the stock trades almost exactly at the probability-weighted fair value of \$186. The business is priced at a reasonable 7.6 times fiscal 2027 revenue, well below peers, but stock-based compensation of \$822m in fiscal 2026 exceeded free cash flow of \$779m, so the cash earnings attributable to shareholders are thinner than the headline margin suggests. The name becomes interesting near **\$160**, about 6.2 times fiscal 2027 revenue and 33 times guided EPS, which leaves room for a sales transition that takes longer than planned.

Highest-impact development: the go-to-market leadership turnover announced on 24 September (Chief Revenue Officer Mike Rich steps down; Ross Tackett, head of worldwide sales, takes the role on 1 October). It does not change the verdict, because guidance already assumes a sales transition in the first half, but it widens the bear case and is the main reason the price of interest sits below fair value.

Investment framework

Zscaler sells subscriptions to a cloud platform that sits between users, applications, workloads and the internet, inspecting and controlling every connection. Nearly all revenue is recurring. Returns over the next two years depend on five variables, and the report is built around them.

Driver	Why it matters here	How it is judged
Net new ARR and the sales machine	ARR is the leading indicator for revenue; FY27 guidance implies a slower net new pace after Q4.	Quarterly net new ARR versus the \$4.396-4.426bn full-year ARR guide; any change to the guide.
Go-to-market leadership	Three senior sales changes in one year, during a product transition.	Sales productivity, pipeline commentary, attrition of sales staff, H1 FY27 net new ARR.
AI security and new products	The main reason growth could re-accelerate: Security for AI, Agentic SOC, Z-Flex.	Disclosed bookings and ARR for new products; share of new business from non-seat products.
Margins and cash after stock pay	FCF margin is guided at 23-23.5%, but stock pay runs near 25% of revenue.	FCF minus stock-based compensation; diluted share count against the 173m guide.
Valuation versus growth	At about 17% growth the stock is valued on durability, not speed.	EV/revenue and P/E against peers and against Zscaler's own growth rate.

Enterprise security budgets and long-term interest rates are the two macro variables that matter; both are discussed under Valuation.

Business and industry

Zscaler runs the largest inline security cloud, processing what the company describes as 750 billion zero trust transactions a day. Its core products are Zero Trust Exchange services for internet and SaaS access (ZIA), private application access (ZPA), digital experience monitoring, data protection, and, since the Red Canary acquisition, managed detection and response and security operations. Customers pay per user or, increasingly, through consumption-style and non-seat products; management said non-seat products made up about 30% of new and upsell annual contract value in the fourth

quarter and grew ARR by more than 100% year on year.

The market is the security service edge (SSE) and wider SASE category, which is growing well into double digits as companies retire VPNs and hardware proxies. Competitive intensity has risen. Palo Alto Networks bundles SASE into a platform that now spans firewall, security operations, identity and observability, and says it has moved to the number two position in SASE. Netskope, Cloudflare, Microsoft and Cisco all compete for parts of the same budget. Zscaler's advantage is scale and a proxy architecture built for inline inspection; its disadvantage is that it is less of a one-stop platform than Palo Alto at a time when customers favour consolidation.

Financials

Metric	FY2024	FY2025	FY2026	FY2027 guide
Revenue	\$2.17bn	\$2.67bn	\$3.35bn (+25%)	\$3.908-3.938bn (+16.6-17.5%)
ARR (year end)	n/a	\$3.02bn	\$3.77bn (+25%)	\$4.396-4.426bn
Gross margin (non-GAAP)	n/a	n/a	80.3%	about 80%
Operating margin (non-GAAP)	n/a	n/a	about 23% (our calc.); Q4 24.3%	about 23.7%
Non-GAAP EPS	n/a	n/a	\$4.21	\$4.86-4.90
GAAP net income (loss)	n/a	n/a	(\$63.2m)	n/a
Operating cash flow	\$780m	\$972m	\$1,130m	n/a
Free cash flow (company)	n/a	n/a	\$779m (23%)	23.0-23.5% margin
Stock-based compensation	\$528m	\$661m	\$822m (24.5% of revenue)	n/a

Figures marked n/a were not needed for the analysis or were not disclosed on a comparable basis. FY2027 figures are company guidance.

The quarter to July showed a business still performing: revenue of \$898.2m rose 25%, net new ARR of \$246m rose 24%, and non-GAAP operating margin reached a record 24.3%. Remaining performance obligations were \$7.4bn, up about 27%. Net revenue retention held at 115% in every quarter of the year. Customers above \$1m of ARR rose 18% to 785.

Three items temper that picture. First, Red Canary contributed \$141m of ARR and \$14m of Q4 net new ARR; excluding it, net new ARR grew 17%, and management expects no net new ARR from Red Canary in fiscal 2027 after elevated churn in its base during 2026. Second, deferred revenue grew 19%, slower than revenue for the first time in recent years. Third, fourth-quarter free cash flow fell to \$60.8m because capital expenditure reached \$200m, 22% of revenue, as the company bought memory, storage and processors ahead of expected price rises. Full-year capex was \$277m, and management said it would stay elevated. None of these is alarming alone, but together they explain why the fiscal 2027 guide is where it is.

The balance sheet is sound. Cash and short-term investments were \$3.47bn at 31 July against about \$1.87bn of debt, mainly the 0% convertible notes due 2028 issued in July 2025. The gap between GAAP and non-GAAP profit, about \$767m in fiscal 2026 on this report's calculation, is mostly stock-based compensation. Free cash flow minus stock-based compensation was negative by about \$43m last year, which is the most important number for a shareholder deciding what the cash margin is really worth.

Competitors

Company	Position in Zscaler's market	Growth	Valuation (approx.)
Zscaler	SSE leader; proxy architecture; AI security and SecOps add-ons	FY27 guide ~17%	7.6x EV/FY27 revenue; 40x FY27 EPS
Palo Alto Networks	Platform consolidator; Prisma SASE; says it is now number two in SASE	FY27 guide 23-24% incl. acquisitions	About 21x EV/FY27 revenue; 90x FY27 EPS
Cloudflare	Network-first SASE; strong in developer and mid-market	About 32% (2026 guide)	About 44x 2026 revenue (25 Sep)

Company	Position in Zscaler's market	Growth	Valuation (approx.)
CrowdStrike	Endpoint and SecOps; competes with the Red Canary-based offering	n/a	n/a
Netskope, Microsoft, Cisco	Direct SSE rivals and bundled alternatives	Varies	n/a

Palo Alto figures are from its FY27 guidance of 1 September 2026 and the 25 September close; Cloudflare from Beating The Bull's report of 25 September 2026.

The comparison shows why the stock screens as cheap. Zscaler trades at about a third of Palo Alto's revenue multiple, and Palo Alto's own organic growth is closer to mid-teens once the CyberArk and Chronosphere acquisitions are removed. The discount reflects a single-category story competing against platforms, plus Zscaler's heavier stock pay. The moat is durable in large enterprises, where the proxy architecture is deeply embedded, but consolidation deals are where share is most at risk.

Management

Founder and CEO Jay Chaudhry has run the company since 2007 and still owns a large stake; insiders hold about 35% of shares outstanding. The guidance record is conservative: revenue and EPS beat consensus in both of the last two quarters, with Q4 non-GAAP EPS of \$1.19 against \$1.09 expected. Capital allocation has shifted toward acquisitions (about \$0.9bn of acquisition spending in fiscal 2026, mainly Red Canary) rather than buybacks, and no repurchase programme was discussed on the call.

The weak point is the sales organisation. On the Q4 call CFO Kevin Rubin said guidance considered "the time it will take for the sales transition" after a geography leader and a vertical leader left, with transitions expected to play out in the first half. Three weeks later the CRO himself stepped down. When JPMorgan asked about Red Canary churn, management acknowledged elevated churn in 2026 but said only that it was "contemplated in the guide". Those answers are consistent with a team that knows fiscal 2027 is a rebuilding year.

Company developments

Development	Status and date	What is known	What is forecast (and by whom)	Impact
Chief Revenue Officer change	Announced 24 Sep 2026; effective 1 Oct	Mike Rich steps down for personal reasons and stays as adviser to 31 Dec; Ross Tackett, head of worldwide sales for three years, becomes CRO.	RBC and Mizuho described limited disruption (25 Sep). Company gave no change to guidance.	High
Q4 FY26 results and FY27 guidance	Reported 3 Sep 2026	Revenue +25%, ARR \$3.77bn, FY27 revenue and ARR guided +16.6-17.5%; 3% workforce restructuring with \$30-33m of charges.	Management: FY27 non-GAAP operating margin about 23.7%, FCF margin 23-23.5%.	High
Zscaler Agentic SOC launch	Generally available 9 Sep 2026	Combines Red Canary MDR, Zscaler telemetry and agents; built with frontier AI labs including Anthropic and OpenAI. Pricing not disclosed.	Management expects further SecOps launches in H2 FY27.	Medium
Security for AI products	Launched 9 Jun 2026 (Zenith Live)	AI Broker, Endpoint AI Security, AI Access Graph and AI Protect updates. Q4 Security for AI bookings rose over 50% sequentially.	Management: AI is a durable tailwind; contribution to guide not quantified.	Medium
Z-Flex purchasing model	Reported with Q4	Over \$770m of total contract value in Q4, up over 60% sequentially.	n/a	Medium
Elevated hardware purchases	Q4 FY26	Q4 capex \$200m, 22% of revenue, bought ahead of memory and processor price rises.	Management: capex to stay elevated in FY27.	Low

Go-to-market leadership turnover (High)

What is known. On 24 September Zscaler said Chief Revenue Officer Mike Rich would step down for personal reasons, effective 1 October, remaining as a strategic adviser until 31 December. Ross Tackett, who joined three years ago as head of worldwide sales after senior roles at ServiceNow and Dell, becomes CRO. The company made no statement on guidance. This follows the departures of a geography leader and a vertical leader disclosed on the 3 September call. The stock fell 10.1% on 25 September to \$193.05 on 6.7m shares, about 2.3 times its 50-day average volume.

Why it matters here. Almost all of Zscaler's revenue comes through its direct and channel sales force, and fiscal 2027 already requires the team to sell a broader product set (SecOps, data security, AI security) through new motions such as Z-Flex. Sales execution is the thesis. Continuity is better than it looks, because the successor is an internal promotion who has run worldwide sales, and Q4 delivered what management called its highest quarterly sales productivity ever.

What success and failure look like. Success is net new ARR in the first half of fiscal 2027 in line with a full-year ARR guide of \$4.396-4.426bn, stable sales headcount and productivity commentary, and no further senior departures. Failure shows first in the Q1 results due in late November or early December (expected, based on prior years; not yet announced) as a lower ARR guide or a Q2 revenue guide below consensus.

Input (our model)	Value
FY27 revenue guide midpoint	\$3,923m
FY28 base revenue (+16%)	\$4,551m
Incremental operating margin on lost or gained revenue	30%
Tax rate on non-GAAP profit	20%
Diluted shares (FY27 guide)	173m

Case	FY27 revenue vs guide	FY27 EPS effect	FY28 revenue vs base	FY28 EPS effect
Success (smooth transition, usual beat)	+1.5% (+\$59m)	+\$0.08	+3% (+\$137m)	+\$0.19
Base (guide met)	0	0	0	0
Failure (two quarters of lost pipeline)	-1.5% (-\$59m)	-\$0.08	-5% (-\$228m)	-\$0.32

Our calculation. Percentages are assumptions based on the size of typical guidance beats and misses in software, not company figures.

Economics and precedent. The direct earnings effect is small: even the failure case moves fiscal 2028 EPS by about 6% from our base estimate of about \$5.76. The risk sits in the multiple. Security software stocks that reset growth expectations in the middle of a sales reorganisation have tended to de-rate for several quarters; Zscaler itself fell about 18% in the week after the May 2026 results that first signalled 16-17% growth. At the current 40 times earnings, a \$0.32 cut to fiscal 2028 EPS is worth about \$12 a share, but a de-rating from 40 to 30 times fiscal 2027 EPS would cost about \$49 a share.

What the price already assumes. The 25 September drop removed roughly the gain of the prior week, when the shares rose from about \$191 to \$215 on sector momentum and analyst target increases. The price now assumes guidance is met, not beaten. **Verdict test:** without this item the verdict would still be Watchlist, because fair value is close to the price either way. The item lowers the price of interest from about \$170 to \$160 by widening the bear case, and it lowers the Management and Risk scores by one point each.

Still unknown. Whether other sales leaders follow, and whether Q1 net new ARR holds up. The Q1 FY27 report is the first hard data point.

Growth drivers

Driver	Status and date	Fact or forecast	Likelihood	Impact
Security for AI (AI Protect, AI Broker)	Launched 9 Jun 2026	Fact: bookings +50% q/q in Q4. Forecast (management): durable tailwind.	High	Medium
Agentic SOC and Red Canary cross-sell	GA 9 Sep 2026	Fact: launched. Forecast (management): no Red Canary net new ARR in FY27.	Medium	Medium

Driver	Status and date	Fact or forecast	Likelihood	Impact
Zero Trust Everywhere adoption	Ongoing	Fact: 950+ enterprises, up from 700+ a quarter earlier.	High	Medium
Z-Flex and non-seat products	Ongoing	Fact: Q4 TCV \$770m+; non-seat ARR +100% y/y.	High	Medium
Federal and public sector	Ongoing	No new disclosure in the period.	Medium	Low

Risks

Risk	Probability	Severity	Comment
Sales disruption from leadership turnover	Medium	High	Three senior sales changes in 2026; first evidence in Q1 FY27 results.
Growth settles in the low teens	Medium	High	Would push the multiple toward 4-5x revenue, the bear case.
Platform consolidation favours Palo Alto and Microsoft	Medium	Medium	Largest deals are where share is contested.
Dilution from stock pay	High	Medium	Stock pay was 24.5% of revenue; FCF minus stock pay was about zero.
Higher hardware costs	Medium	Low	Memory and processor prices lift capex; FCF margin guide already allows for it.
Long-term interest rates	Medium	Medium	The 10-year Treasury near 5.1% weighs on long-duration growth stocks.
Red Canary churn	Medium	Low	Acknowledged by management; contemplated in guidance.

The risk list describes a business with a solid balance sheet but real execution and valuation risk for the next two to three quarters. That is consistent with a Risk score of 5 out of 10, where 10 is lowest risk.

Valuation

Measure	Value	Comment
Market capitalisation	\$31.5bn	163.05m shares at \$193.05
Enterprise value	\$29.9bn	Net cash about \$1.6bn
EV / FY27 revenue guide	7.6x	Palo Alto about 21x; Cloudflare about 44x
P/E on FY27 non-GAAP EPS guide (\$4.88)	39.6x	About 2.3 times the guided growth rate
EV / FY27 FCF (23.25% margin)	32.8x	About \$912m of FCF at the guide midpoint
FCF minus stock pay, FY26	About -\$43m	The shareholder-level cash margin is near zero
Analyst average target	\$208.86	46 analysts; consensus Buy

Figures are this report's calculations from company filings and the 25 September close, except the analyst average.

A revenue multiple is the right primary tool here, cross-checked with P/E on guided earnings, because GAAP earnings are depressed by stock pay and acquisition costs and FCF is distorted this year by capex timing. On those measures Zscaler is undervalued against its peers and against its own history, when it traded well above 10 times revenue for most of the past five years. It is fairly valued against its current growth rate once stock pay is treated as a real cost. The base-case value of \$185 uses 6.5 times fiscal 2028 revenue of \$4.55bn plus projected net cash of about \$2.5bn, over 173m diluted shares.

Macro drivers. Two matter. The first is enterprise IT and security budgets, which have held up: August payrolls rose 162,000 against a 58,000 forecast and the S&P Global composite PMI reached 58.4 in September, the fastest expansion since July 2021. Security is typically among the last budgets cut. The second is the discount rate. The Federal Reserve raised rates by 25 basis points to 3.75-4.00% on 16 September, core CPI rose 0.3% in August against a 0.2% forecast, and the 10-year Treasury yield traded around 5.1% in the week of 21 September, its highest level since 2007. Zscaler's demand line is largely insensitive to rates, but its valuation is not: most of its value sits in cash flows several years out.

Sentiment

Signal	Reading
Analyst ratings	Consensus Buy across 46 analysts; average target \$208.86.
Recent target changes	After the CRO news on 25 Sep: RBC to \$236 (Outperform), Mizuho to \$220, Jefferies to \$220, Oppenheimer held \$250. Bernstein raised to \$298 on 17-18 Sep.
News flow	Mixed. Target increases sit alongside the CRO change and the 10% drop.
Insider transactions	Cluster of officer Form 4 and Rule 144 filings from 17 to 25 Sep, including the CEO and CFO, typical after an earnings window opens.
Short interest	About 6.1% of float.

Sell-side sentiment remains constructive, and target increases arriving on the day of a 10% fall suggest analysts see the leadership change as manageable. That view is shared by most of the coverage, which limits the upside from any further positive revisions.

Technical

Indicator	Value	Reading
Price vs 20-day SMA (\$186.94)	+3.3%	Holding short-term trend
Price vs 50-day SMA (\$173.85)	+11.0%	Medium-term uptrend
Price vs 200-day SMA (\$167.43)	+15.3%	Back above the long-term average
RSI(14)	53.6	Neutral after the drop
MACD (12,26,9)	9.66 vs signal 7.87	Positive but momentum faded
ATR(14)	\$10.29 (5.3%)	High daily volatility
Volume 20-day vs 50-day	3.9m vs 2.9m (+35%)	Participation rising, including selling
52-week range	\$114.62-336.99	Price is 35% of the way up the range

Computed from 300 completed daily sessions to 25 September 2026.

The trend since June is up, and the price is above every major moving average. The 25 September break on heavy volume, however, reversed the whole of the prior week's advance. Support sits near the 50-day average at about \$174 and the early-September consolidation zone of \$162-166. Resistance is the \$215-217 area where the rally stalled.

Scorecard

Factor	Score	Basis
Business Quality (15%)	8/10	Category leader in cloud-delivered zero trust; 80% gross margin; 115% net retention.
Financial Strength (15%)	7/10	\$3.47bn cash vs about \$1.87bn of 0% converts; 23% FCF margin, but stock pay exceeds FCF.
Competitive Advantage (15%)	7/10	Largest inline security cloud; platform bundling by Palo Alto and Microsoft is the pressure point.
Management (10%)	6/10	Founder-led with a conservative guidance record; heavy sales-leadership turnover in 2026.
Growth Potential (15%)	6/10	FY27 guided at about 17% after 25% in FY26; AI security early but growing fast.
Valuation (15%)	6/10	7.6x FY27 revenue and 40x FY27 EPS; cheap against peers, not cheap net of stock pay.
Risk (10 = lowest risk) (10%)	5/10	Execution risk in sales, growth reset, dilution, long-duration rate exposure.
Technical Setup (5%)	4/10	Above all key averages, but a 10% break on 2.3x normal volume on 25 September.
Investment Score	64 / 100	Weighted sum of factor scores, weights sum to 100.

Scored 1-10, where 10 is always best, including Risk. The Investment Score is the weighted sum of factor scores divided by 10. The CRO change lowered Management and Risk by one point each; no other factor moved on it.

Scenario analysis

Case	Probability	Outlook	Fair value
Bull	25%	AI security and Z-Flex lift net new ARR; revenue growth returns to about 20% in FY28 (about \$4.71bn); 8.5x FY28 revenue.	\$246
Base	50%	Guidance met with the usual modest beat; FY28 revenue up about 16% to \$4.55bn; 6.5x FY28 revenue.	\$185
Bear	25%	Sales turnover costs two to three quarters of pipeline; growth slips to about 12% (FY28 revenue \$4.39bn); 4.5x.	\$129
Weighted	100%	Probability-weighted value	\$186

Each case adds projected net cash of about \$2.5bn and divides by 173m diluted shares. The bull case assumes a smooth sales transition and AI-driven re-acceleration; the base case assumes the transition is absorbed within guidance; the bear case assumes the failure outcome of the leadership item. Our calculation.

Recommendation

Watchlist. The stock is not a Buy at \$193.05: expected return to the \$186 weighted value is slightly negative, and the bear case of \$129 sits 33% below the price. The name becomes interesting at about **\$160**, where the stock would trade at 6.2 times fiscal 2027 revenue and 33 times guided EPS, the bear case would be about 20% away, and the base case would offer about 16% upside. A Q1 report that shows the sales transition holding would also justify a higher entry, near \$175, without waiting for the price. No cut-loss or take-profit is published because no position is recommended.

What would change the view

Trigger	Direction and timing
Price near \$160 (6.2x FY27 revenue)	Upgrade to Buy; available any time.
Q1 FY27 net new ARR in line or better and ARR guide held or raised	More positive; Q1 results, expected late November or early December.
Disclosed Security for AI or Agentic SOC ARR above \$100m	More positive; next two to four quarters.

Trigger	Direction and timing
ARR guide cut or further senior sales departures	More negative; any time, most likely at Q1 results.
Stock pay rises further as a share of revenue	More negative; annual.
A further sustained rise in long-term yields	More negative for the multiple; ongoing.

Final verdict

Would a disciplined investor put new money into Zscaler today? Not yet. The business is better than the share price history of the past year suggests: net retention is steady at 115%, gross margin is 80%, the balance sheet has \$1.6bn of net cash, and the AI security products are showing early, real demand. The valuation is also far more reasonable than at Palo Alto or Cloudflare.

The single biggest concern is that fiscal 2027 is a rebuilding year for the sales organisation at the same moment growth is resetting from 25% to 17%. The stock has already rallied 68% from its June low, largely on sector momentum, and at \$193.05 it prices in guidance being met. The CRO change drove this answer only at the margin: it lowers the price at which the risk is worth taking to \$160. A clean Q1 would move the view up; a lowered ARR guide would move it down.

Sources

Zscaler Q4 and fiscal 2026 results release, 3 September 2026 (ir.zscaler.com; GlobeNewswire). Zscaler Q4 FY2026 earnings call, 3 September 2026. Zscaler press releases: Chief Revenue Officer appointment (24 September 2026), Agentic SOC launch (9 September 2026), agentic AI security products (9 June 2026). Form 8-K filed 24 September 2026. Pricing of 0.00% convertible senior notes due 2028 (1 July 2025). Market data and analyst targets as of 25-28 September 2026. Economic data from the US Bureau of Labor Statistics, the Federal Reserve and S&P Global, as reported in September 2026.

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