

Q4 2025 Earnings Script

Tim

Thank you, operator. Good afternoon. Thank you for joining us today to review Varonis' fourth quarter and full year 2025 financial results. With me on the call today are Yaki Faitelson, Chief Executive Officer, and Guy Melamed, Chief Financial Officer and Chief Operating Officer of Varonis. After preliminary remarks, we will open the call to a question-and-answer session.

During this call we may make statements related to our business that would be considered "forward-looking statements" under federal securities laws, including projections of future operating results for our first quarter and full year ending December 31, 2026.

Due to a number of factors, actual results may differ materially from those set forth in such statements.

These factors are set forth in the earnings press release that we issued today under the section captioned "Forward-Looking Statements," and these and other important risk factors are described more fully in our reports filed with the Securities and Exchange Commission.

We encourage all investors to read our SEC filings. These statements reflect our views only as of today and should not be relied upon as representing our views as of any subsequent date. Varonis expressly disclaims any application or undertaking to release

publicly any updates or revisions to any forward-looking statements made herein.

Additionally, non-GAAP financial measures will be discussed on this conference call. A reconciliation for the most directly comparable GAAP financial measures is also available in our fourth quarter 2025 earnings press release and our investor presentation which can be found at varonis.com, in the Investor Relations section. Lastly, please note that a webcast of today's call is available on our website in the Investor Relations section.

With that, I'd like to turn the call over to our Chief Executive Officer, Yaki Faitelson. Yaki?

YAKI

Thanks, Tim, and good afternoon, everyone. We appreciate you joining us to discuss our fourth quarter and full-year 2025 results.

Over the past year we have talked about Varonis as a story of two companies, the first is our strong SaaS business, which reflects the present and future of our company and the second is our legacy on-prem business, which is serving as a headwind to our total company ARR growth. In Q3, the headwind was especially pronounced. As a result, we are now disclosing additional metrics. The purpose of this is to allow investors to understand all the drivers of our business. Guy will expand upon this later.

In the fourth quarter, our SaaS business continued its momentum and our decision to end-of-life our self-hosted platform combined with the lessons we learned in Q3 led to a record number of conversions. In Q4, SaaS ARR was \$638.5 million, or 86% of total ARR. Q4 SaaS ARR increased 32% year-over-year excluding the impact of conversions and total ARR increased 16% year-over-year to \$745.4 million.

Now I'd like to give you some additional color on last quarter's decision to announce the end of life for our self-hosted deployment model and the decision to transition our business to be 100% SaaS by the end of 2026. Prior to the introduction of Varonis SaaS, we believe our self-hosted software was the best way to secure data, but the downside of this software was that it required significantly more resources to do so. Our SaaS product is fully automated – it is as different to our self-hosted solution as a self-driving car is to a bicycle. You can get to the same destination with either method, but with one, you do the majority of the work yourself and with the other, it gets you there automatically and with minimal effort.

We can do this because we built our SaaS platform using world-class architecture, the newest technologies and the lessons we learned through securing data in large, complex, dynamic environments for thousands of customers. This allows us to protect our SaaS customers in ways that were not possible with our self-hosted solution. For instance, we can only provide MDDR to our SaaS customers because of the automation and centralized visibility within our platform.

It is important to understand that for most other companies that underwent SaaS transitions, the technological gap between their self-hosted and SaaS products was not as large as it is with our platforms. This provides our SaaS customers with much higher satisfaction which leads to higher renewal rates when compared to our remaining self-hosted customers, many of which are what we call single-threaded customers. This means they only use the Varonis self-hosted platform for a single use case on one data store and because they don't use the full data security platform, they began to show a greater resistance towards paying a premium to move to Varonis SaaS in Q3. In order to move quickly and maximize customer retention, we are focusing less on the uplift for conversions of our remaining on-prem customers. We believe we can show even more value through SaaS to these customers and then have opportunities to upsell them in the future.

In the fourth quarter, our decision to end of life our self-hosted platform was a catalyst that caused many of our remaining self-hosted customers to convert to SaaS. We converted approximately \$65 million or one-third of our remaining non-SaaS ARR in the quarter and believe that between \$50 million to \$75 million of the remaining self-hosted customers will convert by the end of the year.

At the same time, we continued to see strong demand from both new and existing customers because they can secure data with minimal effort because of our automation. Other DSPM tools may be able to identify a portion of sensitive data, but no other tool can find sensitive data in a complete way, fix misconfigurations at scale automatically and alert and respond to threats, delivering automated outcomes like Varonis does.

Within our SaaS portfolio, MDDR and Copilot continued to show strong adoption trends, and Varonis for cloud environments continued its momentum, which was driven by the investments we have made in our platform to expand our use cases and protect many more data platforms. We are seeing this demand because customers are realizing that visibility alone is not enough and classification without protection is liability. Automation is necessary to achieve real outcomes.

Early conversations with customers on our Database Activity Monitoring and Email security products underscore our belief that these are a strong fit for our portfolio. In 2026, we expect our reps to put significantly more focus on new business and uplifting SaaS customers. Over time, we believe this focus will help us unlock the potential of these markets.

Now I would like to step back from our near-term results and discuss why we believe we are best positioned to help companies safely adopt AI and prevent data breaches.

Varonis was founded on the belief that managing and protecting data would be impossible without automation. Over time, our growth has been fueled by the constant balance between productivity and security. Today, the emergence of AI is accelerating both the volume and complexity of data at an unprecedented rate.

The scale of data growth is matched only by AI's ability to increase the sophistication of modern cyber threats. Cybercriminals are leveraging AI agents to infiltrate organizations with minimal human involvement. Recent incidents such as Chinese state actors using Claude Code to breach major corporations highlight the sensitivity and ease of these attacks. Most of these AI-powered attacks start with social engineering. Attackers aren't hacking computers, they are hacking trust, and users cannot tell what's real or fake anymore.

Cybercriminals are using AI without guardrails. Companies want to adopt AI quickly but struggle to due to concerns over data security. The deployment of AI agents raises critical compliance questions: What data does the agent have access to? Is that data sensitive? Is the agent behaving as expected? Most organizations struggle to answer these questions for human users, and the challenge is amplified as they must now secure exponentially more AI agents.

Agents are nothing without data. The more data agents can access, the more useful – and the more risky – they become. They operate faster than humans, collaborate autonomously, and maximize their privileges by design.

AI security depends on data security. In addition, companies will need guardrails and controls around their AI agents and toolsets.

To accelerate our ability to help companies safely adopt AI, Varonis announced today that it has acquired AllTrue, an AI security company. The acquisition strengthens Varonis' ability to protect enterprises from emerging AI risks by combining AllTrue's end-to-end visibility and guardrails for AI tools with Varonis' ability to protect the underlying data and identities used by AI agents.

AllTrue adds end-to-end visibility and control across the AI lifecycle. It inventories AI components and infrastructure, locks it down, monitors AI tools, and automates compliance. The acquisition reinforces our data-first strategy and extended our platform to secure all AI systems and the data powering them.

Our SaaS platform allows for much faster organic innovation and integration of tuck-in acquisitions, which enhances our customers' ability to stay ahead of bad actors. Since launching SaaS, we have gone wider and deeper to help our customers stop breaches everywhere and we can now tap into more budgets than ever, including Data and AI security, Database Activity Monitoring and Email security. We have unified unstructured, semi-structured, and structured data security into a single platform, which is essential in the age of AI because AI uses all data types. When you combine Interceptor, which is our Email security offering, with our SaaS platform and MDDR, it becomes a force multiplier, stops threats even faster and keeps threat actors even farther from data.

With that, I would like to briefly discuss a couple of key customer wins from Q4.

We continue to see strong demand from new customers and one example of this was a healthcare services organization that was performing a risk assessment during a multi-cloud migration and realized that native tools were insufficient to lock down their data. As a result, they launched a DSPM RFP process and ultimately chose Varonis after we immediately uncovered several hundred critical misconfigurations, many of which we automatically fixed. We also identified over 900,000 exposed PII records and executive strategy materials. Varonis' simplicity, advanced threat detection, and unified interface, automatic remediation proved decisive against competitors, and they ultimately purchased Varonis SaaS with MDDR for Hybrid Environments, Copilot, AWS,

Azure, and Google Cloud Platform, also Unix and Linux as well as the Universal Database Connector.

In addition to strong new customer momentum, we continued to see existing customers realizing the benefits of SaaS. One example was a hospital system of 45,000 employees that originally bought Varonis to remediate overexposure of on-prem HIPAA data. As they began a cloud migration process, they noticed gaps in the ability of native tools to remediate overexposures and label data at scale. During our cloud risk assessment, we discovered over 500,000 instances of HIPAA and PII data open to everyone in the organization. Our ability to identify and remediate this exposure led this customer to convert to Varonis SaaS with MDDR for Hybrid Environments, Copilot and Data Lifecycle Automation for Windows SaaS.

In summary, we are excited by the performance of our SaaS business, which is being driven by the automated value proposition that we deliver to our customers on top of our scalable architecture. We look forward to continuing our momentum and ending the year as a fully SaaS company, which will unlock many more benefits as we capture our growing market opportunity and we believe in the path to achieving our 2027 financial targets.

With that, let me turn the call over to Guy. Guy?

GUY

Thanks, Yaki. Good afternoon, everyone. Thank you for joining us today.

We are excited by the momentum we are seeing in our SaaS business, which now accounts for the vast majority of our ARR. SaaS is both the present and the future of our business and the new disclosures we are making today are intended to enable investors to evaluate the progress of both our SaaS business and the end of life of our self-hosted business.

We plan to disclose these additional metrics for the duration of 2026, after which we will be 100% SaaS and we will revert to more traditional metrics. You can find more on this in our investor deck.

In 2026 we will provide guidance for SaaS ARR excluding conversions on a quarterly basis. Specifically, we will report the following on a quarterly basis:

1. SaaS ARR,
2. SaaS ARR, excluding conversions,
3. Conversion ARR, and
4. Non-SaaS ARR to help you understand how much conversion opportunity remains available.

On an annual basis we will disclose and also provide guidance for:

1. SaaS ARR; and
2. SaaS ARR excluding conversions.

We will also continue to report subscription customer count and SaaS dollar-based net retention, on an annual basis.

Our intention is to provide you with the tools to understand the various drivers of our business and to illustrate how we believe our SaaS business can continue to grow at very healthy levels in 2026 and beyond.

In the fourth quarter, SaaS ARR was \$638.5 million, or 86% of total ARR and SaaS ARR increased 32% year-over-year when excluding the impact of conversions. We are proud of our record number of ARR conversions in Q4, which totaled approximately \$65 million, including the uplift. We believe that this result was driven by our lessons learned in Q3 and our decision to end of life our self-hosted platform. At the end of Q4, we had approximately \$105.0 million of non-SaaS ARR remaining.

In 2025, ARR from new customers was approximately \$80 million. We ended the year with approximately 6,400 subscription customers, which grew 14% year-over-year. Our dollar based net retention rate for SaaS customers was 110% at the end of 2025. To be clear this metric only includes customers that were SaaS customers in the prior year and therefore is reflective of the organic expansion of ARR within our SaaS customer base. We believe that this metric can trend higher over time as we put more focus on the upsell motion with our SaaS customers.

Our renewal rate for the year ending December 31, 2025, continued to be over 90%. Although our renewal activity from our non-SaaS customers was slightly below our historical levels, it was better than what we experienced in the third quarter. Our renewal rate disclosure going forward will be the SaaS renewal rate. This metric aligns with our new business model and how we view the business.

Now I'd like to recap our Q4 results in more detail.

In the fourth quarter, ARR was \$745.4 million, increasing 16% year-over-year. In 2025 we generated \$131.9 million of free cash flow, up from \$108.5 million in the same period last year.

In the fourth quarter, total revenues were \$173.4 million dollars, up 9% year-over-year. SaaS revenues were \$142.3 million. Term license subscription revenues were \$21.0 million, and maintenance and services revenues were \$10.1 million.

Moving down to the income statement, I'll be discussing non-GAAP results going forward. Gross profit for the fourth quarter was \$138.7 million, representing a gross margin of 80.0% compared to 84.4% in the fourth quarter of 2024. Our gross margin continues to be healthy and in line with our long-term target set at our investor day. Operating expenses in the fourth quarter totaled \$134.1 million. As a result, fourth quarter operating income was \$4.6 million or an operating margin of 2.6%. This compares to an operating income of \$15.3 million or an operating margin of 9.7% in the same period last year. Fourth quarter ARR contribution margin was 15.9%, down from 16.6% last year. If our non-SaaS business would have renewed at historical levels this year, our contribution margin would have shown a significant improvement vs 2024. In 2026, we expect a lower ARR contribution margin and lower free cash flow due to the impact of the end-of-life announcement. While this announcement negatively impacts 2026 ARR contribution margin and free cash flow by \$30 to \$50 million based on our guidance, we believe it will allow us to show a healthier financial profile beginning in 2027 due to the removal of our lower renewal self-hosted customer base.

During the quarter, we had financial income of approximately \$9.6 million dollars driven primarily by interest income on our cash, deposits and investments in marketable securities.

Net income for the fourth quarter of 2025 was \$11.1 million or net income of 8 cents per diluted share, compared to net income of \$23.9 million or net income of 18 cents per diluted share for the fourth quarter of 2024. This is based on 133.3 million diluted shares outstanding and 135.1 million diluted shares outstanding for Q4 2025 and Q4 2024, respectively.

As of December 31, 2025, we had \$1.1 billion in cash, cash equivalents, short-term deposits and marketable securities.

For the 12 months ended December 31, 2025, we generated \$147.4 million of cash from operations, compared to \$115.2 million generated in the same period last year and capex was \$15.5 million, compared to \$6.7 million in the same period last year. During the fourth quarter, we repurchased 448,439 shares at an average purchase price of \$33.45 for a total of \$15.0 million.

I will now briefly recap our full-year 2025 results. Total revenues increased 13% to \$623.5 million. Our full-year operating margin was negative 0.6%, compared to 2.9% for 2024.

Turning now to our initial 2026 guidance.

Apart from conversions, which we included a wide range to account for a pessimistic and optimistic scenario, our guidance was set using the same philosophy that we have used historically.

As a reminder, our new KPI for this year is SaaS ARR growth excluding conversions, which reflects our ability to add new SaaS customers and also expand with existing ones, as this will be the primary growth driver of our business in the years ahead.

In 2026, we will provide quarterly SaaS ARR excluding conversion guidance for this year only. We are doing this because of the difficulty in modeling the year-over-year growth rates due to the impact of conversions in 2025 and 2026. We will also provide a bridge to quarterly total SaaS ARR in our investor deck which assumes zero conversions for the upcoming quarter.

For the full-year 2026, we will provide annual guidance for both SaaS ARR excluding conversions and total SaaS ARR. We have provided a wide range of outcomes for the conversion of our non-SaaS ARR to SaaS ARR within our guidance framework in order to bridge SaaS ARR excluding conversions to SaaS ARR for modeling purposes. We believe this range of conversions captures a pessimistic and optimistic scenario, with the midpoint representing our base case for 2026. From a modeling perspective we have assumed no uplift for these conversions. The largest cohort of customers that we don't expect to convert to SaaS are Federal and State government customers. As a reminder, we expect this to have a \$30 to \$50 million headwind to free cash flow and ARR contribution margin in 2026.

For more information, please see our earnings deck on our investor relations website, which includes a more detailed breakdown of our financial guidance.

For the first quarter of 2026, we expect:

- SaaS ARR growth of 27% to 28% excluding conversions;

- Total revenues of \$164.0 million to \$166.0 million, representing growth of 20% to 22%;
- Non-GAAP operating loss of negative \$11.0 million dollars to negative \$10.0 million dollars; and
- Non-GAAP net loss per basic and diluted share in the range of 6 cents to 5 cents. This assumes 118.0 million basic and diluted shares outstanding.

For the full year 2026, we expect:

- Total SaaS ARR of \$805.0 million to \$840.0 million, representing growth of 26% to 32%;
 - This represents SaaS ARR growth of 18% to 20% excluding conversions;
- Free cash flow of \$100.0 million to \$105.0 million;
- Total revenues of \$722.0 million to \$730.0 million, representing growth of 16% to 17%;
- Non-GAAP operating income of breakeven to \$4.0 million;
- Non-GAAP net income per diluted share in the range of 6 cents to 10 cents. This assumes 134.2 million diluted shares outstanding.

In summary, we are continuing to see momentum across our SaaS business. This demand is coming from both new customers and existing SaaS customers looking to secure more of their data footprint with Varonis. We remain focused on executing on the many tailwinds we see ahead.

With that, we would be happy to take questions. Operator?