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Varonis Systems, Inc. (VRNS)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Varonis Systems, Inc. Second Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Tim Perz, Investor Relations. Thank you. You may begin.

Tim Perz

Vice President-Investor Relations, Varonis Systems, Inc.

Thank you, operator. Good afternoon. Thank you for joining us today to review Varonis' second quarter 2026 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'll 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 third 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 obligation 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 available in our second quarter 2026 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 Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Thanks, Tim, and good afternoon, everyone. We appreciate you all joining us to discuss our second quarter 2026 results. In Q2, SaaS ARR excluding conversions increased 25% year-over-year to \$598.1 million and total SaaS ARR including conversion was \$726 million. The strong underlying trends we have seen in recent quarters continued in Q2 and we believe that our performance could have been even better if we had closed a few large deals that slipped due to the rumor in the news in the final week of the quarter.

However, we have since closed some of those deals in July and Q3 is off to a strong start, which gave us the confidence to raise our full year guidance for SaaS ARR above the second quarter beat. We are also seeing

momentum in our pipeline because of the secular tailwind from the need to secure AI and the data that powered by it as well as benefits from our expanded offering.

Let me spend a moment on the positive underlying trends that we saw in Q2. First, we saw SaaS ARR from new logos grow by more than 20% in the quarter, which is an important signal that organizations are recognizing Varonis' ability to secure their data in AI environments.

Second, we saw growing momentum from our newer products, including Atlas, Interceptor, and Database Activity Monitoring, which reinforces the breadth of our platform and the expanding set of use cases we can address for customers. Guy will review our results and guidance in more detail shortly.

Before discussing our key customer wins from the quarter, I want to step back from our near-term results and highlight why we believe Varonis is best positioned to help companies safely adopt AI and prevent data breaches. Our opportunity starts with a simple reality. As companies look to adopt AI, the value and risk associated with their data increases. Customer wants to move faster and unlock the productivity benefits of AI but they cannot do that confidently if sensitive information is overexposed, permissions are too broad, and activity is not monitored or managed. This is exactly the problem Varonis was built to solve.

We see three areas where this shift creating urgency: understanding and securing the data itself, controlling how AI systems and agents interact with data, and defending against attackers that are using AI to move faster and operate at greater scale. First, customers need to know where their sensitive data lives, who can access it, and whether that access is appropriate. AI makes this more important because it reduces the friction between employees, agents, and information those identity can reach. Data that was already exposed become easier to find, summarize, and act on.

Second, organization need guardrails around the models, agents, and pipelines that are being connected to enterprise data. It is not enough to know that an AI tool exists. Customer need to understand what data it can touch, what permissions it inherits, what action it can take, and whether its behavior is normal. In an agentic environment, activity that once required the person to invest time searching, downloading, and moving files can now happen in seconds. That speed raises the stakes for automated remediation and real-time detection.

Third, customers are facing threat environment where adversaries are also using AI. Attackers can generate more convincing social engineering campaigns, automated their attacks, and scale techniques that used to require more time and specialized resources. The attack surface also expand as agents gain access to email, collaboration tools, applications, and data stores. This reinforces the need for security controls that are continuous, automated, and deeply connected to the data layer.

These dynamics create a strong secular tailwind for Varonis. Customers are asking the same sets of questions with greater urgency, what sensitive data do we have, where it is exposed, who or what can access it, and how do we reduce risk without slowing the business down. Our answer is to secure data from the inside out through automation.

This is also why data security and AI security cannot be treated as separate problems. AI inventory is more valuable when it's tied to the data that AI systems can access. Runtime guardrails are stronger when they have context around identity, data exposure, and accurate classification and labeling. Detection is more effective when it is informed by normal data access patterns. Customers want to move quickly, but they need confidence that the right controls are in place.

Automation is the common thread. The traditional approach to security was built for a slow world. When humans could review access, investigate alerts, and manually clean up risk, that model does not work when data volumes are exploding, permissions are constantly changing, and AI agents can act at machine speed. In our view, the only practical way to manage AI-driven risk with AI-driven defense.

With that, I would like to briefly discuss a couple of key customer wins from Q2 that show how these things are translating into real demand. This quarter, a healthcare organization with more than 40,000 employees became a Varonis customer. This company was looking to deploy AI in order to deliver better patient care and needed to establish guardrails around AI usage, monitor how data was being leveraged across more than 100 AI projects and automatically remediate overexposed HIPAA and PII data. Our risk assessment covered significant exposure of sensitive data, including patient's record and HIPAA data and the customer ultimately purchased Varonis for Atlas Complete to safely adopt AI tools including Copilot, Claude, and internally build LLMs as well as Varonis for AWS, Azure, Databricks, Snowflake, Microsoft 365, and MDDR.

Another highlight from this quarter was a financial services company that expanded its Varonis deployment after performing its vendor consolidation review. The customer was using Varonis to secure on-premise file servers and wanted to consolidate multiple point products such as DAM and email security into our platform as part of the broader vendor rationalization initiative led by its CISO. They are also preparing to adopt AI and leverage automatic remediation to prevent attacks. We demonstrated how Varonis could secure data access across cloud, SaaS, and AI environments while replacing several stand-alone tools.

During the cloud evaluation, we automatically detected and prevented a significant security incident which further validate the value of our platform. The customer ultimately expanded its coverage with Varonis for Atlas Complete, Interceptor, DAM as well as Varonis for IaaS, Salesforce, and Microsoft 365.

In summary, our Q2 results were highlighted by SaaS ARR excluding conversion growth of 25%. SaaS ARR from new logos growing more than 20% and growing momentum from our new products, including Atlas, Interceptor, and Database Activity Monitoring. Organizations are prioritizing data and AI security, and we are uniquely positioned to help customers secure sensitive data, govern AI, and automated risk reduction.

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

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

Thanks, Yaki. Good afternoon, everyone. Thank you for joining us today. Our second quarter performance represents strong new logo activity as our team continues to execute on the tailwinds in our business and help customers secure their data and AI. And we continue to see increasing adoption of our newer products. While we came in above the top end of our guidance range, we believe our Q2 upside was limited because of some large deals that slipped at the end of the quarter due to the rumors in the news.

As Yaki said, we have since closed some of these deals, including a seven-figure deal and the third quarter is off to a strong start. The Q2 outperformance, coupled with the strong start to Q3 and our healthy pipeline, gives us the confidence to raise our full year guidance above the beat for SaaS ARR growth excluding conversions and also for free cash flow.

In the second quarter, SaaS ARR excluding conversions increased 25% year-over-year to \$598.1 million and total SaaS ARR was \$726 million. In Q2, we had \$11.4 million of conversion ARR and we finished the quarter with approximately \$59.3 million of non-SaaS ARR remaining.

Year-to-date, we generated \$69.1 million of free cash flow, down from \$82.7 million in the same period last year, which reflects the previously communicated headwind from the end-of-life announcement of our on-prem platform and also includes approximately \$11.9 million of acquisition-related costs related to the accounting treatment of our acquisitions. Adjusting for the acquisition-related costs, year-to-date free cash flow would have been approximately \$81 million. We are confident in our cash flow generation and are raising our full year free cash flow guidance by \$5 million.

Now, I'd like to recap our Q2 results in more detail. In the second quarter, total revenues were \$180 million, up 18% year-over-year. SaaS revenues were \$171.7 million. Term license subscription revenues were \$4.2 million and maintenance and services revenues were \$4.1 million. Our SaaS renewal rate was over 90%.

Moving down to the income statement, I'll be discussing non-GAAP results going forward. Gross profit for the second quarter was \$139.9 million, representing a gross margin of 77.7% compared to 80.6% in the second quarter of 2025. Our gross margin continues to be healthy and in line with our long-term target set at our Investor Day.

Operating expenses in the second quarter totaled \$136.1 million. As a result, second quarter operating income was \$3.7 million or an operating margin of 2.1%. This compares to an operating loss of \$1.9 million or an operating margin of negative 1.2% in the same period last year.

Second quarter ARR contribution margin was 13.3%, down from 16.5% last year. This is in line with our expectations and as a reminder is impacted in 2026 due to the end-of-life for our self-hosted platform.

During the quarter, we had financial income of approximately \$7 million, driven primarily by interest income on our cash, deposits and investments in marketable securities. Net income for the second quarter of 2026 was \$5.3 million or a net income of \$0.04 per diluted share compared to net income of \$3.8 million or \$0.03 per diluted share for the second quarter of 2025. This is based on 130.8 million and 135.2 million diluted shares outstanding for Q2 2026 and Q2 2025, respectively.

As of June 30, 2026, we had \$911.5 million in cash, cash equivalents, short-term deposits and marketable securities. For the six months ended June 30, 2026, we generated \$80.1 million of cash from operations compared to \$89.3 million generated in the same period last year and CapEx was \$9.4 million compared to \$5.7 million in the same period last year. As a reminder, we will provide quarterly SaaS ARR excluding conversion guidance for this year only. We're 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're also providing a bridge to quarterly total SaaS ARR in our investor deck which again assumes zero conversions from our guidance perspective to the upcoming quarter.

For the full year 2026, we will provide annual guidance for both SaaS ARR excluding conversions and total SaaS ARR. For more information, please see our earnings deck in our Investor Relation website which includes a more detailed breakdown of our financial guidance.

For the third quarter of 2026, we expect SaaS ARR growth of 22% to 23% excluding conversions, total revenues of \$185 million to \$188 million representing growth of 14% to 16%, non-GAAP operating income of \$2.5 million to \$3.5 million, and non-GAAP net income per diluted share in the range of \$0.02 to \$0.03. This assumes 131.1 million diluted shares outstanding.

For the full year 2026, we now expect total SaaS ARR of \$819 million to \$850 million, representing growth of 28% to 33%. This represents SaaS ARR growth of 20% to 21% excluding conversions, free cash flow of \$105 million to \$110 million, total revenues of \$735 million to \$739 million representing growth of 18% to 19%, non-GAAP operating income of \$11 million to \$13 million, non-GAAP net income per diluted share in the range of \$0.14 to \$0.15. This assumes 131.5 million diluted shares outstanding.

In summary, we continue to see many positive trends, including healthy new logo momentum, strong pipeline activity, and a growing urgency from customers to secure AI systems and the data that powers them, which reinforces our confidence in the durability of our platform and the massive opportunity ahead. This confidence allows us to raise our full year outlook for SaaS ARR excluding conversions growth above the second quarter beat to 21% at the midpoint to \$769 million to \$775 million, which is a \$5 million raise over last quarter.

Now, I'd like to turn it back over to Tim.

Tim Perz

Vice President-Investor Relations, Varonis Systems, Inc.

Before we proceed to Q&A, I would like to make one additional comment. You may have seen recent speculation in the media related to a potential transaction involving Varonis. As a matter of policy, we do not discuss rumors or speculation, and we will make no further comment on this.

With that, we will be happy to take your questions on the quarter. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] The first question is from Saket Kalia from Barclays. Please go ahead.

Saket Kalia

Analyst, Barclays Capital, Inc.

Okay. Great. Hey, guys. Thanks for taking my question here. I'll keep it to one. Guy, it sounds like that there were some deals that pushed out at the end of the second quarter. Maybe the question is can you talk about what the cadence was like of business through the quarter until those headlines hit and how much of impact could that have had on net new ARR in Q2 if you had to size it?

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

Thanks for the question, Saket. There were a lot of positive trends that we saw in Q2 and we think we could have done even better if it wasn't for some of those large deals that were impacted by the rumors in the news. We've already closed some of these in July, including a seven-figure deal, and we expect to close more of them during the third quarter. There are three factors which gave us the confidence to raise our full year free cash flow and SaaS ARR guidance excluding conversions.

Number one, in Q2, we saw new logo ACV grow more than 20%. Two, we saw increasing adoption of Atlas, DAM, and Interceptor, which gives us confidence in our upsell motion over time. And three, we continued to see a healthy pipeline for the back end of the year driven by the need to secure AI and the data that powers us. These

positive tailwinds that we see give us continued confidence in our ability to grow 20-plus percent over the long-term.

Saket Kalia

Analyst, Barclays Capital, Inc.

Very helpful. Thank you.

Q

Operator: The next question is from Matt Hedberg from RBC. Please go ahead.

Matthew Hedberg

Analyst, RBC Capital Markets LLC

Great. Thanks for taking my question. Maybe as a follow-up to that, obviously, Mythos has been in the news and it's seemingly generating a lot of cyber pipeline out there. I'm wondering if you could talk to how perhaps Mythos was driving some accelerated customer conversations and have you had any luck you think converting any of that pipeline thus far. Thanks, guys.

Q

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Yes. I think that Mythos – hi, Matt. The thing that Mythos, what it does, it's definitely exposing vulnerabilities, but what we see that is really starting to drive the business and build a lot of pipeline is, well, customers are in the – just their maturity curve. A lot of them are just investing a lot of money in AI, a lot of it is in – some of it is experimental revenues and now they are trying to get ROI. Matt, the bottleneck is connecting these agents securely to data. What you saw that happened with OpenAI and Hugging Face not exactly like that but in different shape or form happen now a lot with organizations. A misconfigured agent that you don't know what it is doing can inflict a lot of damage and can be just a breach from hell. And this is what organizations are understanding that they need to do.

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So, we just see CISOs and also chief AI officers that are coming and spending a lot of time with us. They understand that AI without data is nothing and you need to have all the lifecycle of AI in order to take it to production in the right way to make sure you're in compliance and then take care of the pipeline. And this is what we see that starting to generate just a lot of pipeline and it's also we see just massive synergies between Atlas and the DSP, the data – the security platform. This is something that works very well. So, the net-net of what we see that AI that can be connected to data securely can be a massive liability and it just really can be the foundation to realize gains from this technology.

Operator: The next question is from Meta Marshall from Morgan Stanley. Please go ahead.

Meta A. Marshall

Analyst, Morgan Stanley & Co. LLC

Great. Thanks so much. Just wanted to get into kind of on the new ACV that you are seeing. Are there any kind of characteristics of those new customers that they're either larger or adding more products kind of upfront? Any details on that would be helpful. Thank you.

Q

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

A

Right. What we see essentially is everything we said. You need really three ingredients. You need coverage. You need automation for the find, fix and alert. And this is something – and you also need scale. And this is what we have. And what happened is that AI before, when it was with humans, you needed to put a lot of effort in order to expose the data security problems that you have. Engine that is running almost all the time trying to expose the data access control to the maximum can have a lot of abnormal behaviors and also non-deterministic.

You can give an agent the same instruction twice and will do something completely different. So, we definitely see with AI that they are just buying more upfront. They are buying more upfront, more platforms and trying to connect it to more AI systems.

Operator: The next question is from Brian Essex from JPMorgan. Please go ahead.

Brian Essex

Analyst, JPMorgan Securities LLC

Hi. Good afternoon. Thank you for taking the question. I was wondering if I could actually follow-up on Saket's question. Yaki, can you dig into some of the – I guess the nature of some of those slipped deals? How did you get customers comfortable that your relationship maybe would not be disrupted given the news that was out there? How complex were these deals and what gives you the level of confidence that you can close these deals throughout the remainder of the year? Thank you.

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Like any other software company, a lot is happening in the last week of the quarter. So, just the timing was bad and we are just – for us, it's business as usual. We're building high-value products and making sure that our customers are successful with them. And at the end, when you need approvals and stuff of this nature, things like that can just generate additional conversation that can elongate some sales cycles. But we're talking to our customers and just explain to them we can't comment on any rumors but we are committed to you, committed to your success, keep innovating and make sure that everything is working. And as Guy said, some of them we already closed and we are in conversation with most of them. And so far, it's going very well.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

And when you look at kind of the guidance characteristics, when you look at kind of our raise by \$5 million, if you look at the beat, about half of that raise is coming from that Q2 beat and our raise above that beat only includes some of the slipped deals that happened at the end of the quarter. And so, we're kind of keeping the same responsible guidance philosophy from our perspective. We haven't changed that, but when we look at the beginning of July, we had a strong start. We're able to close some of those deals already and the expectation is that we'll close for the most part of those deals throughout the quarter.

Operator: The next question is from Rob Owens from Piper Sandler. Please go ahead.

Rob D. Owens

Analyst, Piper Sandler & Co.

Great. Good afternoon. Thanks for taking my question. Nice to see the new product momentum that you guys talked about with the three solutions: Atlas, Interceptor, and the Database Access Management. My question's really around is this doing anything relative to deal complexity which could be impacting sales cycles? Number

one and number two, are you finding it's a new buyer persona within organizations as the portfolio has expanded pretty rapidly and seems more kind of runtime-defensive? But are you selling to a different buyer and organizations at this point?

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Mostly the buyer is the CISO. It's also very interesting that the chief AI officer we're also talking to them, but the CISO is bringing them because what is happening today in organizations and I said in this adoption curve is that it's very hard for them to safely connect AI to data so it became a business enabler.

Interceptor is very synergetic to our MDDR and it's also very interesting how the MDDR is just transforming to AI detection and response. And databases, customers want us to cover all the data and the databases activity monitoring. Remember, these are new products for us and we also have a very steep maturity curve with them. And we are starting to replace incumbents like Imperva and IBM Guardium. So, this also works for us but it's usually just the same motion with some contribution from chief AI officers.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

And when we analyze the sales cycles, we haven't seen any change in terms of a longer period. So, we're basically tracking the same relatively sales cycle even with us selling a larger platform.

Operator: The next question is from Roger Boyd from UBS. Please go ahead.

Roger Boyd

Analyst, UBS Securities LLC

Great. Thanks for taking the question. Guy, I know you're not guiding to ARR with conversions and that assumption for \$50 million to \$75 million in conversions for the year was unchanged, but can you talk qualitatively about what you saw in the first half of the year, kind of where that kind of stood out relative to your expectations for the first half and anything we should be mindful of conversions in the back half of the year particularly when we look at federal in 3Q? Thanks.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

Absolutely. So, I think first, I'll talk about the conversions, but I think it's very clear from our perspective and I want to make sure it's clear from an investor's perspective that the most important metric to track in terms of the health of the business is SaaS ARR excluding conversions. And that's the reason we're guiding that on a quarterly basis. We have provided a bear case scenario and a bull case scenario kind of keeping that range anywhere between \$50 million to \$75 million. That was provided at the beginning of the year and we said throughout the year, we will not update that number because, A, that's not the focus; and B, we've seen customers – actually they were up for renewal in the first part of the year asking to extend the on-prem subscription until the end of the year with the expectation that that conversion will happen in the second part of the year.

So, guiding that on a quarterly basis would actually generate more confusion, but when I track the actual percentages, if you look at the first part of the year, we were roughly converting about 50% of the expected number. And if we continue with that pace, we will be at the low end of our \$50 million guidance expectation. But if we actually convert in the second part of the year, two-thirds of what is expected to come up for renewal and conversion, we will be at the midpoint.

And because of the factors that I talked about before, which is many of the customers – we had some of the customers that wanted to wait until the later part of the year to actually do that conversion, getting to that two-thirds is definitely something that we see as an achievable target. But again, I do want to make sure that investors understand that the right focus should be on SaaS ARR excluding conversion because that is really the metric that would show not only how we're performing as a leading indicator right now but also will be an indicator of how we continue to grow post-transition.

Operator: The next question is from Jason Ader from William Blair. Please go ahead.

Jason Ader

Analyst, William Blair & Co. LLC

Yeah. Thank you. Good afternoon. Can you guys talk about the go-to-market strategy? I know there was a question earlier about who the buyer is and I assume that's not changing that much. But just maybe the overall strategy, how it might be changing to capture demand related to AI readiness. Are you guys doing anything different than what you've done historically?

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Primarily now with Atlas and obviously Database Activity Monitoring and everything else that we have is just educating the customers of what we have and explain to them how they can get to immediate value and ongoing value and just to follow the same playbook. This is how we're doing evaluation, show the success, build an operational plan, and just win the business and make sure the customer will be successful.

AI security and data security essentially is the same problem and it's very synergetic to everything that we are doing. And obviously, you're starting to have this new technological stack slowly but surely, not so slowly. The controls are starting to be more data and AI-led. And these are two places that Varonis is playing very well.

Operator: The next question is from Shaul Eyal from TD Cowen. Please go ahead.

Shaul Eyal

Analyst, TD Cowen

Thank you. Good afternoon, guys. Guy or Yaki, from a geographic perspective, was performance balanced around the three major theaters? And also, on seven-digit transactions there, would you characterize performance this quarter as equal to what you have seen over the course of the past few quarters specifically on seven-digit transactions? Thank you.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

I'll start with the second part of your question. I think we've talked a lot about our desire and philosophy of going upmarket and we have definitely seen that work well for us. So, we're actually able to get larger deals as the land with the desire to show them the value, give them the protection with the MDDR and then be able to go back to them and do healthy upsells that will continue to generate customer lifetime value and increase the ARR numbers. So, yes, we have seen that actually occur and it's part of our focus of going upmarket. In terms of geographies, this quarter was definitely led by North America with healthy numbers coming from them and that was really kind of the driver for this quarter.

Operator: The next question is from Joshua Tilton from Wolfe Research. Please go ahead.

Joshua Tilton

Analyst, Wolfe Research LLC

Hey, guys. Maybe a quick one for me. I know everybody's kind of asked about the slipped deals already, but I have more of a hypothetical one. I'm listening to everything that Yaki's talking about in the beginning of the question. You guys are using lines like AI security and data security are one and the same. It feels like demand for the Varonis platform will never be stronger than it is today given all the secular tailwinds around the AI story. So, my question at a very high level point is like why are we seeing more and where could we see more?

Like why are we hearing more about momentum in newer products that don't feel super related to data and AI security? And we're not hearing more along the lines of inflection in demand for the core products or there's a line out the door for Varonis because of this tailwind that you're speaking to. Does that make sense? It just feels like now more than ever you guys should be the number one ticket item. So, is it like a capacity thing? Is it a timing thing? Like how do we think about maybe seeing all the good secular tailwinds we're talking about show up just a little bit more from a growth perspective, if that makes sense?

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

So, first, remember that we are selling Atlas only for 3.5 months, but in general, it's primarily related to the adoption of AI in organization. I said in the beginning, they spend a lot on AI and now they are trying to realize gains. And they're understanding the risks and now that they need to be more mature and connecting many more data stores in order to realize the value, we believe that just over time we'll see more and more demand. And will be the foundation for organization to realize value from AI. But the reality is that we just see that when we are selling the AI suite and the data suite, they are almost always going together.

Operator: The next question is from Mike Cikos from Needham & Company. Please go ahead.

Mike Cikos

Analyst, Needham & Co. LLC

Hey, team. Thanks for taking the question here and I had a question. I guess it's for Yaki here on the new product launches. If we're talking about Database or Atlas or Interceptor, can you help us think about to what degree these new products are benefiting the model today? And the reason for the question is really at least our checks have indicated, for example, that Atlas and this dovetails nicely with the question from Josh, but Atlas as an example. You guys are still in the process of education or technology enablement with partners. So, the question is really like to what degree are the new products benefiting the model today? Is that quantifiable or are we still largely building the pipeline and these positive catalysts are on the come?

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

So, when we track kind of the momentum and the pipeline generated by the new products, we're definitely seeing an increase in that pipeline. And Atlas is coming up in conversations with customers in a very frequent way. Keep in mind the acquisition happened in the middle of Q1 and the expectation and its contribution is expected from our perspective to start having more of a meaningful contribution in the second part of the year.

But when you look at the Q2 performance, I can tell you that we were pleasantly surprised with the contribution coming from Atlas already with the expectation that it could actually do better and have a more meaningful contribution in H2. So, I think when you look at kind of the offering itself, it's a natural extension to the Varonis platform and the way it's coming up in conversations gives us the confidence that we'll see better contribution in the second quarter.

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

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And not forget that we sell everything through a POC and for the preliminary indicators of a new product that we have together with the platform that we have, the early indicators are very, very strong. The pipeline is very strong and we converted enough Atlas deal to have the confidence that it will do very well.

Operator: The next question is from Rudy Kessinger from D.A. Davidson. Please go ahead.

Rudy Kessinger

Analyst, D.A. Davidson Companies

Q

Hey, guys. Thanks for taking my question. Guy, a question for you. If we look at the SaaS net ARR ex-conversion guide, the implied Q4 number, it's a really big step-up over Q3 and on a year-over-year basis requires 40% year-over-year growth in the SaaS net ARR ex-conversion. So, is that more a factor of maybe Q3 being a more conservative part given you're not expecting all of those slipped deals to close in Q3 in that guidance number or what else is informing such a significant ramp in the Q4 net ARR versus Q3?

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

A

First of all, I thought you would ask me why Q3 net SaaS ARR excluding conversion is down versus last year. So, I'm glad the question is coming on the Q4 and being higher. But seriously though, when you look at Q4 of last year, such a large portion – such a large dollar amount was related to conversions. We had roughly \$63 million of converted dollar amounts in Q4 of last year and that was time that the reps had to focus and deal with the paperwork and the security checklists and deal with procurement and deal with the legal teams.

And now, they don't have to focus on that. Keep in mind that the way the commission is structured is that they don't make money that goes towards their quota in 2026 on conversion. So, they are focused on new business and they are focused on existing SaaS customers and only those sales go towards their quota retirement and their acceleration. So, by having them not focus on the conversion and focus on what they know to do best, I don't see Q4 as a stretch by any way, shape or form.

And the philosophy of our guidance has kept being conservative. I feel good with the way we have the set up for H2 and if you take away that \$63 million of conversions, you can see that that uplift that you're seeing in Q4 is not that significant.

Operator: The next question is from Richard Poland from Wells Fargo. Please go ahead.

Richard Poland

Analyst, Wells Fargo Securities LLC

Q

Hey. Thanks for taking my question. I noticed you mentioned GovRAMP a few weeks ago and on top of already having FedRAMP given just kind of past commentary around the government business and what's assumed

around the conversion there. Guy, as we enter the big federal Q3, is there anything we should keep in mind into the back half and any I guess change or different perspective on how much of that could convert?

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

A

So, obviously, when you look at kind of the federal business, I think it's very clear that in previous years, it wasn't an area that we did particularly well on. And if you look at kind of the way we've structured kind of the guidance and the focus in Q3, we basically didn't assume any positivity coming from that vertical. Obviously, if things go well, we'd be pleasantly surprised. That can be on top of what we guide, but the expectation for us is to kind of look at the enterprise business.

We know that when you look at the customers that will not convert, there's a good vertical of those customers that are state and federal that we already baked in all of our metrics from whether it's free cash flow or the regular guidance that we have provided. And even the conversion assumptions take that into consideration. So, going into Q3, I think we de-risked that component going into the quarter.

Operator: The next question is from Jonathan Ruykhaver from Cantor Fitzgerald. Please go ahead.

Jonathan B. Ruykhaver

Analyst, Cantor Fitzgerald & Co.

Q

Yeah. Hey, guys. Thank you. So, I think this is for you, Yaki. Just given the convergence we're seeing between identity and data security strategies, I'd love to hear your thoughts on where you see the boundary between Varonis and those identity vendors. And then just in terms of how you're doing identity solutions, I don't think you mentioned that, but any color on adoption there would be helpful as well. Thank you.

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

A

So, we integrate a lot with identity and we're doing a lot of the identity behavior to understand abnormal behavior and posture. What we are now doing is managing the password and provisioning and stuff of this nature. So, once it's getting to the identity access to the actual data resource, it's a place that we play a lot in and it works very well for us. And it's extremely relevant obviously to everything that related to AI security, is what is the identity of the agencies doing it, just part of the overall value proposition and everything that we are doing with MDDR and all the UBA solutions.

Operator: The next question is from Todd Weller from Stephens Inc. Please go ahead.

Todd Weller

Analyst, Stephens Inc.

Q

Good afternoon and thanks for the question. Just wanted to follow-up on the topic of sales productivity. Where do you think you are in kind of realizing the productivity benefits and then how do we think about that from a tailwind perspective in terms of what inning we are in there? Thank you.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

A

When we look at the productivity levels of our sales force, we have actually seen those levels increase if you compare them to 2025 and 2024. And I'm talking about the matured reps, reps that have been with us for over a

year. And the reasons for that productivity increase is that not only do we have a much larger platform to sell, but we're going upmarket and that's absolutely helped in the levels of productivity.

Keep in mind, though, that the new platforms that we have acquired, whether it's Atlas or Interceptor or even DAM that has a significant market for us to kind of rip and replace, it's a \$1 billion market that we're trying to take advantage of. Those haven't really kicked in. So, our expectation is that with the additional pipeline build that we're seeing and the fact that we can see those pipeline convert into deals and ARR, our expectation is that the productivity levels can actually continue to increase in the near-term future and the medium term.

Again, the focus of the larger deals and the platform that we have can really help. I will also say that one of our focus in terms of hiring is trying to get account managers that more tenured that can actually help on the productivity level. So, we're definitely making the right investments in order to take advantage of this market opportunity.

Operator: The next question is from Joseph Gallo from Jefferies. Please go ahead.

Grant Darling

Analyst, Jefferies LLC

Hi. This is Grant Darling on for Joe Gallo. Thanks for taking the question. Any update you could give on the Microsoft partnership? Obviously, they've been making their own announcements as it pertains to AI security. So, was just curious the momentum you were seeing there and if you expect that to further ramp or just how you're thinking about that. Thanks.

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

Just in the Microsoft ecosystem, obviously it works very well because all the MDDR and the AI security and for what organizations have on-prem, but the overall Microsoft ecosystem in terms of data and AI becoming smaller and smaller part of what we are doing. You need to understand that think about Copilot two years ago and now it's just another tool in the overall AI ecosystem of organizations when they have so many data stores on Salesforce to ServiceNow, Snowflake, and Databricks and more and more. So, it's going well, but the overall Microsoft environment is becoming just a smaller and smaller part of everything that we are protecting.

Operator: The next question is from Fatima Boolani from Citi. Please go ahead.

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Oh, good afternoon. Thank you for taking my question. Guy, I wanted to ask you with about a year or four quarters worth of upsell data points on Interceptor and DAM, I'm wondering if you can put a little bit more of a quantitative context on what types of realized upsell levels you're seeing on a base core product deal for some of these newer solutions. Recognize Atlas is still early, so maybe just focusing on DAM and Interceptor because they've been close to being in the market for one year [indiscernible] (00:49:20). Thank you.

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

So, when you look at Interceptor, that was actually closed in the last month of Q3. So, basically we've only had Q4 and the first part of this year to actually get it as part of the product and sell it in an integrated way. I will say

that when we look at the Interceptor, we are seeing that mostly catered towards our existing customers. So, we go into the base and trying to connect it together with the MDDR which is a very strong value proposition and that's kind of the motion that we're seeing currently.

I will say that DAM is definitely an opportunity from a new customer perspective and an existing customer perspective to kind of go after that \$1 billion ARR amount that when you think about it is comprised and very much isolated by several hundred customers that we're going after. So, when you look at kind of the mechanics of that, I can tell you that we haven't – it's been very encouraging and we've seen it definitely help us in Q2 but not anywhere close in terms of the potential that we think it can actually contribute not only in H2 but also in the years ahead.

So, we're definitely very focused to have it as part of the platform and the fact that you take those two offerings and Atlas on top of that, which is coming up literally in almost every conversation with customers, and you get a really strong platform offering that we believe we can take advantage of the market opportunity.

Operator: The next question is from Erik Suppiger from B. Riley Securities. Please go ahead.

Erik Suppiger

Analyst, B. Riley Securities, Inc.

Q

Yeah. Thanks for taking the question. Some of the vendors have introduced products that have some overlap with Atlas over the first half of this year. Can you discuss the competitive dynamics for that product and if you have any type of win rate, can you share any of those metrics?

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

A

Yes. So, Atlas is the most comprehensive when you're looking at the whole lifecycle of AI in terms of just posture compliance, penetration testing, and so forth. And it's just a great platform, but also, it integrates unbelievably well with data.

And the founder of Atlas, he understand data very well. He did two companies. He was really the pioneer of Database Activity Monitoring and he did it. And he understood very well that eventually, in order to realize value, it needs to be connected to data. So, once we are coming with the platform together on the AI side throughout the whole lifecycle, how to take it to production and monitoring and all the automation, the robotic value proposition and the ability in a very elegant way to support all the AI systems and then connect it to pipeline to data, this is really where we are uncontested.

Operator: The next question is from Shrenik Kothari from Baird. Please go ahead.

Shrenik Kothari

Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Thanks for taking my question. So, just on the gross margins, it's sequentially ticking down about 20 bps and now 290 bps from last year even as the operating margin seems to be improving with the SaaS mix growing. Just how much of the gross margin trends are reflective of the pricing environment versus all the acquisition integration? And is this dynamic arising from sort of new logos being stronger for you guys recently or new products structurally maybe carrying lower gross margins and are these mix shifts towards sort of broader AI runtime security?

Guy Melamed

Chief Financial Officer & Chief Operating Officer, Varonis Systems, Inc.

A

None of the above. When you look at the gross margins, they're actually tracking according to our plan and I would actually even go further and say that they're better than what we initially planned for when we introduced the SaaS offering. So, if you look at kind of the evolution of the gross margin, the investments that we have made initially kind of are bringing gross margins down but they're actually not only are expected to tick up back again as we kind of complete the transition. But also if you compare that to some of the internal plans that we have had, they're actually doing better. So, we're not seeing any price pressures. I don't think it relate – it definitely doesn't relate to any of the items that you mentioned above.

Operator: The next question is from Junaid Siddiqui from Truist Securities. Please go ahead.

Junaid Siddiqui

Analyst, Truist Securities, Inc.

Q

Great. Thank you for taking my question. Historically, you've benefited from data security budgets but increasingly you're talking about AI security and AI transformation initiatives. Are you seeing deals funded by entirely new AI budgets or are customers largely reallocating spend away from existing security vendors and point products?

Yaki Faitelson

Chief Executive Officer, President, Co-Founder & Chairman, Varonis Systems, Inc.

A

It depends for which product because the platform is big. So, for the DAM, we definitely take it from Imperva and the Guardium. Interceptor, there are -people have several levels of email security but it's primarily social engineering. Today, this is how bad actors are getting in. So, we really can retire one of the layers of the email security.

In the data, we are the dominant force, but usually if there is any DSPM or something like that, it's also a budget that we can take. But we also see that just organizations are contributing more from what they call digital transformation and AI budgets to reduce the security component for this new technology and also companies starting more and more to contribute budget from this bucket.

Operator: There are no further questions at this time. I would like to turn the floor back over to Tim Perz for closing comments.

Tim Perz

Vice President-Investor Relations, Varonis Systems, Inc.

Thanks for your interest in Varonis. We look forward to seeing everyone at conferences this quarter. Please reach out if you'd like a call back.

Operator: Goodbye. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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