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CORPORATE PARTICIPANTS

Bill Choi *Zscaler, Inc. - VP of Investor Relation*
Jay Chaudhry *Zscaler, Inc. - Co-Founder, President, CEO & Chairman*
Remo Canessa *Zscaler, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Nowinski *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*
Brad Zelnick *Crédit Suisse AG, Research Division - MD*
Daniel Ives *Wedbush Securities Inc., Research Division - MD of Equity Research*
Gray Powell *Deutsche Bank AG, Research Division - Research Analyst*
Keith Weiss *Morgan Stanley, Research Division - Equity Analyst*
Keith Bachman *BMO Capital Markets Equity Research - MD & Senior Research Analyst*
Nicholas Yako *Cowen and Company, LLC, Research Division - VP & Senior Analyst*
Roger Boyd *Needham & Company, LLC, Research Division - Research Analyst*
Saket Kalia *Barclays Bank PLC, Research Division - Senior Analyst*
Tal Liani *BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector*
Francois Yoshida-Are *Berenberg Capital Markets, LLC - Research Associate*
Brad Alan Zelnick

PRESENTATION

Operator

Good day, everyone, and welcome to the Zscaler's 4Q 2019 Earnings Conference Call. Today's conference is being recorded. And at this time, I would like to turn the conference over to Mr. Bill Choi, Vice President of Investor Relations. Please go ahead, sir.

Bill Choi ***Zscaler, Inc. - VP of Investor Relation***

Good afternoon, and thank you for joining us to discuss Zscaler's financial results for the fourth quarter of fiscal 2019. With me on the call are Jay Chaudhry, Chairman and CEO; and Remo Canessa, CFO. By now, everyone should have access to our earnings announcement. This announcement may also be found on our website in the Investor Relations section. In addition, a supplemental financial schedule was posted to the Investor Relations section of our website earlier today.

Let me remind you that we'll be making forward-looking statements during today's discussion including, but not limited to, the company's anticipated future revenue, calculated billings, operating performance, gross margin, operating expenses, operating income, net income, free cash flow, dollar-based net retention rate, income taxes and earnings per share. These statements and other comments are not guarantees of future performance but rather are subject to risk and uncertainty, some of which are beyond our control. Our actual results may differ significantly from those projected or suggested in any forward-looking statements. These forward-looking statements apply as of today, and you should not rely on them as representing our views in the future. We undertake no obligation to update these statements after this call. For a more complete discussion of the risks and uncertainties that could impact our future operating results and financial condition, please see our filings with the Securities and Exchange Commission as well as in today's earnings release.

Unless otherwise noted, all numbers we talk about today other than revenue will be on an adjusted non-GAAP basis. Please refer to our earnings release on the Investor Relations portion of our website for a reconciliation of GAAP to the non-GAAP financial measures. For historical periods, the GAAP to the non-GAAP reconciliations can be found in the supplemental financial information referenced a few moments ago.

I would also like to inform you that we will be hosting our Analyst Day next week on September 17 in conjunction with our Zenith Live conference in Las Vegas. Zenith Live is our annual customer and partner cloud summit featuring keynote presentations and topic specific breakouts regarding the transformation to a cloud-first future. We will be webcasting both the Zenith Live keynotes and the Analyst Day program, which you can access on the events section of our IR website. Now I'll turn the call over to Jay.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Thank you, Bill, and thank you, everyone, for joining us on our call today. In Q4, we are pleased to announce that we delivered strong revenue and operating profit growth in the fourth quarter with positive free cash flow. For the quarter, our revenue grew 53% and billings grew 32% year-over-year against a very difficult comparison. And for the full year, our revenue grew 59% and billings grew 51%. I will start the call by commenting on our market opportunity. Next, I will discuss our sales execution, including the hiring of our new President Go-to-Market and Chief Revenue Officer, and conclude with some of our deal wins in the quarter.

We are seeing a mega shift take place where organizations are choosing multi-tenant cloud architecture to empower them to scale quickly as they move their applications and data to the cloud. Digital transformation and adoption of mobile and cloud fundamentally change network traffic patterns and break the traditional perimeter protection model, where organizations build a "hub and spoke" network and a "moat" of security appliances to secure the network. Built for a world without walls, Zscaler cloud acts as a business policy engine, which is now deployed across more than 150 data centers to deliver the full set of security and policy enforcement on a direct path to the application. Our mission is to provide fast, secure and reliable access to information no matter where it lives.

Responding to customer's need for better advice for a cloud-centric world where appliance-based perimeter security is less relevant, Gartner has recently published a groundbreaking research note titled, "The Future of Network Security Is in the Cloud." In this paper, they introduced the concept of a Secure Access Service Edge, pronounced SASSY. SASE goes well beyond the disruption of MPLS with SD-WAN, or hardware appliances with cloud, or applying Zero-trust principles.

As I interpret it, SASE has the following key points: Number one, demands that service-edge providers offer compute power at the edge of a widely distributed network, distributed as close as possible to each endpoint. Number two, like branch with just a router and all security services in the cloud. Three, delivers in-line encrypted traffic inspection at scale.

Most importantly, Gartner recommends reducing complexity of network security by moving to ideally one vendor for Secure Web Gateway. Cloud access security broker, or CASB, DNS, zero-trust network access and remote browser isolation capabilities.

We agree with these key findings, and I recommend that everyone read this report. It is available on our main website.

Zscaler platform was designed from the start for the world that Gartner has spelled out. As the world moves toward the SASE model, traditional network security vendors are embracing Zscaler's vision of cloud-based security after rejecting it for years. They're trying to retrofit the legacy appliances into a cloud world and making more and more noise about what we believe are their fundamentally flawed hybrid security cloud offerings. Their message is, "Keep on buying my boxes, but use my so-called cloud service when your users are on the road or in a branch office." But we believe that pieced together, hybrid clouds can't scale, leave gaps in security, are expensive, deliver a poor user experience and will not allow enterprises to fully realize the benefits of the cloud.

Just like you can't create a Netflix service by stacking thousands of DVD players in the cloud, you can't offer an in-line, high-performance security cloud by spinning up a bunch of virtual machines in a public cloud. This is a defensive strategy of cloud imitators, which in our view does not serve the needs of the customer. To put it simply, architecture matters. Zscaler has 4 architectural advantages that firewalls can't just add on: Edge cloud for policy enforcement, multi-tenancy, proxy for SSL or TLS inspection and Zero-trust network access.

Zscaler's platform, deployed across more than 150 data centers, was built from the ground up and provides the advantages of elasticity, scale, deep content inspection and user experience that is difficult to match. In addition, we have over 10 years of operational experience running our security cloud at scale. As I have said before, there really is no compression algorithm for experience.

To keep on growing at a rapid pace as we seek to reach $1 billion in revenue, we need to build a sales machine to drive consistent sales execution, critical for a top-down transformational sale, which delivers even if the market environment gets tougher. We're not sure if the macroeconomic environment is having an impact, but we started to see some large deals taking longer to close. To help us deliver go-to-market scaling and execution, I'm very pleased to announce that Dali Rajic is joining Zscaler as our President Go-to-Market and CIO. I have been deliberate about finding the right leader with a progressive mindset, as this is an extremely important role. Dali shares my views on value-driven strategic selling, and I'm confident that he is the right leader to drive our sales execution. He brings a wealth of SaaS and cloud experience and a proven ability to scale global sales and channel in support of our long-term growth objectives.

On the deal front, I'm excited that more customers are buying the ZIA and ZPA platforms together, which enables a true transformation with direct access to any service or application from anywhere, on any device, without backhauling traffic through the data center: ZIA for Internet and SaaS, and ZPA for internal applications in your data center or in the cloud. As some of you know, ZPA is a newer platform that we started selling about 2 years ago and is now an important part of our business, already contributing 14% of our new business. We are seeing rapid growth with ZPA with approximately half of the business coming from existing ZIA customers.

Let me start by highlighting a new customer that bought ZIA and ZPA together. A global information services company spun-off one of its business units, along with the legacy network and data center infrastructure. With an opportunity to start with a clean slate, they adopted a strategy to pursue a full transformation to the cloud -- with Internet as their wide area network, cloud as the new data center and Zscaler as the policy enforcement platform. The customer purchased the ZIA Business Bundle plus cloud firewall and data loss prevention for all 25,000 employees and ZPA for 10,000 mobile users. Without building a new network with scores of new security gateways, the customer is leveraging Zscaler to provide secure, fast and reliable access for all users from all locations on any device at a lower cost of ownership and with greater operational simplicity. A global system integrator partner, who is implementing the overall transformation project, played a key role in driving the Zscaler sale, an example of channel leverage we are creating with our investments in our SI partners.

Let me give you an example of an existing ZIA customer adding ZPA. A Fortune 100 multinational oil and gas customer, with headquarters in Europe that bought our ZIA Transformation Bundle for 65,000 employees last year, purchased ZPA for over 56,000 users. ZPA represents the next step in this customer's IT transformation journey towards a cloud-first strategy. After adopting local Internet breakouts for 450 locations, the customer bought ZPA to replace its legacy VPN and do a lot more. ZPA will provide access to its applications in the data center and in the public cloud while increasing the level of security with a zero-trust network access approach. ZPA creates a unified policy-based access across all environments, including the thousands of apps that they are moving to AWS and Azure. This large company also expects to benefit from ZPA to integrate potential acquisitions. This latest purchase increased the total customer spend with Zscaler by two-thirds.

In our large ZIA deals, we continue to see Office 365 deployments and securing local Internet breakouts as the primary driver. A Global 500 industrial company with headquarters in Europe purchased our Business Bundle and cloud sandbox for 120,000 users as the required scalable solution that can keep pace with over 50% growth in Internet traffic for a year. In addition to Office 365, SSL traffic inspection and cloud sandboxing were needed for better security for all locations across 60-plus countries and all users, whether at the headquarters, a branch office or on the road.

In another deal, a Fortune 100 consumer goods company that purchased Business Bundle several years ago upgraded to Transformation Bundle plus data loss prevention for all 100,000 employees. After deploying Office 365 last year, the customer was overwhelmed with the growth of traffic for OneDrive and SharePoint. With Zscaler, they will no longer have to backhaul Office 365 to 4 data centers. Instead, they're implementing SD-WAN for nearly 300 locations for local Internet breakouts to deliver better user experience. To secure all local breakouts, the customer purchased cloud firewall, sandbox and DLP for all users to keep malware from coming in and sensitive information from leaking out, no matter where the user is.

For customers who want network and security transformation, we believe we are the only cloud-native, multi-tenant platform that meets their needs. The cloud security market is evolving rapidly, and we are adding significant functionality to our platform and creating more distance from the cloud imitators. You will hear more about our innovations at our Zenith Live Cloud Summit next week. Overall, the competitive environment remains favorable and with high win rates, coupled with a strong net dollar retention rate of 118%. In fact, our customer churn rate declined quarter-over-quarter and year-over-year. We ended fiscal 2019 with over 3,900 customers. Total Global 2000 customers increased to over 400 as of July 31, up from over 300 a year ago. And we have over 100 of the Fortune 500 companies as our customers.

We are strengthening our channel partnerships with large system integrators and global service providers who contribute over 50% of our revenue. We will continue to aggressively invest in our business to pursue our significant market opportunity.

Now I'd like to turn over the call to Remo to walk through our financial results.

Remo Canessa ***Zscaler, Inc. - CFO***

Thank you, Jay. Revenue for the quarter was $86.1 million, up 9% sequentially and 53% year-over-year. For the year ago comparison, recall that Q4 2018 revenue was aided by $1.4 million in nonrecurring revenue from a large public sector customer deploying our platform as a private cloud. From a geographic perspective, for the quarter, Americas represented 51% of revenue; EMEA was 41%; and APJ was 8%. For the full year, revenue was $303 million, up 59%. ZPA remains the fastest-growing new product in our history. ZPA contributed 14% of our new and upsell business in fiscal 2019, up from 10% in the prior year.

Turning to calculated billings, which we define as the change in deferred revenue for the quarter plus total revenue recognized in that quarter. Billings grew 32% year-over-year to $126 million. As a reminder, our contract terms are typically 1 to 3 years and we primarily invoice our customers 1 year in advance. Excluding upfront greater than 1-year billings in both periods, billings would have grown over 50%. Remaining performance obligations, or RPO, was $554 million on July 31, up 39% from $398 million 1 year ago. As a reminder, the large public sector deal added $26 million to RPO a year ago.

Based on our ending July 31 annual recurring revenue for ZIA, approximately 43% is from our high-end Transformation Bundle, which includes our next-generation firewall and sandbox, up from approximately 35% last year.

Our strong customer retention and ability to upsell have resulted in consistently high dollar-based net retention rate, which is 118% for the quarter ended July 31. This compares to 117% a year ago and 118% last quarter. Our increased success selling bigger deals upfront, which start with Transformation Bundle and faster upsells within a year, while good for our business, can reduce our net retention rate, which is calculated on a year-over-year ARR basis. Considering these factors, we feel 118% is outstanding and it will vary quarter-to-quarter.

Total gross margin was 81%, down 1% sequentially and up 1% year-over-year. We feel that 80% continues to be a good target range in the near- to medium-term as it is important to continue to invest in our platform to drive top line revenue growth.

Turning to operating expenses. Our total operating expenses increased 6% sequentially and increased 31% year-over-year to $62.2 million which decreased as a percent of revenue to 72%. The sequential increase in operating expenses is primarily due to increased sales and marketing spend in R&D. We increased our headcount in Q4 by over 130 employees and ended the year with over 1,480 employees.

Sales and marketing increased 6% sequentially and 33% year-over-year to $41 million. The increase is due to higher compensation expenses and marketing programs.

R&D was up 7% sequentially and up 28% year-over-year to $13.2 million as we continue to invest and enhance product functionality and to innovate on new products.

G&A increased 3% sequentially and increased 26% year-over-year to $8 million. The year-over-year growth in G&A includes investments in building our teams and other expenses related to becoming a publicly traded company. These expenses exclude $3 million in litigation-related expenses.

Our fourth quarter operating margin was a positive 9%, which compares to a negative 4% in the same quarter last year.

Net income in the quarter was $9.1 million or non-GAAP earnings per share of $0.07.

We ended the quarter with $365 million in cash, cash equivalents and short-term investments. Free cash flow was positive $7.6 million in the quarter compared to a positive $11.9 million for the same quarter a year ago. Our ESPP program decreased our free cash flow by approximately $4 million in the quarter, whereas in the year ago quarter, it had a positive $3 million impact. The ESPP program does not impact our overall cash balance.

Now moving on to guidance. As a reminder, these numbers were all non-GAAP, which excludes stock-based compensation expenses, amortization of intangible assets, certain litigation-related expenses and any associated tax effects. For the first quarter, we expect revenue in the range of $89 million to $90 million, reflecting a year-over-year growth of 41% to 42%. Operating loss in the range of negative $1 million to breakeven. Please note Q1 will include $6 million in expenses for 3 major marketing events, including Zenith Live Americas, Zenith Live Europe and our sales kickoff. Income taxes of $700,000 and earnings per share in the range of $0.00 to $0.01, assuming 139 million common shares outstanding.

For the full year fiscal 2020, we expect revenue in the range of $395 million to $405 million, or year-over-year growth of 30% to 34%; calculated billings in the range of $490 million to $500 million, or a year-over-year growth of 26% to 28%; operating profit in the range of $13 million to $18 million; income taxes of $2.8 million; earnings per share in the range of $0.12 to $0.15, assuming approximately 140 million common shares outstanding.

Our guidance reflects plans to invest aggressively in our business to pursue our significant market opportunity. With our CRO on board, we expect to step up our sales and marketing investments in the coming quarters. In addition, we'll increase investments in our technology platform and cloud infrastructure.

As you model billings, I want to remind you that historically, Q2 and Q4 have been our strongest billing quarters with sequential declines in Q1 and Q3 quarters, respectively. Over the last 3 to 5 years, first half billings have represented, on average, 43% to 44% of full year billings. In fiscal '20, we expect our first half mix to be in the 42% to 43% range. The reason for this is primarily related to our new CRO getting familiar with our business and fully ramping. Also, please keep in mind that we had a large upfront billing of $11 million in Q2 of 2019 from a large public sector customer deploying our platform as a private cloud, which will pose a tough year-over-year comparison in Q2. Excluding this deal, our billings guidance for the full year implies 29% to 32% growth.

In terms of free cash flow, please note that we'll have additional spend for tenant improvements related to our headquarters' move in January as well as ongoing cash outlays for lease payments on our existing San Jose buildings and litigation expenses related to the ongoing Symantec lawsuit. With our headquarters' move, we expect a modest budget of $4 million to $5 million for tenant improvements. Including these cash payments, we expect our free cash flow margins in fiscal 2020 to be 1 or 2 points lower compared to our operating profit margins. Longer term, we would expect free cash flow margins to be higher than our non-GAAP operating margins.

Now I'd like to hand it back over to Jay.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Thank you, Remo. In summary, designed as a cloud-native, multi-tenant architecture, we believe we are in the early innings of a significant market opportunity to enable cloud transformation. Just like Salesforce and Workday developed cloud-native, multi-tenant platforms to disrupt large legacy software vendors, Zscaler has a similar opportunity to disrupt network security. With multiple tailwinds such as Office 365, SaaS adoption, SD-WAN and app migration to public clouds, we believe the market is coming to us. With the addition of Dali Rajic, we are building a sales organization that can deliver world-class execution.

We look forward to seeing you at our Zenith Live Cloud Summit and our Analyst Day in Las Vegas, where we will showcase some of our upcoming new products.

We thank you for your interest in Zscaler and look forward to reporting on our progress in the future. Operator, you may now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Brad Zelnick with Credit Suisse.

Brad Alan Zelnick

Can you guys hear me?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes.

Remo Canessa ***Zscaler, Inc. - CFO***

Yes.

Brad Zelnick ***Crédit Suisse AG, Research Division - MD***

Excellent. Congrats on a fantastic year. Excellent, excellent. So congrats on a fantastic year and it's great to see your sustained growth above 50% if we make the proper adjustments. Jay, I wanted to ask you about your comment about large deals taking longer to close. What are the proof points that suggest to you that this may be due to macro deterioration versus perhaps execution issues? And what gives you the confidence this isn't a change in the competitive dynamic for what you're selling?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. So we deal with a large number of deals. Our pipeline has been growing. The comment we made was that some of the larger deals took longer, talking about macro versus competition. I can tell you that if we analyze our top 50 deals, which we did, we rarely see any competitor.... real competition from our firewall guys or any other guys. So our competitive rate remains very, very strong.

On the macro level, we haven't seen any significant things to really say that macro is playing a role in it. We do believe that as a large number of reps are being hired, they all need to go through a bit more sophisticated sales methodologies, sales framework and the like so we can keep on scaling the successful execution we have been doing so far. So not worried about any competitive pressures. No clear indications on the macro, though that kind of remains to be seen as everyone does talk about them. But we are excited that we have a new CRO who can help us further scale the kind of work we've done before to the next level.

Brad Zelnick ***Crédit Suisse AG, Research Division - MD***

Congrats on the hire. And just a follow-up on this topic with Remo, if we look at long-term deferreds, it would seem there as well that duration might be shrinking a bit from what it had been last quarter. Is this due to the same dynamics that Jay is discussing? Or are there other factors to consider as well? What's baked into your guidance for the full year? Is it more of what you're seeing exiting fiscal '19? Or is it assuming what you saw on average throughout the entire year?

Remo Canessa ***Zscaler, Inc. - CFO***

Yes. Thank you, Brad. My guidance basically is what we've seen through the entire year based on duration. If you take a look at total deferred revenue, it grew 53%. Short-term deferred revenue grew 57%. And what we have in long-term deferred revenue, we've got that public sector deal, which transfers over from long-term to short-term. I wouldn't think anything different related from a duration perspective in my guidance for fiscal '20.

Operator

We'll take our next question from Alex Henderson with Needham & Company.

Roger Boyd ***Needham & Company, LLC, Research Division - Research Analyst***

This is Roger Boyd on for Alex. Wondering another way, can you saw what portion of RPO you expect to recognize over the next 12 months?

Remo Canessa ***Zscaler, Inc. - CFO***

So the CRPO is -- it's about 45 -- I'm sorry, the CRPO is $305 million. So that'll be over the next 12 months.

Roger Boyd ***Needham & Company, LLC, Research Division - Research Analyst***

Got it. And then on sales execution, I was wondering if you could just provide some detail on what you offer in terms of channel enablement and what you do for your partners in the way of training and education to help them smooth out their deployments?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. So 2 questions here. One is, what are we doing to enable our partners? And the second question is about deployment. Remember, we have said all along that our sale is not a typical security appliance type of sale where you train hundreds of our channel and they grow and sell to technical people. We are fundamental to enabling cloud transformations. So sales is driven top down at the C levels, CIO, CTO, CSO. So our best channel partners are system integrators and service providers, though we end up doing a fair amount of heavy lifting. And the heavy lifting is natural because when you're doing, driving a new transformational sale, when you're disrupting the old world, you have to drive high touch. But as I indicated in one of the wins I highlighted, our SI partners are doing a great job.

Regarding deployment, actually, Zscaler is relatively easier to deploy. We do train our channel partners. We also have our own sales, sorry, deployment teams that work with channel partners. Our deployments happen pretty well, fairly fast, and customers overall are very happy, as you can see from our net retention rate and also our churn rate, which has been pretty low.

Operator

Moving next, we'll go to Tal Liani with Bank of America.

Tal Liani ***BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector***

I have 2 questions. Number one is more a high-level question for Jay. Last week, there was an analyst day of one of the competitors that said that in the long run, proxies are not the right solution and the right solution is to offer the same services from the network, and this was a firewall company. I'm wondering if your stock is going down on this, I'm wondering if you can address this issue directly. The second thing is, is there anything you're planning on doing outside of what you discussed, is there anything you plan on doing to address the slower sales growth because of the environment that you noted? And is there...

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

So first of all, about proxy. I think if you asked any expert out there what security inspection technology gives you better capability to inspect on log threats, I think 99% of smart people agree, it's a proxy technology. So I think statements like that made by competition, clearly make zero sense. In fact, a lot of you work for large banks, right? You care about security.

If you look at the top 10 large banks in the world and how many of them have next-gen firewall, lots of them. How many of them replaced a proxy technology for outbound traffic, I believe you'll find it 0. In fact, I know of a very large bank that has spent tens of millions of dollars on a next-gen firewall and deployed it all over. And this bank, is still depending upon a proxy technology to inspect their traffic for threats. That's one piece. Two, if you looked at any vendor who is doing any meaningful thing, -- even sitting in front of servers, like Akamais of the world, they all have proxy-based technology because without proxy, you have little or no control.

Lastly, firewall, which is a pass-through device was a good thing before the SSL world when traffic was not encrypted. Today, in most of the cases, 90% plus of cases, it's SSL traffic, TLS traffic. Firewalls were never designed to inspect SSL, proxy technologies needed are for SSL. If you really don't inspect the traffic, it is like your luggage passing through an airport inspection check post without being inspected. That's not a good thing.

So I think these statements are meaningless. They mislead customers. They give them a false sense of security and do a disservice to the security industry.

Remo Canessa ***Zscaler, Inc. - CFO***

From a growth perspective, things that we've done. We've been up without a CRO for about 1.5-years. That was deliberate on our part, Jay's part, to make sure we found the right person. So we did not want to jump the gun and hire the wrong person. We feel that we have the absolute right person to run our sales organization.

Also, we've hired -- we made several hires over the last 4 to 6 months. The VP of Federal, the VP of the East, a new VP General Manager of EMEA, the CRO and the VP of Sales Enablement. We see this as a large market opportunity. And we're going to increase our sales and marketing efforts in fiscal '20. Having the right person on board gives us confidence to invest more into our sales and marketing organization to maximize these market opportunities.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. If I may add, I mean as we compete out there, we almost win every deal, very few situations where we don't win. So we are very comfortable. We've got differentiated technology. Very comfortable with our sales process which we have refined. We just need to make sure we can keep on scaling it as we set our targets for bigger and bigger numbers.

Tal Liani ***BofA Merrill Lynch, Research Division - MD and Head of Technology Supersector***

So given the comments you just mentioned, does it mean it's going to take you longer to get to your margin target as you change the trajectory of margin improvement?

Remo Canessa ***Zscaler, Inc. - CFO***

No. I mean, from our perspective what we said all along, if we get to our operating model of 20%, 22% operating profitability, once we're at $800 million to $1 billion, there's no change in that. The one change related to the guidance is that we brought down the first half down to 42%, 43% versus historically where we've been 43%, 44% in of our total billings. The reason for that is that with Dali coming on board, he's going to take some time to get ramped up, to understand the landscape. So we want to give him some room related to our billing guidance.

Operator

Our next question will come from Andrew Nowinski with Piper Jaffray.

Andrew Nowinski ***Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst***

Congrats on the nice quarter. Maybe if you could just start with, I know in the past, you've talked about Office 365 as a significant tailwind for Zscaler. I'm just wondering if you can give us any parameters on how we should think about that in terms of what's left in fiscal -- as we head into fiscal '20. And if you can also just rank order your top growth drivers impacting your fiscal '20 guidance.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. Office 365 has been a big driver because Office 365 almost requires that you do local breakout and that's because the amount of traffic generated by Office 365 is far, far bigger than all other SaaS applications combined. So that's point number one.

Point number two, today, about 20% of the largest Global 2000 companies are Zscaler customers. That means about 80% aren't. Most of the customers have bought Office 365, but the deployment is lagging behind. Zscaler comes in to help do local breakouts. So deployment can happen cost effectively with better response time. So we see a significant opportunity for Office 365 ahead of us. We are not linked to the sale of Office 365. We are needed for the deployment of Office 365.

The second big driver for us is SD-WAN. SD-WAN technology is evolving. Actually, SD-WAN is also driven by a big part because of Office 365 and local breakout type of deployments. If you look at all the SD-WAN deployments are happening in large enterprises. Zscaler is often the choice to secure those SD-WAN's. So that's a big opportunity as well.

So among the drivers, I would say Office 365 and SD-WAN are our top 2 drivers, along with ability to provide security, especially with the SSL traffic happening out there at a much larger scale than it used to be.

Operator

Our next question will come from Saket Kalia with Barclays.

Saket Kalia ***Barclays Bank PLC, Research Division - Senior Analyst***

First, maybe for you, Jay, when you're talking about competition from the firewall players, I guess, the major change that's happened in the last 90 days has been one of the major appliance vendors of course, changing hands. So I'm curious, and of course, I'm talking about Broadcom Symantec. I'm curious, how have your conversations with customers changed, if at all, since that's been announced?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. So first of all, the large enterprises we are dealing with, largely if there's one solution that's deployed besides Zscaler for outbound traffic, it is Symantec Blue Coat. On the lower end, you start seeing other proxies from different vendors. And our success in the large enterprise has been by displacing those proxy appliances. So as I went out and met customers, which I often do, where the customers in the past felt that yes, they need to change, but they'll make a change over time. It is more urgent because of uncertainty in the space. So we do believe that we'll be the beneficiary of this change.

Saket Kalia ***Barclays Bank PLC, Research Division - Senior Analyst***

Got it. That make sense. And for my follow-up for you, Remo. As we think about the billings guide for next year, how do you sort of thought about the big deal environment? It sounds like you're in Q4, maybe some large deals took a little bit longer to close. What have you assumed about large deals in your fiscal '20 guide?

Remo Canessa ***Zscaler, Inc. - CFO***

Yes. I would say they're going to get back to similar levels since they were in fiscal '19. I mean there's a lot of things that go into the guidance. I mean, it's the new CRO on board, trajectory of hiring and so forth. Let's say it's going to be pretty similar.

Operator

We'll go next to Dan Ives with Wedbush Securities.

Daniel Ives ***Wedbush Securities Inc., Research Division - MD of Equity Research***

Can you just talk about maybe some of the hiring plans in fiscal '20 and maybe how that would be even U.S. versus international?

Remo Canessa ***Zscaler, Inc. - CFO***

Yes. I -- so the total hires that we had in fiscal '19, we had net hires of about 430 employees. My expectation is that we'll hire and are planning for hiring more people than that. The concentration of the hiring is going to be in sales and marketing, #1. R&D, #2. Cloud operations support, #3, and then basically everything else.

When I take a look at geographically, if you take a look at the distribution we have at Zscaler, about 1/3 of the employees are here in our headquarters in San Jose, 1/3 are in India and 1/3, the rest of the world.

India has been ticking up a little bit over the last few quarters. We've got 2 offices, one in Chandigarh and one in Bangalore. So my expectation is the percentages will probably be pretty similar, maybe a little bit more in India versus the rest of the world, but pretty similar percentages based on what we have currently.

Daniel Ives ***Wedbush Securities Inc., Research Division - MD of Equity Research***

Got it. And if I think about 7-figure deals, there's a lot of deals in the pipeline. How many -- do you think most of those deals right now -- it's only Zscaler in those deals in terms of them being noncompetitive. Maybe just talk about that, and the questions I ask about competitive dynamics. Maybe just talk about is there any change there, just from a high level, talk about what you're seeing in sales cycles.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. So -- and as you would expect, large enterprises, when they go and make a change, they do look for multiple providers as a standard process, as a standard practice. But what's exciting that I find in this company that I've never seen before is when a large enterprise goes to RFP with 5 service providers for the network transformation and Zscaler, being -- local breakout being part of it, we quite often get bid by all 5 providers, which is very exciting. And sometimes it may be 4. And most of the times, the other 1 or 2 providers end up being typical proxy vendors you would expect because thats what large enterprises expect. And we win those deals hands down. We do very well. So that's why we aren't worried about the competition.

There's a lot of noise we hear about the firewall guys, okay. And it makes no sense. In fact, last week, as someone alluded to, they talked about displacing Zscaler in 2 deals. And I said I'm not sure what they're talking about. I know every Zscaler customer with over 1 million users, and they're all very happy and doing very well. Regarding displacement at a Fortune 50 retail customer they alluded to, I personally know every Fortune 100 Zscaler customer, and we did not lose any. So people, I think when they get desperate, they look for leading information. I've analyzed the top 50 deals and we rarely see this firewall vendor in there. We do expect to see further misleading claims in the future from legacy firewall vendors who are trying to tout this cloud security events. When legacy secured web gate vendors were trying to compete with Zscaler. We saw the same behavior. They tried to upgrade the security appliances. They gave away the cloud, and they would falsely claim it as a cloud security win and displacement of Zscaler.

On technology, our differentiation stays strong. Our sales methodologies stay strong. We just need to make sure we can scale our sales execution well as the numbers keep on getting bigger and bigger.

Operator

Our next question will come from Joshua Tilton with Berenberg Capital Markets.

Francois Yoshida-Are *Berenberg Capital Markets, LLC - Research Associate*

This is Frank [Sloan] for Joshua. We were trying to understand the focuses on the win, winning the market, but could you possibly speak to how you're seeing pricing developed. Has it been improving? How have average deal sizes been trending? Any commentary around that will be helpful. And then one more follow-up on the macro and EMEA. Have you seen any signs of slowdowns in that region due to these macro fears? thank you.

Remo Canessa *Zscaler, Inc. - CFO*

Yes, I'll try to answer a few. Average deal size is based on ARR for customers with greater than 3,000 users, has gone up every quarter. And it did go up in Q4. Related to any pricing pressure, our discounting, quarter-to-quarter, Q3 to Q4, year-over-year for new and upsell business is lower. So no, we're not seeing the pricing pressure. Related to EMEA, I'll let Jay talk more about that.

Jay Chaudhry *Zscaler, Inc. - Co-Founder, President, CEO & Chairman*

Yes. EMEA, there's a fair amount of talk on Brexit. You can hardly see a newspaper without a news about it. We do wonder about it, but we haven't seen any tangible effect on the business. We do see customers talking about some of the uncertainty out there. Can I put my pulse on a big event? I'm watching carefully. I'm not sure I can put it on.

I think we need to, probably we have some work to do to hiring in scaling the business. We brought in a new leader in EMEA last quarter. He's doing a great job ramping up the sales teams and really scaling it to where we need to go. I want to remind you guys that we are unusually large in EMEA or internationally. At our stage of the company, 50% of the business comes from international and about 40% of that come from EMEA, I'd say. Very important market for us and we'll remain focused on investing there to keep that kind of market share.

Operator

Our next question will come from Gray Powell with Deutsche Bank.

Gray Powell *Deutsche Bank AG, Research Division - Research Analyst*

Maybe just a couple of questions. So one, if I look at the guidance and I look at revenue growth in absolute dollar terms, in fiscal '19, you added a little over $110 million in new revenue, just on total revenue basis. And the guide for fiscal '20 implies that you add a little bit less than $100 million. So is there any reason that the absolute dollar growth should go down, particularly given the sales and marketing investments that you made?

Remo Canessa *Zscaler, Inc. - CFO*

We like to be prudent with our guidance, and our guidance we feel is prudent.

Gray Powell *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Fair enough. Good answer. Maybe just one on the product side, then. What kind of improvements have you made on the cloud firewall functionality? And how do you feel about the potential to displace branch office firewalls?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

So potential to replace branch office firewalls, we have done tons and tons and tons of that. So first of all, if someone is talking about firewall, cloud firewall, Zscaler lacking functionality, they may be getting mixed up with the data center firewall. Many times I talk to customers, this is what they say. They say, the firewall guys were here. They are telling me that you should have the same policy in your branch firewall and that it is a new data center. I say, okay, tell me more. How many rules do you have in your data center firewall? I say 6,000. In fact, they say I bought 2 products to manage those firewall rules. I say, of course, your data centers get complex over time, NATing and everything. I said, what are you trying to protect in your branch office? The answer is employees. What's the difference between when you sit in a branch office or you sit in an airport and a coffee shop? They say, nothing. Are you really putting a firewall with 6,000 rules at your home or every branch office? That's silly.

So firewalls in a branch office or outbound traffic are very straightforward. In fact, most of the case, they aren't even needed. They are needed because somebody feels like they should have it. The reason they are not needed is, when you don't have anything coming from outside in, you have no listening port. Your pack surface becomes 0, that's when you have the best security, and that's really what should be done.

Our firewall is very rich. We never lose any situation. We never have a case when someone said, your branch firewall is not rich enough. Now our focus is not really creating lots of rules on branch firewall. Our focus really, working on zero-trust network type of approach, that Gartner talks about, a SASE kind of approach, where you don't even bring people on the network.

So in summary, we're trying to do things the new way where you don't control the network, you don't worry with network security. You securely connect a user to an application and you're simply a switchboard in the middle of it. So very comfortable with technology and the lead we are increasing. And next week, you're going to see some significant, big new areas of expansion that we'll be announcing at Zenith Live.

Operator

Our next question will come from Nick Yako with Cowen and Company.

Nicholas Yako ***Cowen and Company, LLC, Research Division - VP & Senior Analyst***

Jay, you mentioned seeing more customers adopt both ZIA and ZPA out of the gate, which is great. I guess I'm just wondering if that's having an outside impact on the sales cycles.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

So yes, the bigger the products that you buy, typically, longer the sales cycle. Or if you want to talk about general, the bigger your deal, the longer the sales cycle. But I think our mix has to be -- the mix is not really, I won't say that all, most of our deals are becoming combined ZIA/ZPA. The transformational sale in general is complex. It's top down. You end up securing the support of not just Head of Networking, Head of Security, Head of Architecture. So we have a large number of people who can do it well, but we need to grow that type of sales team along with some of the architects and all, to really make sure we are effectively selling it. And the most exciting thing I found about Dali, he had some of the same top-down selling mindset with value creation and with very good sales methodologies.

So I think we'll be doing a great job in scaling it, to make sure our numbers keep on growing.

Nicholas Yako ***Cowen and Company, LLC, Research Division - VP & Senior Analyst***

Great. And as a follow-up, as you continue to expand the platform and really address more components of the security stack over time, how do you weigh layering in that new functionality into that transformational bundle versus pricing this new functionality as a separate product or component like you've done with ZPA?

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. I think those are the things you take the market, you look at our option rates, you look at the other market kind of willing to pay and then you change your bundles over time. You have seen us change some of the bundles over the past couple of years. And I think there will be some more changes over time. I think you will see some large platforms being announced that are kind of significant beyond the traditional, typical security we are talking about. I think you'll be pleased with the evolution, rather significant addition of the technology we are doing to further create distance between the cloud imitators and us.

Operator

And we'll take our next question from Keith Weiss with Morgan Stanley.

Keith Weiss ***Morgan Stanley, Research Division - Equity Analyst***

So I was just asking -- as we're going into the next fiscal year, you have a new CRO who needs time to kind of ramp up. You also have a much broader product portfolio. You're selling a much bigger vision into your customer. How should we think about the kind of degree of change we should expect in the sales force kind of in -- as we enter the year versus prior years? Is there a significant kind of restructuring that we should expect sort of from the get-go? Or is that going to come later in the year once Dali has time to kind of ramp up and come up with a game plan.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

Yes. Dali and I have been discussing it for quite a while. We don't really expect significant change in the sales teams. We do expect a significant change in the sales methodology, sales framework to be able to deliver the message consistently. Those are the kind of refinements we need to do, which need to be consistently gotten across.

We, overall, have a good sales team. We need to make sure our enablement, our training, our metrics do exactly, know what needs to be done is where the focus is. I mean think of it, we all know that, when you go to a certain stage, so 0 to $200 million, $300 million, $400 million, you have one set of stuff as you go to the next big Phase, $1 billion kind of targets, you kind of make a lot of these things in place. And those are the type of things for the next level we are honing on and refining and scaling.

And by the way, all those factors are built into Remo's forecast for 2020.

Operator

We'll go next to Keith Bachman with BMO.

Keith Bachman ***BMO Capital Markets Equity Research - MD & Senior Research Analyst***

It's a good segue from the past question. Jay, I wanted to just push back a little bit. You've mentioned that you still have 80% of the largest enterprise yet to penetrate, and this is an evangelical sale. It requires, in many cases, an architectural change. And so I'm just wondering why you would need to lean on a much more significant sales force in order to keep revenue growth rates and frankly, penetration rates on new logos growing and less dependency on the SI community, who I think is more about fulfillment, given the model that you have.

And so I'm just wondering why sales and marketing expense wouldn't need to keep growing at a pretty high rate, given those attributes. And I'm just going to sneak in just one clarification.

You told us what the CRPO was, $305 million. But I just wanted to see, could you just clarify what the growth rate of that was as well, and that's it for me.

Remo Canessa ***Zscaler, Inc. - CFO***

I'll answer the growth rate. That's, it's 45% year-over-year.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

So regarding the first part of the question. I think if you looked at what I said early on, too, I said yes, channel partners do help, but we do tons of heavy lifting. Transformational sales are actually high touch sales. So we are investing significantly in our sales and marketing.

In fact, if you look at our '20 plan, we haven't brought down sales and marketing as a percentage of revenue, which typically, we would year-over-year. And that's keeping in mind that we need to keep on putting some more gas on it. And I -- if I left another message, impression, then I didn't do a good job. We actually are driving sales with our own sales organizations and channel. It's helping us channel. It's facilitating us. We are getting channel leverage. But all of you should know, when transformation happens, channel can only do so much.

When technology become more mature and commoditized, channel plays a much bigger role. So we are investing. But prudently, right? There's only so much you can invest, in terms of number of sales people, sales and marketing, total headcount, we're adding this year or last year. It's pretty significant. So fully aligned with your -- with the message you said. If I said any otherwise, it wasn't clear.

Operator

And this does conclude today's question-and-answer session. I'll now turn the call back over to Jay Chaudhry with -- for any additional or closing remarks.

Jay Chaudhry ***Zscaler, Inc. - Co-Founder, President, CEO & Chairman***

We thank you for joining us for this call, and we look forward to seeing a number of you at our Zenith Live Conference as well as on our Analyst Day. Otherwise, we will talk to you next quarter. Thank you.

Remo Canessa ***Zscaler, Inc. - CFO***

Thank you.

Operator

And once again, this concludes today's call. Thank you for your participation. You may now disconnect.
