**Forward-Looking Statements**

Unless otherwise noted, all numbers presented will be on an adjusted, non-GAAP basis. Reconciliation of GAAP to the non-GAAP financial measures is included in our earnings release.

This document contains forward-looking statements that involve risks and uncertainties, including, but not limited to, statements regarding our future financial and operating performance, including our financial outlook for the first quarter of fiscal 2024 and full year fiscal 2024. There are a significant number of factors that could cause actual results to differ materially from statements made in this document, including but not limited to: macroeconomic influences and instability, including the ongoing effects of inflation, geopolitical events and the COVID-19 pandemic on our business, operations and financial results and the economy in general; risks related to the use of AI in our platform; the impact of a government default or shut-down; our limited operating history; our ability to identify and effectively implement the necessary changes to address execution challenges; risks associated with managing our rapid growth, including fluctuations from period to period; our limited experience with new product and subscription and support introductions and the risks associated with new products and subscription and support offerings, including the discovery of software bugs; our ability to attract and retain new customers; the failure to timely develop and achieve market acceptance of new products and subscriptions as well as existing products and subscription and support; rapidly evolving technological developments in the market for network security products and subscription and support offerings and our ability to remain competitive; length of sales cycles; and general market, political, economic and business conditions.

Additional risks and uncertainties that could affect our financial results are included under the captions “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” set forth from time to time in our filings and reports with the Securities and Exchange Commission (SEC), including our Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 2023 filed on June 7, 2023, as well as future filings and reports by us, copies of which are available on our website at ir.zscaler.com and on the SEC’s website at www.sec.gov. You should not rely on these forward-looking statements, as actual outcomes and results may differ materially from those contemplated by these forward-looking statements as a result of such risks and uncertainties. Additional information will also be set forth in other filings that we make with the SEC from time to time. All forward-looking statements in this document are based on information available to us as of the date hereof, and we do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.
CEO Commentary

We had a strong close to our fiscal year. In Q4, we delivered 43% revenue growth and 38% billings growth, with balanced growth across all verticals, customer segments and geographies. For the full year, our revenue grew 48% to $1.6 billion and billings grew 37% to over $2 billion. In addition to achieving record billings in the quarter, we also set records across several other measures. We added the highest number of $1 million ARR customers, generated record new pipeline for a Q4, and attained record operating profit margin. I am proud of our team’s achievements and humbled by the trust our customers are placing in our platform.

While the macro environment remains challenging, we are executing well. With cyber security as a high priority, IT executives are moving forward with Zero Trust initiatives, driving our business. As I mentioned before, we are partnering earlier with CXOs to create compelling CFO-ready business cases with clear ROI and payback periods. As our results demonstrate, refining our high-touch sales process is helping get large deals across the finish line. We have a blueprint for delivering immediate value, which drives faster upsells, often within twelve months of initial purchase. We closed a record number of deals over $1 million ACV in Q4, driven by broad-based strength across our key industry verticals.

In addition to our industry-leading top-line growth, we are generating record profitability. Due to our spending discipline, we achieved a record 19% operating margin, as we more than doubled our operating income on a year-over-year basis. These outstanding results reflect the strong unit economics of our business with best-in-class 80% gross margins. Our innovation and customer obsession drove our Net Promoter Score to exceed 80, which is more than 2 times the average for SaaS companies, and contributed to our high-90% gross retention rate.

I am very pleased to announce that we doubled our annual recurring revenue from $1 billion to over $2 billion in 7 quarters, reaching a milestone only a select handful of SaaS companies have achieved. We secure over 7,700 customers and protect over 41 million users. With every customer looking to adopt Zero Trust architecture in today’s world of cloud, AI and mobility, we believe we’re in the early stages of capturing a large share of our $72 billion market opportunity. We have our sights set on achieving our next goal of $5 billion in ARR. We are on a mission to take Zero Trust everywhere - to users, workloads and OT systems - and become the go-to platform for vendor consolidation, cost savings, increased business agility and better cyber and data protection.

To fully realize the business value enabled by our platform, customers are increasingly buying Zscaler for Users - our complete Zero Trust solution for user protection, which includes ZIA, ZPA, ZDX and data protection. In addition, we are gaining traction with workload protection, powered by the same core ZIA and ZPA technology. These broader platform purchases drove 37% year-over-year growth in customers with greater than $1 million in ARR. We ended the quarter with nearly 450 such customers, including 43 customers exceeding $5 million.

Let me highlight one deal where the customer purchased all product pillars. A large global system integrator partner headquartered in Asia became a customer and adopted our platform to enable their work-from-anywhere strategy. They purchased ZIA, ZDX and advanced data protection for 300,000 users and ZPA for 270,000 users. They also purchased workload protection and deception technology to improve application security for their hybrid environment. This customer can now open new offices and offshore development centers much faster and more securely. They’re also seeing a 50% reduction in the time to onboard employees. As a highly distributed organization with data everywhere, data protection was a major consideration for them and accounted for 20% of the deal value.
Data Protection is an important new pillar of growth for us, approaching a quarter billion in ARR and growing 60% per year. We are increasingly replacing incumbent legacy DLP in the largest of enterprises, with data protection representing a $10-plus billion opportunity for us. Due to targeted investments and rapid innovation, we believe our Data Protection solution is now the widest and the deepest in the market, and we’re taking data protection beyond users, to workloads and devices.

Let me highlight a new logo win led by data protection. A large telecom operator purchased Zscaler for Users for 80,000 employees. Data Protection was a key driver for the win as this customer became increasingly uncomfortable with gaps left by their firewall and VPN-based security, which struggles with data protection for TLS encrypted traffic that comprises over 85% of their internet traffic. With Zscaler, this customer is consolidating multiple point products and expects a payback on their purchase within 9 months.

Our emerging products, including ZDX and Zscaler for Workloads, continued to see increased adoption and contributed 18% of our new business in fiscal 23. We expect Emerging Products’ contribution to increase to over 20% in fiscal 24. I’d like to highlight two deals that were driven by our emerging products:

- In a seven-figure ACV upsell deal, a Fortune 50 insurance company purchased ZDX advanced for all 170,000 users after realizing value from their initial ZIA deployment. With the Zscaler platform already in place, ZDX gets deployed quickly, reduces troubleshooting time and improves field agent productivity. We directly impact the customer’s revenue and their agents’ ability to earn commissions. ZDX exemplifies the platform benefits of our Zero Trust Exchange and expands our share of customer spending beyond security.

- In another seven figure ACV upsell win, a Fortune 10 healthcare company purchased Zscaler for Workloads just one quarter after making their initial purchase of Zscaler for Users for all 150,000 employees. With Workload Protection, this customer is accelerating their plans to move most of their on-prem workloads to the cloud as well as protect workload traffic from over 9,000 locations.

Lastly, let me highlight our success in the Federal vertical. 12 of the 15 Cabinet-level agencies are our customers, and we are starting to see larger awards from these agencies. Let me highlight one such agency-wide deal. We were awarded a multi-year contract from an agency with more than 100,000 users. The value of this contract will be realized over time, based on deployment with their field units. Against this award, we received a mid-seven-figure ACV task order for ZIA and ZPA. This customer chose Zscaler over firewall vendors because our cloud native architecture delivers better security and user experience, all while meeting FedRAMP requirements. We remain the only cloud security service to have two key products at the highest level of FedRAMP certification. These certifications and the Executive Order for Zero Trust security are driving a significant opportunity for us in the federal market.

Next, let me discuss some key industry trends. Cybersecurity remains the #1 IT priority, and having the right security architecture is fundamental to reducing cyber risk. According to our latest Zscaler ThreatLabZ VPN Risk Report, nearly half of enterprises reported they were targeted by cyber attackers who exploited a VPN vulnerability, and a third of enterprises fell victim to ransomware attacks within the past year. Growing cyber threats, including ransomware, are driving IT leaders to transform security from legacy network security to Zero Trust architecture. True Zero Trust security can’t be built by spinning up a bunch of virtual firewalls and VPNs in a public cloud. Do you know any VPN vendor whose products have not been compromised? Our architectural differentiation gives us long term advantage.

As you may have seen, investors and regulators are increasing pressure on companies to improve cybersecurity. With the new SEC requirement to report a material security incident in four business days,
there will be increased executive and board level focus on cyber security. Zscaler’s Zero Trust Exchange platform delivers comprehensive security controls, full visibility and fast reporting, each of which is now a must-have for meeting corporate governance requirements.

In this environment, customers cannot risk transformational and mission critical projects with immature offerings from unproven vendors. Both legacy vendors and newcomers in the security industry have tried to mimic our messaging. The reality is that no vendor comes close to providing the depth of functionality and the level of performance at our scale. Good enough in cybersecurity is never good enough.

Next, let me discuss AI, which is top of mind for customers and investors. Generative AI has tremendous potential to unlock insights, improve employee productivity, and solve complex problems. However, the risk of data loss and issue of data sovereignty are limiting the potential of this new technology. To address these concerns, we already deliver data protection capabilities that prevent the leakage of sensitive data through AI prompts and appropriated into public training models. For example, our browser isolation session would not let employees paste or type any sensitive information into Gen AI prompts. This not only enables employees to use AI but also do so in a secure manner for enterprises.

Our engineering teams have innovated rapidly on new AI-driven functionality that is available in our premium priced bundles, such as auto-classification of unstructured data for advanced data protection and auto-segmentation of applications for zero trust access. Second, we will have new products based on AI that will provide significant upsell opportunities with our customers. We recently launched Risk360, which enables executive teams and boards to better understand the risk posture of their organizations and provides unparalleled visibility, with up-to-date security status and corrective actions they can implement in a timely fashion. Using AI, I believe we will be able to use our unique data set to also predict and prevent most of today’s ransomware and other sophisticated attacks on our customers. AI-driven cyber insights and prevention has the potential to add tremendous customer value, and we believe we can monetize that opportunity.

Zscaler has AI experts and data scientists and valuable anonymized private data to customize and train LLM models for the security domain. Based on a proxy architecture, our Zero Trust Exchange is like a private switchboard that captures all communication logs. We have the largest inline security cloud, inspecting over 320 billion transactions daily, with transactions doubling every 18 months. These logs provide more than 500 trillion signals per day that feed our AI models for better detection of user and application traffic anomalies, resulting in a positive network effect of superior threat protection for our customers. We have been investing in AI for quite a while, including our first AI acquisition in 2018, and we will continue to invest in Fiscal ’24 for rapid AI innovations, cloud enhancements and go-to-market to take our AI solutions to the market. All investments will be made within the envelope of margin guidance that Remo will discuss.

In closing, we are excited about the opportunities ahead. We have a track record of building and growing new innovations, like ZDX, Data Protection, and Zero Trust for Workloads, and we are now turning our attention to AI. We believe these new products will contribute increasingly to our future growth. Our business value message is resonating in this challenging macro environment, and more customers are adopting our broader platform to consolidate multiple point products. We believe customers trust Zscaler more than any other provider for securing their Zero Trust journey. We have grown our global team to nearly 6,000 employees with a mission to secure the hyperconnected world of cloud, AI and mobility. I am extremely proud of the strong growth and profitability we delivered in fiscal 23. I want to thank our employees and our partners for their tireless efforts and commitment to our customers’ success. We will invest aggressively to delight our customers and capture the large opportunity ahead of us, while continuing to deliver operational excellence.
CFO Commentary

We are pleased with our strong performance in Q4 and solid execution, even with ongoing customer scrutiny of large deals. Revenue was $455 million, up 43% year-over-year and up 9% sequentially. ZPA product revenue grew 57% year-over-year. This will be the last quarter that we break out ZPA revenue separately, as we are increasingly selling solution bundles that involve multiple product pillars. From a geographic perspective, Americas represented 53% of revenue, EMEA was 32% and APJ was 15%. For the full year, revenue was $1.62 billion, up 48% year-over-year.

Our total calculated billings in Q4 grew 38% year-over-year to $719 million. On a sequential basis, total billings grew 49% quarter-over-quarter. Total billings benefited from a $20 million upfront billing on a multi-year deal. As a reminder, our contract terms are typically one to three years, and we primarily invoice our customers one year in advance. Our calculated current billings grew 33% year-over-year and 42% quarter-over-quarter. From a vertical perspective, we saw strong growth across our key verticals.

Our remaining performance obligations, or RPO, grew 35% from a year ago to $3.51 billion. The current RPO is approximately 49% of the total RPO.

We ended the year with 449 customers with greater than $1 million in ARR, adding a record 49 $1 million ARR customers in the quarter. The continued strength of this large customer metric speaks to the strategic role we play in our customers’ digital transformation initiatives. We also ended the quarter with 2,609 customers with greater than $100,000 in ARR. Our 12-months trailing dollar-based net retention rate was 121% in Q4.

Turning to the rest of our financial performance. Total gross margin of 80.7% compares to 80.2% in the prior quarter and 81.6% in the year ago quarter. Higher public cloud usage for our emerging products drove the year-over-year change in gross margin. As Jay mentioned, emerging products are growing as a percentage of our new business and contributed 18% of new ACV in Fiscal 2023 compared to 14% in Fiscal 2022.

Moving on, our total operating expenses increased 3% sequentially and 27% year-over-year to $281 million. Due to our focus on spending discipline this year, we generated significant operating leverage in our model, with operating margin reaching 19%, an increase of approximately 700 basis points year-over-year. Our free cash flow margin was 22%, including data center capex of approximately 6% of revenue. For the full year, our operating margin was 15% and free cash flow margin was 21%. We ended the quarter with over $2 billion in cash, cash equivalents and short-term investments.

In August, we completed an assessment of the useful lives of our servers and network equipment. With advances in technology and efficiencies in how we operate our server and network equipment, starting in FY2024, we are extending the depreciable useful life for these assets in our cloud infrastructure from four to five years. We expect the impact of this change to be approximately a 50 basis point benefit to our gross margin for the full year.

Next, let me share some observations about the macro environment and our framework for guidance. From our perspective, the global macro environment remains uncertain, and customers continue to scrutinize large deals. In addition, in select instances, we will continue to enable new strategic customers to ramp into larger subscription commitments. Typically, these ramped deals reduce our first-year billings, but will grow into a higher annual run-rate level in the second year. In Q4, for example, the net impact of ramped deals was a headwind of approximately 1-percentage point to billings growth. We expect the net impact of ramps will be neutral to billings in fiscal 2024.
In our outlook for fiscal 24, we are balancing our business optimism and confidence in our improved execution with ongoing macroeconomic uncertainties. We are entering Q1 with a record pipeline and our customer engagements remain strong. However, we are mindful that in this environment predicting close rates and ramps in any 90-day period remains challenging. With a large market opportunity and customers increasingly adopting the broader platform, we will invest aggressively to position us for long-term growth and profitability.

With that in mind, let me provide our guidance for Q1 and full year fiscal 2024. As a reminder, these numbers are all non-GAAP. For the first quarter:

- We expect revenue in the range of $472 million to $474 million, reflecting a year-over-year growth of approximately 33%.
- Gross margins of 80%, including the change in accounting for useful life of server equipment. I would also like to remind investors that a number of our emerging products, including newer products like ZDX and Zscaler for Workloads, will initially have lower gross margins than our core products. We are currently managing the emerging products for time-to-market and growth, not optimizing them for gross margins. In addition, we will continue to invest in our cloud and AI infrastructure to scale with the growing demand.
- Operating profit in the range of $70 million to $72 million.
- Net other income of $14 million
- Income taxes of $8 million
- Earnings per share in the range of $0.48 to $0.49, assuming 159 million fully diluted shares.

For the full year fiscal 2024:

- We expect revenue in the range of $2.05 billion to $2.065 billion or year-over-year growth of approximately 27% to 28%.
- Calculated billings in the range of $2.52 billion to $2.56 billion or year-over-year growth of 24% to 26%. We expect Q1 billings to grow approximately 30% on a year-over-year basis. We also expect our first half mix to be approximately 42% of our full-year billings guide.
- Operating profit in the range of $330 million to $340 million, which reflects approximately 100 to 150 basis points of operating margin improvement compared to last year.
- Income taxes of $35 million.
- Earnings per share in the range of $2.20 to $2.25, assuming approximately 161 million fully diluted shares.
- We expect our free cash flow margin to be slightly above 20%.
- Finally, we expect our data center capex to be high single digit percentage of revenue for the full year.