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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to Zscaler Earnings Announcement Fiscal Year 2023 Fourth Quarter Conference Call. (Operator Instructions) As reminder, today's call is being recorded. I will now turn the conference over to your host, Mr. Bill Choi, Senior Vice President of Investor Relations and Strategic Finance. Please go ahead.

Bill Choi - Zscaler, Inc. - Senior Vice President, Investor Relations and Strategic Finance

Good afternoon, everyone, and welcome to the Zscaler Fiscal Fourth Quarter and Full Year 2023 Earnings Conference Call. On the call with me today are Jay Chaudhry, Chairman and CEO; and Remo Canessa, CFO. Please note that we have posted our earnings release and a supplemental financial schedule to our Investor Relations website. Unless otherwise noted, all numbers we talk about today will be on an adjusted non-GAAP basis. You will find the reconciliation of GAAP to the non-GAAP financial measures in our earnings release.

I'd like to remind you that today's discussion will contain forward-looking statements, 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, future hiring decisions, remaining performance obligations, income taxes, earnings per share, our objectives and outlook, our customer response to our products and our market share and market opportunity. These statements and other comments are not

guarantees of future performance but rather are subject to risks and uncertainties, some of which are beyond our control. 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, please see our filings with the SEC as well as in today's earnings release.

I would also like to inform you that we'll be attending the following upcoming events in September: Goldman Sachs Communacopia and Technology Conference on September 6, Wolfe Research TMT Conference on September 7 and Piper Sandler Growth Frontiers Conference on September 12.

Now I'll turn the call over to Jay.

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

Thank you, Bill. 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 Q4 and attained record operating profit margin. I'm 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 cybersecurity 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 12 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 2x 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 are 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, increase 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 are 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 \$0.25 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 are 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 the purchase within 9 months.

Our emerging products, including ZDX and Zscaler for Workloads, continue 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 2 deals that are driven by our emerging products. In a 7-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 customers' revenue and their agent's 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 7-figure ACV upsell win, a Fortune 10 healthcare company purchased Zscaler for Workloads just 1 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 multiyear contract from an agency with more than 100,000 users. The value of this contract will be realized over time based on deployment with the field units. Against this award, we received a mid-7-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 2 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 our VPN vulnerability, and 1/3 of enterprises fall 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 4 business days, there will be increased executive and board-level focus on cybersecurity. Zscaler 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 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 delivered 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's available in our premium price 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 in-line 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 the Zero Trust journey. We have grown our global team to nearly 6,000 employees with a mission to secure the hyper-connected world of cloud, AI and mobility.

I'm 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.

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

Remo E. Canessa - Zscaler, Inc. - CFO

Thank you, Jay. 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 multiyear deal. As a reminder, our contract terms are typically 1 to 3 years. We primarily invoice our customers 1 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-month 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 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 generate 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 fiscal 2024, we're extending the depreciable useful life for these assets in our cloud infrastructure for 4 to 5 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 ramp 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 ramp 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 engagement remains 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'll 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're currently managing the emerging products for time to market and grow, not optimizing them for gross margins. In addition, we'll 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 for year-over-year models for the security domain. Based on a proxy architecture, our Zero Trust Exchange, like a private switchboard that captures all communication logs, we have the largest in-line security cloud, inspecting over 320 billion transactions daily, with transactions doubling every 18 months.

QUESTIONS AND ANSWERS

Brad Alan Zelnick - *Deutsche Bank AG, Research Division - Head of Software Equity Research and Senior US Software Research Analyst*

Congrats on such a strong finish to the year. Jay, can you address why Zscaler wasn't included in Gartner's most recent Magic Quadrant for single-vendor SASE and if that's slowing you down at all because it certainly doesn't seem to be. And maybe just a quick one for Remo. Remo, guiding 25% billings growth off of a year where you're clearly outperforming peers is quite impressive. What should we be mindful of beyond what you've already told us in terms of your inputs and degrees of upside and downside risk versus what you've delivered historically?

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

So Brad, this MQ is not slowing us down at all. SASE is a broad generic term. When Gartner started it a few years ago, it was an integration of SD-WAN and SSE, the gateway products we have. And we've done integration with every SD-WAN vendor that matters out there. The MQ that got started this time was for single-vendor SASE with SD-WAN offering in it. We have often said that SD-WAN is an opposite of Zero Trust. We do offer Zero Trust SASE but we don't offer SD-WAN SASE. So we're not on MQ. We are about changing the world, not really propagating the old world, and we are very successful in doing so.

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

And Brad, related to guidance, the positives are pipeline, record pipeline. Our execution was very good in Q4, which gives us confidence. The potential downside is the global macro environment. We've taken that into account. From our view, for fiscal '24, we're seeing a similar environment as we did in '23. The guidance that we have, as you called out, 24% to 26%. We feel it's a very strong guidance, which is supported by our optimism that we see in our business related to also what we see, global macro situation.

Operator

Our next question comes from the line of Matt Hedberg of RBC.

Matthew George Hedberg - *RBC Capital Markets, Research Division - Analyst*

Congrats on the quarter. Jay, I was particularly impressed. Comments on emerging product success seems to be really kicking in here this year and even maybe more so next year. I was curious on workload protection. It seems to be resonating a lot of partner conversations, as you mentioned on the call. Maybe just a little bit more details on why that's resonating because I think if some of these add-on products continue to do what they're doing, it certainly opens up a much larger TAM than kind of the core ZIA, ZPA.

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

So when we started ZIA, ZPA, we started for -- a user can securely communicate with applications. It's not so to extent ZIA for Workloads, a ZPA for Workloads because workflows need to talk to each other in a Zero Trust fashion. So our customers understand it and appreciate it. It's a great upsell opportunity for us to expand our ARPU as well as customer spend with us. So we are seeing good success. The deal size is still smaller because of the number of workloads in the various stages, various customers, but we literally have no competition when it comes to this area because we are the only provider that's actually offering Zero Trust communication among workloads or workloads through Internet. We are upbeat about it for fiscal '24 as well.

Operator

Our next question comes from the line of Roger Boyd of UBS.

Roger Foley Boyd - *UBS Investment Bank, Research Division - Associate Analyst*

Congrats on a nice quarter. Jay, a lot has been made about Microsoft's entry into this market. Very high level, but Microsoft pretty specifically is targeting the SSE, security edge base, and not SASE's base. And just maybe a follow-up to Brad's question, do you see that distinction as maybe further legitimizing the SSE approach relative to single-vendor SASE?

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

Thank you. So SSE is widely understood and accepted. It's essentially the combination of ZIA and ZPA we built. But the TAM for SSE is large, and it's getting larger than the market appreciates today. For Microsoft, it was natural to be in the market for identity and endpoint security as they have traditionally owned Active Directory and Windows operating system. But in-line security is a totally new area for them. This area of SSE that we pioneered has a very high bar, high performance, great security, no slowing down and supporting a range of destinations.

In fact, it's like being the search [engine]. We have to connect to applications that are on Microsoft and AWS and GCP and 1,000 SaaS applications out there. So customers like the positioning of a provider like Zscaler that's not tied to applications itself. And Zscaler has earned trust of large enterprises. They'll take time for any new entrant. Yes, Microsoft entry is further validation, but we don't believe it will impact us because of positioning in the large enterprise market. And there may be some impact on the lower end of the market.

Operator

Our next question comes from the line of Ittai Kidron of Oppenheimer & Company.

Ittai Kidron - *Oppenheimer & Co. Inc., Research Division - MD*

Congrats, great finish for the year. I guess I want to talk about the competitive landscape of the more traditional firewall guys, Palo Alto and Fortinet more recently and I guess Check Point with -- an acquisition recently as well are clearly trying to make big efforts here. Maybe you could talk about the competitive environment. In what way is it today different than what it was a year ago? And what are you seeing from your competitors more kind of near-term here?

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

Thank you. On the high end of the market, where we do extremely well, we really haven't seen a change. If there's any change, I would say our position has further solidified. And I wouldn't say it has gotten somewhat easier on the higher end of the market. When it comes to the firewall market, we are replacing firewalls in the branches. When Zscaler gets deployed with Zero Trust architecture, there's no room for any firewall in the branch office.

Now there are still firewalls in the data center and the light because we don't play inside the data center for east-west traffic and the like. But as customers are doing local breakout of traffic from every location, the amount of traffic going through the data center is slowing down, which is bound to impact the sales and demand for firewalls out there. So we do believe that the shift we have been talking about to truly Zero Trust waveform traditional firewall and VPN is happening and it will continue.

Operator

Our next question comes from the line of Andrew Nowinski of Wells Fargo.

Andrew James Nowinski - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

Congrats on a great quarter, particularly on the billings. I mean it looks like you solidly exceeded that even if you pull out that \$20 million deal upfront. So I wanted to ask about the Data Protection products that you called out. You spent a lot of time talking about on the call. And based on the info in your slide deck, it looks like there's a lot of components to that beyond just data protection. So maybe could you just talk about some of the vendors that you're competing against there? I think you said in one customer, you replaced 2 of their -- 2 different vendors. Maybe if you can just expand on what you're seeing there from a competitive perspective? And maybe how competitive is it relative to like the markets for ZIA and ZPA?

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

Yes. So data protection becomes a natural thing for us when traffic starts flowing through Zscaler. So literally, it's hard to have any other Data Protection vendor when Zscaler is actually sitting in the traffic path. So what are some of the pieces of success here? First of all, DLP, data loss prevention, which essentially is done on the traffic that's in line. We are replacing. The #1 vendor we are replacing there is Symantec. Symantec Vontu which is widely deployed. So first we deployed Symantec/Blue Coat appliances and now the DLP is the secondary piece.

The third big area we are replacing is some of the CASB vendors. CASB early on got sold as a point product -- as a module. For us, it's a feature. So any customer who has pure-play CASB deployed essentially gets kind of replaced by our Data Protection platform. So those are 2 big areas. But in addition, now we are seeing some of the newer areas coming up. For example, our endpoint DLP, which we recently launched, is getting tremendous attraction out there, the email DLP module we had, is wonderful as well. Through acquisition of Canonic, we have added the SaaS ecosystem -- supply chain Data Protection. So all this has made Zscaler the most comprehensive platform, and it's sitting in traffic line. That's why we kind of called it out, because that growth is great, over 60% year-over-year. And we are close to \$0.25 billion in ARR.

Operator

Our next question comes from the line of Brian Essex of JPMorgan.

Brian Lee Essex - *JPMorgan Chase & Co, Research Division - Research Analyst*

Congrats on the results. Jay, I was wondering if you could maybe, or even Remo as well, give us a little bit more color in terms of the ramp deals that you saw this quarter. Is there a way to quantify what percentage of deals were ramp versus prior quarters? And how does that typically -- how does the dynamics of those deals work in terms of the amount of commitments, the pricing and the flexibility around ramping? And does it give you more flexibility? Or does it give you more visibility around what you see in the pipeline in terms of coverage over future periods?

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

Yes. I mean I'll start and maybe Jay can contribute also. Ramp was a headwind of about 1% for us. For larger deals that we're doing, as we talked about in the past, is that we use ramp with our customers to basically ramp into the full suite of products that we have. What we're seeing is we're seeing customers buy more of our platform upfront. We're seeing also existing customers expanding their platform with ZIA, ZPA, ZDX and Data Protection. So when they're buying the full suite of our products, basically, we use it as a vehicle to allow our customers to ramp into our products, and we get that type of pricing.

I would expect ramps just to kind of follow into fiscal '24. I'd expect the same level of ramps in fiscal '24 at this point. The ramps do give us better visibility into billings because basically, they'll start off with lower billings and then ramp up their billings in future periods. But it is a vehicle that we use. It's been very effective. And so we'll continue to use it. Jay, anything...

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

Let me add. The bigger the platform we sell, the more likely you need to provide a ramp because the more pieces to be done. Number two, there's -- some of the tighter macro environment, bigger deal scrutiny, ramp did pick up in the past year or so as compared to 2 years ago. We factor that in as a part of doing business, and it's not a bad thing. We just have to manage it the right way.

Operator

Our next question comes from the line of Garry Powell of BTIG.

Gray Wilson Powell - BTIG, LLC, Research Division - MD & Security and Infrastructure Software Analyst

Gray Powell from BTIG. And congrats on the good results. So a couple of related questions on my side. Can you talk about the visibility you have on late-stage pipeline today relative to this time last year? And I guess I'm just trying to get your confidence in billings. Does the higher percentage of brand -- deals today, does that help give you better visibility on the growth outlook?

Remo E. Canessa - Zscaler, Inc. - CFO

Our visibility is good. So as we talked about, we've had a record pipeline and our execution also in Q4. So I would say visibility for us is good and supports our guidance. Certainly, the billing with the ramps give us also a good visibility too. So our guidance, I feel 24% to 26% is very good guidance. It takes into account our visibility and all factors.

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

And also, if I may add, we have a record pipeline, and we're seeing pretty good momentum on our business. We were in Vegas doing our sales kickoff a couple of weeks ago. The energy and excitement in the room could be felt. Actually, it was very good because our sales team have a lot of confidence. We talked about the record pipeline or record deals off there. We talked about the new momentum that channel is adding to us. So we feel very good about our fiscal '24 business.

Operator

Our next question comes from the line of Jonathan Ruykhaver of Cantor.

Jonathan Blake Ruykhaver - Cantor Fitzgerald & Co., Research Division - Senior Research Analyst

So I have a question on the emerging product portfolio. You highlighted how it represented 18% of new business in fiscal '23. You expect that to get to plus 20% in fiscal '24. It just seems to me like plus 20%, I'm not sure what that plus could be. But it seems like a low bar just given your comments on data security, ZDX and cloud, including the tailwind that you talked about from AI that is going to benefit some of those products. So can you just help us understand demand dynamics within that portfolio, the puts and takes of specific products where you expect to see the strongest demand?

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

Yes. If I may start, it's all coming out of 100% only. That's the most important point. When the overall growth is pretty strong, okay? And for the new product, even if it grows 70%, 80% a year, it has to work very hard to even take away 1% or 2% from the total new ACV that's pretty significant. So the growth of these new products is much faster than the growth of the overall new ACV. But they are fairly small, and they're growing into good business.

We called out data protection as it became a significant part of the business. And I think here, too, you're seeing a combination of workload protection and ZDX both are growing at a much faster rate. So I think we are actually happy with the growth rate, but the point I was trying to make is they are trying to steal away the market share on the rest of the overall portfolio, which has a much bigger base. That's why the math looks small, but it is pretty impressive.

Operator

Our next question comes from the line of Joshua Tilton of Wolfe Research.

Joshua Alexander Tilton - Wolfe Research, LLC - Research Analyst

I echo my congrats on a good quarter. I kind of want to go back to the first question. And if you look at the guidance, the implied new billings kind of looks like a little bit more aggressive, I would say, than the last 2 years. So maybe just level set for us or set some guardrails or expectations around kind of the puts and takes on what it would take for you guys to kind of outperform what you laid out for the next 12 months for us, please.

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

Let me start to give you a big picture, and Remo, you can add your color to it. So our guidance is starting with, first of all, a record pipeline and the momentum we have in the business. And we have plenty of products to sell. We have a growing market opportunity and many business drivers. We have a lot of new customers who are really buying Zero Trust for better security, lots of market that's not covered. We are still in about 30% of Global 2000 market. And we're seeing public sector coming strong, federal market coming strong, and that's really further pushed by some of the mandates that are happening out there.

And you saw in some of the deals that are announced, customers are increasingly buying more of Zscaler platform leading to bigger deals. ZIA, ZPA, our flagship products are still doing strong, we have factored into good growth for Data Protection, which complements. It actually needs to go on every Zscaler customer. Emerging products are contributing nicely, and they are contributing. So when you look at all this, that's what we took into factor to give you our guidance. Remo?

Remo E. Canessa - Zscaler, Inc. - CFO

Yes. I mean our guidance basically balances our business optimism that we see with our company, also with the macro environment. We feel in this market, this is very solid guidance...

Operator

Our next question comes from the line of Saket Kalia of Barclays.

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

I'll echo my congrats on the result. Remo, maybe for you, just to switch it up a little bit. Great to see the free cash flow margin expansion thus far. Maybe looking forward, can you just talk about some of the puts and takes on free cash flow margin with I think the 20% plus guide for next year. How are you thinking about things like billings duration or CapEx or anything that's maybe influencing that number? Because it's great to see operating margin expand. Why isn't free cash flow margin maybe expanding in the same way?

Remo E. Canessa - Zscaler, Inc. - CFO

Saket, that's a great question. The billing duration, I was assuming a similar type billing duration as we had in fiscal '23, so no change. CapEx, we do expect CapEx to be a higher percent. If you take a look at the last 2 years, our CapEx has been in the 6% range of our revenue. We expect -- we expect our CapEx to be in the high single-digit type range. We're seeing the expansion of our business. We're going to make investments in our first cloud. And again, it's -- that's the main reason.

Operator

Our next question comes from the line of Gregg Moskowitz of Mizuho.

Gregg Steven Moskowitz - Mizuho Securities USA LLC, Research Division - MD of Americas Research

I'll echo my congrats. Jay, getting back to Data Protection. So your multimodal DLP that combines video and audio formats, that's interesting to me. Curious if you had any early customer feedback on that feature. And then secondly, what has been the early uptake around your new Risk360 operating just in terms of visualizing risk, et cetera?

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

So multimodal DLP is still in development. It's not shipping, but there's a bunch of engagement with customers. And interest is high because there's nothing like this out there in the market. You know, Zscaler always likes to pioneer new things that no one has done out there.

Risk360, on the other hand, is actually shipping. We have taken a bunch of orders. This product has more interest upfront than any of the other products I can think of because our engagement with CISOs are strong. When a CISO looks at Risk360 and say, wow, I have actually a single point to really tell me the holistic view of my business and actually where what my risk factors are and what tangible prioritized actions I could take to improve my risk. So there's a significant velocity going on, very, very good feedback, and the product is growing very rapidly in terms of functionality as well.

Operator

Our next question comes from the line of John DiFucci of Guggenheim.

John Stephen DiFucci - Guggenheim Securities, LLC, Research Division - Research Analyst

So guys, as everybody has said, the numbers look good. It was a nice quarter. But when we try to look at like the new business signings, it looks like you saw a tick down against a similar comp versus the -- what I think was sort of a monster quarter, the third quarter. And Remo, you mentioned the continued macro pressure, and of course, everybody sees that. But is this quarter how we should expect Zscaler to sort of be going forward in regards to business momentum and new business signings? Or was the third quarter a better gauge on what we should expect going forward against this macro backdrop?

Remo E. Canessa - Zscaler, Inc. - CFO

Yes. I mean our new and upsell bookings were up year-over-year for Q4, so it was a good quarter. From my perspective, John, I mean, it's a huge market opportunity, you know, on the part of Zscaler. I don't want to make any projections related to our doing upsell billings because we don't give that guidance. But let me just say that our pipeline for new and upsell is very strong. And we had really strong and good execution in our Q4, which gives us confidence.

So I feel that we're well positioned to go forward and really do well. As I mentioned, and it's come up a few times, the wildcard really is the global macro backdrop. And so we're expecting the global macro environment to stay similar year-over-year. And so we'll see how that plays through. But from a company perspective, for what we did in Q4 and how our business track, we had a very strong quarter, which gives us optimism going into fiscal '24.

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

The point I'll also add is since Zscaler can actually reduce cost while reducing business risk, there's added attractions. We're able to engage with customers and close deals even when the macro is tight. We also kind of felt very good about the record number of \$1 million deals we closed in Q4. So I see strength across all major areas, major vertical regions, and that's why we feel good about it.

John Stephen DiFucci - Guggenheim Securities, LLC, Research Division - Research Analyst

That all makes sense. I mean what you guys are doing is better than most everybody out there. But I guess just a quick follow-up. You said your bookings were up year-over-year. If you look at current billings -- and I don't know if you look at it that way. I guess I do. But I'm looking -- I'm trying to back it with new ACV or new ARR depending upon the company. For you, it's new ACV. Was that up year-over-year? For most companies, it's not. And we calculate it being down a little bit, but still better than most.

Remo E. Canessa - Zscaler, Inc. - CFO

Yes. We're not commenting on new ACV, but our bookings were up year-over-year. And I think that's a good way to look at the business.

Operator

Our next question comes from the line of Adam Borg of Stifel.

Adam Charles Borg - Stifel, Nicolaus & Company, Incorporated, Research Division - Associate

Awesome. Maybe just for Remo, a couple of related housekeeping follow-ups. So NRR, I think, was 121, below 125 for the first time after a number of quarters, I was hoping you could talk a little bit more about that and expectations for next year. And I apologize if I missed it as a follow-up, but billing duration in the quarter, just what did that turn out to be and without a headwind or tailwind.

Remo E. Canessa - Zscaler, Inc. - CFO

Yes. So NRR at 121%, we feel is outstanding. What we're seeing is that we're seeing more customers buying more of our platform upfront. So when customers are buying more of your platform upfront, that will impact what they're going to purchase in the future. Also, we called out on the call a Fortune 10 company bought basically within 1 quarter. So if you're buying within the year based on the calculation for NRR, that impacts it.

From my perspective, and we've been saying this since our public offering, billings is really the best measure to really look at Zscaler. We still feel that. The only time we look at NRR is really at the end of the quarter. It's a metric that we look at. But really what I look at is basically our total billings, whether it comes from new or upsell. Related to billing duration, it was a tailwind in Q4.

Operator

Our next question comes from the line of Peter Levine of Evercore.

Peter Marc Levine - *Evercore ISI Institutional Equities, Research Division - Analyst*

So maybe one just follow-up on the Gen AI opportunity. At your Analyst Day -- at your customer conference a couple of weeks ago, you announced the security autopilot. Maybe Remo for one, can you just put a finer point in terms of how you plan on monetizing that as usage based? Is it just an upsell to kind of the normal contract subscription? And then second to Jay is, your competitors are all saying the same thing in terms of your data is proprietary. Maybe a question to you is what do you think makes Zscaler's data proprietary? What's your competitive advantage when you go into an RFP versus, call it, like a Palo, wherever it might be, that your data is proprietary? There is a moat around your business. What would your answer to that be?

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

So let's start with data. Lots of companies have lots of data. What's exciting about Zscaler is we are designed as a switchboard for all communication between different parties. A firewall is not a switchboard. A firewall is a door. It's a gate. It says you're inside, you're outside. That's number one. Number two, fiber logs are often what's known as short logs. Still a small number of firewall transactions, whether they are on-prem or in the cloud, SVN are SSL decrypted.

If the records aren't - if the transaction aren't decrypted, your logs aren't of much use at all. Or if you take DNS logs, they're not really useful at all. It says which DNS, which domain are you going to. We have full logs after decryption about all information, including the full URL. The URL has a lot of useful information that we have. Before any breach happens, reconnaissance starts. It could be trying to explore software vulnerabilities. It could be trying to phish those employees. All of that traffic goes through us and we collect those logs. And that's why we can actually do some of the things like being able to predict potential breach and the like. So that's one big part on the log side of it.

Your second question of how do we monetize AI-driven products. Don't think of Zscaler having only AI-driven products a separate charge. It is going to influence all of our product lines. Today, some of our premium bundles include AI-powered products. So we are actually monetizing it as a part of the premium bundles. And they are actually fairly highly priced as compared to other bundles. Products like Risk360, leveraging AI/ML big time is charged SKU. Some of the new products we're building, they will have upsell. They will have their own SKUs. So we think there's plenty of opportunities to churn because customers are seeing values from the products we've built in.

Operator

Our next question comes from the line of Ben Bollin of Cleveland Research.

Benjamin James Bollin - *Cleveland Research Company LLC - Senior Research Analyst*

I'm interested in how you feel about your progress throughout the broader channel, traditional 2-tier cloud marketplace, GSIs. Any thoughts you have around kind of what you've learned over the last 6, 12 months and how that's playing into your strategy over the next couple of years?

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

As you know, traditionally, channel has played a limited role for us. We have been working on it. We are seeing more and more progress being made. Just to clarify, I mean, we do take all these to channel with some exceptions when customers insist on us. So that's one part. We are seeing year after year or in the past several quarters, channel providing more leverage to us. That means doing more work for us. We recently hired our channel chief Karl Soderlund. He comes from extensive experience and strong relationships in the channel. And he has done a lot of work in 3 areas of channels, system integrators, VARs and service providers.

In the system integration space, we have actually most of the large SIs. They have selected and deployed Zscaler for their own transformation and Zero Trust architecture. So they are now embedding our solution into the SI advisory services, which is very good because then it becomes a lot better. We also -- so we are counting on more leverage on broad channel, even the VAR channel itself. They're going through some focused training program, enablement program, which will help them do more transformation with us.

In fact, we had nearly 200 channel partners come to our sales kickoff and join hands and conduct sessions with our sales teams. We think that's bringing our teams a lot more closer to work together with common account planning and the like. So we're pleased with progress, and we think we're moving in the right direction.

Operator

Thank you. I'd like to turn the call back over to Jay Chaudhry for any closing remarks.

Jay Chaudhry - Zscaler, Inc. - Co-Founder, President, CEO & Chairman of the Board

Well, thank you all for your interest in Zscaler. I'm looking forward to seeing you at some of our investor conferences. Thank you again.

Remo E. Canessa - Zscaler, Inc. - CFO

Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.

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