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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Zscaler Fiscal Fourth Quarter and Full Year 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to Mr. Bill Choi, Senior Vice President of Investor Relations. Thank you. Please go ahead, sir.

Bill Choi ***Zscaler, Inc. - VP of IR***

Good afternoon, everyone, and welcome to the Zscaler Fiscal Fourth Quarter and Full Year 2020 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. For historical periods, the GAAP to the non-GAAP reconciliations can be found in the supplemental financial information. Starting in fiscal '21, we will be excluding stock-based compensation related payroll taxes from our non-GAAP results. We have provided a separate table in the supplemental schedule with historical data for the last 8 quarters.

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, remaining performance obligations, 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, including, but not limited to, the duration and impact of COVID-19 on our business, the global economy and the respective businesses of our customers, vendors and partners. 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 management will be attending the following upcoming virtual investor conferences: Citi Global Technology Conference tomorrow, Deutsche Bank Technology Conference on September 15 and Morningstar Management Behind the Moat Conference on September 29. Presentations for these events will be webcast, and the links will be available on our Investor Relations website.

Now I'll turn the call over to Jay.

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

Thank you, Bill, and thank you for joining us. I hope all of you and your families are staying healthy and safe. With the ongoing pandemic, I would like to acknowledge the tireless efforts of our team and partners who are committed to our customers' success.

I'm pleased to report our strong results for the fiscal fourth quarter and the full year 2020, with exceptional growth in both new customer and upsell business. In Q4, we delivered growth of 46% in revenue and 55% in billings, reflecting the increased momentum in our business as our customers accelerate their digital transformation despite the macroeconomic challenges. We offer customers a cloud-native platform, which we call the Zscaler Zero Trust Exchange, securely connecting users to applications or applications to applications in a borderless and hyperconnected digital world.

In the new work-from-anywhere economy, where applications are moving to the cloud and users are outside the corporate network, traditional network and network security have become irrelevant. We ensure that businesses can operate at any scale with users anywhere in the world on any device, independent of the network. We are helping our customers move from legacy network security to zero trust security, which reduces business risk and makes businesses agile and competitive.

As I reflect on the past 12 months, culminating in our strong Q4 performance, I view fiscal '20 as a pivotal year in which we made tremendous progress on a number of strategic fronts to position us well for long-term growth.

Zscaler has never been stronger, and I believe we have an incredible opportunity in front of us. Let me highlight 3 pillars of our strategy: our platform, our products and our go to market.

To start with our platform, Zscaler stands for zenith of scalability. True to our name, our platform continues to scale to new heights. Zscaler Zero Trust Exchange is the largest inline cloud security platform in the world, and we are processing more than 120 billion transactions and blocking more than 100 million threats per day from users across 185 countries. This large data set feeds our machine learning and AI engines for superior threat protection, better detection of user and application traffic anomalies and faster resolution of performance bottlenecks. All this happens on a platform that uses 70% renewable energy today with a goal to use over 90%. Deployed across more than 150 data centers, our Zero Trust Exchange platform was built from the ground up to fully deliver the promise of Gartner's Secure Access Service Edge or SASE framework.

Traditional network security vendors are trying to co-opt our vision of cloud security after rejecting it for years. They're trying to retrofit the legacy appliances into a cloud world. But just like you can't create Netflix by stacking thousands of DVD players in the cloud, you can't offer an inline high-performance security cloud by spinning up a bunch of virtual firewalls in a public cloud. To put it simply, having the right cloud-native architecture creates a significant barrier to entry for cloud imitators. Building a cloud-native architecture with full security and minimal latency was a daunting challenge, and running a massive inline distributed cloud with 99.999% of availability is an order of magnitude more difficult.

For large enterprises who want network and security modernization, we believe we are the only cloud-native, multi-tenant platform that meets their needs. We ended fiscal '20 with over 4,500 customers, including over 150 of the Fortune 500 and over 450 of the Global 2000 companies. We have over 100 customers that generate over $1 million in ARR or annual recurring revenue. While the average NPS or Net Promoter Score of an average SaaS company is 30, Zscaler's NPS is 76, which is 2.5x higher, a proof of the value that Zscaler delivers.

Next, on product innovation. This has been an exceptionally productive year for our engineering and product teams, where, through internal innovation and highly targeted acquisitions, we have significantly increased the number of products available on our platform, further expanding our already substantial technology lead. During the year, we expanded the number of solutions from 2 to 4.

First, our flagship ZIA solution expanded with 2 new products, out-of-band CASB and cloud browser isolation, which, together with our inline CASB and advanced DLP, expanded our addressable market for data protection.

Second, our ZPA solution, which doubles our market opportunity, has become the most mature zero trust solution with deep and wide functionality, including support for web and non-web applications. With deployment at massive scale with over 150 Global 2000 customers, ZPA has become the market leader for zero trust security.

Third, with the Zscaler platform uniquely sitting between the user and the application, our Zscaler Digital Experience or ZDX solution computes a performance score measuring the digital experience of every user and application, helping customers to pinpoint and resolve performance issues, further expanding our addressable market.

Lastly, our next opportunity is to expand our Zero Trust Exchange to protect applications and data in public or private clouds. With our CSPM product, we can identify and remediate misconfigurations of cloud workloads, providing superior data protection. Our Workload Segmentation service implements a zero-trust architecture for app-to-app communication, where apps may be running on containers or virtual machines. This is a far superior approach for app segmentation without having to do network-based segmentation.

What sets us apart from the many vendors who claim to have a platform is the following: our platform is purpose-built for the cloud, it is designed to be extensible to integrate with our targeted acquisitions as well as with third-party products. Legacy network security vendors can't create a cloud platform by cobbling together a bunch of acquired companies. History has shown that this approach does not work.

Moving on to the third pillar, go to market. We further refined our metric-driven, repeatable sales process, which is giving us deep visibility into our business and a strong and growing pipeline. We invested heavily this year to build our sales machine that we believe can demonstrate our compelling value to enterprises, drive larger deals and deliver consistent sales execution to take Zscaler beyond $1 billion in annual revenue.

Let me highlight a few of our go-to-market accomplishments. We significantly expanded our sales leadership by adding extra depth in our regional management. The build-out of our sales leadership is largely complete. We had another record quarter of hiring and exceeded our year-end target of 60% year-over-year increase in quota-carrying field reps. Even with the significant growth, our sales productivity was up for the year, exceeding our expectations. Since we launched our Summit Partner Program, we recruited additional cloud-focused channel partners to drive further sales leverage. We are pleased to see increasing wins and larger deal size with our Summit Partners. I'm extremely proud of our go-to-market team and how we executed our sales strategy this year.

Now let me provide some business highlights for the fourth quarter. Our ZIA business is accelerating due to our customers' focus on work-from-anywhere. When employees are allowed to directly access SaaS applications and the Internet from their homes, security becomes a major risk and they need ZIA. We continue to see the increased adoption of our high-end Transformation Bundle, which includes cloud firewall and sandbox. At the end of fiscal '20, 49% of our ZIA annual recurring revenue is coming from the Transformation Bundle compared to 43% last year.

Let me share 2 ZIA deals in the quarter that show our accelerated momentum with the financial services customers.

A new customer initially engaged us to secure SD-WAN for 120 offices. They shifted the focus from SD-WAN to securing 40,000 employees in their homes as a result of the pandemic. With sensitive financial data at risk, security was a major requirement and only a proxy architecture was considered. This customer purchased the entire ZIA portfolio, including CASB, advanced DLP and CSPM for Microsoft Office 365. Our integrated CASB offering replaced a CASB point product that by itself required 3 on-site engineers and a 7-figure annual spend. Our superior security at a very attractive ROI resonated with both the CIO and the CFO.

In a ZIA upsell, another financial services company that has been a customer since 2018 merged with a peer and more than doubled the purchase of Business Bundle plus DLP to protect all 70,000 employees. Like the prior example, this customer only considered a proxy architecture. They standardized on our platform and consolidated 3 vendors, streamlining their operations and reducing their cost. Our product integration with Microsoft and CrowdStrike was an important consideration.

Next, I would like to highlight ZPA. We continue to have strong adoption of ZPA, which is benefiting from work-from-anywhere and applications migrating to the cloud. ZPA is more than a VPN replacement. It is an architectural shift to zero trust access for private applications in a multi-cloud environment. ZPA contributed 29% of our new and upsell business in fiscal '20 compared to 14% in the prior year.

In the quarter, we closed our largest deal for ZPA with a long-time customer. This Global 100 conglomerate had already purchased the entire ZIA portfolio for all employees and with the COVID pandemic, accelerated the transformation journey by purchasing ZPA for 300,000 employees. With the resounding success with ZIA and significant trust in Zscaler, they deployed ZPA globally in just a couple of weeks as the world battled the spread of COVID. While the immediate objective for this deal was to eliminate legacy VPN, ZPA was selected to implement zero trust security by establishing an application-level policy, where you connect users to specific apps, not to a network. ZPA is providing secure access to over 0.5 million unique applications, another proof point of its maturity and scalability.

Next, one of the world's largest IT services company with headquarters in Asia purchased ZPA for all 180,000 employees. This customer was using virtual firewalls and VPNs to protect their applications in the public cloud. They viewed each Internet-facing firewall or VPN as an attack surface that they wanted to eliminate. With the ZPA rollout, the customer reduced their Internet exposure for hundreds of applications down to a handful in less than 4 weeks, greatly reducing business risk. Legacy vendors try to sell their cloud-based VPN, but failed to meet the requirement for zero attack surface.

I'm delighted to share that more customers are buying ZIA and ZPA together, which enables a true transformation with direct access to any application over any network.

For example, a global professional services company purchased our Transformation Bundle plus DLP for 50,000 users and ZPA for 20,000 users. The business involves handling sensitive customer information, hence, they needed inspection of all traffic, including SSL for comprehensive data protection. The incumbent firewall vendor tried to sell its cloud-based offering, but was disqualified as they could not meet the SSL inspection and DLP requirements. Our zero trust approach will also help the customer to quickly integrate future M&A, a core growth strategy for this company.

And lastly, in another new logo deal, a federal civilian agency purchased ZIA Business Bundle with cloud firewall plus DLP and ZPA for 21,000 users. When the pandemic started, the agency relied on legacy VPN technology, which could not scale and resulted in poor user experience. While the immediate use case was VPN replacement, this agency acquired ZIA and ZPA together to transform its network and security with our FedRAMP authorized cloud platform. This win was notably our largest federal deal to date, and we are building considerable momentum in the U.S. federal market. With the highest levels of FedRAMP certifications of both ZIA and ZPA, which involves a rigorous process, we are positioned very well in this large market, and we are proud to help our government customers do their critical work in these trying times.

Let me touch on a couple of our new products that are starting to contribute to deal wins. Our out-of-band CASB has become very comprehensive, helping us displace CASB point products and increase our deal size, as I indicated in the deal highlights. We are also starting to see early success with ZDX, including wins with a European consumer products company and a U.S.-based pharmaceutical company. While currently very small, we believe our new products create a significant growth opportunity.

As we start the new fiscal year, we are in a fortunate position to be able to help our customers pursue digital transformation, their highest IT priority. With the mindset change and the openness to transformation, I have seen an increase in CIO level awareness and engagement with us. The inbound customer requests have greatly increased, and we are becoming a part of bigger transformation projects and a key partner to consolidate point products, remove complexity and save costs. We are excited about our mission to make the cloud safe for business and enjoyable for users.

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

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

Thank you, Jay.

As mentioned, we are pleased with the results for the fourth quarter and the full year 2020. Revenue for the quarter was $125.9 million, up 14% sequentially and 46% year-over-year. ZPA revenue was 12% of total revenue in the quarter. From a geographic perspective, for the quarter, Americas represented 50% of revenue, EMEA was 40% and APJ was 10%. For the full year, revenue was $431.3 million, up 42% year-over-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 55% year-over-year to $194.9 million. As a reminder, our contract terms are typically 1 to 3 years, and we primarily invoice our customers 1 year in advance. Remaining performance obligations or RPO, which represents our total committed noncancelable future revenue, was $783 million on July 31, up 41% from 1 year ago. The current RPO is 55% of the total RPO.

ZPA was 29% of total new and upsell business in fiscal '20 compared to 14% in the prior year. We are seeing a higher attach rate of ZPA, both in the number of deals and the number of seats per deal. We see a good mix of ZPA opportunities between new and existing customers, and we have a large upsell opportunity as only 35% of our 450 Global 2000 customers have purchased ZPA.

Our strong customer retention and ability to upsell have resulted in a consistently high dollar-based net retention rate, which is 120% for the quarter compared to 118% a year ago and 119% last quarter. As we have highlighted, this metric will vary quarter-to-quarter. While good for our business, our increased success selling bigger Transformation Bundles, selling both ZIA and ZPA from the start and faster upsells within a year, can reduce our dollar-based net retention rate in the future. Considering these factors, we feel that 120% is outstanding.

Total gross margin was 78%, down 2 percentage points sequentially and 3 points year-over-year. The decline is primarily due to ZPA traffic growing over 10x since February and our augmented use of AWS and Azure to meet the surge in demand, which run at significantly higher cost compared to our data centers. The gross margin was better than our guidance of 76% to 77% as we made solid progress on migrating more of the ZPA traffic to our data centers during the quarter. As we mentioned previously, our combined gross margins of our core products, ZIA and ZPA, are expected to return to 80% in the second half of fiscal 2021. However, most of our new emerging products, which includes ZDX, Workload Segmentation and CSPM, will be running in the public cloud until we scale them into our own data centers in the future. While in the public cloud, these products will have lower gross margins than our core products. As a result, we expect total corporate gross margins to be 78% to 79% in fiscal 2021.

Turning to operating expenses. Our total operating expenses increased 14% sequentially and 46% year-over-year to $90.7 million, was flat year-over-year as a percentage of revenue at 72%. Operating expenses in Q4 includes approximately $2.9 million of expenses associated with the Cloudneeti and Edgewise acquisitions.

Sales and marketing increased 14% sequentially and 46% year-over-year to $59.7 million. The year-over-year increase was due to higher compensation expenses and investments in building our teams and go-to-market initiatives, offset by lower T&E. We've been very successful in hiring and onboarding remotely. We exceeded our goal of increasing our field rep headcount by 60% for the full year.

R&D was up 19% sequentially and up 54% year-over-year to $20.3 million. The increase was primarily due to continued investments in our team.

G&A increased 8% sequentially and 33% year-over-year to $10.7 million. The growth in G&A includes investments in building our teams, compensation-related expenses and professional fees, including acquisition-related expenses.

Our fourth quarter operating margin was 6%, which compares to 9% in the same quarter last year. Net income in the quarter was $7 million or non-GAAP earnings per share of $0.05.

We ended the quarter with over $1.3 billion in cash, cash equivalents and short-term investments, including net cash of approximately $1 billion raised for the June offering of convertible senior notes due in 2025. Free cash flow was positive $11 million in the quarter.

Now moving on to guidance. As a reminder, these numbers are all non-GAAP, which excludes stock-based compensation expenses, amortization of debt discount, amortization of intangible assets, facility exit costs and any associated tax effects. As Bill indicated earlier, starting in fiscal 2021, we will also be excluding stock-based compensation related payroll taxes from our non-GAAP results. For the first quarter of fiscal 2021, we expect revenue in the range of $131 million to $133 million, reflecting a year-over-year growth of 40% to 42%; operating profit in the range of $8 million to $10 million; other income of $500,000 net of interest payments on the senior convertible notes; income taxes of $1.25 million; and earnings per share of approximately $0.05 to $0.06, assuming 143 million common shares outstanding.

For the full year fiscal '21, we expect revenue in the range of $580 million to $590 million or year-over-year growth of 34% to 37%; calculated billings in the range of $710 million to $720 million or year-over-year growth of 29% to 31%. Over the last 5 years, first-half billings have represented, on average, 43% to 44% of full year billings. We would expect a similar distribution in fiscal 2021. Operating profit in the range of $44 million to $46 million; other income of $2 million; income taxes of $5 million; and earnings per share in the range of $0.28 to $0.30, assuming approximately 145 million common shares outstanding.

Our guidance reflects the increased investments in our business driven by 2 major developments. One, COVID-19 is accelerating digital transformation, which is the market Zscaler was created to serve. We feel we have momentum based on our performance, and we see the market coming to us. Our plans are to continue to invest aggressively in sales and marketing behind the growth in our business. Two, our pursuit of additional market opportunities with our new products that Jay reviewed earlier. As I've indicated, the acquisitions of Cloudneeti and Edgewise are expected to have an immaterial impact on revenue in fiscal '21, while adding approximately $12 million to $14 million in operating expenses. In addition, we will increase investments in our technology platform and cloud infrastructure.

Given our accelerated investments this year, we would like to provide an update to our long-term financial model. We expect to achieve 20% to 22% operating margin for the full year in fiscal '24. While we will balance growth and profitability, growth will take priority, considering our significant market opportunity. We are confident of reaching our target operating model within the next 4 years.

Now I'd like to hand the call back over to Jay.

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

Thank you, Remo.

We believe we are in the early innings of a significant market opportunity to secure digital 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 SaaS adoption, work-from-anywhere and app migration to public clouds, we believe the market is coming to us. The value proposition of a zero-trust platform is resonating with customers. Our next big opportunity is to expand into securing app-to-app communication in the cloud as well as monitoring end-to-end digital experience. As we demonstrated in recent quarters, we are delivering world-class sales execution, and we believe we are positioned for long-term growth.

We thank you for your interest in Zscaler and look forward to reporting our progress in the future.

Operator, you may now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Walter Pritchard with Citi.

Walter Herbert Pritchard ***Citigroup Inc., Research Division - MD & U.S. Software Analyst***

I'm wondering if you could juxtapose the guidance for billings next year, around 30%, with the capacity growth you've had in sales, which I think is about double that. Obviously, there's some puts and takes around productive reps and so forth, but how should we think about those 2 things together? And you had productivity increase this year, I think you said in the script, just wanted to make sure we're thinking about those together or anything that drives the disparity.

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

Yes. If I can take that, Walter. I think you've known me for a long time. Related to how we do guidance, we like to be prudent. As Jay mentioned on the call, we had planned initially for fiscal '20 that our sales productivity would be down. And when you consider that we're able to increase our field quota sales reps by 60%, primarily in the second half, for us to be higher sales productivity in fiscal '20, I think, speaks volumes related to the go to market and the team we have in the sales organization as well as the market coming to us. As we go forward into fiscal '21, just some clarity, the key thing to remember is that we see the market coming to us. Everything points that basically the market is coming to us from pipeline growth, new customer meetings, new customer growth and just the employees that we're bringing onboard, deal sizes, consolidation going on. All the things, everything we're looking at basically points to that growth. So what we're doing basically is we're going to invest in the growth of the company.

From an operating profitability perspective, it is easy to get to in a SaaS model to operating profitability quicker. All you got to do is slow things down because of the contribution margin in years 2 and 3. Jay and I have said from the start, if we see this market coming to us, we're going to step on the gas. And we're seeing the market coming to us, we're stepping on the gas, and we're going to significantly increase our investments across the board in the company, in particular, in sales and marketing, continued sales and marketing, R&D and also our cloud operations and delivery of our platform.

Operator

Our next question comes from Matt Hedberg with RBC Capital Markets.

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

Congrats on the quarter. Jay, digital transformations are clearly accelerating post-COVID. And I'm wondering, though, as you talk to executives, are a lot of them thinking that, in fact, security transformation has to happen first? In other words, is that a precursor to digital transformation? And is that, it's also sort of leading to what I would assume is record pipelines here exiting the year?

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

That's correct, Matt. Thank you. So if you think of digital transformation, it has 3 pieces to it. Everything starts with application transformation and modernization because people need to access applications, maybe business application, collaboration and the like. And since it's new economy, you can't be sitting on the network in your branch offices or wherever. You end up working from anywhere and wherever, so you must be secured. So security becomes an important enabler of this transformation journey. In fact, I would say that security comes first before any of the network transformation or SD-WAN comes in because without proper cloud-centric, security can't be done. That's why we are seeing the acceleration in our business. That's why when people say, gee, after COVID, are things going to slow down? I say, no, we are seeing actually acceleration in our business, not because of a onetime event, but because of accelerating trend. More and more CIOs, CISOs are talking to us. The other thing I would mention is, our business is not driven by just CISOs. The #1 buyer of Zscaler or #1 sponsor of Zscaler transformation is CIO and then CTO and CISO come along with that.

Operator

Our next question comes from Alex Henderson with Needham.

Alexander Henderson ***Needham & Company, LLC, Research Division - Senior Analyst***

Just one technical question and then one on the technology side. Can you talk about whether you expect to continue to expand your sales capacity at a pace faster than sales in your '21 guidance? And then second piece on the technology front, I'm really fascinated by your commentary around the modern application protection, domain-to-domain, app-to-app environments. Can you talk a little bit about how you penetrate into the Kubernetes orchestration environment, tie into Jenkins and CI/CD processing? And does that put you in conflict with some of the CDN players or are you more a partner with them?

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

I'll take the first question, Alex. The answer is yes. We are increasing sales capacity significantly in fiscal '21. The sales capacity increase, we took a bet last year about increasing sales capacity, and it was the right bet. And basically, the increased sales capacity puts us in good position going into fiscal '21. Much of that sales capacity in fiscal '20, basically coming on the second half, will have a positive impact in the second half of our fiscal '21.

Related to going into fiscal ['21] (corrected by the company after the call), we're trying to increase our sales capacity and trying to front-end load that sales capacity, increase it. As we go forward, we're going to monitor how the business is going. But as I mentioned before, all indicators are, it's just very, very positive. The sales productivity, as I mentioned, that we exceeded our sales productivity, being above the prior year, where we thought we'd be below, it just speaks to what we put in place. One of the key things, I mean, when you think about Zscaler, when you think about a company that built the platform for today and the future, you're talking about a market that basically we knew was there but wasn't coming to us as fast as we thought it would. It's now coming to us because basically, the external factors which are hitting the world.

And then the missing piece basically is the go-to-market. We feel we've got, if not the world's best sales machine, one of the world's best sales machines with the leadership that we have in our sales organizations and the investments that we made in that in fiscal '20 and we'll continue to make into fiscal '21. Having said that, basically, the foundation is in place. That foundation in the go-to-market was built in fiscal '20. Now we're going to add to it. We'll monitor it. And if we see things as we're hoping to, we'll continue to expand.

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

And Alex, this is Jay. The second part of your question is application protection in public cloud. We're seeing lots and lots of dynamic workloads being launched in public cloud. Their security has to be done. Different vendors try to look at it different ways. Legacy vendors try to take the legacy approach to it. For example, firewall guys will say, let me try to create network segmentation. CDN guys are trying to say, gee, I'm a CDN vendor, can I build a WAF around it and the like? We come from the fact that, in this new world, there is no such thing as traditional security. We are the exchange. We're the switch core. We connect the right user to right application. We're extending the same concept to say, we will securely connect right application to right application, right process to the right process, and that's using core of our ZPA technology, combined with the acquisition we did of a company called Edgewise Networks. So it's a nascent new market. It's a disruption opportunity. We think we can do the same thing in a public cloud that we have done for ZIA and ZPA type of technologies.

Operator

Our next question comes from Andrew Nowinski with D.A. Davidson.

Andrew James Nowinski ***D.A. Davidson & Co., Research Division - MD & Senior Research Analyst***

Congrats on the great quarter. I just want to ask more of a competition-related question. Cisco acquired a company called ThousandEyes recently, which I believe is a technology aimed at providing more network visibility similar to ZDX. So I'm wondering if you're seeing any more competition from Cisco in the zero-trust market. And then also, could you also provide any feedback on your win rates versus Palo Alto?

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

Yes. Let me start with this, your first question about network visibility vendors. It is true that a lot of vendors that are doing network monitoring and the network they monitored was typically the wide area network, the private network. We don't do any of that. We believe that Internet is the new network. So we are not focused on network itself. We are focused on end-to-end monitoring and performance of the user, from user to the application. The network is a piece of it. Application is a piece of it. An end user device may be a piece of it. Even though network performance is an old market, app performance is an old market, the market we are going after is a relatively new market because of work-from-anywhere. That's number one.

Number two, this part doesn't really have much to do with zero trust. This is about performance. Your question was, are we seeing zero trust competition from other large vendors? Zero trust can't be done by cobbling things on top of network security. If you're doing network security, you don't do zero trust because zero trust means not securing the network, assuming that you can't be trusted to be on the network. So that's the second part.

The third part is, I think you mentioned competition from a firewall company, I think. So we think, look, if you think with a zero trust, we say we securely connect an entity to another entity, a user to an application without putting them on the network. Network is merely transport for us. All network security companies, including firewalls, they're trying to secure the network. Our architecture is totally opposite to other architecture. So while we see them on some of the lower accounts, when it comes to large enterprises, they're very savvy. They understand zero trust. They understand security. They understand proxy architecture. And as I highlighted in a few of my use cases in my prepared remarks and some of the customer wins, firewalls are generally ruled out at the upfront even if they try to go in there because proxy architecture becomes a requirement to do proper security, including SSL inspection.

Operator

Our next question comes from Brad Zelnick with Crédit Suisse.

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

Great. Congratulations, guys, a real, real strong finish to an unbelievable year, and it's great to see. Remo, I wanted to drill in on the update that you provided on the long-term model. So you've told us now you've put a timeline to when you'd be at 20% to 22% operating margins 4 years out. And if I'm not mistaken, I recall that around the time of the IPO, you had thought that the company would be at $800 million to $1 billion in revenue at the time that you would hit that goal. And I just want to go back and think about, if I try to back of the envelope model out to '24 and we assume natural deceleration over time, is it fair that at that point you would be growing the business maybe somewhere in the high teens or low 20s? Do you think about it that way? And as well, how should we think about the slope of that margin expansion over time on the way to the 20% to 22%?

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

Brad, a lot of great questions in that. You've got several questions. The key thing is that the world changed. The world changed from the time we went public. And what's happened, basically, we're seeing an acceleration in our business, as I talked about before. The 2 things that we're seeing in the acceleration. One is very apparent, which is basically COVID-19. I mean it's basically accelerating transformation, and it's the market that we're built for. So that's one thing that's going on. The second thing, basically, with our emerging products, we have a significant additional TAM in our user experience product and also Workload Segmentation. And what we've decided is that to refine the 20%, 22% profit target, and we're saying for the full year fiscal '24 versus the dollar amount which we provided before. What we've also said basically is that -- and you know the model, I mean, you know the SaaS model. We can slow this thing down and get there like next year if we want to. Is that the right thing to do for the shareholders?

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

No.

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

With this market opportunity that we have? It is absolutely not. But so therefore, from -- and Jay and I have had long discussions about this. Jay and I, we met 4 years ago. I mean there's not much that's changed. We basically are on the same page. I took this job to build a great company. I took this job because of my respect for Jay and because we're on the same page. We're trying to build a very meaningful and significant company, and we feel we have that opportunity, more so now than before because of the changes in the world. We will put growth ahead of profitability, but we're putting -- the end zones, basically, the goalpost is where we're at right now for our projections for fiscal '21 and where we are going to be for the full year fiscal '24. What growth rates? I can't tell you. How are things going to play out? I can't tell you. What I can tell you is we can get there. We can get there no matter how this market goes. with the product platform that we have, that we started out with the ZIA, then we expanded to ZPA, and you take a look at the growth in ZPA that we've had, it's been pretty significant. Now you're adding ZDX, the user experience, which we think is a significant market, as I mentioned. You're putting on board the Workload Segmentation. And then you have the ability to bring other products like CASB out-of-band, the browser isolation, B2B, CSPM. We have the ability to deliver these products because we've built the platform in order to deliver these products. So am I confident we're going to get to our operating profitability in 4 years? I am. What is the growth going to be? I cannot tell you. But I can tell you that based on what we're seeing, based on the market potential, based on the team that we have in place, I feel very good.

Operator

Our next question comes from Keith Bachman with BMO.

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

I wanted to ask a little bit about growth drivers and just to pick on what you just mentioned is you talk about the world's change. And it would seem to be that in a COVID economy, the solution ZPA is getting a much more welcome reception, so to speak. In other words, it seems like it's been a catalyst of growth. And you mentioned that only 35% of your installed base has purchased that. When you think about the guidance you gave for '21, how are you thinking about the growth of ZPA within that context? And really, what I'm asking is any color you could give us on the distribution. But isn't that ZPA now being a help in terms of opening up new accounts as well as just selling into the installed base of ZIA, so to speak? But if you could just give us a little color on how we should be thinking about the growth rate in '21? And is it, in fact, opening new doors for you as a stand-alone?

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

I'll take a crack then let Jay speak. Yes. The answer is yes. I mean, ZPA was at 43% of our business total new and upsell business in Q3. ZPA for the year is 29%, and it was around 28%, 29% for Q4. I look at the dollar amount of ZPA in Q3, Q4. It's pretty comparable. The question that came up on the last call is, what's going on with ZIA? I mean, is ZIA going to fall off the cliff? Well, it was a record quarter. It was a record quarter for ZIA in Q4. The question came up last call was more of your existing customers are buying basically, and that's ZPA driven by COVID. And percentages were, I think, 60% upsell, 40% new. We said that our pipeline indicated that we'd be closer to our historical rates of 50% new or 60% new. We're pretty much 50-50. The pipeline that we have going forward related to ZIA and ZPA, I think it depends on close rates, but it's healthy. It is showing the ZPA has a lot of traction still.

The key thing, though, when you take a look at the contribution of ZIA and ZPA, what I want to draw your attention to is that Zscaler is a platform. That platform as we talked about, ZDX and Workload

Segmentation and the other products that I've talked about, as we go forward, customers have a need related to securing their networks for the 21st century. Zscaler was built for the 21st century. Zscaler is right in the center of what these companies need. We need to go out there and tell companies what we have so they understand that their lives can be a lot better. So when you think about us going forward, think about Zscaler as a platform play with the ability to add additional applications relatively quickly to really service our customers to properly secure them, both in a workload environment as well as going in a user environment.

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

Yes. That's great, Remo. I would say many times people think of COVID means ZPA. No, work-from-anywhere means ZIA and ZPA both combined, and there's big potential for both of them.

Operator

Our next question comes from Daniel Bartus with Bank of America.

Daniel Bartus ***BofA Merrill Lynch, Research Division - Research Analyst***

I wanted to ask about new products, specifically ZDX and Z B2B. So first, Jay, can you just talk about customer interest at this time maybe compared to the early years for ZPA? And then Remo, just curious what you have baked into your fiscal '21 assumptions for these products or new products in general?

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

Yes. So let me start with the 2 new products you talked about, ZDX, which is digital experience. When your CEO lands in Sydney connect to Office 365, things slow, there's not a single product in the market that helps IT figure out where the issues are. That's a big hole we are filling. So there's a pretty high demand for ZDX, and we just got the product out last quarter. We're seeing a good pipeline, lots of interest, and we are evolving the product pretty rapidly. B2B is actually in a little bit interesting angle. A big, sizable opportunity but different kind of product, a little bit different buyer. It's a Chief Digital Officer who is building new B2B applications. They're interested in it. So we're seeing a lot of interest, but we see a lot more evangelism needed on the B2B side than on the ZDX side, but good growing pipeline in both areas, good interest, a shorter sales cycle on ZDX, longer sales cycle on B2B, but both help us because they're part of a proper platform. All these things aren't bought piece at a time. They become extension to the platform our customer has bought because customers are trying to buy best-of-breed platform rather than best-of-breed products.

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

In the financial side, the revenue is basically immaterial because they're ratable. And for the new business, new ACV, I would say, the mid single-digit type range for all the products combined, similar type trajectory that we had for ZPA, where we went from like 4% and then up to 10%. More in that single-digit type range is probably best baked into the plan.

Operator

And our next question comes from Brian Essex with Goldman Sachs.

Brian Lee Essex ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Jay, I had a question for you, maybe to pivot off of Keith's question. It seems though, last quarter, there was a lot of, I don't know, call it, panic buying, but a lot of enterprise purchases that maybe they didn't have enough time to assess a new enterprise architecture. And it sounds like you have a more -- and I think that naturally led to higher ZPA attach rates, it sounds like growth is more balanced now. Could you maybe talk about strategically what you're seeing with customers? Do they now have time to reassess their network architecture? And are those leading to larger deals and more new customers added on to the platform? Maybe you can just give us a little bit of color in terms of what you're seeing, that would be real helpful.

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

Yes, 2 points you mentioned there. One is the assessment to do the right architecture. Two is, are there decisions driven by some of the cost, complexity-driven? The answer is yes to both of those things. It is very true that a lot of people, who actually are familiar and exposed to Zscaler, and in fact, some of them are already testing it, they bought ZPA pretty quickly because they knew us already. We also saw a number of ZIA, ZPA combined deals in Q3. The acceleration of combined ZIA and ZPA deals together has further increased, so we like that. But also what we are finding is, a number of customers we're talking to now or, I would say, prospects we're talking to now are saying, yes, we bought a bunch of VPNs or whatever or VDIs for a short-term need to be met, but we know we want to go to zero trust. We need this digital transformation. So evaluation of Zscaler ZIA and ZPA aren't driven by some of those needs, not for the short term but for architectural transformation.

The second big trend we are seeing is that because of macroeconomic pressures, every CIO and more and more CFOs are trying to figure out how to do cost consolidation and simplification. So now they are beginning to buy more and more bigger platform bundles than smaller bundles. That has led to an increase of Transformation Bundle on the ZIA side, but also a combination of ZIA, ZPA together on the other side. So we're benefiting from consolidation, simplification, reduction of complexity as well. We think it's a good trend that market needs to do for making their business more agile and more competitive.

Operator

Our next question comes from Patrick Colville with Deutsche Bank.

Patrick Edwin Ronald Colville ***Deutsche Bank AG, Research Division - Research Analyst***

Congrats on the very impressive set of results. Can I just talk about the sales hiring in 2020? That was probably one of the biggest things we saw with you guys is increase in sales headcount by a net 60%. In hindsight, a very astute decision. Can we just think about 2021, if you can give us any metrics around, I guess, the headcount hiring would be great and a net amount, that would be awesome, just how we should think about the momentum there. And I guess, how you see that trending?

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

Yes. We're not going to give as much color as we did last time. What I can say, though, to give you some perspective, we do expect to increase the number of heads that we increased fiscal '20 in our field sales organization substantially. So we are, as I mentioned, we see the market coming to us. We're going to do what we feel are the right things for the business. We are going to aggressively hire. That aggressive hiring has already started. And that aggressive hiring, what we're finding is that basically I think there's an increased awareness related to the value proposition that Zscaler has, and I think that we are attracting some very high-quality people. But the total amount, the numeric amount will be substantially higher in fiscal '21 than fiscal '20 that we hired.

Operator

Our next question comes from Jonathan Ruykhaver with Baird.

Jonathan Blake Ruykhaver ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Yes. Jay, wondering if you could provide some more color around the initiatives that have been put into place with the new Summit Partner Program. Specifically, just what kind of reception are you seeing and has there been any impact yet to channel sales velocity?

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

Yes, very good question. I briefly mentioned in my prepared remarks that Summit Partner was put in place to identify cloud-focused or cloud-born partners who could help customers with their transformation. So it's actually very well aligned with how our sales were done. So we are seeing increased number of deal registrations. We're also seeing the deal size growing because of the way this transformation sale is happening. We expect to get more and more leverage in fiscal '21 from these partners. So I would say, very bullish on the progress we've made and expecting even better results in this fiscal year.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Jay Chaudhry for any closing remarks.

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

All right. Well, thank you all for joining us. We look forward to seeing you at one of the sell-side conferences that we'll be attending. Thank you again.

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

Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.