

Zoom Q4 FY23 Earnings - Prepared Remarks

Slide 1 – Zoom Q4 FY23 Earnings

Tom McCallum, Head of IR

Thank you, Kelcey.

Hello everyone, and welcome to Zoom's earnings video webinar for the fourth quarter and full year of FY23. I'm joined today by Zoom's Founder and CEO, Eric Yuan, and Zoom's CFO, Kelly Steckelberg.

Slide 2 – Use of non-GAAP financial measures

Our earnings press release was issued today after the market closed and may be downloaded from the Investor Relations page at [investors.Zoom.us](https://investors.zoom.us). Also, on this page you'll be able to find a copy of today's prepared remarks and a slide deck with financial highlights that, along with our earnings release, include a reconciliation of GAAP to non-GAAP financial results.

Slide 3 – Safe Harbor statement

During this call we will make forward-looking statements, including statements regarding our financial outlook for the first quarter and full fiscal year 2024; our expectations regarding financial and business trends; impacts from the macroeconomic environment, our market position, opportunities, go-to-market initiatives, growth strategy and business aspirations; and product initiatives and the expected benefits of such initiatives.

These statements are only predictions that are based on what we believe today, and actual results may differ materially. These forward-looking statements are subject to risks and other factors that could affect our performance and financial results, which we discuss in detail in our filings with the SEC, including our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Zoom assumes no obligation to update any forward-looking statements we may make on today's webinar.

And with that, let me show you all a quick video highlighting our exciting technologies before turning the discussion over to Eric. Kelcey please queue up the video.

[Kelcey plays video]

Slide 4 – FY23 was a year of prolific innovation

Eric Yuan, Founder and CEO

Thank you, Tom! And thank you everyone for joining us today.

FY23 was truly a pivotal period in our evolution into a full collaboration platform. As you saw in the video, we launched multiple innovations to help transform work and expanded our product portfolio to open new markets. Since Zoom Contact Center's release early last year, we have worked hard to expand its features, functionality and integrations. In Q4, we landed a 2,000 seat contact center deal, our largest to date, demonstrating the rapid progress we have made towards becoming a full-fledged contact center solution.

The success of our Zoom One bundle, which we launched last June, contributed to the strong performance of Zoom Phone, which in Q4 exceeded 5.5 million seats, making us a clear leader in the space.

We closed out the fiscal year with the release of Zoom Virtual Agent, an intelligent conversational AI and chatbot solution that we believe will transform the way businesses assist their customers and employees.

FY23 was not without its challenges. We experienced headwinds in terms of currency impact, Online contraction, and deal scrutiny which continued into Q4. And, a few weeks ago, we made the very tough but necessary decision to reduce our team by 15% and say goodbye to around 1,300 hardworking, talented colleagues. I want to extend to them my heartfelt appreciation and deepest gratitude for their crucial contributions to Zoom.

This painful exercise has been a tremendous learning experience for us. It allows us to look inward to reset ourselves, so we can weather the economic environment with greater focus and agility, deliver for our customers and achieve Zoom's long-term vision.

Slide 5 – Zoom's FY24 Strategic Focuses

Now, let me discuss our strategic focuses in FY24 and beyond.

First, we'll help redefine teamwork through offering new immersive experiences that improve employee engagement and modern collaboration tools for ideation

across locations and modalities. And we will give teams everything they need through a single pane of glass.

Second, the age of AI and large language models has arrived and we want to empower smarter experiences and workflows that enable our customers to benefit from these transformational tools. By embedding AI into more workflows, we can provide our customers with richer, more actionable insights that empower them to work smarter and serve their customers better. Zoom IQ, Zoom Virtual Agent, as well as our translation, captioning, and meeting summary tools are just the beginning. We will layer more AI technologies into our products to help our customers maximize their ROI on our platform and thrive in this new era of computing.

Third, we will offer more and more departments tailored solutions to meet their nuanced digital transformation needs. We constantly solicit feedback not only from CIOs, but also heads of sales, customer experience leads and many other leaders across various industries. Zoom IQ for Sales was built in this collaborative fashion and has already added tremendous value to many sales teams. You can expect additional industry-specific and department-specific applications developed both by us and our third party partners.

Slide 6 - Seamless connection via our collaboration platform

All of this comes together as a collaboration platform that unites people to unlock their potential, enables more dynamic and intelligent experiences and allows us to reimagine productivity and work.

As we navigate this period of technological and economic volatility, our role as a trusted partner providing best-in-class unified communications services has never been more crucial. There is a tremendous opportunity in front of us, and we are confident that our strong foundation, ambitious vision and customer-centric culture will enable us to seize this opportunity and continue to lead the way in the unified communications and collaboration space.

Slide 7 – Customer wins highlight the power of the platform

Now moving on to some of our customer wins.

I want to thank Aramco, one of the world's leading integrated energy and chemicals companies, for establishing a strategic partnership with Zoom. This is a landmark multi-year partnership where we will provide a full-suite of

collaboration services including Zoom Meetings, Team Chat, Phone, Events and Rooms. In addition, we will work together to build a data center in the region and explore the joint development of innovative technology solutions. We are so grateful that Aramco has chosen to partner with Zoom on their digitization strategy.

I'd also like to thank Nasdaq, who has been a Zoom customer for several years. Recognizing Zoom's strong reliability, security and ease of use, they expanded to Zoom One, our all in one unified communications and collaboration bundle. As part of this expansion, Nasdaq will be deploying Zoom Phone and adding capabilities like Translation and Advanced Whiteboard to their Zoom Meetings.

I want to also thank Raymond James, a leading financial services company, for expanding their relationship with us by integrating Zoom Phone to their Zoom Meetings implementation for a more complete communications package. We are excited to work with Raymond James to provide a highly-reliable and secure system, enabling their employees to communicate, collaborate, and ultimately thrive in the hybrid work world.

I want to also thank Barracuda Networks, which builds cloud-first, enterprise grade security solutions, for expanding with Zoom. A long-standing Zoom Meetings customer, Barracuda saw the value of having a single platform for all their communications needs, and upgraded wall to wall to Zoom One Enterprise Plus in Q4. In addition, Barracuda also chose Zoom IQ for Sales to enhance sales engagement and Zoom Contact Center to elevate the customer experience.

Again, thank you Aramco, Nasdaq, Raymond James, Barracuda Networks, and all of our customers worldwide.

And before closing, let me express my warm welcome to Cindy Hoots for joining our Board of Directors. Cindy brings a wealth of experience and currently is the Chief Digital Officer and Chief Information Officer at AstraZeneca. We are so excited to work with her.

I also want to welcome our new Chief Product Officer, Smita Hashim, who joins us from a seasoned executive career at Microsoft and Google. We are also super excited to work with her.

And with that I'll pass it over to Kelly.

Slide 8 - Strong FY23 Performance

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone. Let me start with a few of the financial highlights for FY23, and the results for Q4, then provide our outlook for Q1 and FY24.

We delivered solid results in FY23. Here were some highlights:

- Our Enterprise business grew 24%.
- Our non-GAAP operating margin was 35.9%.
- And, we achieved a free cash flow margin of 27%.

Slide 9 – Continued top-line expansion in Q4 with positive trends in Enterprise and Online

In Q4, total revenue came in at \$1.118 billion dollars, up 4% year over year and 6% in constant currency. This result was approximately \$13 million dollars above the high end of our guidance.

The growth in revenue was primarily driven by strength in our Enterprise business, which grew 18% year over year and represented 57% of total revenue, up from 50% a year ago. We expect Enterprise customers to comprise an increasingly higher percentage of total revenue over time. From a product perspective, we had strong growth in Zoom Phone coupled with contributions from Zoom Rooms and other products.

Online Average Monthly Churn decreased to 3.4%, from 3.8% in Q4 of FY22, and increased slightly from 3.1% in Q3 as expected due to seasonality.

Slide 10 – Strong growth with new and existing Enterprise customers

The number of Enterprise customers grew 12% year over year to approximately 213,000. Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q4 came in at a healthy 115%.

We saw 27% year-over-year growth in the up-market as we ended the quarter with 3,471 customers contributing more than \$100,000 dollars in trailing twelve months revenue. These customers represent 28% of revenue, up from 23% in

Q4 of FY22, and span diverse industries such as healthcare, education, government, and more.

Slide 11 – Double-Digit Americas growth, macro headwinds in ROW

Our Americas revenue grew 10% year over year. EMEA continues to be impacted by the stronger dollar, macro headwinds, and Online performance, which combined led to a decline of 9% year over year. APAC, also impacted by the stronger dollar, declined 5% year over year.

Slide 12 – Q4 FY23 expenses and margins

Now turning to expenses and margins. A quick note on our GAAP results. In Q4 they included a one-time stock-based compensation expense of \$208 million dollars due to the sunseting of our supplemental grant program, which carries neither dilutive nor tax deduction impacts.

Moving on to our non-GAAP results, which exclude stock-based compensation expense and associated payroll taxes, acquisition-related expenses, net litigation settlements, net gains or losses on strategic investments, undistributed earnings attributable to participating securities, and all associated tax effects.

Non-GAAP gross margin in Q4 was 79.8%, an improvement from 78.3% in Q4 of last year and 79.5% last quarter. The sequential improvement was mainly due to optimizing usage across the public cloud and our co-located data centers. For FY24, we expect non-GAAP gross margin to be approximately 79.5%.

Research and development expense grew by 43% year over year to approximately \$103 million dollars. As a percentage of total revenue, R&D expense increased to 9.2% from 6.7% in Q4 of last year, reflecting our investments in expanding our product portfolio. Looking ahead, innovation will remain a top priority for Zoom.

Sales and marketing expense grew by 20% year over year to \$301 million dollars. This represented approximately 26.9% of total revenue, up from 23.4% in Q4 of last year. As part of our restructuring, we are optimizing our go-to-market strategy to better support our enterprise customers and drive additional productivity.

G&A expense declined by 12% to \$84 million dollars or approximately 7.5% of total revenue, down from 8.9% in Q4 of last year, as we focused on achieving greater back office efficiencies and savings.

Non-GAAP operating income was \$405 million dollars, exceeding the high end of our guidance of \$326 million dollars, as we took actions to re-prioritize our investments in Q4. This translates to a 36.2% non-GAAP operating margin for Q4, as compared to 39.2% in Q4 of last year.

Non-GAAP diluted earnings per share in Q4 was \$1.22, 44 cents above the high end of our guidance. Due to our share repurchase program, our Q4 weighted average share count has decreased year over year by approximately 5 million shares to 301 million.

Slide 13 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was \$1.3 billion dollars, up 11% year over year from \$1.2 billion dollars. This is above our guidance as we saw increased commitment from customers and extended contract durations.

Looking at both our billed and unbilled contracts, our RPO totaled approximately \$3.4 billion dollars, up 30% year over year from \$2.6 billion dollars. We expect to recognize approximately 56% of the total RPO as revenue over the next 12 months, as compared to 63% in Q4 of last year.

As a reminder, our annual seasonality of renewals is weighted toward the first half of the year. We expect Q1 deferred revenue to be up zero to 1% year over year, partially due to the strengthening of the dollar starting late in Q1 of FY23. Since then, the major currencies we do business in are down 5 to 10% vis a vis the dollar.

Slide 14 – Strong cash flow and position in Q4

We ended the quarter with approximately \$5.4 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had operating cash flow in the quarter of \$212 million dollars, up from \$209 million dollars in Q4 of last year. Free cash flow was \$183 million dollars, as compared to \$189 million dollars in Q4 of last year. Our margins for operating cash flow and free cash flow were 18.9% and 16.4%, respectively. Because the

Section 174 tax legislation requiring capitalization of R&D expenses was not repealed in FY23, we incurred an additional cash tax payment in Q4. Despite this payment, we still exceeded the high end of our previously provided range by \$36 million dollars, for a full year total of 1.186 billion dollars.

For FY24, we expect free cash flow to be in the range of \$1.2 to \$1.25 billion dollars.

Slide 15 – Q1 and Full Fiscal Year 2024 outlook

Now, turning to guidance.

For the first quarter of FY24, we expect revenue to be in the range of 1.08 to 1.085 billion dollars, which at the midpoint would represent approximately 1% year-over-year growth, or 2% in constant currency. We expect non-GAAP operating income to be in the range of 374 to 379 million dollars. Our outlook for non-GAAP earnings per share is 96 to 98 cents based on approximately 304 million shares outstanding. This outlook reflects the three fewer days in Q1 versus all other quarters.

For the full year of FY24, we expect revenue to be in the range of 4.435 to 4.455 billion dollars, which at the midpoint represents approximately 1% year-over-year growth, or 2% in constant currency. We expect our non-GAAP operating income to be in the range of 1.606 to 1.626 billion dollars representing a non-GAAP operating margin of approximately 36%. Our tax rate is expected to approximate the blended U.S. federal and state rate. Our outlook for non-GAAP earnings per share is \$4.11 to \$4.18, based on approximately 309 million shares outstanding.

Slide 16 – One Platform To Connect

Zoom is dedicated to maintaining a careful balance between growth and profitability. We remain committed to innovating our platform, optimizing our go-to-market motions and evolving our culture to meet the dynamic needs of the market. We are confident that our continued investment in innovation will enable us to provide even greater value to our customers, while also positioning us for sustained growth. Thank you to the Zoom team, our customers, our community, and our investors!