

Speaker: Tom McCallum, Head of Investor Relations

Start Webinar - Slide 1 Zoom Title Slide

Thank you, Matt -

Hello everyone, and welcome to Zoom's earnings webinar for the second quarter of FY2020. Joining me today will be Zoom's Founder and CEO, Eric Yuan and Zoom's CFO Kelly Steckelberg.

Slide 2 GAAP to non-GAAP

Our earnings press release was issued today after the market closed and may be downloaded from the Investor Relations page on the Zoom.com website. 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

During this call we will make forward-looking statements about our future financial performance and other future events or trends, including guidance. 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 and which we discuss in detail in our filings with the SEC, including today's earnings press release and our latest 10-Q. Zoom assumes no obligation to update any forward-looking statements we may make on today's call. And with that, let me turn the discussion over to Eric.

Slide 4 Zoom Title Slide

Speaker: Eric S. Yuan, President and CEO

Thank you and welcome to everyone joining us on today's Zoom webinar.

I am pleased to report that we had a remarkable second quarter and continued to deliver a unique combination of high growth with increased profitability and free cash flow. As Kelly will discuss in a moment, the first half momentum in our business has enabled us to meaningfully raise our revenue and profitability outlook for the rest of the year.

Slide 5 Happy Zoom Customers

Our strong second quarter results are evidence that organizations are turning to Zoom as a strategic technology partner to help them improve their communications and collaboration. While we continue to attract customers of all sizes and across several industry segments, let's discuss one of our largest wins of the quarter.

I am proud to welcome HSBC to the Zoom family. HSBC is one of the largest financial services organizations in the world with over 3,900 offices in 67 countries. HSBC will standardize on Zoom by deploying to 290,000 hosts and to 5,500 conference rooms. HSBC will consolidate onto Zoom's video-first unified communications platform for both internal and external meetings. By standardizing on Zoom, HSBC will consolidate costs and create an enhanced, frictionless experience for end users. This enterprise-wide deployment represents one of the largest customer commitments to Zoom in our history and reflects our growing momentum with global customers.

Slide 6 – Business and Technology Highlights

Now, let me discuss two more business highlights from Q2:

- First, we announced a new partnership with Verizon Business Group to offer Zoom to its global customers. Zoom's platform is available as a cloud service enabling Verizon's

business customers to enjoy reliable and innovative video communications. This agreement with Verizon is a great example of our strategy to partner with top global service providers to extend the reach of Zoom around the world. The new service is available on Verizon's network and their sales teams are already trained and enabled to sell Zoom.

- And second, Ryan Azus joined Zoom as our Chief Revenue Officer. Ryan has nearly 20 years of selling experience and sales leadership in the communications industry. He spent the past nine years at RingCentral, where he was most recently the executive vice president of sales and services. Ryan was instrumental in building the company's field sales and channel organizations from the ground up. Prior to RingCentral, Ryan was a sales leader at Cisco WebEx for over nine years. I've had the pleasure of working with Ryan previously and he has an incredible acumen for building and leading world-class revenue organizations.

In closing, I'd like to thank the 2,200 Zoom employees around the globe for their commitment to customer happiness, which sets the foundation for delivering the type of strong financial results that we are sharing for our second quarter and first half of fiscal 2020. We will continue to stay focused across the company on the happiness of customers and building trust with them. By helping our customers succeed with a frictionless communications platform, we are well positioned to increase our market share and deliver remarkable results. With that, let me turn things over to Kelly.

Slide 7 – Rapid Revenue Growth

Kelly Steckelberg, CFO

Thank you, Eric. And welcome to everyone joining us.

Let me start by first reviewing financial results for Q2 and then I will discuss our outlook for Q3 and the full fiscal year.

Total revenue grew 96% year-over-year in the second quarter, to \$146 million dollars. This top line result exceeded the high end of our guidance range and had a positive impact on our profitability and free cash flow. Similar to last quarter, we executed very well in a strong demand environment for the Zoom platform.

This execution was represented broadly across our major geographies and offerings. Key drivers of our revenue performance included both our acquisition of new customers and expansion of Zoom's footprint within existing customers. Specifically, new customers accounted for approximately 61% of our year-over-year growth in subscription revenue while the remaining 39% was due to additional purchases from existing customers.

Slide 8 – Rapidly Growing Customer Base

Here are some key customer metrics in Q2:

We exited the quarter with over 66,300 customers with more than 10 employees, up 78% year-over-year. This is a record number of new customer additions in a quarter. One of our key verticals is the Financial Services sector. I am pleased to share with you that we are experiencing strong success in this segment with firms like HSBC, Moody's and Morgan Stanley becoming Zoom customers in Q2. The combination of our land and expand strategy, along with

our continued up-market focus, resulted in ending Q2 with 466 customers with more than \$100,000 dollars in revenue over the last 12 months, this is up 104% year-over-year.

Slide 9 – Strong Q1 Net Dollar Expansion

This also led to a net dollar expansion rate that was over 130% for the fifth consecutive quarter as customers are deploying more Zoom products and adding more licenses within their organizations. One example was a significant expansion with a large luxury brand. This customer began their relationship with Zoom last year and quickly deployed Zoom meetings to approximately 3,800 users to replace their legacy video conferencing vendor. Because of their trust in Zoom, they then invited us to provide a modern solution for the phone service in their corporate offices and stores.

After a comprehensive evaluation, they selected Zoom Phone in Q2. They cited call quality, ease of use, cost savings, and the unified Zoom platform of meetings, chat and phone as important benefits to their organization. They have already begun the rollout of 4,700 Zoom Phone licenses within their organization. The customer also plans to roll out Zoom Phone to their 750 domestic retail stores starting in early 2020 and rest of world soon thereafter. This is an exciting win for us and it demonstrates the potential to upsell technologies when you make existing customers happy and build trust.

Slide 10 – Growing International Presence

Geographic expansion is another driver of our revenue growth as we continue to deliver strong growth internationally. In Q2, our APAC and EMEA revenue combined grew 115% year-over-year and represented approximately 20% of revenue. Revenue from the Americas was up 91% year-over-year and represented approximately 80% of revenue. This high revenue growth and strategic customer wins are evidence that our investments to expand our global footprint are succeeding.

Slide 11 – Q1 Expenses and Margins

Now turning to profitability. Here you can see we were profitable from both a GAAP and non-GAAP perspective, but I will focus on our non-GAAP results, which exclude stock-based compensation expense, and related share-based equity taxes. Non-GAAP gross margin in the second quarter was 82.2%, compared to 82.8% in Q2 last year and 80.9% last quarter. For the full year, we expect non-GAAP gross margin to be in the range of our long-term target of 80% to 82% as we continue to scale our infrastructure to support our growth.

R&D expense in Q2 was approximately \$13 million, up 83% on a year-over-year basis. We expect to continue to invest in innovating our platform and see R&D returning to the range of 10 to 12 percent of revenue which is consistent with our long term view.

Sales and marketing expense for Q2 was \$69 million dollars. This reflects an increase of 70% or \$28 million dollars over last year with investments in initiatives to drive further growth. As a percent of total revenue, Sales and Marketing was 47%, lower than Q2 last year as we have seen some efficiency gains in Marketing. Looking forward, we expect to continue to invest in this area especially to drive international and up market growth.

G&A expense in Q2 was \$18 million dollars and represented 12% of total revenue. This result represents our continued investment to support our status as a publicly traded company.

Non-GAAP operating income was \$21 million dollars translating to a 14.2% non-GAAP operating margin for the second quarter. This was an improvement of 812 basis points compared to Q2 last year.

Non-GAAP earnings per share in Q2 was \$0.08 cents, on approximately 292 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. This result is \$0.06 cents higher than the high end of our guidance and \$0.06 cents higher than Q2 of last year due to the outperformance in the quarter.

Slide 12 – Growing Future Revenue under Contract

Turning to the balance sheet. We ended Q2 with approximately \$755 million dollars in cash, cash equivalents and marketable securities.

Deferred revenue at the end of the quarter was \$181 million dollars, up 102% year-over-year.

Looking at both our billed and unbilled contracts, our remaining performance obligations, or RPO, totaled approximately \$458 million dollars, up 117% from \$210 million dollar last year.

We expect to recognize approximately 62% or \$285 million dollars of the total RPO as revenue over the next 12 months as compared to 68% or \$143 million dollars in Q2 last year.

This shift in percentage toward in non-current RPO represents some of the longer contract lengths we are seeing as we succeed with up market customers.

Slide 13 – Rapid Cash Flow Growth

Operating cash flow was \$31 million dollars in Q2, up from \$14 million dollars in the same period a year ago. Free cash flow was \$17 million dollars in Q2, up from \$8 million dollars in the same period a year ago. Both of these results are due to our higher profitability, the growth in deferred revenue and strong collections.

In addition, we also had a benefit of approximately \$7 million dollars to operating cash flow related to employee contributions to our Employee Stock Purchase Plan. We would expect contributions to scale with headcount and our first purchase will be made in Q4. Going forward we expect to see benefits from contributions in Q1 and Q3 and net outflows for purchases in Q2 and Q4.

Slide 14 – Q3FY20 and Full Year Outlook

Now turning to guidance, we are pleased to be increasing our outlook for the full year based on our view of the current business environment, our ability to gain further market share and the momentum we achieved in the first half of FY20.

For the third quarter, we expect revenue in the range of \$155 to \$156 million dollars.

We expect non-GAAP operating income to be in the range of \$6 to \$7 million dollars. This forecast includes the impact of our premier user event, Zoomtopia which will take place in Q3.

Our outlook for non-GAAP earnings per share is \$0.03 cents based on approximately 294 million shares outstanding.

For the full year of fiscal 2020, we now expect revenue to be in the range of \$587 to \$590 million dollars, up from our prior guidance of \$535 to \$540 million dollars.

We expect to generate positive non-GAAP operating income in all four quarters of the fiscal year. For the full year non-GAAP operating income is expected to be in the range of \$42 million to \$45 million dollars, up from our prior guidance of breakeven to \$3 million dollars.

We expect to deliver non-GAAP earnings per share in the range of \$0.18 to \$0.19 for the full year Fiscal 20, based on approximately 293 million shares outstanding.

This reflects the meaningful profitability seen in Q2, combined with the fact that we remain focused on investing aggressively in the business as we believe we have the opportunity to build a great video first communications company and delivery happiness to our customers.

We are confident that our long-term business model will drive growth and profitability, which is further evidenced by our Q2 results.

In closing, our focus on customers led to rapid topline growth and increased profitability and positive free cash flow both for the quarter and the first half of FY20. I would like to thank the entire Zoom team for their hard work as Q2 was another quarter of strong execution across Zoom and positions us well for the full fiscal year.

Slide 15 - Questions

With that, let's open it up for questions. If you have not enabled your video, please do so now for the interactive portion of this meeting. Matt, please queue-up our first question.

Slide 16 Zoomtopia Slide

Eric Closing - Thank you for joining us and we look forward to seeing many of you at Zoomtopia
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