

Zoom Video Communications

Q2 FY23 Earnings
August 22, 2022



Use of non-GAAP financial measures



In addition to the financials presented in accordance with U.S. generally accepted accounting principles ("GAAP"), this presentation includes the following non-GAAP metrics: non-GAAP gross profit, non-GAAP gross margin, non-GAAP R&D expense, non-GAAP S&M expense, non-GAAP G&A expense, non-GAAP operating margin, non-GAAP operating income, non-GAAP EPS, Free Cash Flow, adjusted Free Cash Flow and adjusted Free Cash Flow margin. Non-GAAP metrics have limitations as analytical tools and you should not consider them in isolation or as a substitute for or superior to the most directly comparable financial measures prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of non-GAAP metrics versus their nearest GAAP equivalents. Other companies, including companies in our industry, may calculate non-GAAP metrics differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP metrics as tools for comparison. We urge you to review the reconciliation of Zoom's non-GAAP metrics to the most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business. See the Appendix for reconciliation between each non-GAAP metric and the most comparable GAAP measure.

Safe Harbor statement

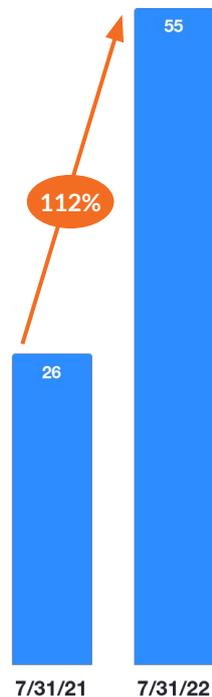


This presentation and the accompanying oral presentation contain express and implied “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding Zoom's financial outlook for the third quarter and full fiscal year 2023; Zoom's expectations regarding financial and business trends, as well as impacts from macroeconomic developments and the Russia-Ukraine war; Zoom's market position, opportunities, growth strategy and business aspirations; and product initiatives and the expected benefits of such initiatives. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “will,” “would,” “should,” “could,” “can,” “predict,” “potential,” “target,” “explore,” “continue,” or the negative of these terms, and similar expressions intended to identify forward-looking statements. By their nature, these statements are subject to numerous uncertainties and risks, including factors beyond our control, that could cause actual results, performance or achievement to differ materially and adversely from those anticipated or implied in the statements, including: declines in new customers and hosts, renewals or upgrades, difficulties in evaluating our prospects and future results of operations given our limited operating history, competition from other providers of communications platforms, our ability to realize the anticipated benefits related to our acquisition of Solvvy, continued uncertainty regarding the extent and duration of the impact of COVID-19 and the responses of government and private industry thereto, including the potential effect on our user growth rate as the impact of the COVID-19 pandemic tapers, particularly as vaccines become widely available and distributed, and users return to work or school or are otherwise no longer subject to limitations on in-person meetings, as well as the impact of COVID-19 and other macroeconomic conditions, including inflation, on the overall economic environment, any or all of which will have an impact on demand for remote work solutions for businesses as well as overall distributed, face-to-face interactions and collaboration using Zoom, delays or outages in services from our co-located data centers, failures in internet infrastructure or interference with broadband access, which could cause current or potential users to believe that our systems are unreliable, market volatility, and global security concerns and their potential impact on regional and global economies and supply chains.

Additional risks and uncertainties that could cause actual outcomes and results to differ materially from those contemplated by the forward-looking statements are included under the caption “Risk Factors” and elsewhere in our most recent filings with the Securities and Exchange Commission (the “SEC”), including our quarterly report on Form 10-Q for the fiscal quarter ended April 30, 2022. Forward-looking statements speak only as of the date the statements are made and are based on information available to Zoom at the time those statements are made and/or management's good faith belief as of that time with respect to future events. Zoom assumes no obligation to update forward-looking statements to reflect events or circumstances after the date they were made, except as required by law.

Zoom Phone's record quarter demonstrates strength of platform strategy

Accounts with
10k+ Paid Seats



- Closed two record-breaking >125k seat deals at end of quarter
- Surpassed 4M Zoom Phone seats in August
- More than doubled number of customers with 10k+ paid seats YoY to 55

Customer wins highlight impressive Zoom Phone performance and early Zoom Contact Center adoption

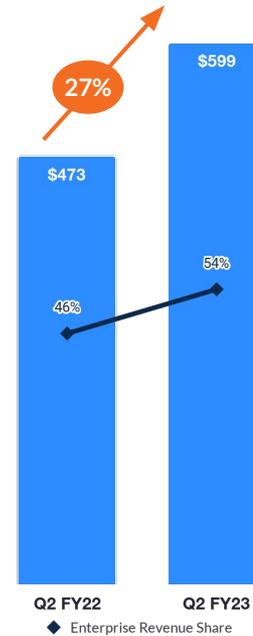


Continued top-line expansion and strong Enterprise performance

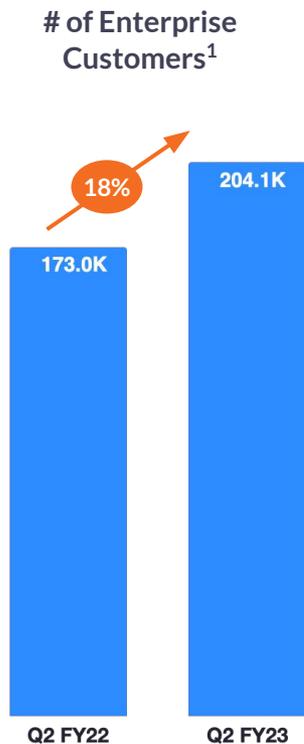
Total Revenue
(in millions)



Enterprise Revenue
(in millions)



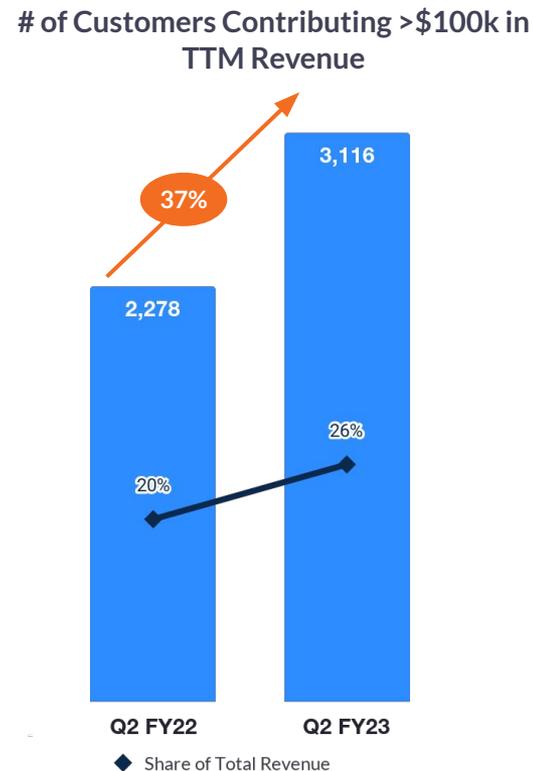
Strong growth with new and existing Enterprise customers



TTM Net Dollar Expansion Rate for Enterprise Customers²

120%

in Q2 FY23

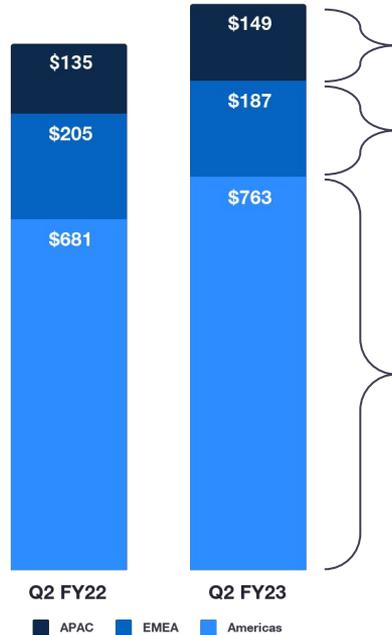


¹The number of customers is rounded down to the nearest hundred. Enterprise Customers refers to customers who have been engaged by Zoom's direct sales team, channel partners, or independent software vendor (ISV) partners. All other customers are referred to as Online Customers.

²We calculate net dollar expansion rate as of a period end by starting with the annual recurring revenue (ARR) from Enterprise customers as of 12 months prior (Prior Period ARR). We define ARR as the annualized revenue run-rate of subscription agreements from all customers at a point in time. We calculate ARR by taking the monthly recurring revenue (MRR) and multiplying it by 12. MRR is defined as the recurring revenue run-rate of subscription agreements from all Enterprise customers for the last month of the period, including revenue from monthly subscribers who have not provided any indication that they intend to cancel their subscriptions. We then calculate the ARR from these Enterprise customers as of the current period end (Current Period ARR), which includes any upsells, contraction, and attrition. We divide the Current Period ARR by the Prior Period ARR to arrive at the net dollar expansion rate. For the trailing 12 months calculation, we take an average of the net dollar expansion rate over the trailing 12 months.

Double-Digit Americas & APAC growth but macro headwinds in EMEA

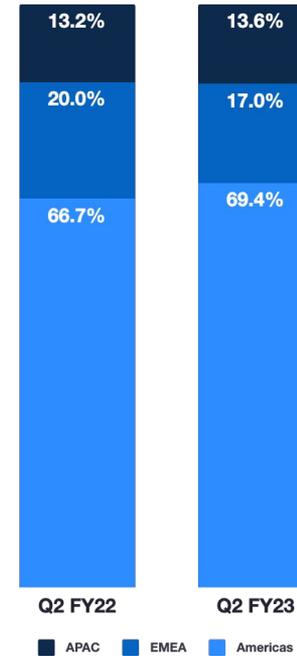
Revenue¹
(in millions)



YoY Growth



Revenue Share by Region²



^{1,2}Subtotals revenue have been rounded.

Q2 FY23 expenses and margins

| | GAAP Results | YoY | Non-GAAP ¹ Results | YoY |
|--------------------|-----------------|-------------|-------------------------------|------------|
| Revenue | \$1,099 million | 8% | \$1,099 million | 8% |
| Gross Margin | 75.1% | +69 bps | 78.9% | +268 bps |
| R&D Expense | 15.7% | +764 bps | 8.9% | +360 bps |
| S&M Expense | 36.4% | +988 bps | 26.0% | +533 bps |
| G&A Expense | 11.9% | +94 bps | 8.2% | (48 bps) |
| Operating Margin | 11.1% | (1,777 bps) | 35.8% | (576 bps) |
| Effective Tax Rate | 49.4% | +4,729 bps | 18.5% | +1,693 bps |
| EPS - Diluted | \$0.15 | -86% | \$1.05 | -23% |

¹ See appendix for a reconciliation of non-GAAP to GAAP financial measures.

Growing future revenue under contract

Total RPO¹
(in millions)



■ Unbilled ■ Deferred Revenue

YoY Growth

Total
37%

Unbilled
55%

Deferred Revenue
19%

Current² & Non-Current RPO
(in millions)



■ Non-Current RPO ■ Current RPO

YoY Growth

Total
37%

Non-Current
72%

Current
21%

¹Remaining performance Obligations (RPO) consists of both billed considerations and unbilled considerations that we expect to recognize as revenue. Subtotals have been rounded.

²Current RPO refers to the portion of total RPO which we expect to recognize as revenue over the following 12 months period.

Strong cash position in Q2

Cash Position¹
(in billions)



Operating Cash Flow
OCF Margin

\$257M
23.4%

Adj. Free Cash Flow
Adj. FCF Margin²

\$222M
20.2%

Cash used for share
repurchases (YTD)

\$426M

Q3 and Fiscal Year 2023 outlook

| | | Q3 FY23 | FY23 |
|----------------------|------------------------------|---------------------------|---------------------------|
| Outlook ¹ | Revenue | \$1,095 - \$1,100 million | \$4,385 - \$4,395 million |
| | Non-GAAP Operating Income | \$325 - \$330 million | \$1,440 - \$1,450 million |
| | Weighted Average Share Count | 306 million | 307 million |
| | Non-GAAP EPS | \$0.82 - \$0.83 | \$3.66 - \$3.69 |

¹ A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty of expenses that may be incurred in the future, although it is important to note that these factors could be material to Zoom's results computed in accordance with GAAP.



Americas: November 8-9
EMEA | APAC | Japan - November 17

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Investor Day @ Zoomtopia

November 8, 11am-2pm PT
(2pm-5pm ET)

More details will be posted to our IR page

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A wireframe globe is located in the bottom right corner of the slide. It is composed of a grid of light blue lines forming a sphere.



Thank You



zoom

Appendix

GAAP to Non-GAAP Reconciliation

(\$ in Thousands)

| | Q2 FY22 | Q2 FY23 | H1 FY22 | H1 FY23 |
|----------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Gross Profit | | | | |
| Total Revenue | \$1,021,495 | \$1,099,458 | \$1,977,732 | \$2,173,258 |
| GAAP Gross Profit | \$760,239 | \$825,847 | \$1,451,482 | \$1,637,826 |
| (+) Stock-based compensation expense and related payroll taxes | \$17,557 | \$38,576 | \$32,201 | \$70,174 |
| (+) Acquisition-related expense | \$754 | \$3,058 | \$1,446 | \$3,849 |
| Non-GAAP Gross Profit | \$778,550 | \$867,481 | \$1,485,129 | \$1,711,849 |
| GAAP Gross Margin | 74.4% | 75.1% | 73.4% | 75.4% |
| Non-GAAP Gross Margin | 76.2% | 78.9% | 75.1% | 78.8% |
| R&D Expenses | | | | |
| GAAP R&D | \$82,311 | \$172,564 | \$147,486 | \$316,855 |
| (-) Stock-based compensation expense and related payroll taxes | \$(24,067) | \$(70,496) | \$(45,253) | \$(126,790) |
| (-) Acquisition-related expense | \$(4,155) | \$(4,287) | \$(6,747) | \$(7,382) |
| Non-GAAP R&D | \$54,089 | \$97,781 | \$95,486 | \$182,683 |
| S&M Expenses | | | | |
| GAAP S&M | \$271,179 | \$400,474 | \$516,846 | \$763,257 |
| (-) Stock-based compensation expense and related payroll taxes | \$(60,146) | \$(113,983) | \$(114,896) | \$(209,630) |
| (-) Acquisition-related expenses | - | \$(776) | - | \$(776) |
| Non-GAAP S&M | \$211,033 | \$285,715 | \$401,950 | \$552,851 |
| G&A Expenses | | | | |
| GAAP G&A | \$112,146 | \$131,066 | \$266,235 | \$248,906 |
| (-) Stock-based compensation expense and related payroll taxes | \$(14,972) | \$(39,537) | \$(28,767) | \$(68,860) |
| (-) Litigation settlements, net | - | - | \$(66,916) | \$4,226 |
| (-) Acquisition-related expense | \$(8,411) | \$(1,276) | \$(8,411) | \$(1,324) |
| Non-GAAP G&A | \$88,763 | \$90,253 | \$162,141 | \$182,948 |

GAAP to Non-GAAP Reconciliation

(\$ in Thousands except EPS)

| | Q2 FY22 | Q2 FY23 | H1 FY22 | H1 FY23 |
|---------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Operating Profit | | | | |
| Total Revenue | \$1,021,495 | \$1,099,458 | \$1,977,732 | \$2,173,258 |
| GAAP Operating Profit | \$294,603 | \$121,743 | \$520,915 | \$308,808 |
| (+) Stock-based compensation expense and related payroll taxes | \$116,742 | \$262,592 | \$221,117 | \$475,454 |
| (+) Litigation settlements, net | - | - | \$66,916 | \$(4,226) |
| (+) Acquisition-related expense | \$13,320 | \$9,397 | \$16,604 | \$13,331 |
| Non-GAAP Operating Profit | \$424,665 | \$393,732 | \$825,552 | \$793,367 |
| GAAP Operating Margin | 28.8% | 11.1% | 26.3% | 14.2% |
| Non-GAAP Operating Margin | 41.6% | 35.8% | 41.7% | 36.5% |
| Net Income | | | | |
| GAAP net income attributable to common stockholders | \$316,930 | \$45,746 | \$544,306 | \$159,389 |
| (+) Stock-based compensation expense and related payroll taxes | \$116,742 | \$262,592 | \$221,117 | \$475,454 |
| (+) Litigation settlements, net | - | - | \$66,916 | \$(4,226) |
| (+) Acquisition-related expenses | \$13,320 | \$9,397 | \$16,604 | \$13,331 |
| (+) Undistributed earnings attributable to participating securities | \$154 | \$4 | \$309 | \$19 |
| (+) (Gains) losses on strategic investments | \$(32,076) | \$34,712 | \$(32,076) | \$71,116 |
| (-) Tax effects on non-GAAP adjustments | - | \$(28,966) | - | \$(75,812) |
| Non-GAAP net income | \$415,070 | \$323,485 | \$817,176 | \$639,271 |
| Earnings Per Share | | | | |
| GAAP net income per share –diluted | \$1.04 | \$0.15 | \$1.78 | \$0.52 |
| Non-GAAP net income per share –diluted | \$1.36 | \$1.05 | \$2.67 | \$2.08 |
| Weighted Average Shares | | | | |
| GAAP and Non-GAAP weighted-average –diluted | 305,861,051 | 307,160,840 | 305,652,628 | 306,902,964 |

GAAP to Non-GAAP Reconciliation

| (\$ in Thousands) | Q2 FY22 | Q2 FY23 | H1 FY22 | H1 FY23 |
|------------------------------------------------------------------------------------------|-------------|-------------|---------------|-------------|
| Free Cash Flow | | | | |
| Cash Flow from Operations | \$468,012 | \$257,209 | \$1,001,314 | \$783,360 |
| (-) Purchases of PPE | \$(12,975) | \$(27,832) | \$(92,049) | \$(52,870) |
| (-) Liabilities to employees and tax authorities from international employee stock sales | - | - | - | - |
| Free Cash Flow | \$455,037 | \$229,377 | \$909,265 | \$730,490 |
| (+) Litigation settlement payments, net | - | \$(7,310) | - | \$(7,310) |
| Adjusted Free Cash Flow (non-GAAP) | \$455,037 | \$222,067 | \$909,265 | \$723,180 |
| Operating Cash Flow Margin | 45.8% | 23.4% | 50.6% | 36.0% |
| Adj. Free Cash Flow (non-GAAP) Margin | 44.5% | 20.2% | 46.0% | 33.3% |
| Net Cash Used in Investing Activities | \$(144,204) | \$(466,027) | \$(1,364,182) | \$(508,361) |
| Net Cash Provided by (Used in) Financing Activities | \$71,383 | \$(255,578) | \$65,104 | \$(388,821) |

Historic Metrics

(\$ in millions)

| | Q3 FY21 | Q4 FY21 | Q1 FY22 | Q2 FY22 | Q3 FY22 | Q4 FY22 | Q1 FY23 | Q2 FY23 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Revenue | \$777.2 | \$882.5 | \$956.2 | \$1,021.5 | \$1,050.8 | \$1,071.4 | \$1,073.8 | \$1,099.5 |
| <i>Y/Y growth</i> | 367% | 369% | 191% | 54% | 35% | 21% | 12% | 8% |
| GAAP Operating Income | \$192.2 | \$256.1 | \$226.3 | \$294.6 | \$290.9 | \$251.8 | \$187.1 | \$121.7 |
| Stock-based compensation, related payroll taxes, charitable donation of common stock, acquisition-related expenses, and litigation settlements, net | \$98.5 | \$104.8 | \$174.6 | \$130.1 | \$120.4 | \$168.5 | \$212.6 | \$272.0 |
| Non-GAAP Operating Income | \$290.8 | \$360.9 | \$400.9 | \$424.7 | \$411.3 | \$420.3 | \$399.6 | \$393.7 |
| Operating Cash Flow | \$411.5 | \$399.4 | \$533.3 | \$468.0 | \$394.6 | \$209.4 | \$526.2 | \$257.2 |
| Capital Expenditures | \$(23.3) | \$(21.5) | \$(79.1) | \$(13.0) | \$(19.8) | \$(20.8) | \$(25.0) | \$(27.8) |
| Adjusted Free Cash Flow¹ | \$388.2 | \$377.9 | \$454.2 | \$455.0 | \$374.8 | \$273.6 | \$501.1 | \$222.1 |
| RPO | \$1,631.2 | \$1,750.9 | \$2,073.4 | \$2,346.3 | \$2,456.5 | \$2,647.6 | \$2,990.0 | \$3,213.0 |
| <i>Y/Y growth</i> | 215% | 190% | 94% | 66% | 51% | 51% | 44% | 37% |
| Customers >\$100K TTM Revenue | 1,289 | 1,644 | 1,999 | 2,278 | 2,507 | 2,725 | 2,916 | 3,116 |
| <i>Y/Y growth</i> | 136% | 156% | 160% | 131% | 94% | 66% | 46% | 37% |
| Enterprise Customers² | 122,200 | 141,100 | 160,300 | 173,000 | 183,700 | 191,000 | 198,900 | 204,100 |
| <i>Y/Y growth</i> | | | 109% | 73% | 50% | 35% | 24% | 18% |
| Revenue % from Enterprise Customers | 44% | 44% | 45% | 46% | 49% | 50% | 52% | 54% |
| TTM Net \$ Expansion Rate for Enterprise Customers | > 130% | > 130% | > 130% | > 130% | > 130% | 130% | 123% | 120% |
| Previous Metrics | | | | | | | | |
| Customers >10 Employees² | 433,700 | 467,100 | 497,000 | 504,900 | 512,100 | 509,800 | 502,400 | 492,500 |
| Revenue % from Customers >10 Employees | 62% | 63% | 63% | 64% | 66% | 67% | 68% | 69% |
| TTM Net \$ Expansion Rate for Customers >10 employees | > 130% | > 130% | > 130% | > 130% | > 130% | 129% | 119% | 115% |

¹ Q4 FY22 and Q2 FY23 adjusted Free Cash Flow are adjusted to reflect net litigation settlements of \$85 million and negative \$7 million, respectively.

² Enterprise Customers and Customers >10 Employees are rounded down to the nearest hundred.