

**Start Webinar - Slide 1 Zoom Title Slide**

**Speaker: Tom McCallum, Head of Investor Relations**

Thank you, Matt -

Hello everyone, and welcome to Zoom's earnings video webinar for the fourth quarter and full fiscal year 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 webinar. 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 everyone joining us on the Zoom video webinar.

**Slide 5 Strong FY20 Performance Slide**

At Zoom, we strive to empower our customers to accomplish more with our video-first unified communications platform. Our success toward achieving this goal is evident in our results with the fourth quarter capping off a strong year for Zoom – our first year as a public company. Kelly will discuss our Q4 results and outlook in detail in a moment, so let me give you a few key highlights for the full year. For FY20, we delivered a unique combination of high revenue, profitability and free cash flow growth.

- Revenue grew 88% to \$623 million and we exited Q4 at an annualized run rate of 3 quarters of a billion dollars.
- We achieved non-GAAP operating margin of 14.2%, up over 900 basis points year-over-year.
- We generated free cash flow of \$114 million for the full year, up 397% year-over-year. This is our 4th straight year of positive free cash flow and non-GAAP operating income.
- Our customer metrics were also impressive for FY20, including 86% growth year-over-year for customers with \$100 thousand dollars of trailing twelve months revenue.

**Slide 6 Zoom Phone Anniversary**

We also recently celebrated the one year anniversary of the launch of Zoom Phone, a key component of the Zoom unified communications platform that has significantly expanded our TAM. Zoom Phone had an incredible start and we are excited about the continued momentum of the offering. Here are just a few of the key metrics to demonstrate some of the Zoom Phone accomplishments we had this past year:

First, we are grateful to have existing customers who trust us and new customers who have looked to Zoom Phone to resolve their telephone challenges. These factors enabled us to close Zoom Phone deals with approximately 2,900 customers who have more than 10 employees.

Second, we exited the year with a run rate of 230 million Zoom Phone minutes.

Zoom Phone is a great opportunity to expand our footprint with existing customers and drive new logos for companies looking to modernize away from legacy PBX systems.

**Slide 7 Happy Zoom Customers**

Now let me discuss a few of our happy customers. We are thrilled to welcome Johnson and Johnson, the world's largest and most broadly-based health care company, to the Zoom family.

We are grateful that Johnson and Johnson chose Zoom to help modernize and consolidate on a unified communications platform with approximately 60,000 Zoom meeting users. As a global company they wanted a solution that would enable them to communicate reliably around the world including growing regions in Asia. Thank you Johnson and Johnson!

I also want to thank VMware for trusting Zoom.

VMware has been providing all employees, globally, access to Zoom meetings and digital workspace, and will soon utilize a large deployment of Zoom Phone. The easy, single sign-on access to Zoom from any device is enabled to leverage the VMware Workspace ONE platform, allowing employees to access all the applications they need from their device of choice while ensuring security and compliance. Together with Zoom, VMware Workspace ONE helps businesses support their distributed workforces by enabling a remote-first culture. Thank you VMware!

**Slide 8 – Business and Technology Highlights (build slide)**

Moving on to a few recent business highlights:

- First, in the *2020 Gartner Peer Insights Customers' Choice Award for Meeting Solutions*, Zoom received the top overall rating in the "Voice of the Customer" category. Zoom was the only company to achieve Customers' Choice Awards for meeting solutions serving all listed regions, company sizes, and industry verticals.

**Slide 9 – Business and Technology Highlights**

- Second, Okta published their annual Businesses @ Work 2020 Report, a premier study of how organizations and people are using technology in the enterprise.

**Slide 10 – Okta Most Popular Video Conferencing Apps**

- The report highlighted Zoom as a preferred video application, posting 876% growth in the Okta network over the past 3 years! Zoom is the only company to earn the distinction of being both the fastest growing and most popular app.

**Slide 11 Business and Technology Highlights**

- Third, we announced an expansion of our Global Channel Partner Program to add new partnerships with industry-leading Master Agents for Zoom Phone.

**Slide 12 Business and Technology Highlights**

- Fourth, Caring for our community is a core value for Zoom and we are conscious of our impact on the environment. We proudly announced our top ten Green Leader customers, who were estimated to avoid the most carbon dioxide emissions by replacing in-person meetings with Zoom video meetings. In a 90 day period, the top ten customers were estimated to have avoided the equivalent of the annual carbon dioxide emissions of 149 thousand cars.

**Slide 13 Navigating Coronavirus**

Before turning the webinar over to Kelly, I'd also like to address the global impact we are seeing from the coronavirus. While this tragic situation is very fluid, Zoom is focused on using our resources to help alleviate some of the disruption and communication challenges as an alternative to in-person meetings for our employees, customers and community.

I am happy to report that all of our employees in the affected areas are healthy. Given the recent emergence and growing number of coronavirus cases in the U.S., we have directed our HQ employees to work from home, unless there is a business-critical need for them to be in the office. We're taking this step out of abundance of caution.

Zoom is doing everything we can, especially for global educational institutions, to provide resources and support our customers and those navigating the coronavirus outbreak, including:

- We are proactively monitoring capacity globally to ensure maximum reliability amid usage increases.
- In China, we have removed the 40 minute limit on free meetings.
- And we are providing informational sessions and on-demand resources so anyone can learn how to use the Zoom platform with ease.

With the reliability of our high quality video platform, we have seen a large increase in the number of free users, meeting minutes and new video use cases. For instance, in China, healthcare workers under stressful conditions in affected areas are able to connect live on video with therapists.

In closing, I'd like to thank the over 2,500 Zoom employees who are building Zoom into a great company through caring for our customers, community, company, teammates, and themselves. As we remain focused on creating a culture built around happiness and caring, I know we will position Zoom for future success. With that, let me turn things over to Kelly.

**Slide 14 – Rapid Revenue Growth**

**Kelly Steckelberg, CFO**

Thank you, Eric. And hello everyone.

Let me start by reviewing our financial results for Q4, then discussing our outlook for Q1 and the full year of FY21.

As Eric said, Q4 was a strong end to the year. We delivered another amazing quarter with continued traction for all offerings across all major geographies. For Q4 specifically, total revenue grew 78% year-over-year, to \$188 million dollars. This top line result exceeded the high end of our guidance range by \$12 million dollars due to our strong sales execution in the quarter.

We delivered our Zoom Meetings, Rooms and Phone solutions to new accounts while driving major expansions with existing customers. For the quarter, new customers accounted for approximately 59% of our year-over-year growth in subscription revenue while the remaining 41% was due to additional purchases from existing customers.

**Slide 15 – Rapidly Growing Customer Base**

Now, let me share some of the key customer metrics for Q4:

We added approximately 7,800 customers with more than 10 employees quarter-over-quarter and exited Q4 with 81,900 customers. This is an increase of 31,100 new customers, or 61% year-over-year. Customers with more than 10 employees represented approximately 80% of revenue in FY20, compared to approximately 78% in the prior fiscal year.

Our continued expansion in the up-market resulted in 641 customers with more than \$100,000 dollars in trailing twelve months revenue, up 86% year-over-year. This is an increase of 95 customers, a record number of adds in a quarter.

**Slide 16 – Strong Q4 Net Dollar Expansion**

The high level of satisfaction and trust customers have in Zoom was evident in our net dollar expansion rate that was over 130% for the seventh consecutive quarter and our Net Promoter Score which remained above 70 in Q4.

**Slide 17 – Growing International Presence**

Next, international expansion outpaced the high rate of growth in Americas revenue. In Q4, our combined APAC and EMEA revenue grew 84% year-over-year and represented approximately 20% of revenue. Revenue from the Americas was up 77% year-over-year and represented approximately 80% of revenue. International expansion will continue to be one of our key growth initiatives in FY21 and beyond.

**Slide 18 – Q4 Expenses and Margins**

Now turning to profitability. Once again, we were net income profitable from both GAAP and non-GAAP perspectives, 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 fourth quarter was 84.2%, compared to 82.1% in Q4 last year and 82.9% last quarter. This result was driven by the strong sales execution in the quarter and lower seasonal audio usage in Q4 due to the extended holiday season. Due to the coronavirus, we have already seen significant usage of our platform and accordingly we will expand our capacity to meet the increased needs of both paid and free users. For FY21, we believe our gross margins will be at the lower end of our long term target of 80% to 82%.

R&D expense in Q4 was approximately \$16 million dollars, up 60% year-over-year. As a percent of total revenue, R&D was 9%, which was slightly lower than Q4 last year. In FY21, we plan to continue investing in our highly efficient R&D model to drive innovation through adding engineering talent, especially in the first half of the year.

Sales and Marketing expense for Q4 was \$84 million dollars. This reflects an increase of 57% or \$30 million dollars over last year with investments to drive further growth. As a percentage of total revenue, Sales and Marketing was 45%, lower than Q4 last year due to continued efficiency gains in Marketing combined with slightly slower than expected sales hiring and the higher than forecasted revenue. We look to increase the pace of hiring in the up-market and internationally in FY21 with additional resources being added to recruiting.

G&A expense in Q4 was \$20 million dollars, up 49% on a year-over-year basis. It represented 11% of total revenue, benefiting from efficiencies as we scale our administrative functions and lower our accrual for telco taxes.

Non-GAAP operating income was \$38 million dollars, translating to a 20.4% non-GAAP operating margin for the fourth quarter. This compares to Q4 last year's result of \$10 million dollars and 9.3% margin. The higher revenue plus expense efficiencies across all areas were the main drivers of this additional profit.

Non-GAAP earnings per share in Q4 was \$0.15 cents, on approximately 293 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. This result is \$0.08 cents higher than our guidance and \$0.11 cents higher than Q4 of last year.

**Slide 19 – Growing Future Revenue under Contract**

Turning to the balance sheet. Deferred revenue at the end of the quarter was \$231 million dollars, up 83% year-over-year. Looking at both our billed and unbilled contracts, our remaining performance obligations, or RPO, totaled approximately \$604 million dollars, up 94% from \$312 million dollars last year.

We expect to recognize approximately 62% or \$375 million dollars of the total RPO as revenue over the next 12 months as compared to 67% or \$208 million dollars in Q4 last year. This is a result of the mix shift between current RPO which grew 81% year-over-year, while non-current RPO grew 120% year-over-year as we closed longer term deals. The RPO results also reflect some expected seasonality benefits in Q4 due to our semi-annual quotas in the up-market segment of our business.

**Slide 20 – Rapid Cash Flow Growth**

We ended Q4 with approximately \$855 million dollars in cash, cash equivalents and marketable securities, excluding restricted cash. In Q4, operating cash flow was \$37 million dollars, up from \$16 million dollars or 129% year-over-year. Free cash flow was \$27 million dollars, up from \$6 million dollars or 368% year-over-year.

As we previously discussed, these results reflect the use of cash for the purchase of shares via the Employee Stock Purchase Plan. Starting in FY21, we expect the cadence of benefits from contributions to the ESPP to occur in Q1 and Q3 and net outflows from purchases to occur in Q2 and Q4.

**Slide 21 – Full Year and Q1FY21 Outlook**

Now turning to guidance, we are pleased to provide a strong outlook for the full year FY21 based on our view of the current business environment, our ability to gain market share and with the momentum we built in FY20.

For the full year of FY21, we expect revenue to be in the range of \$905 to \$915 million dollars, which would be approximately 45% to 47% year-over-year growth. Non-GAAP operating income is expected to be in the range of \$110 to \$120 million dollars. We expect to deliver non-GAAP earnings per share of \$0.42 to \$0.45 cents for the full year FY21, based on approximately 301 million shares outstanding.

For the first quarter, we expect revenue in the range of \$199 to \$201 million dollars. We expect non-GAAP operating income to be in the range of \$25 to \$27 million dollars. Our outlook for non-GAAP earnings per share is \$0.10 cents based on approximately 297 million shares outstanding.

In closing, we executed very well and are proud of the results we delivered in our first year as a public company. Our high growth outlook at this scale is truly unique. Given our ROI-focused business model, we continue to deliver a rare combination of strong profitability and free cash flow margins along with our top line growth. I would also like to thank the entire Zoom team for their hard work this past year and look forward to achieving additional market share gains and growth as we deliver happiness to our customers with our unified communications platform.

**Slide 23 - Questions**

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

**Slide 24 - Thank you Slide [END of webinar]**

**Eric Closing** - Thank you for joining us and supporting Zoom.