

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 FY21. Joining me today will be 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.com](https://investors.zoom.com). 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 of fiscal year 2022 and full fiscal year 2022, estimated or projected costs, margins, expenditures, and investments, our future results of operations and trends regarding the same, our growth strategy and business aspirations for our video-first unified communications platform, our product strategy, our market position and opportunity, and the continued impact of the COVID-19 pandemic on our business.

Slide 4 – Safe Harbor Statement (continued)

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 latest Quarterly Report on Form 10-Q, as well the Current Report on Form 8-K we filed with the SEC on January 13, 2021. 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.

No Slide - Spotlight Eric

Eric Yuan, President and CEO

Thank you and welcome everyone joining us on today's Zoom Video Webinar.

FY21 was truly a pivotal year for Zoom, characterized by achieving unprecedented success and overcoming tremendous challenges. My heartfelt appreciation goes out to our approximately 4,400 employees for their incredible energy, perseverance, and dedication. Their focus on delivering happiness and building trust enabled us to become a household name and one of the most popular apps of the year.

We are so grateful to our customers and community for trusting us during these tough times and humbled to see workers, students, and families flock to our platform and use it in increasingly innovative ways to connect, contribute, and collaborate. As the world emerges from the pandemic, our work has only begun.

The future is here with the rise of remote and Work From Anywhere trends. We recognize this new reality and are helping to empower our own employees and those of our customers to work and thrive in a distributed manner.

As companies begin their safe return to the office and reimagine their working models, Zoom is here to help, leading the transformation with an extensive and growing portfolio of offerings and product features. For example, Zoom Rooms enhancements connect seamlessly with Zoom Meetings, enabling features like virtual reception, Smart Gallery, and more, to provide a secure, inclusive and empowering Work From Anywhere experience.

Our evolution from a leading video communications app into a video communications platform will strengthen our position in the “new normal” by providing customers with a growing set of innovative and integrated collaboration and productivity tools.

We are energized to help lead the evolution to a hybrid future of work that allows greater flexibility for both in-person and virtual connections - a future that we believe will be better for the planet, productivity and employee happiness.

Next, as part of Zoom Phone’s second anniversary, I’d like to highlight some exciting deals where we harnessed the power of the channel to secure large enterprise roll-outs of Zoom Phone.

We are optimistic about the growth in our channel partners including master agents who work as a liaison between customers and the telecommunications world. These channel partners are force multipliers and have proven to be strong advocates for us. Let me share a few happy customers stories:

Slide 5 - Strong Zoom Phone Wins

Zoom Q4FY21 Earnings - Prepared Remarks

First, we are grateful to have the University of Southern California as a long-standing Zoom Meetings and new Zoom Phone customer. Our commitment to USC and broader higher education was rewarded when the university and their master agent short-listed us in an extensive vendor review to modernize their phone systems. After a 6-month evaluation of the main UCaaS vendors, USC chose to deploy 21,000 Zoom Phone seats. We are so thankful that USC put their trust in Zoom to deliver an increasingly comprehensive and integrated set of communications services!

Another highlight this quarter was the expansion with Equinix, the world's digital infrastructure company, enabling digital leaders to harness a trusted platform to bring together and interconnect the foundational infrastructure that powers their success. Equinix has been a Zoom customer for several years and uses Zoom Meetings and Zoom Rooms for its global employees to communicate and collaborate. They recently expanded their partnership by adding Zoom Phone, with over 10,000 seats. On top of being seamlessly integrated with Zoom Meetings and Rooms, they chose Zoom Phone for our global footprint, our ability to serve Equinix's datacenters with Zero Touch Provisioning, and our advanced features over other UCaaS offerings.

Let me also welcome a direct sales win. We are happy to announce that Universal Music Group, the world's leading music company, is adopting Zoom Phones for its global workforce. UMG was looking to replace and consolidate legacy on premise technologies to a flexible, cloud PBX solution. As an existing Zoom Meetings and Rooms customer, UMG was drawn to the integrated nature of the Zoom Phone product. They will be using Zoom United, which will provide their global users with a one-touch experience of video, chat and voice. Thank you UMG!

These stories are not exceptions. Enterprise customers choose Zoom to replace their legacy phone systems because of their positive experiences with our other high-quality products that are easy to use and well-integrated. They value our rapid innovation cycles and ability to scale for large, global deployments. They also look to us to partner with them to deliver a unified communication solution that will make their users happy and productive.

Thank you Equinix, USC, UMG and our supportive channel partners. I love you all.

With that, let me turn things over to Kelly.

Slide 6 – Third party recognition for 2020 achievements
Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

As Eric mentioned FY21 was a pivotal year for us. While the pandemic stress-tested our operations it also accelerated our growth opportunities. According to Okta's 2021 Businesses at Work Report - which relies upon data from Okta's customers - Zoom was "by far the preferred enterprise video conferencing app", ranked among the "the most popular workplace apps overall", and was a top app by number of customers and active unique users.

In addition, analyst firm Frost & Sullivan recently recognized Zoom with its 2020 Company of the Year Award, honoring Zoom's dedication to providing customers with innovative solutions that drive growth and deliver new capabilities.

Thank you to all of our amazing customers who made these accolades possible.

Slide 7 - Massive Opportunity in Telephony

Bolstering the growth of our product portfolio is Zoom Phone, which has grown incredibly and turned two last quarter. We believe the opportunity ahead is significant as the TAM for telephony is forecasted to grow to \$23 billion by 2024. We have seen wins from legacy on-premise providers as well as other cloud PBX vendors. Here are a few milestones to mark the anniversary:

Slide 8 - Zoom Phone comes of age

- Illustrating the ability of Zoom Phone to meet the needs for large-scale enterprise roll-outs, Zoom Phone finished FY21 with 18 customers each with over 10,000 paid seats.
- We closed FY21 with approximately 10,700 Zoom Phone customers with more than 10 employees, up 269% year over year.
- We continued to drive broad adoption across industries and customer sizes where 60% was in the mass-market and 40% was in the up-market.

With our base of approximately 467,000 customers with more than 10 employees and our growing channel presence, Zoom Phone is in a strong position as customers look to modernize their phone systems to an integrated communication platform.

Slide 9 - Strong FY21 Performance

Now getting into the results, let me start with a few of the financial highlights for the full year, then I'll review our financial results for Q4, and finally our outlook for Q1 and the full year of FY22.

- Revenue grew 326% to \$2.7 billion as we exited the fiscal year at an annualized run rate of \$3.5 billion.
- We grew non-GAAP operating margin to 37.1%, up from 14.2% in FY20.
- Free cash flow grew by over 12 times to \$1.4 billion for the full year.

Slide 10 - Rapid Revenue Growth in Q4

In Q4, total revenue grew 369% year over year to \$882 million dollars. This top-line result exceeded the high end of our guidance range of \$811 million due to strong sales and marketing execution in both our online, direct and channel businesses, as well as lower-than-expected churn. The demand was widespread across products, industry verticals, geographies, new logos and customer cohorts.

The year-over-year growth in revenue for the quarter was mainly driven by the sharp increase in new customers this year, which accounted for approximately 80% of the incremental revenue, up from 59% in Q4 of last year. We continued to add customers of all sizes and across industries, that we anticipate will provide future upsell opportunities.

Slide 11 - Enterprise Traction

Let's take a look at the key customer metrics for the quarter:

We continued to see expansion in the up-market as we ended the quarter with 1,644 customers generating more than \$100,000 in trailing twelve months revenue, up 156% year over year, and 28% quarter over quarter. This is an increase of 355 customers sequentially, the highest number of quarterly net adds for the segment.

We made great progress in the up-market and still see a lot of opportunity ahead. For example, we grew the number of Global 2000 customers generating at least \$100,000 of ARR by more than 100% this year - but that accounts for only 14% of the total population.

Slide 12 – Rapidly Growing Customer Base

We exited the quarter with approximately 467,000 customers with more than 10 employees, adding approximately 33,000 customers during the quarter and 385,000 customers during the year. In Q4, customers with more than 10 employees represented approximately 63% of revenue.

We also continued to benefit from significant growth in our segment of customers with 10 or fewer employees. In Q4, customers with 10 or fewer employees represented approximately 37% of revenue, up from 20% in Q4 last year and down modestly from 38% in Q3.

Slide 13 – Strong Net Dollar Expansion

Our Net Dollar Expansion rate for customers with more than 10 employees exceeded 130% for the 11th consecutive quarter as existing customers acquired more Zoom Meeting licenses,

Rooms, Webinars and Zoom Phone products. We value their trust in us to build their unified communication on Zoom.

Slide 14 – Growing International Presence

Both domestic and international markets had strong growth during the quarter. Our Americas revenue grew over 292% year over year. Our combined APAC and EMEA revenue grew 687% year over year to be 33% of revenue, up from 20% a year ago. In FY22, we intend to make additional investments in international resources to further capitalize on the global opportunity.

Slide 15 – Q4FY21 Expenses and Margins

Now turning to profitability. The increase in demand and strong execution drove net income profitability from both GAAP and non-GAAP perspectives. I will focus on our non-GAAP results, which exclude stock-based compensation expense and associated payroll taxes, charitable donation of common stock and acquisition-related expenses.

Non-GAAP gross margin in the fourth quarter was 71.3%, compared to 84.2% in Q4 last year and 68.2% in Q3. The year-over-year decline in our gross margin is partially due to the dramatic increase in free usage related to the pandemic, including our commitment to approximately 125,000 K-12 domains, as well as the higher utilization of public cloud services. The sequential improvement mainly relates to seasonal audio usage which decreases during the holiday season. We would expect gross margin to remain around 70% as long as we continue to support free K-12 education.

Research and development expense grew by 91% year over year to approximately \$31 million dollars. As a percentage of total revenue, R&D expense was approximately 3.5%, which was lower than in Q4 of FY20 mainly due to the strong top-line growth. Though we made strides in expanding our team, we remain committed to prioritizing R&D hiring and continuing to grow in order to drive further innovation, expansion and security on our platform.

Sales and marketing expense grew by 90% year over year to \$159 million dollars. This reflects an additional \$75 million over last year primarily due to investments and hiring to drive future growth. Sales and marketing expense was approximately 18.1% of total revenue, a decrease from Q4 of FY20 mainly due to strong top-line growth. We plan to continue to invest in adding sales capacity and product marketing programs over the next several quarters focused on capturing market share.

G&A expense in the quarter grew by 291% to \$78 million dollars, as we continued to scale our G&A functions and invest heavily in security and compliance headcount and professional services. G&A expense was approximately 8.8% of total revenue, a decrease from Q4 of FY20.

The revenue upside in the quarter carried through to the bottom line, with non-GAAP operating income of \$361 million dollars, exceeding our guidance. This translates to a 40.9% non-GAAP operating margin for the fourth quarter, a large improvement from 20.4% in Q4 last year, and steady improvement from 37.4% in Q3.

Non-GAAP earnings per share in Q4 was \$1.22, on approximately 301 million non-GAAP weighted average shares outstanding and adjusting for undistributed earnings. This result is 43 cents above the high end of our guidance and \$1.07 higher than Q4 of last year.

Slide 16 – Growing Future Revenue under Contract

Turning to the balance sheet. Deferred revenue at the end of the period was \$883 million dollars, up 283% year over year from \$231 million dollars. Also please note, we have seen a shift in the mix of invoicing to approximately 50% of business being billed monthly, up from approximately 40% in the previous year.

Looking at both our billed and unbilled contracts, our RPO totaled approximately \$1.8 billion dollars, up 190% year over year from \$604 million dollars. The increase in RPO is consistent with the strong demand and execution in the quarter.

We expect to recognize approximately 70% or \$1.2 billion of the total RPO as revenue over the next 12 months as compared to 62% or \$375 million in Q4 of FY20.

Slide 17 – Rapid Cash Flow Growth

We ended the quarter with approximately \$4.2 billion in cash, cash equivalents and marketable securities, excluding restricted cash. This balance includes approximately \$2 billion from our follow-on public offering in January.

We had exceptional operating cash flow in the quarter of \$399 million dollars, up from \$37 million in Q4 last year. Free cash flow was \$378 million dollars, up from \$27 million in Q4 last year. The increase is primarily attributable to strong billings and collections.

Looking into FY22, we expect to increase our capital expenditures related to the build-out of our data center infrastructure to support our growth outlook and drive additional efficiencies.

Slide 18 – Q1 and Full Fiscal Year 2022 Outlook

Now, turning to guidance, we are pleased to announce our outlook for FY22 for both revenue and non-GAAP profitability. Although we remain optimistic on Zoom’s outlook, please note that the impact and extent of the COVID-19 pandemic and people returning to in-person contact still remain largely unknown. Our outlook is based on our current assessment of the business environment.

For the first quarter of FY22, we expect revenue to be in the range of \$900 to \$905 million dollars. We expect non-GAAP operating income to be in the range of \$295 to \$300 million dollars. Our outlook for non-GAAP earnings per share is 95 to 97 cents based on approximately 307 million shares outstanding. Both Q1 and full year share count include the additional shares issued in our follow-on public offering.

For the full year of FY22, we expect revenue to be in the range of \$3.76 to \$3.78 billion dollars, which would represent approximately 42% to 43% year-over-year growth. We expect non-GAAP operating income to be in the range of approximately \$1.13 to \$1.15 billion which would represent approximately 14% to 16% year-over-year growth. Our outlook for the non-GAAP earnings per share is \$3.59 to \$3.65, based on approximately 311 million shares outstanding.

Slide 19 - \$1 Million Supporting Education Innovation

Before concluding, I am happy to highlight that today we announced the first group of grant recipients for our EdInnovation Awards program. This is part of our Zoom Cares philanthropic program, under our ESG umbrella. We are excited to support their work which includes promoting diversity within the teaching profession, entrepreneurial job training, assisting aspiring youth in conflict-affected areas to join the digital economy, and providing access to science-based approaches to reading education. We are proud to sponsor these critical and innovative education efforts around the world and support the next generation of talent.

As we look forward to FY22, Zoom is grateful to be a driving force enabling connection and collaboration worldwide with our high-quality, frictionless and secure communications platform.

Thank you to the entire Zoom team, our customers, our community, and our investors!

Slide 20 – Questions Slide

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 21 - Thank You Slide [END of webinar]

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