

Zoom Q2 FY24 Earnings - Prepared Remarks

Slide 1 – Zoom Q2 FY24 Earnings

Tom McCallum, Head of IR

Thank you, David.

Hello everyone, and welcome to Zoom's earnings video webinar for the second quarter of FY24. 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 third 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 turn the discussion over to Eric.

No Slide - Spotlight Eric

Eric Yuan, Founder and CEO

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

Before starting, I'd like to welcome XD Huang as our CTO, who joins us after a successful career at Microsoft, where he most recently served as Azure AI CTO and Technical Fellow.

XD joins us at an optimal moment in our AI journey. In the past few months we brought several new AI innovations to the market and announced an aggressive roadmap aimed at empowering our customers to work smarter and serve their customers better.

And, as we develop and deploy AI solutions, we strongly believe that technology should advance trust. We are privileged to have countless customers rely on us for their communications needs. We don't take that for granted. Earlier this month, we took the additional step in stating that Zoom does NOT use customer content to train our AI models or third-party AI models.

I'm proud of the approach we are taking. By putting customers' privacy needs first, Zoom is taking a leadership position in ensuring customers can use our AI features with confidence that their content is protected.

Slide 4 – One platform delivering limitless human connection

Now, let me share how we have advanced in our mission of: "One Platform Delivering Limitless Human Connection." We launched Zoom Scheduler, which serves to reduce the hassle of scheduling with people outside your organization, and Intelligent Director, which uses AI and multiple cameras to provide the best image and angle of participants joining from a conference room. We also launched many new offerings like Zoom Clips, which enables asynchronous video conversations.

And more and more customers are getting on Zoom Team Chat, driven by increased adoption of Zoom One and new features like Continuous Meeting Chat, which connects the transient in-meeting chat feature to the persistent Zoom Team Chat product. Currently, we have two fortune 15 companies, one major consulting firm, a global F&B brand and a leading law firm using Zoom Team Chat as a core means of text-based communications.

Our Contact Center product has surpassed 500 customers and we are rolling out about 90 new features and enhancements per quarter. We launched Workforce Management in early July to help customers streamline customer

communications, manage agent needs, and transform their customer experience all from a single, unified platform. WFM is already off to a great start and we look forward to adding additional products to this suite to expand our native CX capabilities and revenue streams.

We have progressed rapidly in our integration of Workvivo. After rolling it out internally, I could not be more impressed with the product and confident in the value it will bring to our customers in terms of building culture across a distributed workforce, ultimately delivering upon our strategic pillar of “enabling hybrid work”.

Speaking of which, a few weeks ago, we announced internally a structured hybrid approach – asking Zoomies that live within commuting distance to come into their local office twice a week. Zoom is purpose-built for hybrid work and it is on us to understand what our customers are experiencing in their hybrid journeys and what works and does not work for them. We believe that this approach will enable us to continue to innovate for our customers and deliver what they need to succeed.

Slide 5 – Customer wins highlight the power of the platform

Now moving on to some of our customer wins.

First, we are excited to expand with the United States Postal Service. In Q2, the postal service added Zoom Team Chat for 21,500 users to their existing Zoom for Government deployment.

Let me also thank Brookdale Senior Living, the largest operator of senior housing in the United States. Brookdale started as a Zoom Meetings customer in FY20. A year later, they began evaluating Zoom Phone. And in Q2 they went all-in on the cloud and upgraded to Zoom One, in order to unify their communication needs under one integrated product.

Let me also thank Perdue Farms. Like many of our customers’ journeys, Perdue’s started years ago with an initial Zoom Meetings deployment. Last Fall, they went all-in with Zoom One Enterprise Plus. However, the story does not end there. In Q2, Perdue added Zoom Contact Center due to its native integration with their existing Zoom Phone deployment and our ambitious innovation roadmap.

Let me also thank Valmont Industries. Valmont was an early adopter of Zoom Meetings and Phone and has continued to be a major platform adopter, including

Zoom One and Zoom Contact Center. And in Q2, with the goal of utilizing AI to better serve their employees, they added Zoom Virtual Agent due to its accuracy of intent understanding, ability to route issues to the correct agent, ease of use and quality of analytics. We are so delighted to see our partnership with Valmont continue to grow and are committed to innovating further to support their operations.

Finally, let me thank Dollar General, America's general store, for choosing Zoom's Workvivo to connect employees as the digital heartbeat for the company. Dollar General will rollout Workvivo's employee engagement platform for its roughly 190,000 employees to enhance the employee experience at the individual, group and district levels, drive employee dialogue, and reinforce its strong culture.

Again, we are so excited to welcome and expand with USPS, Brookdale, Perdue Farms, Valmont, Dollar General, and all of our customers worldwide.

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

Slide 6 - Q2 Milestones

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone. We are pleased that we beat our top-line and profitability guidance in Q2. Here are a few milestones:

First, operating cash flow grew 31% year over year to \$336 million dollars.

Second, Zoom Phone reached roughly a half billion dollars in annualized run rate revenue.

And finally, we are excited that Zoom Contact Center has surpassed 500 customers in only 6 quarters.

Slide 7 – Continued top-line expansion in Q2 with positive trends in Enterprise and Online

In Q2, total revenue grew 4% year over year to \$1.139 billion dollars, which includes \$10 million dollars of pressure from foreign exchange. This result was approximately \$24 million dollars above the high end of our guidance.

Our Enterprise business grew 10% year over year and represented 58% of total revenue, up from 54% a year ago.

We continued to see improvement in Online Average Monthly Churn, which decreased to 3.2% from 3.6% in Q2 of FY23.

Slide 8 – Growth with new and existing Enterprise customers

The number of Enterprise customers grew 7% year over year to approximately 218,100. Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q2 came in at 109%.

We saw 18% year-over-year growth in the up-market as we ended the quarter with 3,672 customers contributing more than \$100,000 dollars in trailing twelve months revenue. These customers represent 29% of revenue, up from 26% in Q2 of FY23, and include some of the amazing names that Eric highlighted earlier.

Slide 9 – Growth in Americas, macro headwinds in ROW

Our Americas revenue grew 6% year over year, while EMEA and APAC declined by 1% and 3%, respectively. Absent currency impact, both EMEA and APAC would have been approximately flat year over year. On a quarter-over-quarter basis, all regions grew 3%.

Slide 10 – Q2 FY24 expenses and margins

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

Non-GAAP gross margin in Q2 was 80.3%, an improvement from 78.9% in Q2 of last year. We are pleased with the strength of our gross margins as we continue to optimize usage across the public cloud and our co-located data centers for both existing and emerging technologies. For the full year, we expect non-GAAP gross margin to be approximately 79.7%, as we make additional investments in new AI technologies.

Research and development expense grew by 6% year over year to approximately \$104 million dollars. As a percentage of total revenue, R&D expense increased to 9.1% from 8.9% in Q2 of last year, reflecting our investments in expanding our product portfolio including Zoom Contact Center,

AI, and more. Looking ahead, investing in innovation will remain a top priority for Zoom.

Sales and marketing expense decreased by 3% year over year to \$276 million dollars. This represented approximately 24.2% of total revenue, down from 26.0% in Q2 of last year. As a reminder, Zoomtopia will be held in Q3 this year and will drive incremental marketing investment in the quarter.

G&A expense declined by 19% to \$73 million dollars or approximately 6.4% of total revenue, down from 8.2% in Q2 of last year, as we continue to achieve greater efficiencies and experienced one-time savings in the quarter.

Non-GAAP operating income grew by 17% to \$462 million dollars, exceeding the high end of our guidance of \$410 million dollars. This translates to a 40.5% non-GAAP operating margin, a meaningful improvement from 35.8% in Q2 of last year.

Our effective tax rate in Q2 was 18.5%. For the remainder of the year, our tax rate is expected to approximate the blended U.S. federal and state rate.

Non-GAAP diluted earnings per share in Q2 was \$1.34, on approximately 306 million non-GAAP diluted weighted average shares outstanding. This result was 28 cents above the high end of our guidance and 29 cents higher than Q2 of last year.

Slide 11 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was 1.37 billion dollars, down approximately 2% from Q2 of last year. This was inline with the high end of the expectations that we shared last quarter. For Q3, we expect deferred revenue to be down 4 to 5% year over year, partially driven by shorter billing frequencies on Enterprise deals arising from the high interest rate environment.

Looking at both our billed and unbilled contracts, our RPO increased 9% year over year to approximately \$3.5 billion dollars. We expect to recognize approximately 59% of the total RPO as revenue over the next 12 months, as compared to 61% in Q2 of FY23, indicating lengthening contract durations on a year-over-year basis. As a reminder, our renewal seasonality peaks in Q1 and declines throughout the rest of the year.

Slide 12 – Strong cash flow and position in Q2

Operating cash flow in the quarter grew 31% year over year to \$336 million dollars. Free cash flow grew 26% year over year to \$289 million dollars. Both results include the approximately \$60 million dollar cash payment related to the legal settlement that we discussed last quarter. Our operating cash flow and free cash flow margins were 29.5% and 25.4%, respectively.

We ended the quarter with approximately \$6 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Given the strength in profitability and collections, we are increasing our cash flow outlook for FY24. We now expect free cash flow to be in the range of 1.20 to 1.23 billion dollars.

Slide 13 – Q3 and Full Fiscal Year 2024 outlook

Turning to guidance. For Q3, we expect revenue to be in the range of 1.115 to 1.12 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 400 to 405 million dollars. Our outlook for non-GAAP earnings per share is \$1.07 to \$1.09 based on approximately 309 million shares outstanding.

We are also pleased to raise our top-line and profitability outlook for the full year of FY24. We now expect revenue to be in the range of 4.485 to 4.495 billion dollars. At the midpoint this represents approximately 2% year-over-year growth, or 3% in constant currency, which we expect to be neutral in the back half of the year. Our increased total revenue guidance reflects a consistent view on Enterprise, with tempered expectations for Online for the remainder of the year.

We expect our non-GAAP operating income to be in the range of 1.685 to 1.695 billion dollars representing an operating margin of approximately 38%. Our outlook for non-GAAP earnings per share for FY24 is \$4.63 to \$4.67, based on approximately 308 million shares outstanding.

Thank you to the entire Zoom team, our customers, our community, and our investors for your trust and support!

Slide 14 – Zoomtopia

Before opening up for Q&A, we are excited about our premier user conference, Zoomtopia. It will be in person in San Jose as well as on Zoom Events. We look forward to sharing more about our expanding platform, new innovations and customer testimonials. Please join us at Zoomtopia on October 3 and 4.

Slide 15 – Q&A

David, please queue up the first question.