

Slide 1 - Zoom Title Slide

Tom McCallum, Head of IR

Thank you, Matt.

Hello everyone, and welcome to Zoom's earnings video webinar for the third quarter of FY22. 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.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 fourth quarter and full fiscal year 2022; Zoom's expectations regarding financial and business trends; Zoom's growth strategy and business aspirations to help customers embrace change, enable hybrid workforces, and grow their businesses; product features and the expected benefits of such features; and Zoom continuing to fortify its position as a leading brand in its industry.

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! In the spirit of the upcoming holiday season, I want to recognize the hard work of Zoom's global workforce and thank our customers, partners and investors for their steadfast trust and support.

We continue to fortify our position as a leading brand in our industry. We are honored that Gartner named us a Leader in the 2021 Magic Quadrant for Meeting Solutions for the sixth consecutive year and for Unified Communications as a Service for the second consecutive year.

Slide 4 - Zoomtopia

Zoomtopia 2021 was bigger and more successful than ever before. We hosted nearly 34,000 live virtual attendees on our platform and 277 speakers, including customers like Choice Hotels, Ally, and Hubspot. And we did it on Zoom Events - our all-in-one solution for virtual and hybrid events.

Zoom Events allowed us to streamline event preparation, enhance audience engagement, and conduct better post-event communication and analysis. Its multitrack functionality enabled us to roll our Analyst Day directly into the Zoomtopia agenda so that participants could move seamlessly across the Analyst Day track, other tracks of Zoomtopia, and the all-connecting lobby.

At Zoomtopia, customers shared how they use Zoom to enable flexible co-located workforces and grow their businesses. We demonstrated how Zoom Apps, which already has 67 apps after only a few months, has the potential to enhance meeting productivity and collaboration. More and more businesses are building products on our platform that connect interrelated work streams to the Zoom client - both inside and outside the meeting.

We were also super excited to unveil the Zoom Video Engagement Center, which enhances our customers' ability to communicate with their customers through our omnichannel solution, and shows our broader commitment to the contact center space. It is expected to be generally available early next year.

Whether it's the ability to virtually whiteboard in and around the meeting, or utilize AI to transcribe or translate a meeting live – Zoomtopia demonstrated that previously 'futuristic' capabilities have arrived. We are working hard to develop and deploy the technologies of the future to address current business needs and reimagine how we communicate and work in a flexible hybrid world.

Slide 5 - Thank you, Carrier

Now let me recognize a few big wins for the quarter:

We are excited to have Carrier Global Corp, the leading global provider of healthy, safe, sustainable and intelligent building and cold chain solutions, as a long-standing Zoom Meetings customer and now, a new Zoom Phone customer as well. Following several months of extensive vendor reviews of leading UCaaS vendors, Carrier selected Zoom Phone to modernize their phone systems for a large portion of their nearly 53,000 employees across 180 countries. We are so thankful that Carrier chose Zoom to deliver an increasingly comprehensive, secure, innovative and integrated set of communications services!

Slide 6 - Strong Wins and Expansions

In addition to Carrier, we had many other upsells this quarter. For example, one of the world's largest global retailers decided to add 20,000 Zoom Phone licenses to their existing Meetings, Rooms, and Webinar footprint in order to better manage their global offices, distribution centers, and retail locations. This demonstrates our strong value add to the retail vertical and builds upon previous success stories like Tapestry and Target.

We also had several notable Zoom Meetings wins in Q3, including:

- a large expansion for a leading Federal System Integrator which puts them at 45,000 users, demonstrating the security and reliability of our Zoom For Government Platform;
- a competitive win with a global technology firm for 16,500 meeting licenses to modernize the way their employees communicate;
- and expansion within our big 4 audit and big 3 consulting clients, who added more than ~35k meetings licenses in the quarter to their existing strong meetings footprints.

Thanks to our customers, investors and the hard work of our approximately 6,300 employees, we've grown over the past decade from a video conferencing solution to a communications platform that encompasses unified communications, as well as developer and event solutions. All these services provide an indispensable platform for individuals, enterprises and developers to connect, collaborate and build in the hybrid world.

And with that let me pass it over to Kelly.

Slide 7 - Strong revenue growth

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

Let me start by reviewing our financial results for Q3, then discuss our outlook.

In Q3, total revenue grew 35% year over year to \$1.05 billion dollars, exceeding the high end of our guidance of \$1.02 billion dollars. The growth was primarily driven by strength in our direct and channel businesses, which grew at twice the rate of our online business, as well as improved churn in both online and direct segments. From a product perspective, we saw strong demand for Zoom Video Webinars, Zoom Rooms, and Zoom Phone. Zoom Phone had year-over-year revenue growth in the triple-digits and reached 30 customers with over 10k paid seats.

The year-over-year growth in revenue for the quarter was driven by a healthy mix between new and existing customers, with existing customers accounting for 26% of the incremental revenue, up from 19% a year ago.

Slide 8 - Expanding customer base

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

We saw 94% year-over-year growth in the up-market as we ended the quarter with 2,507 customers generating more than \$100,000 dollars in trailing twelve months revenue. These customers represented 22% of revenue, up from 18% in Q3 of last year.

We exited the quarter with approximately 512,100 customers with more than 10 employees, up 18% year over year.

In Q3, customers with more than 10 employees represented 66% of revenue, up from 64% last quarter and 62% in Q3 of last year.

These trends suggest that our customers with more than ten employees are expanding their use of our platform and adding more products and seats, aligned with our go-to-market strategy.

Slide 9 – Strong Net Dollar Expansion Rate

Our Net Dollar Expansion rate for customers with more than 10 employees exceeded 130% for the 14th consecutive quarter as existing customers increased their spend with Zoom and we saw strong upsells of Zoom Phone and Zoom Rooms. For Q4, we expect this metric to be modestly below the 130% mark as the denominator of this trailing twelve month metric reflects the significant growth in our customer base.

Slide 10 – Growing international presence

Both domestic and international markets had strong growth during the quarter. Our Americas revenue grew 30% year over year. Our combined APAC and EMEA revenue grew 47% year over year to be approximately 33% of revenue, up from 31% a year ago. On a quarter-over-quarter basis, Asia Pacific had another strong quarter, driven by growth in Australia and Japan and bolstered by the investments we have made in our international teams. However, as we discussed in Q2, we saw headwinds to our online business in EMEA, mainly related to summer seasonality.

Slide 11 – Q3FY22 expenses and margins

Now turning to profitability which was strong 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, acquisition-related expenses, net litigation settlements, net gains on strategic investments, and undistributed earnings attributable to participating securities.

Non-GAAP gross margin in Q3 was 76.0%, an improvement from 68.2% in Q3 of last year and stable with Q2 of this year. We remain committed to our multi-year strategy of building out our data centers to support further improvements in gross margin.

Zoom Q3FY22 Earnings - Prepared Remarks

Research and development expense grew by 169% year over year to approximately \$68 million dollars. On a sequential basis, we added over \$13 million in R&D expense, primarily due to expansion within our engineering and product teams globally. As a percentage of total revenue, R&D expense doubled year over year to 6.4%, demonstrating our commitment to innovation and product development.

Sales and marketing expense grew by 68% year over year to \$237 million dollars or approximately 22.6% of total revenue, primarily driven by increased marketing programs and sales headcount to drive future growth. We remain committed to investing in global sales capacity and marketing across our core and new products.

G&A expense grew by 12% to \$82 million dollars or approximately 7.8% of total revenue. This was lower than Q3 of last year as we expanded our G&A functions prudently to meet our new scale.

The revenue upside in the quarter carried through to the bottom line, with non-GAAP operating income of \$411 million dollars, exceeding the high end of our guidance of \$345 million dollars. This translates to a 39.1% non-GAAP operating margin for Q3, compared with 37.4% a year ago and 41.6% last quarter.

Non-GAAP diluted earnings per share in Q3 was \$1.11, on approximately 306 million non-GAAP weighted average shares outstanding. This result is 3 cents above the high end of our guidance and 12 cents above Q3 of last year. The result includes a \$70 million provision for income tax, a significant increase from last year, mainly due to fully utilizing our NOLs as well as a decrease in our stock-based compensation for tax purposes.

Slide 12 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was \$1.2 billion dollars, up 39% year over year from \$855 million dollars, and slightly up quarter over quarter. Looking at Q4, we expect the year-over-year growth rate in deferred revenue to be in the mid 20s. This is driven by the cyclical decline in the average remaining term of our annual customer contracts, which are front-half weighted.

Looking at both our billed and unbilled contracts, our RPO totaled approximately \$2.5 billion dollars, up 51% year over year from \$1.6 billion dollars. We expect to recognize approximately 67% of the total RPO as revenue over the next 12 months, as compared to 72% in Q3 of last year, reflecting a shift back towards longer term plans.

Slide 13 – Strong cash flow and position in Q3

We ended the quarter with approximately \$5.4 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had operating cash flow in the quarter of \$395 million dollars, as compared to \$411 million dollars in Q3 of last year. Free cash flow was \$375 million dollars, as compared to \$388 million dollars in Q3 of last year. It's important to note that as we progress beyond the initial phases of the pandemic growth and continue to invest to support our new scale, our working capital is normalizing.

In Q4, we expect to incur a one-time \$85 million dollar cash outflow related to a legal settlement, which we disclosed and booked as a GAAP expense in Q1. As a reminder, due to the seasonality of renewals being front-end loaded and tapering through the year, our collections will follow the same trend. We will also further expand capex investments in building out our data centers to support future gross margin expansion.

Slide 14 – Q4 and Full Fiscal Year 2022 outlook

Now, turning to guidance. We are pleased to raise our outlook for FY22. This outlook is based on our current assessment of the business environment. Specifically, it assumes that our direct and channel business will continue to grow, while our online business will be a headwind in the coming quarters as smaller customers and consumers adapt to the evolving environment.

For the fourth quarter of FY22, we expect revenue to be in the range of \$1.051 to \$1.053 billion dollars. We expect non-GAAP operating income to be in the range of \$361 to \$363 million dollars. Our outlook for non-GAAP earnings per share is \$1.06 to \$1.07 based on approximately 307 million shares outstanding and a tax rate of approximately 10%. Due to our multi-year history of profitability, we have fully utilized our NOLs. We expect our tax rate to approximate the U.S. blended tax rate in FY23.

Zoom Q3FY22 Earnings - Prepared Remarks

For the full year of FY22, we expect revenue to be in the range of \$4.079 to \$4.081 billion dollars, which would represent approximately 54% year-over-year growth, up from our previous guidance of 51% issued in August. We expect non-GAAP operating income to be in the range of approximately \$1.598 to \$1.6 billion dollars which would represent approximately 63% year-over-year growth. Our outlook for the non-GAAP earnings per share is \$4.84 to \$4.85, based on approximately 306 million shares outstanding.

As always, 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 15 – Questions slide

Matt, please queue-up our first question.

Slide 16 - Thank You slide - Eric

Thank you for joining us and supporting Zoom.