

Zoom Q4 FY24 Earnings - Prepared Remarks

Slide 1 – Zoom Q4 FY24 Earnings

Tom McCallum, Head of IR

Thank you, David.

Hello everyone, and welcome to Zoom's earnings video webinar for the fourth quarter and full fiscal year 2024. 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 first quarter and full fiscal year 2025; 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.

Slide 4 – One platform delivering limitless human connection

Eric Yuan, Founder and CEO

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

In FY24, we made a tremendous amount of progress towards our mission of one platform delivering limitless human connection.

As Generative AI began to take the world by storm, we listened carefully to customers in order to deliver AI that can best serve their needs, with innovation that is responsible, empowering, and built from the ground up in a way that permeates and unifies our entire platform.

Zoom AI Companion, our generative AI assistant, empowers customers and employees with enhanced productivity, team effectiveness and skills. Since its launch only five months ago, we expanded AI Companion to six Zoom products, all included at no additional cost to licensed users.

But we are far from done. Our future roadmap for AI is 100% guided by driving customer value. We are hard at work developing new AI capabilities to help customers achieve their unique business objectives and we'll have more to share in a month at Enterprise Connect. We hope to see you there.

Our expanding Contact Center suite is a unified, AI-first solution that offers tremendous value to companies of all sizes seeking to strengthen customer relationships and deliver better outcomes. The base product includes AI Companion and our newly launched tiered pricing allows customers to add specialized CX capabilities such as AI Expert Assist, workforce management, quality management, virtual agent, and omnichannel support.

Bolstered by its expanding features, our Contact Center suite is beginning to win in head-to-head competition with legacy incumbents. Beyond that, it is competing on its own merits with customers completely new to Zoom - broadening the funnel for the entire Zoom platform.

As Zoom becomes a full workplace solution, we are seeing customers migrate from other chat products onto Zoom Team Chat. Over the past year, Zoom Team Chat usage has increased 130% across our paid accounts. And our migration tool, designed to simplify the transition, has seen a 4x increase in downloads in the last 6 months.

Customers across industries are moving to Zoom Team Chat including a global supply chain leader, who has migrated over 1,200 users, a major law firm who

has migrated 1,500 users, and a financial payments leader, who has moved over 2,000 users.

Customers appreciate the improved user experiences and enhanced collaboration driven by our Zoom Team Chat product as well as the cost efficiencies realized by consolidating their communications and collaboration solutions onto Zoom.

Last April, we acquired Workvivo and its integration into the Zoom interface has strengthened its market position. In Q4, we upsold a Fortune 10 company and long-standing Zoom customer on Workvivo, making it Workvivo's biggest customer to date. And on the flipside, we also saw a global bank, who started as a Workvivo customer, adopt the broader Zoom platform. As you can see, adding new products both organically and inorganically creates a virtuous cycle, allowing us to sell more products into a larger base.

We were very pleased to see Workvivo recognized as a "leader" by Magic Quadrant in its first report on Intranet Packaged Solutions. Similarly, Zoom Revenue Accelerator was recognized as a "Strong Performer" in The Forrester Wave™ in its first year of being covered - an amazing testament to its value as a powerful AI-enabled tool driving value for sales teams.

FY24 was a difficult year from a macro perspective and we faced those challenges head on. We became more disciplined and focused, while continuing to prioritize growth opportunities. As a result, we are much better positioned than we were one year ago. Our platform moat is deeper, our contact center offering is more robust, and our go-to-market teams are primed with defined goals and sharpened expertise to drive growth and empower our customers.

Slide 5 – Customer traction highlights the appeal of our AI and customer experience solutions

Now, let's talk about some of our amazing customers.

First, I'm so excited to welcome Broadcom, a global infrastructure technology leader, to the Zoom family. Recognizing the simplicity and ease-of-use of our expanding platform, they opted for the Zoom One Enterprise bundle to modernize the way they communicate and collaborate.

Let me also thank Diageo, a leading global beverage company, for doubling down on Zoom. Seeing strong value from their existing Meetings, Phone and

Rooms deployment, in Q4, they expanded to Zoom Contact Center and Zoom Virtual Agent.

Let me also thank Community Financial Credit Union, a full-service financial cooperative, for investing in our broad Zoom One platform. They have chosen to modernize member engagement with Zoom Contact Center. Community Financial chose Zoom because of our one platform, video-first approach to solving all their communications needs. Zoom's integrations with key banking solutions through our APIs and partnerships, were core to their decision-making process.

Finally, let me thank Convera, the World's FX payments leader. Zoom Phone was the foundation of their Zoom engagement and from there they adopted the wider Zoom One platform in less than two years. Seeing the benefits of the tight integration of our products underpinned by AI Companion, they recently began to deeply leverage Zoom Team Chat in order to streamline their pre, during and post meeting communication all within the Zoom Platform.

Everything we do is rooted in our culture of delivering happiness. That is why employees, even more than IT departments, are our biggest champions. And of course, happy employees are the most productive, so choosing Zoom becomes a win for everyone. We are laser-focused on our mission and could not be more optimistic about our future. The best is yet to come.

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

Slide 6 – Strong enterprise performance and financial discipline in FY24

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

Let me start with a few of the financial highlights for FY24. We were pleased with our strong finish to the year, with Enterprise Revenue growing 9%, and free cash flow up 24%. We also achieved a non-gaap operating margin of 39.2%, up 326 basis points from 35.9% in FY23.

Slide 7 – Emerging product traction in Q4

In Q4, we saw traction in our emerging products, including a nearly 3x increase in Zoom Contact Center licenses as we not only added a significant number of new customers but also expanded average deal size.

Zoom Phone customers with 10,000 or more seats grew 27% year over year to 95.

And Zoom AI Companion has grown tremendously in just five months with over 510,000 accounts enabled and 7.2 million meeting summaries created as of the close of FY24.

We are excited about the strong growth across these new products and the benefits they drive for our customers.

Slide 8 - Continued top-line expansion in Q4 with positive trends in Enterprise and Online

Now, let's dive into the financial results. In Q4, total revenue came in at \$1.146 billion dollars, up 3% year over year. This result was approximately \$16 million dollars above the high end of our guidance.

Our Enterprise revenue grew 5% year over year and represented 58% of total revenue, up from 57% a year ago.

We continued to see improvement in Online Average Monthly Churn, which decreased to 3% from 3.4% in Q4 of FY23. This is consistent with the previous quarter and the lowest churn we have ever reported.

Slide 9 – Growth with new and existing Enterprise customers

The number of Enterprise customers grew 3% year over year to approximately 220,400. Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q4 came in at 101%.

We saw 10% year-over-year growth in the up-market as we ended the quarter with 3,810 customers contributing more than \$100,000 dollars in trailing twelve months revenue. These customers represented 30% of revenue, up from 28% in Q4 of FY23.

Slide 10 – Growth in Americas, macro headwinds in ROW

Our Americas revenue grew 4% year over year, while EMEA was flat and APAC declined by 3%. The international performance was partially due to the FX headwinds in APAC as well as the impact from our sales reorganization in early FY24 that took longer to complete internationally than domestically.

Slide 11 – Q4 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, income tax benefits from discrete activities, and all associated tax effects.

Non-GAAP gross margin in Q4 was 79.2%, which was slightly lower than 79.8% in Q4 of last year, mainly due to our investment in AI Companion. In FY25, we expect our gross margin to be approximately 79%, reflecting focused investments in our AI features. Over the course of FY25, we expect to directionally improve gross margin towards our long-term target of 80% as we continue to optimize our data center strategy and grow some of our higher ASP products like Zoom Contact Center.

Non-GAAP income from operations grew by 10% year over year to \$444 million dollars, exceeding the high end of our guidance of \$414 million dollars. This translates to a 38.7% non-GAAP operating margin for Q4, an improvement from 36.2% in Q4 of last year.

Non-GAAP diluted net income per share in Q4 was \$1.42, on approximately 313 million non-GAAP diluted weighted average shares outstanding. This result was 27 cents above the high end of our guidance and 20 cents higher than Q4 of last year.

Slide 12 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was 1.27 billion dollars, down approximately 3% from Q4 of last year. This was roughly three percentage points better than the high end of the range we provided last quarter. For Q1, we expect deferred revenue to be down 4 to 5% year over year.

Looking at both our billed and unbilled contracts, our RPO increased 4% year over year to approximately 3.57 billion dollars. We expect to recognize approximately 58% of the total RPO as revenue over the next 12 months, as compared to 56% in Q4 of last year.

Slide 13 – Strong cash flow and position in Q4

Operating cash flow in the quarter grew 66% year over year to \$351 million dollars. Free cash flow grew 81% year over year to \$333 million dollars. The

sharp increase in our cash flow metrics was due to stronger collections, targeted expense management and higher interest income. Our operating cash flow and free cash flow margins expanded to 30.6% and 29%, respectively.

We ended the quarter with approximately \$7 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Slide 14 – Q1 and Full Fiscal Year 2025 outlook

Turning to guidance. As we consider our view for Q1 and FY25, we have not assumed any changes in the macroeconomic outlook. For Q1, we expect revenue to be approximately 1.125 billion dollars. This incorporates the two fewer days in Q1 and would represent approximately 1.8% year-over-year growth. We expect non-GAAP operating income to be in the range of 410 to 415 million dollars. Our outlook for non-GAAP earnings per share is \$1.18 to \$1.20 based on approximately 316 million shares outstanding.

For the full year of FY25, we expect revenue to be approximately 4.6 billion dollars, which represents approximately 1.6% year-over-year growth. We expect Q2 to be the low point from a year-over-year growth perspective and to accelerate from there. We expect our non-GAAP operating income to be in the range of 1.72 to 1.73 billion dollars representing an operating margin of approximately 37.5%. Our outlook for non-GAAP earnings per share for FY25 is \$4.85 to \$4.88, based on approximately 321 million shares outstanding. For FY25, we expect free cash flow to be in the range of 1.44 to 1.48 billion dollars.

We believe that our strong cash flow generation and financial discipline coupled with responsible capital allocation is a powerful combination. As indicated in our earnings press release today, our board has authorized a \$1.5 billion dollar share repurchase program that we will start executing this quarter. This not only underscores the confidence our board and management team have in the future of Zoom, but also allows us to leverage our strong profitability, cash flow and balance sheet to drive shareholder returns, while also allowing us the flexibility to consider M&A options to accelerate growth and deliver for our customers. As a note, the Share Count and EPS metrics in our guide do not account for the impacts from this repurchase program.

To echo what Eric said, we are optimistic about where we are now and where we are going. Our competitive position, innovation engine and customer base set us

up for success in FY25 and beyond. Thank you to the entire Zoom team, our customers, our community, and our investors for your trust and support!

And before closing, I would like to thank just one more person for their support over the years. Our head of IR, Tom McCallum has decided to retire this Summer after a seasoned 25-year IR career. Tom, it's been an honor and a pleasure to work with you. You have contributed tremendously to Zoom's success since before our IPO and will be dearly missed. Thank you so much for all you have done, Tom! And congratulations!

I am pleased to announce that Charles Eveslage, who has worked with Tom and me for several years now, will assume the role. With Charles at the helm, we are confident that the investment community will continue to receive a high level of service from Zoom's IR team. Please hold your goodbyes for Tom for now, he will be with us until mid-year to ensure a smooth transition.

Slide 15 – Q&A

David, please queue up the first question.