Zoom Q1 FY25 Earnings - Prepared Remarks

Slide 1 – Zoom Q1 FY25 Earnings

Charles Eveslage, Incoming Head of IR

Thank you, Kelcey.

Hello everyone, and welcome to Zoom's earnings video webinar for the first quarter of fiscal year 2025. 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. 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 second 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 – Awards and customer recognition

Eric Yuan, Founder and CEO

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

Our rapid innovation over the years has taken us far beyond video conferencing. Every step of the way has been guided by our mission to solve customer problems and enable greater productivity. In the process, we have very deliberately created a communication and collaboration powerhouse with AI infused natively across the platform.

Time and time again we are recognized as a leader by Gartner, G2, TrustRadius and many others. And we are so pleased that in March, Fast Company added Zoom to their prestigious list of the World's Most Innovative Companies of 2024, further validating our dedication to providing our customers with a high-quality, open collaboration platform powered by AI that just works.

Slide 5 – Reimagine Teamwork with Zoom Workplace

In March we announced Zoom Workplace, our AI-powered collaboration platform designed to help our customers streamline communications, improve productivity, increase employee engagement, and optimize in-person time.

Within the launch of Zoom Workplace are new enhancements and capabilities like multi-speaker view, document collaboration, AI-powered portrait lighting, along with upcoming features and products like Ask AI Companion, which will work across the platform to help employees make the most of their time. The Workplace launch also boosts Zoom Phone, Team Chat, Events and Whiteboard with many more AI Companion capabilities to help make customers more productive.

One of the core pillars of Zoom Workplace is optimizing in-person time and embracing flexible work. Our Spaces portfolio has expanded from Zoom Rooms into integrated adjacencies like Workplace Reservation, Visitor Management, and Digital Signage. As of the end of Q1, the cumulative number of Zoom Rooms licenses purchased was over 2 million. And in the last 12 months, we provisioned over 100,000 desks in Workspace Reservations to support in office work.

Leading financial services and legal firms such as Capital One and Cooley use Zoom Rooms to support their globally dispersed hybrid workforce, and others like Flex and BAYADA Home Health Care have expanded from Zoom Rooms to Workspace Reservation in order to optimize in-office time.

Zoom Workplace is also designed to increase employee engagement through the integration of Workvivo into our platform. In Q1, we landed a major telecom customer on Workvivo, who bought approximately 100,000 seats, and Workvivo was named Meta's only preferred migration partner for its customers as it retires Workplace from Meta. Our success in employee experience represents an important beachhead for us in upselling customers on the full suite.

Slide 6 - Zoom Workplace, AI, and Business Services Innovation

Zoom Workplace exists alongside and is designed to seamlessly integrate with our business services, including Zoom Events, Revenue Accelerator, Contact Center, Virtual Agent and others.

Zoom Contact Center, launched only two years ago, is ready for prime time. We now support PCI Compliance, opening the door for customers that have payment processing in their workflows. We also received Fedramp Moderate authorization for our Essentials and Premium SKUs, allowing US government agencies and entities doing business with them to leverage Zoom Contact Center.

We have launched all key social channels, including Facebook Messenger, Whatsapp and Gmail; and have enabled direct transfers between contact center agents and other departments via Zoom Phone, helping to further bridge the employee and customer experiences.

As a result of how far the product has come, we have seen strong growth in the number of deals where we have beat or displaced a Gartner top 4 CCaaS player. We have also strengthened our Channel partnerships, leading to a significant increase in our Channel wins and ability to compete for larger deals. ASPs are heading north buoyed by the popularity of our higher tier packages that allow agents and managers to lean further into AI with AI Expert Assist, Workforce Management, Quality Management, and more.

Slide 7 – Customer traction in Q1 highlights the appeal of our AI and customer experience solutions

Now, let me recognize some of our amazing customers. First, let me thank Expedia, who needs no introduction, for becoming a Lighthouse Zoom Revenue Accelerator customer in the quarter, leaning heavily into our AI products to drive revenue. A power user of Zoom Phone for years, they wanted to better automate workflows, coach sellers and drive efficiencies. We partnered with them on an initial quadruple-digit seat Zoom Revenue Accelerator deal, which includes working directly with their team to improve and tailor the product based on their business model and industry-specific use case. We are so excited about this AI-centric partnership to drive value for Expedia and continuously improve our platform based on customer feedback.

Let me also thank Major League Baseball. A year ago, MLB made a highly strategic decision to adopt Zoom Contact Center. In Q1, they chose to expand our successful partnership by integrating Zoom Quality Management into their Zoom Contact Center deployment. This enhancement further strengthens their fan engagement strategy and streamlines business operations. MLB was particularly impressed by the interactive features, enhanced accessibility, and the ability of Zoom Quality Management to support virtual fan engagement.

Let me also thank Centerstone, a nonprofit health system specializing in mental health and substance use disorder treatments for individuals, families, and veterans, for doubling down on Zoom. Seeing strong value from their existing Zoom Meetings, Phone and Rooms deployment, in Q1, they expanded Zoom Phone and added Zoom Contact Center in order to leverage AI to provide better care, and Zoom Team Chat in order to streamline communications all from a single platform.

I am also very excited to share that we greatly expanded our footprint with a leading global financial services firm, who doubled their Zoom Phone seats to over 100,000.

We are so pleased to see more customers adopting our Zoom Workplace and Business Services products in order to reap the benefits of our modern, natively integrated, AI-powered technologies.

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

Slide 8 – Q1 Milestones

Kelly Steckelberg, CFO

Thank you Eric and hello everyone. Let's start with some exciting milestones for our emerging products in Q1.

We saw additional traction in Zoom Contact Center as we reached 90 customers with over $100,000 dollars in ARR, representing 246% year-over-year growth.

This was driven by our recently launched higher pricing tiers as well as our success in larger deals.

Zoom Phone saw continued expansion up market. With the addition of the marquee financial services customer Eric just mentioned, we now have five customers with 100,000 or more Zoom Phone seats.

Zoom AI Companion has grown significantly in just eight months with over 700,000 customer accounts enabled as of today. These customers range all the way from solopreneurs up to enterprises with over 100,000 users.

Embedding AI across all aspects of Zoom Workplace and Business Services is a key priority as we continue to drive productivity and engagement for our customers.

Slide 9 - Continued top-line expansion in Q1 with positive trends in Enterprise and Online

Now, let's dive into the financial results. In Q1, total revenue came in at $1.141 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.

Online Average Monthly Churn came in at 3.2% as compared to 3.1% in Q1 of FY24. The slight uptick in churn was related to tightening up the grace period for unmade payments, which pulled some churn forward. Absent this change, Online Average Monthly Churn would have remained consistent with the last two quarters at 3.0%, the lowest we have ever reported.

Slide 10 – Continued growth in number of up-market customers

We saw 8% year-over-year growth in the up-market as we ended the quarter with 3,883 customers contributing more than $100,000 dollars in trailing twelve months revenue. These customers represented 30% of revenue, up from 29% in Q1 of FY24.

As a reminder our classification of Enterprise versus Online is determined by how we engage the customer, with Enterprise referring to customers who are supported by our direct sales team, resellers, or strategic partners, and Online referring to customers who self-serve. During Q1, as part of an effort to improve the customer experience and drive greater efficiency in our operations, we transitioned 26,800 Enterprise customers with low ARR to Online.

The number of Enterprise customers at the end of Q1, after accounting for the transition, was approximately 191,000. It is important to note, that while the customer transition had a noticeable impact on our number of Enterprise customers in Q1, the associated Revenue was de minimis, representing an approximately $4 million shift from Enterprise to Online. Additionally, our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q1 came in at 99%, which was not affected by this transition.

Slide 11 – Continued growth in Americas, FX headwinds in APAC

Our Americas revenue grew 4% year over year, while EMEA increased by 2% and APAC declined by 2%. The APAC performance was due to the FX headwinds in Japan and Australia.

Slide 12 – Q1 FY25 expenses and margins

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

Non-GAAP gross margin in Q1 was 79.3%, which was slightly lower than 80.5% in Q1 of last year, mainly due to our investments in AI innovation. In Q2, we will incur one-time investments to upgrade our data center backbone and expect gross margins to dip to 78%. For the full year of FY25, we continue to expect our gross margin to be approximately 79%.

Non-GAAP income from operations grew by 8% year over year to $457 million dollars, exceeding the high end of our guidance of $415 million dollars. This translates to a 40% non-GAAP operating margin for Q1, an improvement from 38.2% in Q1 of last year.

Non-GAAP diluted net income per share in Q1 was $1.35, on approximately 315 million non-GAAP diluted weighted average shares outstanding. This result was 15 cents above the high end of our guidance and 19 cents higher than Q1 of last year.

Slide 13 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was 1.35 billion dollars, down approximately 1% from Q1 of last year. This was roughly three percentage points higher than the range we provided last quarter, partially due to tightening up our discounting practices last year. For Q2, we expect deferred revenue to be up approximately 1% year over year.

Looking at both our billed and unbilled contracts, our RPO increased 5% year over year to approximately 3.67 billion dollars. We expect to recognize approximately 59% of the total RPO as revenue over the next 12 months, consistent with Q1 of last year.

Slide 14 – Strong cash flow and ~$7.4B cash balance, while actively repurchasing shares

Operating cash flow in the quarter grew 41% year over year to $588 million dollars. Free cash flow grew 44% year over year to $570 million dollars. Our operating cash flow and free cash flow margins expanded to 51.5% and 49.9%, respectively. The sharp increase in our cash flow metrics was due to stronger collections, targeted expense management and higher interest income.

We ended the quarter with approximately $7.4 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Last quarter, we announced the authorization of a $1.5 billion dollar share buy-back plan. As of the end of Q1, we had purchased $150 million dollars of stock, representing 2.4 million shares.

Slide 15 – Q2 and Full Fiscal Year 2025 outlook

Turning to guidance. For Q2, we expect revenue to be in the range of 1.145 to 1.15 billion dollars, representing approximately 1% year-over-year growth. We expect non-GAAP operating income to be in the range of 415 to 420 million dollars. Our outlook for non-GAAP earnings per share is $1.20 to $1.21 based on approximately 316 million shares outstanding.

We are pleased to raise our top-line and profitability outlook for the full year of FY25. We now expect revenue to be in the range of 4.61 to 4.62 billion dollars, which represents approximately 2% year-over-year growth. We still believe that Q2 will be the low point from a year-over-year growth perspective and to improve from there. We forecast our non-GAAP operating income to be in the range of 1.74 to 1.75 billion dollars representing an operating margin of 37.8%, at the midpoint. Our outlook for non-GAAP earnings per share for FY25 is $4.99 to $5.02, based on approximately 319 million shares outstanding.

Moving on to free cash flow. Please remember that due to timing of US federal and state tax payments, we pay two quarters worth in Q2 and minimal amounts in Q1. Primarily due to this seasonality and AI-related capex, we expect free cash flow in Q2 to decrease by approximately 50 to 60% quarter over quarter, before normalizing in Q3 and Q4. With the strength in free cash flow in Q1 and increased outlook for operating income in FY25, we now expect free cash flow to be toward the high end of our range of 1.44 to 1.48 billion dollars for the full year.

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

Kelcey, please queue up the first question.