

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 second quarter of FY22. 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 third quarter and full fiscal year 2022, Zoom's expectations regarding financial and business trends; Zoom's growth strategy and business aspirations to drive evolution on multiple fronts as organizations and people reimagine work, communications and collaboration; and Zoom being well-positioned to be successful as a platform.

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.

In addition, as you all know, we announced our intent to acquire Five9 in July. Clearly, we are excited about joining forces with Five9, but please note that we will not be discussing or

addressing questions regarding the pending transaction at this time as we are in the process of regulatory review.

And with that, let me turn the discussion over to Eric.

No Slide - Spotlight Eric

Eric Yuan, Founder and CEO

Thank you and welcome to everyone joining us on today's Webinar. I want to start by thanking our customers and partners for their trust and loyalty, which led to our continued strong revenue growth alongside remarkable profitability and free cash flow. We also want to thank our hard working employees for their dedication to delivering happiness to our customers and partners.

I have been humbled by the stories of how finance professionals have leveraged Zoom to reimagine the way they work. Specifically, I'd like to thank Charlie Munger of Berkshire Hathaway for his remarks about how Zoom has added so much convenience to his life. We are so delighted to count Charlie as a happy user. And I nominate myself to be Charlie's personal Zoom tech support if he ever needs it.

In Q2, we also achieved several milestones, setting the foundation for us to thrive as a platform. In July, we launched Zoom Apps, which brings over 50 apps right into the Zoom meeting experience. And this is just the beginning. The beauty of our platform is it allows our ecosystem of developers to add even more functionality, by building apps where workflows are integrated with meeting interactions.

This is a win-win because better integrations will boost our customer's productivity and afford our developers exposure to our large user base. The Zoom Apps Fund, which has already invested in over a dozen startups in our Zoom Apps and SDK ecosystem, further aligns us with developers, enabling them to focus more on innovation.

We are also excited to have launched Zoom Events in July. Zoom Events is an easy, yet powerful solution to produce and host company and public events. It acts as a layer above our existing Zoom Video Webinars and Zoom Meetings products. Zoomtopia will be virtual on Zoom Events in only two weeks and we hope to see all of you there!

In Q2, we saw several large customer upsells. We were happy to expand with a leading tech firm who increased their Meetings licenses over sixfold to 95,000, and with a global financial services customer who added over 63,000 Zoom Phone licenses, making them our new largest customer. Both wins were displacements of legacy solutions that Zoom beat in terms of reliability, simplicity and integration.

Slide 4 - Great wins with industry leaders

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

I want to welcome NEC Corporation to the Zoom family. Based out of Japan, NEC is a leader in the integration of IT and network technologies behind their slogan: “Orchestrating a brighter world”. In order to enhance the productivity, collaboration and happiness of their global workforce, NEC deployed approximately 110,000 Zoom Meetings licenses.

I also want to welcome Seagate Technology to the Zoom family. Seagate is a global mass-data storage infrastructure leader innovating world-class, precision-engineered data storage and management solutions with a focus on sustainable partnerships. Seagate recently decided to modernize and integrate their global communications infrastructure with over 14,000 Zoom Meetings licenses and over 17,000 Zoom Phone licenses.

Next is a Zoom Phone upsell. In Q2 of last year, we welcomed ExxonMobil, which develops and applies next-generation technologies to help safely and responsibly meet the world's growing needs for energy and chemical products, to the Zoom family.

They began as a Zoom Video conferencing customer to enable their teams to collaborate globally. We are grateful to have seen our partnership evolve over the past year and excited that ExxonMobil has recently decided to add Zoom Phone to further enhance the user experience for their global workforce leveraging a communications platform that is easy to deploy and manage.

In addition to these great customer wins, we also closed another strategic channel partnership, with Telkomsel, the largest cellular operator in Indonesia, which is the world’s fourth largest country by population. Telkomsel understands and wants to support their 170 million subscribers’ need for seamless and reliable virtual meetings to thrive in the digital workplace era.

They will be leveraging the power of Zoom's Developer Platform and ISV Partner Program to deliver a fully integrated solution via their CloudX offering for the Enterprise segment and Zoom native apps for the Consumer segment.

The collaboration between Telkomsel and Zoom will bring communication to the next level by combining Zoom's strong capabilities and feature-rich platform with Telkomsel's best quality network and localized interface, together creating a powerful tool to improve customer productivity and collaboration.

Thank you NEC, Seagate, ExxonMobil, and Telkomsel. I love you all.

Enterprises want digital platforms that combine meetings, phone, events, office technology, and developer solutions in a way that is simple, reliable, and frictionless. This fundamental truth underpins our leadership position in video conferencing, and will help to drive further growth in Zoom Phone and Zoom Rooms, as we expand our platform and addressable market in the hybrid world.

Today we are fortunate to be a leading global brand with over half a million customers having more than 10 employees. Our internal innovation engine is strong, and bolstered by our growing Zoom Apps developer ecosystem and acquisitions such as Kites, that will strengthen our position in AI transcription and translation.

As organizations and people reimagine work, communications and collaboration, we are faced with a once-in-a-lifetime opportunity to drive this evolution on multiple fronts. Thanks again to the hard work of our over 5,700 employees and the trust of our loyal customers, we are positioned well to be successful as a platform embracing and enabling hybrid work. I'm very excited about the future, the journey has only begun.

And with that let me pass it over to Kelly.

Slide 5 – Continued strong enterprise traction

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

We had an eventful Q2, with several highlights - the first of which was the strength in the enterprise. We were able to grow the number of enterprise customers spending more than \$1 million dollars in ARR by 77% year over year.

Slide 6 – Zoom Phone acceleration

And the second highlight is the acceleration we have seen with Zoom Phone.

- We grew the number of customers spending more than \$100,000 dollars in ARR on Zoom Phone by 241% year over year.
- In August, we will reach 2 million Zoom Phone seats sold, only 8 months after reaching our first million;
- We added 8 Zoom Phone customers with more than 10,000 seats in the first half of FY22, bringing us to a total of 26;
- And in Q2 we broke our record for the largest Zoom Phone deal to date twice in the same day!

It is important to note that as we've just lapped our first full quarter year-over-year compare since the start of the pandemic, we have seen customers return to more thoughtful, measured buying-patterns. While revenue, profitability, and cash flow were strong in the second quarter and the first half, other metrics have begun to normalize, especially when compared to the unprecedented year-over-year comps.

Slide 7 - Strong revenue growth in Q2

In Q2, total revenue grew 54% year over year to \$1.02 billion dollars, marking our first billion dollar plus quarter - only five quarters after reaching a billion dollar annual run rate. The top-line result exceeded the high end of our guidance of \$990 million dollars. We saw strength in our direct and channel businesses, which grew at twice the rate of our online business. Zoom Phone, Zoom Rooms and Asia Pacific growth also accelerated in the quarter.

The year-over-year growth in revenue for the quarter was driven by a healthy mix between new and existing customers, where new customers accounted for approximately 74% of the incremental revenue, and existing customers accounted for 26% of the incremental revenue.

Slide 8 - Expanding customer base

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

We saw 131% year-over-year growth in the up-market as we ended the quarter with 2,278 customers generating more than \$100,000 dollars in trailing twelve months revenue.

We exited the quarter with approximately 504,900 customers with more than 10 employees, up 36% year over year and representing 64% of revenue.

In Q2, customers with 10 or fewer employees represented approximately 36% of revenue, in line with Q2 last year, but down from its high of 38% in Q3 of last year. As we discussed previously, this cohort, which comprises SMBs and consumers who typically purchase online, is more volatile and we expect it to continue to decline as a percentage of revenue as customers adjust to the evolving environment.

Slide 9 – Strong Net Dollar Expansion Rate

Our Net Dollar Expansion rate for customers with more than 10 employees exceeded 130% for the 13th consecutive quarter as existing customers increased their spend with Zoom and upsells of Zoom Phone and Zoom Rooms picked up pace.

Slide 10 – Growing international presence

Both domestic and international markets had strong growth during the quarter. Our Americas revenue grew 50% year over year. Our combined APAC and EMEA revenue grew 62% year over year to be approximately 33% of revenue, up from 31% a year ago. In recent quarters, we have made significant investments in our international teams. In Asia Pacific, our direct sales team drove several strong wins in the enterprise segment. However, in EMEA, we saw some headwinds, which were predominantly driven by declines in the online segment.

Slide 11 – Q2FY22 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

Zoom Q2FY22 Earnings - Prepared Remarks

associated payroll taxes, charitable donation of common stock, acquisition-related expenses, net litigation expenses and gains or losses on strategic investments.

Non-GAAP gross margin in Q2 was 76.2%, compared to 72.3% in Q2 last year and 73.9% in Q1 of this year. The sequential improvement in gross margin is mainly due to new data center capacity coming online, and lower usage during the summer months, particularly with schools. We now expect gross margin outlook to be higher than previously discussed at approximately 75% for the remainder of the fiscal year while we continue to support free K-12 education.

Research and development expense grew by 89% year over year to approximately \$54 million dollars. As a percentage of total revenue, R&D expense was approximately 5.3%, an increase from Q2 of last year, demonstrating our commitment to building out our engineering teams globally and maintaining best-in-class product and innovation.

Sales and marketing expense grew by 72% year over year to \$211 million dollars. Sales and marketing expense was approximately 20.7% of total revenue, an increase from Q2 of last year, mainly due to investments and hiring to drive sustainable future growth. We plan to increase investment in global sales capacity, as well as digital marketing and events to drive additional leads for our sales team across Meetings, Phone, Rooms and Events.

G&A expense in the quarter grew by 73% to \$89 million dollars, as we continued to scale these functions and invest in systems, automation and compliance to meet our new scale. G&A expense was approximately 8.7% of total revenue, a slight increase from Q2 of last year.

The revenue upside in the quarter carried through to the bottom line, with non-GAAP operating income of \$425 million dollars, exceeding our guidance. This translates to a 41.6% non-GAAP operating margin for Q2, steady with both Q2 last year and Q1 this year.

Non-GAAP diluted earnings per share in Q2 was \$1.36, on approximately 306 million non-GAAP weighted average shares outstanding. This result is 21 cents above the high end of our guidance and 44 cents above Q2 of last year.

Slide 12 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was \$1.2 billion dollars, up 59% year over year from \$743 million dollars.

Looking at both our billed and unbilled contracts, our RPO totaled approximately \$2.3 billion dollars, up 66% year over year from \$1.4 billion dollars. We expect to recognize approximately 69% of the total RPO as revenue over the next 12 months, as compared to 72% in Q2 of last year, reflecting a shift back to longer term plans.

Slide 13 - Renewal seasonality for annual+ business shifted to Q1

It is important to remember that because over 40% of our business is billed monthly and typically bought online, deferred revenue and RPO trends are not reliable predictors of future revenue growth. As I mentioned last quarter, the timing of our renewals has increasingly shifted to the beginning of the fiscal year, with Q1 now representing our largest renewal quarter.

This shift in seasonality is a result of the significant growth we experienced in the first half of FY21. We expect this front-weighted seasonality will persist and potentially become even more pronounced given the scale of our base and practice of upselling coterminously with existing contracts. As such, we would expect total deferred revenue and RPO to be down modestly from Q2 to Q3.

Slide 14 – Rapid cash flow growth

We ended the quarter with approximately \$5.1 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had strong operating cash flow in the quarter of \$468 million dollars, up from \$401 million dollars in Q2 last year. Free cash flow was \$455 million dollars, up from \$373 million dollars in Q2 last year. The increase is primarily attributable to the top-line growth and disciplined spending.

Looking at the remainder of the fiscal year, we expect to increase our capital expenditures related to ongoing data center expansion to support our growth outlook.

Slide 15 – Q3 and Full Fiscal Year 2022 outlook

Zoom Q2FY22 Earnings - Prepared Remarks

Now, turning to guidance. Please note that the ever-changing nature of the global pandemic continues to impact our segments and regions in different ways. Our outlook is based on our current assessment of the business environment. Specifically, our outlook assumes that our direct and channel business will continue to experience robust growth, while our online business will be a headwind in the coming quarters as smaller customers and consumers adjust to the evolving environment.

For the third quarter of FY22, we expect revenue to be in the range of \$1.015 to \$1.02 billion dollars. We expect non-GAAP operating income to be in the range of \$340 to \$345 million dollars. Our outlook for non-GAAP earnings per share is \$1.07 to \$1.08 based on approximately 309 million shares outstanding.

For the full year of FY22, we expect revenue to be in the range of \$4.005 to \$4.015 billion dollars, which would represent approximately 51% year-over-year growth. We expect non-GAAP operating income to be in the range of approximately \$1.5 to \$1.51 billion dollars which would represent approximately 53% to 54% year-over-year growth. Our outlook for the non-GAAP earnings per share is \$4.75 to \$4.79, based on approximately 308 million shares outstanding.

Slide 16 - Zoomtopia and Analyst Day

Before concluding, I'd like to welcome everyone to join us in two weeks at Zoomtopia, our two-day immersive experience that is packed with exciting product updates, guest speakers and virtual networking opportunities. And on day one of Zoomtopia, please join us for our Financial Analyst Briefing, where we will be providing you with greater detail on Zoom Phone, the platform, our channel partnerships and much more.

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 17 – 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 18 - Thank You slide - Eric

Thank you for joining us and supporting Zoom.