

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 first 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 second quarter and full fiscal year 2022, Zoom's growth strategy, business aspirations to lead the evolution to hybrid work, and the continued impact of the COVID-19 pandemic on our business.

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, as well as the Current Report on Form 8-K we filed with the SEC today. 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.

Eric Yuan, President and CEO

Thank you and welcome everyone joining us on today's Webinar.

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I want to start by thanking our customers for their commitment to and trust in Zoom, which drove a strong start to our fiscal year with revenue growing 191% year over year as well as strong profitability and free cash flow.

I also want to recognize our more than 5,000 employees. Their dedication to our customers' happiness is an incredible advantage and creates a positive feedback loop that keeps our customers coming back and our employees eager to meet their diverse needs.

Our ability to help our customers by increasing their productivity, promoting their employees' happiness and connections to each other, and reducing their travel-related carbon footprint gives our work great meaning and makes Zoom a great place to work. Our company culture is strong and we are more motivated than ever. Let me also thank all of you, our investors, for your trust and support.

As parts of the world reopen, a few things are clear. First, many customers I talk to are looking to create hybrid solutions as they seek to cautiously reopen some offices; and second, each industry, company, and individual varies in their optimal working model.

Zoom is here to help each customer calibrate their future working model in their own way. Many companies are redesigning the workplace to enhance the hybrid work experience. To meet this need, we announced Zoom Rooms features such as smart gallery, which puts in-room and remote participants on equal footing, virtual receptionist, participant counting, and environmental sensors.

We have begun to deliver on our platform strategy. In February we launched our video SDK. In April we announced our \$100 million dollar Zoom Apps Fund to further build our App ecosystem. Zoom Apps is designed to enable users to bring their favorite apps directly into the Zoom experience in a way that inspires collaboration, boosts efficiency, creates healthier habits, and generates more fun.

We will also launch Zoom Events, our events platform, which will be focused on our enterprise customers and support an array of virtual event use cases. In a recent survey we conducted, 80% of US respondents agreed that all interactions will continue to have a virtual element post-pandemic, and that figure was even higher in many of the other markets we surveyed.

The hybrid model is here to stay and Zoom Events will be an excellent solution for our customers who are looking to create and host company events with a versatile and powerful solution.

We are happy to announce that we closed our largest deal ever in terms of ARR, with a leading global financial services firm that selected Zoom Meetings to deploy for over 90,000 hosts. That is only one of the large deals we closed this quarter, let me recognize three more industry-leading companies that have increased their commitment to Zoom.

Slide 4 - Great wins with industry leaders

First, I want to thank Kimberly-Clark, whose trusted brands are an indispensable part of life for people in more than 175 countries, for expanding the relationship with Zoom by adding approximately 25,000 Zoom Phone licenses. As an existing Zoom Meetings and Video Webinar customer, Kimberly-Clark saw the same reliability, value, and innovation in Zoom Phone. I also want to recognize our partner British Telecom for advocating for Zoom in the decision-making process at Kimberly-Clark.

Next, thank you Target Corporation, which serves guests at more than 1,900 stores and online at Target.com with the mission to “help families discover the joy of everyday life”, for their commitment to Zoom. We are excited to help Target take their communications initiatives to the next level by expanding their Zoom platform solution while unifying their internal and external communications on our technology. As a long-standing Zoom Meetings customer, we truly appreciate their trust and faith in Zoom as a platform and partner!

And finally, I want to thank DENSO, Japan’s largest and the world’s second largest automotive parts company, and a leading company in the Toyota Group. They first joined the Zoom family last year, but last quarter they decided to significantly expand their usage of Zoom Meetings and Video Webinars for internal and external communications. Zoom now connects 47,000 employees across offices, factories, and homes. DENSO said, “the introduction of Zoom has contributed greatly to our ability to create a work environment that drives faster decision-making.”

Slide 5 - Zoomtopia

We are off to a great start in FY22. I look forward to updating you on our hybrid workspace and platform evolution throughout the year and at Zoomtopia, which will be held on September 13th and 14th in a virtual format.

Slide 6 - Introducing Zoom Phone Appliance

Before handing it over to Kelly, I want to share a quick update. As you know, demand for Zoom Phone has been amazing and I'm excited to announce our new device category, the Zoom Phone Appliance. I've invited Graeme to tell you more.

Graeme Geddes, Head of Zoom Phone and Rooms

Thanks Eric. Hi, I'm Graeme Geddes, Head of Zoom Phone and Rooms, and I'm joining you from my Zoom Phone Appliance using the built-in camera and audio. This device is a great solution for shared work spaces, huddle rooms and executive offices, and we can't wait to see the vertical applications for this new category as well. Stay tuned for more information in the coming weeks.

And, while I'm here, I've got some exciting news to share. I think I'll use the whiteboard feature on this device.

At the start of the calendar year, we announced reaching 1 million seats for Zoom Phone. Well, that momentum continues, and I'm happy to announce we have now surpassed 1.5 Million Seats as of the end of April. Thanks for having me and with that I'll hand things over to Kelly.

Slide 7 – Recognized for innovation, security, culture, and influence

Kelly Steckelberg, CFO

Thank you, Graeme. And thanks to you and your team for the hard work and amazing accomplishment. And hello everyone.

Our impressive growth story continued in Q1. As you can see, we continued to win awards and third-party recognition for our strong security focus, empowering company culture, and lasting impact on society. Thank you to all of our amazing customers and employees who made these accolades possible.

Slide 8 - Strong revenue growth in Q1

In Q1, the year-over-year growth of total revenue remained strong at 191%, reaching \$956 million dollars. This top-line result exceeded the high end of our guidance of \$905 million dollars due to strong sales and marketing execution led by our direct and channel businesses, as well as lower-than-expected churn. The demand was widespread across products, industry verticals, geographies, new logos and customer cohorts.

It's also worth noting that our fiscal 2021 results have shifted our renewal seasonality, which is now more weighted towards the beginning of the fiscal year. To illustrate, we saw approximately four times more deals up for renewal in Q1 FY22, as compared to Q1 of last year. Our Renewals, Sales and Online Marketing teams really outperformed in securing renewals and the success is a testament to their hard work and our product's strong and lasting value proposition.

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 57% of the incremental revenue, and existing customers accounted for 43% of the incremental revenue. This trend toward existing customers was expected considering the tremendous growth in our base last year.

Slide 9 - Customer base growing rapidly

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

We saw growth in the up-market as we ended the quarter with 1,999 customers generating more than \$100,000 dollars in trailing twelve months revenue.

We exited the quarter with approximately 497,000 customers with more than 10 employees, adding approximately 30,000 customers during the quarter. In Q1, customers with more than 10 employees represented approximately 63% of revenue.

We also continued to benefit from solid growth in our segment of customers with 10 or fewer employees. In Q1, customers with 10 or fewer employees represented approximately 37% of revenue, up from 30% in Q1 last year and stable quarter over quarter.

Slide 10 – Strong Net Dollar Expansion Rate

Our Net Dollar Expansion rate for customers with more than 10 employees exceeded 130% for the 12th consecutive quarter as existing customers acquired more Zoom Meetings, Rooms, Webinars and Phone products. For this customer subset, we expect the Net Dollar Expansion rate to remain above 130% for the next few quarters.

For customers with 10 or fewer employees, which are not included in this Net Dollar Expansion metric, we expect that cohort to be lower than FY21 and more volatile as economies continue to re-open.

Slide 11 – Growing international presence

Both domestic and international markets had strong growth during the quarter. Our Americas revenue grew over 159% year over year. Our combined APAC and EMEA revenue grew 288% year over year to be approximately 34% of revenue, up from 25% a year ago. In recent quarters, we made significant investments in our international teams, which have already begun to pay dividends.

The global opportunity remains large and we'll continue to empower our team to capitalize on it.

Slide 12 – Q1FY22 expenses and margins

Now turning to profitability. The increase in demand and strong execution drove net income profitability 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 and net litigation expenses.

Non-GAAP gross margin in the first quarter was 73.9%, compared to 69.4% in Q1 last year and 71.3% in Q4. The sequential improvement in gross margin is mainly due to optimization of public cloud resources. We expect gross margin to remain relatively stable in the low seventies as long as we continue to support free K-12 education.

Research and development expense grew by 97% year over year to approximately \$41 million dollars. As a percentage of total revenue, R&D expense was approximately 4.3%, which was lower than in Q1 of last year mainly due to the strong top-line growth. However, on a

quarter-over-quarter basis, expenses grew by 33%, demonstrating our commitment to building out our engineering teams globally and maintaining best-in-class product and innovation.

Sales and marketing expense grew by 84% year over year to \$191 million dollars. This reflects an additional \$87 million dollars over last year primarily due to investments and hiring to drive future growth. Sales and marketing expense was approximately 20.0% of total revenue, a decrease from Q1 of last year mainly due to strong top-line growth. We plan to continue to invest in adding global sales capacity, and brand and product marketing programs in order to capitalize on our growing leadership position and growth initiatives.

G&A expense in the quarter grew by 51% to \$73 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 7.7% of total revenue, a decrease from Q1 of last year.

The revenue upside in the quarter carried through to the bottom line, with non-GAAP operating income of \$401 million dollars, exceeding our guidance. This translates to a 41.9% non-GAAP operating margin for Q1, a large improvement from 16.6% in Q1 last year, and slight improvement from 40.9% in Q4.

Non-GAAP diluted earnings per share in Q1 was \$1.32, on approximately 305 million non-GAAP weighted average shares outstanding. This result is 35 cents above the high end of our guidance and \$1.12 above 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 \$1.1 billion dollars, up 98% year over year from \$552 million dollars.

Looking at both our billed and unbilled contracts, our RPO totaled approximately \$2.1 billion dollars, up 94% year over year from \$1.1 billion dollars. We expect to recognize approximately 72% of the total RPO as revenue over the next 12 months, consistent with the level of this metric last year.

It's important to remember that deferred revenue and RPO trends are not reliable predictors of future revenue growth due to the large percent of monthly billings in our customer base. In

addition, the timing of our renewals has increasingly shifted to the beginning of the fiscal year, with Q1 now representing our largest renewal quarter. We expect sequential increases in deferred revenue and RPO in each of the remaining quarters to be lower as our available population of annual renewals is smaller.

Slide 14 – Rapid cash flow growth

We ended the quarter with approximately \$4.7 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had exceptional operating cash flow in the quarter of \$533 million dollars, up from \$259 million dollars in Q1 last year. Free cash flow was \$454 million dollars, up from \$252 million dollars in Q1 last year. The increase is primarily attributable to strong sales execution and collections.

Looking at the rest of the fiscal year, we expect to increase our capital expenditures related to ongoing data center expansion to support our growth outlook. We also expect a legal settlement, which will be disclosed in our 10-Q, to be a cash out flow in late FY22.

Slide 15 – Q2 and Full Fiscal Year 2022 outlook

Now, turning to guidance, we are pleased to raise our outlook for Q2 FY22 and the full fiscal year. Please note that the impact and extent of the global pandemic still remain largely unknown. Our outlook is based on our current assessment of the business environment, as well as our own research and conversations with customers.

For the second quarter of FY22, we expect revenue to be in the range of \$985 to \$990 million dollars. We expect non-GAAP operating income to be in the range of \$355 to \$360 million dollars. Our outlook for non-GAAP earnings per share is \$1.14 to \$1.15 based on approximately 311 million shares outstanding.

For the full year of FY22, we expect revenue to be in the range of 3.975 to 3.99 billion dollars, which would represent approximately 50% year-over-year growth. We expect non-GAAP operating income to be in the range of approximately 1.425 to 1.44 billion dollars which would

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represent approximately 45% to 46% year-over-year growth. Our outlook for the non-GAAP earnings per share is \$4.56 to \$4.61, based on approximately 311 million shares outstanding.

Slide 16 - Progressing in our ESG journey

Before concluding, I am happy to highlight that we recently launched our ESG website, which can be found on our investor relations and corporate websites. We also recently published our Social Impact report, which can be found on our Zoom Cares website. Giving back to the community has always been a key tenant of what we do at Zoom. We look forward to updating our investors as we continue along our ESG journey.

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.