<u>Zoom Q1FY23 Earnings - Prepared Remarks</u>

Slide 1 - Zoom Q1 FY23 Earnings

Tom McCallum, Head of IR

Thank you, Kelcey.

Hello everyone, and welcome to Zoom's earnings video webinar for the first quarter of FY23. 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. 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 2023; our expectations regarding financial and business trends; impacts from macroeconomic developments and the Russia-Ukraine war, our market position, opportunities, 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.

Eric Yuan, Founder and CEO

Slide 4 - Zoom acquires Solvvy to bolster contact center offering

Thank you, Tom! Thank you everyone for joining us today. As we continue to execute on the strategic pillars I shared with you last quarter, we are grateful for the support and trust we have received from our customers and investors. Let me start with some recent news, then touch on our new product launches, and finally discuss some exciting customer wins, before handing it over to Kelly.

Just last week, we closed our acquisition of Solvvy, which we believe will strengthen our capabilities around conversational AI and accelerate the adoption of our contact center product. The nature of the customer experience is undergoing a fundamental transformation, as enterprises increasingly look to engage their customers in more exceptional, personalized, and effortless ways.

We recognize this shift and saw in Solvvy a team laser-focused on providing the very best conversational technology and empowering customer support leaders to deliver better experiences. We believe Solvvy's technology will broaden our contact center offering with scalable self-service and AI capabilities that enable fast and personalized customer resolutions, improved agent productivity, and valuable insights. We are excited to join forces with Solvvy and help our growing number of contact center customers set new standards for customer service.

Slide 5 - Zoom Introduces Whiteboard and Zoom IQ for Sales

A key part of our strategy is to enable more and more business workflows within our platform, and I am super excited about our recent launches of Zoom Whiteboard and Zoom IQ for Sales.

Zoom Whiteboard is arming teams with the power of continuous collaboration in an easy-to-use solution that provides a virtual space to collaborate before, during, and after a meeting.

And to help sales teams reach their full potential, we have launched Zoom IQ for Sales, a conversational AI solution that analyzes customer interactions to surface key insights, actions, and content from sales meetings.

These new product launches encapsulate our strategy to move into adjacent workflows, both horizontally and vertically, in order to ensure our customers are getting more and more out of our platform.

Slide 6 - Strong Wins show enduring case for Zoom Phone and early potential of Contact Center

Now moving on to customer wins.

We are happy to share that Humana, one of the nation's leading health and well-being companies, has expanded their relationship from Zoom meetings to include approximately 24,000 Zoom Phones to integrate voice and video in their communications platform. Thank you, Humana!

I want to thank Avis Budget Group, a leading global provider of mobility solutions, operating three of the most recognized brands in their industry through Avis, Budget and Zipcar, for expanding from being a Zoom Meetings and Zoom Rooms customer to being a broader UCaaS customer. They continue to stay seamlessly connected having added approximately 10,000 Zoom Phones across many of their global offices and car rental locations.

And in addition to Zoom Meeting and Zoom Phone, our UCaaS solution includes a very robust persistent team Chat product that further drives collaboration in a seamless and integrated way. Our Chat product is used by a number of large enterprises, including a Fortune 10 company with over 130,000 users.

I also want to thank Lumio, a preeminent leader in residential solar and home experience. Lumio is a happy Zoom Meetings customer, who recently enabled their 4,000 employees to enjoy the use of Zoom Chat. Lumio chose Zoom Chat for its ease of deployment and to enhance communication and collaboration across their team.

The next two wins are very special because they demonstrate the strength of our platform offering and how the contact center is a critical component of the platform.

I want to thank TeamHealth, the leading physician practice in the U.S., for their trust in Zoom. Their innovation-focused team is committed to delivering the best quality experience possible for their employees, healthcare providers, and customers.

A longstanding, avid Zoom Meetings, Zoom Webinar and Zoom Rooms customer, TeamHealth recently expanded their services with thousands of Zoom Phone licenses across their organization. And their journey did not end there. Given their seamless experience across our platform, they saw potential value in adding our Zoom Contact Center to modernize internal IT support services across their tens of thousands of employees and healthcare affiliates.

And last but certainly not least, I want to thank Franklin Covey, a leading provider of leadership, individual effectiveness, and business execution training and assessment services. Franklin Covey started as a Zoom Meetings and Zoom Events customer. In Q1, recognizing Zoom's expansion into the contact center and proven UCaaS capabilities, they decided to deploy Zoom Phone together with Zoom Contact Center.

They saw them as going hand in hand to support many of their external call center needs in the U.S. including voice and video channels as well as skills-based routing. We look forward to continuing our journey with Franklin Covey by delivering additional capabilities as we enhance and expand our contact center offering.

Thank you Humana, Avis, Lumio, TeamHealth and Franklin Covey. I am so grateful to have such a great group of customers.

Slide 7 - Zoom creates value for customers in numerous ways

We hear everyday from our customers about just how much impact Zoom's unified communications platform has had on how they communicate internally and externally. Recently, we commissioned Forrester Consulting to quantify Zoom's business value and provide a framework for organizations looking to understand their unified communications investment.

The study indicates that Zoom's unified communications platform could provide a 261% return on investment over three years for a composite organization in their model with a payback in less than six months. This did not come as a surprise to us or our customers, who see and feel the value of Zoom everyday, but it does set a healthy bar for what organizations can strive to accomplish with our flexible, scalable, and growing suite of communications solutions.

And as companies look to empower hybrid workforces, Zoom can drive further efficiency gains through our robust Zoom Rooms offering. And there are intangible benefits as well. A new study from Gartner found that employees with more flexibility in terms of workstyle and location felt more connected to their organization's culture. We have found this to be true at Zoom, and are working to help our customers realize similar goals by enabling productivity and belonging across their teams, whether they be in-person, remote, or hybrid.

As always, let me also thank our global Zoom team, customers, partners, and investors for their trust and support.

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

Slide 8 - Continued top-line expansion

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone. Let me start by also extending my warm welcome to the Solvvy team. We are thrilled to have you join the Zoom family.

I'll first discuss the results for Q1, and then provide our outlook for Q2 and FY23.

In Q1, total revenue grew 12% year over year to $1.074 billion dollars, near the high end of our guidance. The growth was primarily driven by strength in our Enterprise business, which saw a steady increase in customers as well as improved renewal rates year over year. We also saw ongoing success in Zoom Rooms and Zoom Phone, which reached 3 million seats during the quarter. Renewals in Online improved sequentially, but growth was impacted mainly by international headwinds, including the strengthening of the dollar and the Russia-Ukraine war.

Slide 9 - Strong growth in Enterprise, with incremental spend

Revenue from Enterprise customers grew 31% year over year and represented 52% of total revenue, up from 45% in Q1 of FY22. The number of Enterprise customers grew 24% year over year to approximately 198,900. We expect revenue from Enterprise customers to become an increasingly higher percentage of total revenue over time.

Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q1 came in at 123%. This was in line with expectations as existing Enterprise customers continued to expand their investments in the Zoom platform, with growth rates beginning to normalize following the very high rates of expansion previously.

Slide 10 - Growing base of customers contributing >$100k in trailing 12-months revenue

We saw 46% year-over-year growth in the up-market as we ended the quarter with 2,916 customers contributing more than $100,000 dollars in trailing twelve months revenue. These customers represented 24% of revenue, up from 19% in Q1 of FY22.

Slide 11 – Continued growth in Americas & APAC, headwinds in EMEA

Our Americas revenue grew 15% year over year. Our APAC revenue grew even faster at 20% year over year. The performance in Americas and APAC was partially offset by the flat year-over-year growth in EMEA. This was primarily due to continued headwinds in the online business. On a quarter-over-quarter basis, we believe the Russia-Ukraine war has broadly impacted our online business in Europe, and is expected to weigh on the balance of FY23 as well.

Slide 12 – Q1FY23 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, acquisition-related expenses, net litigation settlements, net gains or losses on strategic investments, income tax benefits from discrete activities, and undistributed earnings attributable to participating securities.

Non-GAAP gross margin in Q1 was 78.6%, an improvement from 73.9% in Q1 of last year and 78.3% last quarter. The sequential improvement was mainly due to optimizing usage across the public cloud and our increasing number of co-located data centers. Given the improvements we are seeing so far this year, we expect gross margins to be in the range of 76% to 78% for the remainder of the year which is higher than our previous view of the mid-seventies.

Research and development expense grew by 105% year over year to approximately $85 million dollars driven by our focus on innovation. As a percentage of total revenue, R&D expense increased to 7.9% from 4.3% in Q1 of last year. Our new product launches reflect our ongoing investments in expanding Zoom's platform and our commitment to delivering on our customers evolving needs. We plan to further invest in R&D to reach our long term target of 10 to 12%.

Sales and marketing expense grew by 40% year over year to $267 million dollars. This represented approximately 24.9% of total revenue, up from 20.0% in Q1 of last year. We remain committed to investing in worldwide sales capacity, channel partners, and product marketing across the Zoom platform.

G&A expense grew by 26% to $93 million dollars or approximately 8.6% of total revenue.

Non-GAAP operating income expanded to $400 million dollars, exceeding the high end of our guidance of $350 million dollars as we are seeing the benefit of efficiencies in our cloud operations. This translates to a 37.2% non-GAAP operating margin for Q1, compared with 41.9% a year ago and 39.2% last quarter.

Non-GAAP diluted earnings per share in Q1 was $1.03, on approximately 307 million non-GAAP diluted weighted average shares outstanding. This result is 15 cents above the high end of our guidance and 29 cents lower than Q1 of last year.

Slide 13 – Strong renewals and migration to longer term plans

Turning to the balance sheet. Deferred revenue at the end of the period was $1.3 billion dollars, up 22% year over year from $1.1 billion dollars.

Looking at both our billed and unbilled contracts, our RPO totaled approximately $3 billion dollars, up 44% year over year from $2.1 billion dollars. We expect to recognize approximately 63% of the total RPO as revenue over the next 12 months, as compared to 72% in Q1 of last year, reflecting a shift towards longer term plans.

As a reminder, our seasonality of renewals is front-end loaded and tapers through the year, and therefore our collections follow the same trend. This leads deferred revenue to peak in Q1, and moderate over the rest of the year reflecting the smaller renewal base. As such, we expect Q2 deferred revenue to grow at approximately 9 to 10% year over year.

Slide 14 – Strong collections and cash position in Q1

We ended the quarter with approximately $5.7 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had operating cash flow in the quarter of $526 million dollars, as compared to $533 million dollars in Q1 of last year. Free cash flow was $501 million dollars, up from $454 million dollars in Q1 of last year. Our margins for operating cash flow and free cash flow remain strong, at 49.0% and 46.7%, respectively.

For the fiscal year, we would expect free cash flow margin to be roughly 3 to 5 points lower than our non-gaap operating margin, taking into account the lower deductions for stock-based compensation caused by the recent stock volatility. The Section 174 requirement to capitalize and amortize R&D expenses could further impact our free cash flow if Congress does not defer, repeal, or otherwise modify the existing legislation. Over time, assuming a more normalized SBC environment, we would expect our free cash margin on an annual basis to track approximately at or above our non-gaap operating margin.

Last earnings we announced our billion dollar share buy-back plan. As of the end of Q1, we had purchased $132 million dollars of stock, representing 1.2 million shares.

Slide 15 – Q2 and Full Fiscal Year 2023 outlook

Now, turning to our FY23 guidance.

This outlook is consistent with what we are observing in the market today. Specifically, it assumes that our Enterprise business will grow substantially faster than our online business. It also assumes that our year-over-year total revenue growth rate will modestly accelerate in the fourth quarter FY23.

For the second quarter of FY23, we expect revenue to be in the range of 1.115 to 1.12 billion dollars. We expect non-GAAP operating income to be in the range of 360 to 365 million dollars. Our outlook for non-GAAP earnings per share is 90 to 92 cents based on approximately 308 million shares outstanding. As mentioned last quarter, due to our multi-year history of profitability, we have fully utilized our NOLs. We continue to expect our tax rate to approximate the blended U.S. federal and state rate in FY23.

For the full year of FY23, we expect revenue to be in the range of 4.53 to 4.55 billion dollars, which would represent approximately 11% year-over-year growth. We are raising our non-GAAP operating income to be in the range of approximately 1.48 to 1.5 billion dollars representing a non-GAAP operating margin of approximately 33%. Our outlook for non-GAAP earnings per share is $3.70 to $3.77, based on approximately 309 million shares outstanding.

Slide 16 – Setting goals and celebrating progress with our first ESG Report

Before we conclude, I’d like to update you on our recently issued inaugural ESG report. The report includes information regarding our ESG initiatives and policies, environmental performance and targets, details of Zoom's and our employees' charitable contributions, diversity metrics, and an index providing standardized reporting according to the SASB framework.

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!