Slide 1 - Zoom Q4 FY22 Earnings

Tom McCallum, Head of IR

Thank you, Kelcey.

Hello everyone, and welcome to Zoom's earnings video webinar for the fourth quarter and full year of FY22. 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 first quarter and full fiscal year 2023; our expectations regarding financial and business trends; our market position, opportunities, growth strategy and business aspirations; product initiatives and the expected benefits of such initiatives; and our stock repurchase program.

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's Strategic Pillars

Thank you, Tom! Before I begin, I want to welcome Bill McDermott, CEO of ServiceNow, who will join our Board of Directors tomorrow. I look forward to working with Bill, a visionary in the technology space and a successful software executive. I'd also like to thank Bart Swanson, who is stepping down from our Board of Directors tomorrow, for his years of service on our Board, and wish him the best in his future endeavors.

Let me also thank our global Zoom team, customers, partners, and investors for their support as we celebrate the 10-year anniversary of our inception and three-year anniversary of our IPO.

Now, I'd like to share with you three key pillars of the Zoom strategy, which we are building out to drive future growth:

The first pillar is really about being a full unified communications platform. We made enormous strides over the past several years evolving from a meetings company into a multi-product platform - including video conferencing, events, chat, phone, and more. The missing piece was the contact center - that was until our announcement last week. More on that in a moment.

The second pillar is hybrid work. Because we believe hybrid work is going to become more flexible and less about location. No matter where you are - office, traveling, or home - Zoom wants to make sure you have a consistent experience. Whether with Zoom Rooms or on a Zoom-connected device, we want to make sure you're part of the conversation and able to collaborate, anywhere and everywhere.

The third pillar is business workflows and how we leverage our API marketplace, our Zoom Apps, and our SDK. Many technology companies tell me that they want to integrate Zoom into their platform to improve the communication and collaboration experience for their customers. For instance, we recently announced a Zoom-DocuSign integration. This will allow customers to review a document during a Zoom Meeting and approve it as part of a simple bi-directional business workflow.

We are in the early innings of this transformation of work and communication. We believe there is a massive opportunity, and we plan to address it with the same level of innovation, scalability, and simplicity that has made Zoom the trusted platform for hundreds of thousands of businesses around the world.

Slide 5 - Zoom Introduces Contact Center

As a key part of our UC stack, I am super excited about the announcement we made last week. We announced the general availability of Zoom Contact Center, an omnichannel customer engagement solution that is optimized for video and integrated right into the Zoom client. It brings unified communications together with modern contact center capabilities, helps customers connect over video, and also supports channels like voice, SMS, and webchat.

Zoom Contact Center is simple for admins to configure and deploy. They can easily create menus, greetings, and prompts right in the Zoom Admin portal. The product can also integrate chat and video into an existing digital presence, like a website, helping organizations have conversations with customers in the right place and at the right time.

This is just the beginning of our plan to modernize the contact center and enrich the experience for our customer and our customer’s customer.

Slide 6 - Thank you, Medtronic, Intuit, ASU, and LIXIL!

Speaking of customers, we ended the year with a lot of great wins.

First, I want to thank Medtronic, a global leader in healthcare technology, for expanding their partnership with Zoom. In 2020, Medtronic chose Zoom Meetings, Zoom Rooms, and Zoom

Webinars to enable its global employees to communicate and collaborate better. In Q4 of FY22, after a careful vendor selection process, they decided to add 60,000 Zoom Phone licenses to a new multi-year agreement. Thank you Medtronic for trusting Zoom to deliver a modern, integrated UCaaS solution to support your global communications needs.

Thank you Intuit, the global technology platform that makes TurboTax, QuickBooks, Mint, Credit Karma and Mailchimp, for entrusting Zoom with their video communications over the past few years and recently adding Zoom Phone to create a unified communications platform across their organization.

Thank you Arizona State University, which was recently recognized by U.S. News & World Report as the country's most innovative school, and has been a strong supporter of Zoom products over the years. As a leading research university, a highly effective communications platform is important to drive collaboration between their students, staff and community. ASU chose Zoom to be a complete communications platform with 50,000 Zoom Meetings, 700 Zoom Rooms, and 15,000 Zoom Phone licenses as well as Zoom Webinars.

I also want to recognize LIXIL Group Corporation, a Japanese manufacturer and pioneer of building materials and housing equipment. As a Zoom Meetings and Zoom Rooms customer, LIXIL has embraced hybrid work for communication and collaboration while leveraging the ease of use of the Zoom platform to enhance their customer experience with video tours of their showrooms. In Q4, LIXIL added 10,000 Zoom Phone licenses, committing to a unified communication platform.

Thank you Medtronic, Intuit, Arizona State, and LIXIL. I am so grateful to have such a great group of customers.

The world wants a full communications platform; one that is integrated with other workflows, supports hybrid work, and is secure and easy to use. Zoom is hard at work ensuring our customers exceed the soaring expectations of how businesses collaborate internally and communicate externally. To sustain and enhance our leadership position in this new era of digital transformation, we plan in FY23 to build out our platform to further enrich the customer experience and expand our go-to-market motions, which will enable us to drive future growth for Zoom.

I want to thank our Zoomies for their hard work over the past 10 years. We have grown to nearly 6,800 strong and are more focused than ever on delivering happiness every day to our hundreds of thousands of customers around the world.

And with that let me pass it over to Kelly.

Slide 7 - Strong FY22 Performance

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

Let me start with a few of the financial highlights for FY22, and the results for Q4, then provide our outlook for Q1 and FY23.

We delivered another year of strong results.

- Revenue grew 55% to $4.10 billion dollars as we exited the fiscal year at an annualized run rate of $4.29 billion dollars.
- We grew non-GAAP operating margin to 40.4%, up from 37.1% in FY21 as we scaled our operations.
- And, we achieved an adjusted free cash flow margin of 38.0%.

Slide 8 - Strong revenue growth

In Q4, total revenue grew 21% year over year to $1.07 billion dollars, exceeding the high end of our guidance of $1.053 billion dollars. The growth was primarily driven by strength in our enterprise business, which continued to grow significantly faster than our online business.

We also saw strong demand for Zoom Phone, which had a record quarter adding over 550,000 paid seats. Much of this Zoom Phone growth came from strength in large customers, with the number of customers with more than $100,000 dollars of ARR growing 149% year over year and the number of customers with over 10,000 paid seats growing 122% year over year. We also added a major global bank as a Zoom Phone customer.

Slide 9 - Expanding customer base

We saw 66% year-over-year growth in the up-market as we ended the quarter with 2,725 customers contributing more than $100,000 dollars in trailing twelve months revenue. These customers represented 23% of revenue, up from 18% in Q4 of last year.

We exited the quarter with approximately 509,800 customers with more than 10 employees, up 9% year over year. In Q4, customers with more than 10 employees represented 67% of revenue, up from 63% in Q4 of last year.

Slide 10 - Introducing new metrics for our larger scale

As we approach our three-year anniversary as a public company, a lot of incredible things have occurred at Zoom. We've seen unprecedented growth and brand awareness for Zoom Meetings and incredibly strong momentum for newer products. We have also expansively built out our direct, channel, and ISV go-to-market motions, which we collectively call Enterprise. These customers have high lifetime values as they tend to increase deployments, extend terms, and churn at much lower rates over time.

Starting today, we will provide metrics that more closely align with the way our internal view of the business has evolved following this period of unprecedented growth and expansion. This will include the number of Enterprise customers and the Net Dollar Expansion rate for Enterprise customers. In the appendix of the investor deck you will find two-years of historical data for these new metrics. Additionally, through the end of FY23, we will continue to provide the number of customers with more than 10 employees in the appendix.

Slide 11 - Strong growth in Enterprise

In Q4, the number of Enterprise customers grew 35% year over year to approximately 191,000. Revenue from Enterprise customers grew 38% year over year and represented 50% of total revenue, up from 44% in Q4 of FY21. We expect revenue from Enterprise customers to become an increasingly higher percentage of total revenue over time.

Our Online business, which we define as customers self-serviced through our online channel, represents the other half of our revenue, up from approximately 25% in the fourth quarter of fiscal year 2020, before the pandemic. The self-service model is very attractive from profitability and cash flow perspectives. And while we have seen online grow more slowly than enterprise in recent quarters and expect that to continue going forward, we are continuing to invest in and innovate around this channel to drive growth.

We will also be presenting our Net Dollar Expansion rate for Enterprise customers rather than our Net Dollar Expansion rate for customers with more than 10 employees. First, let me start with the historic metric; our Q4 Net Dollar Expansion rate for customers with more than 10 employees was in line with what we discussed in Q3, being just under 130% at 129%. Going forward, we will report the trailing twelve month Net Dollar Expansion rate for Enterprise customers, which in Q4 was 130%.

Slide 12 – Growing international presence

Both domestic and international markets had strong growth during the quarter. Our Americas revenue grew 21% year over year. Our combined APAC and EMEA revenue grew 23% year over year to be approximately 33% of revenue, stable with Q4 of last year. On a quarter-over-quarter basis, Asia Pacific revenue grew slightly faster than the overall company, but we saw headwinds to our online business in EMEA, partially associated with the holiday seasonality.

Let me share a few international highlights with you. We closed our largest overall deal ever in EMEA with 200,000 meetings licenses, and our largest Zoom Rooms deal in APAC with a customer deploying more than 3,300 Zoom Rooms to drive hybrid work across their offices. We have also expanded our partnership with Deutsche Telekom by committing to developing a joint solution specifically for the German market. We continue to view international expansion as a major opportunity for future growth.

Slide 13 – Q4FY22 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, charitable donation of common stock, 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 Q4 was 78.3%, an improvement from 71.3% in Q4 of last year and 76.0% in Q3 of this year. The sequential improvement was mainly due to optimizing usage across the public cloud and our co-located data centers as well as the seasonally lower usage during the holidays. We expect this figure to return to the mid-seventies in the short-term, before improving in the mid to long-term, as we continue to build out our data centers.

Research and development expense grew by 133% year over year to approximately $72 million dollars. As a percentage of total revenue, R&D expense nearly doubled year over year to 6.7%, demonstrating our commitment to innovation and product development. We plan to further invest to enhance our platform, including our recently announced contact center product.

Sales and marketing expense grew by 58% year over year to $251 million dollars or approximately 23.4% of total revenue, primarily driven by increased marketing programs and sales headcount to drive future growth. We remain committed to investing in worldwide sales capacity and product marketing across our comprehensive communications platform.

G&A expense grew by 22% to $95 million dollars or approximately 8.9% of total revenue.

Non-GAAP operating income expanded to $420 million dollars, exceeding the high end of our guidance of $363 million dollars. This translates to a 39.2% non-GAAP operating margin for Q4, compared with 40.9% a year ago and 39.1% last quarter.

Non-GAAP diluted earnings per share in Q4 grew to $1.29, on approximately 306 million non-GAAP weighted average shares outstanding. This result is 22 cents above the high end of our guidance and 7 cents above Q4 of last year.

Slide 14 – Growing future revenue under contract

Turning to the balance sheet. Deferred revenue at the end of the period was $1.2 billion dollars, up 34% year over year from $883 million dollars.

Looking at both our billed and unbilled contracts, our RPO totaled approximately $2.6 billion dollars, up 51% year over year from $1.7 billion dollars. We expect to recognize approximately 63% of the total RPO as revenue over the next 12 months, as compared to 70% in Q4 of last year, reflecting a shift back towards longer term plans.

As a reminder, due to the seasonality of renewals being front-end loaded and tapering through the year, our collections follow the same trend. Since our renewal linearity is unique, let me provide you once again with some color on next quarter’s deferred revenue. We believe it will peak in Q1 at 12 to 13% year over year growth and moderate over the rest of the year reflecting the smaller renewal base.

Slide 15 – Strong cash flow and position in Q4

We ended the quarter with approximately $5.4 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

We had operating cash flow in the quarter of $209 million dollars, as compared to $399 million dollars in Q4 of last year. Adjusted free cash flow, which excludes a one-time $85 million dollar cash outflow related to a legal settlement that was disclosed and recognized as a GAAP expense in Q1, was $274 million dollars, as compared to $378 million dollars in Q4 of last year.

Slide 16 – Q1 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 late FY23.

For the first quarter of FY23, we expect revenue to be in the range of 1.07 to 1.075 billion dollars. We expect non-GAAP operating income to be in the range of 345 to 350 million dollars. Our outlook for non-GAAP earnings per share is 86 cents to 88 cents based on approximately 309 million shares outstanding. As mentioned last quarter, due to our multi-year history of profitability, we have fully utilized our NOLs. We expect our tax rate to approximate the U.S. blended tax 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 expect non-GAAP operating income to be in the range of approximately 1.43 to 1.45 billion dollars representing a non-GAAP operating margin of approximately 32%. While our revenue grew 558% from FY20 to FY22, our operating margin also increased from 14% to 40%. We are pursuing a massive opportunity, and we will continue to focus on the appropriate balance between growth and margins as we build out and deliver on the potential of our platform. Our outlook for non-GAAP earnings per share is $3.45 to $3.51, based on approximately 312 million shares outstanding.

As indicated in our earnings press release today, our board has authorized a $1 billion dollar share repurchase program that we intend to execute on beginning this quarter. This not only underscores the confidence that our board and management team have in the future of Zoom, but also allows us to leverage our strong profitability, cash flow generation and strength of our balance sheet to deliver returns back to our shareholders. We are excited about the large and growing opportunity ahead of us as we continue to execute on our strategy and growth outlook.

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!