

Start Webinar - Slide 1 Zoom Title Slide

Speaker: Tom McCallum, Head of Investor Relations

Thank you, Matt -

Hello everyone, and welcome to Zoom's earnings video webinar for the first quarter of fiscal year 2021.

Joining me today will be Zoom's Founder and CEO, Eric Yuan and Zoom's CFO Kelly Steckelberg.

Slide 2 GAAP to non-GAAP

Our earnings press release was issued today after the market closed and may be downloaded from the Investor Relations page on the Zoom.com website. 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

During this call we will make forward-looking statements about our market size and growth strategy, our estimated and projected costs, margins, revenue, expenditures, investments, and growth rates, our future financial performance and other future events or trends, including guidance for the second fiscal quarter 2021 and full fiscal year 2021, our plans and objectives for future operations, growth, initiatives, or strategies, and the impact to Zoom's business from the COVID-19 pandemic. 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 and which we discuss in detail in our filings with the SEC, including today's earnings press release and our latest 10-K. 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 Zoom Title Slide

Speaker: Eric S. Yuan, President and CEO

Hello, I hope you are doing as well as is possible in this unique moment around the world. To the front-line workers, we thank you for your courage and the tremendous sacrifices you are making to keep us healthy and our community running in this pandemic. Everyone at Zoom appreciates all your incredible work.

COVID has brought pain for many, in particular, vulnerable communities. The Black Community in the United States has also recently experienced shocking and senseless loss. To our communities and customers - especially those in the Black community, Zoom is standing with you not only today, but also into the future.

Nearly 10 years ago, we created Zoom to build a better, simpler and more efficient video communications platform. Today, I am proud to see that our platform is serving a critical role beyond our original vision in enabling communication and collaboration for businesses, schools, consumers and the global community to stay connected and operational during the COVID-19 pandemic.

Navigating this process has been a humbling learning experience, giving us a newfound appreciation for what it means to be a video communications technology provider in times of need.

Slide 5 Meeting the Increased Demand

Work-from-Home and social distance initiatives have meaningfully accelerated the adoption and traffic on the Zoom video communications platform. We have seen many use cases, not only from enterprises to maintain work productivity as part of business continuity plans, but also from first-time consumer users for personal and social use to connect with friends and families when physical gathering is not possible.

Let me share some metrics that illustrate the demand we experienced in this past quarter:

- Customers with more than 10 employees grew 354% year-over-year as we deployed millions of licenses for new customers in the quarter.
- One new banking customer deployed approximately 175,000 new Zoom enterprise licenses in the quarter.
- Usage by customers in the Global 2000 grew over 200% sequentially.
- We peaked at over 300 million daily participants, free and paid, joining Zoom meetings in April 2020, up from 10 million in December 2019. Currently, we continue to see elevated levels of participants even as governments around the world have begun to ease stay-in-place restrictions.
- We had an approximate twentyfold increase in our metric of annualized meeting minutes run rate, which jumped from 100 billion at the end of January 2020 to over two trillion meeting minutes based on April 2020's run rate.

Scaling capacity to meet this incredible increase in traffic and use cases while providing uninterrupted, reliable and high-quality services to our customers have been a tremendous undertaking for our team. And we could not have done it without relying on our partners.

When the pandemic crisis started, our own data centers could not scale fast enough to handle the unprecedented traffic. Fortunately, some the top public cloud providers were there to help. Immediately during the crisis, our longtime partner AWS and its CEO Andy Jassy enabled us to meet this rapidly increasing demand. As our demand increased and we had limited visibility into the growth, AWS was able to respond quickly by provisioning the majority of the new servers we needed, sometimes adding several thousands a day for several days in a row.

In April, our customer Oracle also showed great support to help us. Not only did Larry Ellison record a great video to encourage our team to do the right things for the world, but also offered Oracle cloud support. We also provisioned a number of servers in the Oracle cloud as the demand for Zoom continued to increase.

We are so grateful for their partnership and their responsiveness to provide capacity during this time.

Slide 6 Challenges and Commitment to Security and Privacy

While the COVID-19 pandemic has expanded our market opportunities, it also brought us many challenges. Prior to the pandemic, Zoom was primarily built for and used by large enterprises and institutions. During the crisis, with good intentions, we opened our platform to unprecedented numbers of first-time users without fully considering the challenges it would bring to those who did not have full IT support or established protocols for security and privacy like our enterprise customers. As a result, we have experienced negative press related to meeting disruption, security and privacy issues.

Since these issues emerged, we have transparently and quickly addressed specific security and privacy issues, including:

- Enacted a 90-day plan initiative on security and privacy with a weekly webinar for customers to ask me anything
- Acquired Keybase to add engineering expertise to build an end-to-end encrypted meeting mode.
- Released Zoom 5.0 with new security features and enhancements to give customers unparalleled control over their meetings and data. The new release also includes support for AES 256-bit GCM encryption and ability to report platform misuse to Zoom's Trust & Safety Team.

During this period of unprecedented usage growth and negative PR, as CEO of Zoom, I was facing tremendous pressure. I reached out to the high-tech community and received great support from fellow CEOs, and I can't thank them enough for their advice. I'm also deeply grateful to see the strong support from valued enterprise customers, such as CEOs from Atlassian, Equinix, HubSpot, Okta, PagerDuty, Poly, SurveyMonkey and many others, both through public statements and video testimonials.

With that, our users trust us to deliver the best and most secure video-first communications platform. I believe our resolve will continue to make us a stronger company for our customers and the global community.

Slide 7 Happy Zoom Customers

Now let me discuss a few of our happy customers.

We are thrilled to welcome Arm Technology to the Zoom family. Arm Technology is at the heart of a computing and data revolution that is transforming the way people live and businesses operate. In Q1, Arm chose to deploy approximately 8,000 Zoom Meeting licenses, 800 Zoom Rooms and 9,000 Zoom Phones to deliver a one-touch experience to their employees globally.

We are also happy to welcome Baker McKenzie. One of Baker McKenzie's distinguished strengths is their use of cutting-edge technologies to help clients overcome the challenges of competing in today's economic world. We feel privileged to be the video communications platform of choice for the number 1 law firm brand in the world.

Thank you, Arm and Baker McKenzie!

On a final note, we welcomed Lieutenant General H.R. McMaster to serve as an independent director on Zoom's Board of Directors, Velchamy Sankarlingam as President of Engineering and Product, and Damien Hooper-Campbell as Chief Diversity Officer. Bringing their expertise to Zoom will be instrumental as we navigate rapid growth, transformation and scale.

I want to commend and thank our 2,854 employees for what we have accomplished together and for working tirelessly over the past quarter to support millions of participants around the world.

With that, let me turn things over to Kelly.

Slide 8 – Rapid Revenue Growth

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

Q1 was an exceptional and pivotal quarter for Zoom. We are grateful for the incredible increase in demand as millions of doctors and patients, teachers and students, businesses and consumers chose Zoom to deliver critical communication and connection in a time of need. It speaks greatly of their trust in the quality and ease-of-use of our technology platform.

We are also proud of our efforts to support our customers, employees and the global community during the COVID-19 pandemic. In addition to opening up our platform to deliver free services to over 100,000 K-12 schools in 25 countries and millions of people around the world, especially those in areas highly impacted by the crisis, we have also donated \$1.4 million dollars to COVID-19 focused charities and funded another \$1 million dollars of stock to launch our charitable fund, Zoom Cares. The key long-term focus of Zoom Cares includes education, social equity and climate change. Internally, we provided a one-time bonus, equivalent to two weeks of pay, for all Zoom's non-commissioned employees to offset costs associated with any disruption caused by the crisis.

Not only has the world changed since we last reported results in early March but so has Zoom's market opportunities and growth trajectory. Let me start by reviewing our financial results for Q1, then discussing our outlook for Q2 and the full year of FY21 that has been recalibrated to adjust for the new trends and scale of our business.

Total revenue grew 169% year-over-year, to \$328 million dollars in Q1. This top line result significantly exceeded the high end of our guidance range of \$201 million dollars due to the increase in demand and strong sales execution in the quarter.

For the quarter, the growth in revenue was primarily due to subscriptions provided to new customers, which accounted for approximately 71% of the increase, while subscriptions provided to existing customers accounted for approximately 29% of the increase. This demand was broad-based across industry verticals, geographies and customer cohorts.

Slide 9 - Gaining Enterprise Traction

Let's take a look at the key customer metrics for Q1:

We continue to see expansion in the up-market as we ended Q1 at 769 customers with greater than \$100,000 dollars in trailing twelve months revenue, up 90% year-over-year. This is an increase of 128 customers over Q4, a record number of adds in a quarter.

Further demonstrating the strength in the up-market was the addition of over 500 customers greater than \$100,000 in ARR in Q1. This is a one-time metric that we are sharing to provide more insight to our Q1 results.

Slide 10 – Rapidly Growing Customer Base

For customers with more than 10 employees, we added over 183,000 in Q1, exiting with a total of approximately 265,000 customers in this segment. Year over year, we added over 206,000 new customers, growing 354%.

While this is remarkable growth, our customer segment with 10 or fewer employees also expanded during the quarter as individuals adopted Zoom for many personal and social uses. As a result, we have experienced a mix shift of customer cohorts, where customers with 10 or fewer employees represented 30% of revenue in Q1, up significantly from 20% in Q4. In addition, the increase in customers with 10 or fewer employees also shifted our billing mix as these customers generally pay monthly, rather than annually like most enterprise customers.

Slide 11 – Strong Q1 Net Dollar Expansion

Our Net Dollar Expansion was over 130% for the 8th consecutive quarter as existing customers continue to support and trust Zoom to be their video communications platform of choice.

Slide 12 – Growing International Presence

Both domestic and international markets had strong growth during the quarter. Americas grew at a rate of 150% year-over-year. However, our combined APAC and EMEA revenue grew even faster at 246% year-over-year and represented approximately 25% of revenue. International expansion is a key growth initiative for Zoom. Our global brand awareness has spread more quickly and we have expanded into more countries that we had originally planned for FY21.

Slide 13 – Q1 Expenses and Margins

Now turning to profitability. The increase in demand and execution drove net income profitability from both GAAP and non-GAAP perspectives. For my following comments, I will focus on our non-GAAP results, which exclude the charitable donation of common stock, stock-based compensation expense and related share-based equity taxes.

Non-GAAP gross margin in the first quarter was 69.4%, compared to 80.9% in Q1 last year and 84.2% last quarter. Although in early March we originally guided lower based on an increase in usage of our platform, our gross margin was further impacted by the elevated demand, especially higher levels of free meeting minutes, including those from K-12 schools in March and April. Higher incremental cost also resulted from leveraging the public cloud providers, which was critical to our ability to meet the sudden exponential growth in usage as the crisis spread and governments instituted stay-in-place policies around the world.

Moving forward, as we build additional capacity in our own data centers, we expect to gain some efficiencies, bringing gross margin back toward the mid-70s in the next several quarters ahead.

R&D expense in Q1 was approximately \$21 million dollars, up 66% year-over-year. As a percentage of total revenue, R&D was 6%, which was lower than Q1 last year mainly due to the strong top line growth. In FY21, we plan to continue investing in R&D to drive innovation and security functionality, including leveraging the expertise and resources from top security firms. Also, we recently announced the addition of two Engineering Centers of Excellence where we expect to add up to 500 software engineers in the next few years. The new R&D centers in Greater Phoenix, Arizona area and Pittsburgh, Pennsylvania will both be located near top engineering universities.

Sales and Marketing expense for Q1 was \$104 million dollars. This reflects an increase of 69% or \$42 million dollars over last year with investments to drive future growth. As a percentage of total revenue, Sales and Marketing was 32%, a decrease from Q1 last year mainly due to strong top line growth. Overall, the increase in expense was attributable to record sales hiring and higher sales commissions due to strong execution while we saw efficiencies in Marketing. We are expanding our hiring plans for the rest of year to meet the opportunity presented in this new environment.

G&A expense in Q1 was \$49 million dollars, up 196% on a year-over-year basis. It represented 15% of total revenue, up from Q1 last year due to higher accruals for telco taxes from higher billings, a one-time license payment and external professional services.

Non-GAAP operating income was \$55 million dollars, translating to a 16.6% non-GAAP operating margin for the first quarter. This compares to Q1 last year's result of \$8 million dollars and 6.7% margin. Again, the higher revenue plus strong execution across all areas were the main drivers of this additional profit.

Non-GAAP earnings per share in Q1 was \$0.20 cents, on approximately 295 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. This result is \$0.10 cents higher than our guidance and \$0.17 cents higher than Q1 of last year.

Slide 14 – Growing Future Revenue under Contract

Turning to the balance sheet. Deferred revenue at the end of the quarter was \$552 million dollars, up 270% year-over-year. Looking at both our billed and unbilled contracts, our RPO totaled approximately \$1.1 billion dollars, up 184% from \$377 million dollars year-over-year.

The increase in RPO is consistent with the increase in demand and strong execution in the quarter.

We expect to recognize approximately 72% or \$772 million dollars of the total RPO as revenue over the next 12 months as compared to 64% or \$240 million dollars in Q1 last year.

Slide 15 – Rapid Cash Flow Growth

We ended Q1 with approximately \$1.1 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

In Q1, we had exceptional operating cash flow of \$259 million dollars, up from \$22 million dollars year-over-year. Free cash flow was \$252 million dollars, up from \$15 million dollars year-over-year. The increase is attributable to strong collections from top line growth, higher percentage of monthly contracts as well as billings that started early in the quarter.

Looking ahead, we expect to increase capital expenditures for additional data center infrastructure, and as a reminder, we will see the semi-annual cadence of net cash outflows from ESPP purchases to occur in Q2.

Slide 16 – Full Year and Q2FY21 Outlook

Now turning to guidance, as I have mentioned earlier, the current environment has expanded Zoom's market opportunities and outlook as the increase in demand propelled us to a higher growth trajectory than originally planned for this year. This requires us to recalibrate our original FY21 plan for the new scale of our business.

The COVID-19 pandemic adds an unprecedented new variable to our business model, where historical knowledge may no longer apply. Today, as we present our current best estimate of future quarters based on new assumptions of the dramatic shift of our business, we caution that the impact and extent of the crisis and its associated economic concerns remain largely unknown. Significant variations from our assumptions could cause us to modify our guidance.

With that, we provide a higher outlook for FY21 based on our view of the current business environment.

For the second quarter, we expect revenue in the range of \$495 to \$500 million dollars. We expect non-GAAP operating income to be in the range of \$130 to \$135 million dollars. Our outlook for non-GAAP earnings per share is \$0.44 cents to \$0.46 cents based on approximately 299 million shares outstanding.

For the full year of FY21, we expect revenue to be in the range of \$1.775 to \$1.800 billion dollars, which would be approximately 185% to 189% year-over-year growth.

Let me help provide a bit more context on the assumptions behind our guidance. As I discussed earlier, we have a far higher portion of revenue attributable to new customers with 10 or fewer employees, who opted for monthly contracts. Historically, monthly subscribers have a higher churn rate compared to annual or multi-year subscribers. In addition, as governments start to

ease shelter-in-place restrictions, we may see a moderation of demand for our services. Given our assumptions on higher churn rate as well as economic uncertainty, we are projecting Q3 and Q4 revenue to be relatively consistent with Q2.

For the full year of FY21, non-GAAP operating income is expected to be in the range of \$355 to \$380 million dollars. We expect to deliver non-GAAP earnings per share of \$1.21 to \$1.29 for the full year FY21, based on approximately 300 million shares outstanding.

In closing, we executed well in Q1 and are proud of how our team dedicated themselves to support our customers and global community. Thank you to the entire Zoom team. And everyone, please stay healthy and safe.

Slide 17 - Questions

With that, let's open it up for questions. 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 [END of webinar]

Eric Closing - Thank you for joining us and supporting Zoom.