

# zoom

Video Communications

**Q2 FY20 Earnings** | September 5, 2019

# Use of non-GAAP financial measures

In addition to the financials presented in accordance with U.S. generally accepted accounting principles ("GAAP"), this presentation includes the following non-GAAP metrics: non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating margin, non-GAAP operating income, non-GAAP EPS and non-GAAP Free Cash Flow. Non-GAAP metrics have limitations as analytical tools and you should not consider them in isolation or as a substitute for or superior to the most directly comparable financial measures prepared in accordance with U.S. GAAP. There are a number of limitations related to the use of non-GAAP metrics versus their nearest GAAP equivalents. Other companies, including companies in our industry, may calculate non-GAAP metrics differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP metrics as tools for comparison. We urge you to review the reconciliation of Zoom's non-GAAP metrics to the most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business. See the Appendix for reconciliation between each non-GAAP metric and the most comparable GAAP measure.

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This presentation and the accompanying oral presentation also contain estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions, and estimates of our future performance and the future performance of the markets in which we compete are necessarily subject to a high degree of uncertainty and risk.

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# Zoom Delivers Happiness to New and Existing Customers



# Business and Technology Highlights

## ✓ New Verizon partnership in Q2

- Zoom's video-first unified communications platform is available as a cloud service enabling Verizon business customers of all sizes to enjoy our reliable and innovative video communications.

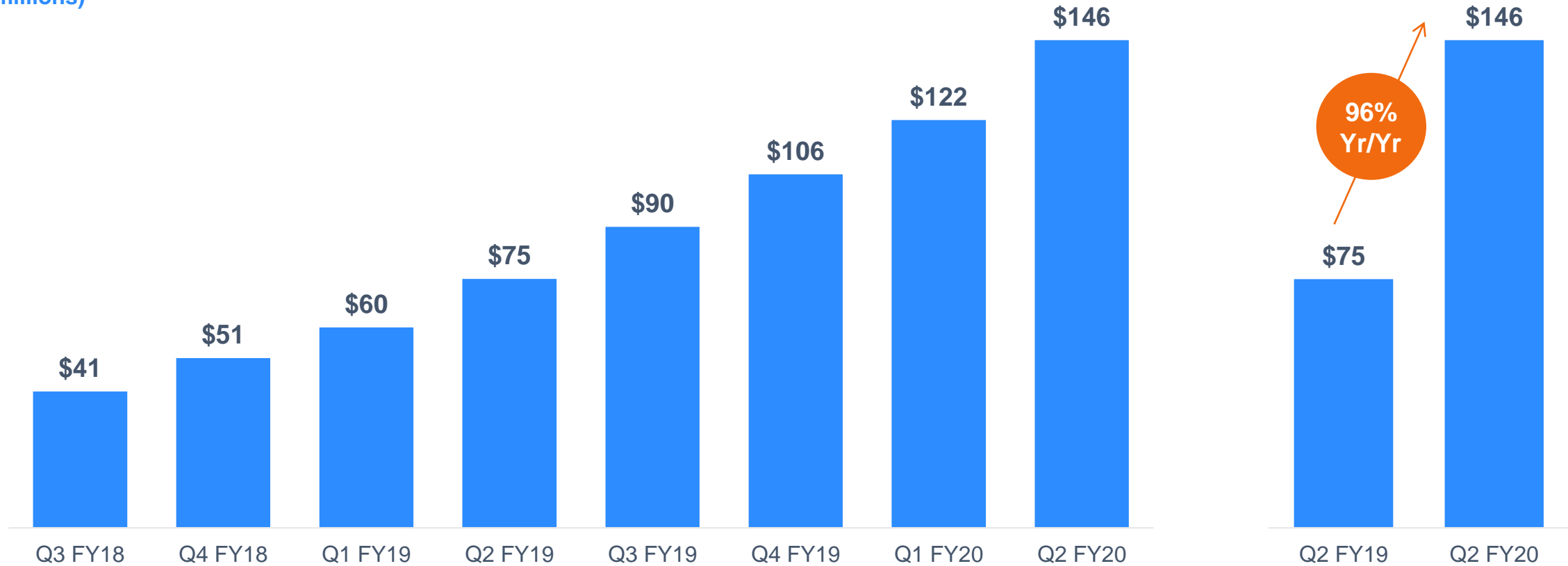
## ✓ New Chief Revenue Officer

- Ryan Azus joined Zoom as our Chief Revenue Officer with nearly 20 years of selling experience and sales leadership in the communications industry.

# Rapid Revenue Growth

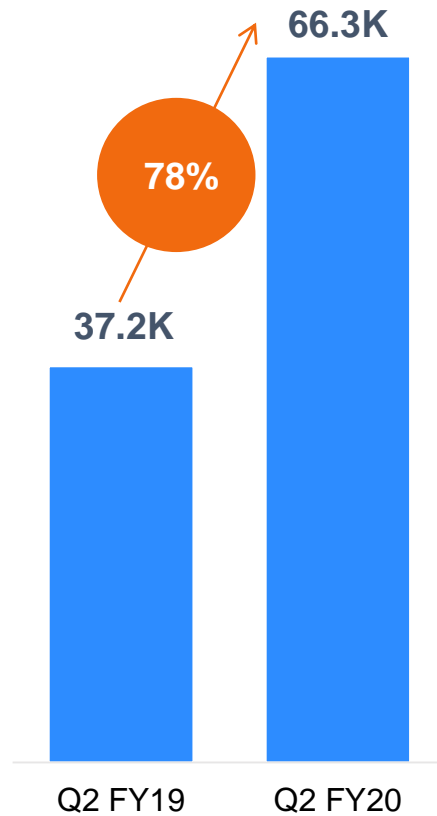
## Revenue

(in millions)

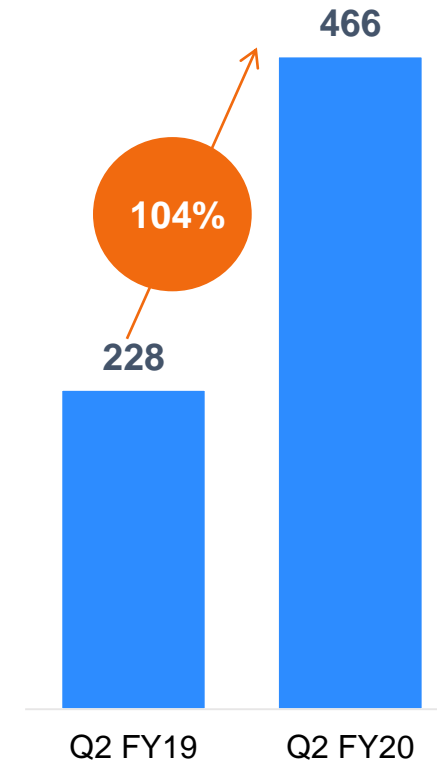


# Rapidly Growing Customer Base and Gaining Enterprise Traction

Customers with Greater Than 10 Employees<sup>1</sup>



Growth in Customers with >\$100K in Trailing 12-month Revenue



<sup>1</sup>The number of customers are rounded down to the nearest hundred



# Strong Q2 Net Dollar Expansion Rate

TTM Net Dollar  
Expansion Rate<sup>1</sup>

**130%+**

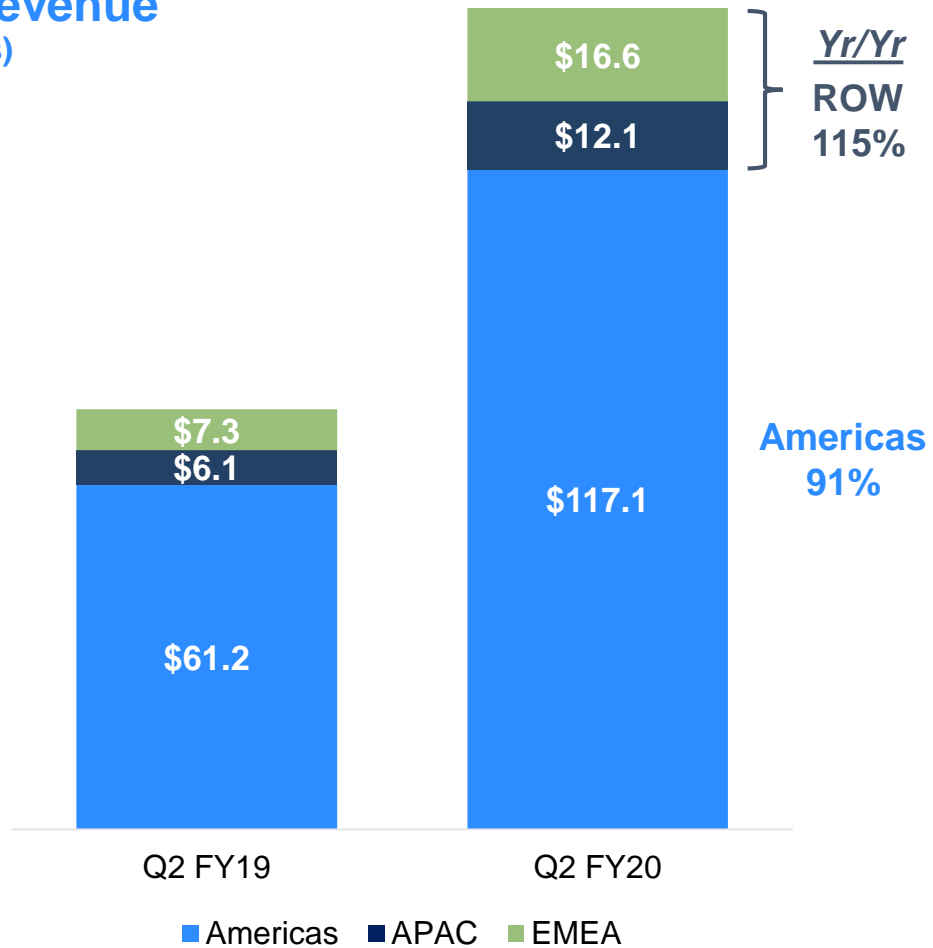
In Q2 FY20

- Demonstrated Ability to Land and Expand
- Reflects Trust and Loyalty with Existing Customers
- Q2 Net Promoter Score (NPS) 70+

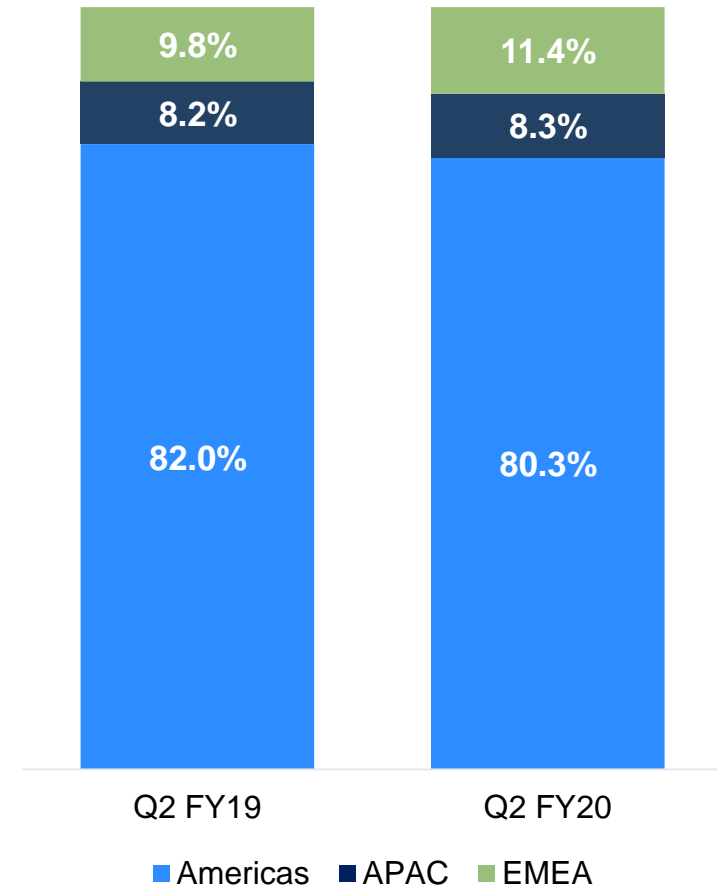
<sup>1</sup>We calculate net dollar expansion rate as of a period end by starting with the ARR from customers with greater than 10 employees as of the 12 months prior to such period end (Prior Period ARR). We then calculate the ARR from these customers as of the current period end (Current Period ARR). The calculation of Current Period ARR includes any upsells, contraction and attrition. We then divide the total Current Period ARR by the total Prior Period ARR to arrive at the net dollar expansion rate. For the trailing 12-months calculation, we take an average of this calculation over the trailing 12 months.

# Growing International Presence

**Total Revenue**<sup>1</sup>  
(in millions)



**Revenue Mix**



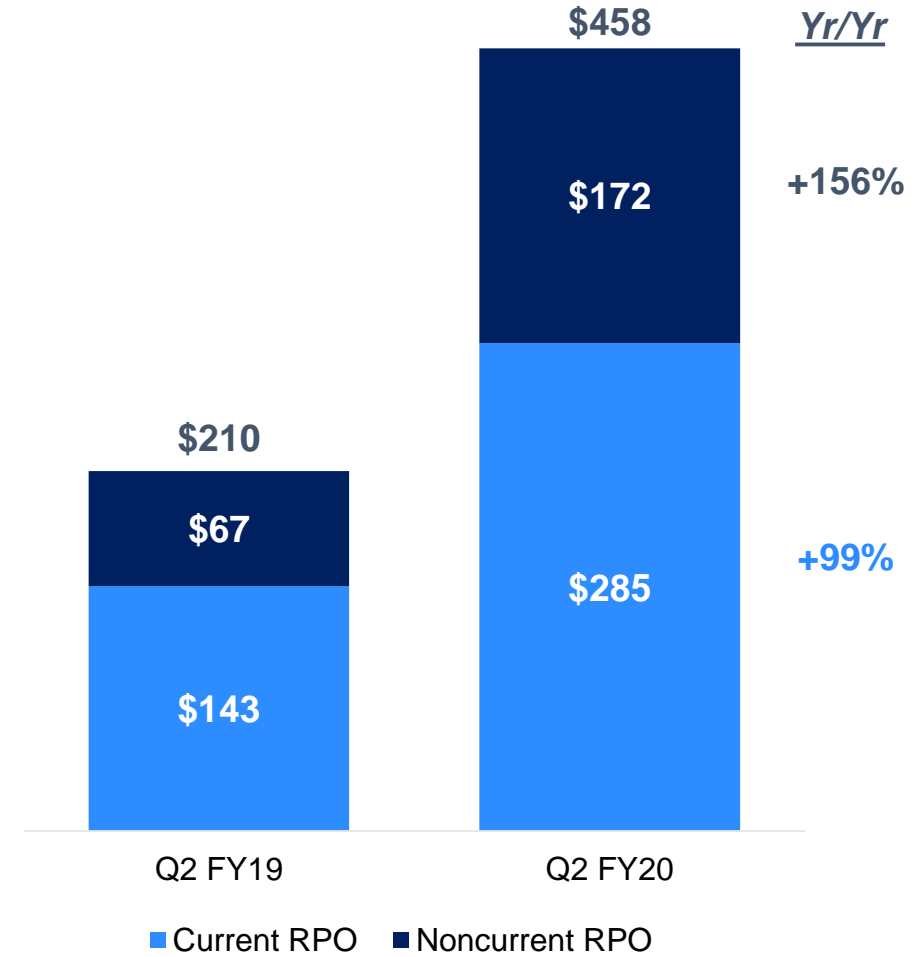
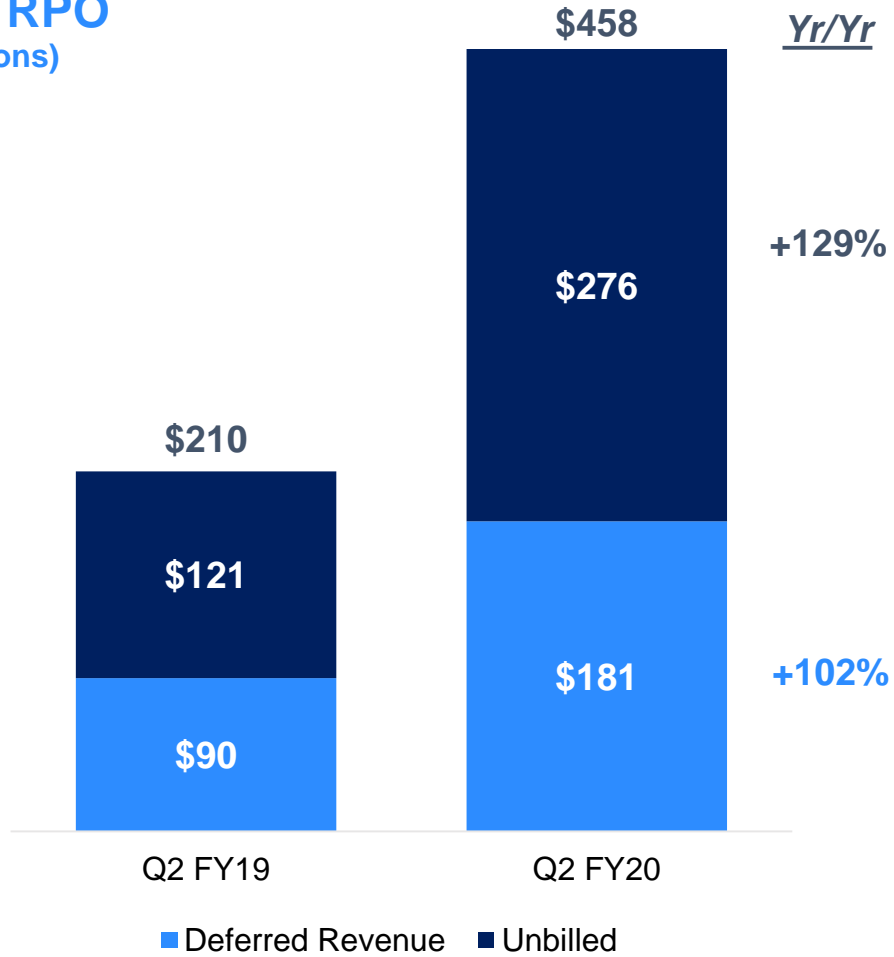
# Q2 Expenses and Margins

	GAAP Results	Yr/Yr	Non-GAAP Results	Yr/Yr
Revenue	\$146 million	96%	\$146 million	96%
Gross Margin	80.9%	(173bps)	82.2%	(58bps)
Research & Development	10%	86bps	9%	(60bps)
Sales & Marketing	55%	(47bps)	47%	(722bps)
General & Administrative	14%	91bps	12%	(88bps)
Operating Margin	1.6%	(304bps)	14.2%	812bps

As a % of Revenue<sup>1</sup>

# Growing Future Revenue Under Contract

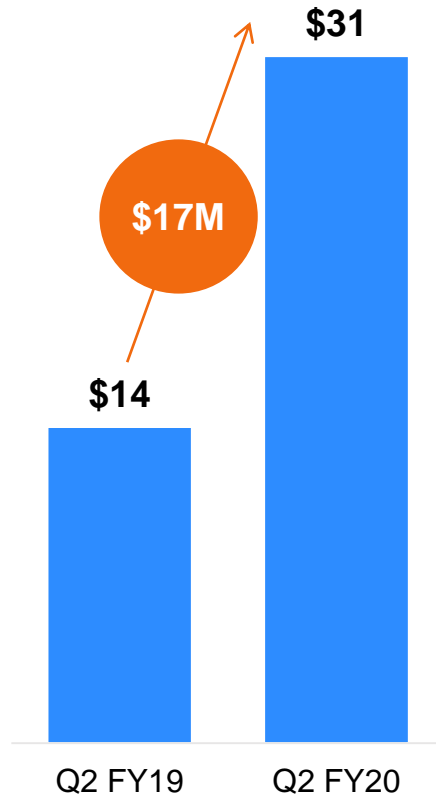
**Total RPO<sup>1</sup>**  
(in millions)



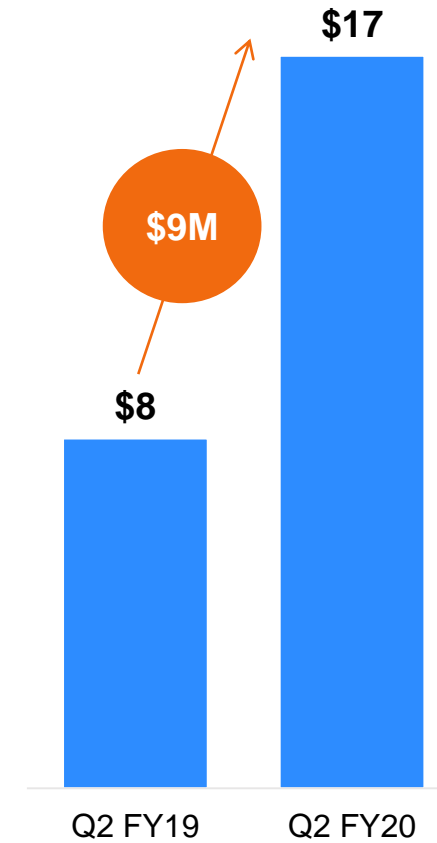
<sup>1</sup> Remaining performance Obligations (RPO) which consists of both billed considerations and unbilled considerations that expect to recognize as revenue. We expect to recognize approximately 62% or \$285 million dollars of the total RPO as revenue over the next 12 months compared to 68% or \$143 million dollars in Q2 last year. Subtotals have been rounded

# Rapid Cash Flow Growth

## Operating Cash Flow (in millions)



## Free Cash Flow<sup>1</sup> (in millions)



# Q3 FY20 and Full Year Outlook

	Q3FY20	FY20	
Non-GAAP Outlook <sup>1</sup>	Revenue	\$155 - \$156 million	\$587 - \$590 million
	Non-GAAP Operating Income	\$6 - \$7 million	\$42 - \$45 million
	Weighted Average Share Count	294 million	293 million
	Non-GAAP EPS	\$0.03	\$0.18 - \$0.19

**Questions**

The background is a vibrant blue with a central circular galaxy image. Various geometric shapes like squares, circles, and triangles are scattered around, some with dashed outlines or internal patterns. The text 'zoomtopia' is centered in a white, bold, sans-serif font.

# zoomtopia

October 15 and 16  
San Jose Convention Center



**Thank You**

# Appendix

# GAAP to Non-GAAP Reconciliation

<b>Gross Profit</b> (\$ in thousands)	QTD - Q2FY19	QTD - Q2FY20	YTD - Q2FY19	YTD - Q2FY20
Total Revenue	\$74,526	\$145,826	\$134,596	\$267,814
GAAP Gross Profit	\$61,553	\$117,926	\$109,963	\$215,810
(+) Stock-based compensation expense and related payroll taxes	\$130	\$1,922	\$225	\$2,752
Non-GAAP Gross Profit	\$61,683	\$119,848	\$110,188	\$218,562
Non-GAAP Gross Margin	82.8%	82.2%	81.9%	81.6%

<b>R&amp;D Expenses</b> (\$ in thousands)	QTD - Q2FY19	QTD - Q2FY20	YTD - Q2FY19	YTD - Q2FY20
GAAP R&D	\$7,049	\$15,054	\$13,313	\$28,837
(-) Stock-based compensation expense and related payroll taxes	\$(193)	\$(2,510)	\$(322)	\$(3,674)
Non-GAAP R&D	\$6,856	\$12,544	\$12,991	\$25,163

<b>S&amp;M Expenses</b> (\$ in thousands)	QTD - Q2FY19	QTD - Q2FY20	YTD - Q2FY19	YTD - Q2FY20
GAAP S&M	\$41,054	\$79,652	\$77,315	\$143,693
(-) Stock-based compensation expense and related payroll taxes	\$(492)	\$(10,813)	\$(888)	\$(13,440)
Non-GAAP S&M	\$40,562	\$68,839	\$76,427	\$130,253

<b>G&amp;A Expenses</b> (\$ in thousands)	QTD - Q2FY19	QTD - Q2FY20	YTD - Q2FY19	YTD - Q2FY20
GAAP G&A	\$10,028	\$20,955	\$17,597	\$39,458
(-) Stock-based compensation expense and related payroll taxes	\$(311)	\$(3,224)	\$(540)	\$(5,265)
Non-GAAP G&A	\$9,717	\$17,731	\$17,057	\$34,193

# GAAP to Non-GAAP Reconciliation

<b>Operating Profit</b>				
<b>(\$ in thousands)</b>	<b>QTD - Q2FY19</b>	<b>QTD - Q2FY20</b>	<b>YTD - Q2FY19</b>	<b>YTD - Q2FY20</b>
Total Revenue	\$74,526	\$145,826	\$134,595	\$267,814
GAAP Operating Profit	\$3,422	\$2,265	\$1,738	\$3,822
(+) Stock-based compensation expense and related payroll taxes	\$1,126	\$18,469	\$1,975	\$25,131
Non-GAAP Operating Profit	\$4,548	\$20,734	\$3,713	\$28,953
Non-GAAP Operating Margin	6.1%	14.2%	2.8%	10.8%

<b>Free Cash Flow</b>				
<b>(\$ in thousands)</b>	<b>QTD - Q2FY19</b>	<b>QTD - Q2FY20</b>	<b>YTD - Q2FY19</b>	<b>YTD - Q2FY20</b>
Cash Flow from Operations	\$14,351	\$31,172	\$17,110	\$53,408
(-) Purchases of PPE	\$(6,177)	\$(14,040)	\$(10,027)	\$(20,937)
Free Cash Flow	\$8,174	\$17,132	\$7,083	\$32,471

# Metrics Summary

Metric	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20
Revenue	\$60.1	\$74.5	\$90.1	\$105.8	\$122.0	\$145.8
<i>y/y</i>	125%	126%	120%	108%	103%	96%
GAAP Operating Income	\$(1.6)	\$3.4	\$(1.1)	\$5.5	\$1.6	\$2.3
Stock Based Compensation & Related Payroll Taxes	\$0.8	\$1.1	\$2.7	\$4.3	\$6.7	\$18.5
Non-GAAP Operating Income	\$(0.8)	\$4.5	\$1.6	\$9.8	\$8.2	\$20.7
Operating Cash Flow	\$2.8	\$14.4	\$18.2	\$16.0	\$22.2	\$31.2
Capital Expenditures (Property, Equipment & Intangibles)	\$(3.9)	\$(6.2)	\$(8.1)	\$(12.3)	\$(6.9)	\$(14.0)
Free Cash Flow	\$(1.1)	\$8.2	\$10.1	\$3.7	\$15.3	\$17.1
RPO	\$166.1	\$210.5	\$256.0	\$311.7	\$376.5	\$457.6
<i>y/y</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	127%	117%
TTM Net \$ Expansion Rate	N/A	138%	139%	140%	130%+	130%+
Customers >10 Employees	31.5k	37.2k	44.4k	50.8k	58.5k	66.3k
<i>y/y</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	97%	86%	78%
Customers >\$100K TTM Revenue	184	228	277	344	405	466
<i>y/y</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	141%	120%	104%