

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 third quarter of FY2020. Joining me today will be Zoom's Founder and CEO, Eric Yuan and Zoom's CFO Kelly Steckelberg who is joining us remotely in the LA area, demonstrating another capability of our Zoom Video technology.

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 future financial performance and other future events or trends, including guidance. 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-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.

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Speaker: Eric S. Yuan, President and CEO

Thank you and welcome to everyone joining us on today's Zoom video webinar.

Slide 5 Strong Performance Slide

I am pleased to report that we had another strong quarter as evidenced by a combination of high revenue growth of 85% with increased profitability and free cash flow of \$54.7 million dollars. We continue to have success with customers of all sizes and one metric that has continued to impress is customers with more than \$100 thousand dollars of Trailing Twelve Months revenue. This metric grew 97% from Q3 last year. Our execution so far this year has put us in a position to finish the year strong and we are raising our revenue and profitability outlook for the fourth quarter and full fiscal year.

Slide 6 Happy Zoom Customers

As Kelly will discuss in a moment, our strong third quarter results were driven by two factors. First, our ability to attract new customers of all sizes and across industry segments and geographies. And second, our commitment to customer happiness which creates trust and enables us to significantly grow commitments with our existing customers. Let me discuss some of the largest deals we closed this quarter with two happy customers. Both expanded their footprint of our unified communications platform.

I'm excited that the US Postal Service is starting to deploy Zoom Meetings more broadly across the organization after an extensive proof of concept. The USPS is our first major agency win since we received FedRamp approval in May. They chose Zoom for our high quality video and audio. Thank you USPS!

We are also grateful to have National Australia Bank as part of the Zoom family; NAB is undertaking a large technology transformation and is looking to Zoom to support its enterprise telephone and video conferencing services in order to better connect its workforce of more than 30,000 employees. NAB is Australia's largest business bank and one of our largest financial service customers in the region. Since selecting Zoom in 2018 to help seamlessly connect its workforce across any device and internationally, they have continued to grow and adopt Zoom services throughout their business.

In Q3, the bank selected Zoom to support the telephony systems for a new Sydney-based major office building development. Zoom Phone was selected to support a unified communications approach as the bank adopts a wireless working environment, as well as delivering projected cost savings, and enhanced features and functionality. They will begin rolling out Zoom Softphones to over 6,500 users next year, focusing on tenants of the new building, as well as continuing to expand their Zoom Rooms footprint.

We're excited to continue delivering improved experiences for the bank through a full end-to-end communication platform which helps better connect their workforce. Thank you National Australia Bank!"

Slide 7 – Business and Technology Highlights

Now, let me discuss a couple of business highlights from Q3:

- First, analyst firm Gartner named Zoom a Leader for the fourth consecutive time in their Magic Quadrant for Meeting Solutions. We are grateful that Gartner has recognized Zoom for our completeness of vision and ability to execute once again.
- And second, we held our premier customer event, Zoomtopia - my favorite event of the year! It is only our third Zoomtopia and we had record registrations of 2,600, up over 80% from last year. During the event, customers like AB-InBev, Autodesk, Electronic Arts, Uber and Walmart shared their stories. Many customers spoke to how frictionless Zoom experiences are driving productivity and delivering happiness with internal and external stakeholders. It is truly amazing and humbling to hear from so many happy customers from around the world.
- Also, at Zoomtopia, we were proud to announce expansions to our platform including our new Zoom Rooms Appliance Program, expanded Zoom Phone service and capabilities, and the growth of our App Marketplace. Our customers tell us that Zoom 'just works,' and with these new innovations we empower teams to do even more with video communications.

In closing, I'd like to thank the over 2,400 Zoom employees for their hard work and focus on our customers. Their commitment to customer happiness and execution at scale will enable us to finish the year strong and position us for future growth. With that, let me turn things over to Kelly.

Slide 8 – Rapid Revenue Growth

Kelly Steckelberg, CFO

Thank you, Eric. And welcome to everyone joining us.

Let me start by first reviewing financial results for Q3 and then I will discuss our outlook for Q4 and the full fiscal year.

Overall, we delivered another amazing quarter and demand for Zoom's unified communication platform remained strong across our major geographies and offerings. Total revenue grew 85% year-over-year in the third quarter, to \$167 million dollars. This top line result exceeded the high end of our guidance range.

Key drivers of our revenue performance included both our acquisition of new customers and expansion of Zoom's footprint within existing customers. Specifically, new customers accounted for approximately 61% of our year-over-year growth in subscription revenue while the remaining 39% was due to additional purchases from existing customers.

Slide 9 – Rapidly Growing Customer Base

Now, let me share some of the key customer metrics for Q3:

Our two pronged strategy of "land and expand" continued to drive growth. First, we added 7,800 customers with more than 10 employees in the period and exited Q3 with over 74,100 customers, up 67% year-over-year.

Our continued expansion in the up-market resulted in 546 customers with more than \$100,000 dollars in trailing-twelve-months revenue, up 97% year-over-year. This is an increase of 80 customers, and a record number of adds in a quarter.

Slide 10 – Strong Q1 Net Dollar Expansion

Our ability to expand with existing customers was evident in our net dollar expansion rate that was over 130% for the sixth consecutive quarter. Our net dollar expansion rate remains at the top tier of our industry and reflects the high level of satisfaction and trust customers have for Zoom. This is further evidenced by our Net Promoter Score which remained above 70 in Q3.

Eric discussed two examples of how this strategy contributed to our Q3 results and let me give you a third one. During the quarter, we had an expanded commitment from Quinnipiac University, a nationally-ranked private university in Connecticut with over 10,000 students. The university originally moved to Zoom Meetings based on the ease of use and reliability of the

technology as well as a way to consolidate into one platform for their diverse community of users.

Looking to drive further adoption of an innovative communications platform, the university has also selected Zoom phone to modernize their phone system. Quinnipiac has been a great partner and applauded Zoom's willingness to work with the university to enhance the feature sets of our technology on their journey toward a unified communications platform.

Slide 11 – Growing International Presence

Next, as we discussed at our recent Analyst Day, international expansion is a key multi-year growth initiative for Zoom. In Q3, our APAC and EMEA revenue combined grew 98% year-over-year and represented approximately 20% of revenue. Revenue from the Americas was up 82% year-over-year and represented approximately 80% of revenue. We see significant opportunity ahead for international expansion.

Slide 12 – O1 Expenses and Margins

Now turning to profitability. Our sales execution in Q3 also helped drive strong growth in our profitability and free cash flow. We were net income profitable from both a GAAP and non-GAAP perspective, but I will focus on our non-GAAP results, which exclude stock-based compensation expense, and related share-based equity taxes.

Non-GAAP gross margin in the third quarter was 82.9%, compared to 81.7% in Q3 last year and 82.2% last quarter. For the full year, we expect non-GAAP gross margin to be at the top of our long-term target of 80% to 82%.

R&D expense in Q3 was approximately \$14 million, up 64% on a year-over-year basis. As Eric discussed, we announced several expansions to our platform at Zoomtopia. We expect to continue to invest in innovating our platform with our highly efficient R&D model. Given our hiring plans over the next several quarters, we expect R&D to return to the range of 10 to 12 percent of revenue which is consistent with our long term view.

Sales and marketing expense for Q3 was \$82 million dollars. This reflects an increase of 58% or \$30 million dollars over last year with investments to drive further growth. As a percent of total revenue, Sales and Marketing was 49%, lower than Q3 last year as we have seen continued efficiency gains in Marketing but slightly up from last quarter as it included the investment associated with Zoomtopia. As we continue to focus on expanding our top line and taking more market share we will invest to drive growth in Q4 and into FY21.

G&A expense in Q3 was \$21 million dollars and represented 12% of total revenue. This is consistent with both with last quarter and Q3 of last year which were also 12% of revenue.

Non-GAAP operating income was \$21 million dollars translating to a 13% non-GAAP operating margin for the third quarter. This was an increase of approximately \$19 million dollars as compared to Q3 last year's result of \$2 million dollars. The main driver of this result was the higher revenue while spending was mostly in-line with our expectations.

Non-GAAP earnings per share in Q3 was \$0.09 cents, on approximately 293 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. This result is \$0.06 cents higher than our guidance and \$0.08 cents higher than Q3 of last year.

Slide 13 – Growing Future Revenue under Contract

Turning to the balance sheet. We ended Q3 with approximately \$811 million dollars in cash, cash equivalents and marketable securities excluding restricted cash.

Deferred revenue at the end of the quarter was \$202 million dollars, up 89% year-over-year. Looking at both our billed and unbilled contracts, our remaining performance obligations, or RPO, totaled approximately \$517 million dollars, up 102% from \$256 million dollars last year. We expect to recognize approximately 64% or \$330 million dollars of the total RPO as revenue over the next 12 months as compared to 65% or \$166 million dollars in Q3 last year. Current RPO was up 99% year-over-year, the same growth rate as Q2's current RPO. Non-current RPO was up 108% year-over-year.

Slide 14 – Rapid Cash Flow Growth

Our execution led to strong cash flow growth. Operating cash flow was \$62 million dollars in Q3 up from \$18 million dollars or 240% year-over-year. In Q3, free cash flow was \$55 million dollars, up from \$10 million dollars, or 440%, year-over-year.

As we discussed on last quarter's webinar, the benefit we received over the last two quarters from the Employee Stock Purchase Plan will become a use of cash in Q4 when the first purchase will be made. The quarter-over-quarter outflow in cash related to ESPP will be approximately \$20 million in Q4. Starting in FY21, we expect the cadence of benefits from contributions to the ESPP occur in Q1 and Q3 and net outflows from purchases to occur in Q2 and Q4.

Slide 15 – Q3FY20 and Full Year Outlook

Now turning to guidance, we are pleased to be increasing our outlook for the full year based on our view of the current business environment, our ability to gain market share and the momentum we achieved so far, this fiscal year.

For the fourth quarter, we expect revenue in the range of \$175 to \$176 million dollars. We expect non-GAAP operating income to be in the range of \$17 to \$18 million dollars. Our outlook for non-GAAP earnings per share is \$0.07 cents based on approximately 296 million shares outstanding.

For the full year of fiscal 2020, we now expect revenue to be in the range of \$609 to \$610 million dollars, up from our prior guidance of \$587 to \$590 million dollars. This would be approximately 85% growth year-over-year.

For the full year non-GAAP operating income is expected to be in the range of \$67 million to \$68 million dollars, an increase of approximately 50% from the top end of our prior guidance of \$42 million dollars to \$45 million dollars. With this meaningful increase in profitability we now

expect to deliver non-GAAP earnings per share of \$0.27 cents for the full year Fiscal 20, based on approximately 293 million shares outstanding.

In closing, we are pleased with our progress this year and our unique ability to deliver high growth at scale combined with profitability and free cash flow growth. I would also like to thank the entire Zoom team for their hard work in Q3. We are well positioned to end the year strong as we stay focused on delivering happiness to our customers every day.

Slide 16 - Questions

With that, let's open it up for questions. If you have not enabled your video, please do so now for the interactive portion of this meeting. Matt, please queue-up our first question.

Slide 17 Thank you Slide [END of webinar]

Eric Closing - Thank you for joining us and your support for Zoom