

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 second 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, growth rates, our future financial performance and other future events or trends, including guidance for the third fiscal quarter 2021 and full fiscal year 2021, our plans and objectives for future operations, growth, initiatives, strategies, and the impact to our 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, 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.

Slide 4 Zoom Title Slide

Speaker: Eric Yuan, President and CEO

Hello, I hope you are all doing well. I want to thank our customers, investors, and community for their support of Zoom. Their care, feedback, and trust of Zoom make a huge difference. No matter how busy we are, no matter what challenges we are facing, we are always re-charged when we think about their support and become even more motivated to serve them better. With the pandemic persisting, we are committed to work hard and are humbled by our role of enabling communications worldwide during this challenging time.

Slide 5 Strong Q2 FY21 Performance Slide

As remote work trends have accelerated during the pandemic, organizations have moved beyond addressing immediate business continuity needs to actively redefining and embracing new approaches to support a future of working anywhere, learning anywhere, and connecting anywhere. We continued to see meaningful adoption of Zoom's video-first unified communications platform across industries and geographies.

Let me share with you just a few key metrics that reflect this:

- Revenue grew 355% year-over-year in Q2.
- Customers with more than 10 employees grew 458% year-over-year as new customers chose Zoom to be their preferred communication and collaboration solutions.
- We had over 35,000 educators, school administrators and IT professionals from around the world join our free virtual Zoom Summer Academy. The successful two-day Zoom event was our biggest educational event to date, bringing together thought leadership in remote learning, practical training and networking opportunities. We remain committed to helping our education customers, including the more than 100,000 K-12 schools who have signed-up to use the platform for free during the pandemic.

Slide 6 Business and Technology Highlights

Moving on to a few recent business highlights:

- We completed our 90-day plan on security and privacy. A comprehensive summary of accomplishments is available on our website. I'm proud of our team's swift and transparent response, as well as the resulting improvements we made to our platform. Although the 90-day initiative is over, security and privacy matters will remain an important part of Zoom's strategy and DNA moving forward as we strive to maintain our customers' and other stakeholders' trust.
- We made two exciting hardware announcements in the quarter:
 - First is the launch of Zoom Hardware as a Service, which offers customers a variety of subscription options for phone and meeting room hardware from leading hardware manufacturers. This offering makes Zoom Phone and Zoom Rooms more accessible by minimizing friction around hardware procurement.
 - Second is Zoom for Home, our new innovative category of software experience and hardware device partnerships to support remote work use cases. We launched this program with our partner DTEN in July, and this month we announced its expansion to Amazon, Facebook and Google devices.
- We also achieved significant accomplishments for Zoom Phone:
 - In mid-June, Zoom Phone was authorized under the FedRAMP program, enabling federal agencies to consolidate their costly, legacy telephony systems onto our unified modern cloud solution.
 - This month, we expanded the availability of Zoom Phone service to 25 additional countries and territories. Zoom now provides local telephone service and domestic calling in more than 40 countries and territories.

On a final note, we welcome our new CISO, Jason Lee, former SVP of Security Operations at Salesforce, and our new General Counsel, Jeff True, former EVP and General Counsel at Palo Alto Networks. We are excited to have them joining the executive team!

Slide 7 New and Existing Zoom Customers

Now let's talk about some exciting wins in the quarter. Let me start with a couple of new customers that represent some of the largest companies in their industry.

First, we are thrilled to welcome ExxonMobil, one of the largest publicly traded international energy companies, to the Zoom family. ExxonMobil develops and applies next-generation technologies to help safely and responsibly meet the world's growing needs for energy and chemical products. They recently used their scale and capabilities to ramp up production to make medical-grade masks, shields, and hand sanitizers. We are grateful that ExxonMobil chose Zoom as their unified communications platform. ExxonMobil wanted a solution that would enable them to collaborate reliably and securely with their teams, customers, and partners around the world. ExxonMobil employees are now using Zoom video communications across their global business.

Second, Activision Blizzard, a member of the Fortune 500, has chosen Zoom to modernize and consolidate onto a single communication platform across their business units and gaming franchises. As a leading interactive entertainment company, connecting and engaging the world through epic entertainment, Activision committed to a full enterprise rollout of Zoom Meeting and Zoom Rooms to replace their mix of legacy video conferencing products.

Our ability to expand with existing customers also helped drive our results this quarter. One of the highlights this quarter was the expansion with ServiceNow, who has been a Zoom customer since 2018, using Zoom Meetings for its 11,000+ global employees. Since the global pandemic, ServiceNow employees working from home have relied heavily on Zoom's easy-to-use interface to stay productive and connected with their customers. As the Zoom platform has become a core piece of ServiceNow's technology ecosystem, this past quarter, the company chose to replace its legacy hardware PBX system with Zoom Phone across their organization, further elevating their teams' work-anywhere experience with seamless one-touch communication and collaboration.

Thank you, ExxonMobil, Activision Blizzard, ServiceNow and all our wonderful customers for trusting Zoom! I love you!

In summary, we continued to scale and expand our business to meet the needs of our customers and global community. I am very proud of our achievements and thank our more than 3,400 employees for another exceptional quarter. Let's remain focused on delivering happiness to our customers and community.

With that, let me turn things over to Kelly.

Slide 8 – Rapid Revenue Growth

Kelly Steckelberg, CFO

Thank you, Eric. And hello everyone.

Q2 was a remarkable quarter for Zoom as we continued to rapidly grow and invest in our business to meet the needs of our customers and community.

Let me start by reviewing our financial results for Q2, then discuss our outlook for Q3 and the increased view of our full year FY21.

Total revenue grew 355% year-over-year, to \$664 million dollars in Q2. This top line result significantly exceeded the high end of our guidance range of \$500 million dollars as demand remained at heightened levels, combined with lower-than-expected churn and exceptional sales execution.

For the quarter, the year-over-year growth in revenue was primarily due to subscriptions provided to new customers, which accounted for approximately 81% of the increase, while subscriptions provided to existing customers accounted for approximately 19% of the increase. This demand was broad-based across industry verticals, geographies and customer cohorts.

Slide 9 - Enterprise Traction

Let's take a look at the key customer metrics for Q2:

We continue to see expansion in the up-market as we ended Q2 at 988 customers generating more than \$100,000 dollars in trailing twelve months revenue, up 112% year-over-year. This is an increase of 219 customers over Q1, the highest number of adds in a quarter.

Slide 10 – Rapidly Growing Customer Base

We exited the quarter with a total of approximately 370,000 customers with more than 10 employees. We added approximately 105,000 of these customers in Q2, the second highest number of adds in any quarter. Year-over-year, we added approximately 304,000 new customers with more than 10 employees for 458% growth.

We have continued to benefit from significant growth in our customer segment with 10 or fewer employees, as small businesses and individuals adopted and maintained their Zoom licenses for various uses during the pandemic. In Q2, customers with 10 or fewer employees represented 36% of revenue, up from 30% in Q1 and 20% in Q4 of last year. The increase in customers with 10 or fewer employees continues to shift our billing mix as these customers generally pay monthly, rather than annually as do most enterprise customers. This shift is an important point for our outlook, which I will discuss in just a moment.

Slide 11 – Strong Q2 Net Dollar Expansion

Our Net Dollar Expansion for customers with more than 10 employees was over 130% for the 9th 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 288% year-over-year. Our combined APAC and EMEA revenue accelerated to 629% year-over-year and represented approximately 31% of revenue. We will continue to invest in international expansion to capitalize on our brand awareness and the increased global opportunity.

Slide 13 – Q2FY21 Expenses and Margins

Now turning to profitability. The increase in demand and strong execution drove net income profitability 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 and acquisition-related expense.

Non-GAAP gross margin in the second quarter was 72.3%, compared to 82.2% in Q2 last year and 69.4% last quarter. The incremental improvement from Q1 reflects our strategy to increase our co-located data center capacity while leveraging the public cloud as needed. We expect gross margin for the rest of the year to be consistent with Q2. However, actual results may vary as gross margin is contingent upon the percentage of free users and the utilization of public cloud during the pandemic.

R&D expense in Q2 was approximately \$29 million dollars, up 128% year-over-year. As a percentage of total revenue, R&D was approximately 4%, which was lower than Q2 last year mainly due to the strong top line growth. In FY21, we will continue to invest in R&D to drive innovation across all aspects of our platform. We also plan to diversify our engineering talent as reflected by our expansion in the US and India.

Sales and Marketing expense for Q2 was \$123 million dollars. This reflects an increase of 78% or \$54 million dollars over last year with investments to drive future growth. As a percentage of total revenue, Sales and Marketing was approximately 19%, a decrease from Q2 last year mainly due to strong top line growth and marketing efficiencies from our increased global awareness. Overall, we plan to add sales capacity quickly over the next several quarters. The swift ramping of our sales organization to further capitalize on market opportunities is a priority.

G&A expense in Q2 was \$51 million dollars, up 189% on a year-over-year basis due to higher accruals for telco taxes correlated to higher billings, professional services and additional hiring to meet the functions of a public company of this scale. As a percentage of total revenue, G&A expense was approximately 8%, a decrease from Q2 last year, as we gained leverage on our investments with the rapid growth in revenue.

The substantial revenue upside in the quarter carried over to the bottom line, with non-GAAP operating income of \$277 million dollars far exceeding our guidance, translating to a 41.7% non-GAAP operating margin for the second quarter. This compares to Q2 last year's result of \$21 million dollars and 14.2% margin. The significant margin expansion year-over-year is due to the steep increase in revenue in Q2, which outpaced the rate of investment, even as we added over 500 employees in Q2, a 20% increase from last quarter and 53% year-over-year.

Non-GAAP earnings per share in Q2 was \$0.92 cents, on approximately 297 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. This result is \$0.46 cents more than the high end of our guidance and \$0.84 cents higher than Q2 of last year.

Slide 14 – Growing Future Revenue under Contract

Turning to the balance sheet. Deferred revenue at the end of the quarter was \$743 million dollars, up 309% year-over-year. Looking at both our billed and unbilled contracts, our RPO totaled approximately \$1.4 billion dollars, up 209% from \$458 million dollars year-over-year. The increase in RPO is consistent with the strong demand and execution in the quarter.

We expect to recognize approximately 72% or \$1 billion dollars of the total RPO as revenue over the next 12 months as compared to 62% or \$285 million dollars in Q2 last year. This indicates a shift in our renewal seasonality, which was historically weighted toward Q2 and Q4 and has now shifted to Q1 due to the strength of last quarter's performance.

As a reminder, we do not focus on calculated billings as a metric for our business. We have a diverse business that spans from enterprises to individuals. With the changing mix of our business, annual billing terms and the growing level of monthly billing terms, such calculations have become less meaningful, especially now that we have a full quarter of monthly billings making up a bigger part of our revenue.

Slide 15 – Rapid Cash Flow Growth

We ended Q2 with approximately \$1.5 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Similar to Q1, we had exceptional operating cash flow in Q2 of \$401 million dollars, up from \$31 million dollars in Q2 last year. Free cash flow was \$373 million dollars, up from \$17 million dollars in Q2 last year. The increase is attributable to strong collections from the large increase in top line growth and higher percentage of monthly contracts throughout the quarter.

For the second half of the fiscal year, 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 inflows from ESPP purchases to occur in Q3.

Slide 16 – Q3FY21 and Full Year Outlook

Now turning to guidance, we are pleased to raise our outlook for FY21 for both revenue and non-GAAP profitability. Although we remain optimistic on Zoom's outlook, please note that the impact and extent of the COVID-19 crisis and its associated economic concerns remain largely unknown. Our higher outlook for FY21 is based on our view of the current business environment.

For the third quarter, we expect revenue in the range of \$685 to \$690 million dollars. We expect non-GAAP operating income to be in the range of \$225 to \$230 million dollars. Our outlook for non-GAAP earnings per share is \$0.73 to \$0.74 cents based on approximately 300 million shares outstanding.

Before giving you the full year outlook, let me provide some context on our assumptions. While better-than-expected churn was one of the drivers to our Q2 outperformance, we did experience a significantly higher level of overall churn in Q2 as compared to historical rates. As customers with 10 or fewer employees have increased to 36% of our revenue, we are assuming a higher rate of churn due to this mix shift.

From an expense perspective, we continue to focus on investing for growth, targeting investments that are appropriate for our market opportunity and the size of the business that we have become. Looking ahead, we expect operating margins to decrease from the peak in Q2 over the balance of this year as our hiring and spending catch up with the much greater scale of our business. It is prudent to expect margins to normalize to lower levels over the next several quarters.

For the full year of FY21, we expect revenue to be in the range of \$2.37 to \$2.39 billion dollars, which would be approximately 281 to 284% year-over-year growth. This implies that Q3 and Q4 revenue will be only modestly higher than Q2, indicating a decline in quarter-over-quarter growth.

For the full year of FY21, non-GAAP operating income is expected to be in the range of \$730 to \$750 million dollars. We expect to deliver non-GAAP earnings per share of \$2.40 to \$2.47 for the full year FY21, based on approximately 300 million shares outstanding.

In closing, we executed well in the first half of the fiscal year. With our commitment to delivering customer happiness, we believe we will grow to over two billion dollars in total revenue this fiscal year, which would be a remarkable milestone considering our guidance was below one billion in revenue at the start of the fiscal year. We are proud of how our team continued to perform in support of our customers and global community. Thank you to the entire Zoom team.

Before we move to our Q&A session, let me turn it back to Eric.

Slide 17 – Zoomtopia Slide

Thank you, Kelly! I want to invite you to our virtual Zoomtopia event on October 14th and 15th. We hope to see you there at Zoomtopia!

Now, let me turn it back to Tom.

Slide 18 – Questions Slide

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 19 - Thank You Slide [END of webinar]

Eric Closing - Thank you for joining us. It has been a memorable first half. To our investors and analysts, we appreciate your continued support for Zoom.