

Zoom Q2 FY25 Earnings - Prepared Remarks

Slide 1 – Zoom Q2 FY25 Earnings

Charles Eveslage, Head of IR

Thank you, David.

Hello everyone, and welcome to Zoom's earnings video webinar for the second quarter of fiscal year 2025. 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.us](https://investors.zoom.us). 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 third quarter and full fiscal year 2025; our expectations regarding financial and business trends; impacts from the macroeconomic environment, our market position, opportunities, go-to-market initiatives, growth strategy and business aspirations; and product initiatives and the expected benefits of such initiatives.

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.

Slide 4 – Reimagine teamwork with Zoom Workplace

Eric Yuan, Founder and CEO

Thank you, Charles! Thank you everyone for joining us today.

We had a strong quarter marked by broadening our Zoom Workplace offering, marching up market with contact center, and deepening the AI capabilities that underpin our entire platform.

The roll-out of Zoom Workplace features over the last few months represent the most significant upgrade to the Zoom experience in years. We reinvigorated the UI with the simplicity and reliability that has defined Zoom from the beginning, while also adding to the capabilities of Zoom Meetings, Zoom Team Chat and Zoom Phone and strengthening how AI Companion operates across these modalities.

We also brought Zoom Rooms, Visitor Management, and Workplace Reservation to the next level in order to better support our customers' flexible work needs. And just days ago, we announced the launch of a new Zoom Webinar offering that can host up to 1 million attendees, revolutionizing the way organizations can connect with massive audiences and demonstrating the clear scalability advantage inherent in our modern architecture.

Slide 5 – Zoom Docs

Earlier this month, we took another major step towards our platform vision by launching Zoom Docs. Docs fits right into our strategy of expanding the platform across more touch points in the productivity lifecycle, helping to effortlessly transform information from Zoom Meetings into actionable documents, tasks, and knowledge bases, so teams can stay focused on meaningful work.

Slide 6 – CX & EX Evolution

In Q2, we landed our largest deal for a new Contact Center customer, who chose our top-tier Elite CX package coupled with Zoom Phone. We are seeing increased adoption of our advanced Contact Center packages, as customers seek to utilize our AI capabilities to enhance agent performance. Of our top ten Contact Center wins, all represented displacements of major contact center vendors, and 40% were migrations off of first generation cloud-based solutions.

These metrics highlight how well our Contact Center meets the needs of customers and prospects, while also validating our “better together” strategy. In fact, most Contact Center wins represent either existing Zoom Workplace customers, who add on Contact Center; or new customers to Zoom, who buy

Contact Center in conjunction with Zoom Workplace. This demonstrates the desire for seamlessly integrated customer and employee experience solutions, which Zoom excels at delivering.

Slide 7 - Our roadmap for AI Companion

The seamless integration of the customer and employee experience rests upon Zoom's AI Companion technology as a fabric to unify the whole platform. Today, AI Companion enhances an employee's capabilities using generative AI to boost productivity through features like meeting summary, chat compose, image generation, live translation and enhanced features in Contact Center. As these features have grown in popularity, we are happy to share that Zoom AI Companion is now enabled on over 1.2 million accounts.

But we have only scratched the surface. Our progress broadening Zoom Workplace, building out enhanced AI tools for Contact Center and amassing a large base of AI users sets us up well to transition into the 2.0 phase of AI-enabled work. In this phase, Zoom AI Companion will move beyond enhancing skills to simplifying your workday, providing contextual insights, and performing tasks on your behalf. It will do this by operating across our collaboration platform to ensure your day is interconnected and productive.

We will have more to share about our AI strategy at Zoomtopia in October. We hope you can join us.

Slide 8 – Customer traction in Q2 demonstrates our platform evolution

Now, let me recognize some of our amazing customers.

First, let me thank TIAA, a leading provider of secure retirements and outcome-focused investment solutions, for strengthening their partnership with Zoom. A long-time customer, TIAA upgraded to Zoom Workplace Enterprise Plus and added Zoom Contact Center and Quality Management in Q2, in order to further enhance the employee and customer experience.

I would also like to thank Prime Inc., one of the largest trucking and freight delivery companies in North America. Prime came to us through the channel, and chose to further elevate the experience they provide their drivers with Zoom Contact Center and Quality Management. But the value did not stop there. Recognizing the power of our natively integrated employee and customer experience platform, they added Zoom Workplace as well as Webinar and

Rooms to support the collaboration and flexible work needs of their corporate offices.

In addition I'd like to thank Lyra Health, a leader in workforce mental health benefits, for integrating Zoom's Video SDK Toolkit into their platform. Lyra has successfully migrated to Zoom, bringing our cutting-edge video technology directly into their applications, exemplifying our developer-focused approach.

Finally, Workvivo had an amazing quarter, with wins including a leading Southeast Asian bank and a famed European automotive brand. Workvivo's success was extended by the Meta partnership, which contributed some exciting new logos in Q2 including a major North American telco. We are so happy to provide these companies with an Employee Experience platform that elevates the way they inform, connect and engage employees and integrates seamlessly with the broader Zoom portfolio.

I'd like to take this opportunity to share the news that after almost seven years, Kelly has made the decision to leave Zoom. Kelly joined Zoom about two years before our successful IPO in April 2019 and her role in that has been a highlight of her time here. She will leverage her skills in helping companies scale and building successful businesses to help another start up in that process for the next "Zoom."

She has been an integral part of the Zoom journey – steering our IPO in 2019 and continuing the momentum as our customer base rapidly expanded during the pandemic. Under her strong financial leadership, Zoom has maintained a consistent track record of profitability and cash flow growth.

We are conducting a comprehensive search for our next CFO with the assistance of a leading executive search firm. Kelly will be staying on through Q3 earnings, and given that we have a robust finance organization through her commitment to talent development, I am confident there will be a seamless transition. We wish Kelly all the best. Now, I'll pass it off to Kelly.

Slide 9 – Q2 Milestones

Kelly Steckelberg, CFO

Thank you Eric. I want to thank you and the entire Zoom team for an incredible experience over the past seven years. Zoom has not only made work more productive, but transformed the everyday lives of people globally. As Eric

mentioned, I am committed to stay through Q3 earnings to help with a seamless transition.

Now, back to the earnings. We are pleased that we beat our top-line and profitability guidance in Q2. Here are a few achievements from the quarter:

First, Zoom AI Companion reached approximately 1.2 million accounts enabled as of the end of Q2.

Second, we saw amazing traction with Workvivo as we reached 69 customers with over \$100,000 dollars in ARR, roughly doubling year over year.

And finally, we surpassed 1,100 Zoom Contact Center customers, representing more than 100% year-over-year growth.

Slide 10 - Continued top-line expansion in Q2 with positive trends in Enterprise and Online

Now, let's dive into the financial results. In Q2, total revenue came in at \$1.163 billion dollars, up 2% year over year. This result was approximately \$13 million dollars above the high end of our guidance.

Our Enterprise revenue grew 4% year over year and represented 59% of total revenue, up from 58% a year ago.

Online Average Monthly Churn came in at 2.9%, down from 3.2% in Q2 of FY24. This is the lowest rate that we have ever reported.

Slide 11 – Continued growth in the up-market

We saw 7% year-over-year growth in the up-market as we ended the quarter with 3,933 customers contributing more than \$100,000 dollars in trailing twelve months revenue. These customers represented 31% of revenue, up from 29% in Q2 of FY24.

Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q2 came in at 98%. The number of Enterprise customers at the end of Q2 was approximately 191,600. Please note, this metric has diminished in value over time as we focus on upselling existing customers and landing larger prospects with Zoom Phone, Zoom Contact Center, and other new products.

Slide 12 – Continued growth in Americas, FX headwinds in APAC

Our Americas revenue grew 3% year over year, while EMEA was flat and APAC declined by 2%. On a constant currency basis, APAC grew 1% and EMEA declined 1% year over year.

Slide 13 – Q2 FY25 expenses and margins

Moving to our non-GAAP results, which exclude stock-based compensation expense and associated payroll taxes, acquisition-related expenses, net gains on strategic investments, net litigation settlements, and all associated tax effects.

Non-GAAP gross margin in Q2 was 78.6% as compared to 80.3% in Q2 of last year, mainly due to investments in AI as well as upgrades to our data center backbone. For the full year of FY25, we continue to expect our gross margin to be approximately 79%, before improving towards our long term target of 80%.

Non-GAAP income from operations came in at \$456 million dollars, exceeding the high end of our guidance of \$420 million dollars. This translates to a 39.2% non-GAAP operating margin for Q2, as compared to 40.5% in Q2 of last year.

Non-GAAP diluted net income per share in Q2 was \$1.39 on approximately 314 million non-GAAP diluted weighted average shares outstanding. This result was 18 cents above the high end of our guidance and 5 cents higher than Q2 of last year.

Slide 14 – Growing Deferred Revenue and RPO

Turning to the balance sheet. Deferred revenue at the end of the period grew 3% year over year to 1.41 billion dollars. The growth was roughly two percentage points higher than the growth rate provided last quarter, partially due to the continued refinement of discounting practices as well as lengthening billing terms. For Q3, we expect deferred revenue to be up approximately 5% year over year.

Looking at both our billed and unbilled contracts, our RPO increased 8% year over year to approximately 3.78 billion dollars. We expect to recognize approximately 60% of the total RPO as revenue over the next 12 months, up from 59% in Q2 of last year.

Slide 15 – Strong cash flow, ~\$7.5B cash balance, and actively repurchasing shares

Operating cash flow in the quarter grew 34% year over year to \$449 million dollars. Free cash flow grew 26% year over year to \$365 million dollars. Our operating cash flow and free cash flow margins expanded to 38.7% and 31.4%, respectively. The year over year improvement in our cash flow metrics is due to higher collections from increased billings, higher interest income, and a prior year legal settlement.

We ended the quarter with approximately \$7.5 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Under the existing \$1.5 billion dollar share buy-back plan, in Q2 we purchased 4.8 million shares for \$288 million dollars, up from 2.4 million shares for \$150 million dollars in Q1.

Slide 16 – Q3 and Full Fiscal Year 2025 outlook

Turning to guidance. For Q3, we expect revenue to be in the range of 1.16 to 1.165 billion dollars, which at the midpoint represents approximately 2.3% year-over-year growth. We expect non-GAAP operating income to be in the range of 438 to 443 million dollars. Our outlook for non-GAAP earnings per share is \$1.29 to \$1.31 based on approximately 314 million shares outstanding.

We are pleased to raise our top-line and profitability outlook for the full year of FY25. We now expect revenue to be in the range of 4.63 to 4.64 billion dollars, which at the midpoint represents approximately 2.4% year-over-year growth. We expect our non-GAAP operating income to be in the range of 1.79 to 1.8 billion dollars representing an operating margin of 38.7%, at the midpoint. Our outlook for non-GAAP earnings per share for FY25 is \$5.29 to \$5.32, based on approximately 316 million shares outstanding.

With the strength in free cash flow in the first half and increased outlook for operating income in FY25, we now expect free cash flow to be in the range of 1.58 to 1.62 billion dollars for the full year.

Thank you to the entire Zoom team, our customers, our community, and our investors for your trust and support!

David, please queue up the first question.