

Speaker: Tom McCallum, Head of Investor Relations

Thank you, Matt -

Hello everyone, and welcome to Zoom's earnings webinar for the first quarter of FY2020. Joining me today will be Zoom's President and CEO, Eric Yuan and Zoom's CFO Kelly Steckelberg

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

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, uncertainties, assumptions and other factors that could affect our financial results and the performance of our business and which we discuss in detail in our filings with the SEC, including today's earnings press release and the risk factors and other information contained in the final prospectus relating to our initial public offering. Zoom assumes no obligation to update any forward-looking statements we may make on today's call.

And with that, let me turn the discussion over to Eric.

Speaker: Eric S. Yuan, President and CEO

Thank you and welcome to all of you joining us on today's webinar.

I am proud to announce that this earnings webinar today is being run entirely on Zoom. We are excited to leverage our technology as another example of how we are transforming the way people communicate.

This is our first earnings announcement as a public company and I am pleased to report that we delivered revenue of \$122 million for the first quarter – an increase of 103% year-over-year. In addition to tremendous growth at scale, we are also pleased that our highly efficient business model and disciplined investments contributed to positive profitability and free cash flow.

Our strong first quarter results are evidence that organizations are turning to Zoom as a strategic technology partner to help them increase communications and collaboration.

Since this is our first earnings call as a public company, I want to share how Zoom's video first approach delivers happiness to customers:

- We deliver a single, easy to use platform
- We are 100% Cloud-Native and hardware agnostic
- We offer high quality service globally
- We offer robust mobile functionality
- We are developer friendly with open APIs

We believe the growth opportunity for Zoom is significant. IDC estimates that the markets we address will represent a \$43 Billion dollar opportunity by 2022. But we believe that it is even larger than that as we are in the early stages of video becoming the new "voice". Our platform is fundamentally transforming the way organizations of all sizes communicate. Zoom is enabling far greater effectiveness and intimacy in human-to-human interactions over a distance, and we are witnessing the rapid adoption of Zoom for diverse use cases that were not possible with legacy technology.

Let me give you an example of how our customers leverage Zoom. Ciena, a networking systems, services and software company, has been a happy Zoom customer for the last 2 years. They have built up to a full site deployment of Zoom including Zoom Rooms and our premium audio. They have transformed how they conduct business and communicate with a video first culture. They are currently doing more than 10 million minutes a month on Zoom.

When faced with replacing their legacy PBX infrastructure, they turned to Zoom and Ciena was impressed with capabilities of Zoom Phone. We closed a deal with Ciena in Q1 that brings their Zoom Phone licenses to 5,000 users, while significantly expanding the use of the Zoom platform within their organization. This is a great example of the trust customers have in Zoom and the opportunity that it creates.

Now let me discuss a few recent business and technology highlights that further reinforce our long-term growth opportunity:

- First, we announced that our FedRAMP authorization has been approved, with the sponsorship of the US Department of Homeland Security. This authorization allows US Federal Government agencies and contractors to securely use Zoom for video meetings, API integrations, and more.

- Second, we continued to build out our best of breed partnerships with deeper relationships with HP, Salesforce.com and Slack.
- Third, we continued to enhance our core technologies that have disrupted the video communications market. During Enterprise Connect in March, we announced additional Smart features to Zoom meetings such as real-time transcriptions.
- And fourth, we continue to enhance and extend the reach of Zoom Phone. We announced new features that enable Zoom Phone to elevate voice calls to Zoom Video meetings seamlessly, a “bring your own carrier” service and a new beta for Zoom Phone service for the United Kingdom and Australia.

In summary, I'd like to thank our nearly 2,000 Zoom employees around the globe for an exceptional performance in our first quarter as a public company. Our industry leading, video-first architecture, viral adoption model, and large TAM, were also positive factors to our remarkable results this quarter. It was a great start to the year, and we are excited about the growth opportunities in front of us. Zoom is well positioned to capitalize on the transformation of how companies communicate and collaborate with their employees, partners and customers. In many ways we are helping to drive this transformation.

The strategy that we have employed over the years to make our customers happy with a frictionless communications platform is working, and it continues to deliver remarkable results.

With that, let me turn things over to Kelly.

Kelly Steckelberg, CFO

Thank you, Eric.

And welcome to everyone joining us.

Let me start by first reviewing financial results for Q1 and then I will discuss our outlook for Q2 and the full fiscal year.

As Eric discussed, total revenue grew 103% year over year in the first quarter, to \$122 million. Some of the key drivers of our revenue performance were our acquisition of new customers and the execution of our “land and expand” strategy with existing customers. Specifically, the year over year increase in revenue was split between subscription services provided to new customers which accounted for approximately 64% of the

increase while the remaining 36% increase was due to subscription services for existing customers. Here are some key customer metrics in Q1 that drove these results:

- We had over 58,500 customers with more than 10 employees, up nearly 86% year-over-year.
- We aren't just adding a large volume of new customers though. We are also winning larger customers as a result of our enterprise focus. For example, during the first quarter, we added new customers such as DocuSign and FICO
- And, customers of all size are deploying more Zoom products and users within their organizations as they realize the power of our platform. During the first quarter, we expanded our relationship with customers such as Ciena and Take-Two Interactive
- The combination of our land and expand strategy, along with our growing enterprise focus, resulted in 405 customers with more than \$100,000 in revenue over the last 12 months, up 120% year over year
- Overall, we have a loyal customer base, as evidenced by an exceptional net dollar expansion rate that has consistently been over 130% for the fourth consecutive quarter.

Geographic expansion is another driver of our strong revenue growth as we continue to enjoy high demand and growth globally. Revenue in Q1 from the Americas was up 98% year-over-year and was approximately 80% of revenue. Our APAC and EMEA revenue combined grew 127% year-over-year. We believe that this is only the beginning of a tremendous opportunity to bring the Zoom platform to customers around the world. To achieve this, we will make additional investments to expand our global footprint and drive additional growth.

Now turning to profitability. Here you can see we were profitable from both a GAAP and non-GAAP perspective, but I will focus on our non-GAAP results, which exclude stock-based compensation expense. Non-GAAP gross margin in the first quarter was up 17 basis points to 80.9%, compared to 80.7% in Q1 last year. Our non-GAAP gross margin reflects some additional investments to increase the redundancy of our infrastructure. For the full year, we expect non-GAAP gross margins to be at the low-end of our long-term target range of 80% to 82%.

R&D expense in Q1 was \$13 million and represented approximately 10% of total revenue. R&D remains a major investment area as we expand our platform with new features and capabilities every quarter. Approximately one-third of our workforce is

R&D, however, it is lower as a percentage of revenue because we have a highly efficient global R&D model.

Sales and marketing expense for Q1 was \$61 million, representing approximately 50% of total revenue. While we expect to realize leverage in sales and marketing over the long-term, we are currently focused on adding sales capacity to drive growth and capture the large TAM in front of us. These investments include ramping key strategic initiatives such as expanding our global footprint and building out our initial sales coverage for Zoom Phone.

G&A expense in Q1 was \$16 million and represented 13% of total revenue. This includes costs associated with expanding our corporate functions to effectively operate as a public company.

Non-GAAP operating income was \$8 million translating to a 6.7% non-GAAP operating margin for the first quarter. This was 8 percentage points improvement versus the modest non-GAAP operating loss in Q1 last year.

Non-GAAP earnings per share in Q1 was \$0.03, on approximately 290 million of non-GAAP, weighted average shares outstanding and adjusting for undistributed earnings. Non-GAAP EPS increased three cents from Q1 of last year.

Turning to the balance sheet. We ended Q1 with approximately \$737 million in cash, cash equivalents and marketable securities which is up from \$176 million at the end of Q4. The significant increase in cash was due primarily to \$543 million of net proceeds from our IPO and our growth in cash flow from operations.

Deferred revenue at the end of the quarter grew to \$149 million, up 108% year-over-year. Our remaining performance obligations or RPO totaled approximately \$377 million, up 127% year-over-year. We expect to recognize approximately 64% of the RPO as revenue over the next 12 months compared to 68% in Q1 last year. We were pleased with the non-current RPO growth which signals growing long-term customer commitments to our platform.

Operating cash flow was \$22 million in Q1, up from \$3 million in the same period a year ago. Free cash flow was \$15 million in Q1, compared to negative \$1 million in the same period a year ago. Both of these results reflect higher profitability and growth in deferred revenue.

Before I provide the outlook for Q2 and the full year, let me reiterate our investment strategy to drive our growth initiatives. As evident from our past results, we have both a highly efficient business model, and a proven track record of running the business in a disciplined manner. The end result has been rapid top line growth combined with positive non-GAAP operating income and free cash flow.

Our customers' happiness and the rapid adoption of the Zoom platform are our top priorities, and we believe our focus on investing in the business will drive increased market share and future revenue growth.

Now turning specifically to the second quarter guidance.

For the second quarter of fiscal 2020, we expect revenue in the range of \$129 to \$130 million.

We expect non-GAAP operating income to be in the range of \$2.0 to \$3.0 million, with non-GAAP earnings per share of \$0.01 to \$0.02 based on approximately 301 million shares outstanding.

For the full year of fiscal 2020, we expect revenue to be in the range of \$535 to \$540 million. We expect non-GAAP operating income in the range of breakeven to \$3 million. This forecast includes the impact in Q3 of our premier user event, Zoomtopia. Non-GAAP earnings per share is expected to be in the range of \$0.02 to \$0.03, based on approximately 301 million shares outstanding.

In closing, Q1 was a great start to our fiscal year. We had strong execution during our first quarter as a public company, and I would like to thank the entire Zoom team for their hard work. We delivered a combination of triple digit topline growth, increased profitability and positive free cash flow. We're also pleased with the high rate at which customers are embracing our platform. We believe this trust from customers and partners for Zoom will help drive additional growth. I'm excited about our execution this past quarter and the opportunity ahead for Zoom, and I look forward to sharing our progress with you.

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.

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