

Zoom Q3 FY25 Earnings - Prepared Remarks

Slide 1 – Zoom Q3 FY25 Earnings

Charles Eveslage, Head of IR

Thank you, Kelcey.

Hello everyone, and welcome to Zoom's earnings video webinar for the third quarter of fiscal year 2025. I'm joined today by Zoom's Founder and CEO, Eric Yuan, and Zoom's CFO, Michelle Chang.

Slide 2 – Use of non-GAAP financial measures

Our earnings 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. These measures should not be considered in isolation from or as a substitute for financial information prepared in accordance with GAAP.

Slide 3 – Safe Harbor statement

During this call we will make forward-looking statements, including statements regarding our financial outlook for the fourth quarter and full fiscal year 2025; our expectations regarding financial and business trends; impacts from the macroeconomic environment, our market position, stock repurchase program, opportunities, go-to-market initiatives, growth strategy and business aspirations; and product initiatives, including future product and feature releases, 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 – Zoomtopia unveils AI-first platform vision

Eric Yuan, Founder and CEO

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

In early October, we hosted Zoomtopia, our annual customer and innovation event and it was an amazing opportunity to showcase all that we've been working on for our customers! We had record breaking virtual attendance and unveiled our new vision "AI-first Work Platform for Human Connection".

This update marks an exciting milestone as we extend our strengths as a unified communication and collaboration platform into becoming an AI-first work platform. Our goal is to empower customers to navigate today's work challenges – streamlining information, prioritizing tasks, and making smart use of time.

Slide 5 – AI Companion 2.0 meets customers evolving demands

At Zoomtopia, we took meaningful steps towards that vision with the release of AI Companion 2.0, further showcasing all the things that customers have come to expect from Zoom - a breakneck pace of innovation, customer obsession, and reliable, easy-to-use products.

This release builds upon the awesome quality of Zoom AI Companion 1.0 across features like Meeting Summary, Meeting Query and Smart Compose and brings it together in a way that evolves beyond task-specific AI towards agentic AI. This major update allows the AI Companion to see a broader window of context, synthesize information from internal and external sources, and orchestrate action across the platform.

AI Companion 2.0 raises the bar for AI and demonstrates to customers that we understand their needs: they want AI to enhance their existing workflows, not disrupt them; they want AI to deliver exceptional results for their entire teams; and they want to experience the value firsthand, before incurring additional spend.

We highlighted many customers at Zoomtopia. Praniti Lakhwara, CIO of Zscaler, provided a great example of how Zoom AI Companion helped democratize AI and enhance productivity across the organization, without sacrificing security and privacy. And it wasn't just Zscaler, the RealReal, HSBC, ExxonMobil, and Lake

Flato Architects shared similar stories about Zoom's secure, easy-to-use solutions helping them thrive in the age of AI and flexible work.

Slide 6 – AI-first roadmap expands potential TAM

Building on our vision for democratizing AI, we introduced a roadmap of TAM-expanding AI products that create additional business value through customization, personalization, and alignment to specific industries or use cases. Custom AI Companion add-on, which will be released in the first half of next year, aims to meet our customers where they are in their AI journey by plugging into knowledge bases, integrating with third party apps, and personalizing experiences like custom AI avatars and AI coaching.

Additionally, we announced that we'll also have Custom AI Companion paid add-ons for Healthcare and Education, available as early as the first quarter of next year. These AI-first industry-tailored solutions will build upon the remarkable traction and customer love we have in these industries and allow us to deliver AI solutions that meet these customers' unique needs from the lecture hall to the doctor's office.

We also announced Zoom Workplace for Frontline, available in the first half of 2025, with the goal of extending our success in Zoom Workplace further into the extremely large but underserved Frontline Worker market. We will first target Frontline-rich industries where we have a strong install base and have gained substantial learnings such as retail, healthcare and manufacturing. This mobile-centric solution will address the unique work style of Frontline Workers with features like AI Companion-generated shift summaries, on-shift communications, work management, insights, and more.

Slide 7 - Contact Center & Workvivo deliver standout results in Q3

Contact Center and Workvivo are key pillars of our strategy to extend from our core strengths into natural adjacencies, and I'm pleased to share that both had amazing quarters.

We secured our largest ever Contact Center customer at over 20,000 seats, demonstrating our ability to compete at the high-end, expand further into the EMEA market and win with the Channel. In fact, our top four Contact Center deals in the quarter came from the Channel, which speaks to our progress

leveraging this amazing resource to extend our success across geographies and industries.

We also saw incredible traction with Workvivo as we landed three net new Workvivo customers with over \$1 million dollars in ARR, including the largest deal to date with a Fortune 10 company.

We are happy to see that both Contact Center and Workvivo benefit as a natural upsell to our massive base of Zoom Workplace customers. And we are encouraged to see these products bring in brand new customers to Zoom and become beachheads for Zoom Workplace to expand. The success of this bidirectional land and expand motion demonstrates our “better together” platform vision is resonating well with customers looking for a full, AI-first work platform bridging the worlds of customer and employee experience.

Slide 8 – Q3 customer wins validate our progress towards an AI first platform bridging Workplace and Business Services

Now, let me recognize some of our amazing customers.

Thank you Agencia Tributaria, Spain's national revenue service, for their extraordinary expansion in Q3. Over two years ago, Agencia, like many other customers, became convinced of the constraints of their on-prem phone system and deployed 30,000 Zoom Phone seats. After Zoom Phone rapidly delivered value at scale to enhance efficiency and service quality during a demanding tax season in 2022, they moved to consider our total experience, omni-channel solutions to further elevate their taxpayer services. This resulted in an incredible record-setting Zoom Contact Center deal with over 20,000 seats, in conjunction with Zoom Workplace, delivering a complete Zoom experience for both employees and taxpayers. Thank you Agencia for your trust and partnership.

Thank you to ServiceNow, the AI Platform for Business Transformation, for expanding its relationship with Zoom. Already a power user of Zoom Workplace, in Q3 ServiceNow adopted Workvivo and expanded its Zoom Phone footprint. As announced at Zoomtopia, we're deepening the integration of ServiceNow's Now Assist with Zoom AI Companion to bolster our Generative AI product offerings and deliver advanced workflow synergies for our customers. It was an honor having Chairman & CEO Bill McDermott, who is also a member of Zoom's Board of Directors, join us at Zoomtopia - thanks Bill, we look forward to continuing our strong partnership!

Let me also thank Redpin, a leading international fintech and proptech company, for choosing Zoom. They came to us as a brand new customer through a trusted channel partner, and identified Zoom as the best solution to transform the way they engage customers with their innovative property payments software and services. Redpin opted for the Zoom total experience including Zoom Contact Center Elite, Zoom Revenue Accelerator, and Zoom Workplace Business Plus in order to enhance customer experience, elevate agent productivity and happiness, and realize major cost efficiencies from streamlining operations.

Finally, let me thank athenahealth, a leading provider of network-enabled software and services for medical practices and health systems, for integrating Zoom's Meeting SDK into their athenaOne electronic health record. By leveraging Zoom's cutting-edge video technology, athenahealth is empowering its network of over 160,000 providers to deliver seamless virtual care through telehealth.

We are so pleased to see more customers adopting our Zoom Workplace and Business Services products in order to reap the benefits of our modern, natively integrated, AI-powered technologies.

Before handing it off to Michelle, I'm excited to share that earlier today we announced our new corporate name: Zoom Communications, Inc. This change reflects our evolution into an AI-first work platform for human connection and our vision for long-term growth. Now, over to our new CFO, Michelle Chang.

Slide 9 – Q3 Milestones

Michelle Chang, CFO

Thank you Eric. And hello everyone! It was great to meet many of you at Zoomtopia. I am excited to be taking you through our earnings for the first time and look forward to partnering with all of you going forward.

To kick us off, I am pleased to announce that we beat our top-line and profitability guidance in Q3. In line with our previous statements, year-over-year revenue growth troughed in Q2 and showed improvement in Q3, driven by positive trends in both Enterprise and Online.

Here are a few highlights from the quarter:

We saw progress towards our AI-first vision with Zoom AI Companion Monthly Active Users growing 59% quarter over quarter.

And as Eric mentioned, we saw great traction expanding into adjacent markets with growth in Workvivo and Contact Center:

The number of Workvivo customers grew 72% year over year, driven in part by the strength of the Meta partnership.

And the number of Zoom Contact Center customers surpassed 1,250, up more than 82% year over year.

Slide 10 - Improved growth for Total and Enterprise revenue; lowest ever Online churn

Now, let's dive into the financial results. In Q3, total revenue grew approximately 4% year over year to \$1.178 billion dollars. This result was \$13 million dollars above the high end of our guidance.

Our Enterprise revenue grew approximately 6% year over year, reflecting a continued shift to Enterprise which now makes up 59% of our total revenue, up 1 point year over year.

We're pleased with the continued stabilization in Online amid ongoing macro conditions. In Q3 we saw improvement in Average Monthly Churn, which decreased to 2.7%, down 30 basis points year over year. This is our lowest ever reported churn.

Slide 11 – Continued growth in the up-market

In our Enterprise business, we saw 7% year-over-year customer growth in the up-market as we ended the quarter with just shy of 4,000 customers contributing more than \$100,000 dollars in trailing twelve month revenue. These customers now make up 31% of our revenue, up 2 points year over year.

Our trailing twelve month Net Dollar Expansion rate for Enterprise customers in Q3 came in at 98%. The number of Enterprise customers at the end of Q3 was approximately 192,400. As we have mentioned in prior quarters the number of Enterprise customers distinguishes between our two go-to-market motions and will fluctuate with shifts in focus, and as such has become a less valuable measurement of company performance over time.

Slide 12 – Growth in EMEA and Americas, FX headwinds in APAC

Pivoting to our growth internationally; our Americas revenue grew 4% year over year, EMEA grew 5%, and APAC was flat. On a constant currency basis, EMEA grew 3% and APAC grew 2% year over year.

Slide 13 – Q3 FY25 expenses and margins

Moving to our non-GAAP results, which as a reminder 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 Q3 was 78.9% as compared to 79.7% in Q3 of last year. The year-over-year reduction was primarily due to investments in AI. For the full year of FY25, we continue to expect our gross margin to be approximately 79%.

Non-GAAP income from operations came in at \$458 million dollars, exceeding the high end of our guidance of \$443 million dollars, as we continued to make progress managing expenses while investing in AI, our platform, and emerging products. This translates to a 38.9% non-GAAP operating margin for Q3, as compared to 39.3% in Q3 of last year.

Non-GAAP diluted net income per share in Q3 was \$1.38 on approximately 314 million non-GAAP diluted weighted average shares outstanding. This result was 7 cents above the high end of our guidance and 9 cents higher than Q3 of last year.

Slide 14 – Steady YoY Growth in Deferred Revenue and RPO

Turning to the balance sheet. Deferred revenue at the end of the period grew 5% year over year to 1.38 billion dollars, driven by the continued refinement of discounting practices as well as lengthening billing terms. For Q4, we expect deferred revenue to be up 5-6% year over year.

Looking at both our billed and unbilled contracts, our RPO increased 5% year over year to approximately 3.74 billion dollars. We expect to recognize 61% of the total RPO as revenue over the next 12 months, up from 58% in Q3 of last year.

Slide 15 – Strong cash flow, ~\$7.7B cash balance, actively repurchasing shares

Operating cash flow in the quarter decreased 2% year over year to \$483 million dollars. Free cash flow grew 1% year over year to \$458 million dollars. Operating cash flow and free cash flow margins in the quarter were 41% and 38.9%, respectively.

We ended the quarter with approximately \$7.7 billion dollars in cash, cash equivalents and marketable securities, excluding restricted cash.

Under the pre-existing \$1.5 billion dollar share buy-back plan, in Q3 we purchased 4.4 million shares for \$302 million dollars, increasing our repurchases quarter over quarter by \$14 million dollars. As of the end of Q3, we repurchased 11.6 million shares for \$739 million dollars.

Slide 16 – Q4 and Full Fiscal Year 2025 outlook, incremental share repurchase authorization

Turning to guidance. For Q4, we expect revenue to be in the range of 1.175 to 1.18 billion dollars, which at the midpoint represents approximately 2.7% year-over-year growth. We expect non-GAAP operating income to be in the range of 443 to 448 million dollars representing an operating margin of 37.8% at the midpoint, as we continue to prioritize efficiency across our operations. Our outlook for non-GAAP earnings per share is \$1.29 to \$1.30 based on approximately 315 million shares outstanding.

We are also 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 4.656 to 4.661 billion dollars, which at the midpoint represents approximately 2.9% year-over-year growth. Our total revenue guidance assumes a continuation of the mixed macroeconomic environment. We expect our non-GAAP operating income to be in the range of 1.813 to 1.818 billion dollars representing an operating margin of 39.0%, at the midpoint. Our outlook for non-GAAP earnings per share for FY25 is \$5.41 to \$5.43, based on approximately 315 million shares outstanding.

With the free cash flow results in Q3 and increased outlook for operating income in FY25, we now expect free cash flow to be towards the high end of our previously provided range of 1.58 to 1.62 billion dollars for the full year.

As indicated in our earnings press release today, we are also excited to announce our board has authorized an incremental \$1.2 billion dollar share repurchase. This reinforces our board and management team's confidence in Zoom, enabling us to further leverage our strong cash flow and balance sheet to drive shareholder returns. The incremental authorization brings our total unexecuted buy-back to approximately \$2 billion, which we expect to execute by the end of FY26.

In conclusion, we believe our results and guidance underscore the progress we have made driving topline growth, strong financial management and shareholder returns.

We are excited about our differentiated AI-first platform vision to deliver value for our customers and incredibly grateful for the trust and support of the entire Zoom team, our customers, and our investors!

Kelcey, please queue up the first question.