



Zoom's Rapid-Fire Growth Continues

Description

Video-communications software provider **Zoom Video Communications** ([NASDAQ: ZM](#)) reported its second-quarter results after the market closed on Sept. 5. Revenue nearly doubled and earnings rocketed higher as the company continued to add new customers at a blistering pace. Zoom's guidance calls for more growth ahead, although the lofty stock price remains a risk for investors.

Zoom results: The raw numbers

| Metric | Q2 2020 | Q2 2019 | Change |
|-----------------------------|-----------------|----------------|--------|
| Revenue | \$145.8 million | \$74.5 million | 95.7% |
| Net income | \$5.5 million | \$0.5 million | 1,013% |
| Non-GAAP earnings per share | \$0.08 | \$0.02 | 300% |

Data source: Zoom. [GAAP](#) = generally accepted accounting principles.

What happened with Zoom this quarter?

- The number of customers with more than 10 employees grew 78% year over year, to 66,300.
- The number of customers generating more than \$100,000 in trailing-12-month (TTM) revenue grew 104%, to 466.
- Zoom's TTM net dollar expansion rate for customers with more than 10 employees was 130%. Anything above 100% means that the company is growing the revenue generated by existing customers.
- New customers accounted for 61% of revenue growth, while existing customers accounted for the remaining 39%.
- Operating cash flow was \$31 million, up from \$14 million in the prior-year period. Free cash flow was \$17 million, up from \$8 million in the prior-year period.
- Zoom's total cash, cash equivalents, and marketable securities was \$755.3 million at the end of

the quarter.

- Revenue from markets outside the Americas more than doubled year over year, and now accounts for 20% of total revenue.

What management had to say

Zoom CEO Eric Yuan discussed a big customer win during [the earnings call](#):

I am proud to welcome HSBC to the Zoom family. HSBC is one of the largest financial services organizations in the world with over 3,900 offices in 67 countries. HSBC will standardize on Zoom platform by deploying to 290,000 hosts and to 5,500 conference rooms.

CFO Kelly Steckelberg talked about the success of the recently launched Zoom Phone: “Yeah, it’s doing well, we’ve seen traction in Zoom Phone across all segments of the business, which we think is really exciting. And approximately 50% of Zoom Phone is coming from customers with AR greater than 100K or more.”

Looking forward

Zoom’s forecast calls for more rapid growth. For the third quarter, the company expects:

- Revenue between \$155 million and \$156 million, up from \$90.1 million in the prior-year period.
- Non-GAAP earnings per share of approximately \$0.03.

Zoom also provided the following guidance for the full year:

- Revenue between \$587 million and \$590 million, up from \$330.5 million in fiscal 2019.
- Non-GAAP earnings per share between \$0.18 and \$0.19.

Zoom’s year-over-year growth rate will likely slow as the company gets bigger, but it’s clear that demand for its products is strong. And Zoom is already turning a profit on a GAAP basis, which can’t be said for many fast-growing [software-as-a-service companies](#).

But the stock is exceptionally expensive, trading for a whopping 40 times revenue guidance and hundreds of times adjusted earnings. Even if the company keeps delivering, the stock isn’t guaranteed to do the same.

CATEGORY

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1. NASDAQ:ZM (Zoom Video Communications)

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