

Buy Zoom Video Communications

David Gardner | March 19, 2020 | Buy Recommendation

CURRENT PRICE: **ZM** \$ 252.56 ↑ \$ 1.29 (0.5%) Cập Nhật: 10:00 AM (EST) Ngày 14/01/2024

Very Important! We're recommending that you buy **Zoom Video Communications**, which has the Nasdaq ticker symbol **ZM**. Don't confuse this with the penny stock **Zoom Technologies**, which has the ticker symbol **ZOOM**.

Remember, we recommend the ticker ZM, not ZOOM.

This month's recommendation is so in fitting with our current difficult times — it just makes so much *sense* — that I can't pass it up. The global COVID-19 pandemic will eventually subside, but it has become clear that its impact will linger. Just as nations need to be better prepared for future pandemics, private businesses (and individuals) need to be able to work more nimbly and keep the wheels turning even when it doesn't make sense, or isn't safe, for people to meet face to face. That is why **Zoom Video Communications** ([NASDAQ: ZM](#)) has defied the market crash and pushed near new highs.

If this was all about panicked reaction, that might spell some short-term gains. But I believe that working from home, remote meetings, telemedicine, online education, and more are all going to become critical parts of life as we know it — if not for everyday living, then at least as an active contingency plan. In fact, we've been kicking this idea around for a while. Tom originally recommended Zoom in *Stock Advisor* last July, but that's also around the time that Tim Beyers, an analyst with *Rule Breakers*, pitched it to me for that service. We've been big fans of the company at The Motley Fool since its April 2019 IPO, and recent history only bolsters the investment case.

ZOOM VIDEO COMMUNICATIONS IN 1 MINUTE

WHAT IT DOES

Zoom is a video-first communications platform delivering reliable video, voice, chat and content-sharing service around the world.

WHY YOU SHOULD BUY

- Recent events have highlighted the importance of remote communications, and having contingency plans for education, medicine, and other areas will become a necessity.
 - Zoom's video-first platform is best in class and wins rave reviews from users, who are spending more on the platform each year.
 - The company is making a push into unified communication, including enterprise phone service

BUYER'S GUIDE

- **Industry:** Software
 - **Size:** Large Cap
 - **Region:** Global
 - **March 17 Price:** \$118.71
 - **Allocation:** We don't recommend buying too much of any stock. Many Fools choose to start with a small amount — 2%

be. Here at The Motley Fool, we have a very geographically dispersed workforce at the best of times, and during the COVID-19 outbreak, we've *all* been working from home. We have a lot of personal experience with videoconferencing, and quite simply, nothing holds a candle to Zoom.

And that's not just our opinion; the company has a Net Promoter Score of more than 70, which reflects very high satisfaction — something unusual for a technology platform, especially when you consider that among the many downsides of Zoom's competitors are spotty connections and other glitches that tend to drive people crazy.

Why is Zoom better? Because the platform was built from the ground up for video, unlike everything that had preceded it, from WebEx to **Microsoft's** ([NASDAQ: MSFT](#)). Skype to **Alphabet's** ([NASDAQ: GOOG](#)) ([NASDAQ: GOOGL](#)). Google Hangouts.

Founder and CEO Eric Yuan experienced that frustration directly as an employee of WebEx. It and other platforms were initially built to share slides and PowerPoint documents during audio calls, and it shows. Even after WebEx was acquired by **Cisco** ([NASDAQ: CSCO](#)) (Yuan eventually became corporate VP of engineering), there wasn't a real focus on improvement. Yuan said he eventually became embarrassed to go to work because customers were never happy. That's something he has directly addressed at Zoom.

Why We're Excited About Zoom

Zoom is truly built for a global audience — made to transmit high-quality video even over poor internet connections (it can handle up to 40% packet loss without noticeable loss of quality). That makes this software better able to truly and reliably connect the globe, making virtual meetings feel almost like they're face-to-face. In the past, that's been a nice-to-have feature for some businesses. In the future, it will be a must-have for a rising portion of the world.

The spread of the platform has already been, if you'll excuse the term, viral. Many people download the app because they've been invited to a Zoom meeting, then learn how easy it is to use. That's a foot in the door.

But Zoom isn't just souped-up Skype. It has a host of features meant to make communication work better, and customers are finding their way to them. For the past seven consecutive quarters, net dollar expansion rate has been over 130%. That means existing customers are not just sticking with the platform; they are, on average, spending 130% of what they did a year earlier.

And not surprisingly for this kind of business, it is capital-light and highly scalable. Gross margin was nearly 80% even when the company only had a tenth of the sales it has today. (That'd be way back in 2016). That number is slowly pushing higher, and the company actually turned profitable in 2018. A cloud company that's profitable during this hypergrowth stage is almost unheard of, and it points to the kind of cash flow we think the company can eventually generate as it grows further.

of their portfolio's overall value, for instance — and add a little at a time.

KEY DATA

- **Headquarters:** San Jose, Calif.
 - **Website:** [Zoom Video Communications investor relations](#)
 - **Market Cap:** \$30.7 billion
 - **Cash/Debt:** \$855.2 million / \$64.8 million
 - **Revenue (TTM):** \$622.7 million
 - **Earnings (TTM):** \$25.3 million
 - **Revenue (2016/'17/'18):** \$60.8 million / \$151.5 million / \$330.5 million
 - **Earnings (2016/'17/'18):** (\$0.0 million) / (\$3.8 million) / \$7.6 million

Add ZM to Your Favorites

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GET MORE INFO

Talk About ZM

Talk about how ZM fits into SA here

[See why Zoom scores a 8 on our unique 25 point Risk Rating.](#)

See how you can tell if this investment is
going right — or wrong

Why We Trust Leadership

Eric Yuan dreamed up the idea for Zoom as a freshman in college in China, when he was frustrated by the 10-hour train rides he would take each week to visit his then-girlfriend (and current wife). It's a vision that percolated for well over a decade before he founded the company in 2011, and it has continued to evolve since the launch of the platform.

The technology is great, and it has helped win Zoom customers from older and larger competitors. But what has really built the company is a focus on customer service and satisfaction. In the early days, Yuan would personally correspond with every person who decided to cancel service. When asked to name five things he wished he'd been told before launching his own company, Yuan's responses included the following three points:

- Your company's culture is the No. 1 most important thing to get right. Everything else flows from there.
- If your employees are not happy, nothing else at your company will go well.
- Find the investors who want to invest in you, not only in your business.

That commitment to service and satisfaction is backed by his 11% stake in the company.

Why Now

So why is now a good time to buy? In many ways, the urgency around an effective video communications platform is obvious. But what may not be so obvious are Zoom's opportunities as the best-in-class player at a critical time.

Zoom benefits from a network effect. To use the platform, every party must be using the app. Zoom makes that as frictionless as possible — the app is free and easy to use for individuals participating in a conference. But as Zoom becomes the norm for businesses, there is added incentive to adopt it as a corporate platform.

Meanwhile, Zoom is using its head start to jump further ahead with new features. It has already added hundreds since launch, from HIPAA security and compliance for telemedicine to integrations with numerous platforms including **Salesforce** ([NYSE: CRM](#)), **Atlassian** ([NASDAQ: TEAM](#)), and **Slack** ([NYSE: WORK](#)). The company anticipates many more.

Indeed, management sees Zoom as a true unified communications platform, integrating technologies like augmented and virtual reality, automated note taking, and other AI features. Closer at hand, the company is going after the phone market with Zoom Phone, an enterprise cloud-based phone system (that works with third-party equipment) that integrates with other enterprise systems while folding in chat, video, and other features.

Potential Business Risks

Zoom is the only major platform to be built video first, but that doesn't mean it will be the last. Maintaining a technological lead in software is tough. We're not counting on Zoom to always be the runaway best platform for video conferencing in terms of pure quality and reliability; we're counting on it to maintain its lead through network effect and a continuing focus on customer service and customer satisfaction.

Under Yuan's leadership, we think that will happen, but the company could always falter as pressure for growth intensifies or competitors encroach. And if Yuan, for any reason, is no longer part of the picture, we would take that as a red flag — Zoom is very much a reflection of his vision and the culture he has built.

Beyond that, the stock remains very expensive at 49 times last year's revenue. That metric actually isn't much changed from a year ago, because sales have gone up alongside the stock. But eventually, sales need to climb more rapidly than share price.

Why Zoom Is Worth an Investment Today

It's quite likely that a few of you have just recently found your way to Zoom as a result of the COVID-19 outbreak. We're all looking forward to life going back to normal as soon as possible, but that doesn't mean it will be exactly the same. The pandemic is a tragic illustration of how closely connected we are around the world — a sickness in Wuhan becomes an illness in Ohio with alarming speed. But Zoom is an illustration of the positivity of connection. That's going to have an impact long after we put this chapter behind us.

Karl Thiel contributed to this report.

DAVID MADE HIS CALL: Do you agree that Zoom Video Communications will beat the market over the next 3-5 years? (After voting, buy shares to invest right away or add ZM to your Favorites for alerts later.)

NOT SURE

NO

YES

Ready to follow our recommendation?

 Add ZM to Favorites

Buy ZM

Suzanne Frey, an executive at Alphabet, is a member of The Motley Fool's board of directors. Teresa Kersten, an employee of LinkedIn, a Microsoft subsidiary, is a member of The Motley Fool's board of directors. [David Gardner](#) owns shares of Alphabet (A shares) and Alphabet (C shares). [Karl Thiel](#) owns shares of Alphabet (A shares) and Alphabet (C shares). [Tom Gardner](#) owns shares of Alphabet (A shares), Alphabet (C shares), Atlassian, Salesforce.com, Shopify, and Zoom Video Communications. The Motley Fool owns shares of Alphabet (A shares), Alphabet (C shares), Atlassian, Microsoft, Salesforce.com, Shopify, Slack Technologies, and Zoom Video Communications. The Motley Fool has a [disclosure policy](#).

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