

Buy Zoom Video Communications

David Gardner | April 16, 2020 | [Buy Recommendation](#)

CURRENT PRICE: **ZM** \$ 252.99 **↑ \$ 1.72 (0.7%)** CwàG! Yr B~ÅÖG"AAIAA! iN v

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**.

Being top dog comes with responsibility, and sometimes some unwanted attention. I just recommended **Zoom Video Communications (NASDAQ: ZM)** last month, and already we've seen the company's profile continue to grow in what seems like exponential fashion. As I write, the stock is up about 10% in just a few weeks — although that performance means it is actually trailing the whipsaw about-face we've seen from the S&P 500 in the same period. Given that Zoom has very much been in the news over the past month, not always in a positive context, I think this is a great time to look past the short-term concerns and extreme volatility to the long-term opportunities for this video conferencing leader.

The Big-Picture Opportunity

Do I even need to spell out what Zoom does? A month ago, it still seemed like that was important. Now it seems like it's probably obvious and even familiar to most members. (For the record, Zoom offers a global platform for internet-based video and audio/chat/content communications.)

That's kind of the point. People are talking about Zoom — and using it —like never before. There's not been a parallel rise in buzz about, say, Skype or WebEx. Many of us are finding that Zoom has become a daily part of our lives, necessary for how we work, how we learn, and even how we socialize.

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 concerns about security on the platform are being addressed and do little to change the company's trajectory.
- Zoom has accommodated a 20-fold increase in daily users in the past few months with relatively few problems.
- The company is making a push into unified communication, including enterprise phone service.

BUYER'S GUIDE

- Industry:** Software
- Size:** Large cap
- Region:** Global
- April 15 Price:** \$149.09
- Allocation:** We don't recommend buying too much of any stock. Many Fools choose to start with a small amount — 2% of their portfolio's overall value, for instance — and add a little at a time.

Each day brings us closer to the end of the pandemic and what we hope is a return to "normal" life. Part of that means that Zoom probably won't be grabbing so many headlines in a few months. But we think it will continue to play a heightened role in the lives of businesses, governments, and individuals around the planet. For better or worse, things won't just "go back to normal." It will probably take quite a while for the economy to bounce back. Some businesses will fail; others will struggle. But many will rebuild to become more flexible and mobile, not just in anticipation of a future pandemic but because it is a way to add new layers of efficiency along with safeguards.

Why We're Excited About Zoom

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

DATA

- **Headquarters:** San Jose, Calif.
 - **Website:** [Zoom Video Communications investor relations](#)
 - **Market Cap:** \$37.9 billion
 - **Cash/Debt:** \$855.2 million / \$72.5 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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Zoom has gotten some unwelcome attention over the past month. In just the past three weeks, the term "Zoom bombing" has gone from being nonexistent to having its own Wikipedia page. (It refers to a new trend of hackers disrupting or intruding on Zoom calls.) There have been other security concerns, some as simple as default settings that automatically shared the contacts of users in the same domain, others about encryption and the potential for the company to access user data.

But through it all, Zoom continues to work. Really well. For a whole lot of people. While many of us might have experienced the odd glitch or frozen screen, Zoom has handled an explosion in demand without any widespread outages or even many widespread complaints about the quality of service — and that speaks to the strength of the video-first technology on which the platform is built.

Zoom uses 17 data centers around the world to handle calls, and while these could theoretically experience an outage (that did happen at one point in January 2019, due to a problem at a vendor), the system is built to handle a lot, including sudden surges. The company has lately been asked the question of how it is dealing with such a meteoric rise in demand that would have crashed the servers of many other companies.

A spokesperson recently told Siliconrepublic.com:

We have architected the platform such that, in the event of capacity constraints at the data center nearest a user, additional traffic will be routed to one of our other data centers.

In the case of an unprecedented, massive influx of demand, we have the ability to access and deploy tens of thousands of additional servers within hours, and in full compliance with our privacy policy, to seamlessly scale without any impact to our users.

That's not just tech talk; it has played out over the past month as Zoom has become the backbone of many businesses. In December, the company was facilitating 10 million daily participants. By March, that number had risen to 200 million.

Why We Trust Leadership

Last month, I highlighted Eric Yuan as a leader who recognized that his lasting competitive advantage is in customer service rather than superior technology. In the past few weeks, security issues on the platform have put that to the test.

Yuan has taken an enormous amount of personal responsibility for some of the hiccups the fast-growing platform has experienced around security, including telling the *Wall Street Journal* that he had "really messed up as CEO" and felt "an obligation to win the users' trust back." He has backed his words with a concrete plan, detailed in an April 1 blog post on the company's website, that spells out what has already happened and what is going to happen. Setting measurable goals is key to accountability. While the company hasn't done a perfect job of navigating an unprecedented situation, we are further convinced that Yuan is managing the company toward corporate responsibility and customer service, things that will allow it to succeed in the long run.

Why Now

It probably won't surprise you that Zoom has soared to become the No. 1 free application in both **Apple's** ([NASDAQ: AAPL](#)) iOS App Store and **Alphabet's** ([NASDAQ: GOOG](#)) Android store. Millions of people have found their way to the app in the past couple months, and while the company is hosting a lot of free meetings, many of these users are tapping into paid subscriptions from their employers and are likely to stick around.

Zoom has a market capitalization just south of \$40 billion, which is certainly a very rich multiple of the \$622.7 million revenue the company has reported over the past year. But at this point, we think revenue is likely to reach \$1 billion in 2020 and continue growing rapidly thereafter. Given that the company has scaled its way into profitability so early in its growth phase — the service only launched in 2013 — any upside to revenue is going to be magnified on the bottom line.

High-quality, reliable, and scalable video communication is rapidly becoming a must-have application for many businesses, and for many individuals, too. As the brand grows, we believe that increases the opportunity for other communication tools like Zoom Phone, something that will keep growth humming.

Potential Business Risks

Everyone goes after the king of the hill. The company's newfound prominence makes it vulnerable to some extent. "Zoombombing" attacks have largely been a mere nuisance, focused on individual meetings. But the company itself could always become the target of an attack that brings down service over a widespread area.

Other than presenting a target for hackers, Zoom is probably wearing a bullseye of a different sort. Back when he still worked for them, Zoom founder Eric Yuan famously couldn't get **Cisco** ([NASDAQ: CSCO](#)) to listen to him about the shortcomings of the WebEx video chat service. But you can bet they — and others — have heard the message now. Zoom's video-first architecture is a huge advantage, but it might not always last. And that means the company has to deliver on other parts of its business, including reliability and trust.

Trust might have taken a hit over the past month. We think the company has done well in a remarkable situation, but if it can't address problems and overcome an image among some as a security risk, it could offer up vulnerabilities to rivals. With its rich valuation, Zoom probably only has to stumble a little to see its stock suffer a significant setback.

Why Zoom Is Worth an Investment Today

There used to be stark distinctions among computer applications: Were they built for business or for consumers? As an employee, you had to use whatever programs your employer required to get the job done, no matter how you felt about them.

That's really not the case anymore. Apps like **Slack** ([NYSE: WORK](#)), **Dropbox** ([NASDAQ: DBX](#)), and Google Docs have thrived because they are business apps that are essentially built for consumers. They accomplish business-oriented goals, but they are good enough and easy enough to use that individuals want to be on the platform. That's the secret of Zoom's success, too. It's a business platform so good that people are bringing it into their private lives. That's caused a few growing pains over the past few weeks, certainly. But the bigger story is not about whether Zoom needs different default settings or better encryption; it's about whether it is successfully addressing a massive global need. And it is — like no one else. That's going to outlast this awful pandemic.

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.)

YES

NO

NOT SURE

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. [David Gardner](#) owns shares of Alphabet (C shares) and Apple. [Karl Thiel](#) owns shares of Alphabet (C shares) and Apple. [Tom Gardner](#) owns shares of Alphabet (C shares) and Zoom Video Communications. The Motley Fool owns shares of Alphabet (C shares), Apple, Slack Technologies, and Zoom Video Communications. The Motley Fool has a [disclosure policy](#).

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