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Buy Zoom Video Communications

Tom Gardner | July 3, 2019 | [Buy Recommendation](#)

CURRENT PRICE: [ZM](#) \$ 252.99 ↑ \$ 1.72 (0.7%)

Video conferencing is a basic part of the modern workplace, as many of you know. But are any of us really crazy about it? If you're calling in remotely, it can be hard to hear what they're saying back at HQ. And if you're in the office, it sometimes takes more than one attempt to make a connection, much less keep it going. It can be really, *really* hard to have a normal conversation.

The advent of video conferencing was supposed to improve on the voice-only experience, but poor quality hasn't given us all the benefits that seeing body language and facial expressions should have brought.

Thanks to **Zoom Video Communications** ([NASDAQ: ZM](#)), however, that's all changing. As a veteran of the industry, founder and CEO Eric Yuan saw for himself how fundamentally flawed the available options were, so he hit the reset button — and less than a decade after building a new platform from scratch, Zoom has become the leader in high-quality video conferencing. With prevailing trends making remote communication increasingly important, this newly public company is ready to take on a big new opportunity.

What Zoom Has Created

Yuan's motivation came from his experience working on WebEx, a video communications platform that **Cisco Systems** ([NASDAQ: CSCO](#)) acquired in the mid-2000s. His customers generally weren't happy with the service, and despite his attempts to get Cisco to address their issues, the problems persisted. Yuan left in 2011 to find the solution to that problem, and the result was Zoom.

In hindsight, it might seem inevitable that Zoom would be able to improve on WebEx and similar competitors. But at the time, the upstart was competing against well-heeled rivals like Skype, WebEx, and Google, as well as smaller

ZOOM VIDEO COMMUNICATIONS IN 1 MINUTE

What It Does

Zoom Video Communications provides telecommunications services that allow people to connect via video, voice, and chat as well as sharing content. The dedicated cloud-based platform aims to offer a superior user experience compared to traditional teleconferencing options, and its device-agnostic features offer high-quality communications regardless of how users connect to the platform.

Why You Should Buy

- Zoom has quickly become a leader in its field, due in large part to the exceptionally positive response from its customers. Zoom's software was designed specifically for video conferencing, and that's helped the company avoid its competitors' problems and make its platform more reliable and scalable.
- The addressable market for video communications is huge, and trends toward working remotely will only make it grow over time. Zoom currently estimates \$43 billion for the total market opportunity by 2022, and that gives the company plenty of runway to ramp up its revenue.
- Founder and CEO Eric Yuan is a visionary in the field whose financial interests are still squarely aligned with shareholders, and employees

communications specialists like **LogMeIn** ([NASDAQ: LOGM](#)). Still, Zoom had an edge: It wasn't trying to graft video onto an existing platform made for other purposes. That meant it could build a simpler yet more sophisticated product to take full advantage of newly available cloud computing resources and focus squarely on top-quality video.

Zoom has quickly established a loyal following among its customers, many of whom come on board through word of mouth from other satisfied customers. Here at The Motley Fool, we've recently switched to Zoom after trying a hodgepodge of different video conferencing providers over the years, and our employees couldn't be happier with the improved efficiency and consistency. We're not alone: A net promoter score above +70 puts Zoom in the upper echelon of the tech sector for customer willingness to recommend the service to others.

Zoom's popularity is already paying off in sales growth and profitability. Revenue jumped nearly 150% in fiscal 2018 and more than doubled in fiscal 2019, and in the first quarter of its current fiscal year, sales growth weighed in at 103%. Unlike most other tech companies fresh off their initial public offering, Zoom is already making money, with net income of \$7.6 million last year.

Try Before You Buy

GET MORE INFO

[Click here to watch Tom's interview with Zoom CEO Eric Yuan!](#)

Talk About ZM

Talk about how ZM fits into SA here

[See how you can tell if this investment is going right — or wrong.](#)

What's particularly surprising about Zoom's ability to make a profit is that customers don't have to pay to try out the platform. A free plan allows users to host up to 100 meeting participants and offers unlimited one-on-one meetings. The free level limits meetings to 40 minutes, but it includes a full range of video, web, and group collaboration features to give users a taste of what Zoom offers. Beyond that, monthly subscription plans of \$14.99 to \$19.99 per host serve the needs of most businesses.

With that opportunity to try out Zoom with no financial commitment, the videoconferencing company has seen a huge inflow of interest. At the end of fiscal 2017, Zoom had 10,900 customers with more than 10 employees, which collectively brought in more than two-thirds of total revenue. By April 30, 2019, that number had jumped more than fivefold to 58,500, and the share of revenue that those customers provided in fiscal 2019 rose to nearly four-fifths.

believe in the company's mission. Reviews on Glassdoor show nearly unparalleled satisfaction within Zoom's workforce.

Buyer's Guide

- **Industry:** Application Software
- **Size:** Large Cap
- **Region:** U.S.
- **Price on July 2:** \$85.13
- **Allocation:** We don't recommend buying too much of any stock — especially a recent IPO trading at such a rich valuation. Many Fools choose to fill out their positions incrementally, starting with a small amount and adding a little at a time.

Key Data

- **Headquarters:** San Jose, California
- **Website:** [Zoom Video Communications investor relations](#)
- **Market Cap:** \$24.2 billion
- **Cash/Debt:** \$737.2 million / \$51.7 million
- **Revenue (TTM):** \$392.4 million
- **Earnings (TTM):** \$11.1 million
- **Revenue (FY 2017/'18/'19):** \$60.8 million / \$151.5 million / \$330.5 million
- **Earnings (FY 2017/'18/'19):** (\$10,000) / (\$3.8 million) / \$7.6 million

Add ZM to Your Favorites

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Why Zoom Will Grow Even Further

Even with these free and low-cost options, current Zoom clients quickly see the value of the communications platform, and they consistently invest to adopt it more fully. Zoom's net dollar expansion rate (which measures how much customers are spending compared with the year before) amounted to 140% for fiscal 2019, showing that customers not only stick with Zoom but also spend significantly more year after year on it. Over the past several years, the number of customers spending \$100,000 or more on Zoom's platform has seen explosive growth, going from just 54 in fiscal 2017 to 405 as of the company's recent quarterly report (its first as a public company).

Yet as impressive as Zoom's success has been thus far, there's even more opportunity for revenue gains down the road. Yuan understands what's happening in today's workplace, with millennial employees craving the flexibility of working wherever and whenever they want and needing to be able to connect on a wide range of devices. Some employers don't even *have* a central office anymore, instead relying solely on remote communications to have their workers collaborate. As these businesses grow, Zoom will have a new generation of clients that rely entirely on its communications platform.

Moreover, Zoom has seen clients use the service for novel applications. Doctors have used Zoom for telemedicine, interacting with patients from long distances without forcing patients to travel. Zoom has almost limitless potential to help with online learning, linking teachers with students across the globe.

Yuan estimates that the size of the total addressable market for video communications will grow to \$43 *billion* by 2022. That dwarfs Zoom's current sales, and the CEO intends for his company to collect more than its fair share in the years to come.

Risks and When We'd Sell

- We interviewed Yuan recently ([click here to watch!](#)), and we're convinced that he remains committed to the business he created. His 21% financial stake in Zoom following its initial public offering supports his alignment with shareholders, so we have little doubt that he'll stay with the company. Yet given the importance of his vision to Zoom's success, there's still some key-executive risk associated with the company.
- Zoom's stock valuation is pricey even for a rising tech star. With \$392 million in revenue over the past 12 months and a market capitalization of \$24.2 billion, Zoom trades at more than 60 times sales (it's not just you — that is really rich). We think the quality of the business is high enough to justify this nosebleed premium valuation, but it does set a high bar for future success, and Zoom will have to execute well on its growth opportunities to live up to expectations.
- Although competitors haven't been very successful in creating platforms that can match Zoom, they haven't given up. **Microsoft** ([NASDAQ: MSFT](#)), **Alphabet's** ([NASDAQ: GOOGL](#)) ([NASDAQ: GOOG](#)) Google, Cisco, and others have immense financial resources to dedicate to high-priority items, and if they choose to focus on video communications more extensively, then they could pose a longer-term threat to Zoom.

The Foolish Bottom Line

In just eight years, Zoom Video Communications has built itself into an emerging leader in a fast-growing market. It continues to post strong revenue growth that's also profitable, and it has the financial resources and strategic thinking to grow further. It has a dedicated group of employees who believe in its founder and CEO's vision for the future. Best of all, customers love Zoom. With all those factors going for it, we think Zoom's worth investing in even at a premium price — and we think it has exciting days ahead of it.

Dan Caplinger contributed to this report.

TOM 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. Teresa Kersten, an employee of LinkedIn, a Microsoft subsidiary, is a member of The Motley Fool’s board of directors. [Dan Caplinger](#) owns shares of Alphabet (A shares). [David Gardner](#) owns shares of Alphabet (A shares) and Alphabet (C shares). [Tom Gardner](#) owns shares of Alphabet (A shares) and Alphabet (C shares). The Motley Fool owns shares of Alphabet (A shares), Alphabet (C shares), Microsoft, and Zoom Video Communications. The Motley Fool has a [disclosure policy](#).

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