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Buy Zoom Video Communications

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

CURRENT PRICE: [ZM](#) \$ 252.93 ↑ \$ 1.66 (0.7%) as of 10/03/2019 11:00 AM EDT

It's been just three months since I first recommended **Zoom Video Communications** ([NASDAQ: ZM](#)) here in *Stock Advisor*. But I love it when an innovative company with exceptional growth opportunities in an important field gives us a chance to buy more at a nicely discounted price.

Zoom is a revolutionary force in videoconferencing, created as an antidote to the bad reception and scanty features that once plagued the industry. Founder and CEO Eric Yuan set out to deliver high-quality video along with integrated tools like document sharing, team chat, and shared screens to help users collaborate seamlessly. He and his team are achieving it with a product designed specifically for video and optimized for the cloud, which makes it far more reliable than competitors whose video products were patched on to existing platforms.

My July recommendation focused on Zoom's business, and I'd urge you to [read it here](#) if you haven't already done so. This time, I'd like to go into more detail about Yuan's vision for Zoom by sharing details from [my interview with the company's leader earlier this year](#).

How Yuan Sees Zoom's Future Playing Out

Until recently, office work was done at an office, and any time you needed to talk with a colleague, you could swing by their desk. Now businesses are discovering the advantages of tapping into a workforce that's spread out across vast distances, and even workers back at HQ demand the flexibility that nontraditional work arrangements offer. Yet we still need to collaborate with a minimum of fuss. This basic need, and Zoom's ability to serve it, is one of the central premises behind the company's growth.

Yuan acknowledges video still can't match the intimacy of meeting in person. But he also says that as the platform evolves, "the online video

ZOOM VIDEO COMMUNICATIONS IN 1 MINUTE

What It Does

Zoom Video Communications lets users collaborate by video conference, voice, or chat. It also has built-in content-sharing features. Zoom aims to provide a flawless experience that dramatically outperforms current or future rivals.

Why You Should Buy

- Founder and CEO Eric Yuan is passionate about his mission to make it easier for workers to collaborate effectively, and that passion shows in his employees' positive response to his leadership. Yuan also owns billions of dollars' worth of Zoom stock, tying his fortune to his shareholders' interests.
- Zoom customers have been extraordinarily happy with the service, often adding on to their subscriptions over time. With dedicated software designed specifically for video conferencing, Zoom's entire focus is on helping its enterprise customers meet their collaboration needs.
- Zoom still has plenty of room to grow, with an estimated \$43 billion addressable market for video communications by 2022. If more people continue to work remotely rather than in a central office, then Zoom's opportunity will only grow larger.

collaboration experience by Zoom will give a much better experience than face-to-face meetings." For example: As the platform becomes faster and higher-quality, he said, it could support virtual and augmented reality features like automated transcription.

One of the best aspects of Zoom's business is that it benefits from a lucrative network effect as each new customer makes the experience better for the rest — and more enticing to everyone else. If one company has a Zoom account, it will use it to collaborate with its business partners, who often become clients themselves once they've gotten an introduction to the service.

At the same time, Zoom's success also stems in part from the motivational tone Yuan sets. The CEO knows from experience that when workers aren't happy, it shows up in the way they represent their employer. He saw that toward the end of his tenure at **Cisco Systems** ([NASDAQ: CSCO](#)), where he served as an executive after the tech giant acquired his previous company, WebEx.

"Every time I'd talk to a WebEx customer, seriously, I did not see a single happy customer. Every morning I didn't want to go to the office, because I was embarrassed," he said. "... What could I do to fix that problem? I created it, right?"

And so he created Zoom, where he encourages all of his workers to find ways to be happy in what they're doing and to do everything they can to make customers happy in turn. That mentality also shows up in the way Zoom seeks feedback from customers on their experience with the service — especially those who ultimately decide to cancel their accounts.

How Zoom Keeps Growing

GET MORE INFO

Talk About ZM

Talk about how ZM fits into SA here

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

Buyer's Guide

- **Industry:** Application Software
- **Size:** Large Cap
- **Region:** U.S.
- **Price on Oct. 2:** \$73.85
- **Allocation:** We don't recommend buying too much of any stock — especially a recent IPO trading at a fairly 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:** \$20.8 billion
- **Cash/Debt:** \$755.3 million / \$53.4 million
- **Revenue (TTM):** \$463.7 million
- **Earnings (TTM):** \$12.9 million
- **Revenue (FY 2017/'18/'19):** \$60.8 million / \$151.5 million / \$330.5 million
- **Earnings (FY 2017/'18/'19):** (\$14,000) / (\$3.8 million) / \$7.6 million

Add ZM to Your Favorites

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Since our first recommendation in July, Zoom's business has continued to produce impressive results. In the second quarter of 2019, Zoom's revenue almost doubled from year-earlier numbers, and net income rose more than tenfold, albeit from modest levels.

One of the most impressive things about Zoom's latest results was how the company keeps attracting new users. The total number of Zoom customers with more than 10 employees climbed by 78% year over year, hitting 66,300. Zoom counted 466 customers that generated more than \$100,000 in annual revenue, which was more than double the number it had just 12 months earlier.

At the same time, Zoom gets its existing clients to expand their use of the service. Zoom's net dollar expansion rate for those customers with more than 10 employees came in above 130%, indicating a more than 30% rise in the amount of revenue generated by existing users. That was the fifth quarter in a row the company achieved that expansion rate. Moreover, it's given Zoom an attractive balance in how it's boosting its top-line results, with just over 60% of revenue growth coming from new users, while almost 40% comes from increased use by clients who've been with Zoom for a while.

Zoom is also seeing high demand internationally. During the quarter, sales beyond the Americas more than doubled from year-earlier levels, and that revenue now makes up roughly 20% of total sales. Areas like Europe and the Asia-Pacific region look likely to remain critical to Zoom's long-term growth prospects.

Risks and When We'd Sell

- We obviously have huge respect for Yuan, and we're happy that his interests are so squarely aligned with those of his shareholders. The value of the Zoom shares he owns directly is almost \$2.4 billion even after the stock's recent slide, and two separate trusts in which he serves as a co-trustee hold a total of 20 million more shares. If anything takes Yuan out of his leadership role, it'll be a major blow to Zoom's identity.
- Zoom's stock has fallen about 16% since our July recommendation, and it's off almost 30% from its best levels since coming public. Yet that still leaves Zoom trading at a fairly high valuation. The company's \$464 million in revenue over the past 12 months and its current market capitalization of \$20.8 billion work out to a multiple of roughly 45 times sales. That's down from the 60-plus times sales that Zoom fetched three months ago, and we're still confident about the quality of Zoom's business justifying that valuation. Yet it's still possible that the stock could fall further in the short run, and Zoom will have to keep growing at a healthy long-term pace to support the stock price.
- We're still keeping a close eye on potential competition. So far, we haven't seen anything from Cisco, **Microsoft** ([NASDAQ: MSFT](#)), or others that we're too worried about. Yet those companies are much larger than Zoom and could pose a bigger threat if they identify video collaboration as a high-priority item.

The Foolish Bottom Line

Zoom is at a key point in the development of its business. It has the platform features users want, and it has an opportunity to promote itself through greater use of marketing to increase brand awareness across a wide range of industries.

We recognize, though, that the stock market has been volatile lately. We don't want you investing all your money in Zoom, and you should be prepared for more sharp moves in the share price. Zoom makes a good part of a diversified portfolio of *at least* 15 stocks. With the share price giving us a better opportunity today, now's a great time to take or add to a position in Zoom for the long run.

Dan Caplinger contributed to this report.

TOM CALLED IT AGAIN: 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

Teresa Kersten, an employee of LinkedIn, a Microsoft subsidiary, is a member of The Motley Fool's board of directors. [Tom Gardner](#) owns shares of Zoom Video Communications. The Motley Fool owns shares of Microsoft and Zoom Video Communications and has the following options: long January 2021 \$85 calls on Microsoft. The Motley Fool has a [disclosure policy](#).

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Market data provided by FactSet and Web Financial Group.