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ZM.OQ - Zoom Video Communications Inc at UBS Global TMT Conference (Virtual)

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PRESENTATION

Karl Emil Keirstead - *UBS Investment Bank, Research Division - Analyst*

Well, hello, everybody. It's Karl Keirstead. Welcome to the virtual version of the 2020 UBS Tech Conference. With us today are our Zoom's CFO, Kelly Steckelberg; and the IR Head, Tom McCallum. In terms of format, we'll go for about 40 minutes. If any of you have questions, I think some of you may have the question link, which I will access towards the end of the call or if you would prefer to e-mail me directly at karl.kierstead@ubs.com. I'll be happy to take the questions that way. So with that, welcome, Kelly and Tom. And by the way, thanks to Zoom, which is enabling hundreds of one-on-one meetings that UBS is hosting for about 2,000 investors today. So thank you. I'm not sure we could have pulled that off without you.

Kelly Steckelberg - *Zoom Video Communications, Inc. - CFO*

Thank you for having us today, and we look forward to having this experience on Zoom next year as well.

Karl Emil Keirstead - *UBS Investment Bank, Research Division - Analyst*

That's good, as am I.

QUESTIONS AND ANSWERS

Karl Emil Keirstead - *UBS Investment Bank, Research Division - Analyst*

So Kelly, why don't we start with a broader question before digging into perhaps some of the numbers. I think the -- what's interesting to a lot of investors to understand and hear from you is broadly how the UCaaS space is changing. It seems to me that a number of previously siloed markets are in the early days of converging. And I'd love to hear how you and Zoom think about that convergence and how it might affect the business in the coming years?

Kelly Steckelberg - *Zoom Video Communications, Inc. - CFO*

Yes. So a couple of things. We're really focused on the future of communications. I believe that video is the future of communications, but that voice is coming together to be combined with it. And that was really behind our strategy for launching Zoom Phone, which is now about 1.5 years old. And certainly, what we're endeavoring to create is a best-of-breed approach around specific products, which includes Zoom Meetings, Zoom Phone, and then we do have our chat functionality aligned with that. As you've mentioned, you started to see some convergence, and I think that's going to continue as you see bigger players emerge and they -- that the other smaller players are going to get consumed, if you will, by that. We really believe that there's durability in Zoom and what we have to offer in terms of the size now of our company as well as the breadth of our platform and the ability -- what's unique about Zoom is -- remember is that it really serves all the way from individual [full] providers in businesses all the way up to Fortune 10, which I think is really a unique proposition for a product like Zoom. So we are excited about all of our customers that we get to serve and are committed to this best of breed and then partnering with many of these other companies. I think we're going to talk a little bit more specific about some of the recent consolidations that we've seen, and we partner with all of those companies. They're a great partner and

customer of ours, and we like to see this come together as then all of us as a team, if you will, as an aligned team, an alliance against some of the larger competitors in this space.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Well, given that you just brought it up, Kelly, why don't we pull it up a little bit given that it's a more natural segue. So obviously, this -- these changes occurring in the market, the big one that everybody has been focused on quite recently is Salesforce's acquisition of Slack. And as you just mentioned, Zoom definitely partners with -- integrates with Slack. So when you step back, how are you and Eric thinking about how the broader market, including messaging, changes with this acquisition? Maybe the answer is for Zoom, not really, but we'd love to hear your perspective.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

So both Slack and Salesforce are great partners and customer of ours. And we're, first of all, thrilled for them in this union. And the way that we're thinking about this, if you sit back for a minute, we're all focused on enterprise technology but different aspects of it. And we all obviously believe in this best-of-breed approach as each one of these companies, now the 2 that are coming together, have our best-of-breed in their space. And we think -- I think it just simplifies the approach going forward in the sense that we've been partnering with both [deals]. The API integration with Slack is one of our most heavily leveraged. And then we have been working for a while now with Salesforce in terms of integrating with them as well into their CRM product. And so I think what it does actually, it even simplifies this relationship because now other than 3 companies coming together to support our customers, there's 2.

And at Zoom, we're focused on delivering happiness to our customers, which means making things easy for them, so making it seamless to integrate with these other best-of-breed applications. And I think, again, it just strengthens it from a competition perspective going forward.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. And correct me if I'm wrong, but it would be a stretch to suggest that Zoom Chat is really a direct rival anyway, given that you and Eric have described it many times as being a lot more UC-centered. Is that correct, Kelly?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Right. So we do have a chat product. We've had it for many years. It comes bundled with our Meetings product. And it's -- even I think more strategically important, you're referring to it from a UC perspective as with the growth of the Phone, it becomes more important as the motion that most people go through today is not just to pick up the phone and like to call. It's rather to chat someone in advance and say, "Hey, do you have a minute," and then escalate that to a phone call. So that's how we're thinking about it. It's a nice partner. It's almost a required partner to Zoom Phone. And as we're building out the suite of Meetings in Phone, it sits in between those 2 products.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Okay. Great. Well, that's a nice segue to talk a little bit about Zoom Phone. You offered investors some pretty amazing statistics around early success. I think on this most recent call, you highlighted 5,800 customers. Maybe you could talk a little bit about the trajectory of Zoom Phone, how big it could be and what the penetration rate into your broader base of some 434,000 customers that have over 10 employees, what that penetration might be because, right now, it's sitting in the low single digits and looks pretty exciting.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. So I agree with you. We're super excited about the possibilities around Zoom Phone. First, I just want to highlight, in case anybody missed it, that the product is only about 1.5 years old, and yet was just announced in the Gartner UCaaS Magic Quadrant in the leader quadrant, which I think is amazing accomplishment at this stage of a product like that. So very excited about that. And that's really important for the ongoing momentum, especially in the upmarket, as many customers look to Gartner for those recommendations. If anything -- if nothing else excuse me, as I check the box, but many, they often read those reports and really look to then evaluate those products. So that is really an amazing accomplishment.

And then in terms of what we're seeing there, so Zoom Phone from the beginning has had tremendous success across all segments from small business all the way up to enterprise, and that continues through Q3. We announced we had our largest deal to date in Q3, and that Zoom Phone was the fastest-growing product line on a percentage basis quarter-over-quarter in Q3. So all really great things. It's -- just to remind everybody, in terms of metrics, we give detailed metrics around Zoom Phone on its anniversary date. So we'll do that again when it comes up on its second year birthday.

And then I think in terms of what the potential of that is, Eric and I sort of talked about this a little bit differently. But I think it's somewhere between 25% and 50% of our future revenue eventually will come from Zoom Phone. Now remember, Zoom Meetings has a huge headstart. But what's amazing is if you think about all of the new Zoom Meetings customers that we acquired, especially in Q1 and Q2, our strategy around selling Zoom Phone is we sell into the existing installed base. So it has just created even a larger opportunity for us to address in terms of selling Zoom Phone, and that's what we're seeing.

In Q1 and Q2, a lot of the customer demand was driven by reaction, reaction to the pandemic, customers doing business continuity planning. And what's exciting, that we see that in Q3 and as we're moving into Q4 is people are now thinking more strategically about what is their work from anywhere strategy and what they need to get their employees in terms of their toolkit and that's where Zoom Phone comes in nicely. As they're sitting, they're looking at all these desk phones they have sitting in an empty office and they think about how simple it is to add Zoom Phone to that existing client, it just -- it really makes a lot of sense. And so that's what I think partly is driving the momentum that we saw in Q3 and into Q4.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

And Kelly, do you think there's any upper bound on what that penetration of phone could be into the 400,000-plus larger customers you have? Is there a portion that you can't imagine whatever use Phone or could hypothetically the penetration rate be near 100%?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. Hypothetically, I struggle to find a reason why customers wouldn't have a need for Zoom Phone. In fact, typically, we see them buying phone lines consistent with the number of meeting licenses that they're buying. There actually have been cases where they buy even more phone lines in situations where they're buying it for common areas like conference rooms or kitchens, cafeterias, as well as there was one of our customers that had retail locations where they bought a significant larger -- significantly larger number of Zoom Phone lines because they were putting those into the retail locations, and they didn't have a need for meetings, host meeting licenses there. So hypothetically, the potential is 1:1 or even 1 to more.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Well, maybe a couple more on phone, just given that it's exciting. So as you ramp Phone, it'll require Zoom customers to displace, I suspect, a different set of incumbents, in this case, maybe PBX providers than they displaced by embracing Zoom meetings. Who are the incumbents that you're replacing most frequently in these early days of penetration? And what's the key value prop that your sales teams are leading with to differentiate from those incumbents, Kelly?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

So most typically, we are replacing a legacy on-prem PBX provider, and it's typically either Cisco or Avaya. And the value prop is multi-pronged. It's -- first of all, for some reason, Phone seems to be sort of the last area that IT teams have tackled in terms of taking it to the cloud. So as organizations see how we have really been able to transform their meeting experiences and they understand we can do for -- the same for their phone, their PBX solution they realize, okay, now it's time. They really see the opportunity to tackle, getting rid of those boxes, the on-prem servers that are sitting in the closet somewhere and really going through the process. As you mentioned earlier, Zoom Phone is a little bit more of the technical implementation. And I think that's why companies hesitate to take it on if it's still -- if their on-prem solution is still working. But what they see is, especially, as I mentioned earlier, with employees working remotely, adding Zoom Phone is really just adding its icon to an existing client. So the change management process for the employee base is really, really easy. They're already used to leveraging the client either on their desktop, their laptops or their mobile device. It's just 1 more icon that's there. And if they're using the voice over IP associated with a Zoom Meeting, then they're already familiar with the technology itself. So that makes it really easy for IT organizations not to have to add another vendor but to start to eliminate a vendor and add a vendor that their employee base is already familiar with.

And then there's also the value side of it. We are very competitively priced against the competition out there. And so they can really see a high degree of value and savings by moving to Zoom Phone.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. And Kelly, on the Phone product side, are there any significant new features that there have recently been GA-ed or that are in the pipeline that might accelerate that adoption and the competitiveness of Phone versus some of the options out there?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

The biggest announcements recently that have propelled Zoom Phone forward is the fact that we are generally available now in 44 countries. So that means that companies can do a native implementation of Zoom Phone in 44 countries, which I believe is more than any other cloud PBX provider today. And that's through our multinational customers that really want all of the features and functionality that come with a native implementation.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Okay. That's pretty thorough. So maybe we'll transition Kelly from phone to the core Zoom Meetings product. And one stat that at least jumped out to me on this last call was that just 12% of the Global 2000 represent customers spending more than \$100,000 in ARR. To me, that's pretty amazing for a company at a \$3 billion revenue run rate. It suggests you've got a pretty long runway ahead. So I'd love to ask you a little bit about taking that 12% number to something considerably higher and what the bigger hurdles in your judgment are to getting that number to 20% or 30% or 50%.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. So I absolutely agree with you. I think it's really exciting that there's a huge opportunity ahead there, and it's a combination of things. In some cases, it's just timing. Those customers or those prospects might be under a long-term contract with a competitor. And so we're waiting for when that window opens up that we can engage with them or they're ready to talk about potentially transitioning. Part of it is capacity in our own system. And so sales and adding sales headcount is certainly an area of investment that we are focused on through the rest of this year and well into next year also. And then part of it is also just continuing to sell into our existing installed base itself.

So when you look at the percentage of those customers of a global 2K that is spending more than like \$1,000 a month with us, which is a very small footprint that would be inside a firm, that grows to something over 50%. So that gives you an idea that there's some awareness in those companies but not a large-sized deployment you would expect at a Global 2K company. So that means continuing to add seats or maybe engaging in an

enterprise size sale or potentially selling Zoom Phone into there as well. So those are the things that we're focused on. The Global 2K is the way that we measure our market penetration. There are campaigns. There are metrics that we look at every week around that. So it's something that we continue to track progress against.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. So you hit on the need to invest pretty aggressively in sales to ramp the penetration of meetings into the G2K. Kelly, to what extent is that investment behind you, sitting in front of you? In other words, one of the variables that might impact your margin outlook for next year?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

So it's both. We have ramped headcount very aggressively in Q2 and Q3, both the talent acquisition team as well as on the sales organization itself, but there is more to be done. We see a large opportunity ahead of us, both in the U.S. as well as internationally. And the increase in the brand awareness that's happened in the last 9 months has really created an opportunity for us to move more quickly. So as you think about the -- we talked about this on the call, the operating margin profile, it has been heightened since Q1 because of the extreme ramp in revenue and the ability to spend has not been -- we haven't been able to keep up with the revenue growth on the spending side. Over time, that will absolutely catch up, and you should expect the operating margins to come down.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. What about on the product side, as you look to display some of those incumbents on the core video conferencing side, are there -- a similar question that I asked you on the phone side. Are there 1 or 2 feature additions that you've announced or that are in the pipe that haven't gone GA yet that you think could be needle movers? Or is it -- would you characterize it as -- having to do with the enterprise sales side as opposed to feature security or other additions?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Well, there's a couple of things. So on the core meeting platform, we're really thinking about what is the future of work and the work-from-anywhere strategy. And also helping our customers think through what does it look like if we come back in a hybrid approach and how do they keep their employees safe. So there were some exciting features we announced at Zoomtopia like voice reception I'm sorry, virtual reception, voice command so that you can walk into a room and start a meeting as well as smart gallery, which really enhances the face that they experience when you have some people that are working from the office and some people that are working outside of the office. And I'm sure many of you have had that experience where you're the one that's outside the office and a bunch of people are in the conference, I mean, what you're seeing is the back of someone's head, which isn't very engaging nor inclusive. And that's what smart gallery is really focused on is making sure that what we've seen in this time where we're all working remotely, the democratization of communication, where all of our squares are of the same size in the screen, how do we really facilitate that as we start to move around the world again more freely and some people go back to the office. That is all super exciting.

And then, of course, there's OnZoom and Zoom Apps, which happy to talk more about, if you'd like, but those are really exciting platforms and opportunities unto themselves.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Yes. Why don't -- Kelly, why don't you spend a minute on those? I'd love to hear a little bit more about it. You touched on it briefly, obviously, at the Analyst Day and the last call, but maybe this is a good occasion to add a little bit more.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Sure. So if you heard the call, we've seen this tremendous explosion in the customer base with fewer than 10 employees. And these are largely individuals, sole proprietors, small business owners, some personnel as well, but some of them are using Zoom to run their businesses. And there are thousands of events being held on Zoom by this group of customers every single day. And many of you probably experienced this, whether it's taking a fitness class or your children taking a piano lesson, it's a very disjointed experience. You probably get invited to an event, be an e-mail or maybe you see an Instagram post or some sort, then you go to one place to sign up for that event. You go to a different place to pay for it typically via PayPal or Venmo. And then you're going to get your link for the event and your password somewhere else. So it's very disjointed.

Also, you're only probably exposed to those events of people that you already know. You don't have the opportunity to discover other events that you might be interested in. And so OnZoom is meant to be a platform that, first of all, brings together that experience and makes it seamless for the host as well as the attendees and also to be a directory that provides a discovery opportunity for other events that are happening. So if you find that you have an hour or 2 in your day, you're like, oh, I really love to take a life fitness class right now. You can go OnZoom. You can see what's there. And it also opens up the fact that you might find a great fitness instructor that's located across the country that you never would have known about. But because of OnZoom, it's there and it's exposed to you. It's also going to be for things like concerts, entertainment options. So we're really excited about the opportunity there.

And then Zoom Apps, this is -- new app is now opening up the opportunity for developers to create experiences and applications that occur in the meeting. So we've had -- at marketplace that has about 1,000 apps sitting out there already. But those are really applications that have been built to fit the size of the meeting experience. So they might have something like a calendaring app that's sitting out there that integrates with Zoom, but it doesn't impact your in-meeting experience. And that's what the Zoom Apps are focused on. So for example, Dropbox is developing one right now. And what that's going to allow you to do is seamlessly collaborate in a Dropbox space within the meeting itself. So it's really continue to augment leading experience. There are also a few -- most of them are focused on extending the B2B experience, but there are some consumer apps in there as well, including Arianna Huffington, Thrive as well as Weight Watchers are both developing Zoom Apps. So the goal there is to have 30 apps that are available and launched by the end of Q1.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Okay. Well, those -- that's a lot of balls in the air. And another growth vector for you guys, Kelly and Tom, is overseas if we could flip to the international opportunity. Kelly, you disclosed that these geos represented 31% of revenues in the most recent quarter. So I just wanted to ask you what initiatives are underway to accelerate meetings and phone adoption outside the U.S. that might perhaps be more specific to the EMEA or APAC regions?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. So a big part of this is, honestly, just adding more salespeople. We talked earlier about brand awareness. This has really benefited international at an outsized way compared to the U.S. because typically, the way that we would add sales reps into a new market is we would spend marketing dollars there first to build brand awareness so the rest don't go in there cold. But because of the increased brand awareness, we are now able to accelerate our hiring across almost all markets in the world, which has been really exciting and thinking about putting field-based reps in key markets like Germany for example, where there are many, many large organizations that we have the potential to sell into. But they really want to deal with in-field reps that are -- speak their language that are in their time zone and in their market. And that's what we're doing right now. We continue to expand our sales organization around the globe.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. Okay. Great. Kelly, in our last 15 minutes, I want to make sure I hit a few of the financials. So maybe if I could ask you a couple of questions on the margin side. You had mentioned that the path from 68% gross margins this most recent quarter to your long-term goal of 80% is influenced by several variables. One is the free to paid conversions. The other key one being the mix of your own data center infrastructure versus utilizing

the public cloud model. That has a big impact on gross margins. Can you talk through each of those 2 levers and how that's likely to change over the coming year or 2?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes, of course. So as you mentioned, one of them is our partnership with public cloud providers. So pre-pandemic, approximately 100% of our live meeting traffic was running through servers that we were -- that we own that were in co-located facilities. And that approach works very well for us. As we saw the extreme increase in demand in March, April, May, we were unable to keep up with that by continuing to add servers. So we turned to the public cloud providers to help us with that. And now currently, today, the majority of our traffic is actually running through the public cloud providers. And that has a lot of advantage to it -- advantages to it, including the ability to flex up and down as we see the increase or the decrease in demand. However, it does come at a greater cost.

So the long-term strategy that we are embarking on is building out more capacity in our data centers, but we will always have a hybrid approach. So it's going to -- this is going to be a multiyear journey, and that when also indicated, you'll see some CapEx implications in Q4 as we're investing in servers and starting to build out more infrastructure. And then over time, we're continuing to expand that until we get to the right balance in the future. I don't know exactly what that will look like, but we will always maintain some partnerships with the public cloud provider because we really like the flexibility that that gives us.

For example, we saw this extreme demand in April and May when we brought on the -- we have over 125,000 K-12 schools around the globe using our services free, and we've got a huge ramp in April, May, and then we saw them die down, everybody took a break during the summer. And then just this steep, steep ramp again in September. And that would have been really difficult to manage that level of capacity on our own because we would have been overbuilt for the summer and paying for excess capacity and probably not able to ramp to meet the demand again in September. So that's why, long term, we'll maintain this hybrid approach partnering with them.

And then in terms of the free to paid, so free has absolutely increased as a percentage of our overall participants, [many] participants. Part of it is due to the K-12 that I just talked about. And this is really important to us as we feel it is our responsibility as a corporation, as a good global citizen to do everything we can to help support learning during this time. So we're committed to doing that. There's also an increase just in general in free as we see families using it to keep in touch as we do things like on Thanksgiving here in the U.S., we turned off the 40-minute limit. You can expect to see that happen on other holidays in the future globally. So we're going to continue to do this.

Now over time, what I expect is, of course, we're all hoping for the day that there's a vaccine, and we're able to move around the world in a different way and that students can go back to their classrooms. And if you just isolate the K-12, if and when that day comes, that they're able to go back to school, you would see almost like a step function in the gross margin. If would have happened all at one time, you would see that's how big of an impact it's having today. So that's how, over time, we're going to get back to what we said is our gross margin target of 80%, but it's going to be a journey to get there over the next few years. And what we've indicated at high level for the foreseeable future, you should expect it to be consistent with the gross margin level -- gross margin levels we saw in Q3.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it, Kelly. And just to press a little bit on the public cloud, your own colo facility difference. It's interesting, I think, to me and many investors listening because, as you know, very often, the pitch of the likes of the public cloud vendors is that we can run most workloads cheaper than you customer can run on-premise, but you're describing it as being appreciably more expensive. And I'm just curious, is that just because of the nature of Zoom workloads that are perhaps different than traditional corporate workloads that might consume some relatively expensive part of the public cloud suite? Or is it a function of perhaps the economic agreements that Zoom has struck with the large public cloud vendors that could be more favorable upon renegotiation? Do you mind describing why it's that much more expensive? Because that is -- that it does somewhat contradict the value prop from the public vendors.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. I think it's probably more because Zoom even pre-pandemic was already at scale. So the build out in our own colo facilities, right, is at scale. So if you're a smaller organization or a smaller company, it probably is much more cost-effective to leverage the public cloud providers, then going out and starting your own, right? You have to get to a certain size that it makes sense. And we've accomplished that. And we started that way, meaning we've had our own colos for such a long time that we've learned a lot. We have a very efficient team in terms of how they have built out our data center strategy as well as the team itself. So I think that we've just had an opportunity to grow into that strategy, which -- and we have the benefit of 9 years, now, of knowledge that enables us to create a very efficient approach.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

That makes sense. And maybe just one last one on margins. I don't think you've addressed this on any of the earnings calls that I've read anyway, but is there a sales mix impact on margins? And by that, Kelly, I mean, as the mix -- as Zoom expands its suite, you add Phone, et cetera, are these newer products, do they carry a different margin structure so that when we think about the business a year or 2 out being a little bit more diverse, does that have any margin impact? Or is it close enough that there's not really a sales mix issue going on at Zoom that we need to focus too much on?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

You don't. I mean there's a -- pre-pandemic, we said that Zoom Phone had a slightly lower gross margin that has gotten diluted with everything else that's happened during this period of time. So I really don't think it's something to think about going forward.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Got it. And then when we -- maybe for our last couple of questions, as we think about the growth profile, I'm sure, at some point, you'll provide more clarity on guidance. But when -- at a high level, we think about what the post-pandemic demand environment looks like when we return to normal, just curious for your high-level thoughts as to how that impacts the growth profile of Zoom and be it fiscal '22 or fiscal '23 and beyond -- just qualitatively, I know you'll give guidance later.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Yes. So we -- as you just said, we haven't given FY '22 guidance yet, but we're really excited about the possibilities and the prospects of Zoom for the future. So first of all, we touched a little bit on the opportunity to continue to expand in the Global 2K for example. And I've gotten this question in a funny way, sometimes. This is like, how could anybody still be buying Zoom if they have a need for it. Don't they already have it now? But what we've seen -- we already talked about reasons why it takes time to penetrate the Global 2K. And there's another thing, which is like we had customers come to us that are using a competitive product. And what they've seen is it just isn't holding up and doesn't scale to the level of having everyone working remotely. And that's what I think organizations are still even experiencing that they realize what -- is they're trying to hold town halls or virtual events or whatever it is, and if they're thinking about this longer term, I don't think anybody is thinking that we're going back to the way things were before. And so embracing that there is a different approach that we all have to figure out how to support and to keep our employees safe and productive and provide the flexibility that they all want is they're thinking about that strategically and what do they need to do.

And then I think the other aspect of it is just there is a huge opportunity ahead for us in terms of Zoom Phone as well as OnZoom and Zoom Apps. So there are products that are barely contributing to Zoom today that have potential -- huge potential on their own to be a large percentage of our revenue when you look 3 to 5 years out from today.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Okay. That makes sense. Perfect. So Kelly and Tom, maybe I'll turn to some of the questions forwarded to me from investors listening. We've got 1 or 2. I'll start with this one. I'll just read it out loud for you both.

What happens to revenues post-pandemic if the usage per seat declines hypothetically by 30% but seats continue to grow at a pretty healthy trajectory? Is there any net negative revenue impact at all? And what happens to gross margins?

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

That's really -- so first of all, we don't want user decline. The usage is an indicator of why people want to retain their licenses. We have a very small percentage of our overall revenue that's in usage, and it's typically tied to audio. So if this person is talking about actually joining a meeting, if people all of a sudden joined 30% fewer meetings, which maybe would be nice if we could get out in the world and do that in a different way, but it wouldn't necessarily have a direct impact on revenue at all. It would have a positive impact on gross margins if that were the case because that would be fewer minutes than they were running through the data center associated with each individual license in theory. But again, that's not what we would strive for. We want people to using their licenses and get great value from them every day.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Understand. Okay. I think that -- I'll end it there. That was the question I wanted to sneak in. But Kelly and Tom, thanks so much for sharing the Zoom story with everybody. And I hope you have a successful number of group meetings this afternoon. Thanks so much again, and thanks to Zoom for enabling our conference this year.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Thanks for having us. It's really good to talk to you. All right.

Karl Emil Keirstead - UBS Investment Bank, Research Division - Analyst

Bye-bye.

Kelly Steckelberg - Zoom Video Communications, Inc. - CFO

Bye.

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