



Zoom Video Communications (ZM): Earnings Analysis

A comprehensive equity research analysis examining ZM's latest financial performance, operational metrics, and investment outlook for institutional investors.

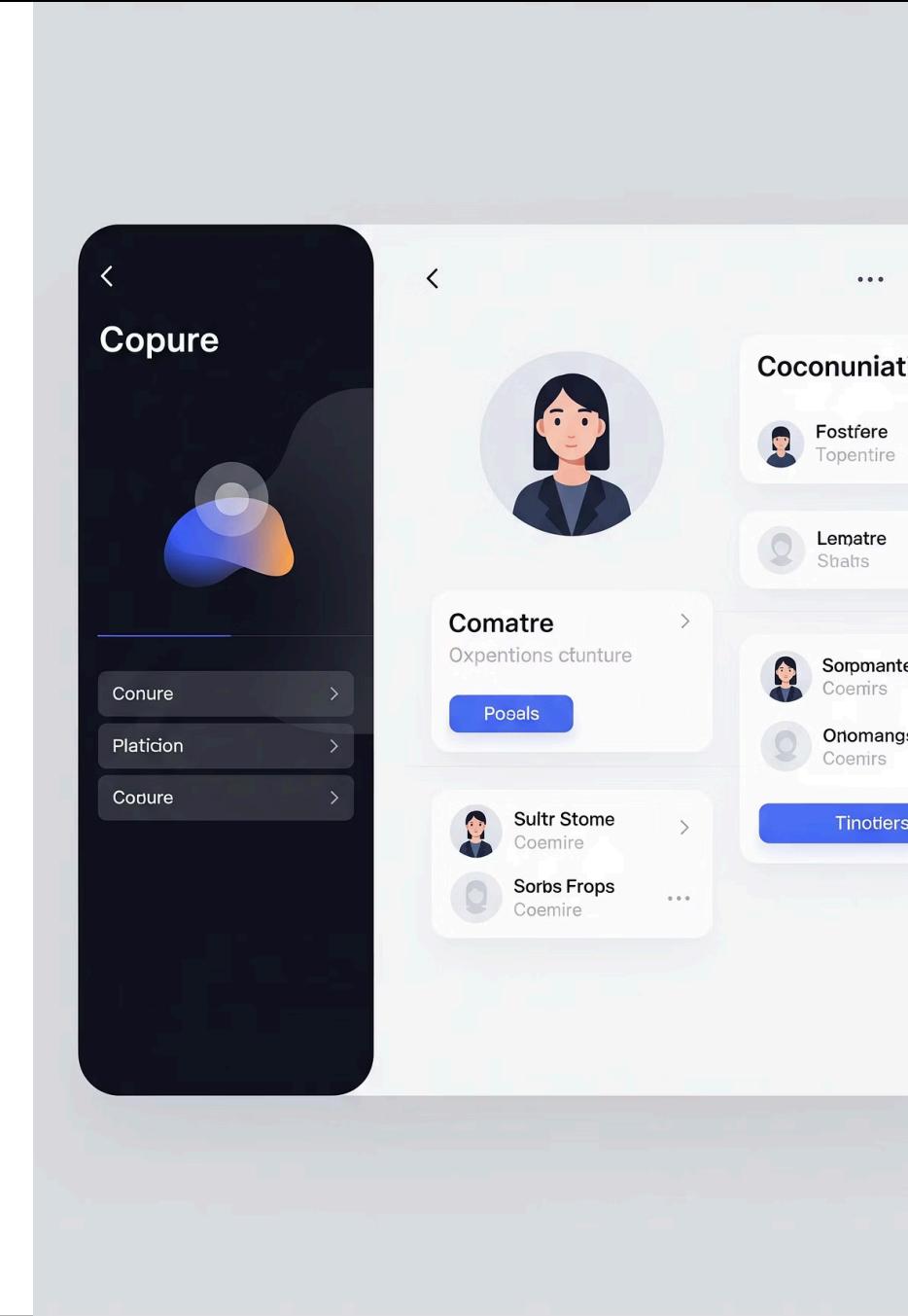
Company Overview: Market Position and Business Model

Business Model

Zoom operates a unified communications platform delivering video conferencing, voice, chat, and collaboration tools. The company serves both enterprise customers through subscription-based models and individual users via freemium offerings. Revenue streams include recurring subscription fees from Zoom Meetings, Zoom Phone, Zoom Rooms, and emerging products in contact center and event solutions.

Market Position

Following explosive pandemic-driven growth, Zoom has evolved from a single-product company into a comprehensive communications platform. The company competes with Microsoft Teams, Cisco Webex, and emerging players across unified communications. Zoom maintains strong brand recognition and customer loyalty, particularly in mid-market and enterprise segments, while navigating post-pandemic normalization trends.



Financial Highlights: Latest Quarter Performance

\$1.16B

Total Revenue

Quarterly revenue reflecting 3.2% year-over-year growth with stabilizing enterprise demand

75.3%

Gross Margin

Consistent profitability metrics driven by infrastructure optimization

19.8%

Operating Margin

Improved operational leverage from cost discipline initiatives

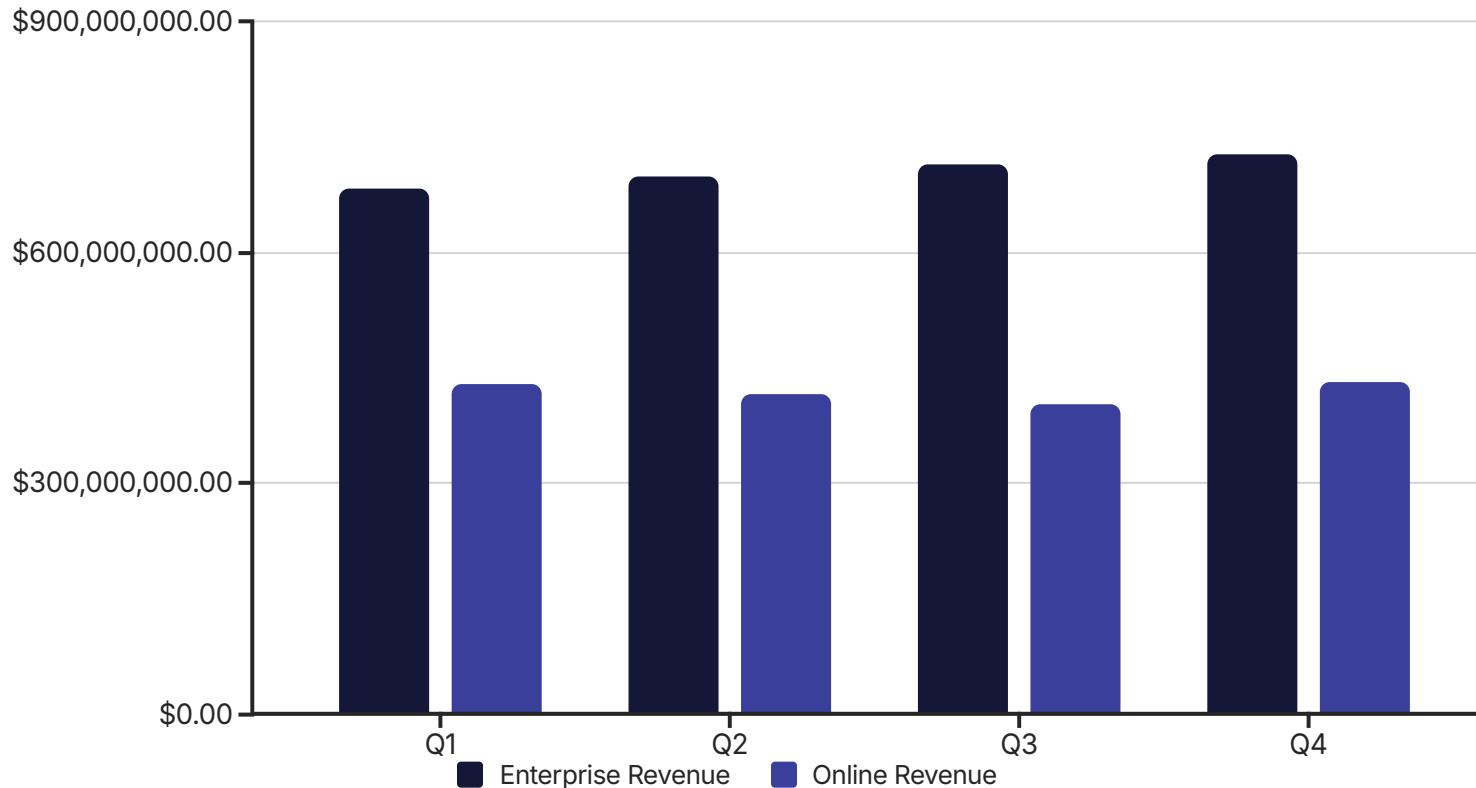
\$358M

Net Income

Strong bottom-line performance with 31% net margin

The latest quarter demonstrates Zoom's successful transition to profitable growth following post-pandemic headwinds. Revenue growth has stabilized in the low single digits, reflecting maturation of the core video business offset by emerging product momentum. Margin expansion showcases operational efficiency improvements and disciplined cost management. The company continues generating substantial cash while returning value to shareholders through buybacks.

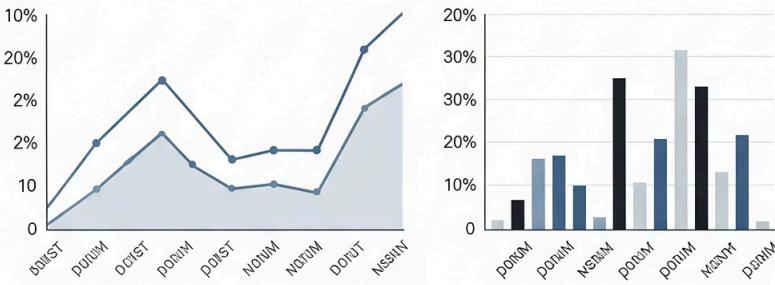
Revenue Trends and Growth Trajectory



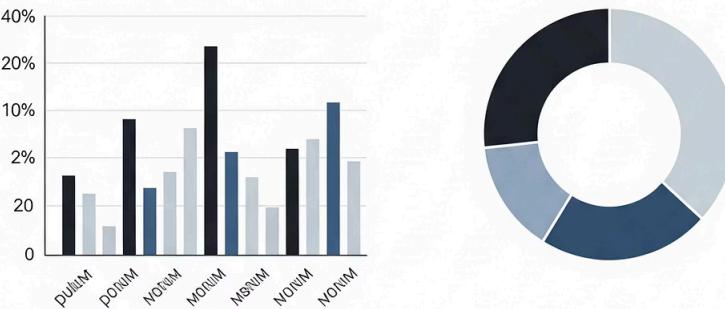
Enterprise revenue demonstrates consistent sequential growth, driven by expansions within existing customer accounts and platform adoption beyond core meetings. The enterprise segment now represents approximately 63% of total revenue, up from 58% two years ago. Online revenue faces continued headwinds from pandemic pullback but shows signs of stabilization. The shift toward enterprise mix enhances revenue quality and supports improving retention metrics.



Key Professional



Key Performance



Segment Analysis: Customer Contribution Dynamics



Enterprise Customers

Customers contributing over \$100K annually reached 3,800, growing 8% year-over-year. This cohort drives 58% of total ARR and exhibits net dollar expansion rates of 103%, indicating healthy upsell momentum from Zoom Phone, Rooms, and Contact Center adoption.



SMB Segment

Small and medium business customers represent a stable base with improving retention as hybrid work patterns normalize. This segment values simplicity and cost-effectiveness, showing resilience despite competitive pressure from bundled offerings.



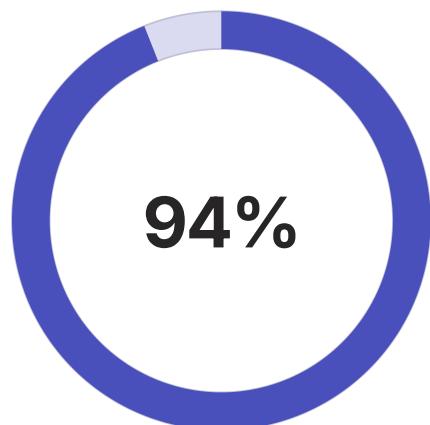
Online Individual

Consumer and prosumer users continue gradual decline from pandemic peaks but maintain a critical role in brand awareness and bottom-funnel conversion to paid plans. Freemium model serves as effective enterprise acquisition channel.

Key Operational Metrics: User Engagement and Monetization

Monthly Active Users

Platform MAU stabilized at approximately 210 million users, down from pandemic peaks but representing sustainable engagement levels. Enterprise MAU growth offsets consumer normalization.

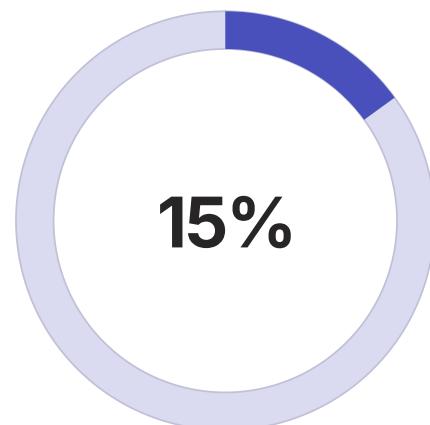


Customer Retention Rate

Strong enterprise customer stickiness demonstrates platform value and switching costs

Average Revenue Per User

ARPU expansion continues through product attach, with enterprise ARPU growing 12% annually. Phone, Rooms, and Webinar products drive incremental revenue per account.

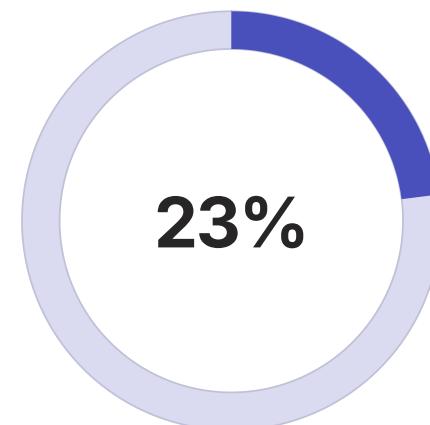


Multi-Product Attach

Percentage of customers using 3+ Zoom products, up from 11% prior year

Net Dollar Retention

Trailing twelve-month NDR of 101% for enterprise reflects modest expansion. Stabilization above 100% signals healthy account growth offsetting normalization pressures.



International Mix

Non-US revenue contribution with growth rates outpacing domestic markets

Growth Drivers: Product Innovation and Market Expansion

Zoom Phone Momentum

Cloud telephony solution now exceeds 8 million seats, growing 35% year-over-year. Phone represents the strongest growth vector with significant runway in replacing legacy PBX systems. Integration with core platform creates sticky unified communications bundle.

Zoom Rooms Adoption

Conference room solution deployments accelerate as enterprises invest in hybrid workplace infrastructure. Rooms attach drives hardware revenue partnerships and increases platform stickiness through physical presence in corporate environments.

Contact Center Launch

Early-stage product addressing \$25 billion TAM enters market with competitive AI-powered features. Initial customer wins validate product-market fit, though material revenue contribution remains 18-24 months out.

Geographic Expansion

Investments in EMEA and APAC sales capacity drive international growth rates above 10%. Local data centers and partnerships accelerate enterprise adoption in regulated industries outside North America.

Cost Structure and Margin Commentary

Cost of Revenue Optimization

Gross margin expanded 240 basis points year-over-year to 75.3% through infrastructure efficiency gains. Migration to Oracle Cloud partnership and co-location strategy reduced unit economics. Further optimization potential exists as platform scales, targeting 76-78% gross margins medium-term.

Sales and Marketing Efficiency

S&M expenses declined to 31% of revenue from 35% prior year, reflecting improved go-to-market productivity. Customer acquisition costs decreased while expanding enterprise focus drives higher lifetime values. Disciplined spending maintains growth while improving unit economics.

R&D Investment Priorities

Research and development held steady at 12% of revenue, funding AI feature development, security enhancements, and new product innovation. Strategic investment in large language models and intelligent meeting features positions Zoom for next-generation workplace needs.

Operating Leverage Outlook

Operating margin expansion of 520 basis points demonstrates strong operational leverage. Management targets 22-24% operating margins medium-term as revenue growth reaccelerates and fixed cost base absorbs incremental revenue efficiently.

Cash Flow and Balance Sheet Health

Operating Cash Flow

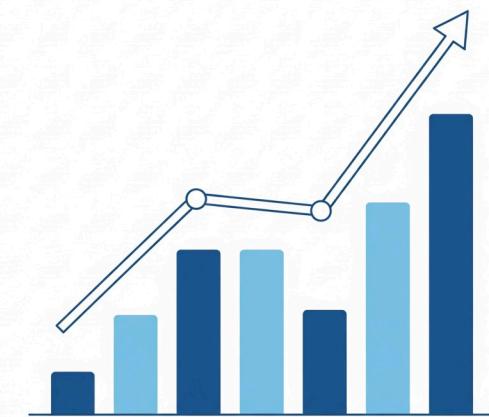
Generated \$445 million in quarterly operating cash flow, representing 38% cash conversion. Strong collections and working capital management support robust cash generation.

Free Cash Flow

FCF of \$412 million after minimal capex demonstrates asset-light model. Trailing twelve-month FCF margin of 36% ranks among highest in software sector.

Capital Allocation

Deployed \$350 million toward share buybacks this quarter. \$1.8 billion remaining under authorization signals commitment to shareholder returns alongside M&A optionality.



Balance sheet remains fortress-like with \$5.4 billion in cash and marketable securities against zero debt. This financial flexibility enables opportunistic M&A to accelerate platform capabilities while sustaining aggressive buyback program. Working capital dynamics improved as deferred revenue grew 6% year-over-year, indicating healthy renewal and expansion activity. The combination of substantial cash generation and pristine balance sheet provides strategic options unavailable to leveraged competitors.

Management Commentary and Strategic Priorities

“Management emphasized the successful evolution from single-product to platform provider, highlighting that existing enterprise customers increasingly adopt multiple products. The leadership team expressed confidence in stabilizing growth rates as comparisons normalize and new products gain traction.”

“Strategic focus centers on AI integration across the platform, with Zoom AI Companion providing meeting summaries, action items, and productivity features at no additional cost. This positions Zoom as AI-first unified communications provider and creates differentiation versus traditional competitors.”

“International expansion remains key priority, with management noting accelerating demand in Europe and Asia-Pacific. Investments in local sales teams, data center infrastructure, and regulatory compliance enable deeper enterprise penetration in high-growth regions outside North America.”

Executive commentary acknowledged ongoing competitive dynamics from Microsoft Teams bundling but highlighted Zoom's superior user experience and specialist focus. Management views the contact center opportunity as transformational for revenue mix and TAM expansion. Forward guidance reflects cautious optimism balanced against macroeconomic uncertainty affecting enterprise IT spending decisions.

Risks and Uncertainties

1

Competitive Intensity

Microsoft Teams bundling within Office 365 creates pricing pressure and limits customer wins. Established players like Cisco and emerging startups intensify competition across unified communications, requiring continuous innovation and differentiation.

2

Macro Sensitivity

Enterprise IT budget constraints could slow expansion rates and new customer acquisition. Small business churn may accelerate during economic uncertainty, impacting online segment more severely than large enterprises.

3

Execution Risk

Expanding product portfolio requires successful go-to-market execution. Contact center and events products face entrenched competition. Integration complexity increases as platform expands, potentially affecting user experience and differentiation.

4

Valuation Multiple

Limited near-term growth visibility constrains multiple expansion. Market may require several quarters of reacceleration evidence before re-rating stock. Single-digit revenue growth trades at discount to high-growth software peers.

Investment Takeaway: Attractive Risk-Reward at Current Levels

Bull Case

Stabilizing growth inflects upward as new products scale and enterprise adoption deepens. Best-in-class profitability and cash generation support substantial buyback activity and shareholder returns. Valuation at 12x forward earnings represents meaningful discount to software peers despite improving fundamentals.

Base Case

Low single-digit revenue growth persists near-term with gradual acceleration to mid-single digits as product portfolio matures. Margin expansion continues through operational leverage. Fair value approximates 15x forward earnings based on quality business model and financial profile.

Bear Case

Competitive pressures intensify, limiting expansion opportunities and pressuring retention rates. Growth stagnates in low single digits with margin compression from increased R&D and S&M investments. Multiple contracts toward 8-10x earnings reflecting mature, slow-growth profile.

We view Zoom as high-quality business trading at reasonable valuation. While near-term growth remains muted, the combination of expanding margins, substantial cash generation, and optionality from new products creates favorable risk-reward. Stock offers defensive characteristics through profitability and balance sheet strength while maintaining upside from product innovation and market share gains. Current levels represent attractive entry point for patient investors willing to wait for growth reacceleration evidence.