

Zoom Video (ZM)

\$161.04 (As of 05/12/20)

Price Target (6-12 Months): **\$169.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/11/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

Zoom Video gained significantly from the coronavirus-induced remote working trend. Demand for the company's cloud-native video-first platform is expected to remain solid owing to the work-from-home and online learning wave. Easy to deploy, use, manage and scalability makes Zoom Video's software more popular among its customers. Moreover, the company's expanding international presence is a key catalyst. Its efforts to eliminate the security and privacy loopholes like "zoombombing" is expected to help maintain its existing enterprise user base as well as attract new customers. Shares have outperformed the industry on a year-to-date basis. However, intensifying competition from the forays of Facebook and Verizon in the video communication space does not bode well for Zoom video.

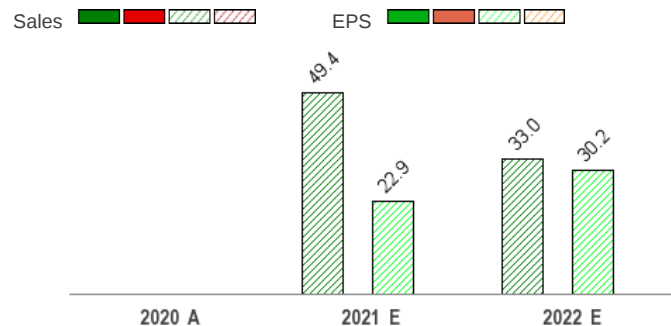
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$181.50 - \$60.97
20 Day Average Volume (sh)	13,771,973
Market Cap	\$44.9 B
YTD Price Change	136.7%
Beta	NA
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 16% (40 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	114.3%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/02/2020
Earnings ESP	0.0%
P/E TTM	460.1
P/E F1	374.5
PEG F1	14.1
P/S TTM	72.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	294 E	317 E	339 E	359 E	1,238 E
2021	203 E	222 E	243 E	267 E	931 E
2020	122 A	146 A	167 A	188 A	623 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.12 E	\$0.14 E	\$0.14 E	\$0.16 E	\$0.56 E
2021	\$0.10 E	\$0.11 E	\$0.11 E	\$0.13 E	\$0.43 E
2020	\$0.03 A	\$0.08 A	\$0.09 A	\$0.15 A	\$0.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

Overview

Zoom Video Communications' cloud-native unified communications platform, which combines video, audio, phone, screen sharing and chat functionalities, makes remote-working and collaboration easy. Undoubtedly, the company is benefiting from the work-from-home and online learning wave following the coronavirus pandemic outbreak that forced more and more people to stay home.

Zoom Video's solutions include Zoom Meetings, Zoom Rooms, Zoom Phone (launched in 2019), Zoom Chat, Zoom Conference Room Connector, Zoom Video Webinars, Zoom for Developers and Zoom App Marketplace.

Zoom Video's flagship solution Zoom Meetings provides high-definition video, voice, chat and content sharing across mobile devices, desktops, laptops, telephones and conference room systems. Zoom Meetings integrate with tools, such as Atlassian, Dropbox, Google, LinkedIn, Microsoft, Salesforce and Slack.

Moreover, Zoom Phone is an enterprise cloud phone system that provides inbound and outbound calling via its support for native connectivity to the public switched telephone network (PSTN). Further, Zoom Video Webinars (\$40 per month per host) allows users to conduct large-scale online events. It can support more than 10,000 view-only attendees.

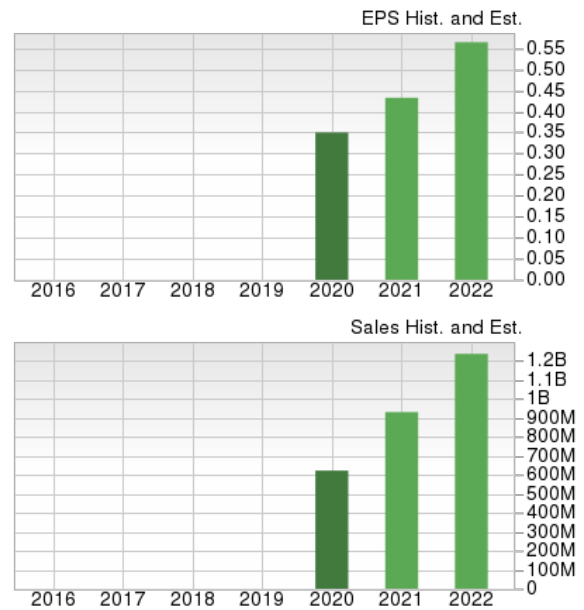
Zoom Video went for an Initial Public Offering (IPO) on Apr 17, 2019. This San Jose, CA-based company reported revenues of \$622.7 million in fiscal 2020.

The company generates revenues from the sale of subscriptions to its video-first communications platform. Subscription revenues are driven, primarily by the number of paid hosts as well as purchases of additional products including Zoom Rooms, Zoom Video Webinars and Zoom Phone.

Markedly, Zoom Meeting is offered on a per-host-per-month basis in Basic, Pro, Business and Enterprise tiers. Basic is offered for free as part of Zoom Video's "freemium" strategy to convert these users into a Zoom Host, a paying user. Pro, Business and Enterprise are offered at \$14.99, \$19.99 and \$19.99, respectively, with maximum of 9, 10 and 100 hosts, respectively.

Notably as of Jan 31, 2020, the company had approximately 81,900 customers with more than 10 employees.

Zoom Video faces significant competition from Cisco Webex, LogMeIn GoToMeeting, Microsoft Teams, Google G Suite, Avaya, RingCentral and 8x8.



Reasons To Buy:

- ▲ Zoom Video is undoubtedly the biggest gainer of the coronavirus-induced remote working trend. Demand for the company's video-first collaboration software jumped significantly amid lockdowns and stay-at-home measures undertaken by governments to break the chain of coronavirus pandemic. Easy to deploy, use, manage and scalability makes Zoom Video's software more popular among its customers. For enterprise customers, minimal involvement of IT, lower cost and scalability are major factors behind selecting Zoom Video. Notably, the company had 641 customers, contributing to more than \$100,000 of trailing 12 months' (TTM) revenues, which represented 33% of total revenues in fiscal 2020. Zoom Video now has more than 300 million daily active users.
- ▲ Moreover, demand for Zoom Video's platform and solutions is expected to remain robust as healthcare experts believe that some form of social distancing will be required to prevent recurrent transmission of the coronavirus until a vaccine or any effective treatment is developed. Per a study by researchers from Harvard University's T.H. Chan School of Public Health, sporadic periods of social isolation might be required through 2022 in the United States to keep tabs on the number of coronavirus patients falling severely ill, thereby easing the healthcare system. Hence, the work-from-home wave is expected to continue for some time and good news is that it bodes well for Zoom Video in the long haul.
- ▲ Further, the company's freemium business model helps it win customers rapidly, which it can later convert into paying customer. Notably, net dollar expansion rate on a TTM basis was more than 130% in fourth-quarter fiscal 2020. Additionally, Zoom is one of the leading names in the unified communications and collaboration (UC&C) space, which is expected to witness a healthy CAGR of 7.1% during 2019-2023 period, per IDC data. Gartner put Zoom Video in the Leaders Quadrant of the 2019 Magic Quadrant for Meeting Solutions. Moreover, Zoom Video's expanding international footprint is a major driver. Earlier in March, the company announced availability of its Zoom Phone cloud service in 11 additional countries (total 17 countries and one territory)
- ▲ As schools across the globe, are expected to remain closed for an extended period of time due to the coronavirus pandemic still looming large, Zoom Video is experiencing solid adoption among online educators. The company lifted its 40-minute meeting limit on free basic accounts for K-12 schools in a number of countries including Australia, India, New Zealand, Israel, Canada, Germany, the United Kingdom, the United States et al. Zoom Video solutions are also rapidly getting accepted by telehealth providers. Remote diagnosis is helping telehealth providers adhere to social-distancing norms without compromising on patient healthcare.
- ▲ Zoom Video is taking initiatives to solve privacy and security issues that threatened to derail its growth prospects. The company appointed technology experts to beef up security including encryption (AES 256-bit GCM encryption). Notably, its upcoming Zoom 5.0 supports GCM encryption. It added features that now allow users to screen, mute and keep unwarranted people at bay from a video call or meeting. These efforts are expected to help Zoom Video maintain its existing enterprise user base, which comprises the likes of VMware, Goldman Sachs, J.P. Morgan and Financial Industry Regulatory Authority (FINRA) and lure in new users.
- ▲ Zoom Video has a strong balance sheet and generates significant cash flow, which makes it an attractive stock for investors. The company has cash and cash equivalents (including marketable securities) worth \$855.2 million as of Jan 31, 2020 compared with \$176.4 million as of Jan 31, 2019. Free cash flow was \$113.8 million for fiscal 2020 compared with \$22.9 million for fiscal 2019. We believe, Zoom Video's ability to generate strong cash flows will enable it to make further investments in product development and acquisitions in the future.

Zoom Video is benefiting coronavirus-induced remote working trend. Its efforts to eradicate security and privacy flaws are expected to aid it to expand its user base.

Reasons To Sell:

- ▼ Zoom Video endures significant rivalry from legacy web-based meeting services providers including Cisco Webex and LogMeIn GoToMeeting, and bundled productivity solution providers with video functionality including Microsoft Teams and Google G Suite as well as UCaaS and legacy PBX providers including Avaya, RingCentral and 8x8. Facebook is the latest company to jump on the video calling bandwagon with the introduction of Messenger Rooms, which will soon be able to accommodate up to 50 users. Considering Facebook's massive user base, this is a huge setback for Zoom Video. Additionally, Verizon's acquisition of BlueJeans further intensifies competition for the company.
- ▼ Zoom Video is facing significant backlash from customers due to security issues. Daimler AG, Ericsson, NXP Semiconductors, Bank of America and Tesla are among a host of companies banning or warning employees against using the app due to security concerns. It was also temporarily banned by the New York City Department of Education and Singapore. Moreover, India deemed Zoom Video as an unsafe platform. These allegations revealed a significant chink in Zoom's armor and could prompt customers to shift to more secure platforms like Teams and Webex that are now free to use.
- ▼ Zoom Video is also struggling with privacy issues. The "zoombombing", which occurs when uninvited individuals disrupt a teleconferencing session, is a major privacy risk. Moreover, the company's iOS app is accused of sending user data to Facebook, which ultimately resulted in a class action lawsuit. The company allegedly overstated its ability to protect users on the platform. It failed to inform users that their communications weren't safeguarded by end-to-end encryption.
- ▼ International expansion caused cost escalations in the form of marketing expenses. Sales and marketing expenses soared 83.3% year over year to \$340.6 million in fiscal 2020, a trend that will likely continue in fiscal 2021 as the company plans to add local sales support in international markets. Notably, revenues from the rest of world (APAC and EMEA) represented 19% of total revenues in fiscal 2020, up from 18% in fiscal 2019.

Stiff competition with the entry of Facebook and Verizon in the video communication space and massive repercussion from customers due to security and privacy lapses are concerns.

Last Earnings Report

Zoom Video Q4 Earnings Top Estimates, Revenues Jump Y/Y

Zoom Video's fourth-quarter fiscal 2020 adjusted earnings of 15 cents per share beat the Zacks Consensus Estimate by 114.3% and also skyrocketed 275% year over year.

Revenues of \$188.3 million surpassed the Zacks Consensus Estimate by 6.7% and also soared 77.9% year over year.

At the end of the fourth quarter, Zoom Video had roughly 81,900 customers (with more than 10 employees), up nearly 61% year over year. Moreover, 641 customers contributed to more than \$100,000 in the trailing 12-month (TTM) revenues, up roughly 86% year over year.

Operating Details

Gross margin in the reported quarter expanded 120 basis points (bps) on a year-over-year basis to 82.7%.

Research & development (R&D) and sales & marketing (S&M) as a percentage of revenues increased 80 bps and 160 bps, respectively, on a year-over-year basis. However, general & administrative (G&A) expense declined 160 bps.

Total operating expenses as a percentage of revenues increased 80 bps year over year to 77.1%.

Operating income was \$38.4 million compared with \$9.8 million reported in the year-ago quarter.

Balance Sheet & Cash Flow

As of Jan 31, 2020, cash and cash equivalents and marketable securities were \$855.2 million.

Net cash provided by operating activities was \$151.9 million for fiscal 2020 compared with \$51.3 million achieved in fiscal 2019.

Free cash flow was \$113.8 million for fiscal 2020 compared with \$22.9 million for fiscal 2019.

Guidance

For first-quarter fiscal 2021, Zoom Video expects revenues between \$199 million and \$201 million. Non-GAAP income from operations is expected between \$25 million and \$27 million. Moreover, non-GAAP earnings are expected to be 10 cents per share.

For the fiscal, Zoom Video expects revenues between \$905 million and \$915 million. Non-GAAP income from operations is expected between \$110 million and \$120 million. Moreover, non-GAAP earnings are expected in the 42-45 cents per share range.

Quarter Ending **01/2020**

Report Date	Mar 04, 2020
Sales Surprise	6.74%
EPS Surprise	114.29%
Quarterly EPS	0.15
Annual EPS (TTM)	0.35

Recent News

On May 7, Zoom Video announced its acquisition of Keybase, a secure messaging and file-sharing service. The takeover will accelerate the company's plan to build end-to-end encryption service.

On Apr 22, Zoom Video announced robust security upgrades with the upcoming general availability of Zoom 5.0, which supports AES 256-bit GCM encryption.

On Mar 9, Zoom Video announced that it is expanding its Global Channel Partner Program with the launch of a new Referral Partner Program and partnerships with industry-leading Master Agents AVANT Communications, Intelisys, Pax8 and Telarus.

On Mar 3, Zoom Video announced general availability of its Zoom Phone service across 11 additional countries and the beta Service in 24 new countries and one territory.

Valuation

Zoom Video shares are up 120.2% in the past year. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 15.2% and 16.3% over the same period, respectively. Moreover, the S&P 500 index is up 3.1%.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$169 price target reflects 75.78X trailing 12-month (TTM) sales.

Industry Analysis Zacks Industry Rank: Top 16% (40 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Avaya Holdings Corp (AVYA)	Neutral	4
Cisco Systems Inc (CSCO)	Neutral	3
Facebook Inc (FB)	Neutral	3
Alphabet Inc (GOOGL)	Neutral	3
LogMein Inc (LOGM)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Ringcentral Inc (RNG)	Neutral	3
Verizon Communications Inc (VZ)	Neutral	3

Industry Comparison Industry: Internet - Software				Industry Peers		
	ZM	X Industry	S&P 500	CSCO	GOOGL	MSFT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	B	D	C
Market Cap	44.93 B	533.01 M	19.25 B	183.29 B	938.72 B	1,384.05 B
# of Analysts	12	5	14	12	12	14
Dividend Yield	0.00%	0.00%	2.21%	3.33%	0.00%	1.12%
Value Score	F	-	-	B	D	D
Cash/Price	0.02	0.11	0.06	0.15	0.12	0.10
EV/EBITDA	552.35	-0.09	11.70	9.85	16.28	22.68
PEG Ratio	14.58	2.98	2.61	2.62	2.06	2.48
Price/Book (P/B)	53.82	5.66	2.61	5.16	4.62	12.09
Price/Cash Flow (P/CF)	569.22	22.92	10.36	12.56	19.80	28.73
P/E (F1)	387.23	45.50	19.13	14.16	33.16	32.10
Price/Sales (P/S)	72.16	4.06	1.96	3.56	5.63	9.98
Earnings Yield	0.27%	0.39%	5.00%	7.06%	3.02%	3.12%
Debt/Equity	0.08	0.13	0.75	0.41	0.08	0.61
Cash Flow (\$/share)	0.28	-0.00	7.01	3.44	69.45	6.35
Growth Score	C	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.82%	8.60%	23.83%	18.74%
Proj. EPS Growth (F1/F0)	23.57%	-3.43%	-10.31%	-1.56%	-15.64%	19.70%
Curr. Cash Flow Growth	122.56%	2.99%	5.83%	6.95%	12.62%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	NA%	18.18%	8.52%	3.53%	19.91%	11.99%
Current Ratio	3.28	1.50	1.27	1.81	3.66	2.90
Debt/Capital	7.21%	19.54%	44.25%	28.97%	7.07%	37.98%
Net Margin	3.73%	-14.37%	10.59%	21.44%	20.71%	33.36%
Return on Equity	3.30%	-12.57%	16.33%	36.40%	17.43%	40.37%
Sales/Assets	0.55	0.62	0.55	0.55	0.62	0.49
Proj. Sales Growth (F1/F0)	48.51%	7.98%	-2.53%	-6.01%	4.64%	12.46%
Momentum Score	B	-	-	C	D	B
Daily Price Chg	-3.27%	-0.29%	-2.55%	-0.23%	-2.02%	-2.27%
1 Week Price Chg	12.15%	6.95%	3.23%	5.06%	5.09%	5.79%
4 Week Price Chg	13.50%	11.08%	-0.84%	1.03%	8.69%	5.07%
12 Week Price Chg	67.07%	-8.75%	-21.82%	-7.23%	-9.49%	-2.52%
52 Week Price Chg	120.18%	-11.66%	-10.27%	-16.92%	22.25%	46.32%
20 Day Average Volume	13,771,973	563,022	2,520,117	21,064,644	2,312,330	38,621,900
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-6.29%	-0.97%	-7.06%	2.09%
(F1) EPS Est 12 week change	118.75%	-9.25%	-16.21%	-6.63%	-24.30%	0.82%
(Q1) EPS Est Mthly Chg	66.67%	0.00%	-12.28%	-1.99%	-17.46%	1.49%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	C
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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