

12-Apr-2019

Zoom Video Communications (ZM)

Provides a cloud-based video and web conferencing platform.

Investment Rating: 17 = Outperform

Offering Data (in mil, except per share)

File Date	22-Mar-2019
Expected Offer Date	17-Apr-2019
Price Range	\$28.00 - \$32.00
Shares Filed (% insider)	20.9 (48%)
Deal Size	\$626.1
Use of Proceeds	Working capital

Capitalization (in mil, except per share)

Price (at midpoint)	\$30.00
Shares Outstanding	291.4
Market Value	\$8,742.3
Enterprise Value	\$8,160.9

IPO Underwriters (*bookrunner)

Morgan Stanley*	J.P. Morgan*
Goldman Sachs*	Credit Suisse*
BofA Merrill Lynch*	RBC Capital Markets*
Wells Fargo Securities*	JMP Securities
KeyBanc Capital Markets	Piper Jaffray
Stifel	William Blair

Corporate Data

Employees	1,702
Year Founded	2011
Headquarters	San Jose, CA
Website	www.zoom.us

Income Model†		FY Ended Jan			
(\$ in mil)	2019A	2020E	2021E	2022E	
Sales	\$330.5				
Gross Profit	269.5				
EBITDA	43.0				
Adj. EBIT	15.1				
Adj. Net Inc.	14.6				
Adj. EPS	0.05				
EBITDA %	13.0%				

†Income data excludes stock-based compensation.

Balance Sheet		Actual	Adjusted
(\$ in mil)		1/31/19	1/31/19
Cash		\$176.4	\$581.3
Working Capital		124.4	529.3
Total Assets		354.6	759.5
Total Debt		0.0	0.0
Shareholders' Equity		167.3	571.3

Rating Analysis

Long Term

Company Fundamentals	<div><div></div><div></div><div></div><div></div><div></div></div>	5
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Corporate Governance	<div><div></div><div></div><div></div><div></div><div></div></div>	4
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Short Term

Relative Valuation	<div><div></div><div></div><div></div><div></div><div></div></div>	3
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Group Technicals	<div><div></div><div></div><div></div><div></div><div></div></div>	5
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Very Weak Neutral Very Strong

Total = 17

Investment Highlights

Led by WebEx veterans, Zoom provides a freemium suite of hardware-agnostic communications software focused on connecting people through video, voice, chat, and content sharing. Its core Meetings product allows it to offer better quality video meetings with up to 1,100 participants across desktop, mobile, and its conference room platforms thanks to its technology, including decentralized infrastructure, multimedia routing, and multi-bitrate encoding. Zoom counts over 50,800 business customers with more than 10 employees, including 344 that generate \$100k+ in annual revenues (30% of FY19 revenue) and half of the Fortune 500. Its subscription service boasts a strong 140% dollar-based net retention rate and an attrition rate for enterprise customers of less than 1%, which allows for good revenue visibility and strong cash flow.

Zoom has achieved a rare combination of rapid growth and profitability, growing at 108% to a run-rate of \$423 million in the MRQ while reaching a 13% EBITDA margin in FY19. While it expects investments in its sales force to weigh on margins in the near term as it targets larger enterprise customers, Zoom should be able to maintain positive EBITDA thanks to its low-cost, China-based R&D team. A key risk is the crowded competitive landscape, including bundled services from large players like Google and Microsoft, but its growing and sticky customer base suggests Zoom's platform is superior. Its valuation appears relatively full at 17x CY19 sales, but peers have traded well recently and IPO investors have been paying up for high-quality SaaS companies.

Bull Insights

- Sales grew 118% y/y to \$331mm in FY19; dollar-based net retention is 140%
- Strong cash flow and good revenue visibility from subscriptions
- Believes its addressable market will total \$43 billion in 2022
- Salesforce investing \$100 million in concurrent private placement

Bear Insights

- Competes w/ bundled video services from Google and Microsoft
- Investments in sales force will weigh on margins in the near term
- Dual class; insiders including executives selling 48% of the IPO

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