



## Company Overview

Figure 1. Zoom leads in net promoter score

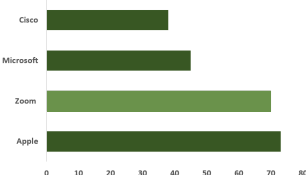
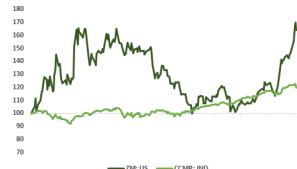


Figure 2. Zoom v relative index



Zoom Video Communications ("Zoom"), headquartered in San Jose, is a video conference, phone, and chat services provider through peer-to-peer software. Its main focus is corporate conferencing and communication solutions while enabling individuals to sign up for free. Corporate solutions run on subscription and pricing varies based on functionality and number of host accounts required.

(Millions USD)	2019A	2020A	2021E	2022E
Revenue	330.5	622.7	929.3	1253.7
Growth rate	118.0%	88.4%	49.2%	34.9%
EBITDA	13.2	105.1	185.2	247.6
Margin (%)	4.0%	16.9%	19.9%	19.7%
Net income	7.5	25.5	36.0	53.9
Margin (%)	2.3%	4.1%	3.9%	4.3%
ROE (%)	5.3%	5.1%	4.4%	8.2%
ROA (%)	1.4%	1.0%	2.8%	3.6%
EV/Revenue	51.7	44.3	32.8	22.1

## Investment Thesis

Figure 5. Zoom revenue by region

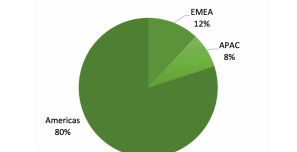
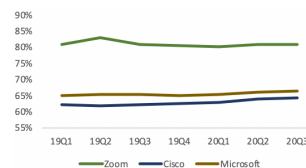


Figure 6. Zoom's superior gross margin



- Unrealized portfolio synergies for upsell opportunities:** Majority of Zoom's users have not adopted Zoom Phone and Rooms. We expect to see huge potential in terms of upselling, as proven from its net dollar expansion rate of 139% and recent ecosystem adoption of large enterprise clients like HSBC.
- International market yet to take off.** The Americas currently contribute to 80% of Zoom's revenue, with EMEA at 12% and APAC at 8%. International revenue from EMEA and APAC grew 53% YoY. We believe that with the ease of adoption as proved in the Americas, network effect between Asia and Americas, and deployment of local sales team internationally, the international market is expected to grow exponentially in the near future.
- Head room for margins growth.** While Zoom is still in its user acquisition and hyper-growth stage, it is generating gross margins of 81%, significantly outperforming its competitors, Cisco (63%) and Microsoft (33%). Given the company's low-touch e-commerce business model resulting in low customer acquisition costs, we expect profit margin to improve significantly as the company scales.

Sources: Company filings, NUS Investment Society estimates and research

## 12M Industry Outlook

Figure 3. APAC video conferencing market, 2019-2026 (USD Billions)

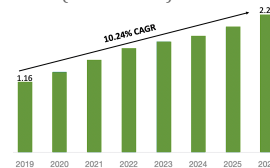


Figure 4. Video conferencing market share

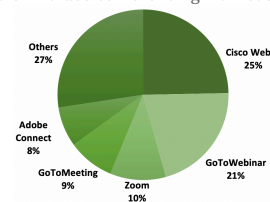


Figure 7. Projected 12M forward EV/Sales/Growth valuation

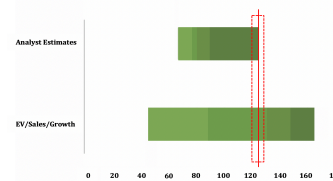


Figure 8. Street estimates

Contributor	Rating	Price target	Upside
JPMorgan	Overweight	125	+22.5%
Wells Fargo	Market Perform	95	-6.8%
Stephens	Buy	95	-6.8%

Prepared by: TMT Coverage Team - Huang Shih Ting, Vincent Wong, William Hartono

- Continued market growth.** The global market for video conferencing is expected to reach US\$6.37 billion by 2023, representing a 2019-23 CAGR of 9.8%. The North American market currently accounts for the largest revenue share. However, APAC has the highest forecasted CAGR of 10.2% for 2019-2026, and is expected to reach a US\$2.29 billion market size by 2026.
- Competition escalates.** Main competitors in the industry are Cisco and GoToWebinar, with a 25% and 21% market share respectively. Increasing adoption and acceptance of video conferencing and growth of Zoom is expected to stimulate product breakthroughs among major rivals in the near future. However, Zoom is likely to stay ahead of competitors with their first mover advantage and simple on-boarding process.
- Integration of hardware and software.** In order to increase video conferencing quality, vendors of hardware or software are expected to cooperate on product offerings. Players such as Microsoft and Cisco could develop in-house, whilst Zoom partners with hardware suppliers, allowing for higher margins.

## Valuations

Last Closing: \$101.76  
Target Price: \$129.78  
Upside: +27.5%

We implemented a EV/Sales/Growth analysis as a primary valuation method for Zoom mainly due to the lack of true comparable companies for Zoom and the difficulty in capturing Zoom's long term growth trend due to the lack of historical information. Our projections are over a 5 year period. We projected revenue up until FY24, projecting revenue growth rate for FY20 to be 85%. EV/Sales/Growth was pegged at 69.1 for our base case, 87.8 for our bull case and 23.9 for bear case.

The Street is largely bullish on Zoom's trajectory and believes that it will be the market leader in video communication technology in the long run. Therefore, our target price of US\$129.78 is in line with the view of the general consensus.