

Zoom reports big 3Q gains, but slowing growth sinks stock

December 1 2020, by Michael Liedtke



This April 18, 2019, file photo shows a Zoom ad, in New York. Zoom's videoconferencing service remains a fixture in pandemic life, but its breakneck growth is showing signs of tapering off as investors debate whether the company will be able to build upon its recent success after a vaccine enables people to intermingle again. Zoom highlighted its head-spinning success story again Monday, Nov. 30, 2020, with the release of its quarterly results for the August to October period. (AP Photo/Mark Lennihan, File)

Zoom's videoconferencing service remains a fixture in pandemic life, but its breakneck growth is showing signs of tapering off as investors debate whether the company will be able to build upon its recent success after a vaccine enables people to intermingle again.

For now, Zoom is thriving as tens of millions of people who never heard of the service at the beginning of the year rely on its video meeting tools to connect with their co-workers, teachers, friends and family while efforts to fight contain the pandemic prevent them from going into offices, schools and most many other places. That dependence boosted Zoom's fortunes, producing a pandemic-driven success story that was highlighted again Monday with the release of the company's quarterly results for the August-October period.

Zoom's revenue more than quadrupled from the same time last year to \$777 million, yielding a profit of \$198 million, up from just \$2.2 million a year ago. Both those figures easily topped the estimates among analyst surveyed by FactSet Research, but Zoom's stock still shed 5% in Monday 's extended trading after the numbers came out.

One possible reason for the reaction is that number of companies anteing up for Zoom's subscription version of its service isn't rising as rapidly as during the pandemic's early stages. Zoom ended its latest quarter with 433,700 customers with at least 10 employees, an increase of 63,500 customers from July. In each of the previous two quarters, Zoom had added more than 100,000 customers with at least 10 employees.

While that slowdown was considered an inevitable, the drop-off is nevertheless causing many investors to start considering the possibility that Zoom won't be able to maintain the momentum it gained from this year's stay-at-home orders after a substantial portion of the population is vaccinated against the novel coronavirus that has killed more than 1.4 million people worldwide.

As more investors have concluded Zoom has already reached its zenith, the company's stock price has fallen more than 20% from its all-time high of \$588.84 reached last month. Despite the decline, the shares are still more than six times higher than where they ended last year.

Those still betting on Zoom believe many subscribers who signed up for subscriptions to the videoconferencing service during the pandemic will continue to pay for it after the crisis is over as companies continue to limit the number of employees into their offices and cut back on business travel after learning how much can be accomplished in virtual meetings.

"The trends of remote work had started long before the pandemic and they have just been accelerated by this," Kelly Steckelberg, Zoom's chief financial officer, said Monday in an interview with The Associated Press. "Given the adoption and the way we have seen all segments, from [small business owners](#) to individuals all the way up to large organizations, embrace Zoom, we really expect that those remote working trends will continue even after there is a vaccine."

In a reflection of the high hopes for Zoom, analysts polled by FactSet predict the company's revenue next year will reach \$3.1 billion. That would be a roughly 20% increase from revenue of nearly \$2.6 billion that Zoom is projecting for this year. An effective vaccine also would probably widen Zoom's profit margins because it is spending more money this year offering a free service to about 125,000 schools that are instructing students online instead of in classrooms.

But Nucleus Research analyst Trevor White thinks Zoom is more likely to become known as a "one-hit wonder" after the pandemic, partly because of competition from bigger companies such as Microsoft and Google that can also bundle together other business products with their videoconferencing services.

"Zoom's spike in [consumer demand](#) has given it a competitive edge that cannot transition well into the reopened economy," White predicted.

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Citation: Zoom reports big 3Q gains, but slowing growth sinks stock (2020, December 1)
retrieved 24 April 2024 from

<https://techxplore.com/news/2020-12-big-3q-gains-growth-stock.html>

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