ZoomInfo Fourth Quarter and Full Year Financial Results Conference Call Prepared Remarks
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Jerry Sisitsky, Vice President Investor Relations:

Welcome to ZoomInfo's financial results conference call, highlighting our results for the fourth quarter and the full-year 2020. With me on the call today are Henry Schuck, CEO and founder of ZoomInfo, and Cameron Hyzer, our chief financial officer. After their remarks, we will open the call to Q&A.

During this call, any forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Expressions of future goals, including business outlook, expectations for future financial performance, and similar items including, without limitation, expressions using the terminology may, will, and believe, and expressions which reflect something other than historical facts, are intended to identify forward-looking statements.

Forward-looking statements involve a number of risks and uncertainties, including those discussed in the Risk Factors sections of our filings with the SEC. Actual results may differ materially from any forward-looking statements. The company undertakes no obligation to revise or update any forward-looking statements in order to reflect events that may arise after this conference call, except as required by law. For more information, please refer to the Cautionary Statement included in the slides that we have just posted to our investor relations website at IR.ZoomInfo.com.

All metrics discussed on this call are non-GAAP unless otherwise noted; a reconciliation can be found in the financial results press release or in the slides that we have posted to our IR website.

With that, I'll turn the call over to our CEO Henry Schuck.

Henry Schuck, Founder and CEO:

Thank you Jerry, and welcome everyone.

INTRO

As it did for many companies, 2020 presented a unique set of operating circumstances for ZoomInfo. Our team managed past headwinds and tailwinds, stay-at-home orders and virtual work mandates, and through it all, we adapted, moved fast, defined new possibles and stepped up to deliver the strongest fourth quarter and the strongest year in our Company's history. During the quarter, we set company growth records for new sales, new customers added, customers over $100 thousand in ACV, efficiency metrics such as LTV to CAC, and we saw broad-based strength across all areas of the business -- a truly impressive end to our first year in the public markets.

At ZoomInfo we are building the modern go-to-market platform from the foundational level up, starting with a market-leading robust and accurate data layer that fuels a suite of next generation workflow software. This is delivered across a purpose-built interface that powers go-to-market efforts for companies of all sizes, in all industries, all over the world.

Our vision to fully digitize go-to-market is resonating more today than ever before and is reflected in the momentum we see in every aspect of our business - from new customer acquisition to customer retention to end-user engagement and new product adoption.

FINANCIAL HIGHLIGHTS

In Q4, we delivered GAAP revenue of $140 million, up 53% year-over-year, and sequential quarter growth of 13%. Our Clickagy and EverString acquisitions contributed $2 million to revenue in the quarter, implying organic sequential quarter growth of 12%. We delivered that strong organic revenue growth with an adjusted operating income margin of 45%. For the full year, we achieved GAAP revenue of $476 million, up 62%, and adjusted operating income of $226 million. Our financial performance reflects our goal to not only build the best suite of go-to-market tools imaginable, but to do that with a focus on operational excellence and best-in-class execution.

Q4 was a record for us on the new business side, both from a logo and a dollars perspective. We closed the year with more than 20,000 paying customers, adding new users from marketing, revenue and sales operations, data analytics and data science, talent acquisition, and sales and executive leadership. We added customers in industries across the globe, from the pharmaceutical industry to manufacturing, from shipping and logistics to the construction industry; from Chino, California to Lewiston, Maine and from Auckland, New Zealand to Paris, France. And our continued focus on driving enterprise adoption delivered record growth from our largest customers. We now have more than 850 customers with ACV over $100,000, representing greater than 45% year-over-year growth in that cohort. Contribution to growth in the number of $100,000 customers was strong both on the New Business side — where the contribution doubled versus Q3 — and on the Expand side, where contribution into the cohort grew 71% sequentially. We now work with over 50% of the Fortune 500 and over 30% of the Fortune 1,000, and there is so much opportunity in the enterprise; just within our existing Enterprise accounts we see a $1 billion plus seat expansion opportunity on our core platform. Our pipeline across the enterprise remains strong, and I expect that we will continue to see strong growth across this segment.

The organization has also demonstrated itself to be incredibly nimble as we prove out our additional strategic growth vectors. Our entrance into the international markets continues its strong start with 20% sequential quarter growth and 71% year-over-year growth as we see strong demand for our products in Europe and in English-speaking regions in Asia Pacific. Our sales automation platform Engage is also accelerating, posting 43% sequential quarter ACV growth, while growing the attach-rate on new business transactions and renewals 28% and 44% respectively. While early, we see customers that leverage Engage have meaningfully higher renewal rates. This was one of the many contributing factors to the record retention activity we saw in the fourth quarter.

CUSTOMERS

We continue to see broad-based momentum and positive feedback from customers and independent ratings firms as we invest in our product. For example, in G2's Winter 2021 Grid Report released in December, ZoomInfo appeared on 37 Grids, our highest number ever while also receiving 22 number one placements including new number one rankings in the Enterprise category for Account Data Management and Lead Capture. This shows that not only are we building products that span a wide spectrum of go-to-market pain points, we are doing it with best-in-class products.

We are also seeing new and increasing adoption of our platform across a broad range of industries; from Jazz Pharmaceuticals to Marathon Oil; From Toyota to Honeywell; from Lamar to Pitney Bowes; From Stanley Black and Decker, and SAP to Blink Science. Blink Science is a creator of instant diagnostic testing tools and an innovative medical passport system. They are doing their part to help stop the Pandemic. Blink's quick, low-cost Covid test can be used by every organization in the world, so they needed to narrow that universe to find and engage with the right contact person at the right target organizations making ZoomInfo the ideal solution for them. Today, they are successfully engaging with the right personas at the largest healthcare distributors, shipping companies, and healthcare organizations in the world to ensure rapid deployment of their device when it is EUA approved.

EARLY STAGES OF MARKET OPPORTUNITY

We remain in the very early stages of this market opportunity. Our opportunity drives a change in the way companies find, prioritize, and engage with prospects and customers, from a manual, poorly timed, inefficient, gut driven approach to engaging - an approach that has been around for over a century - to an approach that drives an efficient, intelligence-driven, and automated approach to assessing market opportunities, finding the right prospects and driving increased customer engagement. This represents a fundamental shift in how businesses will go-to-market in the future, and we are still in the early adopter stage of the evolution, with a market that is low single digits penetrated.

With this large addressable market in front of us we see a great opportunity to increase our investment in our data platform and applications. Our first step in doing that is announcing that Hila Nir will now serve exclusively as our chief product officer so she can focus on driving innovation and product enhancements to capture the market opportunity ahead of us. Second, we have elevated Chris Hays to the role of chief operating officer, unifying our sales and marketing efforts. Chris is our long-time revenue leader who now takes on responsibility for the entire go-to-market organization, including marketing. We also announced today that Shane Murphy-Reuter has joined us as our new chief marketing officer, reporting into Chris. Shane joins us from Intercom, a San Francisco-based conversational relationship platform, where he was senior VP of marketing. I am confident that this team sets us up for continued growth and success.

Our culture is driven by continuous improvement and winning - we push ourselves to continuously improve, we collaborate, get things done, and define new possibles. We do this all with a focus on diversity and inclusion. We have taken actions to proactively foster collaboration, drive engagement, and grow our culture as we continue to work remotely. It is a testament to our great culture that we have been able to recruit and onboard more than 900 employees since the beginning of March 2020, with those employees representing roughly half of our entire worldwide organization.

PRODUCT

Our customers are using our platform more than ever, not just for prospecting, but increasingly by fully integrating it into their business processes through their CRM, marketing automation, or internal applications.

In the fourth quarter, we saw unprecedented usage of those integrations with nearly two billion automated calls of our API. That is roughly two times the volume we saw just one year ago.

Across our user facing applications, we also experienced increasing rates of adoption throughout the quarter, culminating with January delivering record high engagement rates on our core platform as measured by daily active users over monthly active users, as well as significant increases in usage of additional functionality and a record high NPS Score in January.

We're also seeing more customers leverage ZoomInfo for real-time opportunity signals and advanced targeting, jumping 60% in Q4 compared to Q3. This important metric demonstrates that customers are continuing to sophisticate their use cases with us and are taking advantage of our more advanced features, functionality, and insight points.

Regardless of where or how our platform is consumed, the guiding principle for a ZoomInfo customer is to turn insight into action.

In 2020, we shared a vision with our customers around being able to take a signal - a funding event, a new technology added to a company's stack, a spending initiative in the works, or a spike in a relevant intent topic; and cross-reference that signal against an ideal customer profile - say - companies with more than 100 employees who use NetSuite and who are not current customers; and mapping that to their ideal prospect profiles; and then instantly activating a campaign targeting that audience. Our vision is a fully automated go-to-market motion from signal to action.

This capability is more than sales automation or marketing automation - it is true go-to-market automation - and is now fully available with our Workflows suite. Today, the Workflows suite which is available within our Elite package, includes a re-imagined interface that turns natural language statements into go-to-market workflows that integrate with a broad range of CRM, sales automation, marketing automation, and advertising platforms. We've also added contextual access to create workflows throughout the ZoomInfo platform and the ability to enable every user with this automation capability.

On the enterprise side we continue to build ways to deliver our data and insights in real time, anywhere. Our newly launched Datashares, Push APIs, and Custom Dataflows, allow our customers to consume our insights in new and innovative ways including through data warehouses, custom applications, and cloud databases. In this arena, we are especially excited about our new agreement to list ZoomInfo on the Snowflake data marketplace, allowing us to deliver our data and insights directly into our customers' Snowflake instances for consumption by their business intelligence, data analytics, and revenue operations teams.

One of our newest offerings is our recruiting suite - designed to help recruiting teams identify, target, and engage with top talent - even when that talent isn't actively in-market looking for a new role. Recruiting teams can uncover timely and accurate data such as work history, technologies used, and department organizational charts to help them better understand managerial, functional, and technical experience. We are in-market with ZoomInfo Recruiter, gathering feedback from customers who are already actively using the product. We believe that the recruiting use case is a powerful one, and we expect to invest more here, continuing to deliver more features and functionality, and broadening our marketing efforts throughout the course of the year.

As Cameron will detail, we expect to continue delivering on our industry-leading combination of strong top-line growth and profitability, as we initiate 2021 guidance that calls for revenue growth of 37% at the midpoint, with adjusted operating margins of 43%.

In closing, 2020 was a great year for ZoomInfo, and we are excited about the year ahead. We continue to invest in delivering success to our customers, we continue to invest behind the platform - improving the quality of data, functionality and usability, and we continue to invest in our team. These investments set the stage for an even better 2021 and for us to deliver a durable combination of both revenue growth and profitability.

With that I'll hand it over to our Chief Financial Officer Cameron Hyzer.

Cameron Hyzer, CFO:

Thanks Henry.

We are very pleased with our financial performance for both Q4 and the full year, which well exceeded our guidance for revenue, profits, and cash flow. Based on market demand, our strong execution, and our strategy of continuing to reinvest back into the business, we expect to continue delivering a strong combination of revenue growth and profitability for 2021. Our full year guidance calls for revenue growth of 37%, and continued investment in sales and marketing capacity and innovation to drive sustained growth going forward. We expect this to yield operating margins of 43%, within our long-term target range of adjusted operating margins in the mid-to-high 40s. With this performance, we expect to deliver $270 to $280 million in unlevered free cash flow.

In Q4, we delivered GAAP revenue of $140 million, up 53% year-over-year, and up 13% compared to Q3 2020. Excluding the impact of the acquisitions completed in Q4, our organic sequential quarter growth was 12%.

In the fourth quarter, adjusted operating income was $63 million, yielding a margin of 45%. Margins were modestly impacted by the acquisitions in the quarter, and reflect a higher investment in R&D to take advantage of our leadership position in the market and drive longer-term growth and TAM expansion.

For the full year, we delivered GAAP revenue of $476 million, up 62%, and adjusted operating income of $226 million, a 47% margin.

As we moved through 2020, economic uncertainty related to the global pandemic proved to be a headwind in the first half of the year, particularly impacting large upsell deals and seat expansion opportunities. In the second half of the year, we caught more of a tailwind as the new virtual environment for sellers accelerated the longer term trend toward digitization and customers acclimated to the economic environment. We saw record new customer additions and strong retention and upsell activity in the fourth quarter. As of December 31st, we had more than 20,000 customers, representing greater than 35% growth relative to 2019, and more than 850 customers with $100 thousand or more in ACV, representing greater than 45% growth.

Early in 2020, we had expected Covid related headwinds to negatively impact retention rates for the year. As we moved through the year, we realized improving activity and ended the year with annual net dollar retention at 108%, down less than 100 basis points compared to 2019, and better than expected. We were able to overcome most of the Covid related headwinds from the first half of the year and the momentum of retention activity we experienced in Q4 of 2020 was even better than what we experienced in Q4 of 2019, which gives us confidence going into 2021.

Our international revenue growth was a particular bright spot in the quarter as we grew International revenue by more than 70% year-over-year driven by 20% sequential growth relative to Q3. In Europe, in particular, where we have invested by dedicating specific teams to focus on European opportunities, we are seeing great traction. Given the success and large opportunity, we plan to continue investing in our international go-to-market and support capabilities.

We have also continued to make progress migrating customers to our new platform. As of today, we have more than 70% of our ACV on the new platform and while it is still early in renewal cycles, we continue to see better net expansion activity among customers renewing on the new platform than those on legacy platforms.

To evaluate in-period activity and the current trajectory of the business, we focus on sequential revenue growth, which is the growth in total revenue divided by days in the quarter compared to the prior quarter. While Q4 is typically our strongest quarter each year with respect to in-period activity, we are very pleased with our results this past quarter, delivering 13% sequential growth and an acceleration relative to Q3. As a reminder, while sequential growth exhibits less volatility from extraneous factors compared to other metrics, like calculated billings or RPO growth, seasonal selling patterns still matter. The $2 million in revenue from the acquisitions of Clickagy and EverString also contributed to increased sequential growth.

For those looking at calculated billings, the mix of customers with annual billing improved relative to the third quarter, to be back in line with Q4 of 2019, positively impacting both billings, and cash flow, in the fourth quarter.

As we move onto expenses and adjusted operating income, adjusted operating margin in Q4 decreased by roughly 200 basis points relative to Q3 driven by increased investments in sales & marketing and R&D. Sales & marketing increased as a percentage of revenue as we expanded capacity, and incurred higher commissions related to strong sales. R&D expenses increased as we continue to ramp investments to take advantage of our leadership position in the market.

We have plans to continue to build upon our significant platform and data advantage, and expect to invest an incremental $30 million in R&D in 2021 relative to 2020 levels. Given the strength of our core platform, this incremental investment creates a meaningful opportunity to expand our target addressable market, and deliver new and expanded functionality to our customers. We expect this to further distance us from other point solutions available today, and drive more growth opportunities in the future.

Relative to Q4 2019, we also incurred greater G&A expenses, due to public company costs and investments in our internal infrastructure to sustain continued growth.

Turning to the balance sheet and cash flow, we ended the quarter with $302 million in cash, cash equivalents, and short-term investments. In the fourth quarter, we generated operating cash flows of $67 million, which were offset by our acquisitions of Clickagy and EverString. Operating cash flow also included approximately $10 million of interest payments in the quarter.

Unlevered free cash flow was $77 million for the fourth quarter, and $244 million for the full year. During the quarter, we booked a record amount of business, outperformed in terms of operating income, saw improvement in the mix of payment terms, and had strong collections … all of which combined to drive strong cash flow for the quarter and the year. Looking forward, we continue to model unlevered free cash flow conversation rates in the 90s as a percentage of Adjusted Operating Income.

With respect to liabilities and future performance obligations, unearned revenue at the end of the quarter was $223 million and Remaining Performance Obligations, or RPO, were $559 million, of which $432 million are expected to be delivered in the next 12 months. The acquisitions of Clickagy and Everstring combined contributed approximately one percent to total RPO.

As of December 31st, we carried $756 million in gross debt at a net leverage ratio of 1.9x 2020 Adjusted EBITDA, or 1.6x 2020 Credit Agreement EBITDA.

In January, we repaid part of our term loan and repriced the remainder in conjunction with issuing a new senior unsecured bond. We expect to reduce cash interest expense by approximately $3 million in 2021 as a result of this refinancing and increase our flexibility with respect to future potential capital needs. Additionally, we upsized our revolver from $100 million to $250 million, providing incremental liquidity for our business.

With that, I will provide our outlook for the first quarter and for the full-year 2021.

- For Q1, we expect GAAP revenue in the range of $144 to $146 million, and Adjusted Operating Income in the range of $61 to $63 million.
- Non-GAAP net income is expected to be in the range of $0.10 to $0.11 per share
- Our Q1 guidance implies a sequential growth rate of 6% at the midpoint, as adjusted for the days in each quarter, and an Adjusted Operating Income Margin of 43%.
- We are initiating full-year 2021 guidance with GAAP revenue of $645 to $655 million; and
- Adjusted Operating Income of $280 to $285 million;
- Non-GAAP net income for the year is expected to be $0.47 to $0.49 per share based on 405 million diluted weighted average shares outstanding; and
- We anticipate unlevered free cash flow to be $270 to $280 million.
- Our full-year guidance implies 37% revenue growth and an Adjusted Operating Income Margin of 43% at the midpoint of the range.

As you adjust your models, please keep in mind the following -

- Given our increased investments in sales & marketing capacity and R&D, we expect to maintain year-over-year top-line growth in excess of 30% through every quarter in 2021.
- We expect Q1 adjusted operating margins to be the lowest quarter of the year due to fewer days of revenue recognition and seasonal expense increases, with margins ramping steadily through the third quarter, before leveling off in Q4.
- We expect a reduction of stock-based compensation expense for the year of roughly 40% compared to 2020 as we anniversary the IPO, which triggered increased stock-based compensation charges.
- We expect depreciation and amortization, excluding amortization of acquired intangibles, to increase approximately 45% year-over-year and capital expenditures to increase in line with revenue growth.
- We also expect a non-GAAP tax rate of 20%, and a cash tax rate of 10% for the year.

Q4 was a strong finish to our first year as a publicly-traded company. We are very confident as we enter 2021, that we can continue to deliver a leading combination of revenue growth and profitability.

Now, let me turn it over to the operator for questions.