ZoomInfo First Quarter Financial Results Conference Call Prepared Remarks
5/3/2021

Jerry Sisitsky, Vice President Investor Relations:

Thanks Carmen. Welcome to ZoomInfo's financial results conference call, highlighting our results for the first quarter of 2021. 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 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 investor relations website.

Lastly, we plan to be at a number of conferences and investor events over the course of the quarter, including our inaugural analyst / investor day event which we are hosting in a virtual format on Monday June 14th beginning at 3:00 pm Eastern Time. This event coincides with our first ever user conference that we are also hosting that week. Please save the date, more details and registration information will be available through our investor relations website over the coming weeks. We look forward to your participation.

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

Henry Schuck, Founder and CEO:

Thank you Jerry, and welcome everyone.

INTRODUCTION AND OVERVIEW

The first quarter was marked by strong accelerating growth across all of our business lines. We delivered GAAP revenue of $153 million representing 50% year-over-year growth, and 12% sequentially, when adjusted for the number of days in the quarter. Adjusted operating income was $66 million, representing an operating margin of 43%.

These results were driven by dependable execution across the entire company, from new business to product development to retention. Our focus on continuous improvement as a core cultural value and the execution we build on top of that has allowed us to deliver our near-term financial results consistently, while setting us up for long-term durable growth.

We had strong results across all areas of the business, and I want to specifically call out that we achieved our best-ever Q1 results this quarter on three dimensions:

1. New business;
2. New customer additions; and
3. Retention activity.

We doubled the number of new customers added this quarter compared to Q1 2020. We also had record renewals and upsells as a percentage of beginning ACV for a first quarter as we saw demand for our products continue to accelerate with companies looking to drive a digital, data-driven go-to-market motion.

While we continue to deliver on the near term promise of this business, exceeding our quarterly financial guidance, and raising our full year guidance, it is the conversations I'm having with customers and prospects that makes me confident that our long-term opportunity is even bigger than what we had first envisioned.

EXPANDING VISION

When we founded ZoomInfo, sellers and marketers desperately needed a better view of their potential customers, and we were a world-class provider of company and contact data that could help solve that problem. Our data was, and still is today, a mission critical need for businesses. Since then, we've innovated and invested hundreds of millions of dollars behind that data asset, continuing to drive material improvements in the way we gather, normalize, match and cleanse that data with the use of AI and Machine Learning, and leveraging that as the foundation of our fully scalable platform that powers the digitization of how companies go-to-market - from sales to marketing to account management; from the top of the funnel to the bottom of the funnel, and from New Sales, to Upsells and Cross-Sells, to Renewals.

Our platform starts with our market-leading and highly accurate data layer, delivers critical sales insights and signals, automates best actions with our next generation workflow software and our tightly integrated activation layer, Engage. This integrated suite of data and software helps businesses of all sizes and across all industries activate targeted opportunities in an efficient, scalable, and repeatable way.

As we continue to invest in automating workflow, expanding the coverage and quality of the data we publish, and leveraging that data asset across our platform's application stack, we are building a wider and wider moat around the company.

As our data and platform grows, so does the addressable market where our solutions are making an impact. Today, we not only help salespeople and marketers, but we also help recruiters and data, operations and technology teams. We not only work with small and mid-size companies across the United States, but also serve enterprise companies around the Globe. At our analyst day later this quarter, we anticipate providing a more granular and detailed view into our plans to target this large and growing market.

HIGHLIGHTS AND GROWTH DRIVERS

The quarter included new and expansion transactions from a diverse group of customers across a broad spectrum of industries, from clean energy companies like Dvinci Energy, to direct to consumer firms like Keurig, Uber, Varidesk, and the Carolina Panthers. Even at a company that appears to be consumer only, if you look a little further, you'll almost always find a growing B2B motion there. We also brought on Experian, Hire Works, and IDC. And a great customer story comes from Modern Chemical, which shifted from a growing and successful cold brew distributor to a provider of hand sanitizers sold directly to businesses in the middle of the pandemic. We're lucky to work with firms of all sizes, from all industries, but we're especially proud to provide our solutions to companies that are able to leverage our data, technology, and insights to drive growth in new and unknown markets with entrenched competitors. Our platform levels the playing field for how these companies are able to acquire their next customers.

We also continued to successfully execute our large and growing enterprise opportunity, with a focus on driving more from the greater than $1 billion of seat expansion opportunity we've identified within our existing enterprise customers. Increasingly, our platform is becoming the strategic imperative for large organizations looking to transform their CRMs from a system of record to a system of insights. This imperative and strategy is driven from the C-Suite and has opened the door to meaningful conversations for us across the Enterprise while also leading to larger, more transformational engagements. This quarter we closed one of our largest ever transactions — a multi-year, eight figure deal — while we also more than doubled the additions to the greater than $100 thousand ACV cohort year-over-year. As of March 31, we had more than 950 customers with $100 thousand or more in ACV, up from more than 850 last quarter. While others trying to target the Enterprise opportunity are still using FTP sites to manually drop and enhance files, we released our new API webhooks, allowing our customers to programmatically receive a continuous stream of our data and insights, technology that is a full generation ahead of FTP enrichment and a material improvement to the more modern request and response method. This new functionality allows us to deliver more value to enterprises and better target the Data-as-a-Service opportunity that we are uniquely positioned to win in following our acquisition and integration of EverString.

Additionally, during the quarter we added more resources to capitalize on the growing international opportunity, where we saw new customers join us from Dubai, Sydney, Vienna, Rio De Janeiro, Helsinki, and Berlin to name a few. March was our strongest month ever in our international segment, with increasing win rates and demand across Europe, and accelerating traction in the UK, Ireland, Australia, New Zealand, and Canada. International revenue grew 14% on a days adjusted sequential quarter basis as we continue to see our international customers embrace data to drive efficiencies in their sales and marketing processes.

PRODUCT AND CUSTOMER ENGAGEMENT

On the product side, our investment to deepen our integration with Salesforce is paying off with rapidly increasing adoption of our new Salesforce Sync capability. This capability allows users to marry first party Salesforce data directly into ZoomInfo filters - from account data, to lead and contact data, and now opportunity data. We saw a more than eightfold increase in the number of accounts that have enabled this bi-directional sync.

Our sales engagement and automation platform Engage also continues to accelerate. Engage ACV doubled compared to Q4 2020, and we are seeing a 25% increase in user adoption of the core ZoomInfo platform when customers combine the use of ZoomInfo and Engage. We also see the benefits of this adoption within our retention and renewal numbers where customers who are dual users of Engage and ZoomInfo have materially higher renewal and retention rates than those who are ZoomInfo only customers. This is one of the most exciting things about the Engage platform: It has multi-area benefits. Customers buy Engage, which increases adoption of both Engage and ZoomInfo. And investment behind Engage has material benefits across our Recruiter and International packages, where that product is a built-in offering.

This quarter we significantly expanded the integration points between Engage and the ZoomInfo platform, enhancing the ability to search and import contacts from ZoomInfo and Salesforce into Engage and allowing users to configure target market buyer personas to receive an automated feed of recommended contacts to pursue. More than 40% of active users have used these features just one month after release. We are also integrating in our Salesforce Sync capability enabling customers to automatically synchronize Salesforce data in Engage, while we're adding additional integrations into CRM and marketing tools like Hubspot, and building out enhanced administrative and managerial controls within our platform.

Our customers also continue to adopt a broad spectrum of our market leading solutions, including our B2B Intent data, which gets them closer to in-market buyers by building automated workflows around intent spikes on topics relevant to their products and services. These data-driven motions have fueled a significant increase across our intent products, with intent ACV doubling year-over-year. Our InboxAI product — which automates the creation and enrichment of contact, lead, and activity data from a sellers inbox directly into CRM — tripled year-over-year.

And from an overall platform engagement perspective, we saw 12% sequential increases in monthly and daily active user adoption demonstrating our ability to scale users while also increasing their usage and adoption of our platform.

The market reaction to our platform continues to be incredibly positive. Since our last earnings call, ZoomInfo was named a Leader by Forrester Research in The Q2 2021 Forrester Wave™ for B2B Marketing Data Providers, receiving the highest possible scores in 18 categories, including data security and privacy; data acquisition and processing; integrations, APIs, and applications; sales support; solution packaging and pricing; and product roadmap and vision.

Forrester stated that: "ZoomInfo is a best fit for organizations looking for a comprehensive data solution with an expanding array of complementary applications built on a shared data foundation."

On top of that, we also received 26 number one placements from G2, and we earned the TrustRadius top-rated award for sales intelligence software for the fourth consecutive year.

Finally, we attained GDPR and CCPA practices validation from TrustArc. The months-long process to achieve this validation included deep audits of our privacy practices and reinforces both our data privacy leadership and our focus on being privacy forward to earn the trust of our customers.

CLOSING

Over the last 12 months, we grew our team by nearly 50%. While we have spent the last year working from home, our focus on improving ourselves 1% every day has continued to drive an incredible amount of internal mobility as our employees challenge themselves to master new skills. From promotions to cross-functional moves, the opportunities for career advancement at ZoomInfo far outpace the industry average. We encourage every member of our team to embrace new responsibilities to achieve both personal and professional growth.

And our employees are looking forward to getting into the office, many for the first time ever, and meeting their teammates in person. We plan to begin returning to the office in July and I am excited to be able to gather in-person with colleagues again as we are preparing our offices around the world to accommodate a hybrid return-to-work model. I am confident that this team will continue to define new possibles when we are all innovating, collaborating, and learning together in person again.

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

Cameron Hyzer, CFO:

Thanks Henry.

Q1 was a great quarter, with strong financial results that exceeded our guidance. We saw broad-based strength across the business, and as Henry indicated, we achieved our best-ever Q1 results for new business; new customer additions; and retention activity. This quarter was also highlighted by our successful expansion with enterprise customers, growing sales of our newer products, and strong international growth. As a result we are raising our outlook for the year, and now expect to deliver revenue growth of 41% in 2021, up from our prior guidance of 36% at the midpoint. We are also guiding to Adjusted Operating Income in the range of $290 to $294 million, up from our prior guidance of $280 to $285 million.

In Q1, we delivered GAAP revenue of $153 million. This exceeded our $144 to $146 million revenue guidance range, and represents 50% year-over-year growth, and 12% sequential growth, as adjusted for days in the quarter. In the first quarter, adjusted operating income was $66 million. This also exceeded our guidance range of $61 to $63 million, and represents a margin of 43%.

During the first quarter, we continued to see strong new customer additions, and positive momentum with respect to retention and upsell activity. We also continued to successfully execute against the large and growing enterprise opportunity. We had strong enterprise renewals and our enterprise upsell motion is really hitting its stride. In the quarter we doubled the number of greater than $100k ACV customers added as compared to the year ago period. As a result, as of March 31st, we had more than 950 customers with $100 thousand or more in ACV, up from more than 850 last quarter. We also continue to expand beyond software and business services, with particular strength in finance, insurance, real-estate, and manufacturing verticals.

Additionally, during the quarter we added more resources to capitalize on the growing international opportunity, which resulted in days adjusted sequential quarter international revenue growth of 14%. With international revenue growing faster than the overall business, we now have over 10% of our revenue coming from international markets.

As we invest in additional growth vectors, our focus remains on delivering durable revenue growth and absolute levels of adjusted operating income, as a result, as we drive elevated levels of growth there is the potential that margins may be impacted.

As I have outlined in the past, calculated billings and RPO can be imprecise metrics with noise obscuring the signal of in-period activity. As a result, we focus on days adjusted sequential revenue growth, which is the growth in total revenue divided by the days in the quarter, compared to the prior quarter. We delivered 12% days adjusted sequential revenue growth in the first quarter, strong results relative to our first quarter expectations, and great momentum for the remainder of the year. This performance provides further confidence in our ability to raise our guidance for 2021.

As we move onto expenses, we increased our investment in research and development in the quarter, as planned, investing to expand our data advantage, and further extend the workflow and activation capabilities of our platform. We also continued to increase sales and marketing capacity to go after the large and expanding market opportunity. As a result, in Q1, we delivered adjusted operating income margins of 43%, in line with guidance.

Turning to the balance sheet and cash flow, we ended the quarter with $356 million in cash, cash equivalents, and short-term investments. In the first quarter, we generated operating cash flows of $93 million, which included approximately $7 million of interest payments in the quarter.

As I indicated in our last call, we repaid part of our term loan and re-priced the remainder while issuing a new senior unsecured bond in the first quarter, contributing to the $34 million in cash used for financing activities. We expect those transactions will reduce our cash interest expense by approximately $3 million in 2021.

Unlevered free cash flow was $98 million for the quarter, almost 150% of Adjusted Operating Income, as both billings and collections were strong in the quarter. Looking forward, we anticipate unlevered free cash flow conversion rates in the high 90s or 100s as a percentage of Adjusted Operating Income on an annual basis.

With respect to liabilities and future performance obligations, unearned revenue at the end of the quarter was $262 million and Remaining Performance Obligations (or RPO) were $592 million, of which $461 million are expected to be delivered in the next 12 months.

As of March 31st, we carried $750 million in gross debt at a net leverage ratio of 1.6x trailing twelve months Adjusted EBITDA, or 1.2x trailing twelve months Credit Agreement EBITDA.

Lastly, before we turn to guidance, I would like to welcome Prasadh Cadambi to the team. We announced that Prasadh was joining the company as chief accounting officer in October, and since then he's helped his clients at KPMG get through year-end before joining us in March. He has led engagements with some of the largest software and subscription companies in the world, including Adobe and Salesforce.

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

- For Q2, we expect GAAP revenue in the range of $161 to $163 million, and Adjusted Operating Income in the range of $68 to $70 million.
- Non-GAAP net income is expected to be in the range of $0.11 to $0.12 per share
- Our Q2 guidance implies year-over-year revenue growth of 46% at the midpoint, and an Adjusted Operating Income Margin of 43%.

We are updating our full-year 2021 guidance as follows:

- We now expect GAAP revenue in the range of $670 to $676 million, an increase from our prior guidance of $645 to $655 million; and
- Adjusted Operating Income of $290 to $294 million, an increase from our prior guidance of $280 to $285 million;
- Non-GAAP net income for the year is expected to be $0.49 to $0.50 per share, an increase from our prior guidance of $0.47 to $0.49 per share, both amounts based on 405 million diluted weighted average shares outstanding; and
- We anticipate unlevered free cash flow to be in the range of $290 to $295 million, an increase from our prior guidance of $270 to $280 million.
- Our full-year guidance implies 41% revenue growth.

With that, let me turn it over to the operator to open up the call for questions.