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Part of the **This is nuts. When's the crash?** series

Zoom is nuts, when's the crash?



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By: **Jamie Powell**

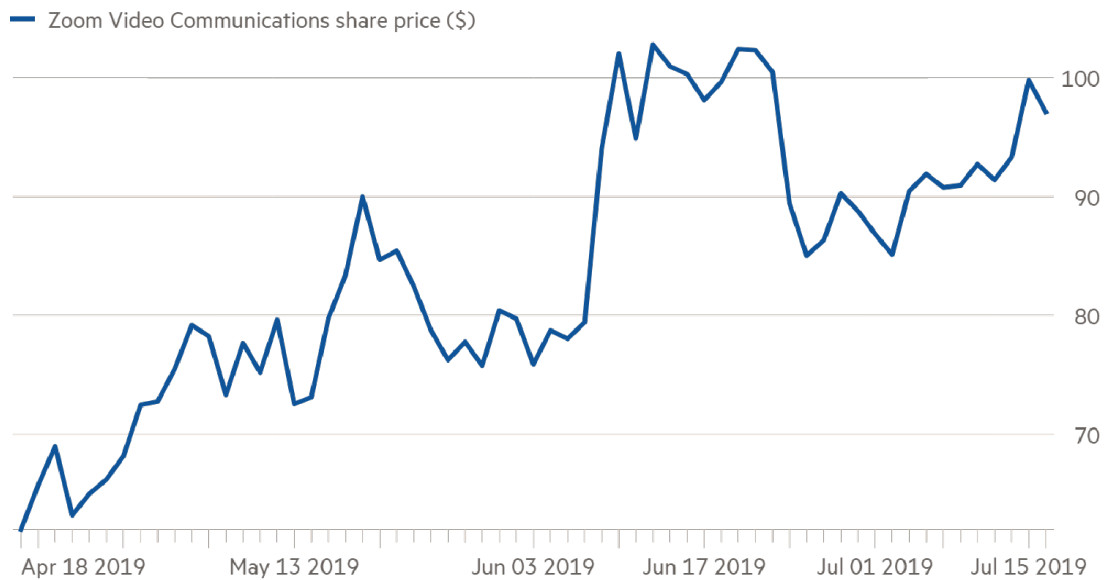
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Zoom Video Communications, a company that offers, err, video communication tools for businesses, is one of this year's best performing initial public offerings.

Since it [listed at \\$36 \(https://www.ft.com/content/3a97a664-6159-11e9-b285-3acd5d43599e\)](https://www.ft.com/content/3a97a664-6159-11e9-b285-3acd5d43599e) in April, its shares have appreciated 170 per cent, up to \$97.10 at Tuesday's close.

Zoom, Zoom, Zoom, I want you in my boardroom

Zoom's share price since its April 2019 listing



Source: S&P Capital IQ
© FT

Its enterprise value now stands at a whopping \$26bn. That's around 62 times forward revenue, according to data from S&P Capital IQ.

For comparison, this would have made it the most expensive SAAS — software as a service — company on the market in late March, when its [cloud-king cohorts](https://ftalphaville.ft.com/2019/03/27/1553662858000/The-cloud-software-kings-are-nuts--when-s-the-crash-/) (<https://ftalphaville.ft.com/2019/03/27/1553662858000/The-cloud-software-kings-are-nuts--when-s-the-crash-/>) traded at an average of just 13.2 times revenue. Which, by itself, is nuts.

Yet Zoom's nebulous valuation isn't the only sign of market madness.

From its [S-1 filing](https://www.sec.gov/Archives/edgar/data/1585521/000119312519083351/d642624ds1.htm#toc642624_7) (https://www.sec.gov/Archives/edgar/data/1585521/000119312519083351/d642624ds1.htm#toc642624_7) (with our emphasis):

Video has increasingly become the way that individuals want to communicate in the workplace and their daily lives. As a result, it has become a fundamental component of today's communication and collaboration market, which also includes integrated voice, chat and content sharing. IDC has defined this market as Unified Communications and Collaboration. **Within this market, we address the Hosted / Cloud Voice and Unified Communications, Collaborative Applications and IP Telephony Lines segments.** IDC estimated

that these segments combined represent a \$43.1 billion opportunity in 2022.

So Zoom is worth \$26bn when its total addressable market in 3 years is estimated to be \$43bn. (H/t to [Zach Abraham \(https://twitter.com/KYRRadio\)](https://twitter.com/KYRRadio) for pointing this out on Twitter.)

That implies the discounted value of the future cash flows to Zoom shareholders is worth around 60 per cent of its entire market.

OK, it's not quite as simple as that, we know. The addressable market could continue to expand past 2022, and investors don't back businesses like Zoom for its status in three years, but in a decade. A time when, investors hope, every seat in a company is hooked up to the Zoom ecosystem and cash flow runs free.

Still, for a company that made just \$9.7m in free cash flow last year, future projections of such market dominance, at the moment, does feel like a stretch.

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