



Fourth Quarter and Full Year 2019 Earnings Presentation

February 18, 2020

Safe Harbor

Caution Concerning Forward-Looking Statements

Various remarks that the Company makes contain forward-looking statements, including statements about the outcome and timing of the strategic review of consumer and operational review, including whether or not the reviews result in a transaction and if so the nature and timing of any such transaction, our business transformation, financing activity, growth priorities or plans, revenues, adjusted OIBDA, churn, seats, lines or accounts, average revenue per customer, cost of communications services, capital expenditures, new products and related investment, and other statements that are not historical facts or information, that constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. In addition, other statements in this press release that are not historical facts or information may be forward-looking statements. The forward-looking statements in this release are based on information available at the time the statements are made and/or management's belief as of that time with respect to future events and involve risks and uncertainties that could cause actual results and outcomes to be materially different. Important factors that could cause such differences include, but are not limited to: the competition we face; the expansion of competition in the cloud communications market; risks related to the acquisition or integration of businesses we have acquired; our ability to adapt to rapid changes in the cloud communications market; the nascent state of the cloud communications for business market; our ability to retain customers and attract new customers cost-effectively; developing and maintaining market awareness and a strong brand; developing and maintaining effective distribution channels; security breaches and other compromises of information security; risks associated with sales of our services to medium-sized and enterprise customers; our reliance on third-party hardware and software; our dependence on third-party vendors; system disruptions or flaws in our technology and systems; our ability to comply with data privacy and related regulatory matters; our ability to scale our business and grow efficiently; the impact of fluctuations in economic conditions, particularly on our small and medium business customers; the effects of significant foreign currency fluctuations; our ability to obtain or maintain relevant intellectual property licenses or to protect our trademarks and internally developed software; fraudulent use of our name or services; restrictions in our debt agreements that may limit our operating flexibility; our ability to obtain additional financing if required; retaining senior executives and other key employees; intellectual property and other litigation that have been and may be brought against us; rapid developments in global API regulation and uncertainties relating to regulation of VoIP services; risks associated with legislative, regulatory or judicial actions regarding our business products; reliance on third parties for our 911 services; liability under anti-corruption laws or from governmental export controls or economic sanctions; actions of activist shareholders; risks associated with the taxation of our business; governmental regulation and taxes in our international operations; our history of net losses and ability to achieve consistent profitability in the future; our ability to fully realize the benefits of our net operating loss carry-forwards if an ownership change occurs; risks associated with the settlement and conditional conversion of our Convertible Senior Notes; potential effects the capped call transactions may have on our stock in connection with our Convertible Senior Notes; certain provisions of our charter documents; and other factors that are set forth in the "Risk Factors" section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and amendments to these reports. While the Company may elect to update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, and therefore, you should not rely on these forward-looking statements as representing the Company's views as of any date subsequent to today.

Non-GAAP Financial Measures

This presentation contains non-GAAP financial measures (including adjusted operating income before depreciation and amortization ("adjusted OIBDA"), adjusted OIBDA minus capex, constant currency, net debt (cash), free cash flow, adjusted business revenue and adjusted business service revenue) as defined in Regulation G adopted by the SEC. The Company provides a reconciliation of these non-GAAP financial measures to the most directly comparable financial measure at the end of the presentation and in the Company's quarterly earnings releases, which can be found on the Vonage Investor Relations website at <http://ir.vonage.com>.

Fourth Quarter and Full Year 2019 Highlights

- Grew Fourth Quarter Consolidated revenues to \$310 Million, up 13% Y/Y
 - Business revenues of \$218 Million, up 28% Y/Y
 - Business Service revenues of \$196 Million, up 32% Y/Y
 - On an Adjusted¹ basis, Vonage Business Service revenues grew 24%, or 26% in constant currency
- Increased Full Year 2019 Consolidated revenues to \$1.19 Billion, up 13% Y/Y
 - Business revenues of \$804 Million, up 32% Y/Y
 - Business Service revenues of \$720 Million, up 37% Y/Y
 - On an Adjusted¹ basis, Business Service revenues grew 22%, or 24% in constant currency
- Executed on strategic initiatives in the Business segment
 - Mid-Market & Enterprise (MME) Applications revenue growth accelerated, driven by improved bookings mix
 - API Platform continued strong growth and increased traction in high value products
- Given the scale and growth of Business segment, announcing strategic review of Consumer segment
 - FY 2020 guidance indicates Consumer segment revenues will be less than 25% of Consolidated revenues
 - Goal is to maximize shareholder value

2019 Strategic Actions



- Moved to owned solutions across the entire technology stack
- Continued investment in a highly focused go-to-market approach
- Launched the revitalized Vonage brand, creating a single global identity
- Increased investments in product innovation & platform enhancement

Leveraged Vonage's combined platform and full suite of cloud communications solutions to address a ~\$60 billion market opportunity

Earned Recognition from Industry Analysts



Leader - CCaaS Magic
Quadrant for Western Europe

Visionary - CCaaS Magic
Quadrant for North America



Leader - Marketscape for
Cloud Communications
Platforms

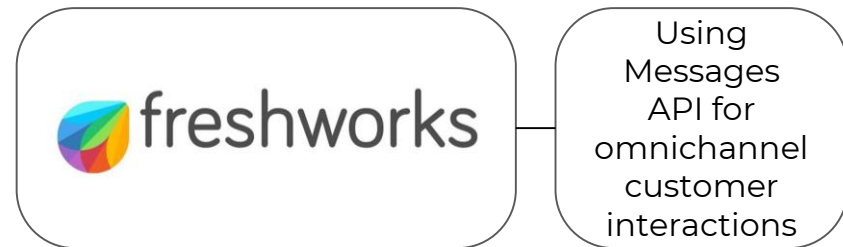
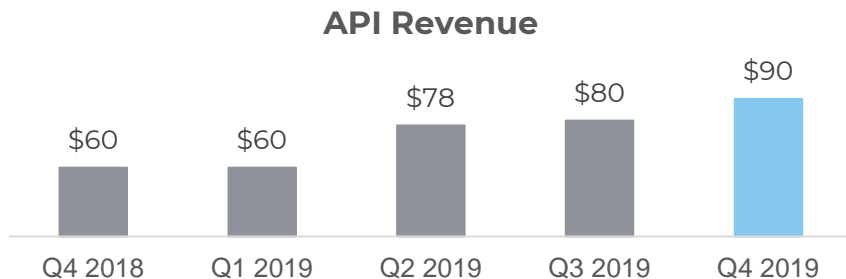


Innovation and Growth Leader
- Global Radar for CPaaS

CPaaS Provider of the Year
for Asia-Pacific (APAC)

API Platform Showing Continued Strength

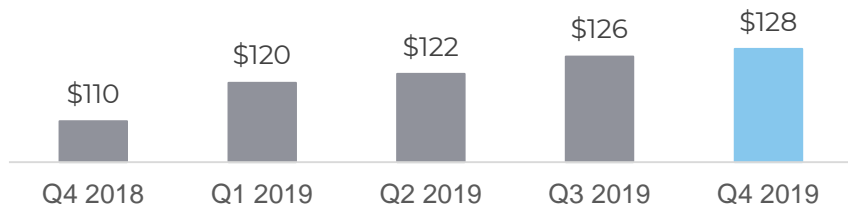
- Q4 2019 revenues of \$90 million **increased 50%**
- Grew **high value API revenue** (including video, IP messaging and voice) at **~2x the overall rate** in Q4 2019
- Continued to improve **enterprise-focused support tools** and go-to-market capabilities
- Ended Q4 2019 with **360 partners** and **940,000 registered developers** on the platform



Applications Gaining Upmarket Traction

- Q4 2019 Revenue from Mid-Market & Enterprise (MME) customers (>\$12K of ARR) **grew 14% Y/Y**, up from 12% in Q3 2019
- Q4 2019 Revenue from Enterprise customers (>\$120K of ARR) **grew 21% Y/Y**, up from 17% in Q3 2019
- Q4 2019 Bookings from Mid-Market & Enterprise (MME) customers represented **62% of total bookings**, up from 37% prior year quarter
- Channel-sourced bookings **grew nearly 100% Y/Y** in Q4 2019

Applications Revenue



	7-figure TCV UC win driven by platform capabilities
	7-figure TCV bundled win driven by Salesforce integration
	Enterprise sized bundled win driven by Salesforce integration

Financial Results

Q4 Revenues Exceeded Guidance

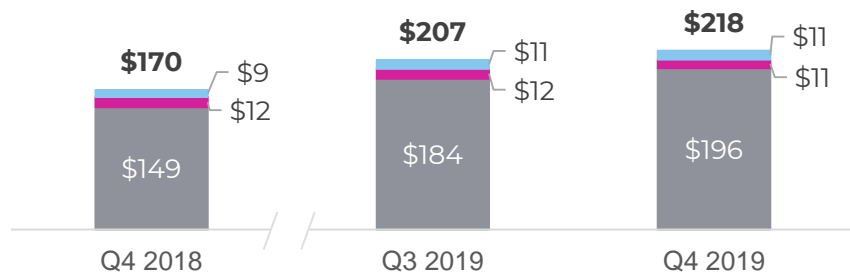
	Q4 2019 Guidance	Q4 2019 Results
Consolidated Revenues	\$304 to 307	\$310
Total Business Revenues	\$214 to 216	\$218
Total Consumer Revenues	\$90 to 91	\$92
Adjusted OIBDA ¹	\$43 to \$46	\$44

Business Segment Revenues

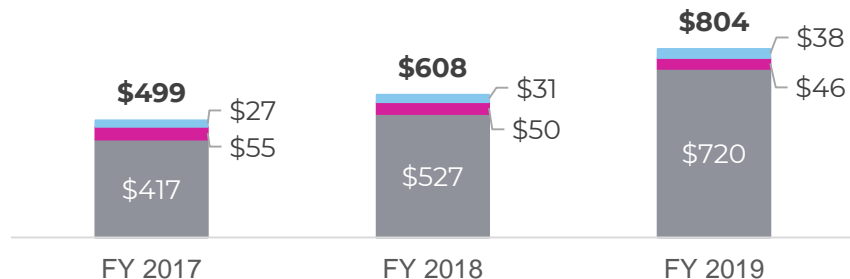
GAAP Business Revenues reflect acquisitions of TokBox on 7/31/18 and NewVoiceMedia on 10/31/18; adjusted growth rates reflect full-year ownership of these assets, and effects of significant one-time items



Quarterly



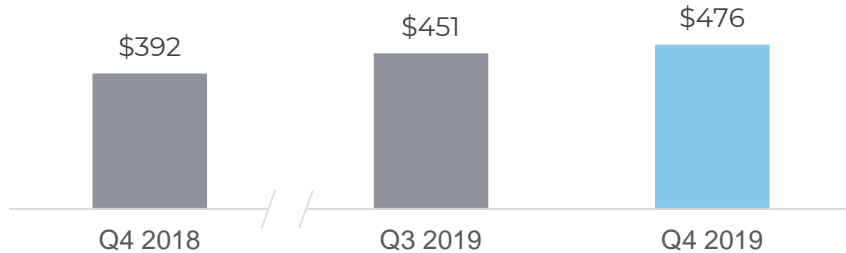
Annual



- Q4 2019 Business revenues increased 28% GAAP and 21% adjusted¹
 - Q4 2019 Business Service revenues grew 32% GAAP, 24% adjusted¹ and 26% adjusted¹, constant currency
- FY 2019 Business revenues increased 32% GAAP and 20% adjusted¹
 - FY 2019 Business Service revenues grew 37% GAAP, 22% adjusted¹ and 24% adjusted¹, constant currency

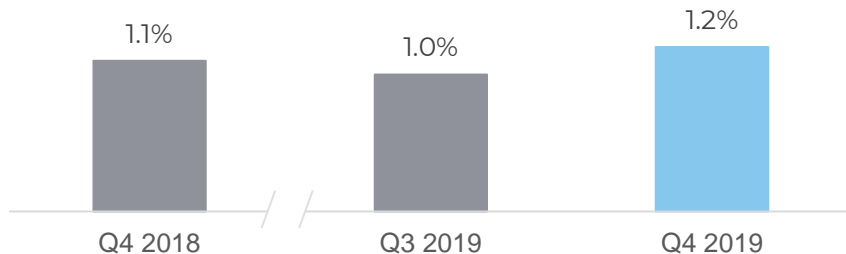
Business Segment KPIs

Monthly Business Revenue Per Customer



- Revenue per customer increased 21% year-over-year
 - Successful move upmarket in Applications
 - Strong existing customer growth in API

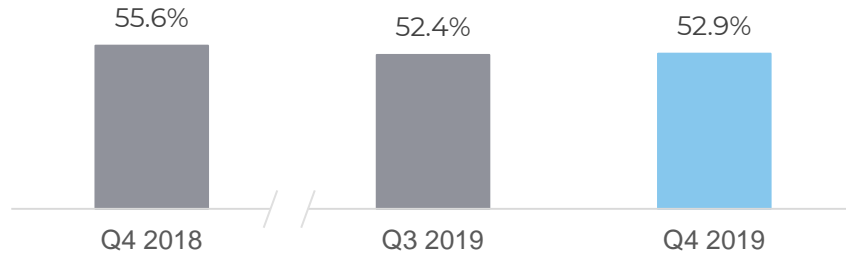
Monthly Business Revenue Churn



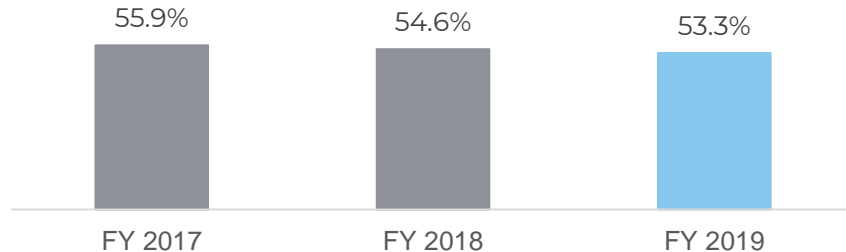
- Business Revenue churn increased 0.1% versus the prior year period
 - Churn increase was contemplated in Q4 guidance

Business Service Margin

Quarterly



Annual

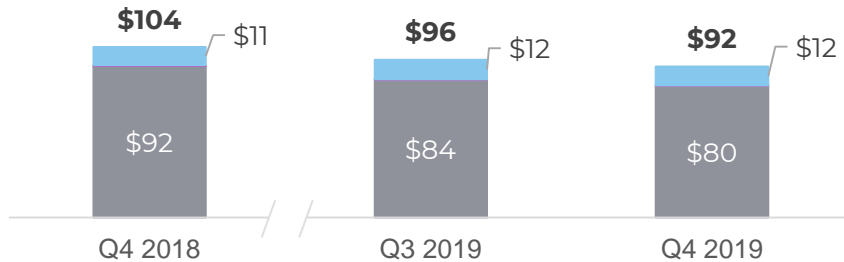


- Business Service Margin declined year-over-year due to product mix shift
 - Up sequentially due to increased margin across multiple products

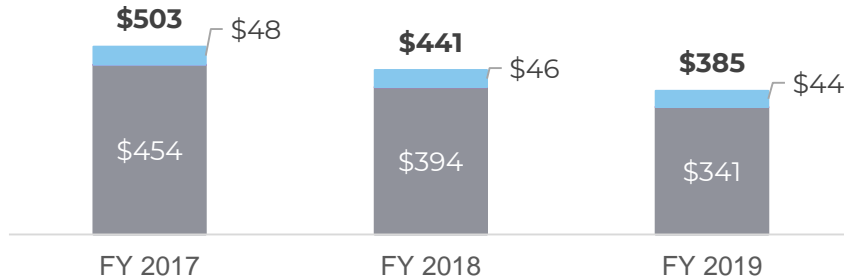
Consumer Segment Revenues



Quarterly



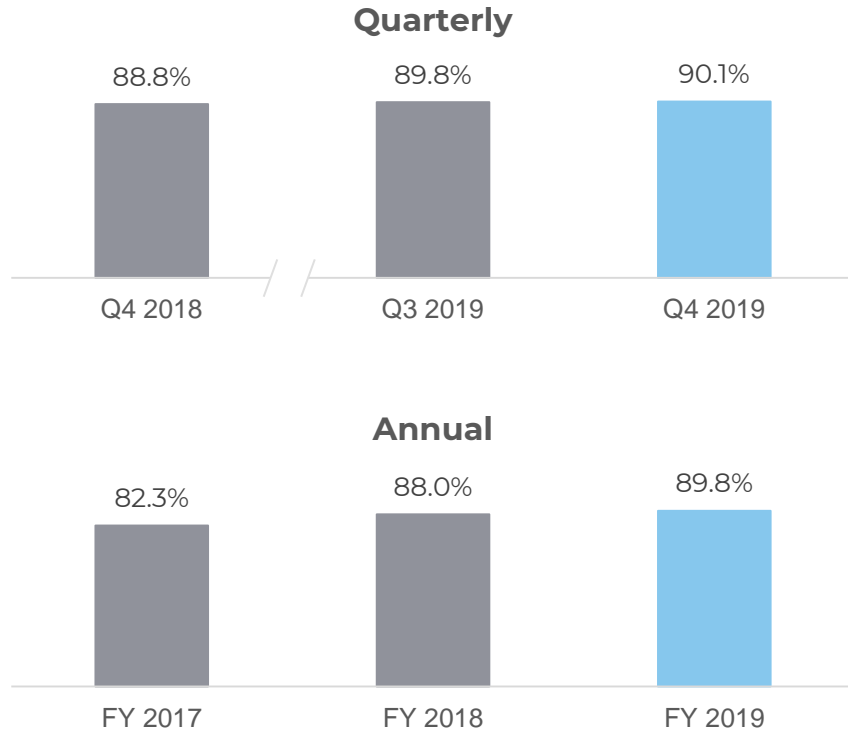
Annual



- Q4 2019 Consumer revenues decreased 11%
 - Revenue decrease better than expected due to ARPU stability and improved churn

- FY 2019 Consumer revenues decreased 13%

Consumer Service Margin



- Consumer Service Margin increased due to pricing actions and lower network cost allocation

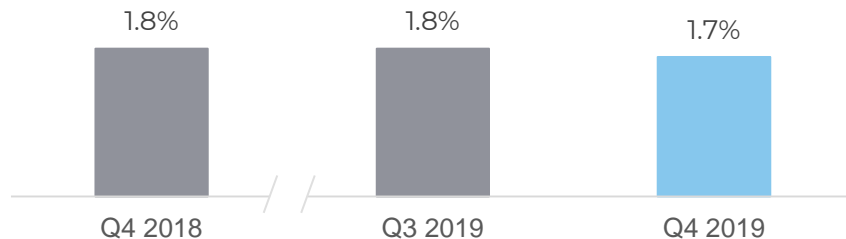
Consumer Segment KPIs

Monthly Consumer ARPU



- Average Revenue Per User up \$1.25 due to:
 - Higher USF fees (pass-through)
 - Selective pricing actions & maturity of the customer base

Monthly Consumer Customer Churn



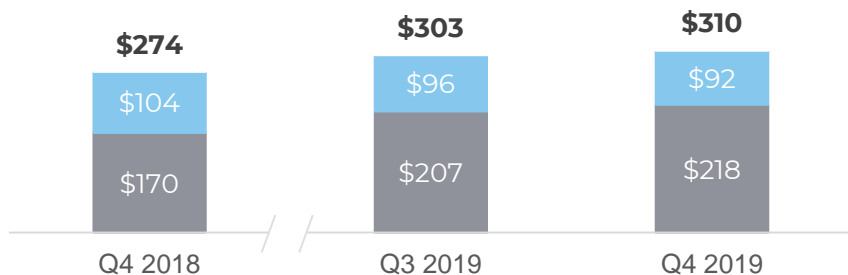
- Churn improved year-over-year to 1.7%

Consolidated Revenues

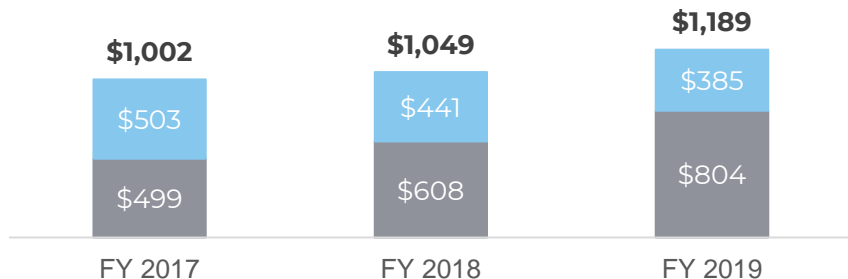
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Quarterly



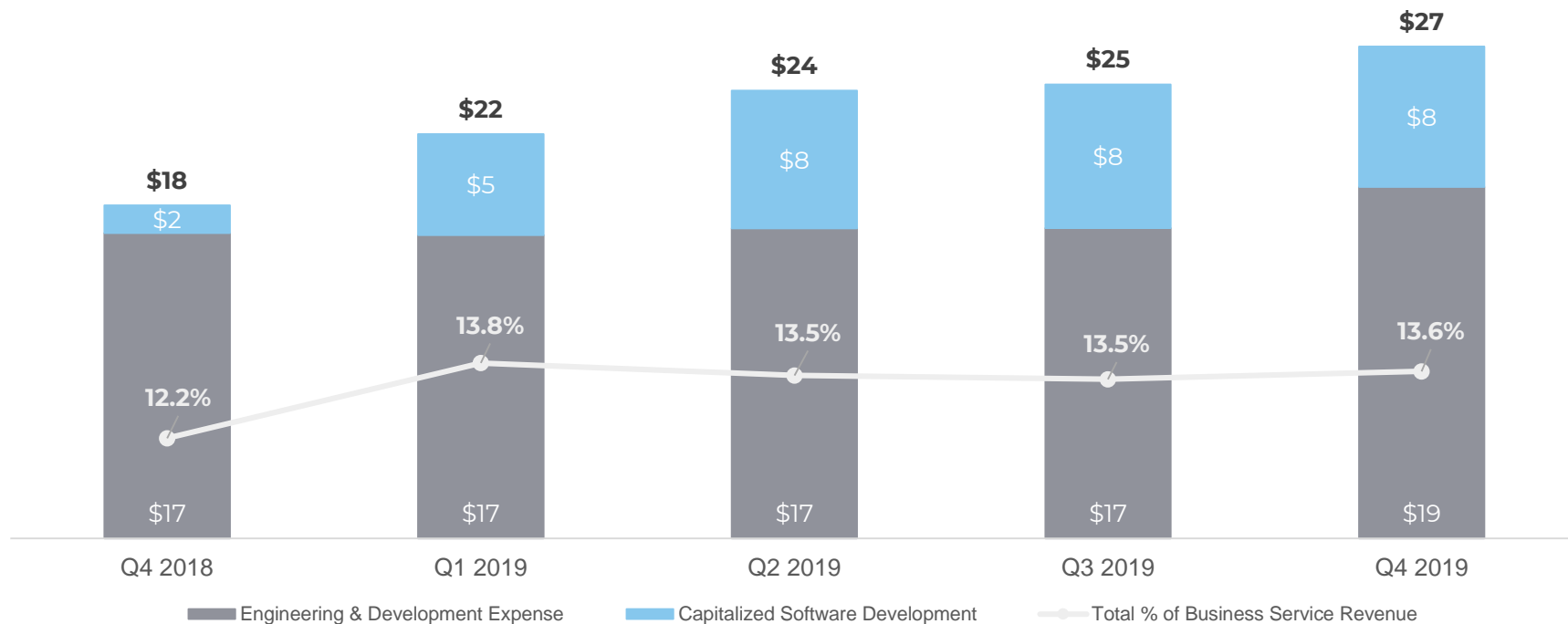
Annual



- Q4 2019 Consolidated revenues increased 13% GAAP and 9% adjusted¹

- FY 2019 Consolidated revenues increased 13% GAAP and 7% adjusted¹

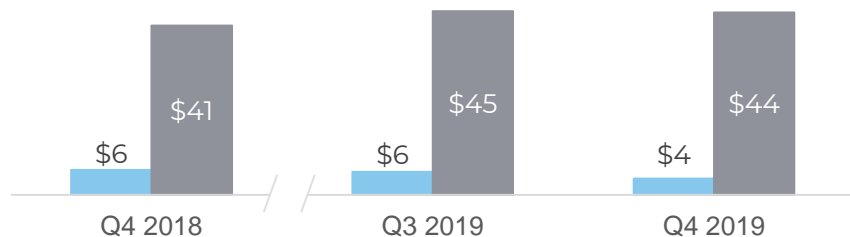
Total Investment in the Vonage Communications Platform



Operating Income and Adjusted OIBDA¹

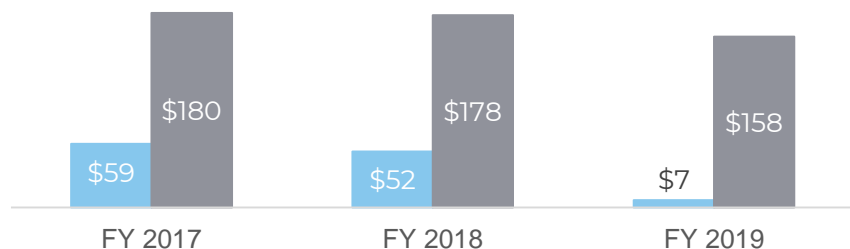


Quarterly



- Q4 2019 AOIBDA increased due to higher gross profit

Annual



- FY 2019 AOIBDA declined due to shifting segment revenue mix combined with impact of acquisitions, partially offset by higher Business segment gross profit

Cash Flow and Balance Sheet

Cash Flow (\$ in millions)	Q4 2019
Cash from Operations	\$33
Capital Expenditures, Software & Intangible Assets	(\$13)
Free Cash Flow ¹	\$20
<ul style="list-style-type: none">Cash:Gross Debt:Net Debt¹:Net Debt / LTM Adjusted OIBDA:Debt Maturities:	<ul style="list-style-type: none">\$24 million\$566 million\$542 million (Gross Debt less Unrestricted Cash)3.4x2023 & 2024

Q1 2020 Reporting and Disclosure Changes

Reporting

- Changing Adjusted OIBDA to Adjusted EBITDA
- Removing USF from revenue guidance and reviewing USF reporting structure to highlight operating revenue

Disclosure

- Moving customer subscription revenue references for Applications from MRR to ARR
- Providing more comparable customer retention metrics
- Offering Applications bookings color on the success of Mid-Market & Enterprise (MME) go-to-market shift

Guidance

	Q1 2020	FY 2020
Consolidated Revenues (ex-USF)	\$277 area	\$1,165 to \$1,185
Total Business Revenues (ex-USF)	\$200 area	\$875 to \$895
Total Consumer Revenues (ex-USF)	\$77 area	\$290 area
Adjusted EBITDA	\$32 area	At least \$155
Capital Expenditures		\$60 area

FY 2020 Ex-USF Guidance Comparison

	FY 2019 (ex-USF)	FY 2020 Guidance
Consolidated Revenues (ex-USF)	\$1,107	\$1,165 to \$1,185
Total Business Revenues (ex-USF)	\$766	\$875 to \$895
Adjusted Business Service Revenue Growth ¹	22%	16% to 18%
Total Consumer Revenues (ex-USF)	\$341	\$290 area

Q1 2020 Ex-USF Guidance Comparison

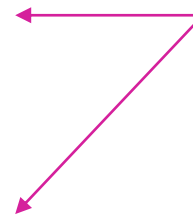
	Q1 2019 (ex-USF)	Q1 2020 Guidance
Consolidated Revenues (ex-USF)	\$260	\$277 area
Total Business Revenues (ex-USF)	\$171	\$200 area
Adjusted Business Service Revenue Growth ¹	20%	17% area
Total Consumer Revenues (ex-USF)	\$89	\$77 area

Appendix

2019-2020 USF Revenue Reconciliation

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2019	Q1 2020	FY 2020
Business:							
Total Business Revenue ex-USF	\$171	\$192	\$196	\$207	\$766	\$200	\$885 ⁽²⁾
USF as-reported	\$9	\$8	\$10	\$11	\$38		
USF Pro forma (2019 approach) ⁽¹⁾						\$11	\$46
Total Business Revenue with USF	\$180	\$200	\$206	\$218	\$804		
Consumer:							
Total Consumer Revenue ex-USF	\$89	\$88	\$84	\$80	\$341	\$77	\$290
USF as-reported	\$10	\$10	\$12	\$12	\$44		
USF Pro forma (2019 approach) ⁽¹⁾						\$11	\$37
Total Consumer Revenue with USF	\$99	\$98	\$96	\$92	\$385		

2020 Guidance



Adjusted Business Revenues Reconciliation

	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Vonage Business Revenues (GAAP)	\$ 170.0	\$ 179.6	\$ 200.0	\$ 206.5	\$ 217.7
<i>Y/Y Growth Rate</i>	27%	31%	35%	34%	28%
Deferred Revenue Adjustment from Acquired Companies	\$ 2.2	\$ 2.5	\$ 1.6	\$ 0.8	\$ -
Revenue from Acquired Companies (Prior to Acquisition) Less Revenue from Divested Businesses ²	\$ 6.1	\$ -	\$ -	\$ -	\$ -
Outage Credits and Significant One-time Items	\$ 1.5	\$ -	\$ (0.4)	\$ -	\$ -
Vonage Business Revenues Adjusted for Acquisitions and Significant One-time Items	\$ 179.8	\$ 182.1	\$ 201.2	\$ 207.3	\$ 217.7
<i>Y/Y Growth Rate</i>	19%	17%	20%	20%	21%
Vonage Business Service Revenues (GAAP)	\$ 149.0	\$ 159.3	\$ 180.0	\$ 183.7	\$ 196.5
<i>Y/Y Growth Rate</i>	32%	37%	41%	37%	32%
Deferred Revenue Adjustment from Acquired Companies	\$ 2.2	\$ 2.5	\$ 1.6	\$ 0.8	\$ -
Service Revenue from Acquired Companies (Prior to Acquisition) Less Revenue from Divested Businesses ²	\$ 6.1	\$ -	\$ -	\$ -	\$ -
Outage Credits and Significant One-time Items	\$ 1.5	\$ -	\$ (0.4)	\$ -	\$ -
Vonage Business Service Revenues Adjusted for Acquisitions and Significant One-time Items	\$ 158.8	\$ 161.8	\$ 181.2	\$ 184.5	\$ 196.5
<i>Y/Y Growth Rate</i>	22%	20%	23%	21%	24%

Disaggregation of Business Revenues

	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Applications Revenues	\$ 110.2	\$ 119.7	\$ 121.9	\$ 126.2	\$ 128.0
API Platform Revenues	\$ 59.8	\$ 59.9	\$ 78.1	\$ 80.3	\$ 89.7
Business Revenues (GAAP)	\$ 170.0	\$ 179.6	\$ 200.0	\$ 206.5	\$ 217.7
<i>Y/Y Growth Rate</i>	27%	31%	35%	34%	28%
Applications Service Revenues	\$ 89.2	\$ 99.4	\$ 101.9	\$ 103.4	\$ 106.8
API Platform Service Revenues	\$ 59.8	\$ 59.9	\$ 78.1	\$ 80.3	\$ 89.7
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Adjusted Business Revenues Reconciliation

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<i>Y/Y Growth Rate</i>	32%	37%	41%	37%	32%
Less: API Platform Service Revenues	\$ 59.8	\$ 59.9	\$ 78.1	\$ 80.3	\$ 89.7
Applications Service Revenues	\$ 89.2	\$ 99.5	\$ 101.9	\$ 103.4	\$ 106.8
Deferred Revenue Adjustment from Acquired Companies	\$ 2.2	\$ 2.5	\$ 1.6	\$ 0.8	\$ -
Revenue from Acquired Companies (Prior to Acquisition) Less Revenue from Divested Businesses ²	\$ 6.1	\$ -	\$ -	\$ -	\$ -
Outage Credits and Significant One-time Items	\$ 1.5	\$ -	\$ (0.4)	\$ -	\$ -
Adjusted Applications Service Revenues	\$ 98.9	\$ 102.0	\$ 103.1	\$ 104.1	\$ 106.8
<i>Y/Y Growth Rate</i>	12%	13%	11%	8%	8%
Business Service Revenues (GAAP)	\$ 149.0	\$ 159.3	\$ 180.0	\$ 183.7	\$ 196.5
<i>Y/Y Growth Rate</i>	32%	37%	41%	37%	32%
Less: Applications Service Revenues	\$ 89.2	\$ 99.4	\$ 101.9	\$ 103.4	\$ 106.8
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Revenue from Acquired Companies (Prior to Acquisition) Less Revenue from Divested Businesses ²	\$ -	\$ -	\$ -	\$ -	\$ -
Outage Credits and Significant One-time Items	\$ -	\$ -	\$ -	\$ -	\$ -
Adjusted API Platform Service Revenues	\$ 59.8	\$ 59.9	\$ 78.1	\$ 80.3	\$ 89.7
<i>Y/Y Growth Rate</i>	42%	34%	42%	44%	50%

Business Revenue: Year-over-Year Growth Rates²

		Q4'18	Q4'19	FY'19
Business Revenues	GAAP	27%	28%	32%
	Adjusted	19%	21%	20%
	Adjusted (Constant Currency)		22%	21%
Business Service Revenues	GAAP	32%	32%	37%
	Adjusted	22%	24%	22%
	Adjusted (Constant Currency)		26%	24%
Applications Service Revenues	As Reported	21%	20%	30%
	Adjusted	15%	8%	10%
	Adjusted (Constant Currency)		9%	11%
API Platform Service Revenues	As Reported	50%	50%	47%
	Adjusted	25%	50%	43%
	Adjusted (Constant Currency)		53%	46%

Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 3. RECONCILIATION OF GAAP INCOME FROM OPERATIONS
TO ADJUSTED OIBDA AND TO ADJUSTED OIBDA MINUS CAPEX
(Dollars in thousands)
(unaudited)

	Three Months Ended			For the Years Ended	
	December 31, 2019	September 30, 2019	December 31, 2018	December 31, 2019 2018	
Income from operations	\$ 3,975	\$ 5,547	\$ 6,021	\$ 6,763	\$ 51,911
Depreciation and amortization	23,061	21,319	19,094	86,256	70,980
Share-based expense	13,090	12,941	9,330	45,242	33,020
Amortization of costs to implement cloud computing arrangements	680	411	—	1,362	—
Acquisition related transaction and integration costs	80	174	4,704	701	14,645
Acquisition related consideration accounted for as compensation	—	—	—	—	1,425
Organizational transformation ⁽¹⁾	3,347	3,317	689	14,533	4,331
Other non-recurring items ⁽²⁾	115	1,014	1,341	3,289	1,742
Adjusted OIBDA	<u>44,348</u>	<u>44,723</u>	<u>41,179</u>	<u>158,146</u>	<u>178,054</u>
Less:					
Capital expenditures	(4,847)	(5,970)	(8,345)	(20,273)	(19,032)
Intangible assets	(318)	—	—	(318)	—
Acquisition and development of software assets	(7,652)	(7,839)	(1,516)	(28,488)	(7,714)
Adjusted OIBDA Minus Capex	<u>\$ 31,531</u>	<u>\$ 30,914</u>	<u>\$ 31,318</u>	<u>\$ 109,067</u>	<u>\$ 151,308</u>

⁽¹⁾ Organizational transformation consists principally of costs in connection with exits of employees and facilities, system migration costs and certain professional related fees.

⁽²⁾ Other non-recurring items principally include certain litigation charges and other non-recurring project costs.

Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 6. FREE CASH FLOW
(Dollars in thousands)
(unaudited)

	Three Months Ended			For the Years Ended	
	December 31,	September 30,	December 31,	December 31,	
	2019	2019	2018	2019	2018
Net cash provided by operating activities	\$ 33,076	\$ 31,783	\$ 28,742	\$ 92,926	\$ 123,205
Less:					
Capital expenditures	(4,847)	(5,970)	(8,345)	(20,273)	(19,032)
Intangible assets	(318)	—	—	(318)	—
Acquisition and development of software assets	(7,652)	(7,839)	(1,516)	(28,488)	(7,714)
Free cash flow	<u>\$ 20,259</u>	<u>\$ 17,974</u>	<u>\$ 18,881</u>	<u>\$ 43,847</u>	<u>\$ 96,459</u>

VONAGE HOLDINGS CORP.
TABLE 7. RECONCILIATION OF NOTES PAYABLE, INDEBTEDNESS UNDER REVOLVING CREDIT FACILITY, AND CAPITAL LEASES TO NET DEBT
(Dollars in thousands)
(unaudited)

	December 31,	December 31,
	2019	2018
Current portion of notes payable	—	10,000
Convertible senior notes, net	276,658	—
Notes payable and indebtedness under revolving credit facility, net of current maturities	220,500	509,228
Unamortized debt related costs	7,108	772
Unamortized discount on debt	61,234	—
Gross debt	<u>565,500</u>	<u>520,000</u>
Less:		
Unrestricted cash	23,620	5,057
Net debt	<u>\$ 541,880</u>	<u>\$ 514,943</u>

Thank You