

A decorative graphic on the left side of the slide consisting of several downward-pointing chevrons. The chevrons are arranged in a staggered pattern and their color transitions from dark purple at the top to light blue at the bottom.

# Third Quarter 2020 Earnings Presentation

November 5, 2020

# Safe Harbor

## **Caution Concerning Forward-Looking Statements**

Various remarks that the Company makes contain forward-looking statements regarding acquisition integration, growth, growth priorities or plans, new products and related investment, revenues, adjusted EBITDA, churn, seats, lines or accounts, average revenues per customer, cost of communications services, new products and related investment, capital expenditures, and other statements that are not historical facts or information constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. The forward-looking statements 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; realizing the benefits of optimization and cost-saving initiatives; the impact of the COVID-19 pandemic; 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; the risk associated with developing and maintaining effective internal sales teams and 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 facilities, equipment, systems and services; 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; our dependence on third party vendors; the impact of fluctuations in economic conditions, particularly on our small and medium business customers; our ability to obtain or maintain relevant intellectual property licenses or to protect our trademarks and internally developed software; restrictions in our debt agreements that may limit our operating flexibility; our ability to obtain additional financing if required; our ability to raise funds necessary to settle conversion of the 2024 convertible senior notes; conditional conversion features of the convertible senior notes; the cash settlement of the convertible senior notes; the effects of the capped call transactions in connection with the convertible senior notes; fraudulent use of our name or services; intellectual property and other litigation that have been and may be brought against us; fraudulent use of our name or services; intellectual property and other litigation that have been and may be brought against us; reliance on third parties for our 911 services; uncertainties relating to regulation of business services; risks associated with legislative, regulatory or judicial actions regarding our business products; risks associated with operating abroad; risks associated with the taxation of our business; governmental regulation and taxes in our international operations; liability under anti-corruption laws or from governmental export controls or economic sanctions; our dependence on our customers' unimpeded access to broadband connections; foreign currency exchange risk; 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; certain provisions of our charter documents; and other factors that are set forth in the "Risk Factors" section and other sections of our 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**

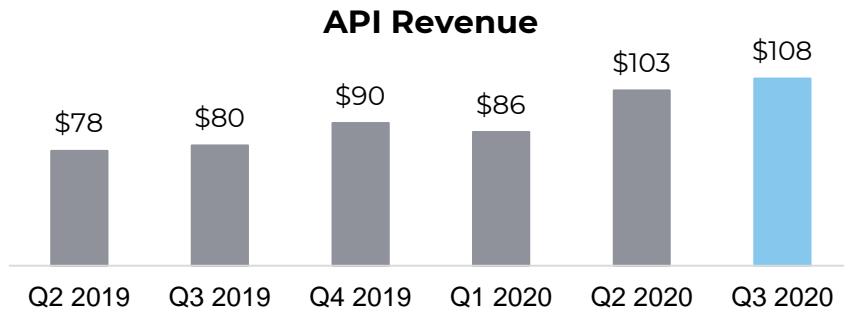
This presentation contains non-GAAP financial measures (including adjusted EBITDA, adjusted EBITDA minus capex, constant currency, net debt (cash), free cash flow), as defined in Regulation G adopted by the SEC. The Company provides a reconciliation of these non-GAAP financial measures to the most directly 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>.

# Third Quarter 2020 Highlights

- Grew Consolidated revenues to \$317 million, up 5%
  - Vonage Communications Platform revenues of \$234 Million, up 13%
  - Vonage Communications Platform Service revenues of \$218 million, up 19%
- Increased API revenues to \$108 million, up 35%
  - High-value revenue growth of 143% driven by continued strength in programmable video
- Grew Unified Communications and Contact Center Service revenues to \$110 million, up 7%
  - UC and CC Service revenues from midmarket and enterprise customers (>\$12K ARR) grew 13%
- Began a business optimization and alignment project to focus resources and drive improved operational execution
  - Expect to reduce operating expenses by at least \$8-10 million in Q4 2020 and approximately \$50 million in 2021
- Finalized Consumer business review
  - Working with advisors to begin a sale process in November

# Third Quarter API Highlights

- Revenues increased 35% Y/Y
- **Broad-based momentum** across technology, healthcare, education, e-commerce and entertainment verticals
- **High value API revenues** (including video, IP messaging and voice) increased 143% Y/Y
- **Travel and hospitality verticals improving**, but have not yet returned to pre-COVID levels



An industry-leading education technology provider

Video API

A leading European customer engagement platform

SMS API

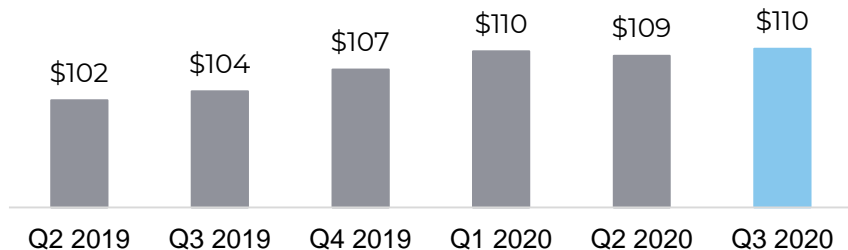
One of the world's largest cosmetics companies

Messages API integration with WhatsApp

# Third Quarter UC and CC Highlights

- Service Revenues increased 7% Y/Y
- Service Revenues from Mid-Market & Enterprise customers (>\$12K ARR) grew 13% Y/Y
- Signed 17 seven-figure TCV deals and average deal size increased 28% Y/Y
- 50% of Enterprise<sup>1</sup> wins included both UC and CC
- Total bookings declined Y/Y due to COVID-19 impact

**UC and CC Service Revenue**



7-figure TCV bundled win including UC and CC



CC win driven by Salesforce integration and future API implementation



\$100K+ ARR CC win via competitive RFP process

# Business Optimization and Alignment Project



## Reviewing & optimizing business operations...

- Streamlining processes and efficiently aligning talent and assets in critical areas
- Expect to reduce operating expenses by \$8-10 million in Q4 2020, and approximately \$50 million in FY 2021
- Q3 2020 restructuring charge of approximately \$15 million



## ... to deliver better financial results

- Creating strategic and operating plans for the next 2-3 years
- Goal of improving growth and profitability
- Focusing investments on innovation
- Investing in go-to-market initiatives to:
  - Strengthen Channel presence
  - Effectively market to all customers
  - Increase cross-sell and upsell

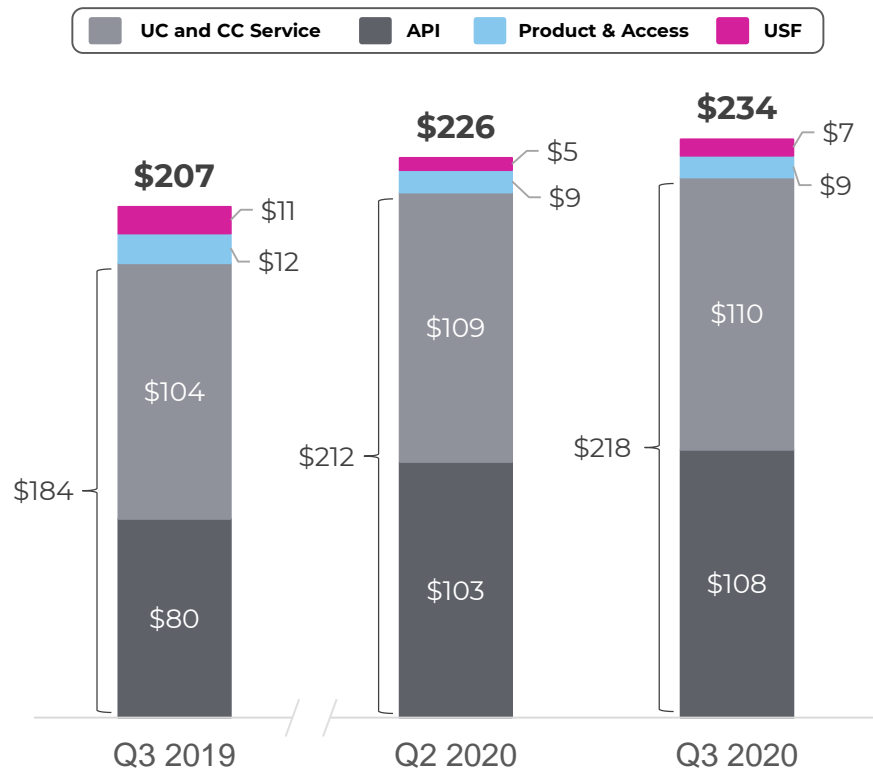
# Financial Results

# Third Quarter Results Exceeded Guidance

	Q3 2020 Results	Q3 2020 Guidance
Consolidated Revenues	\$317	\$307 to \$309
VCP Revenues	\$234	\$226 to \$228
Consumer Revenues	\$83	\$81 area
Net Loss	\$(10)	
Adjusted EBITDA <sup>1</sup>	\$42	\$36 area



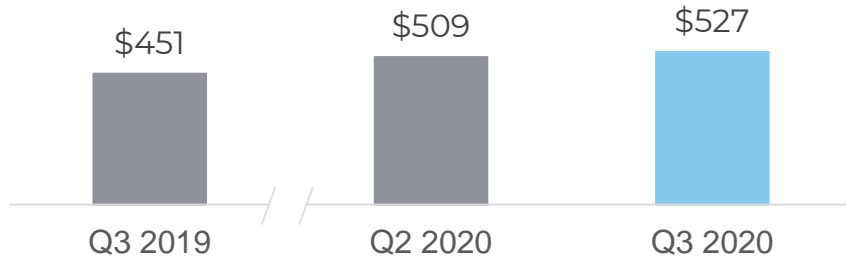
# Vonage Communications Platform Revenues



- VCP total revenues of \$234 million
  - VCP Service revenues of \$218 million grew \$34 million or 19%
  - USF revenues of \$7 million dollars decreased \$4 million
  - Product & Access revenues decreased \$3 million
- API revenues now represent 50% of VCP Service revenues
  - Up from 43% in the prior year quarter

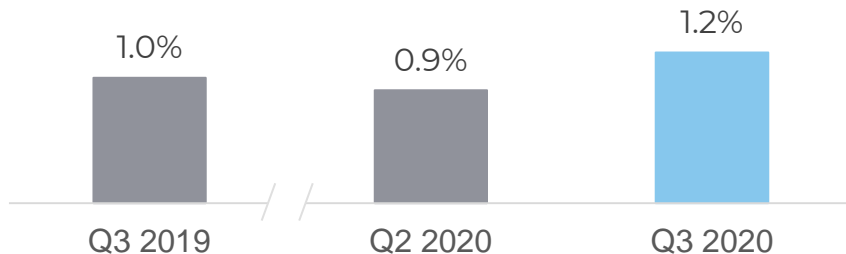
# Vonage Communications Platform KPIs

## Monthly Svc. Rev. Per Customer



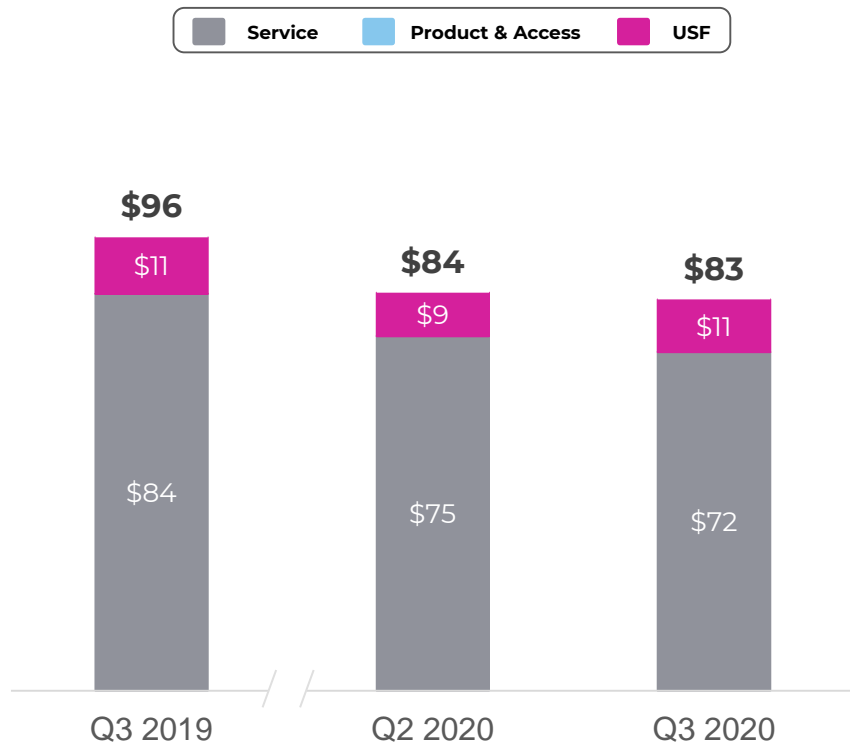
- Service Revenue per customer up 17% driven by:
  - Continued move upmarket in UC and CC

## Monthly Revenue Churn



- The increase in VCP Revenue churn was driven by anticipated churn of two contact center customers

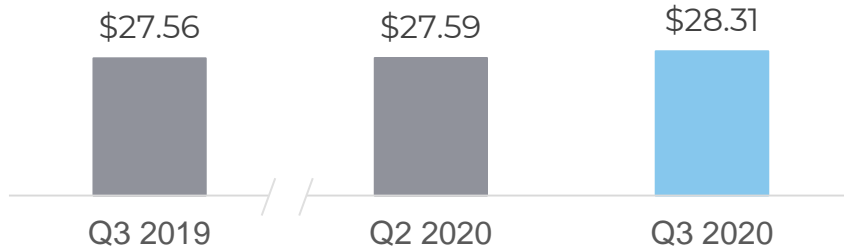
# Consumer Segment Revenues



- Consumer Revenues declined 14% Y/Y, in line with expectations
- Ended the quarter with 1 million subscriber lines
  - Tenured customers >2 years represent 96% of the customer base while those >5 years represent 80%
- Expect the Consumer Segment to provide ~\$600 million in cash flow over the next five years

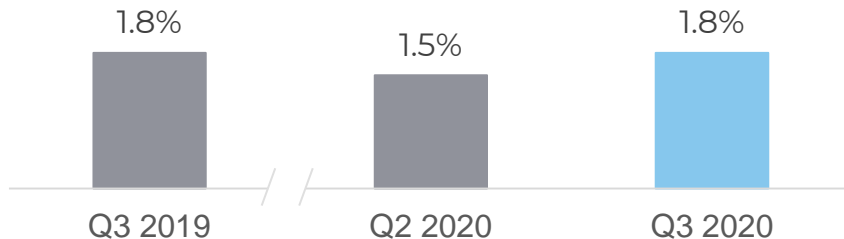
# Consumer Segment KPIs

## Monthly Avg. Revenue Per Line



- Average Revenue Per Line up \$0.75 due to:
  - Selective pricing actions and higher USF fees

## Monthly Customer Churn



- Customer churn increased due to:
  - A greater number of customer terminations in Q3 2020, driven by catch ups from delayed terminations in Q2 amid the pandemic

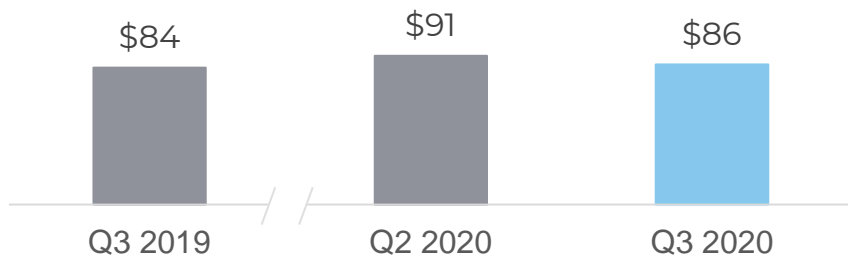
# Consolidated Income Statement

	Q3 2019	Q2 2020	Q3 2020	Y/Y Chg.
Consolidated Revenues	\$303	\$311	\$317	5%
Consolidated Gross Profit	\$169	\$177	\$175	4%
Consolidated Gross Margin	56%	57%	55%	-1%
Operating Expenses (S&M, E&D, G&A, D&A)	\$163	\$174	\$185	14%
Operating Income	\$6	\$2	\$(11)	
Net Income	\$(21)	\$(8)	\$(10)	
Adj. EBITDA	\$45	\$42	\$42	
% Margin	15%	13%	13%	

- Consolidated revenues of \$317 million reflected 5% growth, driven by:
  - VCP organic growth, offset by continued managed decline in Consumer
  - Lower USF revenues
  - Lower Product & Access revenues

# Consolidated Operating Expense Items

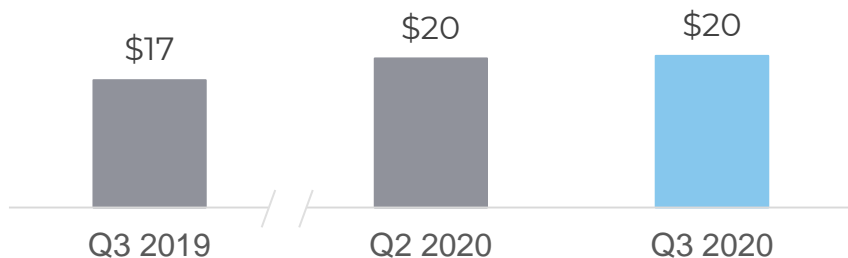
## Sales & Marketing



## General & Administrative



## Engineering & Development



- S&M decreased \$5 million sequentially due to lower media and brand spend
- G&A increased \$16 million, primarily due to \$15 million in restructuring costs related to business optimization and alignment
- E&D increased \$3 million largely due to increased development support for VCP

# Net Loss & Adjusted EBITDA<sup>1</sup>

## Net Loss



## Adjusted EBITDA<sup>1</sup>



- Net Loss decreased year-over-year primarily due to
  - Significant tax expense in Q3 2019 driven by an update to the 2019 tax benefit
- Adjusted EBITDA<sup>1</sup> decreased year-over-year primarily due to increased Sales & Marketing and Engineering & Development costs

# Capital Expenditures & Adjusted EBITDA Less Capex<sup>1</sup>

## Capital Expenditures (Capex)



- Capex remained stable in support of the Vonage Communications Platform (VCP)

## Adjusted EBITDA Less Capex<sup>1</sup>



- Adjusted EBITDA less Capex<sup>1</sup> decreased year-over-year due to lower Adjusted EBITDA



# Cash Flow and Balance Sheet

Cash Flow (\$ in millions)	Q3 2020
Cash from Operations	\$13
Capital Expenditures, Software & Intangible Assets	(\$13)
Free Cash Flow <sup>1</sup>	(\$0)

- Cash \$48 million
- Gross Debt \$586 million
- Net Debt<sup>1</sup> \$537 million (Gross Debt less Unrestricted Cash)
- Net Debt / LTM Adjusted EBITDA 3.2x (vs 4.5x total debt covenant)
- Debt Maturities \$241 million revolver due 7/2023 and \$345 million convertible debt due 6/2024

# Updating FY 2020 Guidance

	Q4 2020	FY 2020 Previous	FY 2020 Updated
Consolidated Revenues	\$314 to \$317	\$1,215 to \$1,230	\$1,239 to \$1,242
Total VCP Revenues	\$236 to \$239	\$885 to \$900	\$906 to \$909
Total Consumer Revenues	\$78 area	\$330 area	\$332 area
Adjusted EBITDA <sup>1</sup>	\$45 area	\$150 to \$155	\$167 area
Capital Expenditures		\$55 area	\$53 area

# Disaggregation of VCP Revenues

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
UC and CC Service Revenues	\$ 103.4	\$ 106.8	\$ 109.7	\$ 109.0	\$ 110.1
API Revenues	\$ 80.3	\$ 89.7	\$ 86.0	\$ 103.3	\$ 108.4
<b>VCP Service Revenues (GAAP)</b>	<b>\$ 183.7</b>	<b>\$ 196.5</b>	<b>\$ 195.7</b>	<b>\$ 212.3</b>	<b>\$ 218.5</b>
<i>Y/Y Growth Rate</i>	37%	32%	23%	18%	19%
Access and Product Revenues	\$ 12.1	\$ 10.7	\$ 10.1	\$ 9.1	\$ 8.7
USF Revenues	\$ 10.7	\$ 10.5	\$ 4.5	\$ 4.8	\$ 6.6
<b>Total VCP Revenues (GAAP)</b>	<b>\$ 206.5</b>	<b>\$ 217.7</b>	<b>\$ 210.3</b>	<b>\$ 226.2</b>	<b>\$ 233.8</b>
<i>Y/Y Growth Rate</i>	34%	28%	17%	13%	13%

# VCP Revenue: Year-over-Year Growth Rates<sup>2</sup>

		Q3 2019	Q3 2020
VCP Total Revenues	GAAP	34%	13%
	GAAP (Constant Currency)		11%
VCP Service Revenues	GAAP	37%	19%
	GAAP (Constant Currency)		17%
UC and CC Service Revenues	As Reported	32%	7%
	As Reported (Constant Currency)		6%
API Revenues	As Reported	46%	35%
	As Reported (Constant Currency)		31%

# Non-GAAP Reconciliation

**VONAGE HOLDINGS CORP.**  
**TABLE 3. RECONCILIATION OF GAAP NET LOSS TO ADJUSTED EBITDA AND TO ADJUSTED EBITDA**  
**MINUS CAPEX**  
**(Dollars in thousands)**  
**(unaudited)**

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2020	2020	2019	2020	2019
Net loss	\$ (10,062)	\$ (8,430)	\$ (21,097)	\$ (22,247)	\$ (17,107)
Interest expense	7,373	9,321	8,454	24,776	24,517
Income tax	(7,937)	1,493	18,248	(6,694)	(5,127)
Depreciation and amortization	22,887	20,692	21,319	64,064	63,195
Amortization of costs to implement cloud computing arrangements	670	668	411	1,947	682
<b>EBITDA</b>	<b>12,931</b>	<b>23,744</b>	<b>27,335</b>	<b>61,846</b>	<b>66,160</b>
Share-based expense	11,530	11,326	12,941	33,972	32,152
Acquisition related transaction and integration costs	—	—	174	—	621
Organizational transformation <sup>(1)</sup>	—	3,925	3,317	5,119	11,186
Restructuring activities <sup>(2)</sup>	15,182	—	—	15,182	—
Other non-recurring items <sup>(3)</sup>	1,959	2,549	1,014	5,864	3,174
<b>Adjusted EBITDA</b>	<b>41,602</b>	<b>41,544</b>	<b>44,781</b>	<b>121,983</b>	<b>113,293</b>
Less:					
Capital expenditures	(2,863)	(1,968)	(5,970)	(7,718)	(15,426)
Intangible assets	(70)	(115)	—	(260)	—
Acquisition and development of software assets	(10,057)	(9,926)	(7,839)	(30,256)	(20,836)
<b>Adjusted EBITDA Minus Capex</b>	<b>\$ 28,612</b>	<b>\$ 29,535</b>	<b>\$ 30,972</b>	<b>\$ 83,749</b>	<b>\$ 77,031</b>

<sup>(1)</sup> The costs identified as “Organizational transformation” are related to the Company’s announced goal of becoming a pure-play Business software-as-a-service (“SaaS”) company, offering a suite of communications solutions for businesses. These costs include employee related exits including CEO succession, system change management, facility exit costs, and rebranding.

<sup>(2)</sup> Restructuring activities relate to the Company’s business-wide optimization and alignment project initiated in 2020 and include employee related exits and facility exit costs.

<sup>(3)</sup> Other non-recurring items principally include certain litigation charges and other non-recurring project costs.

# Non-GAAP Reconciliation

**VONAGE HOLDINGS CORP.**  
**TABLE 5. FREE CASH FLOW**  
(Dollars in thousands)  
(unaudited)

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
	2020	2020	2019	2020	2019
Net cash provided by operating activities	\$ 12,628	\$ 36,300	\$ 31,783	\$ 51,431	\$ 59,850
Less:					
Capital expenditures	(2,863)	(1,968)	(5,970)	(7,718)	(15,426)
Intangible assets	(70)	(115)	—	(260)	—
Acquisition and development of software assets	(10,057)	(9,926)	(7,839)	(30,256)	(20,836)
Free cash flow	<u>\$ (362)</u>	<u>\$ 24,291</u>	<u>\$ 17,974</u>	<u>\$ 13,197</u>	<u>\$ 23,588</u>

**VONAGE HOLDINGS CORP.**  
**TABLE 6. RECONCILIATION OF INDEBTEDNESS UNDER REVOLVING CREDIT FACILITY AND**  
**CONVERTIBLE SENIOR NOTES TO NET DEBT**  
(Dollars in thousands)  
(unaudited)

	September 30,	December 31,
	2020	2019
Notes payable and indebtedness under revolving credit facility, net of current maturities	240,500	220,500
Convertible senior notes, net	287,176	276,658
Unamortized discount on debt	5,912	7,108
Unamortized debt related costs	51,912	61,234
Gross debt	<u>585,500</u>	<u>565,500</u>
Less:		
Unrestricted cash	48,370	23,620
Net debt	<u>\$ 537,130</u>	<u>\$ 541,880</u>

Thank You