



# Investor Presentation

August 2018



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

Various remarks that the Company makes contain forward-looking statements, including statements about acquisitions, acquisition integration, financing activity, growth priorities or plans, revenues, adjusted OIBDA, churn, seats, lines or accounts, average revenue per user, cost of telephony 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; 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; risks related to the acquisition or integration of businesses we have acquired; 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 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 comply with data privacy and related regulatory matters; our ability to obtain or maintain relevant intellectual property licenses; failure to protect our trademarks and internally developed software; 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; risks associated with a material weakness in our internal controls; 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' broadband connections; restrictions in our debt agreements that may limit our operating flexibility; foreign currency exchange risk; our ability to obtain additional financing if required; any reinstatement of holdbacks by our credit card processors; 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" in our Annual Report on Form 10-K for the year ended December 31, 2017 and Quarterly Reports on Form 10-Q filed with the SEC. 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 except as required by law, 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 measures defined as non-GAAP financial measures by Regulation G adopted by the Securities and Exchange Commission, including: adjusted Operating Income Before Depreciation and Amortization ("adjusted OIBDA"), adjusted OIBDA less Capex, adjusted net income, net debt (cash) and free cash flow. 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>.



## Proven growth strategy via organic growth and M&A built on:



Single Cloud Platform delivering a broad portfolio of **Communications** solutions



Robust multi-channel distribution and powerful, **iconic brand** provides competitive advantage

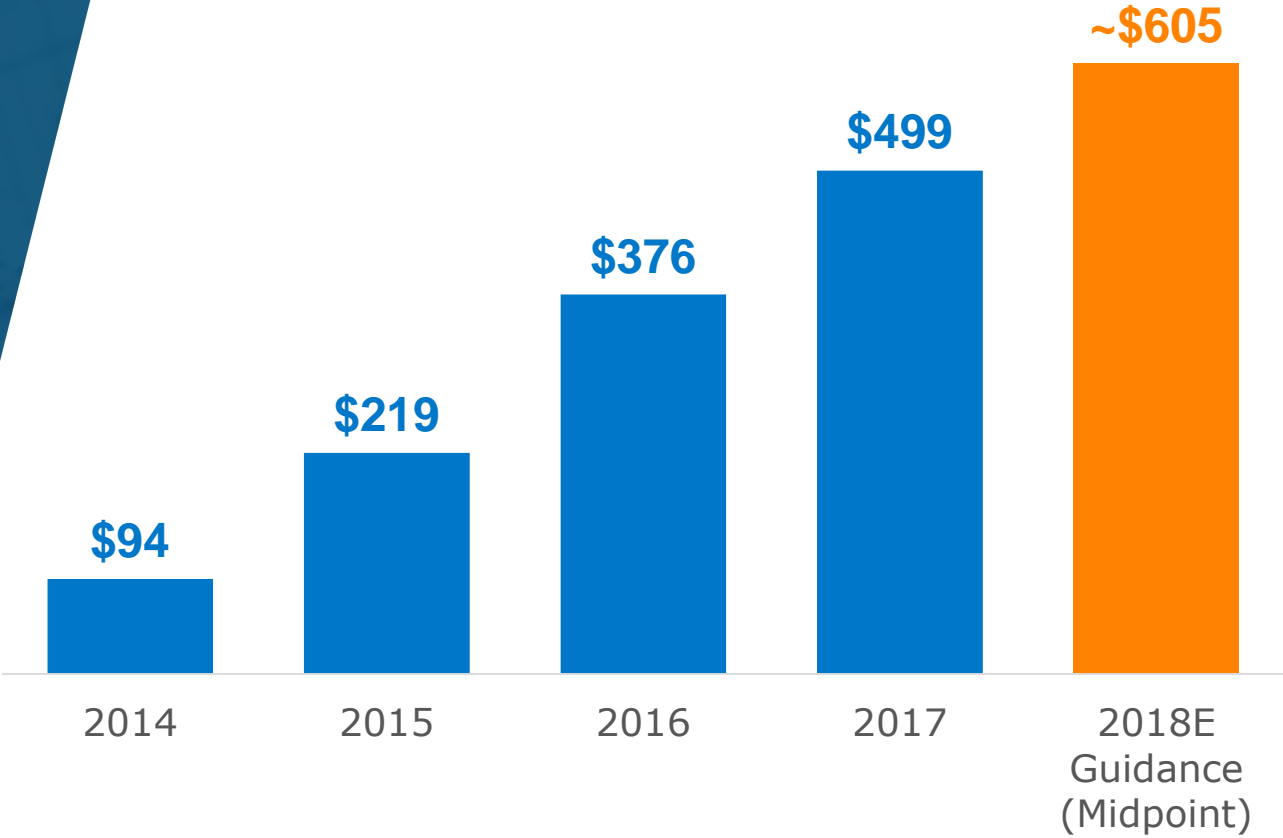


**Large scale network** terminating billions of minutes and messages

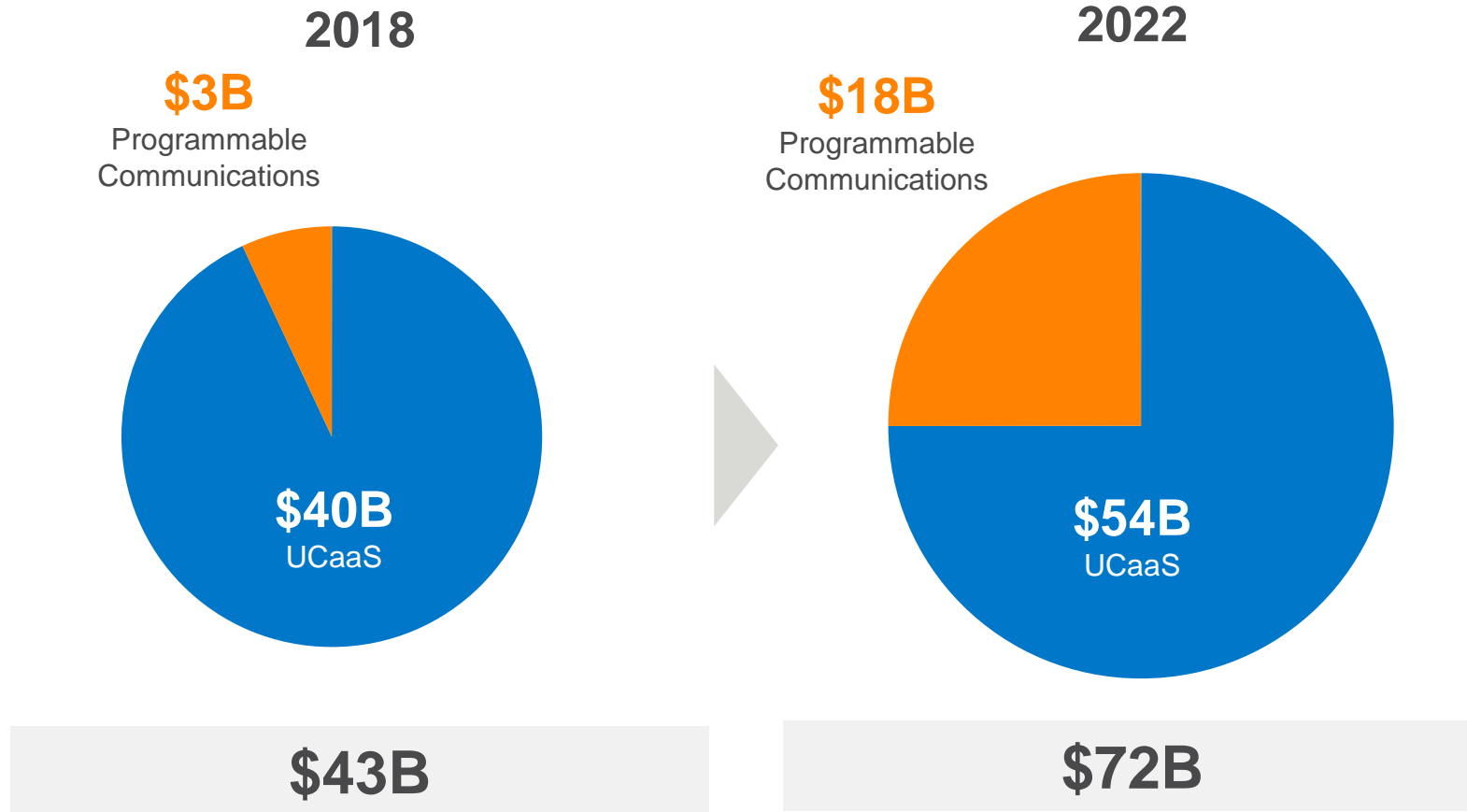


Strong **cash flows** and **balance sheet** driven by Consumer

### Vonage Business Revenues (\$MM)



# Vonage is a Leader Across the Large and Rapidly Growing Cloud Communications Market, Which is Comprised of Both UCaaS and Programmable Communications Delivery Models



Source: Vonage, IDC (2018)

The Cloud Communications TAM is **expected to grow by 65%** over the next 5 years



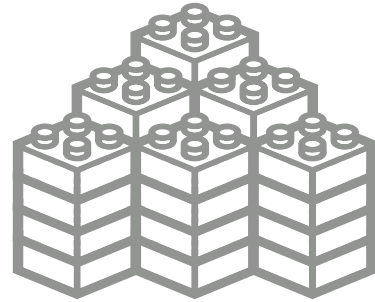
# UCaaS and CPaaS are a Powerful Combination, Giving Vonage the Right Set of Assets to Win in Cloud Communications



## UCaaS | SaaS Delivery

Prebuilt PBX and Contact Center Solution

Integration with Business Apps



## CPaaS | PaaS Delivery



Embedded Real-Time Communications



Programmable into Apps and Software

## Underlying Communications Platform



Voice



SMS / Chat



Conferencing



Recording



Video



Analytics



Call Controls

## Common Network



SmartWAN  
QoS

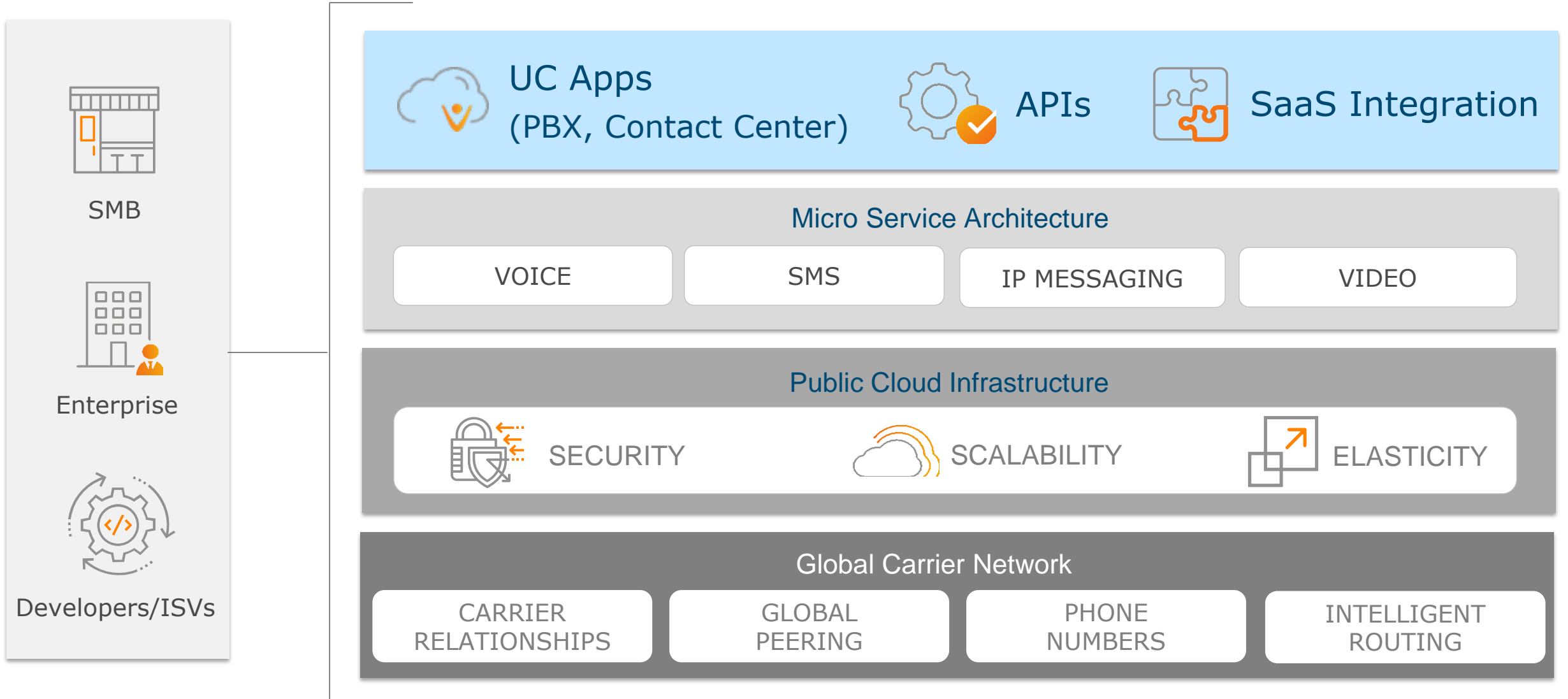


Bring-your-own-broadband  
(OTT)



MPLS  
QoS

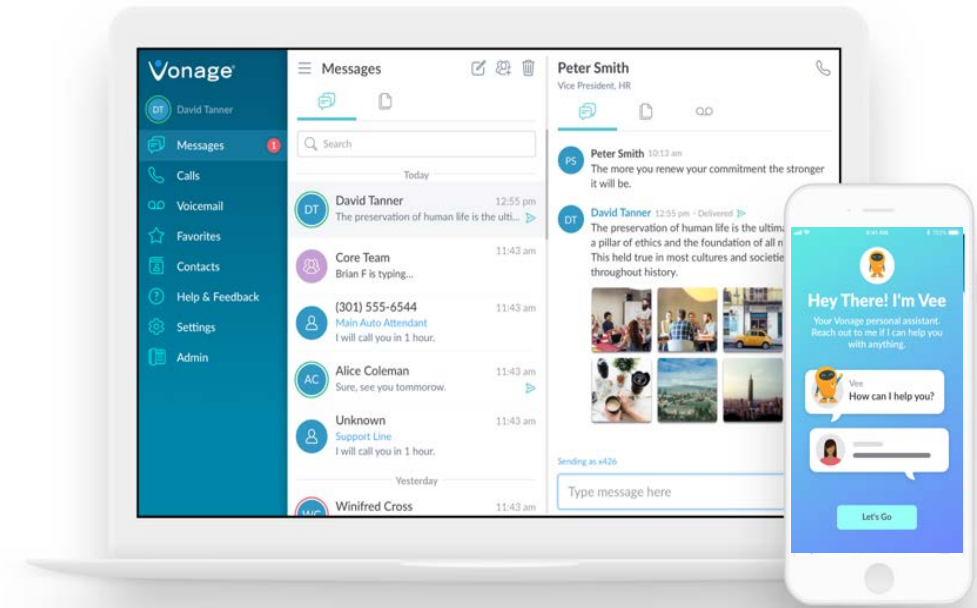
# One Vonage Platform: Fully Programmable Software Platform that Delivers Better Business Outcomes





## Integrated Customer Experience

- **Single administration portal** for onboarding and desktop
- Redesigned **mobile-first** user experience empowering users to be more productive
- **Voice, video and messaging** through a single app



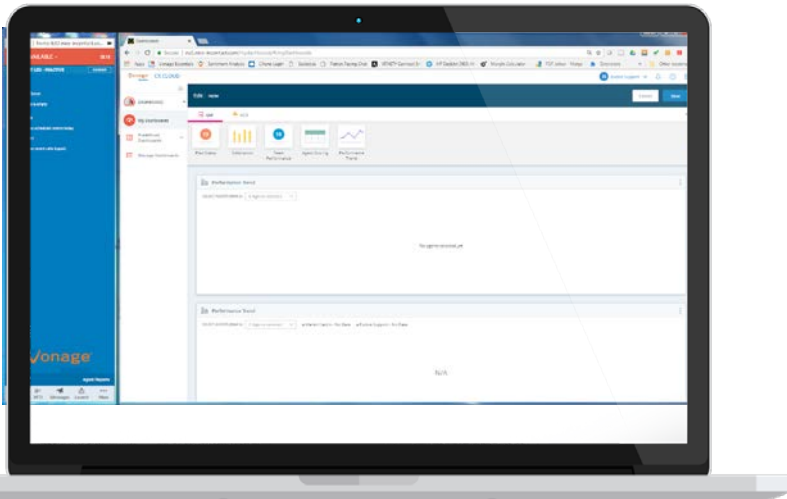
## Integrations





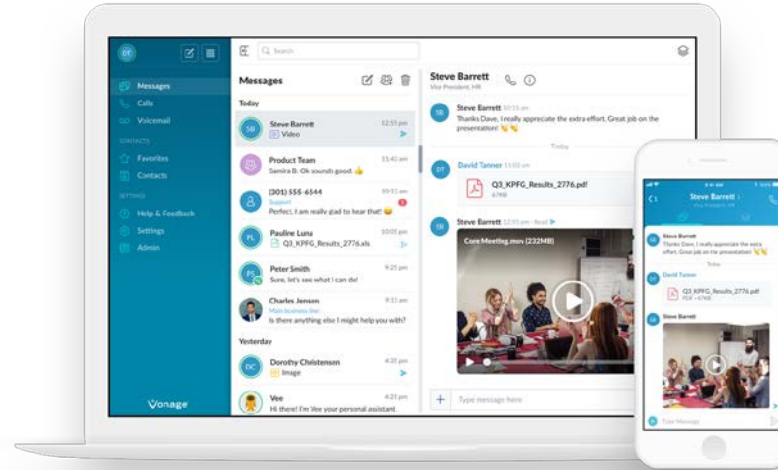
## Vonage CX Cloud

- ✔ Contact Center seamlessly integrated with Vonage Business Cloud
- ✔ Use voice, voicemail, email, chat, Interactive Voice Response (IVR), or voice portal to connect with customers



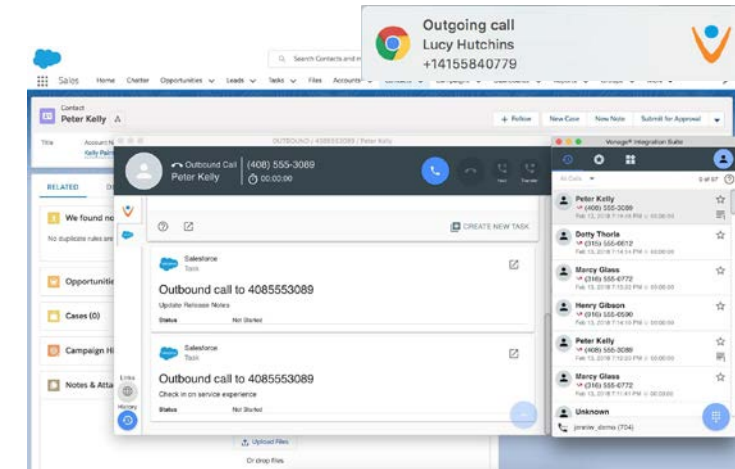
## Vonage Flow

- ✔ Team messaging fully integrated in a single app
- ✔ Improves business productivity and provides a superior omni-channel customer experience



## Vonage CX Enablement Suite

- ✔ Adds programmability to Vonage CX Cloud
- ✔ Sentiment analysis provides real-time insight into caller sentiments and emotions











# The Vonage API Platform, Enables Developers to Easily Embed Communications to Drive Better Business Outcomes



## Key APIs

-  Voice
-  SIP Trunks
-  Analytics
-  SMS
-  Chat
-  Video

## Enterprise-Grade Developer Platform

- Comprehensive set of developer tools
- Backed by the Vonage network
- Direct to carrier connections
- Global reach with sales presence in 3 regions
- Phone numbers in 85 countries

## Limitless Use Cases

### Enhanced Customer Engagement

- AI/Chatbots
- Social Media
- Multi-channel communications

### Workflow Integration

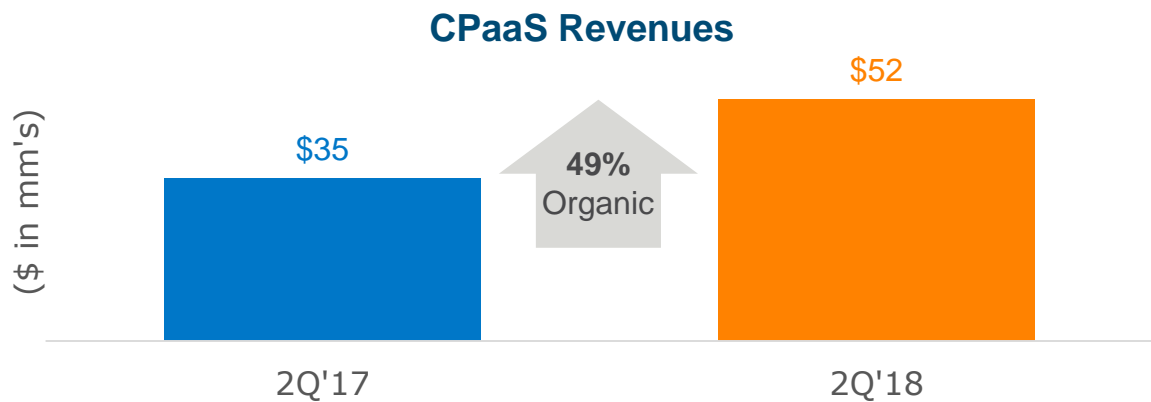
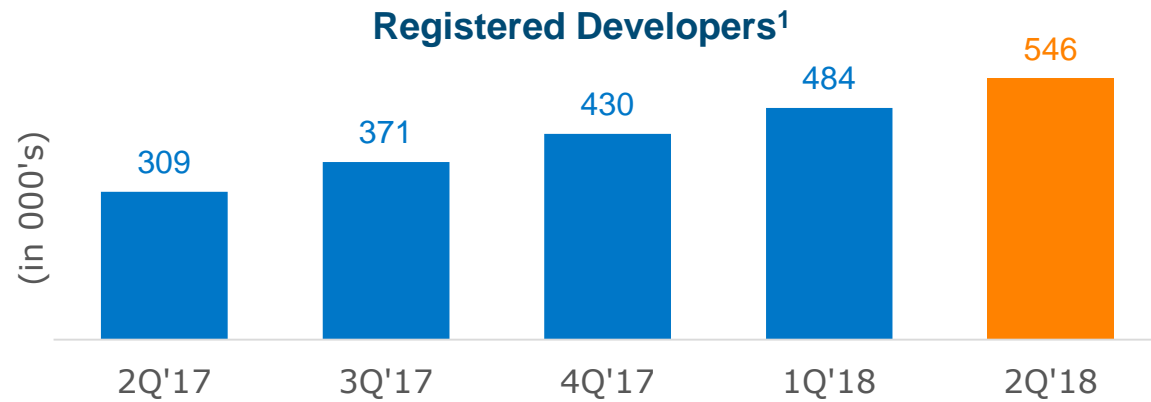
- In-App Calling & Messaging
- Geo-fenced Communications

### Security

- User Verification
- Proxy Communications



# Nexmo, the Vonage API Platform, Continues to Produce Strong Results



## Customers & Partners



1. Excludes unqualified developer signups

# Recent Acquisition of TokBox Adds Programmable Video Leadership to Vonage API Portfolio



- TokBox is the global leader in cloud-based programmable video using WebRTC
  - The most scaled and globally distributed programmable video platform
- Founded in 2007, San Francisco-based TokBox was acquired in 2012 by Telefonica
- Broadens Vonage's communication API platform to provide voice, messaging and now video solutions at global scale
- Positions Vonage in the high-growth video communications market, driven by powerful business use cases and improving high-speed connectivity
- Adds a talented workforce of technologists to Vonage's existing CPaaS presence in San Francisco
- Over 2,300 customers and nearly 100,000 registered developers

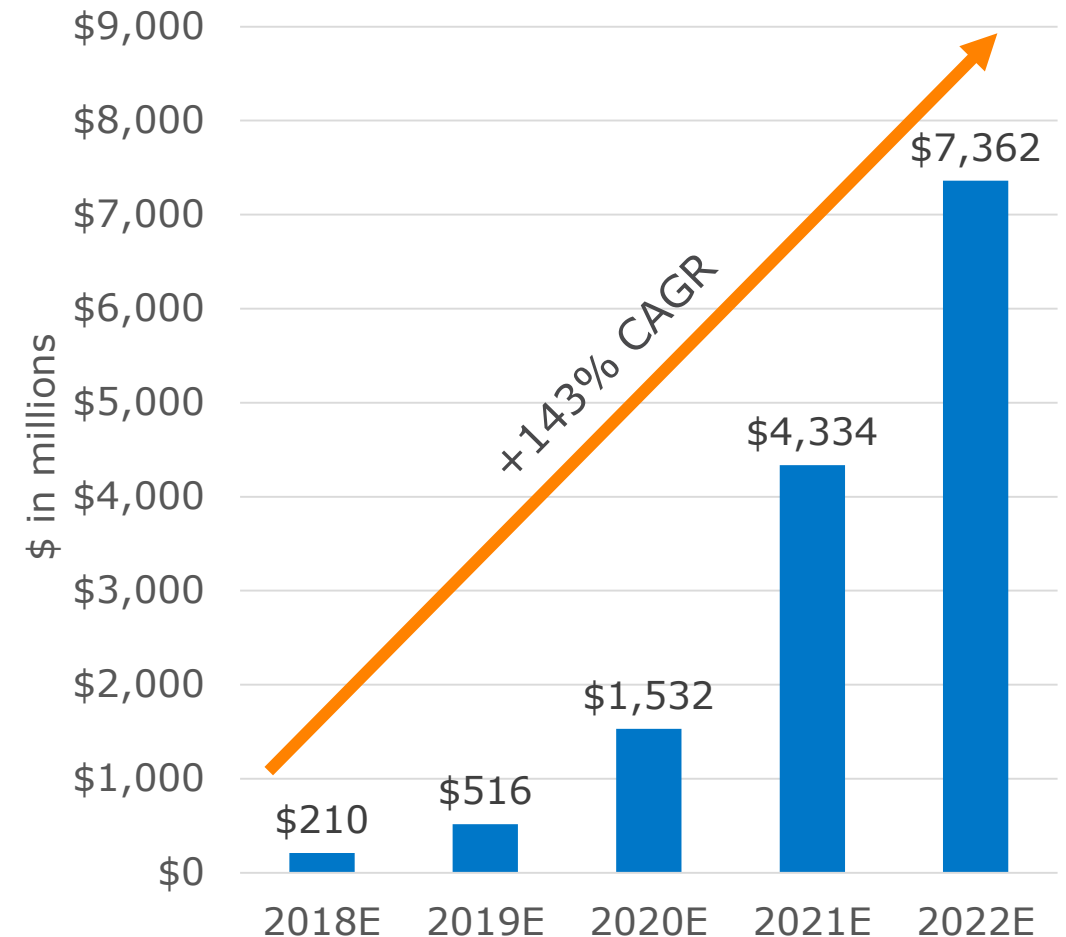


# Programmable Video TAM Expected to Grow Over 100% Annually







- Growing adoption of the WebRTC standard
  - A universal protocol for transmitting voice, video and data directly between supporting browsers, without plugins
  - Compatible with every major browser including Chrome, Edge, Safari and Firefox as well as iOS and Android mobile operating systems
- Increasing PaaS usage driven by simplicity and lower cost for developers
- Growing quality and ubiquity of video-enabled devices
- Improving global wireless (i.e. 5G) and fiber network infrastructure, minimizing video latency and maximizing quality

IDC U.S. Programmable Video 2018-2022 Revenue Forecast <sup>1</sup>



# Video Communication Enables Better Business Outcomes



Sectors	Insurance & Finance	Healthcare	Education	Business Services
Situations	Video-enabled claims, new account onboarding, mortgage applications, and wealth management	Doctor-to-doctor and Doctor-to-patient consultations	Online tutoring, virtual exam proctoring, and online classrooms	Remote interviews, language translation, broadcasts & webinars, and video customer service
Better Business Outcomes	Faster claim settlement, easier account creation, flexible in-context customer support	Improved patient communication, convenience, and quality of care	Global student access, testing integrity, and video technology for the digital classroom	More efficient delivery of services and support for online customers across wide array of industries
Illustrative TokBox Clients				

With TokBox, the Vonage API Platform Is Even More Strategic to Customers and Partners

# Integrating the Business Communications Value Chain Enhances Vonage's Value Proposition



# Vonage has the Most Robust Omni-channel Distribution Platform in Cloud Communications



Inside Sales

Channel Sales

Field Sales

Enterprise Sales

Developers



## Omni-channel Distribution Strategy

- The **Vonage Partner Network** continues to accelerate mid-market and enterprise growth
- More than **100 partners added** across UCaaS and CPaaS
- Vonage is the **initial launch partner** on Rakuten RapidAPI

## Land and Expand Strategy

- Revenues from new customers added in 2Q'17 **increased** 6x in 2Q'18
- Hired New **SVP of Mid-Market and Enterprise Sales** focused on driving growth

## Addressing the Global Opportunity

- **Nexmo APAC revenues increased 80%** in 2Q'18 from the prior year
- **Significant growth from existing customers** including Grab, Google, Microsoft, Shopify, Tencent and Souq.com

# Vonage Cloud Communications Products Utilize the Same Network and Termination Relationships



## Business



**546K**  
Developers<sup>1</sup>  
CPaaS



**770K**  
Seats<sup>1</sup>  
UCaaS

## Consumer



**1.4M**  
Subscriber  
Lines<sup>1</sup>  
VoIP

### Common Network Infrastructure



**Quality**

Data Centers

Points of Presence

Diverse Redundant Backbone

### Global Carrier Presence



**Cost**

Termination Network

Peering Connections

Volume Pricing

Owned Phone Numbers

**20 Billion Minutes and Messages Per Year**

1. As of June 30, 2017



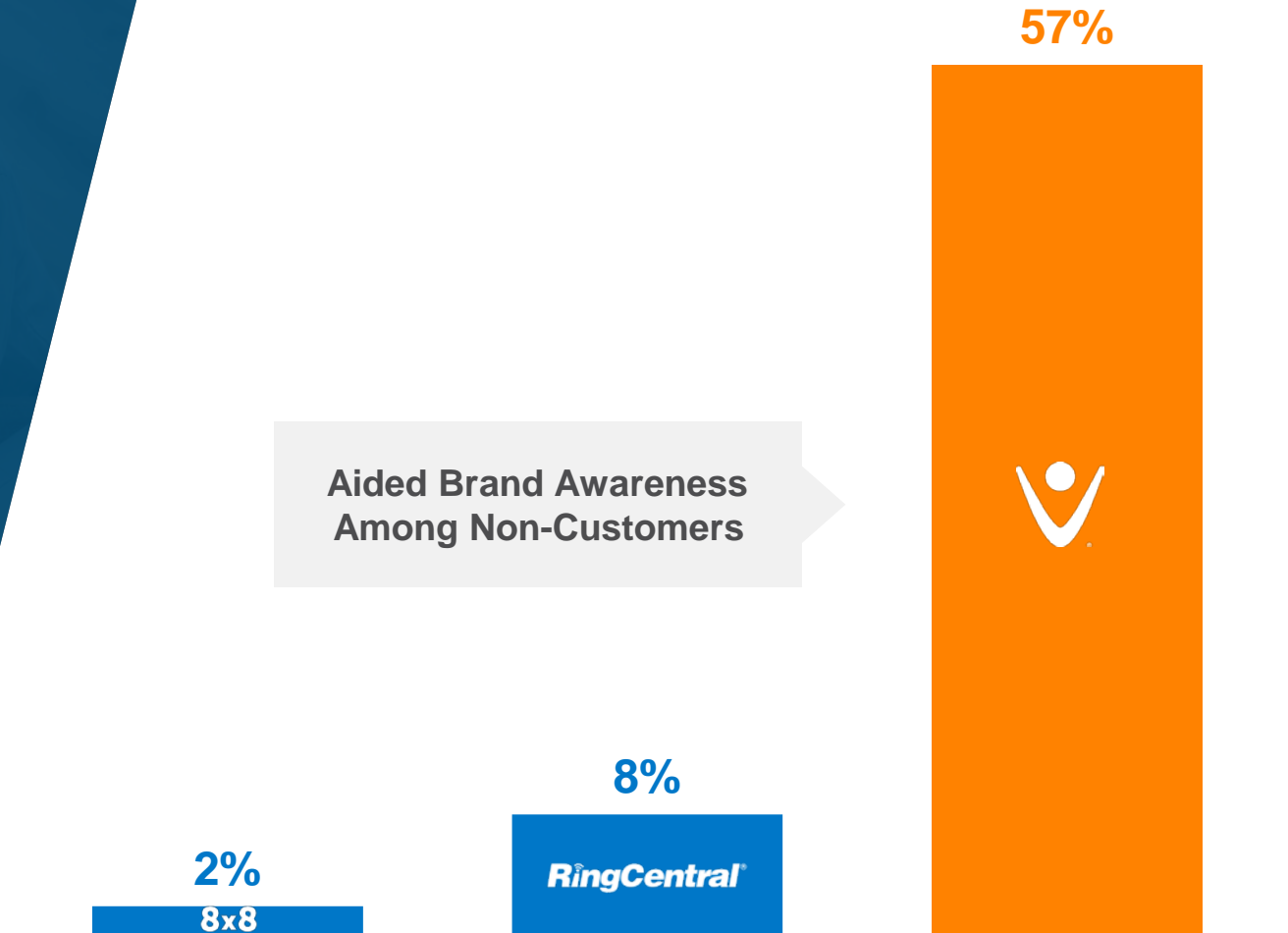
# Vonage Brand Awareness is Significantly Higher Than Other Pure-Play UCaaS Market Participants



**More than \$2 billion invested**  
to build brand



Extending the Vonage brand  
to business services has  
**accelerated growth**



Source: Vonage Business brand tracking study; aided awareness among non-customers of all size segments, first quarter 2018

# Financial Overview and Analysis



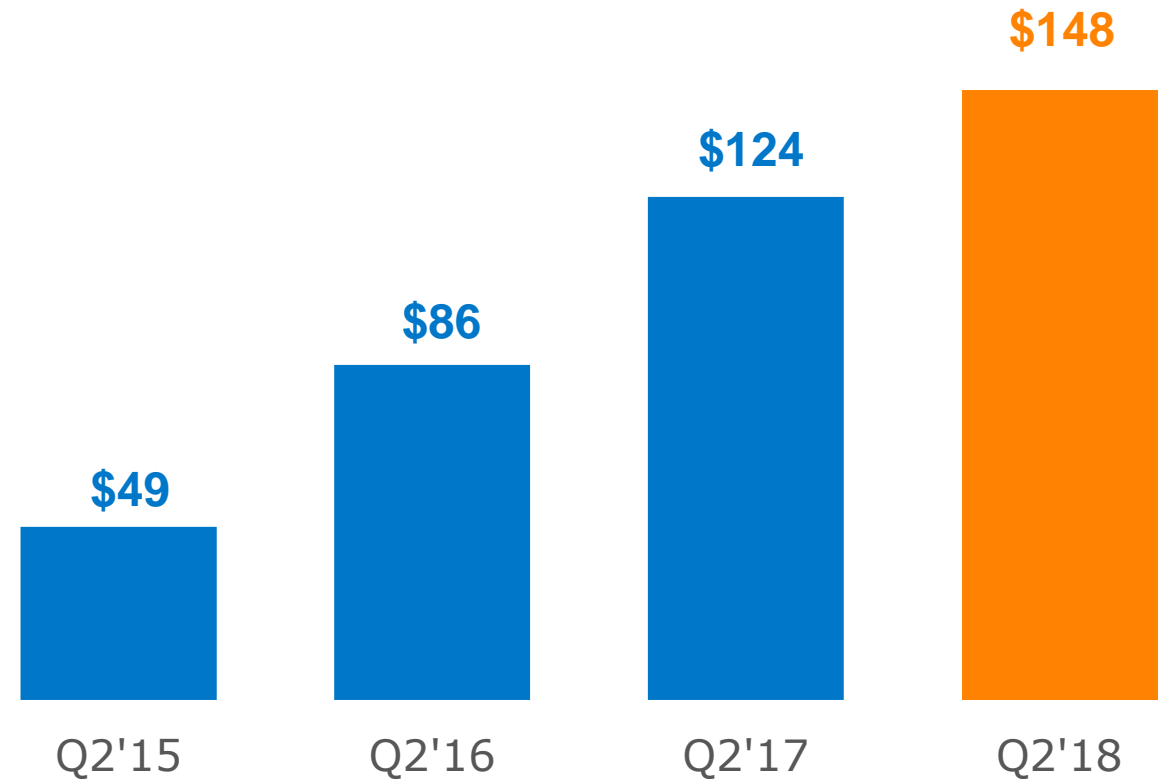
## Organic

- Expand Enterprise presence
- Grow Contact Center and SD-WAN
- Upsell existing customers
- Accelerate Channel
- Improve churn
- Deliver Product Innovation

## Inorganic

- Disciplined Acquirer
- Cost of capital advantage
- Scaled platform to integrate future acquisitions

## Q2 Year-Over-Year Business Revenues Growth<sup>1</sup>



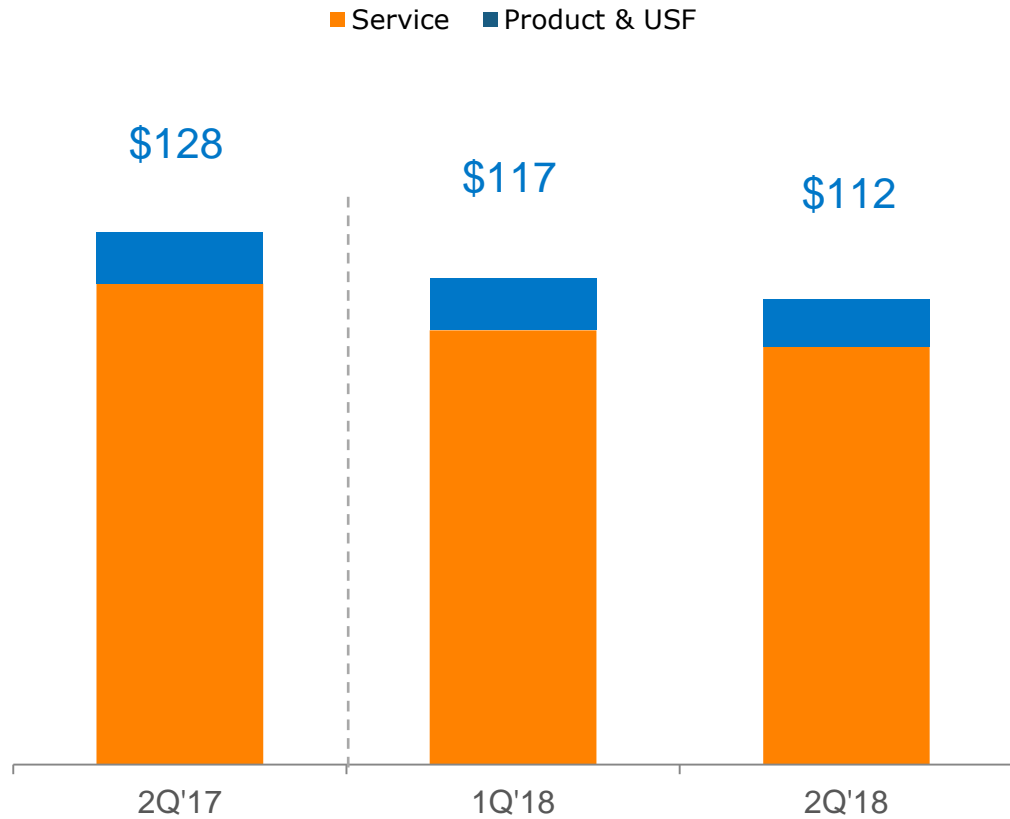
1. GAAP Vonage Business Revenues

# Optimization of Consumer Segment Yielding Strong Results

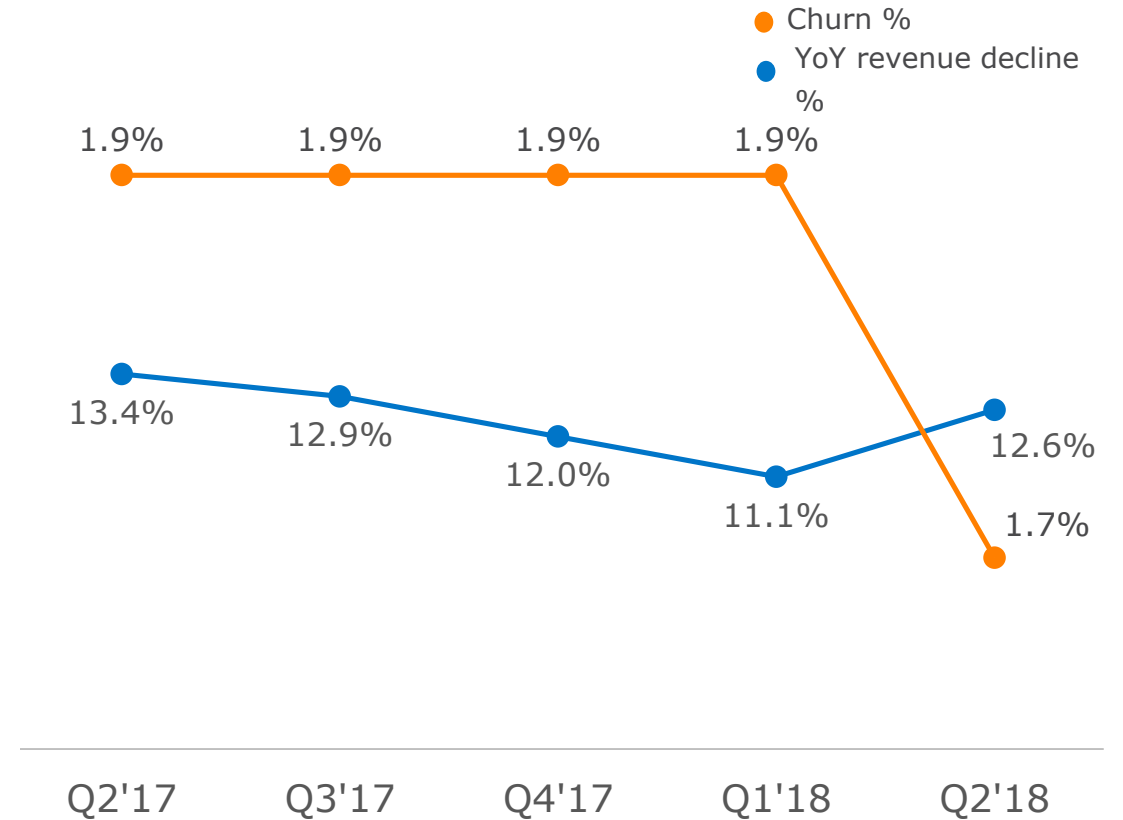


(\$ in millions)

## Consumer Revenues



## Consumer Operating Trends



**Record Low Consumer Churn of 1.7%**



## Invest to grow Vonage Business organically



- Invest in new markets, salesforce and product expansion

## Acquire selectively to grow Vonage Business



- Accretively acquire customers, sales force, technologies, geographic footprint and / or product

## Maintain strategic and financial flexibility



- Operate Consumer for cash flow and profitable subscriber base
- Manage leverage

## Return capital to shareholders



- Opportunistically execute share repurchase through \$100 million authorization



**\$1.02B**

LTM Consolidated Revenues

**\$189M**

LTM Adjusted OIBDA

**\$160M**

LTM Adjusted OIBDA - CAPEX

**\$559M**

NOL

**190+**

U.S. Patents

**Financial Strength and Complementary Assets are a Strategic and Competitive Advantage**





THANK YOU

# Second Quarter Financial Results



# Recent Highlights

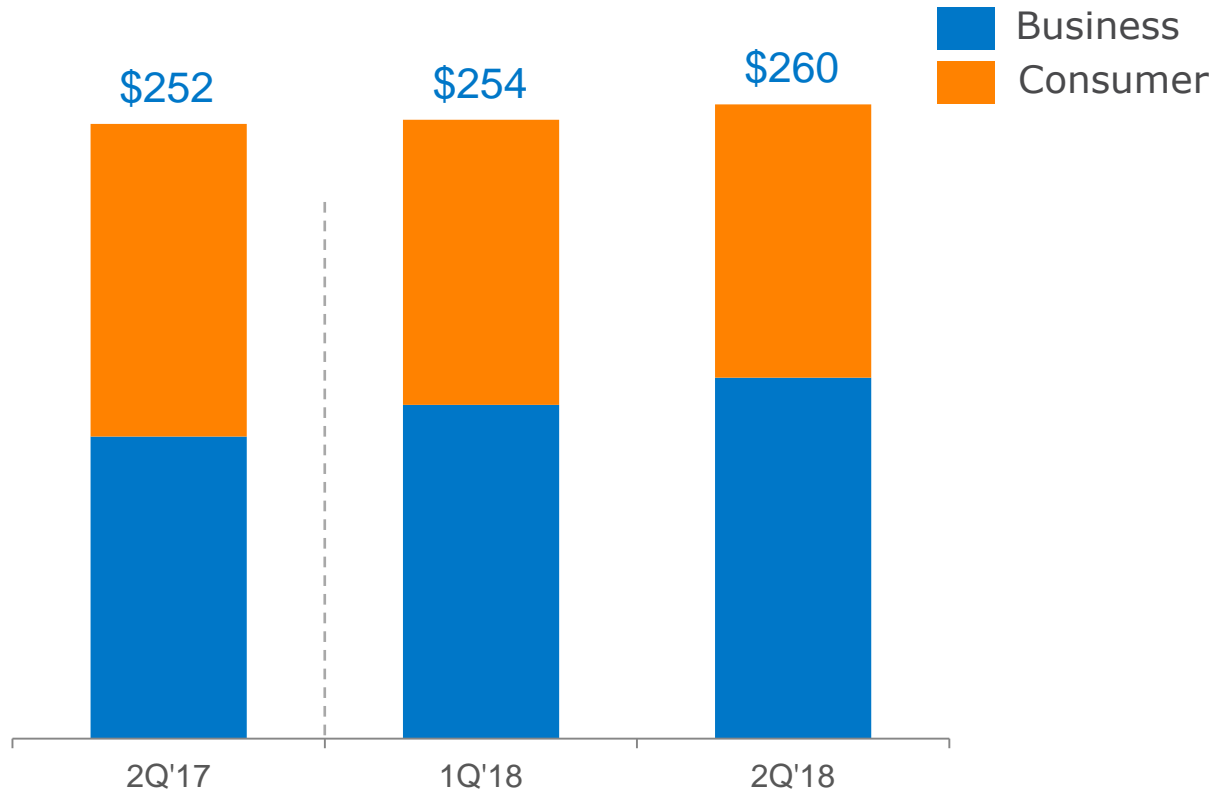


- Increased Consolidated revenues by 3% to \$260 Million
- Grew Vonage Business revenues by 20% to \$148 Million
  - Grew Business Service Revenues by 24%
- Reported Income from Operations of \$13 Million; Adjusted OIBDA of \$45 Million
- Completed acquisition of TokBox Inc., the global leader in programmable video, for \$35 million
  - Cash purchase price represents less than 2.0x 2019 projected revenues
- Expanded API portfolio to encompass voice, SMS, IP messaging and now video
- Closed new \$600 million credit facility to increase strategic flexibility, lower borrowing cost and extend maturity
- Updated guidance to reflect the acquisition of TokBox and Business growth

# Consolidated Revenues



(\$ in millions)

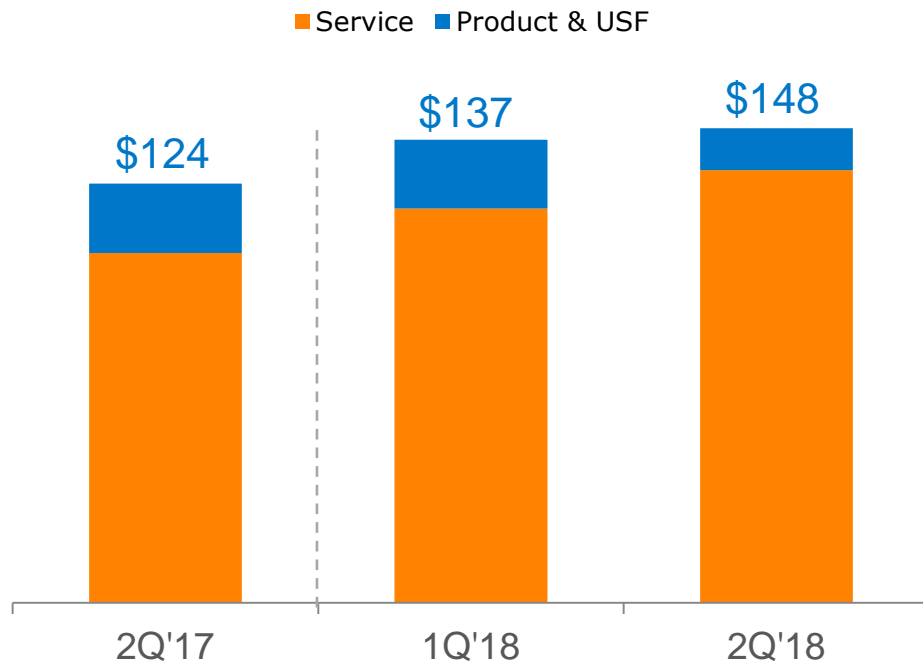


- Consolidated revenues up 3% from the prior year due to:
  - Vonage Business organic growth
  - Offset by managed decline in Consumer
- Vonage Business revenues represented 57% of total revenues

# Vonage Business Segment



(\$ in millions)

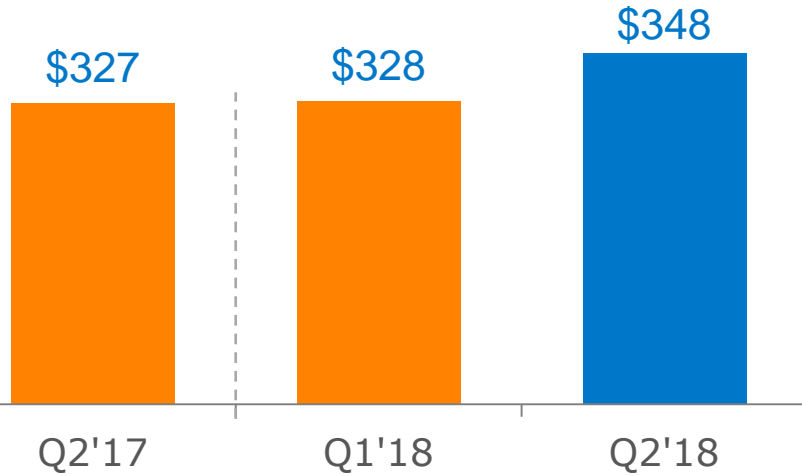


- Vonage Business revenues up 20% GAAP from the prior year due to:
  - Business service revenues up 24%
  - UCaaS organic service revenue growth of 14%<sup>1</sup>
  - CPaaS revenue growth of 49%

1. Growth rate is organic. We define organic growth as the increase in Business revenues adjusted for the exclusion of one-time items. Please refer to the end of the presentation for a reconciliation to GAAP Business revenues.

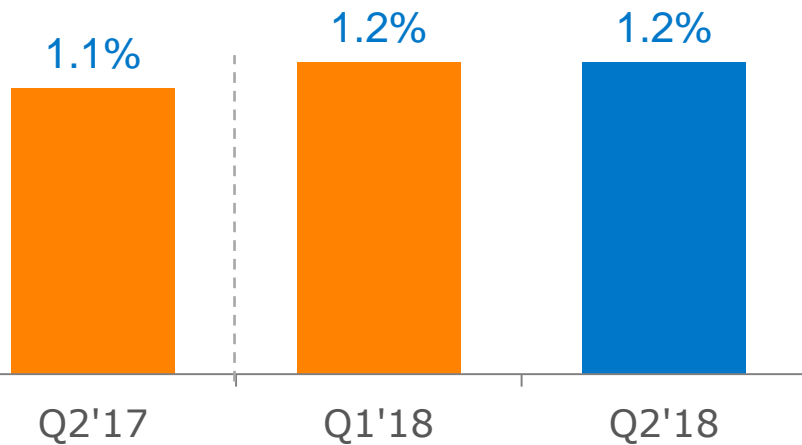


## Service Revenue Per Customer



- Service revenue per customer up 6% year-over-year
  - Driven by successful move up market and expanding product set

## Business Revenue Churn



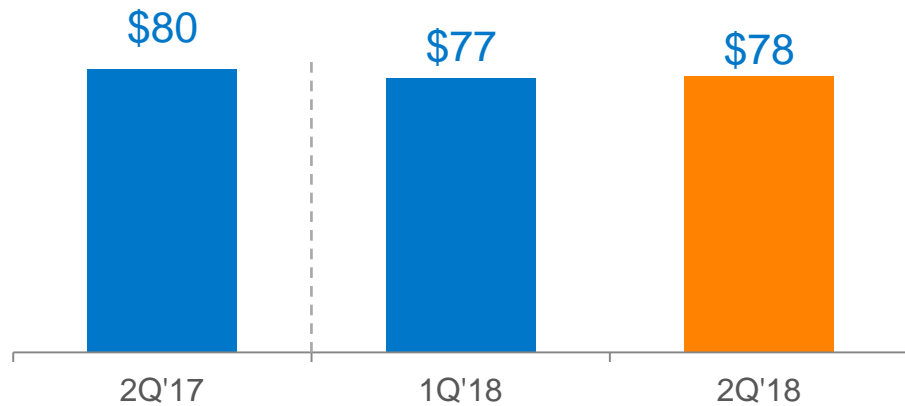
- Business revenue churn up 0.1% year-over-year and flat sequentially

# Consolidated Operating Expenses

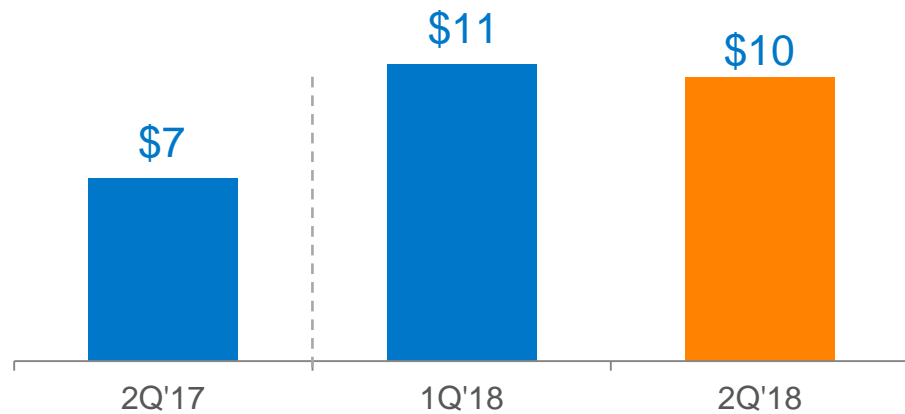


(\$ in millions)

## Sales & Marketing



## Engineering & Development



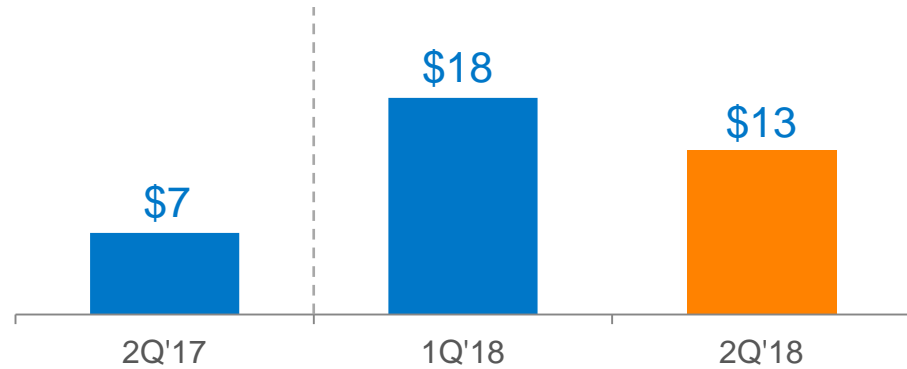
- Sales & Marketing down from the prior year due to:
  - Adoption of ASC 606
  - Continued reduction in Consumer marketing spend, partially offset by increased Vonage Business Sales & Marketing spend
- Engineering & Development up from the prior year due to:
  - Investments in OneVonage platform

# Consolidated Operating Income and Adjusted OIBDA<sup>1</sup>

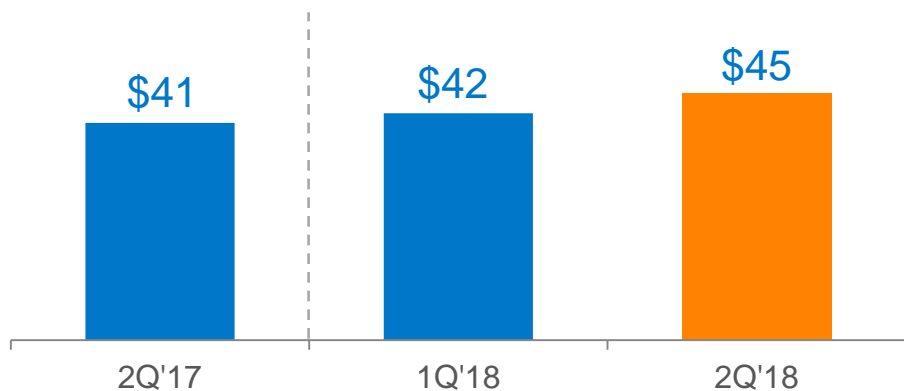


(\$ in millions)

## Income From Operations



## Adjusted OIBDA<sup>1</sup>



- Operating Income and Adjusted OIBDA up from the prior year due to:
  - Higher revenues
  - Lower Sales & Marketing expenses
  - Lower General & Administrative expenses



Cash Flow (\$ in millions)	<u>2Q 2018</u>
Cash from operations	\$42
Capital expenditures and software	(\$6)
Free cash flow <sup>1</sup>	\$37

- Cash: \$26 million
- Total debt: \$199 million
- Net debt<sup>1</sup>: \$173 million (Gross Debt less Unrestricted Cash)
  - Net debt/Adjusted OIBDA of 0.9x, or 1.1x pro-forma for TokBox

### New 5-Year Credit Facility:

- Total Size: Increased to \$600 million, consisting of \$100 million term loan and \$500 million revolver
- Maturity: Extended three additional years to 2023 (current loan matures in 2020)
- Pricing: Reduced drawn spread by 50 basis points (to L + 225 basis points)

## Cash Flow, Balance Sheet and Improved Credit Facility Provide Strategic Flexibility

1. This is a non-GAAP financial measure. Please refer to the end of the presentation for a reconciliation to GAAP income from operations.

# Business Revenues Reconciliation



(\$ in millions)

	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18
<b>GAAP total UCaaS revenues</b>	<b>\$88.5</b>	<b>\$90.9</b>	<b>\$94.2</b>	<b>\$94.7</b>	<b>\$95.5</b>
Hosted Infrastructure Business (Sale of) <sup>1</sup>	(1.1)	-	-	-	-
Service Interruption Credits <sup>2</sup>	-	-	-	-	0.9
<b>Adjusted total UCaaS Revenues (non-GAAP)</b>	<b>\$87.4</b>	<b>\$90.9</b>	<b>\$94.2</b>	<b>\$94.7</b>	<b>\$96.5</b>
Access and Product	14.0	13.7	13.3	12.5	12.7
USF	6.5	6.7	7.4	7.9	7.4
<b>Adjusted total UCaaS Service Revenues (non-GAAP)</b>	<b>\$66.9</b>	<b>\$70.5</b>	<b>\$73.4</b>	<b>\$74.3</b>	<b>\$76.3</b>
<b>GAAP total CPaaS revenues</b>	<b>\$35.2</b>	<b>\$38.4</b>	<b>\$39.9</b>	<b>\$42.0</b>	<b>\$52.3</b>
Nexmo pre-acquisition revenues	-	-	-	-	-
Net-to-gross revenue reporting adjustment	-	-	-	-	-
<b>Adjusted total CPaaS revenues (non-GAAP)</b>	<b>\$35.2</b>	<b>\$38.4</b>	<b>\$39.9</b>	<b>\$42.0</b>	<b>\$52.3</b>
<b>GAAP Vonage Business revenues</b>	<b>\$123.7</b>	<b>\$129.3</b>	<b>\$134.1</b>	<b>\$136.7</b>	<b>\$147.8</b>

1. Hosted Infrastructure Business sold on May 31, 2017- revenues only reported through the date of sale

2. Due to several-hour service interruption during the quarter ended June 30, 2018



# Vonage Business KPI Summary



KPIs	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18
Service Revenue Per Customer	\$327	\$324	\$328	\$328	\$348
Business Revenue Churn	1.1%	1.2%	1.2%	1.2%	1.2%



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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Income from operations	\$ 13,375	\$ 17,668	\$ 6,659	\$ 31,043	\$ 11,783
Depreciation and amortization	19,062	16,800	18,394	35,862	36,341
Share-based expense	8,497	6,709	7,412	15,206	14,476
Acquisition related transaction and integration costs	432	—	18	432	157
Organizational transformation	3,011	109	4,000	3,120	4,000
Acquisition related consideration accounted for as compensation	559	827	4,310	1,386	11,073
Adjusted OIBDA	44,936	42,113	40,793	\$ 87,049	\$ 77,830
Less:					
Capital expenditures	(4,537)	(3,250)	(5,294)	\$ (7,787)	\$ (8,995)
Acquisition and development of software assets	(1,073)	(3,147)	(3,504)	\$ (4,220)	\$ (6,884)
Adjusted OIBDA Minus Capex	\$ 39,326	\$ 35,716	\$ 31,995	\$ 75,042	\$ 61,951



**VONAGE HOLDINGS CORP.**  
**TABLE 4. RECONCILIATION OF GAAP NET INCOME TO**  
**NET INCOME EXCLUDING ADJUSTMENTS**  
**(Amounts in thousands, except per share amounts)**  
**(unaudited)**

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	2017
Net income (loss)	\$ 8,559	\$ 24,524	\$ 4,825	\$ 33,083	\$ 10,738
Amortization of acquisition - related intangibles	8,594	8,830	9,069	17,424	18,068
Acquisition related transaction and integration costs	432	—	18	432	157
Acquisition related consideration accounted for as compensation	559	827	4,310	1,386	11,073
Organizational transformation	3,011	109	4,000	3,120	4,000
Tax effect on adjusting items	(4,177)	(3,301)	(7,188)	(7,478)	(13,757)
Adjusted net income (loss)	\$ 16,978	\$ 30,989	\$ 15,034	\$ 47,967	\$ 30,279
Earnings (loss) per common share:					
Basic	\$ 0.04	\$ 0.11	\$ 0.02	\$ 0.14	\$ 0.05
Diluted	\$ 0.03	\$ 0.10	\$ 0.02	\$ 0.13	\$ 0.04
Weighted-average common shares outstanding:					
Basic	237,919	233,034	223,492	235,490	221,930
Diluted	248,256	248,481	239,938	248,373	239,923
Earnings (loss) per common share, excluding adjustments:					
Basic	\$ 0.07	\$ 0.13	\$ 0.07	\$ 0.20	\$ 0.14
Diluted	\$ 0.07	\$ 0.12	\$ 0.06	\$ 0.19	\$ 0.13
Weighted-average common shares outstanding:					
Basic	237,919	233,034	223,492	235,490	221,930
Diluted	248,256	248,481	239,938	248,373	239,923



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

	Three Months Ended			Six Months Ended	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net cash provided by operating activities	\$ 42,467	\$ 23,468	\$ 15,432	\$ 65,935	\$ 32,693
Less:					
Capital expenditures	(4,537)	(3,250)	(5,294)	(7,787)	(8,995)
Acquisition and development of software assets	(1,073)	(3,147)	(3,504)	(4,220)	(6,884)
Free cash flow	<u>\$ 36,857</u>	<u>\$ 17,071</u>	<u>\$ 6,634</u>	<u>\$ 53,928</u>	<u>\$ 16,814</u>



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

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Current maturities of capital lease obligations	\$ 46	\$ 140
Current portion of notes payable	18,750	18,750
Notes payable and indebtedness under revolving credit facility, net of current maturities and debt related costs	179,560	213,765
Unamortized debt related costs	503	672
Gross debt	<u>198,859</u>	<u>233,327</u>
Less:		
Unrestricted cash	26,077	31,360
Net debt	<u>\$ 172,782</u>	<u>\$ 201,967</u>