Vonage Holdings Corp. Reports Fourth Quarter and Full Year 2014 Results

February 12, 2015

HOLMDEL, N.J., Feb. 12, 2015 /PRNewswire/ -- Vonage Holdings Corp. (NYSE: VG), a leading provider of cloud communications services for consumers and businesses, today announced results for the fourth quarter and full year ended December 31, 2014.

Summary of Full Year 2014 Results

For the full year 2014, Vonage reported revenue of $869 million, up from $829 million in the prior year, benefitting from the full year impact of Vonage Business Solutions ("VBS"), which the Company acquired in November 2013.

Adjusted EBITDA was $124 million in 2014, up from $110 million in the prior year.

GAAP net income was $20 million or $0.10 per share in 2014, down from $28 million or $.13 per share in the prior year. Net income excluding adjustments[2] was $60 million or $0.28 per share, up from $52 million or $0.24 per share in 2013.

"We concluded a year of strong strategic progress as we accelerated the growth of Vonage Business Solutions, and we took disciplined actions in the Consumer business to optimize profitability," said Alan Masarek, Vonage Chief Executive Officer. "We doubled our addressable market in the large and growing Small and Medium Business ("SMB") sector and strengthened the Company's leadership position in Unified Communications-as-a-Service ("UCaaS") with the acquisition of Telesphere, and we are confident in our ability to accelerate growth at Telesphere as we did with VBS.

"We now have the right assets in place to build Vonage into the clear leader in cloud communications, including a talented and experienced management team, a stellar brand, a low cost structure, great technology platforms, and excellent cash flows and financial flexibility."

Fourth Quarter Financial and Operating Results[(5)]

For the fourth quarter of 2014, Vonage reported revenue of $215 million, up from $211 million in the year ago quarter. Revenue at VBS was $27 million, up 56% organically from the year ago quarter.

Adjusted earnings before interest, taxes, depreciation and amortization[1] ("adjusted EBITDA") for the fourth quarter were $35 million, the highest in 10 quarters, up $5 million sequentially and up $10 million from $25 million in the year ago quarter.

GAAP net income was $6 million or $0.03 per share in the fourth quarter of 2014, up from $5 million sequentially, and up from $4 million or $0.02 per share in the year ago quarter. Net income excluding adjustments[2] was $19 million or $0.09 per share, up from $14 million or $0.07 per share sequentially, and up from $10 million or $0.05 per share in the year ago quarter.

Average revenue per user ("ARPU") was $28.61, up from $28.19 sequentially and down from $28.72 in the year ago quarter. The sequential increase is primarily due to a rate plan increase the Company implemented in the fourth quarter of 2014 and the removal of second line extensions, which the Company now provides for free.

During the fourth quarter, the Company reclassified to cost of telephony services ("COTS") certain network operations and customer care expenses that were previously reported in selling, general and administrative ("SG&A"). This change does not have any impact on income from operations, adjusted EBITDA or net income.

COTS was $57 million, flat sequentially. COTS declined from $58 million in the year ago quarter due to lower termination costs. On a per line basis, COTS was $7.57, up from $7.46 sequentially, and down from $7.87 in the fourth quarter of last year.

Cost of goods sold was $8 million, down from $9 million sequentially and from $10 million in the prior year. Gross margin[3] was 70%, up from 69% sequentially, and up from 68% in the prior year due to lower termination costs.

SG&A expense was $70 million, up from $66 million sequentially and $67 million in the year ago quarter. The sequential increase was due to a partial quarter of Telesphere costs, severance and acquisition-related costs. SG&A increased from the year ago quarter due to the addition of VBS.

Marketing expense was $52 million, down from $58 million in third quarter and the year ago quarter. Subscriber line acquisition cost ("SLAC") was $373, up from $365 sequentially and up from $331 in the year ago quarter due to lower gross subscriber additions.

Income from operations was $14 million, up from $12 million sequentially and up from $7 million in the year ago quarter reflecting lower consumer marketing spend.

Vonage reported gross line additions ("GLAs") of 138,000, down from 160,000 sequentially, and down from 175,000 in the year ago quarter. This reduction was planned, as the Company continued its strategic approach to improving the quality of customers it acquires, while driving lower churn and increased profitability. Customer churn improved to 2.5% from 2.7% in the third quarter of 2014 and was flat versus the year ago quarter. Net line losses were 29,000, down from a loss of 19,000 net lines sequentially and a 9,000 gain a year ago.

As of December 31, 2014, cash, cash equivalents and marketable securities, including $3 million in restricted cash, totaled $51 million. Capital expenditures for the quarter were $7 million. Free cash flow was $24 million, up $3 million versus the third quarter primarily due to positive changes in working capital and higher EBITDA offset by acquisition costs related to Telesphere.

Growth in the SMB Market[(6)]

VBS revenues increased 50% to $93 million in 2014 compared to $62 million in the prior year. In 2014, Vonage made significant investments in the VBS sales infrastructure by growing the direct sales force, expanding the reseller network and building out the VBS platform.

Vonage is applying to Telesphere the successful model that it has used to accelerate the growth of VBS and began making similar investments in the sales infrastructure of Telesphere following the close of the acquisition.

With the addition of Telesphere, Vonage now offers a more comprehensive suite of cloud telephony and UCaaS services, including advanced call center solutions, collaboration, mobile office and HD multi-point video conferencing. The Company can now serve the cloud communications needs of a wider range of business customers, from small office/home office businesses to SMBs with distributed workforces, and firms with more than 1000 employees. Depending on the customer's needs, Vonage can provide either an over-the-top solution or one that is bundled with a private integrated MPLS network enabling quality of service (QoS) management for businesses that require higher service level agreements (SLAs).

Patent Portfolio

In 2014, Vonage continued to execute on its strategy to develop and protect its valuable intellectual property. The Company was granted 31 new patents, nearly double the number granted in 2013. The Company owns 69 U.S. patents, with 249 U.S. patent applications pending, along with numerous foreign patents and pending applications in jurisdictions worldwide.

Share Repurchase

Vonage repurchased 4 million shares of stock for $13 million in the fourth quarter and 13 million shares for $49 million during 2014, completing the $100 million program authorized in 2013. Since beginning its repurchase program in August of 2012, the Company has repurchased 45 million shares for $133 million. The Company is now executing on a new $100 million, four-year buyback program that began January 2, 2015.

Outlook

For 2015, the Company expects total revenue to be in the range of $850 million to $865 million. The Company expects adjusted EBITDA to be at least $135 million. This revenue and EBITDA outlook reflects a disciplined approach to Consumer customer lifetime value and includes significant growth from and material investment into VBS and Telesphere as the Company continues to drive growth and scale its infrastructure in the UCaaS sector. The revenue guidance does not include the impact of potential acquisitions, which are an important component of the Company's strategy. Based on its current acquisition pipeline, in 2015 the Company expects to complete one or more acquisitions, which would be accretive to revenue. The Company expects 2015 capital expenditures and software development of approximately $30 million.

Mr. Masarek commented, "In 2015, we are taking the appropriate steps to position the Company for future revenue growth. We will continue to focus on profitability in the Consumer business and high revenue growth in Business Services. We also plan to apply our disciplined M&A strategy to pursue accretive acquisitions that enable Vonage to gain scale in the SMB business, expand our geographic presence, broaden the Company's product set or expand our customer base."

Conference Call and Webcast

Management will host a webcast discussion of the quarter and full year on Thursday, February 12, 2015 at 10:00 AM Eastern Time. To participate, please dial (877) 359-9508 approximately 10 minutes prior to the call. International callers should dial (224) 357-2393.

The webcast will be broadcast live through Vonage's Investor Relations website at http://ir.vonage.com. Windows Media Player or RealPlayer is required to listen to this webcast. A replay of the call and webcast will be available shortly after the conclusion of the call and may be accessed through Vonage's Investor Relations website at http://ir.vonage.com or by dialing (855) 859-2056. International callers should dial (404) 537-3406. The replay passcode is 68555291.

(1) This is a non-GAAP financial measure. Refer below to Table 3 for a reconciliation to GAAP income from operations.

(2) This is a non-GAAP financial measure. Refer below to Table 4 for a reconciliation to GAAP net income.

(3) Gross margin is defined as operating revenues less cost of telephony services and cost of goods sold as a percentage of revenues.

(4) This is a non-GAAP financial measure. Refer below to Table 5 for a reconciliation to GAAP cash provided by operating activities.

(5) These results include the impact of the Company's acquisition of Telesphere Networks, Ltd., which closed on December 15, 2014.

(6) VBS results do not include the impact of the Company's acquisition of Telesphere Networks, Ltd., which closed on December 15, 2014.

VONAGE HOLDINGS CORP.
TABLE 1. CONSOLIDATED FINANCIAL DATA
(Dollars in thousands, except per share amounts)

	Three Months Ended			**For the Years Ended**	
	December 31,	**September 30,**	**December 31,**	**December 31,**	
	2014	**2014**	**2013**	**2014**	**2013**
	(unaudited)			**(audited)**	
Statement of Operations Data:					
Revenues	$ 214,601	$ 214,737	$ 211,220	$868,953	$829,067
Operating Expenses:					

Direct cost of telephony services (excluding depreciation and amortization of $4,374, $4,704, $4,408, $19,330, and $14,892, respectively)	56,745	56,807	57,898	232,053	237,294
Direct cost of goods sold	8,421	9,205	9,956	36,815	37,586
Selling, general and administrative	69,790	66,437	67,383	274,750	238,720
Marketing	51,549	58,305	57,920	226,121	227,052
Depreciation and amortization	14,264	12,346	11,427	51,407	36,066
	200,769	203,100	204,584	821,146	776,718
Income from operations	13,832	11,637	6,636	47,807	52,349
Other expense:					
Interest income	53	37	99	212	307
Interest expense	(1,632)	(1,680)	(1,859)	(6,823)	(6,557)
Other (expense) income, net	(10)	(2)	(33)	11	(104)
	(1,589)	(1,645)	(1,793)	(6,600)	(6,354)
Income before income tax expense	12,243	9,992	4,843		