



## **Vonage Reports Full Year Adjusted EBITDA of \$144 Million, up 16% on Revenue of \$895 Million; Full Year Vonage Business Revenue Increased 132% to \$219 Million; Fourth Quarter Consolidated Revenue of \$230 Million, Driven by \$71 Million of Business Revenue; Fourth Quarter Business Revenue Churn of 1.1%**

February 11, 2016

HOLMDEL, N.J., Feb. 11, 2016 /PRNewswire/ -- Vonage Holdings Corp. (NYSE: VG), a leading provider of cloud communications services for businesses and consumers, today announced results for the fourth quarter and full year ended December 31, 2015.

### **Summary of Full Year 2015 Results**

"We made enormous progress optimizing the profitability of Consumer Services while successfully pivoting to the Unified Communications for Business market," said Alan Masarek, Chief Executive Officer of Vonage. "During the year, we successfully integrated the five companies we acquired over the last two years and built the industry's broadest multi-channel sales distribution platform to address the full spectrum of the business market. Vonage Business now has a scalable, efficient platform capable of supporting continued rapid organic growth while successfully absorbing future acquisitions."

Mr. Masarek continued, "I'm particularly proud of the stellar financial results we delivered in parallel with the operational improvements, acquisition integrations, and foundation building we completed. We generated consolidated revenue growth for the second consecutive year, and EBITDA was the highest in four years."

For the full year 2015, Vonage reported revenue of \$895 million, up from \$869 million in the prior year. Income from operations was \$53 million, down from \$58 million in the prior year. Vonage Business revenue was \$219 million, up from \$94 million in the prior year. Adjusted earnings before interest, taxes, depreciation and amortization<sup>1</sup> ("adjusted EBITDA") were \$144 million, a 16% increase over the prior year. GAAP net income was \$23 million or \$0.11 per share, up from \$20 million or \$0.10 per share in 2014. Adjusted net income<sup>2</sup> was \$68 million or \$0.32 per share, up from \$60 million, or \$0.28 per share in the prior year.

### **Fourth Quarter Consolidated Financial Results**

For the fourth quarter of 2015, Vonage reported revenue of \$230 million, up from \$215 million in the year ago quarter. Adjusted EBITDA for the fourth quarter was \$34 million, flat sequentially and down from \$35 million in the year ago quarter. GAAP net income was \$3 million, or \$0.02 per share, flat sequentially and down from \$6 million in the prior year period. Adjusted net income was \$13 million or \$0.06 per share, down from \$19 million, or \$0.09 per share in the year ago quarter.

### **Vonage Business Results**

- Revenue at Vonage Business was \$71 million in the fourth quarter, up from \$28 million in the year ago quarter, a 149% year-over-year increase on a GAAP basis.
- Revenue churn at Vonage Business was 1.1% in the fourth quarter, down from 1.3% sequentially and 1.5% in the year ago quarter. This reduction in Business churn is the result of material improvements in customer retention, as well as the addition of iCore's mid-market and enterprise customer base, which tends to have a lower churn profile.
- Ending seats were 542,000, up from 311,000 seats in the year ago quarter, reflecting strong organic growth and the addition of SimpleSignal and iCore customers.

In 2015, Vonage significantly expanded its presence in the Enterprise segment. Vonage is uniquely positioned to serve the Enterprise market through the Company's robust enterprise-grade solution, which includes Vonage's private cloud and national MPLS network, with 21 Points-of-Presence (POPs) across the country, as well as the ability to integrate business workflow with a company's communications system. This combination enables Vonage to guarantee the Quality of Service (QoS) and Service Level Agreements (SLAs) needed to provide large enterprises with a reliable communications solution, while providing tools that increase employee productivity.

"According to Gartner, Enterprise spend on cloud-based telephony will grow at nearly 35% a year for the next several years. We are seeing that first-hand in our own client base and pipeline," Mr. Masarek said. "We believe this demand is driven by greater adoption of cloud services and the efficiencies that enterprises are realizing by integrating their communications system with their everyday business workflow."

Vonage has an established base of Enterprise customers, including WeWork, a market leading provider of shared workspace with nearly 80 locations across the globe. WeWork has deployed more than 4,500 seats already, and Vonage is pleased to be part of their growth plans as they expand into additional International markets, including in the UK, where Vonage recently migrated WeWork's multiple locations to the Vonage solution.

### **Consumer Services Results**

- Revenue in Consumer Services was \$159 million in the fourth quarter, compared to \$186 million in the prior year period, reflecting the Company's decision to redeploy capital into the rapidly growing UCaaS for business sector and to optimize cash flow from this segment.
- Consumer Services customer churn improved to 2.2% in the fourth quarter, down from 2.4% in the year ago quarter.
- Average revenue per line ("ARPU") in Consumer Services was \$26.93, down from \$28.06 in the year ago period.

- Consumer Services net line losses were approximately 58,000, reflecting the Company's continued focus on improving the quality of its customers to drive increased profitability. Consumer Services ended the fourth quarter with 1.9 million subscriber lines.

## Patent Portfolio

Vonage continues to develop innovative technologies and to protect its valuable intellectual property. The Company was granted 14 new patents in the fourth quarter and now owns 105 U.S. patents, with 230 U.S. patent applications pending.

## Share Repurchase

In 2015, Vonage purchased 3.3 million shares of stock for \$15.2 million at an average price of \$4.58. Since beginning its repurchase programs in August 2012, the Company has repurchased 48 million shares for \$148 million through the end of 2015 at a highly accretive average price of \$3.08. The Company's repurchase activity is subject to change in the context of its overall capital deployment strategy as market conditions and acquisition opportunities may warrant. For example, the Company did not repurchase stock in the fourth quarter of 2015, but has repurchased 525,000 shares for \$2.6 million, at an average price of \$5.00 per share, thus far in the first quarter of 2016.

## 2016 Outlook

For 2016, the Company expects total revenue to be in the range of \$905 million to \$920 million. Within this, Vonage Business GAAP revenue is expected to grow roughly 50% from 2015 to 2016, prior to any additional acquisitions. The Company expects adjusted EBITDA to be at least \$150 million. This revenue and adjusted EBITDA outlook reflects a disciplined approach to Consumer Services, and includes significant growth from, and material investment into, Vonage Business to drive growth in the UCaaS sector. The Company expects 2016 capital expenditures and software development to be approximately \$38 million. This capital expenditure guidance is net of tenant improvement capital expenditures the Company is investing in its corporate headquarters in Holmdel, NJ, which are being refunded in cash by the building owner in connection with the long-term lease renewal. The majority of capital expenditures reflect investments to support the Company's long-term growth objectives, including consolidating its U.S. data centers and other success-based capital projects. Revenue, EBITDA and capital expenditure guidance does not include the impact of potential acquisitions, which are an important component of the Company's strategy.

## Conference Call and Webcast

Management will host a webcast discussion of the fourth quarter and full year 2015 on Thursday, February 11, 2016 at 8:30 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 31552769.

(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.

## VONAGE HOLDINGS CORP.

### TABLE 1. CONSOLIDATED FINANCIAL DATA

(Dollars in thousands, except per share amounts)

	Three Months Ended			For the Years Ended	
	December 31, 2015	September 30, 2015	December 31, 2014	December 31, 2015	December 31, 2014
	(unaudited)			(audited)	
<b>Statement of Operations Data:</b>					
Revenues	\$ 230,124	\$ 223,360	\$ 214,533	\$895,072	\$868,854
Operating Expenses:					
Direct cost of telephony services (excluding depreciation and amortization of \$6,724, \$6,415, \$4,449, \$24,868, and \$19,405, respectively)	68,513	67,193	56,546	261,768	231,383
Cost of goods sold	8,597	8,206	8,106	34,210	36,500
Sales and marketing	89,919	88,028	87,184	347,896	373,737
Engineering and development	6,921	6,830	6,386	27,220	20,869
General and administrative	29,897	28,860	25,494	109,153	98,780
Depreciation and amortization	17,979	15,446	12,468	61,833	49,514
	221,826	214,563	196,184	842,080	810,783
Income from operations	8,298	8,797	18,349	52,992	58,071
Other expense:					
Interest income	24	24	48	89	207
Interest expense	(2,541)	(2,222)	(1,632)	(8,786)	(6,823)

Other (expense) income, net	(247)	(50)	(10)	(842)	11
	(2,764)	(2,248)	(1,594)	(9,539)	(6,605)
Income from continuing operation before income tax expense	5,534	6,549	16,755	43,453	51,466
Income tax expense	(2,128)	(3,116)	(6,749)	(18,418)	(21,759)
Income from continuing operations					