



Vonage Announces Strong Second Quarter 2016 Results, Driven by Vonage Business GAAP Revenues of \$86 Million, a 75% Year-Over-Year Increase

August 2, 2016

HOLMDEL, N.J., Aug. 2, 2016 /PRNewswire/ -- Vonage Holdings Corp. (NYSE: VG), a leading provider of Cloud Communications for Business, today announced results for the second quarter ended June 30, 2016.

Second Quarter Consolidated Financial Results

For the second quarter of 2016, Vonage reported revenues of \$234 million, up from \$222 million in the year ago quarter. GAAP Income from Operations was \$5 million, down from \$17 million in the prior year, primarily due to acquisition related costs. Adjusted Operating Income Before Depreciation and Amortization ("Adjusted OIBDA")¹ for the second quarter was \$40 million, a 5% increase over the prior year period. GAAP net income was \$1 million or \$0.00 per share, down from \$8 million or \$0.04 per share in the year ago quarter, also due to acquisition related costs. Adjusted net income² was \$18 million or \$0.08 per share, up from \$14 million or \$0.07 per share in the year ago quarter.

"We reported a strong second quarter, highlighted by 75% revenue growth by Vonage Business. We continue to make significant progress on our business transformation, including the completion of our recent acquisition of Nexmo, a global leader in Communications Platform as a Service, or CPaaS. We are building a powerful and highly differentiated global Cloud Communications solution for business," said Vonage CEO Alan Masarek.

"At the same time, our strong adjusted OIBDA performance for the quarter reflects the disciplined execution of our plan to drive significant cash flows from Consumer Services, where churn hit a ten-year low," Mr. Masarek continued.

Second Quarter Operating Results

- Vonage completed the acquisition of Nexmo Inc. ("Nexmo"). This acquisition accelerates Vonage's growth strategy, deepens its technology capabilities and elevates its leadership position in Cloud Communications.
- Nexmo added many large, global customers including Amazon AWS, HTC and StubHub.
- Revenue at Vonage Business, which includes \$8 million of Nexmo revenue, was \$86 million, a 75% year-over-year increase on a GAAP basis.
- Ending seats at Vonage Business were 578,000, up from 401,000 seats in the year ago quarter, a 44% increase.
- Vonage Business revenue churn was 1.4%, compared to 1.3% in the year ago quarter.
- Revenue from Consumer Services was \$148 million, compared to \$173 million in the prior year period, consistent with the Company's strategy to redeploy capital into the rapidly growing Cloud Business Communications sector.
- Consumer customer churn improved to 2.1%, down from 2.2% in the year ago quarter.

Patent Portfolio

Vonage continues to execute on its strategy to develop innovative technologies and to protect its valuable intellectual property. The Company was granted 12 new patents in the second quarter and now owns 123 U.S. patents, with more than 200 U.S. patent applications pending, along with many foreign patents and pending applications in jurisdictions worldwide.

Share Repurchase

In the second quarter, Vonage repurchased 5.7 million shares of stock for \$24.8 million at an average price of \$4.31 under its current four-year \$100 million program. Year-to-date, the Company has repurchased 7.4 million shares for \$32.8 million at an average price of \$4.43. Since beginning its repurchase programs in August 2012, the Company has repurchased 55.6 million shares for \$181 million at a highly accretive average price of \$3.26.

Change in Financial Disclosure

In May 2016, the SEC issued new and revised Compliance & Disclosure Interpretations (CDIs) regarding the reporting of non-GAAP financial measures by all U.S. listed companies.

As a result, Vonage re-evaluated its use of non-GAAP financial information to ensure that when used in conjunction with its reported GAAP results, its non-GAAP financial information provides investors with valuable information regarding the Company's underlying operational performance. Consistent with the CDIs, Vonage has (i) removed tax expense from its reconciliation of Adjusted Net Income and (ii) revised its nomenclature to refer to its primary operating performance measure as Adjusted OIBDA rather than adjusted earnings before interest, taxes, depreciation and amortization (Adjusted EBITDA) in order to more accurately reflect the relationship between the relevant GAAP measure, Income from Operations, and the Company's non-GAAP performance measure.

Conference Call and Webcast

Management will host a webcast discussion of quarterly results and related matters on Tuesday, August 2, 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>. 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 49688332.

(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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	2015
	2016	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Statement of Income Data:					
Revenues	\$233,675	\$226,824	\$221,858	\$460,499	\$441,588
Operating Expenses:					
Cost of service (excluding depreciation and amortization of \$6,985, \$6,833, \$6,005, \$13,818, and \$11,729, respectively)	76,078	69,150	64,209	145,228	126,062
Cost of goods sold	8,352	9,066	8,217	17,418	17,407
Sales and marketing	83,344	79,601	84,385	162,945	169,949
Engineering and development	7,243	6,834	6,864	14,077	13,469
General and administrative	35,053	26,670	27,162	61,723	50,396
Depreciation and amortization	18,218	16,979	14,463	35,197	28,408
	228,288	208,300	205,300	436,588	405,691
Income from operations	5,387	18,524	16,558	23,911	35,897
Other income (expense):					
Interest income	25	21	21	46	41
Interest expense	(3,057)	(2,446)	(2,088)	(5,503)	(4,023)
Other income (expense), net	104	154	32	258	(545)
	(2,928)	(2,271)	(2,035)	(5,199)	(4,527)
Income from continuing operations before income tax expense	2,459	16,253	14,523	18,712	31,370
Income tax expense	(1,562)	(8,322)	(6,176)	(9,884)	(13,174)
Income from continuing operations	897	7,931	8,347	8,828	18,196
Loss from discontinued operations	—				