



Ryan Goodman, RingCentral, Inc. – Head of Investor Relations

Thank you. Good afternoon and welcome to RingCentral's fourth quarter 2019 earnings conference call. I am Ryan Goodman, RingCentral's Head of Investor Relations. Joining me today are Vlad Shmunis, Founder, Chairman, and CEO, Anand Eswaran, President and Chief Operating Officer, and Mitesh Dhruv, Chief Financial Officer. Our format today will include prepared remarks by Vlad, Anand, and Mitesh, followed by Q&A.

Some of our discussions and responses to your questions will contain forward-looking statements. These statements are subject to risks and uncertainties. Actual results may differ materially from our forward-looking statements.

A discussion of the risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission and is incorporated by reference into today's discussion. RingCentral assumes no obligation and does not intend to update or comment on forward-looking statements made on this call.

I encourage you to visit our Investor Relations website at ir.ringcentral.com to access our earnings release, slide deck, our GAAP to non-GAAP reconciliations, our periodic SEC reports, a webcast replay of today's call, and to learn more about RingCentral.

For certain forward-looking guidance, a reconciliation of the non-GAAP financial guidance to the corresponding GAAP measure is not available as discussed in detail in the slide deck posted on our Investor Relations website.

Unless otherwise indicated, all measures that follow are non-GAAP with year-over-year comparisons. A reconciliation of all GAAP to non-GAAP results is provided with our earnings release and in the slide deck.

With that, let me turn the call over to Vlad.



Vlad Shmunis, RingCentral, Inc. – Founder, Chairman, and CEO

Good afternoon and thank you for joining our fourth quarter earnings conference call.

We delivered an outstanding fourth quarter, with continued strength in mid-market, enterprise, and channel. Additionally, we had a number of major announcements and achievements during the quarter:

First, I'm pleased to announce that we finished the year achieving an important milestone. Namely, we have surpassed our long-term goal of a \$1 billion annual revenue run rate, ahead of schedule. This is a significant achievement for RingCentral, and we continue to be the largest and fastest growing pure play UCaaS vendor.

- In October, we announced our strategic partnership with Avaya.
- In November, we announced that we expanded our relationship with AT&T.
- Today, we announced our first strategic System Integrator partnership with Atos.
- On the leadership team, we added Anand Eswaran as President and Chief Operating Officer.

I'll expand on these key announcements later, after a review of Q4 results.

Revenue and non-GAAP EPS exceeded the high-end of our guidance. Key drivers continue to be mid-market, enterprise, and channel. We continue to see strong contributions from our vertical market initiatives focused on financial services, healthcare, and education. We also saw another strong quarter from contact center.

Key metrics for Q4 were solid across the board:

- First, total revenues grew to \$253 million. This is a 34% increase year-over-year and is above the high-end of our guidance range.
- Mid-market and enterprise continues to be a key driver of our performance. We define mid-market and enterprise as \$25,000 or more in annual recurring



revenue, or ARR. This grew 59% year-over-year and is now a \$479 million business.

- Enterprise, defined as customers with \$100,000 or more in ARR, grew 71% year-over-year to \$293 million.
- Channel ARR grew 63% year-over-year to \$300 million.

Overall, 2019 was a transformational year for RingCentral, as we extended our leadership in the UCaaS market.

Looking forward, our technology leadership, experienced management team and unique strategic partnerships put us in a better position than ever to maximize our opportunities in the \$50 billion-plus UCaaS market.

On that note, I'd like to welcome Anand Eswaran to the RingCentral team as President and Chief Operating Officer. Prior to RingCentral, Anand was Microsoft's Corporate Vice President for Global Enterprise Business. Anand will be responsible for leadership and execution across products, engineering, sales, marketing, services, customer care, operations, and human resources.

I'd also like to take a minute to express our gratitude to Dave Sipes. He announced that he will be retiring from the company at the end of Q2. Dave has played a pivotal role in RingCentral's journey from an approximately \$10 million revenue company to our current \$1 billion run rate. Dave, we wish you all the best in the next stage of your journey, and look forward to your continued friendship and mentorship.

I'll now provide an update on the strategic partnership front.

First, the Avaya partnership. We attended Avaya's ENGAGE user conference last week, where we showcased a first look of Avaya Cloud Office by RingCentral, or ACO. Feedback was positive from customers and channel partners.

RingCentral and Avaya teams are working together well. ACO is well on track for its scheduled launch at the end of this quarter. The marketing, sales, and support teams have made solid progress to ensure customer success, and training efforts are well underway with sales and channel partners.



Next, AT&T. In November, we announced that we expanded our relationship with AT&T. AT&T made Office@Hand by RingCentral a lead offer for UCaaS, as part of its Voice and Collaboration portfolio. It has been a few short months, but we are already starting to see encouraging trends that are exceeding our initial expectations.

And today, I am excited to announce our first strategic System Integrator partnership with Atos. Atos is a global leader in enabling enterprise digital transformation with annual revenue of approximately \$13 billion. The partnership will help extend RingCentral's reach into large enterprise accounts moving forward with digital transformation initiatives. As part of this partnership, we will introduce a co-branded UCaaS solution. This co-branded solution will be a key part of Atos' Digital Workplace solutions.

To wrap up, 2019 was a stellar year. We are still in early innings of the global cloud communications transformation story. We are well-positioned to further extend our leadership with our commitment to innovation, customer-first mindset, and a unique strategic partnership strategy.

With this momentum in place, it has never been more clear that the cloud is winning, and RingCentral is winning in the cloud.

Now, for some color on Q4, I will turn the call over to our new President and COO, Anand Eswaran.

Anand Eswaran, RingCentral, Inc. – President and COO

Thank you, Vlad.

I am humbled and energized to join Vlad and the RingCentral team. We are at an inflection point in the way we communicate, collaborate and work. As every company transforms to be a digital business and workplace, RingCentral is uniquely poised as the leader in UCaaS to partner with these companies in their digital journeys. I am so excited by the large opportunity ahead of us to transform business communications globally.



I also want to thank Dave for building an exceptionally strong innovation and go to market team, which has taken RingCentral to a billion-dollar run rate. I have enjoyed getting to know Dave well as we spend every minute together partnering and working through the transition. Thanks to Dave for the help and support.

I will now provide some color on Q4. Q4 was again a strong quarter. It was driven by strength in mid-market, enterprise, and channel. We continue to win based on our superior platform and differentiated go to market capabilities.

First, our platform, which integrates voice, video, and team messaging continues to resonate with our customers. Our open platform ecosystem expanded to nearly 30,000 developers. I'm also excited to announce that we surpassed 3,000 certified integrations. The ease and flexibility with which our customers can integrate business applications with our communications platform is a game changer. In fact, over 70% of our seven figure wins in Q4 cited open platform as a key capability in their decision to go with RingCentral.

An example of where open platform and mobility were key is a Fortune 500 utility company with approximately 8,000 users. They replaced legacy on-premise Cisco systems with RingCentral Office. Integration of multiple business applications with RingCentral Office, including Office 365 and Workday, was important for the customer. Additionally, the ability of field employees to be connected to a single enterprise communications solution using rugged Caterpillar mobile devices was important.

We saw upmarket strength in our focus vertical markets of financial services, healthcare, and education. In aggregate, during Q4, these accounted for over 40% of our seven figure wins.

In financial services, we had a standout quarter.

First, we are excited to announce a win with Arch Capital, a global leader in providing specialty insurance and reinsurance solutions. We are pleased to see a Global 2,000 multi-billion dollar enterprise like Arch Capital select RingCentral for their global cloud communication needs.



Another financial institution win in the quarter was Credit Human, a large credit union based in San Antonio with members across the country. The ability to integrate a complete, unified communications platform with key financial services applications, including Jack Henry, was an important differentiator in securing this nearly 1,000 seat win.

In healthcare, we secured a 4,500 user win with Aveanna Healthcare, the nation's largest provider of pediatric home care. They wanted to standardize to a single communications experience across approximately 240 locations, including headquarters and regional offices. Our ability to provide a single unified solution with high reliability was key to this win. In addition, our mobile capabilities were a strong fit with the home care business model.

We also signed a 3,600 user win with U.S. Renal Care, a leading provider of dialysis services. This customer needed a single communication solution across more than 300 locations. They also needed the ability to integrate with existing paging systems.

In higher education this quarter, we had a win with National American University. Our unified platform with integrated team messaging, and the ability to implement custom emergency workflows were key driving factors in this win.

Let me now provide a brief update on the success we are having with contact center. Over half of our seven figure wins included contact center in Q4. Contact center is a key element of our land and expand strategy.

For example, earlier this year, we secured a 10,000 seat win with a Fortune 1,000 multinational software company. In Q4, this customer added 150 contact center seats.

Also, earlier this year, we secured a nearly 6,000 seat RingCentral Office win with Crawford & Company, and in Q4, we added over 400 contact center seats.

Additionally, in Q4, we delivered a marquee win for Engage Digital, our native digital customer engagement solution. Richemont is a well-known Switzerland-based luxury goods holding company of many luxury brands, including Montblanc.



They needed a single digital customer engagement platform across eight of their luxury brand divisions. Richemont plans to deploy Engage Digital globally on several digital channels, such as Facebook, Instagram, and Messenger.

We also continue to see increasing traction with our native Engage Voice outbound/blended solution, with a record number of wins last quarter.

Now for the financials, I will turn the call over to our Chief Financial Officer, Mitesh Dhruv.

Mitesh Dhruv, RingCentral, Inc. – CFO

Thanks Anand and welcome aboard. Looking forward to working together as we scale RingCentral to the next level. I'd also like to express my gratitude to Dave for the terrific partnership over the years.

Good afternoon everyone.

2019 was a solid year on several key fronts.

First, we exited the year with a revenue run rate of over a \$1B dollars.

Second, we grew 34%, with an operating margin of over 9%, executing above the Rule of 40. We delivered on the \$1B and the Rule of 40 a year ahead of commitment to our shareholders. These milestones are a testament to the large market opportunity and RingCentral's focus on consistent execution. We believe that the Rule of 40 is a key metric to evaluate profitable growth across SaaS companies and is a high bar we will strive to sustain.

Third, we are winning larger enterprise customers, with well over 100 seven-figure TCV deals for the year.

And finally, we signed an industry re-defining partnership with Avaya.

Our fourth quarter capped the year with strong performance on all key financial metrics. Total ARR grew to \$960 million, up 32% year-over-year, and ARR for RingCentral Office, our core UCaaS solution, grew to \$877 million, up 36% year-



over-year. Key drivers continue to be mid-market and enterprise with record contribution from channel partners.

Mid-market and enterprise had another strong quarter with ARR up 59%. This was bolstered by enterprise ARR growth of 71%, driven by digital transformation momentum at large scale customers. Overall mid-market and enterprise yet again accounted for over 60% of new bookings. Higher upmarket mix is a positive indicator of our profitable growth given better lifetime value.

Channel partners are a key element of our strong momentum with larger customers. Channel ARR reached \$300 million in Q4, up 63%, and also accounted for a record number of our seven-figure TCV deals. We continue to broaden our channel network and deepen relationships with key partners such as Carousel, Telarus, and Westcon.

Upmarket and channel drove strong results across the board in Q4.

Total revenue grew 34% to \$253 million.

Subscription revenue grew 33% to \$229 million.

Non-GAAP subscription gross margin was 82%.

Non-GAAP operating margin was 9.6%.

Non-GAAP EPS of \$0.22 was above our guidance.

Operating and free cash flow includes approximately \$37 million of one-time payments stemming from our recent partnerships. Excluding these items, our free cash flow margin would have been approximately 8%.

Now let me provide some financial color on our recent partnerships, that we believe to be additional drivers of our long-term performance.

Starting with the latest news first. As we announced today, Atos will become a strategic SI partner to RingCentral. We expect RingCentral to accelerate its large enterprise reach by joining Atos' digital transformation portfolio. Given the sales cycles for large enterprises, we are not assuming much contribution from Atos in 2020.



And now for our industry-redefining Avaya partnership. ACO is on track for launch at the end of this quarter. We have received positive feedback and interest from both customers and partners alike. As we've mentioned before, it will take time to ramp the go to market motion following the launch. As such we continue to expect revenue contributions from ACO to start towards the end of 2020.

Now to the 2020 financial outlook.

We expect total revenue to be between \$1.125 billion and \$1.135 billion for an annual growth of 25% to 26%. We expect non-GAAP EPS to be \$0.93 to \$0.94 based on a fully diluted share count of 94.5 million. This reflects additional imputed shares from the convertible debt due to stock price appreciation, as well as shares issued to Avaya in November. Excluding these items, our EPS guidance range would have been \$0.04 higher.

In summary, 2019 was an outstanding year for RingCentral. Our industry-leading product innovation is driving increased demand from customers, channel, and strategic partners. Longstanding industry leaders with vast go-to-market are selecting RingCentral as their UCaaS solution for their customers. With these tailwinds, we are more confident than ever in our ability to continue to lead in this \$50 billion UCaaS market.

With that, let me turn the call to the operator for Q&A.