



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

Thank you. Good afternoon and welcome to RingCentral's second quarter 2020 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, including our third quarter and full year 2020 financial outlook and our assumptions underlying that outlook. 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. In particular, our business is currently being impacted by the COVID-19 pandemic. The extent of its continued impact on our business will depend on several factors, including the severity, duration and extent of the pandemic, as well as actions taken by governments, businesses and consumers in response to the pandemic, all of which continue to evolve and remain uncertain at this time. RingCentral assumes no obligation and does not intend to update or comment on forward-looking statements made on this call.

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.

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.

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 second quarter earnings conference call. We hope all of you are safe and in good health.

The pandemic has created unprecedented global challenges and is having a transformative impact on how businesses operate now and in the future. Cloud transformation of business communications platforms has become a priority as companies adapt to a work from anywhere environment. Businesses of all sizes now require communications solutions where employees can work productively with customers, partners, and peers from anywhere, on any device, and in any mode.

We embarked on this journey of enabling cloud migration of business communications over a decade ago. RingCentral is now uniquely positioned to meet these demands with our enterprise-proven, global, and trusted unified Message Video Phone, or MVP, platform.

Q2 Results and Recent Highlights

The results speak for themselves.

We delivered a strong second quarter, as we continue to benefit from strong contributions from mid-market, enterprise and our channel partners.

Let me highlight some recent key events:

- First, we announced an expansion of our strategic partnership with Atos.
- Second, together with Avaya, we announced a further global roll out of Avaya Cloud Office by RingCentral.



- Third, we saw good uptake on our new RCV offering, which we launched in early April. We'll talk more about this later.
- And lastly, we were humbled to learn last quarter that RingCentral has been named to the Forbes Global 2000 list, putting us alongside the biggest and most valuable companies in the world.

As to our financial performance, revenue and non-GAAP EPS exceeded our guidance. Key drivers continue to be mid-market, enterprise, and channel. We delivered a record number of seven figure TCV wins this quarter. Several of these large wins were in our targeted verticals of healthcare, financial services, and education, and also included multiple international wins.

Key metrics for Q2 were solid across the board. Total revenue grew to \$278 million. This is a 29% increase year-over-year and is above the high-end of our guidance range. Importantly, total annual recurring revenue, or ARR, grew 33% year-over-year to \$1.1 billion. The difference between overall revenue growth and higher ARR growth is driven by higher adoption of RingCentral apps relative to sale of new desktop devices.

We believe the strong Q2 results further validate RingCentral as the industry leading platform in the global UCaaS market. We look forward to building on this momentum and expanding our market reach to maximize the opportunity ahead.

Atos

On that note, we recently announced that RingCentral will be the exclusive UCaaS provider to Atos Unify. Unify, formerly Siemens Enterprise Communications, was acquired by Atos in 2016. Approximately 60% of their on-premise installed base of 40 million users is in Europe, with a strong presence in Germany. This opportunity is in addition to our system integrator relationship announced earlier as part of the Atos Digital Workplace portfolio.

Importantly, during the last few months, Atos and RingCentral saw a pent-up demand to address Unify's install base together. Atos has accelerated its reseller



outreach efforts and now has more than 90 channel partners trained to sell the new Unify Office by RingCentral, or UO.

We expect to be live with UO in 11 countries by the end of the year. These include Germany, France, Spain, Italy, Netherlands, Austria, Belgium, Ireland, US, UK, and Australia.

We are also excited to welcome Atos as a direct customer to the Unify Office solution. Atos will start with deploying UO to the 5,000-strong employee base of its Atos UCC division (formerly Unify). Atos will later expand UO to their entire base of over 100,000 employees.

Avaya

As to Avaya. Based on joint channel enablement efforts and first joint customer wins with Avaya Cloud Office, or ACO, we are quite pleased with the early progress of this partnership.

There are now over 2,000 channel partners on-boarded. There is a robust pipeline building, and several important large deals already on the books.

An example of a large joint win was the selection of our platform by a large BPO that supports the UK Government's COVID-19 Tracing Programme to control the spread of the virus. In this highly urgent and critical use case, the solution leveraged RingCentral's open API platform, and was rolled out to multiple thousands of users in approximately 6 weeks.

In June, ACO was launched in Australia, Canada, and the UK. Several new features and additional migration tools were also released in June, which will make cloud migration even more seamless moving forward for large customers.

MVP Platform

Of course, our success with these great partnerships is rooted in our leading, comprehensive Message Video Phone, or MVP, platform.



It is only by enabling their employees to communicate via any mode, from any device, and from anywhere that businesses can stay productive during these trying times. To that end, we saw double digit growth in messaging, and triple digit growth in video and mobile voice minutes on our MVP platform quarter over quarter.

Speaking of video, our new open, standards-based RingCentral Video, or RCV platform has been quickly evolving since its launch in the beginning of April. Feedback and customer reception has been very positive, and we already have over 10,000 paid RingCentral Office accounts enabled with RingCentral Video. Building on the successful launch of RingCentral Video, in June, we announced the initial release of RingCentral Rooms. This extends the power of RingCentral Video to conference rooms and meeting spaces, which remain important even in these trying times.

Overall, we are proud to be able to assist in the fight against the global pandemic. Our mobile-first enterprise communications platform, combined with our open integration APIs has enabled major institutions like State of West Virginia to rapidly deploy our solutions with embedded communications capabilities for thousands of contact tracers to reduce the impact of the pandemic.

Conclusion

In summary, RingCentral has always been committed to enabling workforces to productively communicate and collaborate via any mode, on any device, from anywhere. And, with the new world order, working from anywhere is no longer a “nice to have.” It is now a hard necessity.

RingCentral is now becoming a platform for business continuity. With our well-proven MVP global solution and our rapidly evolving strategic partners and reseller ecosystem, we are confident that the cloud will continue to win, and RingCentral will continue to win in the cloud.

Now, I will turn the call over to our President and Chief Operating Officer, Anand Eswaran.



Anand Eswaran, RingCentral, Inc. – President and COO

Thank you, Vlad. Good afternoon everyone.

Operationally, Q2 was a very strong quarter. We are laying the foundation for the next phase of sustainable multi-year growth. The business is thriving and the demand for our cloud-based business communications solutions is higher than ever.

Our open, integrated MVP platform enabled us to add more new customers in Q2 than any other quarter in our history. Interestingly, this was accomplished without requiring much physical travel for our sales and professional services organizations.

There was broad strength across a number of important segments and initiatives.

- In the enterprise segment, we saw a record number of seven figure TCV wins.
- We also had a very strong quarter for our contact center portfolio, which was included in approximately half of our seven figure wins.
- Our channel plays a strong role in our success. Channel ARR increased 60% year over year to \$375 million.

As we continue to grow to become a multi-billion-dollar revenue company, we are expanding our strong foundational focus on the 'four Ps' - **products**, **people**, **processes**, and **partners**. These efforts will enable us to serve our customers' needs even better, especially in targeted vertical markets.

Let me share some more detail.

First, in the **products** area, innovation was and remains our first principle. We launched RingCentral Video, RingCentral Rooms, and together with Avaya, we launched Avaya Cloud Office by RingCentral with subsequent international expansion. I would also like to highlight that this velocity of innovation happened with most of our development teams working remotely.



Second, on the **people** front we have continued to expand our management team attracting top talent, including incredible industry leaders like Chief Revenue Officer, Phil Sorgen, and our Chief People Officer, Gunjan Aggarwal, who we announced recently. Attracting and retaining a strong and diverse pool of talent is so vital to our long-term success, and it is a priority for our management team.

On that note, hearty congratulations to Vlad for recently being named amongst the top two CEOs for Diversity, and amongst the Best CEOs for Women in the annual Comparably survey covering 60,000 organizations.

Regarding business **processes**, we are making great progress to automate and digitize our end-to-end process and operations, as a foundation for scale. This will enable us to apply AI and Machine Learning to better predict customer needs and deliver enhanced and proactive value to our customers.

Now let's talk **partners**.

- First, Vlad shared details on the strategic partner front with Avaya and Atos, which helps us to further scale our global reach and capture the massive opportunity ahead.
- Second, we continue to see strong performance from our service provider partnerships, led by our renewed momentum with AT&T.
- And finally, we also continue to invest in our channel partner ecosystem. During the quarter we launched IGNITE! a new Partner Program. This program enables partners to own the entire sales cycle with their customers.

Overall, our partners contributed to over 70% of our seven figure wins in the quarter.

Let me bring them to life with a few great customer examples.

One example of a marquee channel win in Q2 is Marvell Technology, a leading global semiconductor company. Marvell needed a highly reliable, scalable, and a global communications platform to replace their legacy on-premise systems. Our mobile-first platform, our global coverage, and integrations with other enterprise



solutions were important differentiators in securing this 6,500-plus user win spread across 20-plus countries, including India and China.

Another notable channel win was with one of the largest custom print apparel companies. They needed a tightly integrated cloud-based communications and contact center solution. This is an 800-plus user UCaaS win combined with over 250 RingCentral Contact Center seats.

As we expand our go to market motions we are finding compelling new opportunities across several important verticals.

In healthcare, we had a seven figure upsell win at a leading US provider of behavioral healthcare services. This important customer is using our unified communications platform to better operationalize their business across the country. In Q2, they expanded by 50% to 7,500 users as they continue to roll out RingCentral across their increasingly distributed workforce.

In education, a large globally renowned U.S. university extended their use of RingCentral Office with an additional 1,500 users added during Q2. This is a great example of the opportunities emerging due to COVID, where we saw an accelerated deployment cycle at this university with tens of thousands of potential users still ahead of us. There is higher usage of our RingCentral apps versus desktop phones, which is a positive indicator of better user engagement. In addition, the implementation has been accelerated to ensure seamless continuity for the upcoming school year.

In financial services, we secured a 2,500 user win across 15 countries with a large private equity firm. For this customer, our rich platform capabilities, service quality, security, and global reach were key competitive differentiators.

Finally, last year, we highlighted an Engage Digital win with a large air transportation company. Over the past year, we have demonstrated the value of our RingCentral platform in helping to transform the company. This transformation became more urgent in the face of COVID-19 with the workforce moving to work from home. In Q2, we saw a trifecta: 1) first, the customer



extended to our UCaaS solution, with 2,400 RingCentral Office users; 2) then, they further expanded their CCaaS footprint by 60 agents; and 3) finally, they consolidated all their digital point solutions to the RingCentral platform. It is great to see customers increasingly embracing the value of the full RingCentral portfolio.

Today, the cloud transformation of communications is a top priority for every business to meet their enterprise needs at a global scale. With our enhanced focus on **products, people, processes, and partners**, we are in a strong position to be a core part of our customer's digital transformations and address the large opportunity ahead of us.

I have been with RingCentral for a little over 6 months now. I am humbled by our vision, the company's commitment to innovation, and our incredible people-centric culture. I am excited to be part of the next phase of RingCentral's growth journey.

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

Thank you.

Mitesh Dhruv, RingCentral, Inc. – Chief Financial Officer

Thanks Anand and good afternoon everyone.

Q2 was a solid quarter on multiple fronts.

- First, ARR for our flagship UCaaS solution RingCentral Office, surpassed \$1 billion for the first time, and grew 36% year-over-year.
- Second, our overall subscription revenue grew 32% year over year along with an overall operating margin of over 10%, demonstrating solid, profitable growth. This is a testament to the large market opportunity and our consistent execution.



- Third, we are winning larger enterprise customers, with a record number of seven-figure TCV deals, demonstrating how strong the demand is for our product in the COVID Environment.
- Fourth, ACO is off to a good start, boding well for the long-term opportunity.
- And finally, we announced UCaaS exclusivity with Atos Unify, further expanding our global reach, and complementing our existing partnerships.

Businesses are turning to RingCentral as they transition workforces to a work from anywhere environment. Mid-market and enterprise customers defined as \$25,000 or more in ARR had another strong quarter with ARR up 50%.

Underpinning this strength was bookings growth from new enterprise customers with \$100K or more in ARR, which was up over 50% sequentially.

As relates to our existing customer base, we mentioned in May that small businesses in verticals like retail, travel and hospitality that account for less than 10% of our overall installed base saw higher churn. But as the quarter progressed, the churn rates improved consistently, although still not at historical levels.

With overall Q2 on solid footing, let's move on to our 2020 outlook.

We are encouraged with the recent trends, but in this crisis environment, we continue to make prudent assumptions for the remainder of the year. Given Q2's outperformance and our highly predictable recurring revenue model, we are raising our annual guidance. We feel confident in executing to our plan. Now, onto specifics.

- We expect subscriptions revenue growth of 28%, up from 25% to 26% previously.
- We expect other non-recurring revenue growth of 8-12%, reflecting customer engagement shift from desktop phones to RingCentral apps on laptop and mobile devices.
- We expect total revenue growth of 26-27%, up from 24-25% previously.
- We expect non-GAAP EPS to be between \$0.92 and \$0.94, up from \$0.91-\$0.94 previously. This includes a \$0.01 impact from lower interest income.



In summary, the global pandemic has provided a structural catalyst for UCaaS adoption and RingCentral saw stronger demand than ever.

Even when COVID is behind us, which we hope happens as quickly as possible, we expect that the new normal for enterprise communications will be cloud-first, as on-premise systems have shown to be inadequate for the needs of businesses.

We believe that the market inflection is past the point of no return, and RingCentral is strongly positioned to take advantage of this trend.

We have an industry-leading product, a steadfast commitment to innovation velocity, as well as a global and diversified go-to-market reach.

Our momentum with AT&T, progress with Avaya, and expansion with Atos further enables us to scale our market reach and add incremental layers of long-term profitable growth.

With that backdrop, we are confident in our ability to lead in this \$50 billion-plus UCaaS market. Of course, this would not be possible without our amazing employees, committed partners and loyal customers. So, a huge thank you to all of them.

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