



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

Thank you. Good afternoon and welcome to RingCentral's first quarter 2021 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 second quarter and full year 2021 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, the success of vaccination efforts, 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 first quarter earnings conference call. We hope all of you are safe and in good health.

First quarter was an exceptional start to 2021. RingCentral Office ARR, which includes both UCaaS and CCaaS, grew 40% year-over-year to \$1.3 billion. We last saw similar growth five years ago on a base that was sub-\$300 million, or less than one quarter of our current level.

And we're seeing this strong performance on all fronts. Avaya and Atos are continuing to gain momentum. RingCentral Office ARR with Direct and Partners, including all of our key partnerships, grew 33% year-over-year to \$817 million. This is an acceleration in growth of 3 points sequentially and 8 points year-over-year.

As the work environment turns hybrid for many businesses, RingCentral's any device, any mode, anywhere Message Video Phone, or MVP, platform continues to gain steam. RingCentral was always about work from anywhere, and with our recent performance and accelerating pipeline, we see clear evidence that our solution is right for the emerging post pandemic world.

We saw this manifest in our strong Q1 performance across the board. We saw exceptional strength in our enterprise business with a record number of Q1 \$1 million-plus TCV wins and two \$10 million-plus TCV deals. Also, I am pleased to share a new milestone. Our Global 2,000 and Fortune 1,000 enterprise business now stands at over \$100 million ARR and has close to have tripled year-over-year.

So why do we win?

RingCentral business successes are underpinned by our industry-leading modern, pure cloud, mobile-first, global unified communications as a service platform.



It all starts with trust. High reliability, security, data privacy, and regulatory compliance are essential to establishing a relationship of trust with enterprises worldwide.

First, reliability. Business communication solutions are the heartbeat of any organization. In a hybrid work environment, reliability of the business communications platform is more critical than ever before. RingCentral's consistent delivery of five nines uptime continues to be an important differentiator. This translates to less than 30 seconds per month of downtime. Very few cloud competitors can consistently provide this level of reliability.

Another key requirement is security and data privacy. Our security and customer data privacy track record is a meaningful differentiator between us and some of our competitors. And this continues to be a focus area of our investments. For example, in Q1, we acquired Kindite, a developer of leading cryptographic technologies. This provides us with enhanced security capabilities such as end-to-end encryption that we intend to roll out later this year.

Additionally, enterprises demand full regulatory compliance and centralized connectivity management across their entire global footprint. RingCentral allows our customers to concentrate on their business, with RingCentral taking care of their global connectivity needs in a centralized, regulatory compliant manner. This continues to be a strong competitive differentiator for us.

Sometimes we get the question, who even needs a phone system – why don't companies just rely on video and mobile phones for their employees?

The answer begins with the fact that there must be a clear, well-defined way for people to reach a business and its employees. While video is clearly very important for meetings, most people use phone and voice to reach companies. This means that, on the company's side, there is a need for centralized business identity, combined with sophisticated workflows and call flows, auditability, enterprise wide analytics, and, of course, security and regulatory compliance for all of their internal and external communications. And this is where traditional



PBX's, that are now being replaced by modern cloud-based phone systems like RingCentral, come into play.

As to mobile phones, they are an important endpoint to RingCentral, similar to softphones and traditional desktop phones. And now, with ever more distributed mobile and remote workforces, and the new work from anywhere paradigm, use of mobile phones and softphones connected via RingCentral is growing at approximately 60% year-over-year. This outpacing use of mobile phones as endpoints on RingCentral proves our original thesis that mobile phones are our friend, not a foe.

Doubling down on this trend, and further extending our technology leadership, RingCentral has recently collaborated with AT&T to deliver Office@Hand Wireless – a pioneering native integration between a pure cloud PBX and a major mobile carrier's network. This enables fixed mobile convergence whereby users can use their mobile phone number with their desktop phone as well, and with full access to cloud PBX capabilities. We believe this new technology will further supercharge AT&T's momentum in converting their mobile business users to UCaaS.

Along with supporting a variety of endpoints, it is more important than ever to provide a seamless user experience across various communication modes of messaging, video, and phone, or MVP.

With the introduction last year of RingCentral Video, we're incredibly proud of our pace of innovation with over 100 new features delivered since the launch. And we recently announced new capabilities such as breakout rooms, video virtual backgrounds, presenter overlay, and picture-in-picture. At this point, all of our new customers and key partners are delivered only RingCentral Video as part of MVP. We have a rich roadmap ahead and are committed to meeting all of our customers' and partners' needs through outpaced innovation and product excellence.

Further complementing our MVP UCaaS product is the RingCentral contact center portfolio. By adopting an integrated UCaaS and CCaaS solution from a single



leading provider, our customers can drive higher employee and agent productivity and improved customer satisfaction. In Q1, we saw exceptional demand for our CCaaS solutions across the entire portfolio. Contact center was included in over 60% of our \$1 million-plus TCV wins, including our largest contact center win to date of over \$10 million TCV.

In closing, we believe work from anywhere is here to stay. The global pandemic has pulled forward years of UCaaS structural awareness and RingCentral is in the pole position with our differentiated trusted platform, accelerating pipeline and a unique partnership network that we believe will be getting even stronger. Stay tuned for upcoming exciting news on that front. With this backdrop, we are confident that we can continue to lead in this \$50 billion-plus global market.

With that, I will now turn the call over to our President and Chief Operating Officer, Anand Eswaran, for additional color on our recent progress. Thank you.



Anand Eswaran, RingCentral, Inc. – President and COO

Thank you, Vlad. Good afternoon everyone.

As Vlad said, Q1 was a very strong quarter. ARR growth was strong. New business from every key partner contributed to accelerated growth in our mid-market and enterprise segments. The enterprise segment was exceptionally strong for a Q1 quarter, driven by accelerated awareness of the need to modernize their legacy communications systems. Small business was also strong as we are seeing the positive impact of the economic recovery in this segment. Our pipeline exiting the quarter was at a record level across our integrated portfolio of cloud-based unified communications and contact center solutions.

I'll start with some key highlights:

- First, RingCentral Office ARR with Direct and Partners grew 33% year-over-year to \$817 million and, more importantly, accelerated 8 points year-over-year. To provide better transparency into the business, we've provided this metric which incorporates contributions from our strategic partners, including Avaya, Atos, and Alcatel-Lucent Enterprise, our service provider partners, including AT&T, BT, Telus, Vodafone Business, and other non-channel partners, as well as our direct business.
- Second, our channel community delivered ARR growth of 53% year-over-year, surpassing \$0.5 billion, with a record level of pipeline generation.
- Third, we closed significant opportunities and we have built a large pipeline where enterprises want RingCentral Office integrated with Microsoft Teams Direct Routing.
- And last, but not the least, demand for our deeply integrated UCaaS and CCaaS platform was a critical factor in contact center posting a standout quarter with triple digit year-over-year growth in new logo business.

Let me now dive into some detail.

I'll begin with our strategic partnerships, where we saw great momentum.



In Q1, we saw solid growth in Avaya Cloud Office seats, new accounts, and transaction volume. ACO has proven to win deals in all segments, including upmarket. We're seeing strength across multiple verticals, including continued traction in Education and Healthcare.

Atos had a very strong Q1 and exited the quarter with pipeline up roughly 3x sequentially. With new campaigns underway and continued channel enablement, we are excited at the opportunity ahead. We also introduced a new co-branded offering called Unify Video by RingCentral. This innovative and integrated video with team messaging solution equips Atos to expand their addressable market and meet growing need for smart meetings.

Alcatel-Lucent Enterprise launched Rainbow Office, powered by RingCentral in 8 countries, right on schedule. We look forward to ramping the go to market motion in additional geographies in coming quarters. While still early, we're encouraged with initial pipeline generation.

Our global service providers delivered a strong quarter, and we had some exciting recent announcements.

I'll start with AT&T. We continue to see positive trends in the new business growth, particularly in upmarket. Trends at BT and Telus were also very strong in terms of both year-over-year growth and pipeline generation. We're particularly pleased to see BT starting to contribute CCaaS wins and elevated upmarket traction since the expanded partnership was announced in Q4. We also continue to expand strategic partnerships with new global service partners, including Vodafone Business, which is on track to launch this year in multiple countries across Europe.

As for our channel community, it was another strong quarter. Time and again, our channel partners are proving effective in demonstrating the differentiated value proposition of the RingCentral platform.

One channel success story was with Equifax, a leading consumer credit reporting agency. Equifax unified 10,000 users across 24 global locations with RingCentral.



Interestingly, channel partners also often drive RingCentral wins even with customers who want tight integration with their other cloud-based solutions. In Q1, we had multiple \$1 million-plus channel-sourced wins where direct routing with Microsoft Teams to the RingCentral platform was critical.

For example, a channel partner provided a great 7,000 user direct routing win with a leading financial services company across over 60 locations.

When working with CIOs and IT decision makers, the conversation begins with reliability, security, and platform capabilities. It's about providing a global platform that can meet very broad and different comprehensive user communications requirements.

A great example of this is our win with the American Cancer Society. They had a range of use cases across corporate offices, retail stores, and Hope Lodges for cancer patients. We are incredibly humbled and proud that this inspirational organization selected RingCentral to meet their diverse needs with a single, cloud-based platform for nearly 3,000 users across over 100 locations.

Our focus on selling a comprehensive communications platform versus point solutions was further demonstrated with the strong demand for our CCaaS solution in the form of both upsell to existing customers and new logo business.

On that note, we are proud to say we won our largest contact center deal ever. A leading mortgage originator and servicer wanted to replace a mix of older solutions with a single, integrated UCaaS and CCaaS solution for over 6,000 of its employees and over 2,000 contact center agents.

I am so proud of the many accomplishments of our team in Q1. I'd like to extend my thanks to all of our employees and partners for their hard work and dedication. And, of course, thank you to our customers, for trusting us to be a key part of their digital transformation journeys. It is an exciting time in the RingCentral story, and I truly believe the best is yet to come.

With that, I will turn the call over to our Chief Financial Officer, Mitesh Dhruv.



Mitesh Dhruv, RingCentral, Inc – Chief Financial Officer

Thanks Anand, and good afternoon everyone.

Q1 was a strong start to the year across the board. All key metrics came in above the high end of guidance.

- Subscriptions revenue grew 34% year-over-year, up from 33% last year; and
- Non-GAAP operating margin was above 9%, putting us again well above the Rule of 40. We've consistently achieved this metric for the last several years and it is a key metric that we as a management team track for profitable growth.

Particularly exciting was standout growth in Office ARR of 40%, an acceleration of 4 points versus prior year. This growth was driven by strong momentum with enterprise customers. Enterprise ARR grew 62% year-over-year and surpassed \$0.5 billion for the first time.

We are also seeing a trend of large enterprises increasingly embracing the entire UCaaS plus CCaaS platform. In TCV deals over a million dollars, we saw the number of wins increase more than 50% year-over-year and the average ARR per deal more than doubled. So more new customers are buying from us and these customers are buying more from us.

There are several factors that are driving this upmarket growth.

We believe that the global pandemic is proving to be a catalyst for a meaningful pull forward of awareness and adoption of cloud communication solutions, which is benefiting RingCentral.

We're also witnessing higher upsell. Bookings from existing upmarket customers once again surpassed 40% of new business. This is driven by broader implementations of UCaaS, as well as a record level of CCaaS upsell into our integrated solution.



And contributions from our diversified go to market partner network are kicking in. As Vlad and Anand noted, we saw an 8 point year-over-year acceleration in Direct and Partner Office ARR. These partners give us preferential access to roughly half of the 400 million user market. Looking ahead, as more users from partners come online throughout the year, we expect strong incremental contributions. We believe this is just a precursor of sustainable multi-year trends.

The market opportunity is massive and underpenetrated. We are excited to see continued traction in this thriving market. Along with a large TAM, the underpinnings of a long-term sustainable SaaS model are always hinged on favorable unit economics to drive healthy long-term margins. And I'm pleased to highlight several drivers here, as well.

First, with a larger mix of upmarket customers with solid upsell potential and a sub-5% annual gross churn rate, we are benefiting from a higher lifetime value.

Second, as average deal size expands, we are seeing higher sales rep productivity.

Third, RingCentral's unique strategic partnerships and global service provider partnerships not only expand our global market reach, but also lower customer acquisition costs. We can leverage a highly experienced salesforce from partners, as well as lower our upfront marketing dollars. This dynamic is even more pronounced in international markets, where we are seeing increasing contributions from partners.

And finally, as all new Office sales are with our own RingCentral Video or RCV, we see higher gross margin potential long-term.

With that backdrop of structural macro tailwinds, solid UCaaS plus CCaaS performance, momentum from partners, and favorable unit economics, we are raising the outlook for 2021.

- We are increasing subscriptions revenue growth to 28% to 29%, up from 26% to 27%.



- We are increasing total revenue growth to 27% to 28%, up from 25% to 26%.
- We expect non-GAAP operating margin of 10.0% to 10.1%.
- And we are raising our non-GAAP EPS to \$1.24 to \$1.27, up from \$1.20 to \$1.24. We expect to benefit from a slightly lower share count from lower dilution as we redeemed the outstanding 2023 convertible debt.

Beyond 2021, we expect to layer on more growth as partners like Alcatel-Lucent Enterprise fully ramp and Vodafone Business starts to contribute. We continue to invest in R&D, growth partnerships, and quota-carrying resources. This will enable us to further drive product innovation and build pipeline to capture this large opportunity ahead of us. Multi-year structural tailwinds for UCaaS and CCaaS are still in early days. We believe that we are well-positioned to deliver long-term profitable growth on our path to becoming a multi-billion-dollar revenue company.

Before I turn the call back to the operator, I'd also like to give a big thanks to all the employees at RingCentral. Thank you for your consistent execution.

With that, let's open the call for Q&A.