

3Q 2025 earnings script

Steven Horwitz, RingCentral, Inc. - VP of Investor Relations

Thank you. Good afternoon and welcome to RingCentral's third quarter 2025 earnings conference call. Joining me today are Vlad Shmunis, Founder, Chairman, and CEO, Kira Makagon, President and COO, and Vaibhav Agarwal, CFO.

Our remarks today include forward-looking statements regarding the Company's business operations, financial performance, and outlook. These statements are subject to risks and uncertainties, some of which are beyond our control, and are not guarantees of future performance. Actual results may differ materially from our forward-looking statements and we undertake no obligation to update these statements after this call. For a complete discussion of the risks and uncertainties related to our business, please refer to the information contained in our filings with the Securities and Exchange Commission, as well as today's earnings release.

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 presentation, which you can find under the Financial Results section at ir.ringcentral.com. With that, I'll turn the call over to Vlad.

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

Thank you Steven. Good afternoon everyone, and thank you for joining our third quarter earnings conference call.

Let me begin by welcoming the talented people from CommunityWFM to the RingCentral family. We have now added AI-driven workforce engagement management capabilities that strengthen our RingCX contact-center solution. This also lays the foundation for a new standalone product line.

We delivered another strong quarter in Q3 with subscription revenue growth at 6% year over year. These results reflect continued execution in our core business coupled with strong progress from our AI-led new product portfolio. In fact, our pure AI ARR is growing at strong double digit rates sequentially, while also making meaningful contributions to overall ARR from these AI enabled customers. Importantly, we're also delivering expanding margins, meaningfully lowering stock-based compensation, and generating strong free-cash-flow.

Foundation: Leadership in Voice

This strong performance is rooted in our leadership in voice, the most mission-critical mode of communication for businesses. While voice continues to be an important means of intercompany communications, it is critical for consumers engaging with businesses, or B2C.

This is particularly true in our top verticals, such as healthcare, financial services, retail, and professional services. Revenue from these verticals represent over half of our entire business.

As a further proof point, overall voice usage on our platform remains robust and is growing in double digits.

In short, voice remains a critical modality for business communications, as missed calls result in lost revenues, missed opportunities, or worse. RingCentral has built a 2.5 billion dollar business from the ground up by providing a robust, global, secure, and reliable voice-first cloud communications platform that is trusted by over half a million businesses, with **tens of billions of minutes of** annual use.

Evolution of RingCentral

RingCentral has been at the forefront of moving business communications to the cloud.

If you think about our initial offering as **RingCentral 1.0**, it was about enabling digital transformation for businesses worldwide by transitioning their business communications from on-prem to the cloud. By leveraging our voice-first, global, secure, and reliable cloud business communications platform, we have built a strong leadership position over the last two decades. This remains to be the case to this day.

In the next phase of our journey, which I call **RingCentral 2.0**, we built on this foundation to become a multi product platform provider.

Many customers prefer to purchase both their business communications and contact center solutions from the same vendor. Increasingly, organizations also need seamless interaction between contact center agents and other company employees to resolve customer inquiries. RingCentral has purpose-built solutions to meet these needs.

There are situations where consumer inquiries are handled by employees who are not dedicated contact-center agents. To support these scenarios, we enhanced **RingEX** with **call queues, analytics and other contact center like functions**. This has been extremely well received, with over one-third of our overall inbound traffic now being consumed by such informal contact center use.

As to dedicated customer-engagement needs, we've introduced our own native, **AI-first contact-center solution, RingCX**. It's a fully integrated offering that's intuitive to use, easy to deploy, and infused with AI from the start. This product has been well received with strong traction and double digit growth.

And now we're entering the era of **RingCentral 3.0**. We are innovating rapidly with the majority of our quarter billion annual spend on innovation now dedicated to our new AI-led products. We are expanding and extending our platform by adding a host of voice-first AI agents, as well as infusing AI across our entire portfolio for a better customer experience and engagement.

Why are we positioned to win in this new AI era? RingCentral is the first point of contact between businesses and their consumers. This puts us in a unique position to deploy AI agents from the get go, thus giving us a natural advantage as we lead the shift to intelligent business communications via Agentic Voice AI.

Agentic Voice AI: Before, During, After

To double click, our Agentic AI product portfolio covers every phase of the customer journey: before, during, and after an interaction.

For before the interaction, our AI Receptionist (AIR) handles inbound calls, routes them intelligently, and automates routine interactions before they reach a human. Since launch, AIR has seen strong early traction and is growing rapidly.

For during the interaction, today we announced our new AI Virtual Assistant, which we call AVA. It's an AI agent that helps employees and agents in real time, surfacing insights, summarizing key points, and automating tasks to enhance productivity.

And for after the conversation, our AI Conversation Expert, or ACE, formerly known as RingSense, analyzes calls, extracts insights, and provides actionable intelligence. It's growing at a healthy double-digit pace and is helping customers understand and improve their customer experience.

Together, these AI-driven solutions, AIR, AVA, and ACE, complement RingEX and RingCX and are already contributing meaningfully to growth. We're investing significantly, with over 50% of our approximately \$250 million R&D spend focused on our new product portfolio. And we remain on track to exceed \$100 million in ARR from new products by the end of 2025.

Broad Adoption of New Products

Adoption of our new AI-led products is broad-based across customer cohorts, from small businesses to large enterprises. Our GSP partners are also beginning to sell these new offerings, expanding our reach and accelerating adoption. Importantly, we have recently expanded our partnership with AT&T, who began offering AIR to their customers, highlighting our shared commitment to intelligent communication experiences.

Our small business and GSP businesses together now represent over \$1 billion in ARR and continue to grow in the double digits, with strong unit economics and increasing adoption of our AI portfolio.

Closing Remarks

In summary, we're executing well across the board. Our core voice platform remains durable and mission-critical, and we're expanding into new, high-growth markets through RingCX and our AI-led product suite. We've evolved from a UCaaS leader into a multi-product, AI-powered communications platform with multiple growth levers. We're excited about the road ahead as we enter the era of Agentic Voice AI, driving smarter, more efficient communications for our customers and sustainable, profitable growth for our shareholders.

I want to thank our employees for their dedication and focus in driving innovation, and our customers for trusting us to be the voice of their business. With a tenured and talented management team in place, a strong commitment to innovation, and a loyal and growing customer and partner base, we are well positioned for this next phase of our AI-led evolution.

With that, I'll turn the call over to Kira to tell you more. Thank you.

Kira Makagon, RingCentral, Inc. – President and COO -

Thank you, Vlad. I'm looking forward to meeting many of you at our Investor Product Briefing on Wednesday. It's a great opportunity for you to see our AI portfolio in action.

I'll start by giving you an update on my strategic priorities:

First – Build upon our leadership in business voice with Agentic Voice AI

As Vlad noted, RingCentral is uniquely positioned here. Voice is **mission-critical** — and is **the richest source of business intelligence**. We're turning voice data into insights that elevate customer experiences, automate work, and drive faster outcomes.

I'm proud of how quickly we are executing against our agentic AI roadmap – delivering value throughout the entire conversation —**before, during, and after**.

For **BEFORE** the conversation, we're seeing fast adoption of RingCentral AI Receptionist or **AIR**. Since our launch earlier this year, we now have **more than 5,800 paying customers – an over 80% increase quarter over quarter**. AIR ensures businesses **never** miss a call or an opportunity. And today, we rolled out new features in AIR, including lead capture, enhanced appointment settings, and contextual handover. We're thrilled to see that AIR is having a **material impact** on our customers' businesses.

- For example, with AIR, **Televero Health** now answers 100% of their calls, and achieved a 15% increase in monthly appointment volume within the first few months of deployment. This resulted in a **two hundred thousand dollar** uplift in monthly revenue, providing **meaningful ROI**.

For **DURING** the conversation, today we unveiled RingCentral's next generation AI Virtual Assistant or **AVA**.

- **For example, Trinity Logistics**, a leading freight and logistics provider, is saving 30 seconds to a minute per call by using AI to capture real-time notes and action items from every customer interaction. This frees up their sales people to focus on building relationships and driving new business.

For **AFTER** the conversation, AI Conversation Expert, or **ACE**, formerly known as RingSense, unifies customer and employee conversations into one powerful analytics dashboard. We now have more than 4,300 customers using it, up from approximately

3,600 customers, reflecting **solid** sequential growth. Our customers are using it to coach their agents and improve efficiency.

- For example, **Modissoft**, a point of sale cloud software company, is using ACE to gain clear visibility into customer sentiment, behavior patterns, and emerging trends — insights that they did not have before. ACE enables them to turn data into business outcomes.

AIR, AVA, and ACE together with our core RingEX and RingCX products create a fully integrated Agentic Voice AI workflow – BEFORE, DURING and AFTER – every interaction. This is the power of our unified AI-first platform.

The second priority – Expand TAM through our multi product portfolio

We are seeing **strong traction** with RingCX. Customers value its simplicity, omnichannel flexibility, seamless integration with RingEX, and a rich set of AI capabilities. As Vlad said, this product is enjoying double digit sequential growth, and makes up nearly half of our one million dollar-plus TCV deals this quarter.

The strong land-and-expand motion of AI-first RingCX with RingEX is demonstrating our ability to increase our share of wallet.

- A good example of an expansion deal is one of Canada's largest insurance companies who was already using RingEX, and later chose to add RingCX with various AI modules. Together, these solutions are expected to improve outbound performance, reduce agent turnover, and ultimately contribute to their revenue growth as they transform their contact center operations.

Today, we also announced the integration of CommunityWFM into our Workforce Engagement Management suite, **a major step forward** in helping organizations optimize contact center performance. By harnessing AI across three key pillars: agent performance, customer sentiment, and operational planning – we're empowering smarter, more efficient operations. These capabilities are available as add-ons for the Core RingCX package and now included in the new **RingCX Advanced and Ultra packages**.

In parallel, we're expanding our core UCaaS offering. As Vlad said, a meaningful portion of RingEX inbound call minutes and SMS usage are used for customer engagement. To capitalize on this, we're introducing new **paid add-ons for enhanced Call Queues and advanced SMS**. And, we're bringing together RingEX and these add-ons in one simple,

integrated package called **Customer Engagement Bundle**. This expansion opens a new growth avenue and **extends** our total addressable market.

Now, onto my third priority.

We're harnessing AI across our organization to work smarter, move faster, **and** do more with less. While we're using a number of 3rd party tools to improve efficiency across all departments, we are particularly happy with adoption and internal use of our own products within our company – we call it RingCentral on RingCentral. Let me give you some examples.

First, we were able to transition our 2000+ customer support agents to RingCX and now have deployed CommunityWFM for workforce engagement management to this entire organization in just a few short weeks. With AI Quality Management we are driving faster resolution through automated coaching with nearly **100% of calls scored**. Combined with AI Agent and Supervisor Assist capabilities, we've reduced average handle times by over **15%**.

In Sales, **ACE** has improved sales rep performance and customer satisfaction. **ACE now coaches 100% of our prospect, partner, and customer calls in North America**. This drove sales quota attainment by **10%**.

These operational gains are translating into greater scalability, workforce efficiency, better customer experiences, and improved margins.

In summary, our multi-product AI strategy is working. We're delivering measurable customer value, expanding our market opportunity, **AND** improving profitability. I'm incredibly proud of our teams and excited for what's next.

With that, I'll hand it over to Vaibhav.

CFO Section

Thank you Kira and good afternoon, everyone.

Introduction

Q3 was another solid quarter with disciplined execution across key metrics and the three priorities I outlined last quarter

- **First**, driving sustainable, profitable growth while investing in new product innovation.
- **Second**, expanding margins and free cash flow through disciplined cost management.
- **Third**, executing on a capital allocation strategy focused on investing in innovation, paying down debt, returning capital through stock repurchases and reducing stock based compensation and dilution.

Together, these priorities are aimed at expanding free cash flow per share and positioning RingCentral for durable, long-term value creation.

With that, let me turn to our third-quarter performance.

Sustainable and Profitable Growth

Starting with growth. Total revenue was \$639 million, up 5% year over year and at the high end of our guidance. Subscription revenue grew 6% to \$616 million, reflecting the durability of our core business and increasing traction from our AI-led products.

As Vlad highlighted, we have multiple growth levers across the business. We delivered continued growth in our core business, with healthy new customer adds and stable over 99% monthly retention rates.

As to our new AI-led new products, we are growing in strong double digits sequentially putting us well on track to exceed \$100 million in ARR by year-end.

Profitability and Efficiency

In keeping with our philosophy of profitable growth, we drove record margins and free cash flow per share. This was made possible as we continue to drive efficiencies with hiring discipline, extended use of offshoring, vendor consolidation and increasing use of AI internally.

Subscription gross margin remained strong at about 81%. Operating margin was 22.8%, up 180 basis points year over year, and above the high end of our guidance. Sales and marketing expense as a percentage of revenue improved 140 basis points, driven by ongoing go-to-market efficiencies. Non-GAAP EPS increased 19% to a dollar thirteen per diluted share.

Stock-Based Compensation and GAAP Profitability

Reducing SBC remains a key focus. Through the first three quarters of 2025, new share grants declined year over year as we are able to achieve more with less with offshoring and use of AI. As a result of this, we are updating our 2025 SBC outlook to 11% of revenue, a 350-basis-point improvement year over year. Our annual grants this year are expected to be about \$150 million or 6% of revenue, which we expect to further improve upon in the years ahead. We expect SBC as a percent of revenue to trend lower to these levels over time as older grants roll off.

With the reduction in SBC and improved profitability, we delivered another quarter of positive GAAP operating and net income, which we expect to continue.

Free Cash Flow and FCF Per Share

Moving to free cash flow. We generated \$130 million of free cash flow in Q3, up 23% year over year. This reflects ongoing efficiency gains and disciplined working-capital management.

As a result, we are raising our full-year free cash flow outlook again to be between \$525 and \$530 million, which represents over 30% year over year growth and a FCF margin of 21%.

Lower SBC, coupled with our share-repurchase program, is driving a meaningful reduction in share count. We now expect fully diluted shares for 2025 to be approximately 92 million shares, returning to 2020 levels. We are optimistic of driving this further down in the years ahead.

We now expect 2025 free cash flow of over \$5.70 per share, which is an increase of about 35% year over year. We are delivering strong and compounding free cash flow per share and driving long-term shareholder value.

Balance Sheet and Capital Allocation

Moving to capital allocation. Following the framework I outlined earlier, year to date, we paid down \$275 million of debt and repurchased \$200 million of stock. We also acquired Community WFM, which is consistent with our strategy of accelerating innovation by adding capabilities that enhance our product portfolio.

During the quarter, we expanded and extended our credit agreement. The facility now totals \$1.26 billion, of which \$955 million remains undrawn. This refinancing was a proactive step to address our \$609 million convertible notes due in March 2026. The refinancing maintains our current leverage profile and extends all debt maturities until 2030.

Following earlier upgrades from Fitch Ratings and Moody's, S&P has also upgraded our rating, recognizing our improving leverage and FCF profile.

Going forward we remain committed to reducing gross debt to \$1 billion by the end of 2026.

We also view share repurchases as an attractive use of cash at current valuation levels. In Q3 we repurchased 3.9 million shares for \$117 million, with \$384 million remaining under the current authorization.

Moving to guidance.

GUIDANCE

For the fourth quarter, we expect:

- Subscriptions revenue of \$618 to \$626 million.
- Total revenue of \$638 to \$646 million.
- Non-GAAP operating margin of 22.8%, up approximately 145 basis points year-over-year.
- Non-GAAP EPS of \$1.12 to \$1.15 based on approximately 90 million fully diluted shares.
- Share-based compensation range of \$64 to \$69 million.

As a result, we expect our full year 2025 to be:

- Subscriptions revenue growth year-over-year of approximately 5.5 to 6%.
- Total revenue growth year-over-year of approximately 4.5 to 5%.
- Operating margin at approximately 22.5%
- Raising non-GAAP EPS to \$4.29 to \$4.33 per diluted share
- Raising full-year FCF outlook to \$525 million to \$530 million
- Improving share-based compensation range to \$275 to \$280 million.
- Raising free cash flow per share to approximately \$5.71 to \$5.79 per diluted share, based on approximately 92 million shares.

Let me conclude with three key takeaways:

- **First**, we delivered another quarter of profitable growth with revenue at the high end, margins reaching record levels, and expected annualized free cash flow growth of over 30% year over year.
- **Second**, we are scaling our AI-led products, which are well on track to exceed \$100 million in ARR by year-end.
- **Third**, we are delivering on our capital allocation strategy. We are on track to generate well over \$500 million in annual free cash flow resulting in more than \$5.70 in free cash flow per share, which is best in class among our peer group.

We're looking forward to meeting many of you at our Investor Product Briefing on Wednesday at the NYSE. With that, let's open up the call to questions.