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

Thank you. Earlier today, RingCentral announced that it will become the exclusive provider of UCaaS Solutions to Avaya.

Joining me today to discuss the transaction is Vlad Shmunis, Founder, Chairman, and CEO of RingCentral, and Mitesh Dhruv, Chief Financial Officer of RingCentral. Our format today will include prepared remarks by Vlad and Mitesh, followed by Q&A.

Some of our discussions and responses to your questions will contain forward-looking statements, including statements regarding the new partnership between RingCentral and Avaya and its potential results and benefits, and the potential size of the UCaaS market opportunity. 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 slide deck on the transaction with Avaya, our earnings releases and slide decks, our non-GAAP to GAAP reconciliations, our periodic SEC reports, a webcast replay of today's call, and to learn more about RingCentral.

Unless otherwise indicated, all financial measures that are discussed on this call are non-GAAP with year-over-year comparisons. A reconciliation of all GAAP to non-GAAP results is provided with our earnings releases and in the earnings slide decks on our website.

With that, I'll turn the call over to Vlad.

RingCentral

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

Good afternoon and thank you for joining us. We are excited to announce the strategic agreement between RingCentral and Avaya. This partnership leverages respective strengths of each company, aligning Avaya's strong market presence and worldwide go-to-market capabilities with RingCentral's leading global UCaaS platform.

Many analysts view the UC to UCaaS transition as a $50 billion opportunity that is now reaching an inflection point. Benefitting from this shift, RingCentral has seen continued enterprise and channel momentum. We think the strategic partnership between Avaya and RingCentral will have long-term positive effects as enterprises worldwide continue migrating to the cloud.

Most importantly, we view this strategic partnership as positive for customers and partners.

We believe that Avaya UC customers will now be able to enjoy numerous productivity improvements offered by RingCentral's leading UCaaS solution that integrates voice, video, and team messaging with an open platform and strong global footprint. Additionally, we expect Avaya customers to benefit from lower total cost of ownership as compared to their current operations, which involve their hosting and maintaining on-premise systems, and self-managing a multitude of underlying carriers.

As for partners, they will now be able to better satisfy the evolving needs of their customers, while building a predictable recurring revenue portfolio with attractive economics.

Our CFO, Mitesh will later address positive impacts that RingCentral expects from this partnership.

I will now provide some additional details behind today's announcement:

- As part of this commercial agreement, we will be providing a new UCaaS solution named Avaya Cloud Office by RingCentral, or ACO. ACO will be the exclusive UCaaS offering for Avaya. We believe it would effectively address the cloud transition opportunity for Avaya's 100 million strong user base, which

includes over 90% of the Fortune 100 enterprises. It will also empower Avaya's extensive partner network in over 180 countries with a leading UCaaS solution.

- RingCentral and Avaya will jointly contribute technology and resources to develop programs and automation to further aid in on-premise to cloud transition. Leveraging RingCentral's open platform, customer migration from Avaya's on-premise UC to Avaya Cloud Office by RingCentral will be streamlined. Avaya Cloud Office by RingCentral will also enable Avaya customers to leverage their existing investments in most of their Avaya phones and other devices, which is an important cost of ownership consideration.

In summary, we believe today's announcement represents a major opportunity for all parties involved, including, importantly, customers, partners, and, of course, Avaya and RingCentral.

With that, I will now turn the call over to our CFO, Mitesh Dhruv, for more color on financial terms of this agreement.

Mitesh Dhruv, RingCentral, Inc. – CFO

Thanks Vlad and good afternoon everyone. Let me begin with a walk-through of the agreement terms.

Under our commercial agreement, both companies will jointly contribute resources towards development and sales & marketing of Avaya Cloud Office or ACO. As part of these efforts, RingCentral will pay Avaya an advance of $375 million in stock, which will primarily count towards future payments for ACO sales, as well as certain licensing rights.

Also, as part of the agreement for RingCentral to be the exclusive UCaaS offering for Avaya, RingCentral will invest $125 million for convertible and redeemable preferred stock. This would translate into an approximately 6% position in Avaya. RingCentral remains committed to our pure-play SaaS business model, and this 6% investment will require neither financial statement consolidation of any kind nor equity method accounting.

From a financial perspective, we are laser focused on both the growth economics and growth itself. We believe ACO will be accretive to revenue and to operating margins.

This partnership provides us the opportunity to accelerate the transition of a sizable installed base of UC customers to the cloud. This should provide a new driver for our incremental long-term growth.

As to margins, ACO contributions have favorable unit economics. We expect that by leveraging Avaya's worldwide go-to-market and channel network, ACO sales would have a lower cost to book versus our other direct and channel efforts. As a result, we believe this partnership will be accretive to long-term operating margins.

In conclusion, we are excited about the opportunities this partnership creates. We remain committed to our pure-play SaaS business model and see this partnership as another driver to our continued philosophy of profitable growth.

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