



Third Quarter 2016 Earnings
October 26, 2016



Safe Harbor

Caution Concerning Forward-Looking Statements

Various remarks that the Company makes contain forward-looking statements regarding acquisitions, acquisition integration, growth, growth priorities or plans, new products and related investment, revenues, adjusted OIBDA, churn, seats, lines or accounts, average revenue per user, cost of telephony services, the Company's share repurchase plan, new products and related investment, capital expenditures, and other statements that are not historical facts or information constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. The forward-looking statements are based on information available at the time the statements are made and/or management's belief as of that time with respect to future events and involve risks and uncertainties that could cause actual results and outcomes to be materially different. Important factors that could cause such differences include but are not limited to: the competition we face; the expansion of competition in the unified communications market; our ability to adapt to rapid changes in the market for voice and messaging services; risks associated with the market for CPaaS products and services; our ability to retain customers and attract new customers, including in a cost effective manner; the risk associated with developing and maintaining effective internal sales teams; the risk associated with developing and maintaining effective distribution channels; risks related to the acquisition or integration of future businesses; security breaches and other compromises of information security; risks associated with sales of our UCaaS services to medium-sized and enterprise customers; our dependence on third party facilities, equipment, systems and services; system disruptions or flaws in our technology and systems; our ability to scale our business and grow efficiently; risks associated with our third-party vendor cloud infrastructure; our reliance on third party hardware and software; our dependence on third party vendors; the impact of fluctuations in economic conditions, particularly on our small and medium business customers; our ability to obtain or maintain relevant intellectual property licenses; intellectual property and other litigation that have been and may be brought against us; failure to protect our trademarks and internally developed software; obligations and restrictions associated with data privacy; uncertainties relating to regulation of VoIP services; results of regulatory inquiries into our business practices; uncertainties regarding the regulation of CPaaS services; customer misuse of our CPaaS products; the impact of export controls and economic sanctions regulations; fraudulent use of our name or services; our ability to establish and expand strategic alliances; risks associated with operating abroad; liability under anti-corruption laws; governmental regulation and taxes in our international operations; the impact of domestic and international tax regulations on our CPaaS products and services; our dependence upon key personnel; our dependence on our customers' existing broadband connections; restrictions in our debt agreements that may limit our operating flexibility; foreign currency fluctuations; our ability to obtain additional financing if required; any reinstatement of holdbacks by our vendors; our history of net losses and ability to achieve consistent profitability in the future; and other factors that are set forth in the "Risk Factors" section and other sections of Vonage's Annual Report on Form 10-K for the year ended December 31, 2015, in the Company's Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. While the Company may elect to update forward-looking statements at some point in the future, the Company specifically disclaims any obligation to do so, and therefore, you should not rely on these forward-looking statements as representing the Company's views as of any date subsequent to today.

Non-GAAP Financial Measures

This presentation contains non-GAAP financial measures (including adjusted operating income before depreciation and amortization ("adjusted OIBDA"), adjusted OIBDA less capex, adjusted net income, net debt (cash) and free cash flow), as defined in Regulation G adopted by the SEC. The Company provides a reconciliation of these non-GAAP financial measures to the most directly comparable financial measure at the end of the presentation and in the Company's quarterly earnings releases, which can be found on the Vonage Investor Relations website at <http://ir.vonage.com>.



Third Quarter 2016 Highlights

- Reported consolidated GAAP revenues of \$248 million, an 11% year-over-year increase
- Grew Vonage Business GAAP revenues by 86% year-over-year
 - UCaaS: 44% year-over-year GAAP growth
 - CPaaS: 35% year-over-year organic growth
- Produced Adjusted OIBDA¹ of \$41 million, a 21% year-over-year increase
- Launched next generation voice API – VAPI - effectively doubling the Company's addressable market in CPaaS



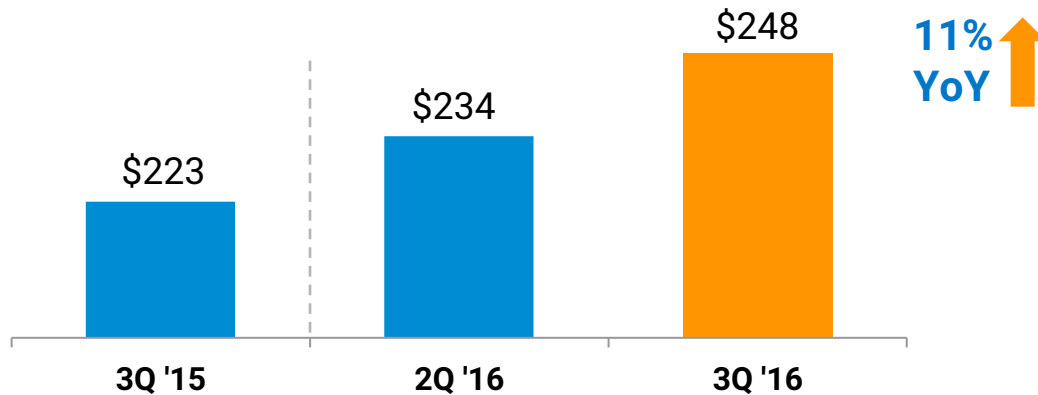
We will Integrate the Business Communications Value Chain



Revenues

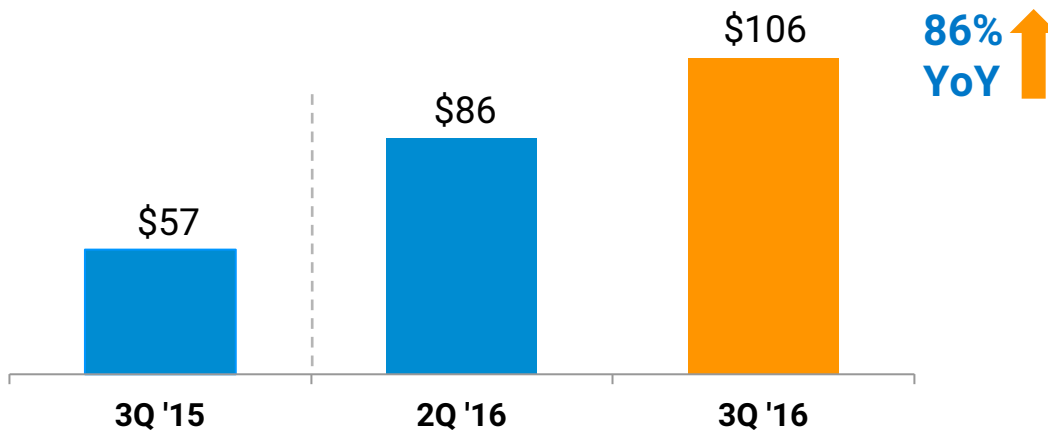
(\$ in millions)

Consolidated Revenues



- Consolidated revenues up from the prior year as Business revenues offset the planned decline in Consumer

Vonage Business Revenues (GAAP)

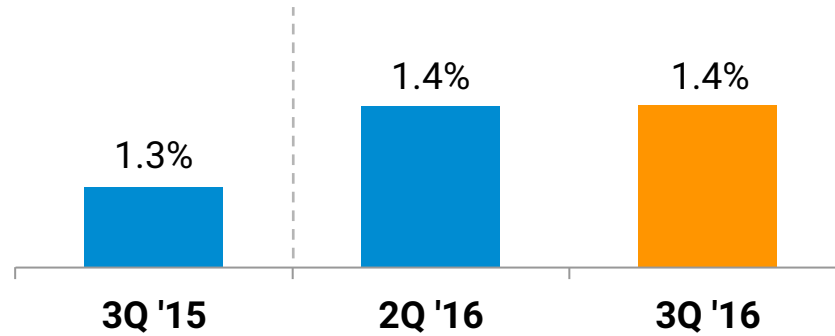


- Strong business growth reflects:
 - Continued execution of Vonage Business organic growth and acquisition strategy
 - UCaaS revenue: \$82M
 - CPaaS revenue: \$24M

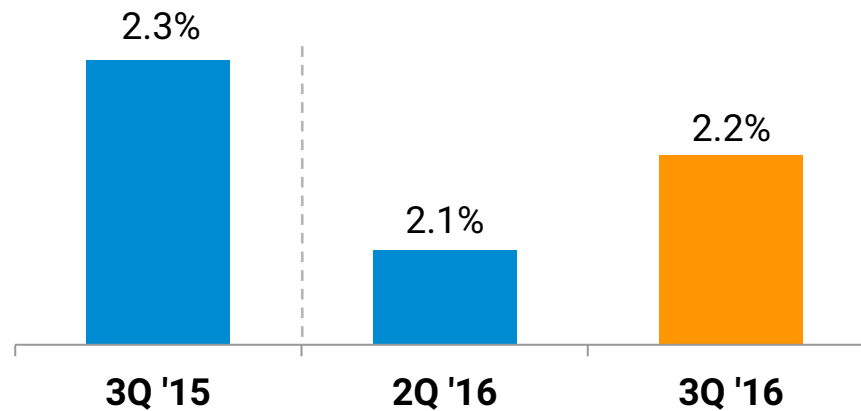


Churn

Vonage Business Revenue Churn

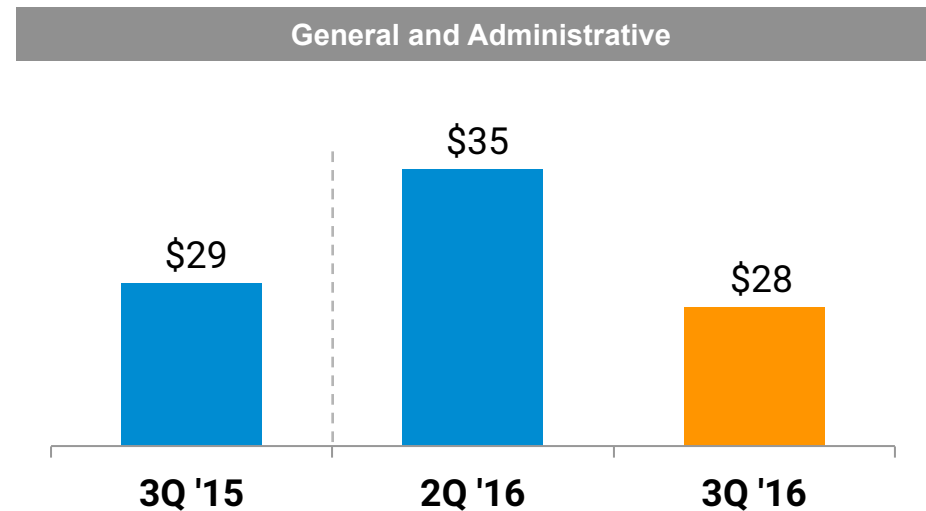
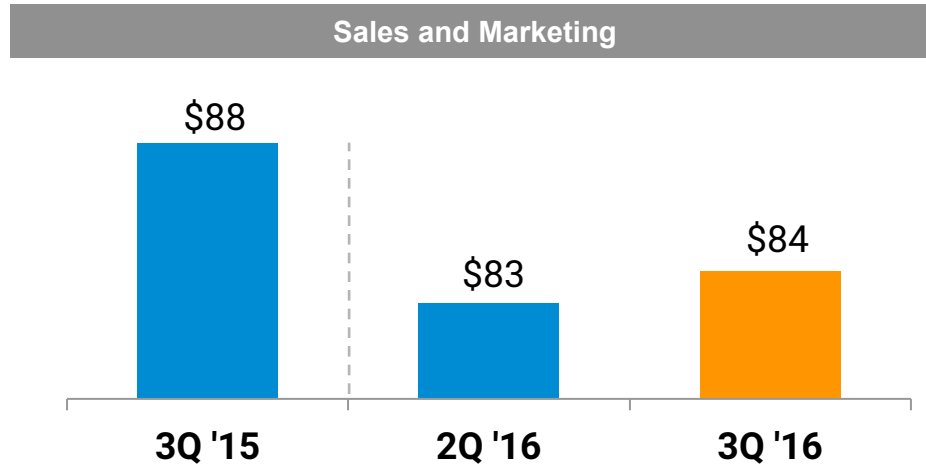


Consumer Customer Churn



Operating Expenses

(\$ in millions)



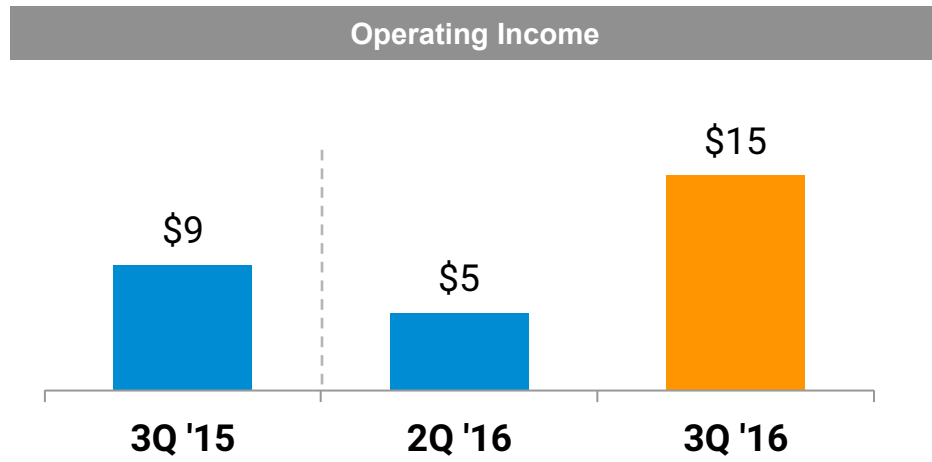
- Consolidated Sales and Marketing down from the prior year due to:
 - Optimization of Consumer Sales and Marketing
 - Offset by continued investment in Vonage Business Sales infrastructure and Marketing

- Consolidated G&A expenses down sequentially and from prior year due to:
 - Addition of G&A from acquired businesses, severance, and Nexmo acquisition-related items, offset by the quarterly adjustment of the earn-out carrying cost

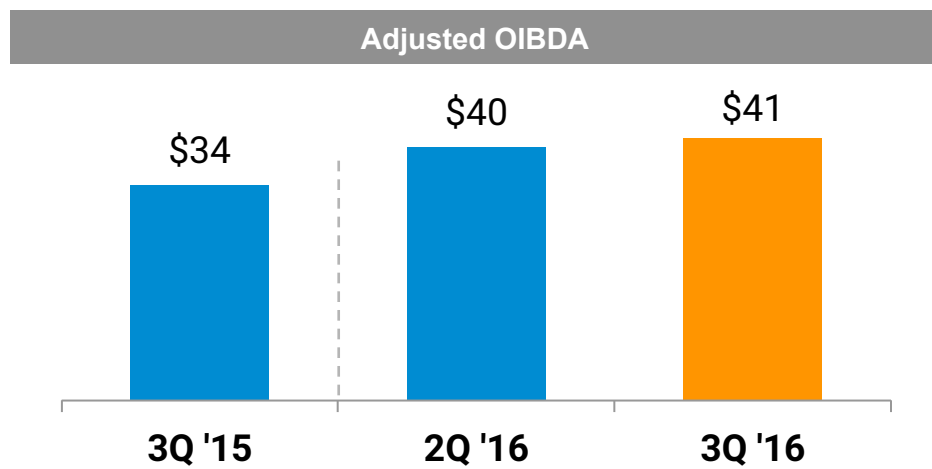


Adjusted OIBDA¹

(\$ in millions)



- Operating Income up sequentially and year-over-year due primarily to higher Revenues and lower G&A



21%
YoY ↑

- Adjusted OIBDA growth reflects:
 - Strong cash flow from Consumer
 - Optimization of Sales and Marketing expenses



Balance Sheet, Cash Flow and Stock Buyback

| Cash Flow (\$ in millions) | <u>Q3 2016</u> |
|-----------------------------------|----------------|
| Cash from operations | \$27 |
| Capital expenditures and software | (\$7) |
| Free cash flow ² | \$19 |

- Cash¹: \$42 million
- Total debt: \$349 million
- Net debt²: \$309 million (Gross Debt less Unrestricted Cash and Marketable Securities)
Net debt/Adjusted OIBDA = 2.1x

Stock Repurchase Program

- Repurchased 55.6 million shares for \$181 million since August 2012
- Completed \$48 million of 2015-2018 \$100M four-year authorization

Significant strategic and financial flexibility



Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 3. RECONCILIATION OF GAAP INCOME FROM OPERATIONS
TO ADJUSTED OIBDA AND TO ADJUSTED OIBDA MINUS CAPEX
(Dollars in thousands)
(unaudited)

| | Three Months Ended | | | Nine Months Ended | |
|---|--------------------|-----------|---------------|-------------------|------------|
| | September 30, | June 30, | September 30, | September 30, | |
| | 2016 | 2016 | 2015 | 2016 | 2015 |
| Income from operations | \$ 15,029 | \$ 5,387 | \$ 8,797 | \$ 38,940 | \$ 44,694 |
| Depreciation and amortization | 18,018 | 18,218 | 15,446 | 53,215 | 43,854 |
| Share-based expense | 6,526 | 7,962 | 7,889 | 20,791 | 20,081 |
| Acquisition related transaction and integration costs | (68) | 5,057 | 1,854 | 5,082 | 2,539 |
| Change in acquisition contingent consideration | (7,362) | — | — | (7,362) | — |
| Organizational transformation | 2,435 | — | — | 2,435 | — |
| Acquisition related consideration accounted for as compensation | 6,655 | 3,312 | — | 9,967 | — |
| Loss from discontinued operations | — | — | — | — | (1,615) |
| Depreciation from discontinued operation | — | — | — | — | 132 |
| Net loss attributable to noncontrolling interest | — | — | — | — | 59 |
| Adjusted OIBDA | 41,233 | 39,936 | 33,986 | \$ 123,068 | \$ 109,744 |
| Less: | | | | | |
| Capital expenditures | (4,032) | (7,053) | (4,618) | \$ (19,980) | \$ (9,578) |
| Intangible assets | \$ — | \$ — | \$ (2,500) | \$ — | \$ (2,500) |
| Acquisition and development of software assets | (3,332) | (3,343) | (2,390) | \$ (8,987) | \$ (7,932) |
| Adjusted OIBDA Minus Capex | \$ 33,869 | \$ 29,540 | \$ 24,478 | \$ 94,101 | \$ 89,734 |



Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 4. RECONCILIATION OF GAAP NET INCOME
TO ADJUSTED NET INCOME
(Dollars in thousands, except per share amounts)
(unaudited)

| | Three Months Ended | | | Nine Months Ended | |
|---|-----------------------|------------------|-----------------------|-----------------------|------------------|
| | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | 2015 |
| Net income attributable to Vonage | \$ 9,078 | \$ 897 | \$ 3,433 | \$ 17,906 | \$ 19,249 |
| Amortization of acquisition - related intangibles | 8,074 | 8,274 | 6,023 | 23,310 | 16,712 |
| Acquisition related transaction and integration costs | (68) | 5,057 | 1,854 | 5,082 | 2,539 |
| Change in acquisition contingent consideration | (7,362) | — | — | (7,362) | — |
| Organizational transformation | 2,435 | — | — | 2,435 | — |
| Acquisition related consideration accounted for as compensation | 6,655 | 3,312 | — | 9,967 | — |
| Adjusted net income | <u>\$ 18,812</u> | <u>\$ 17,540</u> | <u>\$ 11,310</u> | <u>\$ 51,338</u> | <u>\$ 38,500</u> |
| Net income per common share: | | | | | |
| Basic | <u>\$ 0.04</u> | <u>\$ —</u> | <u>\$ 0.02</u> | <u>\$ 0.08</u> | <u>\$ 0.09</u> |
| Diluted | <u>\$ 0.04</u> | <u>\$ —</u> | <u>\$ 0.02</u> | <u>\$ 0.08</u> | <u>\$ 0.09</u> |
| Weighted-average common shares outstanding: | | | | | |
| Basic | <u>217,000</u> | <u>213,558</u> | <u>213,291</u> | <u>214,872</u> | <u>212,907</u> |
| Diluted | <u>234,868</u> | <u>222,700</u> | <u>225,182</u> | <u>227,499</u> | <u>222,820</u> |
| Net income per common share, excluding adjustments: | | | | | |
| Basic | <u>\$ 0.09</u> | <u>\$ 0.08</u> | <u>\$ 0.05</u> | <u>\$ 0.24</u> | <u>\$ 0.18</u> |
| Diluted | <u>\$ 0.08</u> | <u>\$ 0.08</u> | <u>\$ 0.05</u> | <u>\$ 0.23</u> | <u>\$ 0.17</u> |
| Weighted-average common shares outstanding: | | | | | |
| Basic | <u>217,000</u> | <u>213,558</u> | <u>213,291</u> | <u>214,872</u> | <u>212,907</u> |
| Diluted | <u>234,868</u> | <u>222,700</u> | <u>225,182</u> | <u>227,499</u> | <u>222,820</u> |



Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 5. FREE CASH FLOW
(Dollars in thousands)
(unaudited)

| | Three Months Ended | | | Nine Months Ended | |
|--|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net cash provided by operating activities | \$ 26,694 | \$ 23,989 | \$ 37,665 | \$ 65,255 | \$ 83,626 |
| Less: | | | | | |
| Capital expenditures | (4,032) | (7,053) | (4,618) | (19,980) | (9,578) |
| Purchase of intangible assets | — | — | (2,500) | — | (2,500) |
| Acquisition and development of software assets | (3,332) | (3,343) | (2,390) | (8,987) | (7,932) |
| Free cash flow | <u>\$ 19,330</u> | <u>\$ 13,593</u> | <u>\$ 28,157</u> | <u>\$ 36,288</u> | <u>\$ 63,616</u> |



Non-GAAP Reconciliation

VONAGE HOLDINGS CORP.
TABLE 6. RECONCILIATION OF NOTES PAYABLE, INDEBTEDNESS UNDER REVOLVING CREDIT FACILITY, AND CAPITAL LEASES TO NET DEBT
(Dollars in thousands)
(unaudited)

| | September 30, | December 31, |
|--|----------------------|---------------------|
| | 2016 | 2015 |
| Current maturities of capital lease obligations | \$ 4,332 | \$ 4,398 |
| Current portion of notes payable | 18,750 | 15,000 |
| Notes payable and indebtedness under revolving credit facility, net of current maturities and debt related costs | 324,702 | 195,392 |
| Unamortized debt related cost | 1,173 | 1,108 |
| Capital lease obligations, net of current maturities | 226 | 3,363 |
| Gross debt | <u>349,183</u> | <u>219,261</u> |
| Less: | | |
| Unrestricted cash and marketable securities | <u>39,795</u> | <u>67,634</u> |
| Net debt | <u>\$ 309,388</u> | <u>\$ 151,627</u> |

