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**8x8, Inc. (NASDAQ: EGHT)
Q4 FY2017 Earnings Conference Call
May 25, 2017 - 4:30 PM EDT**

Joan Citelli, Director of Investor Relations:

Thank you operator and welcome everyone to our call. Today, I'm joined by 8x8's Chief Executive Officer, Vik Verma, and our Chief Financial Officer, Mary Ellen Genovese, to discuss 8x8's fourth quarter and fiscal 2017 financial results for the period ended March 31, 2017. The earnings press release, which was issued today after market close, conference call script and accompanying slide presentation are available on the Investors section of 8x8's website at www.8x8.com. Following our comments, there will be an opportunity for questions.

Before I turn the call over to Vik, I would like to remind all participants that during this conference call any forward-looking statements are made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Expressions of future goals, including financial guidance and similar expressions using the terminology may, will, believe, expect, plans, anticipates, predicts, forecasts, and expressions which reflect something other than historical fact are intended to identify forward-looking statements.

These forward-looking statements involve a number of risks and uncertainties, including factors discussed in the risk factor sections of our Annual Report on Form 10-K, in our Quarterly Reports on Form 10-Q and in our other SEC filings and company releases. Our actual results may differ materially from any forward-looking statements due to such risks and uncertainties. The company undertakes no obligation to revise or update any forward-looking statements in order to reflect events or circumstances that may arise after this conference call, except as required by law.

I would also like to note that during this call we will provide financial information that has not been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in addition to our GAAP results. Management uses these non-GAAP financial measures internally to analyze our financial results and believes they are useful to investors, as a supplement to GAAP measures, in evaluating the Company's ongoing operational performance. Please refer to today's press

release for a reconciliation of GAAP to non-GAAP financial performance and additional disclosures regarding these measures.

And with that, I'll turn the call over to Vik Verma, Chief Executive Officer of 8x8

Vikram Verma - Chief Executive Officer:

Thank you, Joan, and thank you everyone for joining us today as we review 8x8's fiscal 2017 fourth quarter and full year results.

During my commentary today, I'll provide an update on the UCaaS market and competitive landscape, the progress we've achieved on our key growth initiatives and our strategic goals for fiscal 2018. Then, I'll turn the call over to our CFO Mary Ellen Genovese for a more detailed discussion of our financial results and annual guidance.

Business communications has become the next frontier for cloud transformation. Despite early rumblings from larger vendors seeking entry into the market, today's competitive landscape remains fundamentally unchanged, characterized largely by a handful of cloud providers vying to displace legacy systems. We believe businesses will overwhelmingly choose a pure-cloud solution due to the increased efficiencies, flexibility and scalability enabled by over the top cloud-based technologies. We also believe that our technology ownership, integrated communications platform and industry-leading quality, global service delivery and support capabilities will keep 8x8 ahead of the curve as more and more enterprises seek to partner with next generation cloud providers.

Fiscal 2017 was a year of great progress for 8x8 as we achieved several key technology and operational milestones while continuing to build upon our position as the leading pure-cloud communications provider to the enterprise business segment.

For the full year, we posted total revenue at the high end of our guidance of \$253 million and non-GAAP net income at 9% of revenue. We expanded our mid-market and enterprise customer base to approximately 3,000 corporations with 10 ranked in the Fortune 500.

Our overall service revenue in fiscal 2017 grew 23%, while service revenue from our mid-market and enterprise customers grew 37%. 56% of our total service revenue is now derived from these larger, higher LTV customers.

I'm pleased with the progress our global teams have made throughout the year executing on the strategic growth initiatives we've been focused on. As a reminder, these include 1) increasing adoption by mid-market and enterprise customers, 2) enriching our product portfolio with new features and services 3) building an effective worldwide channel organization, and 4) enhancing our global operations to support our multinational customers and partners.

First, we continued to enjoy excellent traction moving upmarket. Mid-market and enterprise customers comprised two-thirds of the monthly recurring revenue booked during our fiscal fourth quarter and 62% in fiscal 2017. During the fourth quarter alone, we closed 19 large enterprise deals, 10 of which chose us for our combined Virtual Office and Virtual Contact Center solution, which continues to win us sizable new accounts.

We're seeing particularly robust growth in the enterprise segment of our business. As I mentioned earlier, service revenue from mid-market and enterprise customers as a whole grew 37%, but if we drill into this customer base further we find that the segment occupied by our "large enterprise" customers, those with a minimum billing of \$10,000 in monthly recurring revenue or MRR, has grown the fastest at an annual rate of 84% and now represents more than 20% of our total service revenue. This data underscores the effectiveness of our investments in building an industry-leading, enterprise grade service offering and our success meeting the requirements of some of the largest corporations that are transitioning to the cloud.

One great example of our continued success in the large enterprise segment is the expansion of our partnership with Regus. This expanded agreement leverages our market leading Global Reach network, and includes coverage for 13 additional countries with our full suite of services from the 8x8 Communications Cloud. To date, we have already deployed 20,000 unified communications seats in four countries for Regus plus 500 contact center seats and this expanded agreement with Regus has the potential to grow to hundreds of thousands of users.

I want to highlight a number of other notable recent wins in order to provide greater insight into why customers choose 8x8 and how we are differentiated in the marketplace.

A large enterprise deal that closed in the fiscal fourth quarter was Brookfield GRS, an international relocation company based in Toronto Canada with 17 locations worldwide. In this win, we differentiated ourselves through our market

leading Global Reach coverage along with our differentiated 8x8 Communications Cloud. This deployment will include over 3,000 Virtual Office and Virtual Contact Center seats in EMEA, South America, and Asia. This is also a good example of how we win against other cloud competitors who do not offer a fully owned and integrated VO/VCC product.

LifeWorks, a global engagement and wellness company serving over 15 million users worldwide, was another large win in the fourth fiscal quarter where our superior voice quality, faster time to deploy, and a better user interface convinced them to select the 8x8 Communications Cloud for their locations across the US, Canada, and UK.

We also secured the business of Live Oak Bank, one of the largest originators of small business loans in the country, for a combined Virtual Office and Virtual Contact Center win for over 1,000 users and room to grow. This customer win displaced another cloud vendor and is a testament to 8x8's superior deployment capabilities and the care and attention needed to deploy enterprise customers that have more complex needs.

Last quarter, we described how certain large enterprise customers prefer to enter into a master sales agreement and pursue scheduled location and end user deployments thereafter. We are excited to be seeing this service adoption coming from the MSA agreement we signed with a Fortune 50 healthcare provider in the third quarter of fiscal 2017. This most recent opportunity for a 13-location practice takes advantage of both our Virtual Office and Virtual Contact Center solutions and is on track to save the customer roughly \$3 million in annual cost savings. Key elements to this win include our superior voice quality along with attractive economics versus legacy on-premises PBX systems.

Outside the US, our 8x8 Solutions business in the UK, which we acquired in November 2013, is thriving with a 41% year-over-year increase in service revenue in fiscal 2017 when measured in their local currency. We have built a significant and rapidly growing presence in the UK with over 2,200 customers based in that region.

One example of a notable large enterprise 8x8 Solutions win during the quarter was Oxford University Press, the largest university press in the world. In a highly competitive process, 8x8 was selected over eight other vendors to update the communications system and support global customer service. We will be transitioning its agents to our dedicated Virtual Contact Center solution with initial deployments beginning in June.

The common theme in all these cases and the reason we are winning these enterprise deals is because CIOs are beginning to understand that all cloud communications services are not alike. They are learning, in many cases by trial and error, that it's what's under the hood that matters most when deciding who to partner with for mission critical real time communications. These customers looked under the hood and performed deep analysis of our service and technology.

8x8's global call quality and service delivery capabilities are unrivaled. This is due to the strength of our core technology and the continued emphasis we place on delivering outstanding quality of service to our customers. A recently completed study by the Tolly Group, a leading global provider of IT testing and third-party validation services, concluded that under both normal and adverse network conditions, 8x8's Virtual Office consistently ranked higher in call quality than our other major cloud competitors, delivering a superior voice quality experience for both "on net" as well as PSTN calling.

These large enterprise customers are not only choosing us above the competition, they're also growing with us. Land and expand is core to our strategy and this quarter we had a number of significant expansion orders from existing customers. Some of these include over 3,000 new Virtual Office seats for Essentra, 1,900 seats for Gerber Collision, 2,100 seats for Zendesk, 1,100 seats for Platform Specialty Products and 1,500 Virtual Office and Virtual Contact Center seats for Christie Digital. This add-on business speaks volumes from a customer satisfaction standpoint and is reflected in our low gross revenue churn rate of 0.7% in fiscal 2017.

Moving on to the second pillar of our strategy, our R&D and engineering teams have been busy throughout fiscal 2017 on several key platform infrastructure and product development initiatives that set us further apart from providers who do not own or manage the underlying technology of their solutions. One major project was the architecting of our new micro services platform, admin portal, desktop and mobile clients and back office components to enable end-to-end workflows for quoting, ordering, provisioning, configuring and billing our expanding mid-market and enterprise customer base.

Another initiative was the launch of the new 8x8 Communications Cloud platform, a first-in-the-industry solution which combines unified communications, team collaboration interoperability, contact center and real time analytics in a single open platform. A key component of the 8x8 Communications Cloud platform is Sameroom, an interoperability technology we acquired earlier this year that

enables cross-team messaging and collaboration in the enterprise. So, regardless of whether our customer uses Slack, HipChat, Spark or one of the many other collaboration applications in use today, we provide the translation layer.

On the contact center side, we upgraded all our Virtual Contact Center customers to a more advanced unified platform and completed the US launch of ContactNow, an intelligent, easy-to-use cloud contact center solution for teams. 8x8's suite of award-winning, omni-channel cloud contact center solutions provides companies of all sizes with a complete range of contact center capabilities, including advanced analytics, quality management and workforce management integrated with advanced unified communications and collaboration services. Revenue from Virtual Contact Center grew 28% during the fiscal year and accounted for nearly 20% of the new monthly recurring revenue booked in the fourth fiscal quarter.

The pace of innovation at 8x8 has accelerated dramatically and we are continuing to receive new patents, with 13 awarded in fiscal 2017 and 131 to date. This is a direct result of the expanded resources we've allocated to R&D and the invaluable expertise of our full time engineering teams, including the agile development teams working out of our offices in Cluj, Romania.

Our third area of focus has been maximizing the effectiveness of our global channel network to ensure that our partners are motivated and well prepared to transition their customers to 8x8. We recently signed an agreement with Jenne, a leading value-added distributor of technology products and solutions, to bring 8x8's integrated, cloud communications, contact center and team collaboration solutions to mid-market and enterprise companies through a value-added distribution model. In fiscal 2017, we enhanced our partner enablement offerings with a new global web portal, extensive sales and technical training resources and marketing and lead generation support. We also announced new relationships with partners including Carrier Sales, Telarus, Packet Fusion along with several additional international partners and an expanded relationship with CDW in the UK. 8x8's global channel team has doubled in size over the past year to meet the demand for our services on a global basis and we plan to continue building out this segment of our sales organization throughout the year.

Fourth, we've made tremendous progress enhancing our global systems and customer support capabilities to better serve our more than 6,000 multinational customers. We are now live with all our customers on Salesforce Service Cloud,

an enterprise-scalable platform that is fully integrated with our sales automation system. We have also moved all of our global support centers onto a common Virtual Contact Center tenant, enabling us to seamlessly route calls across US, UK, Romania, and the Philippines. With this capability, we can now send inbound calls to whichever support center is open, giving us true follow-the-sun capability. The ability to support all our unified communications and contact center customers via a single global support network is a significant differentiator in our space as our primary competitors have to rely on the vendors they partner with to support their individual offerings.

8x8 has grown to become a highly efficient global organization with over 1,000 employees spread across seven global offices. In fiscal 2017, we added more than 200 employees to our organization along with two outstanding senior executives to the leadership team - Jeff Romano, Senior Vice President of Global Services & Support and Dejan Deklich, Senior Vice President of Global Research & Development – and I'm very pleased with the contributions they have each made to the business in such a short period of time. I'm also very excited to welcome Rani Hublou on board as our new Chief Marketing Officer, effective this past Monday. Rani brings tremendous knowledge and expertise to 8x8 and we are thrilled to have her on board.

Looking at fiscal 2018 and beyond, we are more excited and energized than ever to transform communications for businesses of all sizes, and we believe we can offer the greatest value to larger global enterprises whose infrastructure and requirements are most complex. To that end, we will continue to invest in maintaining the highest quality service and support for mid-market and enterprise customers while expanding our reach, through new marketing and channel initiatives, to businesses that are still burdened by legacy systems. Product innovation will remain a high priority and we'll be maintaining an increased focus on our Virtual Contact Center solution, which we believe has far more potential now than in the past. We're also excited to be bringing our new ContactNow solution to the US market to fill the existing customer service void that exists in smaller businesses with informal and non-traditional contact centers. M&A will also continue to be a key element of our strategy with technology tuck-ins, such as Sameroom and Quality Rocket, and acquisitions that broaden our global footprint, such as Voicenet Solutions and DXI, being the focus.

With that I'll turn the call over to Mary Ellen for a more detailed discussion of our financial results and our outlook for fiscal 2018.

Mary Ellen Genovese, Chief Financial Officer:

Thank you, Vik, and thank you all for joining us on the call today. My commentary will cover highlights from our income statement, key operating metrics from the quarter, a summary of our balance sheet and our updated guidance for fiscal 2018. These will be based on non-GAAP results, unless otherwise noted, and I remind you to refer to the tables in today's earnings press release for a GAAP to non-GAAP reconciliation.

For the fiscal 2017 fourth quarter, total revenue was \$66.5 million. Service revenue of \$62.7 million grew 20% year-over-year. Adjusting for constant currency and the discontinuation of the non-core, voice message broadcasting segment of our DXI operations, which we announced in the third quarter of fiscal 2017, service revenue grew 24%. Service revenue from our mid-market and enterprise customers grew 32% year-over-year and 38% on an adjusted basis. 56% of our total service revenue is now coming from these larger business customers, compared with 50% in the same period last year. Product revenue, which constituted approximately 6% of total revenue in the fourth fiscal quarter, declined 26%. We hope this trend continues with more and more of our customers opting for desktop and mobile apps in place of desk phones.

Gross margin for the quarter was 79.1%, compared with 74.1% in the same period last year. Service margin in the fourth fiscal quarter was 84.5%, compared with 83.2% year over year. Product margin in the fourth quarter was negative 9.2%, compared with negative 18.3% in the same period last year. We continue to see improvements in these margins due to lower per minute costs on inbound local and toll free traffic as well as outbound domestic call termination, lower subsidies on handsets, and a more favorable mix between subscription and product revenue.

Quarterly net income was \$5.1 million before tax, \$0.05 per share, or 8% of revenue, compared with \$3.2 million, \$0.03 per share, representing 6% of revenue, in the same year ago quarter. Our non-GAAP net income for the fourth fiscal quarter excludes non-cash charges and acquisition related expenses of approximately \$800,000. A small portion of this relates to our acquisition of Sameroom in January 2017 and the remaining portion is related to legal and accounting fees associated with a prospective acquisition target that we ultimately passed on.

Sales and marketing expenses, which also include customer service and deployment costs, were \$34.7 million, or 52% of revenue in the fourth fiscal quarter, compared with \$29.0 million, or 51% of revenue, in the same year ago period. The increase in sales and marketing expenses was primarily due to increased salaries associated with additional headcount.

Turning to annual results for fiscal 2017, 8x8 posted total revenue of \$253 million, at the high end of our guidance range, despite currency headwinds of \$4 million and the discontinuation of a non-core product of \$1.4 million. This represents an increase of 21% year over year and 23% on a fully adjusted basis.

Service revenue for fiscal 2017 was \$236 million, an increase of 23% year over year and 25% on a fully adjusted basis. Service revenue from our mid-market and enterprise customers grew 37% year-over-year and 42% on an adjusted basis.

Pre-tax income for fiscal 2017 was \$22 million, or 9% of revenue. Our non-GAAP effective tax rate for fiscal 2017 was approximately 38%. Our cash taxes for fiscal 2017 were approximately \$0.5 million.

Gross margin for the full year was 77.1%, compared with 74.4% in fiscal 2016. Service margin in fiscal 2017 was 83.8%, compared with 82.6% in the same period last year. Product margin was -12.2% compared with -18% in fiscal 2016.

Turning our attention to the key operating metrics for the quarter, average revenue per mid-market and enterprise customer grew to \$4,494, compared with \$4,083 in the same year ago period. Average revenue per business customer was \$426, compared with \$385 in the same period a year ago. Gross monthly business service revenue churn on an organic basis, excluding DXI, was 0.7%, compared with 0.4% in the same period last year.

During fiscal 2017, we saw an increasing number of new enterprise customers sign initial contracts for a portion of their total planned deployment followed by the addition of many more seats and services over a period of time. Companies such as Regus, Essentra, Gerber, Zendesk, Lyft and the Fortune 50 healthcare provider we announced last quarter are examples of businesses that are ordering and deploying services in this manner. We added another customer of this type during the fourth fiscal quarter - a Fortune 150 supplemental insurance provider who has selected our Virtual Contact Center solution, over two major cloud vendors, for their independent sales agents.

New monthly recurring revenue from mid-market and enterprise customers and by channel sales teams comprised 66% of the total new monthly recurring revenue booked in the fourth fiscal quarter. Our bookings from mid-market and enterprise declined 7% on an adjusted basis, compared with the same period in fiscal 2016, when we posted greater than a 200% increase in bookings resulting from three very large enterprise wins and a very large order from Regus. However, we saw increased momentum in our mid-market and enterprise business in our fourth fiscal quarter and saw bookings increase approximately 40% sequentially.

I'd also like to note that we have only scratched the surface with some of the large enterprise customers we added in fiscal 2017 and we see significant upsell opportunities in these enterprise accounts.

We believe the other quarterly metrics we provide, specifically the growth of our mid-market and enterprise service revenue and percentage of total service revenue from mid-market and enterprise customers, are more representative and useful measures of our progress moving upmarket, as opposed to the new monthly recurring revenue booking metric we provide. This is because we are finding more and more frequently that our largest enterprise customers are entering into MSAs with little or no up-front commitments. Also, our recently launched ContactNow service in the US will largely be a pay-as-you-go model.

Cash, cash equivalents and investments were \$175 million at March 31, 2017, compared with \$163 million at the end of fiscal 2016. Cash flow from operating activities was \$6.3 million in the fourth fiscal quarter and capital expenditures, including capitalized software, were \$3.9 million in the quarter, or 6% of revenue.

For the full year, cash flow from operating activities was \$28.5 million compared with \$23.6 million in fiscal 2016. Capital expenditures, including capitalized software, were \$14.4 million, or 6% of revenue, in fiscal 2017, compared with \$7.0 million, or 3% of revenue, for fiscal 2016. The increase in capital expenditures was due to global expansion and support for new product introductions.

On May 23, 2017, our Board of Directors approved a new share repurchase program authorizing up to \$25 million in repurchases of the Company's outstanding shares of common stock. Given our strong balance sheet and history of generating positive operating cash flow, management and the Board believe

that, based on the current price of our common stock, this \$25 million share repurchase is a prudent use of our capital, allowing us to increase shareholder value, offset dilution attributable to our stock based compensation plans and yet maintain sufficient liquidity to invest in strategic growth initiatives, including acquisitions,

Moving on to our guidance for fiscal 2018, we expect full year service revenue in the range of \$280 million to \$285 million, representing approximately 19% to 21% year-over-year increase. We expect total revenue in the range of \$296 million to \$300 million, representing approximately 17% to 19% year-over-year increase. Adjusting for the currency headwind, which we anticipate mostly in the first fiscal quarter of 2018, and revenue from the non-core, voice message broadcasting segment of our DXI operations, we expect fiscal year 2018 service revenue growth in the range of 20% to 22% and total revenue growth in the range of 18% to 20%.

We expect our full year non-GAAP pre-tax net income in the range of \$21 million to \$26 million or approximately 7% to 9% of revenue. Our estimated non-GAAP effective tax rate is expected to be approximately 36%. Our cash taxes are expected to be less than \$1M.

That concludes my prepared remarks and we will now open the line for questions. Operator?

Q&A

Vik Verma:

Once again, thank you all for listening in on today's call. We have a busy few weeks ahead presenting at a number of financial conferences including BAML, Craig Hallum, Baird, Citi and William Blair and we look forward to meeting with you at one or more of these events.