

# SHORETEL Oppenheimer Conference

August 2016



# SAFE HARBOR AND GAAP TO NON-GAAP RECONCILIATION

## Safe Harbor Statement

These slides and the accompanying oral presentation contain forward-looking statements and information within the meaning of the “safe harbor” provisions of the federal securities laws, including, without limitation, statements regarding future growth strategies and prospects. The forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. The risks and uncertainties include the uncertain impact of global economic conditions, including impact on customers' purchasing decisions; the intense competition in our industry both for selling solutions and hiring talented employees; our reliance on third parties to sell and support our products; our ability to continue to grow our cloud-based solutions; our ability to grow or maintain our premise products; supply and manufacturing risks; the impact of service disruptions or security breaches; uncertainties related to international operations; our ability to control costs as we expand our business; our ability to attract, retain and ramp new personnel; potentially longer sales cycles; uncertainties inherent in the product development cycle; our ability to identify and execute on strategic opportunities; uncertainty as to market acceptance of new products and services; the potential for litigation in our industry; and other risk factors set forth in ShoreTel's most recent Form 10-K and 10-Q, which are on file with the Securities and Exchange Commission. Any forward-looking statement speaks only as of its date. ShoreTel assumes no obligation to update the forward-looking statements included in these slides.

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## GAAP Reconciliation

During this presentation references to financial measures of ShoreTel will include references to non-GAAP financial measures. ShoreTel provides a reconciliation between GAAP and non-GAAP financial information in the appendix of this presentation and also in each of its quarterly earnings press releases which can be found on the Company's website at [www.shoretel.com](http://www.shoretel.com) in the press room section.

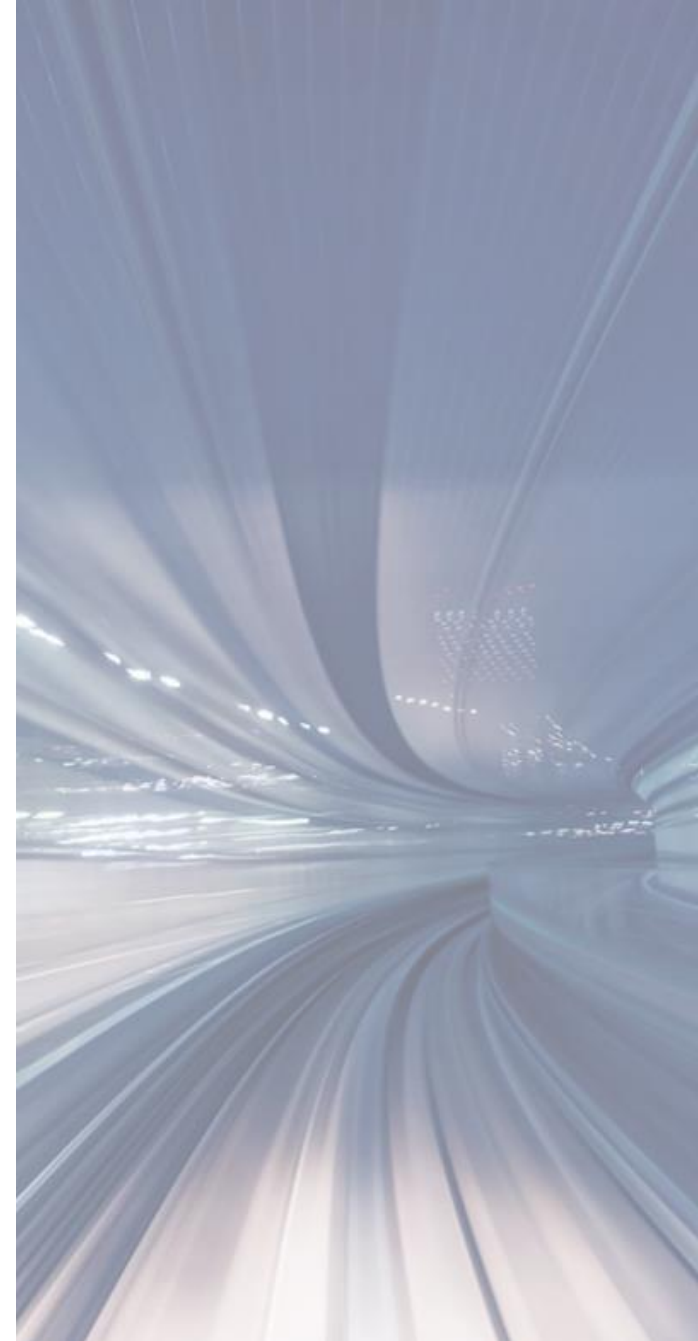
# TODAY'S INVESTMENT TRIGGERS

Early stage of the acceleration phase of our strategy

5 catalysts for growth

CPaaS offering; ShoreTel Summit

Financial strength & flexibility



# SHORETEL'S TWO HEALTHY SOLUTIONS

**Annualized recurring revenue of \$203M, 54% of Q4 FY 2016 revenue;  
Solid balance sheet, strong cash generation**



## CLOUD

- FY16 revenue = \$127M (+20%)
- Strong base of customers (5,500), seats (230,800) and Q4 FY16 revenue growth (20% YoY)
- Recurring revenue stream
- High ARPU of \$51 per month; average # of seats of 42
- Average monthly revenue per customer of \$2,135
- Industry low revenue churn, 5.8% annualized
- Large capacity data center



## PRODUCT / SERVICE & SUPPORT

- FY16 revenue:
  - Product = \$158M (-13%)
  - Serv/Supp = \$75M (+3%)
- Continued growth in support agreements which provides recurring revenue
- Strong gross margins fund investments
- 36,000 customers on support agreements with 4,000,000+ end users

# ACCELERATION PHASE: 5 CATALYSTS FOR GROWTH

ShoreTel Connect Launch

Geographic Expansion

Channel Scale

Mid-Market / Enterprise Adoption

Premise Leverage for Cloud



# CATALYST #1: SHORETEL CONNECT ONE SOLUTION, TWO WAYS TO DEPLOY, THREE WAYS TO CONSUME



## ShoreTel Connect **ONSITE**

Owner maintains and controls  
the system



## ShoreTel Connect **HYBRID**

Combines cloud and  
onsite deployment features



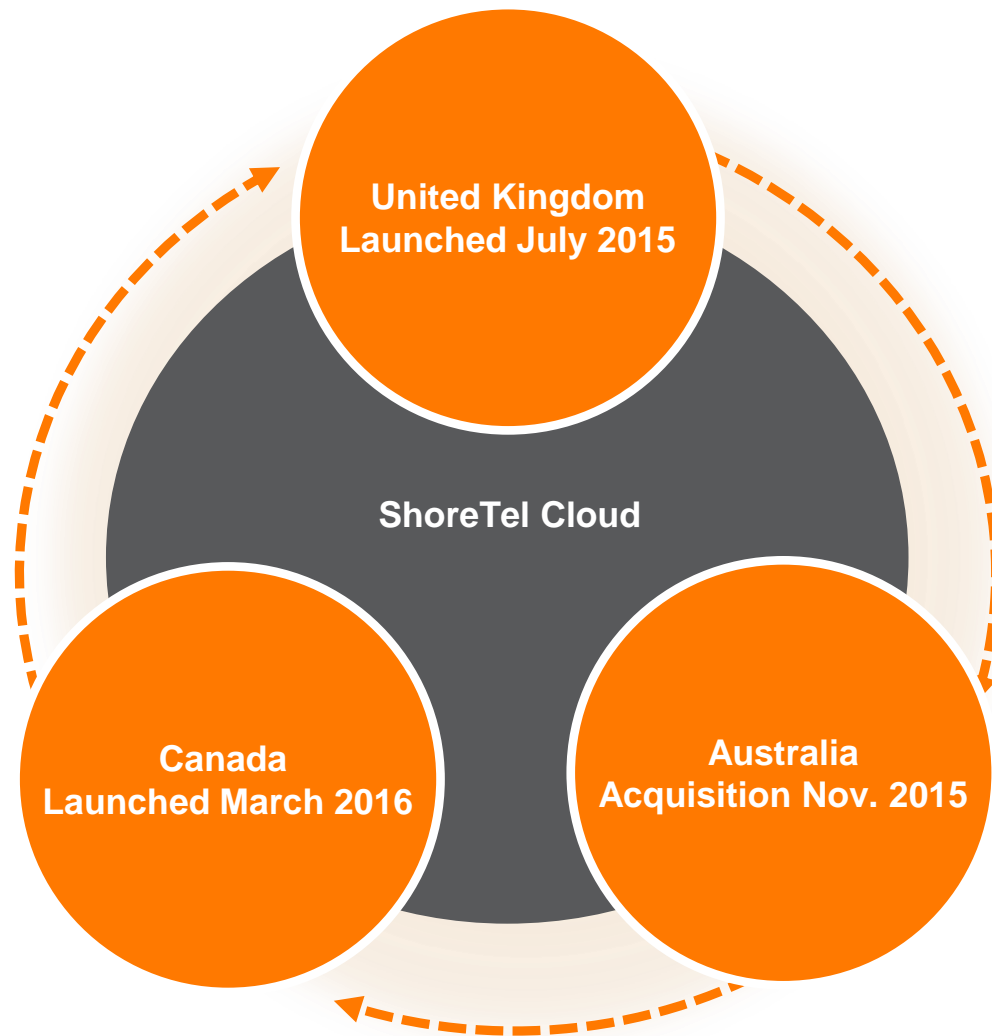
## ShoreTel Connect **CLOUD**

Fully hosted UCaaS

### ShoreTel Connect Advantages

- ✓ Ignites the channel partner go to market strategy
- ✓ Enables customer flexibility and holistic experience
- ✓ Creates modern and intuitive interfaces
- ✓ Accelerates feature introduction and integration

## CATALYST #2: CLOUD GEOGRAPHIC EXPANSION





## CATALYST #3: CHANNEL SCALE



### Half of historical Premises Partners in U.S.

- Have signed up to sell cloud



### The pace of ramping varies

- 40% of the partners are active in a given quarter



### Yet 65% of bookings

- From historically premises partners; more productivity to come
- 90+% of new customer bookings come from channel partner network



## CATALYST #4: MID-MARKET / ENTERPRISE ADOPTION

### ShoreTel's service deliver model is tailored for large customers

- 47%:** % of Hosted revenue coming from customers over 100 seats
- 43%:** % of customer's pay over > \$1,000 per month
- 89%:** % of total Hosted revenue coming from customers paying > \$1,000 per month

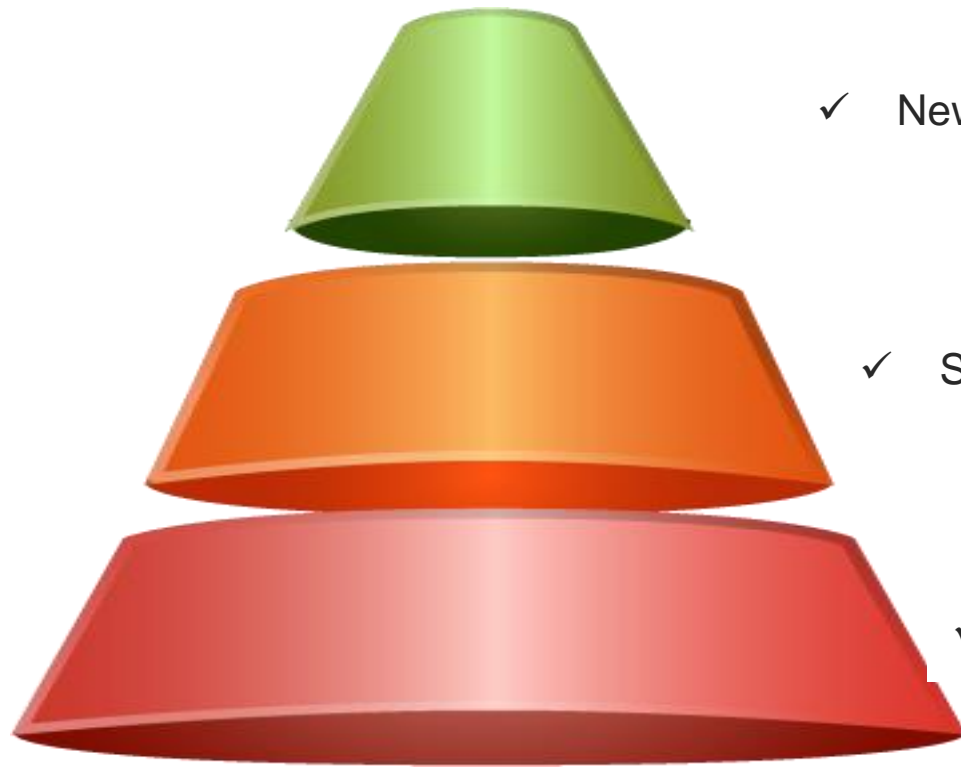
# CATALYST #5: PREMISE TO CLOUD MIGRATION PROGRAM

Three initiatives to monetize the premises installed base



## CATALYST #5: PREMISE TO CLOUD MIGRATION PROGRAM

Actual migration results from Q4 2016 indicate SHOR gained 20x more hosted revenue vs. support revenue lost



- ✓ New cloud commitment: 50 seats x \$40 ARPU X 12 months = \$24K per year
- ✓ Support contracts not renewed: \$1,200 per year
- ✓ Total revenue multiplier from migration ~ 20x

# ShoreTel Summit CPaaS Offering

# SHORETEL SUMMIT, CPaaS

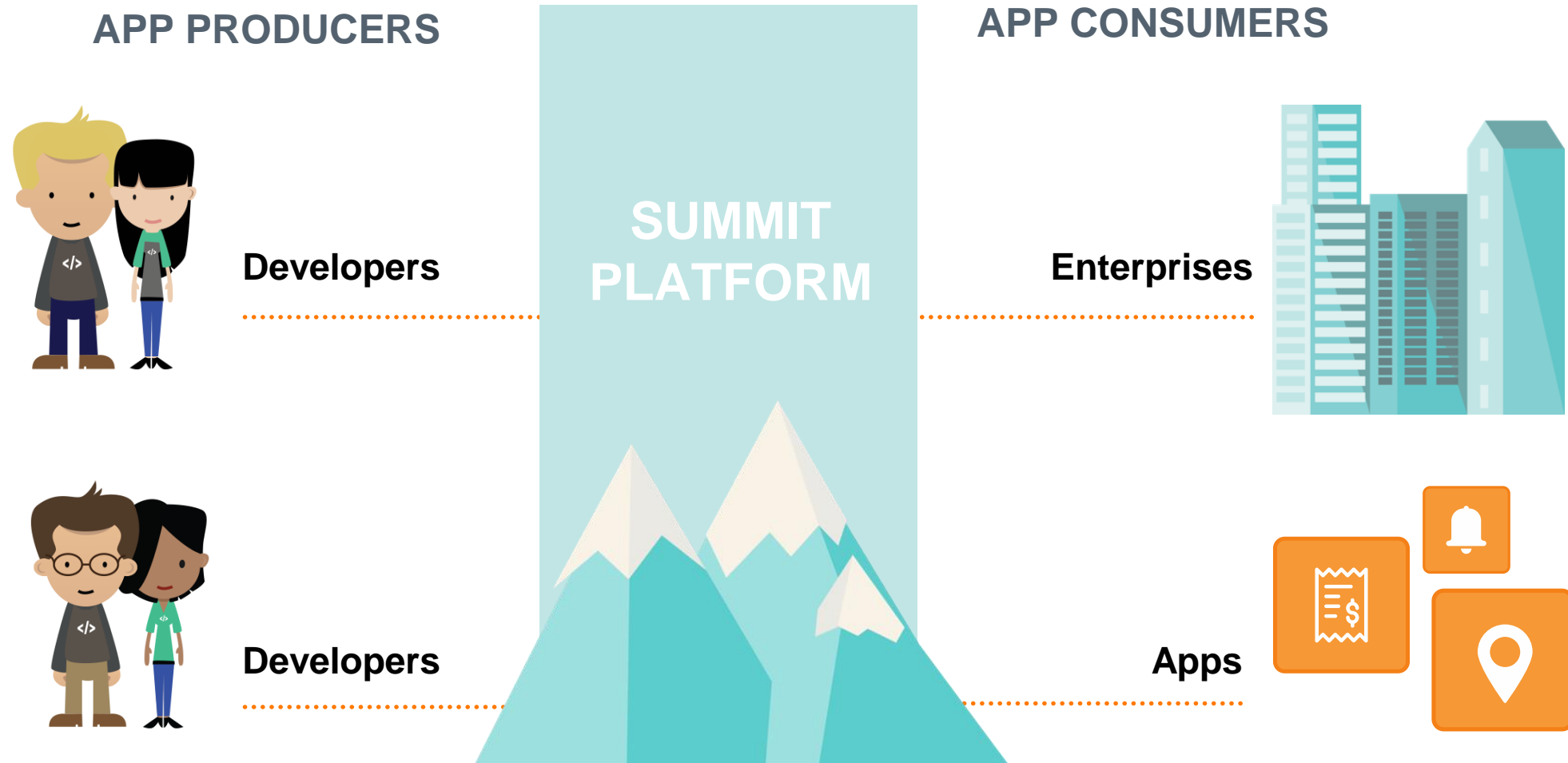


## SHORETEL SUMMIT

### Development Platform for Voice & SMS

- › True CPaaS architecture...more than just APIs
- › Fully hosted by ShoreTel. No maintenance or infrastructure support
- › Made for developers, by developers
- › 5 minutes/ 2 clicks to start coding

# ShoreTel Summit: Communications Platform as a Service (CPaaS)



# Financial Summary



# FUTURE REVENUE SHIFTING TO CLOUD, RECURRING REVENUE

Fiscal 2014  
Actual



Recurring revenue  
43% of total revenue

Fiscal 2016  
Actual



Recurring revenue  
54% of total revenue

Fiscal 2017  
Estimated



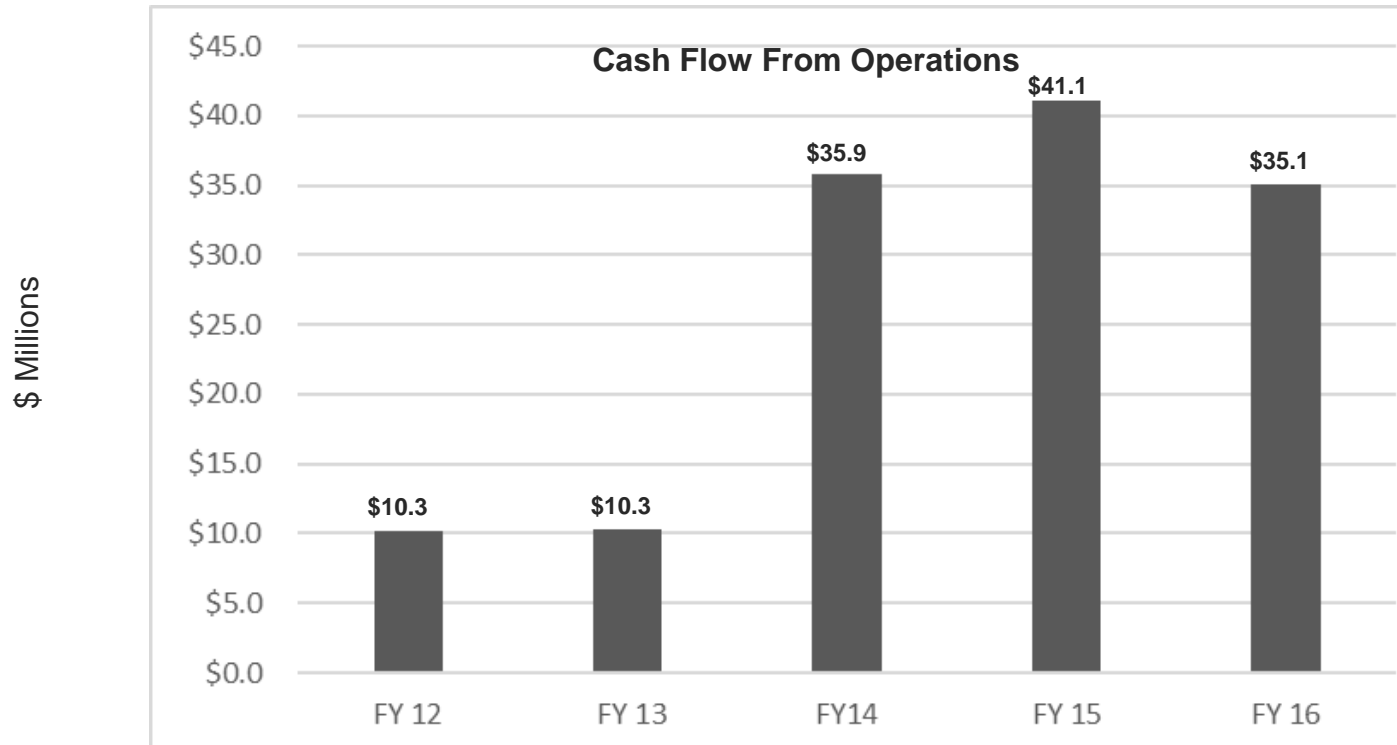
Recurring revenue  
58% - 62% of total revenue



Recurring revenue consist of all hosted revenues and premise support revenues

# STRONG CASH FLOW FROM OPERATIONS & BALANCE SHEET

As of June 30, 2016			
<b>\$108.2</b> million Cash & ST Investments	<b>\$0.0</b> million Debt (\$100M unused credit facility)	<b>\$77.7</b> million Deferred Revenue	<b>1,194</b> Employees



# LOOKING INTO THE FUTURE



UCaaS provider with  
**+60% recurring  
revenue**



**Increasing**  
hosted  
gross margins



Cloud international  
revenue is a **valuable**  
piece of our business



Hosted revenue  
**greater** than product  
revenue



Best **positioned**  
for the UCaaS  
market



We have greater  
**flexibility** and  
**predictability** in  
our business model



Hosted revenue  
growth **acceleration**  
into 2017

# SHORETEL UNIQUELY POSITIONED TO WIN

**ShoreTel Connect;  
ONSITE, CLOUD, HYBRID**

**Channel Network;  
Enterprise Customers**

**Premise-to-Cloud Migration;  
Leverage 4M Premise Seats**



**Cloud Customer Service;  
High Touch Model**

- Personalized service offering
- Revenue churn ~5% per year

**ShoreTel Summit:  
CPaaS Offering**

- Targets enterprise customers
- Enables open development and consumption