



2015 North American Hosted IP Telephony and UCC Services
Growth Excellence Leadership Award



FROST & SULLIVAN



50 Years of Growth, Innovation & Leadership

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Background and Company Performance

Industry Challenges

Cloud communications are rapidly gaining traction as businesses look for more flexible technology deployment models to support their constantly evolving communications needs. Hosted Internet protocol (IP) telephony and unified communications and collaboration (UCC) services represent a rapidly growing sector within the broader cloud communications space. The hosted IP telephony and UCC services installed base is projected to increase from 8 million users in 2014 to 35 million in 2020. The proliferation of communications and collaboration tools leading to a more complex communications infrastructure is a key driver for businesses to move their solutions to the cloud. Growing customer trust in maturing voice over IP (VoIP) and cloud technologies is further reinforcing this trend. A slew of service providers have acknowledged the opportunity and have launched compelling hosted IP telephony and UCC services to North American business customers.

In their pursuit of customer value and market share growth, providers are facing a number of challenges. In spite of growing customer recognition of cloud communications benefits, many IT investment decision makers still require education on the value of hosted IP telephony and UCC services to their organization. Customers evaluating cloud communications solutions also demand proof that evolving IP technologies and cloud business models provide the level of security and reliability required to grant the organization a competitive edge.

As the number of service providers and cloud solutions continually expands, businesses struggle to differentiate among the various offerings and effectively select the solutions that provide the best fit for their specific needs and circumstances. Prospective customers expect providers to present a strong value proposition coupled with a compelling technology development roadmap. Also important, customers expect providers to demonstrate long-term viability through solid growth and profitability metrics.

High customer expectations compel providers to constantly innovate and look for ways to accelerate growth. A company that has achieved growth excellence leadership is better positioned to address stringent customer requirements as it has proven its ability to thrive in a challenging competitive environment. Typically, such a company has effectively differentiated from competitors and demonstrated a compelling value proposition, which has enabled it to rapidly expand its customer base. Growth leadership inspires trust and confidence and thus provides a powerful incentive for customers to consider the provider when evaluating cloud communications solutions.

Growth Performance and Customer Impact

Through a series of acquisitions over the past two years Vonage successfully entered the North American hosted IP telephony and UCC services market and propelled itself to one of the top five positions in terms of installed users and revenue. Key factors that have enabled Vonage to achieve this growth leadership position include:

- growth strategy excellence
- above-market growth rates
- growth diversification
- price/performance value
- superior customer ownership experience
- strong brand equity

Growth Strategy Excellence

Vonage is a pioneer and a trendsetter in the VoIP market. Founded in 2001 with services officially launched in 2002, Vonage has a proven track record in delivering residential Internet telephony services and a strong reputation for technology innovation. Through pioneering technology and aggressive marketing, Vonage's brand has become synonymous with innovative next-generation, IP-based communications.

With residential VoIP services growth slowed due to increasing popularity of mobile communications, two years ago Vonage made an important strategic choice to tap into the rapidly growing business VoIP space. In 2013, it acquired Vocalocity, a leading U.S. hosted IP telephony provider. The acquisition enabled Vonage to create its Vonage Business arm and introduce a new hosted IP PBX service offering. At the end of 2013, Vocalocity reported 182,000 installed users in 26,000 customer organizations, which immediately placed Vonage among the top 10 North American hosted IP telephony providers.

The Vocalocity acquisition helped Vonage diversify its portfolio and brought various synergies with the broader Vonage organization. Vonage Business leverages a proprietary platform to deliver a package of cloud-based communications and collaboration applications targeted to small and medium businesses. The proprietary platform allows Vonage to rapidly and cost-effectively scale and introduce new features and capabilities. The legacy Vocalocity platform was interconnected to Vonage's intelligent call routing platform in late 2013/early 2014, which produces significant cost savings related to domestic and international telephony toll charges. In 2014, Vonage Business reported that it had reduced termination costs by more than 60 percent by using Vonage's network.

Vonage's commitment to the hosted IP telephony market deepened in 2014 when it acquired privately-held Telesphere Networks Ltd., another leading North American hosted IP telephony provider. While Vonage Business continues to grow in under-served SOHO and very small business segments, Telesphere provides Vonage with the capabilities to effectively penetrate the relatively untapped mid-market-to-large business segment using the BroadSoft platform. Telesphere brought to Vonage a more sophisticated feature set including advanced contact center capabilities, speech-enabled corporate directory, advanced interactive voice response (IVR) with database integration, and others. In addition, Telesphere offers SIP trunking services for customers with premises-based PBXs with an architecture that supports hybrid deployments (trunking with hosted) as well as a migration path to fully hosted solutions. Also significant, Telesphere provides multi-protocol label switching (MPLS) services, which helps meet more stringent customer quality, reliability and security requirements; provides an additional revenue stream to improve Vonage's overall financial standing; and enhances the customer relationship. Through Telesphere, Vonage has one of the largest, private, nationwide MPLS networks with 18 points of presence (PoPs). The acquisition also provides Vonage with access to an established network of channel partners and a nationwide direct field sales force, which will help extend its market reach and improve customer service and support.

In early 2015, Vonage further expanded its foothold into the hosted IP telephony market with the acquisition of Simple Signal Inc. With services based on the same industry-leading BroadSoft platform used by Telesphere, SimpleSignal allows Vonage to address a segment of the market with managed over-the-top services (through the deployment of a premises device). The SimpleSignal acquisition provides Vonage with another broad feature set including tight integration with GoogleApps, Skype for Business and other third-party solutions. It also brings additional existing channel partner relationships to help Vonage market its solutions more effectively through the indirect channel.

Vonage expanded its services and solutions portfolio with the acquisition of gUnify in 2015. gUnify's cloud-based middleware solution integrates Vonage's cloud communications platform with today's most widely used software-as-a-service (SaaS) business applications, including Google for Work, Zendesk, Salesforce's Sales Cloud, Clio, and other customer relationship management (CRM) and productivity solutions. gUnify is recognized as a leading integration technology within the BroadSoft ecosystem, which has more than 10 million unified communications users. This acquisition will allow Vonage to deliver a greater value proposition to business customers looking to leverage advanced unified communications to improve critical business processes.

Smart, synergistic acquisitions have enabled Vonage to greatly improve its market position over the past couple of years and assert itself as a major power in the North American hosted IP telephony and UCC services space.

Above-industry Growth

Since 2013, Vonage grew from no presence in the business VoIP market to the fourth largest provider in terms of installed users at the end of 2014. The addition of SimpleSignal in 2015 makes Vonage a strong contender for the third largest market share position in 2015.

In addition to garnering market share through an aggressive M&A strategy, Vonage has bolstered organic growth. In 2014, Vonage Business grew by 50 percent, well above industry-average growth rates. The company reports improving quarterly financial metrics including lower churn and higher margins. Newly-acquired Telesphere and SimpleSignal reported double-digit growth rates in 2014, which, if sustained, will allow Vonage to continue to exceed industry growth rates in 2015. Furthermore, continued penetration among larger businesses is likely to help Vonage further reduce churn and increase average revenue per user (ARPU).

Overall, higher growth rates will allow Vonage to maintain profitability and financial stability, which are becoming more critical IT investment criteria as the market matures and cloud communications services penetrate more demanding customers. Higher growth will also further separate Vonage from its competitors and will provide revenues to sustain aggressive marketing and research and development (R&D).

Growth Diversification

Most hosted IP telephony providers have focused on specific customer segments such as SOHOs and very small businesses or large, distributed enterprises, for which they have developed highly-targeted solutions and a compelling value proposition. Few providers can effectively serve a broad customer spectrum. With its broad and diversified services portfolio, Vonage is uniquely positioned to serve businesses ranging from as few as a single user to hundreds and thousands of users across multiple locations.

Vonage's proprietary solution (built on the legacy Vonage Business platform) is designed specifically for the needs of small and medium businesses. It includes a pre-packaged set of more than 40 features with more features and capabilities available as add-ons for an incremental charge. This solution is addressing growing customer need to support users across all types of devices with a mobile app for iOS and Android devices, as well as with a desktop application and softphone. The company now brands this solution as Vonage Essentials.

Most customers deploy Vonage Essentials over the public Internet. Vonage Essentials is easy to deploy, manage and use. A concentration on providing quality customer service and support enable the company to more effectively acquire and retain customers.

Telesphere's offering, on the other hand, was designed for larger, distributed organizations, providing Vonage with the breadth to serve the full spectrum of the business market. It has invested heavily in infrastructure in order to support larger businesses.

Telesphere has also developed efficient back-office systems (BSS/OSS) and created a management portal, which enables customers to more effectively manage and control their communications solutions. This is a compelling factor in larger organizations that retain some IT staff even as they outsource their communications to a service provider. Telesphere has its own national MPLS network. Approximately 85 to 90 percent of Telesphere customers are on a dedicated circuit. Compared to many other providers delivering services over the public Internet, the MPLS network allows Telesphere to guarantee service quality and reliability—highly valued capabilities among larger organizations.

The SimpleSignal acquisition reinforces Vonage's presence in the mid-market and large-enterprise space. SimpleSignal provides solutions both over Vonage's MPLS network and through Bring Your Own Broadband (BYOB) delivery options. SimpleSignal has been particularly successful at delivering great customer experience over BYOB through a combination of consultative LAN design (ensuring the LAN is ready for VOIP) and the deployment and management of a premises device that implements traffic prioritization and provides visibility to voice quality metrics. The gUnify acquisition provides a path to further differentiation and to capitalize on new growth opportunities as the ability to integrate a company's communications increasingly become an integral part of business process applications and productivity tools.

Price/Performance Value

The core Vonage Essentials service bundles include full PBX functionality and key business telephony features such as call park, call hold, call forward, as well as admin and user portals, Microsoft Outlook integration, music on hold, voicemail, voicemail to email, virtual receptionist, simultaneous ring on multiple devices, a mobile app, and much more. The comprehensive Vonage Essentials service bundle is offered at a competitive list price of \$39.99/extension/month with volume discounts available for implementations with a larger number of users. This price includes unlimited local and long-distance minutes. Other capabilities available at an additional charge include call recording, voicemail transcription, conference bridge, call queue, call monitoring and others. A notably differentiated feature is a desktop application with various enterprise system plug-ins that integrates with popular third-party apps such as salesforce.com and other CRM solutions. Vonage continually enhances its Essentials service offerings by adding new features and capabilities in order to meet evolving customer needs and thus ensures long-term customer loyalty.

Overall, Vonage Essentials offers a very compelling solution for small and medium businesses. The inclusion of mobile and desktop apps free of charge in the basic Essentials package enables both mobile and office employees to communicate using any device they choose.

Telesphere offers a broad feature set including PBX; voicemail to email; mobile integration allowing IM, chat, presence and desktop share; contact center, video conferencing; Microsoft Outlook, popular CRM platform integration, and more in a package, which Vonage has branded Vonage Premier. The contact center capability is critical in larger customer organizations. Vonage Premier also offers call recording with a tagging and transcription service. Telesphere's feature-rich offering, typically bundled with MPLS costs on average about \$70 per user per month. Targeted at larger and more demanding organizations with multiple office locations, the Vonage Premier solution provides superior quality, reliability and security for a competitive price.

SimpleSignal's offerings, which are also a part of the Vonage Premier product set, provide both a broad feature set and flexibility for customers to deploy hosted services over private or public access networks. SimpleSignal's pricing is highly competitive at less than \$30 per user per month. With a variety of service offerings and deployment options in its portfolio, Vonage provides a one-stop shop for customers and indirect channel partners with different business needs and communications technology requirements.

Customer Ownership Experience

Stable average revenues per user and declining churn rates are key metrics to demonstrate customer satisfaction and positive ownership experience. Flexibility and ease of use help attract and retain small and medium-size business users. Vonage Essentials' architecture with multiple software clusters also enables superior service availability and business continuity. Service quality and reliability, as well as a comprehensive feature set of the Vonage Premier offerings, allow Vonage to ensure long-term customer relationships. Additionally, all legacy businesses that have come together under the Vonage umbrella have a strong track record of delivering excellent customer service and support. Also important, as innovative and entrepreneurial organizations, these companies have focused considerably on providing customers with personalized attention and greater transparency in their relationships (by sharing service performance data, for example).

Brand Equity

The Vonage brand has long been associated with next-generation voice services and has become a symbol of innovation and superior price/performance value. The provider's expansion into the business IP telephony space is already boosting its brand recognition and has positioned the company for further success. As businesses look to entrust their communications solutions to a partner with a proven track record, Vonage's financial stability and long industry history inspire customer confidence and loyalty.

In the beginning of 2015, Vonage announced that Vonage Business Solutions, Telesphere, SimpleSignal and gUnify, are now collectively referred to as Vonage Business. The consolidation of the various brands and product lines is likely to positively impact customer perceptions of Vonage's stability and long-term vision.

Conclusion

Rapid growth coupled with continually improving profitability and customer retention rates, a diversified portfolio addressing a broad spectrum of customer needs, a compelling price-performance value proposition, and a strong brand are among the factors that have enabled Vonage to secure a leading position in the North American hosted IP telephony and UCC services market.

With its strong overall performance, Vonage has earned Frost & Sullivan's 2015 Growth Excellence Leadership Award.

Significance of Growth Excellence Leadership

Growth Excellence Leadership is about inspiring customers to purchase from your company, and then to return time and again. In a sense, then, everything is truly about the customer, and making those customers happy is the cornerstone of any long-term successful growth strategy. Companies that excel in driving growth strive to be best-in-class in three key areas: meeting customer demand, fostering brand loyalty, and carving out a unique, sustainable market niche.



Understanding Growth Excellence Leadership

Companies that creatively and profitably deliver value to customers ultimately set up their businesses for long-term, rapid growth. This is what Growth Excellence Leadership is all about: growth through customer focus, fostering a virtuous cycle of improvement and success.

Key Benchmarking Criteria

For the Growth Excellence Leadership Award, Frost & Sullivan analysts independently evaluated two key factors—Growth Performance and Customer Impact—according to the criteria identified below.

Growth Performance

- Criterion 1: Growth Strategy
- Criterion 2: Above-Market Growth
- Criterion 3: Share of Wallet
- Criterion 4: Growth Diversification
- Criterion 5: Growth Sustainability

Customer Impact

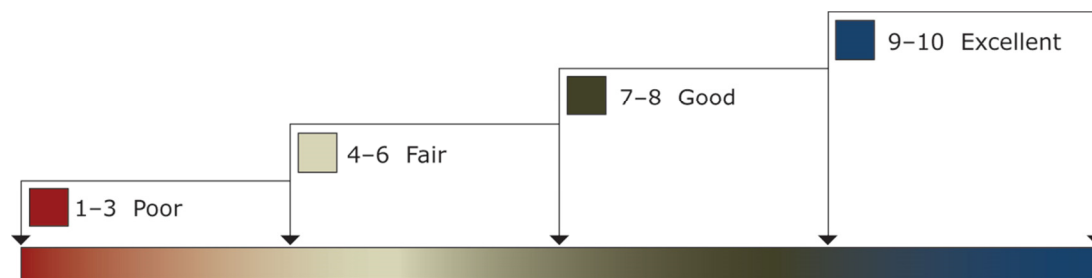
- Criterion 1: Price/Performance Value
- Criterion 2: Customer Purchase Experience
- Criterion 3: Customer Ownership Experience
- Criterion 4: Customer Service Experience
- Criterion 5: Brand Equity

Best Practice Award Analysis for Vonage

Decision Support Scorecard

To support its evaluation of best practices across multiple business performance categories, Frost & Sullivan employs a customized Decision Support Scorecard. This tool allows our research and consulting teams to objectively analyze performance, according to the key benchmarking criteria listed in the previous section, and to assign ratings on that basis. The tool follows a 10-point scale that allows for nuances in performance evaluation; ratings guidelines are illustrated below.

RATINGS GUIDELINES



The Decision Support Scorecard is organized by Growth Performance and Customer Impact (i.e., the overarching categories for all 10 benchmarking criteria; the definitions for each criteria are provided beneath the scorecard). The research team confirms the veracity of this weighted scorecard through sensitivity analysis, which confirms that small changes to the ratings for a specific criterion do not lead to a significant change in the overall relative rankings of the companies.

The results of this analysis are shown below. To remain unbiased and to protect the interests of all organizations reviewed, we have chosen to refer to the other key players as Competitor 2 and Competitor 3.

DECISION SUPPORT SCORECARD FOR GROWTH EXCELLENCE LEADERSHIP AWARD

<i>Measurement of 1-10 (1 = poor; 10 = excellent)</i>			
Growth Excellence Leadership	Growth Performance	Customer Impact	Average Rating
Vonage	10	9.8	9.9
Competitor 2	9.6	9.6	9.6
Competitor 3	9.4	9.4	9.4

Growth Performance

Criterion 1: Growth Strategy

Requirement: Executive team has a shared vision for the organization’s future growth, and has created and implemented a strategy that is consistent with that vision

Criterion 2: Above-Market Growth

Requirement: Company’s growth rate exceeds the industry’s year-over-year growth rate

Criterion 3: Share of Wallet

Requirement: Customers allocate a greater percentage of their total spend to purchasing products or services produced by the company

Criterion 4: Growth Diversification

Requirements: Company is equally able to pursue organic (e.g., distribution channel optimization, new product innovation) or inorganic (e.g., acquisitions, partnerships) growth opportunities consistent with the long-term objectives of the organization

Criterion 5: Growth Sustainability

Requirement: Company has consistently sought out opportunities for new growth, enabling the organization to build on its base, and sustain growth over the long-term

Customer Impact

Criterion 1: Price/Performance Value

Requirement: Products or services offer the best value for the price, compared to similar offerings in the market

Criterion 2: Customer Purchase Experience

Requirement: Customers feel like they are buying the most optimal solution that addresses both their unique needs and their unique constraints

Criterion 3: Customer Ownership Experience

Requirement: Customers are proud to own the company’s product or service, and have a positive experience throughout the life of the product or service

Criterion 4: Customer Service Experience

Requirement: Customer service is accessible, fast, stress-free, and of high quality

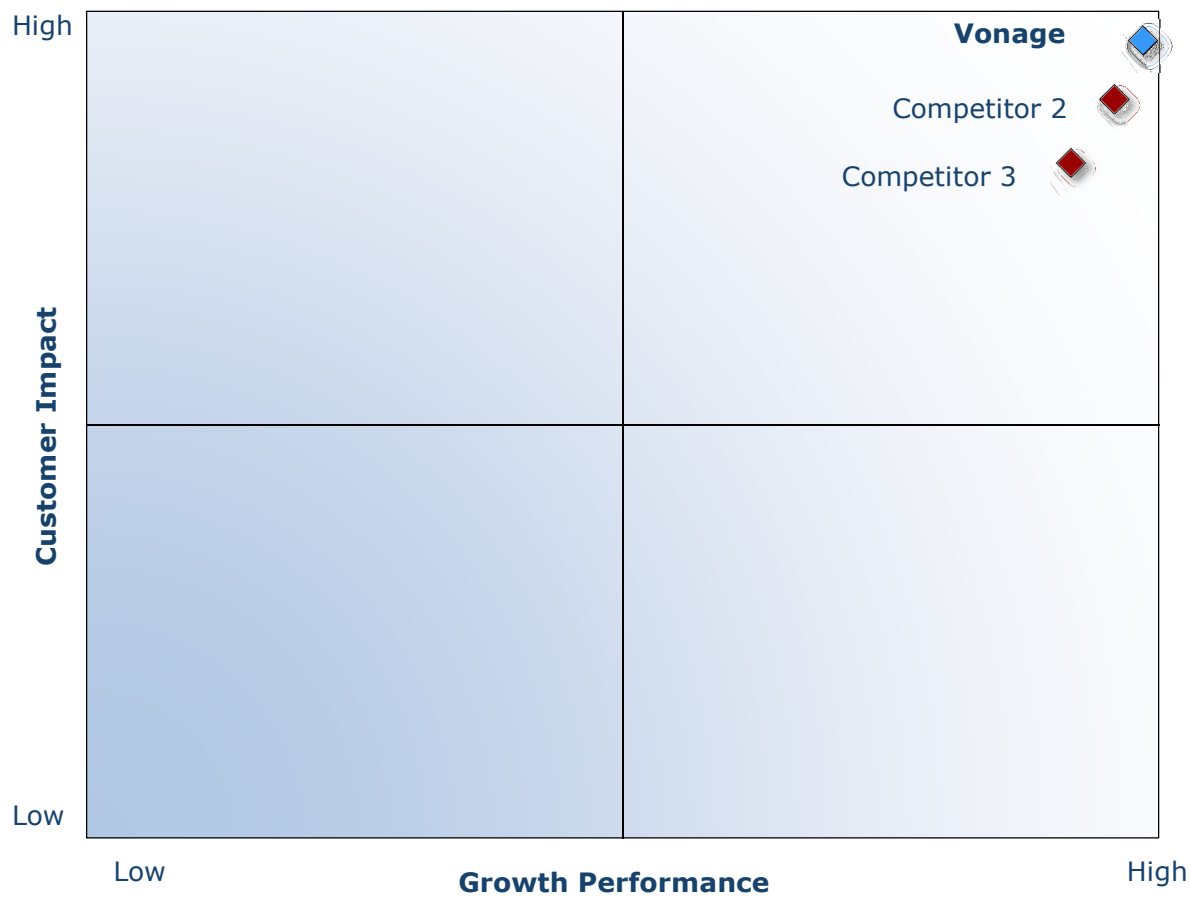
Criterion 5: Brand Equity

Requirement: Customers have a positive view of the brand and exhibit high brand loyalty

Decision Support Matrix

Once all companies have been evaluated according to the Decision Support Scorecard, analysts can then position the candidates on the matrix shown below, enabling them to visualize which companies are truly breakthrough and which ones are not yet operating at best-in-class levels.

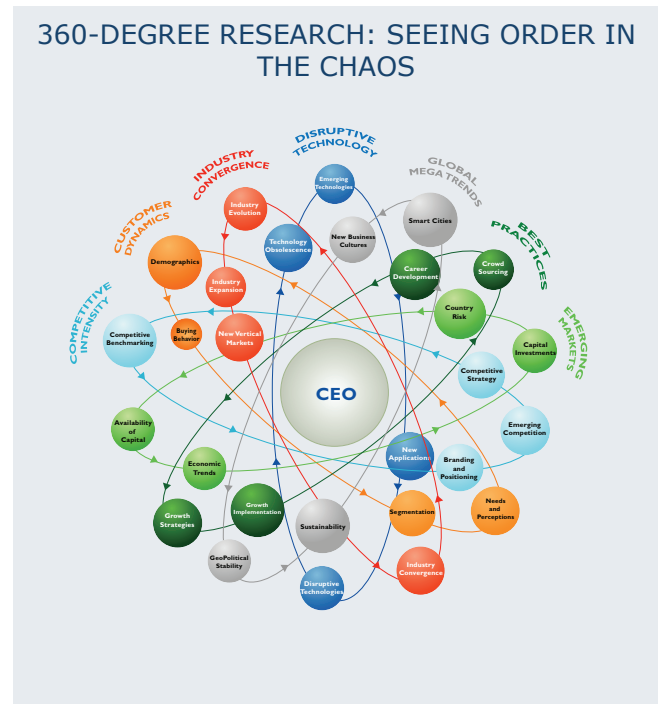
DECISION SUPPORT MATRIX FOR GROWTH EXCELLENCE LEADERSHIP AWARD



The Intersection between 360-Degree Research and Best Practices Awards

Research Methodology

Frost & Sullivan's 360-degree research methodology represents the analytical rigor of our research process. It offers a 360-degree-view of industry challenges, trends, and issues by integrating all 7 of Frost & Sullivan's research methodologies. Too often, companies make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. The integration of these research disciplines into the 360-degree research methodology provides an evaluation platform for benchmarking industry players and for identifying those performing at best-in-class levels.



Best Practices Recognition: 10 Steps to Researching, Identifying, and Recognizing Best Practices

Frost & Sullivan Awards follow a 10-step process to evaluate award candidates and assess their fit with select best practice criteria. The reputation and integrity of the Awards are based on close adherence to this process.

STEP	OBJECTIVE	KEY ACTIVITIES	OUTPUT
1 Monitor, target, and screen	Identify award recipient candidates from around the globe	<ul style="list-style-type: none"> • Conduct in-depth industry research • Identify emerging sectors • Scan multiple geographies 	Pipeline of candidates who potentially meet all best-practice criteria
2 Perform 360-degree research	Perform comprehensive, 360-degree research on all candidates in the pipeline	<ul style="list-style-type: none"> • Interview thought leaders and industry practitioners • Assess candidates' fit with best-practice criteria • Rank all candidates 	Matrix positioning all candidates' performance relative to one another
3 Invite thought leadership in best practices	Perform in-depth examination of all candidates	<ul style="list-style-type: none"> • Confirm best-practice criteria • Examine eligibility of all candidates • Identify any information gaps 	Detailed profiles of all ranked candidates
4 Initiate research director review	Conduct an unbiased evaluation of all candidate profiles	<ul style="list-style-type: none"> • Brainstorm ranking options • Invite multiple perspectives on candidates' performance • Update candidate profiles 	Final prioritization of all eligible candidates and companion best-practice positioning paper
5 Assemble panel of industry experts	Present findings to an expert panel of industry thought leaders	<ul style="list-style-type: none"> • Share findings • Strengthen cases for candidate eligibility • Prioritize candidates 	Refined list of prioritized award candidates
6 Conduct global industry review	Build consensus on award candidates' eligibility	<ul style="list-style-type: none"> • Hold global team meeting to review all candidates • Pressure-test fit with criteria • Confirm inclusion of all eligible candidates 	Final list of eligible award candidates, representing success stories worldwide
7 Perform quality check	Develop official award consideration materials	<ul style="list-style-type: none"> • Perform final performance benchmarking activities • Write nominations • Perform quality review 	High-quality, accurate, and creative presentation of nominees' successes
8 Reconnect with panel of industry experts	Finalize the selection of the best-practice award recipient	<ul style="list-style-type: none"> • Review analysis with panel • Build consensus • Select winner 	Decision on which company performs best against all best-practice criteria
9 Communicate recognition	Inform award recipient of award recognition	<ul style="list-style-type: none"> • Present award to the CEO • Inspire the organization for continued success • Celebrate the recipient's performance 	Announcement of award and plan for how recipient can use the award to enhance the brand
10 Take strategic action	Upon licensing, company may share award news with stakeholders and customers	<ul style="list-style-type: none"> • Coordinate media outreach • Design a marketing plan • Assess award's role in future strategic planning 	Widespread awareness of recipient's award status among investors, media personnel, and employees

About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.