INFONETICS RESEARCH REPORT EXCERPTS

Cloud UC

North America Service Provider Scorecard

May 2015

IHS has acquired Infonetics Research

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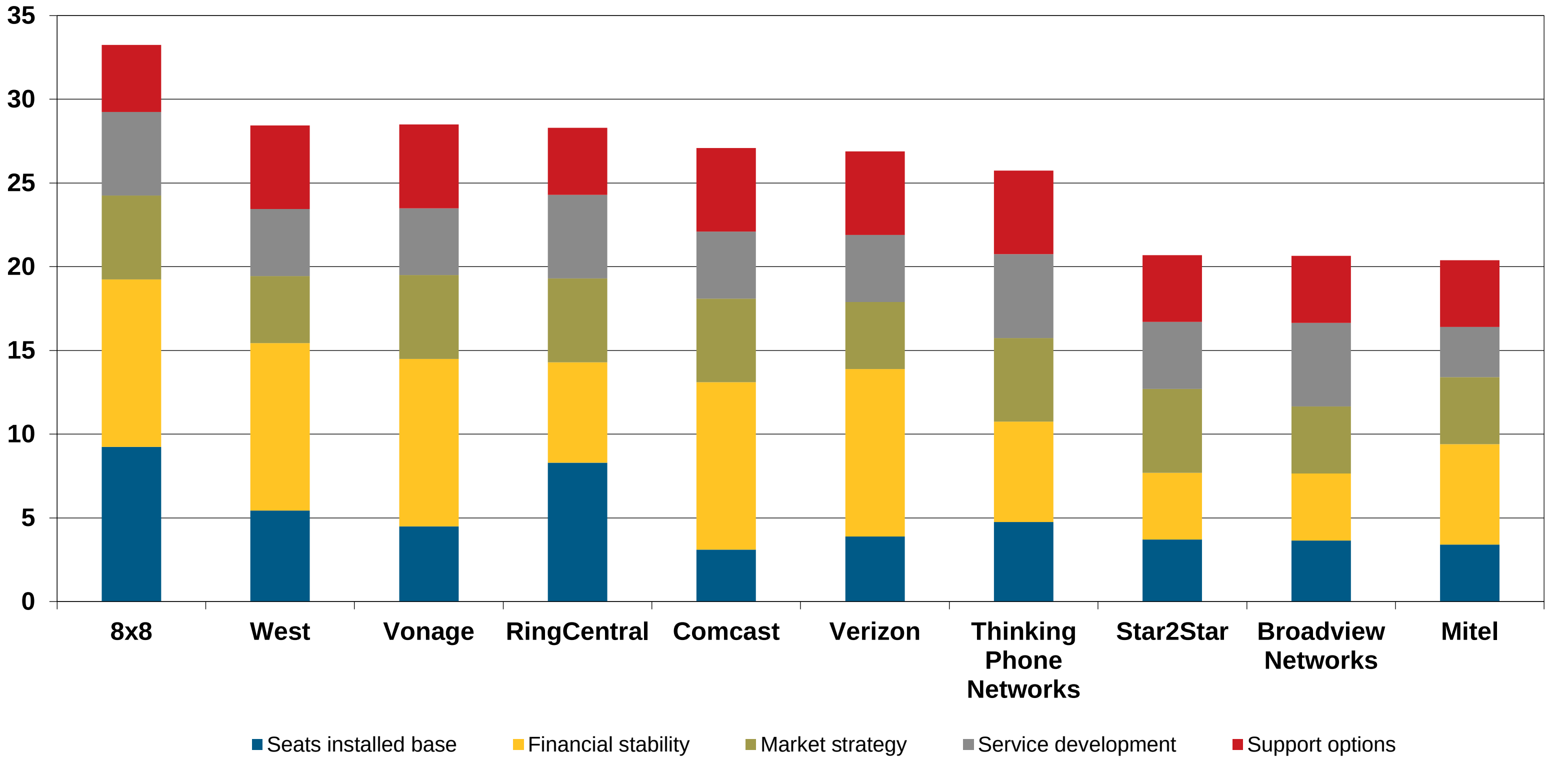
TOP TAKEAWAYS

In this *Scorecard* we look at the top cloud/hosted UC providers in North America. Over the past 5 years, there has been slow and steady consolidation of business VoIP providers in North America. However, the mergers and acquisitions have not significantly lowered the number of VoIP service providers in the region, due to the emergence of new providers, particularly traditional premises-based PBX and UC vendors. At the end of 2014, the providers that made the cut had over 170K VoIP and UC seats each, and the top providers had over 450K seats. There are a number of providers that did not make the cut that have an installed base of 100K–200K seats. The market cannot sustain the large number of providers long term, so we will see further consolidation or providers closing down. Among all these VoIP business providers, a few stand out:

- 8x8 is a decisive leader in the hosted UC market for the second year in a row, building on its solid financial position over the past 3+ years and on its continued focus on service enhancements and geographic expansion. Though its installed base is still heavily small businesses, it is successfully moving up-market.
- West IP Communications is in second place in this *Scorecard* through continued focus on large enterprises, with a heavy focus on the Cisco HCS platform as its premier cloud service offering away from its own platform. West IP has worked diligently to take advantage of businesses loyal to Cisco that have a desire to move to the cloud while staying with a Cisco solution. West IP continues to benefit from this and also has a solid operating system to adequately scale its business.
- Vonage made the biggest jump in this year's *Scorecard* by accelerating its customer base through acquisitions. Vonage has a clear mandate to grow its business services group which is centered on cloud UC services and it is using a 2-platform strategy—one it developed directly for the low end of small businesses, and the other is from BroadSoft for larger small businesses and mid-market customers.
- There is a broad mix of providers outside the top ten that are growing fast and doing great things. This includes ShoreTel, Cox, CoreDial, Windstream, iCore, Megapath, Masergy, Earthlink, XO, and CenturyLink.

Exhibit 1 **2015 North America Hosted VoIP Leaders**



BACKGROUND

This 7th annual *North America Cloud UC Leadership Scorecard* complements our *VoIP and UC Services and Subscribers* worldwide and regional market size and forecast report.

The purpose of this *Scorecard* is to determine which service providers currently lead the market for cloud/hosted (we use the terms interchangeable) UC services (which incorporates PBX) and are best positioned to succeed in the long term based on a set of criteria.

First, we determined the top service providers in terms of the number of seats for cloud PBX/UC. We then evaluated them based on the following four criteria :

- Financial stability
- Market strategy
- Service capabilities
- Support options

Please see "Leadership Metric Definitions" at the end of this report.

We rate each service provider on each of the 4 metrics on a 5-point scale:

- 5 = leading the market
- 4= advancing
- 3 = moderately positioned
- 2 = limited position
- 1 = market laggard
- 0 = no activity/not applicable

We apply a weight to each score, and tally the points for each provider to provide its leadership score.

CLOUD UC LEADERSHIP SCORECARD

The cloud PBX and UC market in North America is marked by a large and dynamic provider landscape. Mergers and acquisitions continue as providers look to gain scale, new capabilities, and long-term survivability. Additionally, traditional PBX and UC vendors such as Cisco, Mitel, Unify, ShoreTel, Microsoft, and Avaya continue their push into the cloud either directly or through platforms sold to hosted providers.

The top 10 providers have been very consistent over the past few years, and compared with our 2014 report there is some shifting in the rankings, but the top 10 are the same. The consistency of the top providers indicates that many continue to do the right things, enabling them to maintain low churn and expand to new customers.

In this year's *Scorecard*, **8x8** maintains its strong leadership due to its large installed base of hosted seats, solid financial statements, and continued execution on its service strategy. 8x8 has consistently been near the top of our *Scorecard* and is a long-standing stalwart of the hosted PBX and UC market, with a strong position with small businesses and continued growth up-market.

West IP and **Vonage** follow 8x8 in the rankings with a tied score. West IP has a larger installed base and is continuing its growth in business customers running off the Cisco HCS platform while sustaining customers on its homegrown platform. With its success, West IP is a leading Cisco partner for cloud services. The company's installed base, focus on mid-market and large enterprise customers, and financial stability keep them near the top of the *Scorecard*.

Though the top 10 providers are the same as in our 2014 report, Vonage made the biggest leap in the rankings. Vonage has grown its base from the 2013 acquisition of Vocalocity and has expanded through a strategy of market consolidation, acquiring Telesphere in November 2014 and Simple Signal in March 2015. The provider is very focused on making the transition from consumer VoIP services to feature-rich business services.

RingCentral comes in only 0.2 points below West IP and Vonage. RingCentral is just below 8x8 in installed base of users with its Office offering that continues to grow among businesses with more than 100 employees. RingCentral operates its own platform and continues to expand its capabilities to meet the needs of larger businesses.

Comcast rounds out the top 5 hosted providers. Though Comcast may not be the largest in terms of installed base, its strong financial position guarantees customers it is not going anywhere. Comcast is focused on one hosted offering and is not getting distracted by being all things to all companies.

In our March 2015 *UC Cloud and On-Premises Strategies and Leadership North American Enterprise Survey,* we asked the respondents who are implementing at least part of their UC solution in the cloud to rate criteria for selecting cloud UC providers. The top 4 criteria, rated *very important* by the most respondents, are security, QoS guarantees, service support, and pricing. This corresponds with informal discussions with enterprises that express concern about going with a hosted provider that is stable and can offer a high quality service.

There a handful of cloud UC providers that just miss the top 10 cut-off for this report but are worth highlighting. They include ShoreTel, CoreDial, Cox, Windstream, iCore Networks, Megapath, Masergy, XO, and Earthlink. These are all important providers to watch, and many are doing interesting things with applications and go-to-market strategy. ShoreTel and MegaPath have been in our previous leadership *Scorecards* but narrowly missed this year, as others were able to grow their installed base more aggressively.

On important trend in this area of cloud communications is the growth of larger enterprise deals in the past year. We have moved from interest and speculation to adoption within this segment that represents multiple thousands of seats per customer. And we are talking about multi-tenant-based or multi-instance-based services. These are public and private sector firms ranging all the way up to tens of thousands of endpoints. Many of these larger deals are with organizations that are highly distributed, where the benefits of cloud across many locations is readily apparent. With the rise of these opportunities, many providers are evolving their businesses to chase these deals down. However, not all cloud providers are suited for the rigors of large enterprise deals, and there are risks chasing and winning them.

In 2015 we expect further market consolidation, which will bring some shifting within the top 20 providers, along with further investments in shoring up existing positions. We will also continue to actively monitor the traditional UC vendors as they continue to invest further in the hosted service market. The chart below shows each provider's total leadership score, calculated as noted in the previous section.

8X8 ANALYSIS

8x8, for the second year in a row, is the leader of the North American cloud UC leadership *Scorecard* due to its solid financial position, continued strong growth of its installed base, and ongoing service development. 8x8 has demonstrated it is not complacent with its mix of enhanced capabilities and features nor its go-to-market strategy; the company is continuing to evolve to meet the needs of business customers. The company has been focused on moving up-market to provide services to midmarket and distributed organizations. 8x8 is a publicly traded company and has done a solid job of growing revenue and posting net profits with a positive cash flow.

8x8's services go beyond standard voice features, with collaboration and enhanced capabilities, including Virtual Room video conferencing, Virtual Meeting web conferencing, and Virtual Office Mobile applications. Its integrated suite of services, including the Virtual Contact Center solution, has been a strong differentiator and is being replicated by other hosted providers. In the past year, 8x8 has added analytics and new reporting tools for businesses to view communications activity and trends within their organizations.

Focusing more up-market, 8x8 has broadened service capabilities to include more comprehensive mobile clients, offering customers flexibility in where and how they communicate. Beyond features and applications they have also added service level agreements (SLAs) guaranteeing end-to-end service uptime, reliability, and call quality any broadband network customers use—public Internet or an MPLS network. Additionally, 8x8 has expanded its international service footprint to better service companies with operations outside the US.

8x8 runs its services over its own platforms, allowing them to control feature development. Most customers run the 8x8 service over their own broadband connections, but for larger businesses, 8x8 will work with partners for dedicated bandwidth for a MPLS network where necessary.

The company has 2 key Unified Communication as a Service (UCaaS) offerings: Virtual Office, its flagship service, and Virtual Office Pro, its premium service that includes the same phone features of Virtual Office plus web conferencing with video, call recording, and Internet fax capabilities. Virtual Office and Virtual Office Pro each come in 3 plans that customers can mix and match:

- Unlimited Extension includes unlimited calling to the US and 8 international locations.
- Metered Extension provides a 250 minute limit for outbound calls in the US and Canada. Any minutes over the limit are 2.9 cents plus international tolls. Calls to and from other 8x8 extensions are unlimited.
- For companies with high international calling requirements, 8x8 offers Global Extension, which provides unlimited calling to the US and over 40 international locations.

Though 8x8 has been highly focused on building its hosted PBX/UC business with small businesses of fewer than 100 employees, in recent years it has built a practice focused on businesses with 100-2,000 employees. In March 2015, 8x8 introduced the Virtual Office Enterprise Suite service package to better align with enterprise needs. The Enterprise Suite includes Virtual Office Pro, Virtual Office Analytics, SLAs, MPLS network connectivity options, and high-touch onboarding and support.

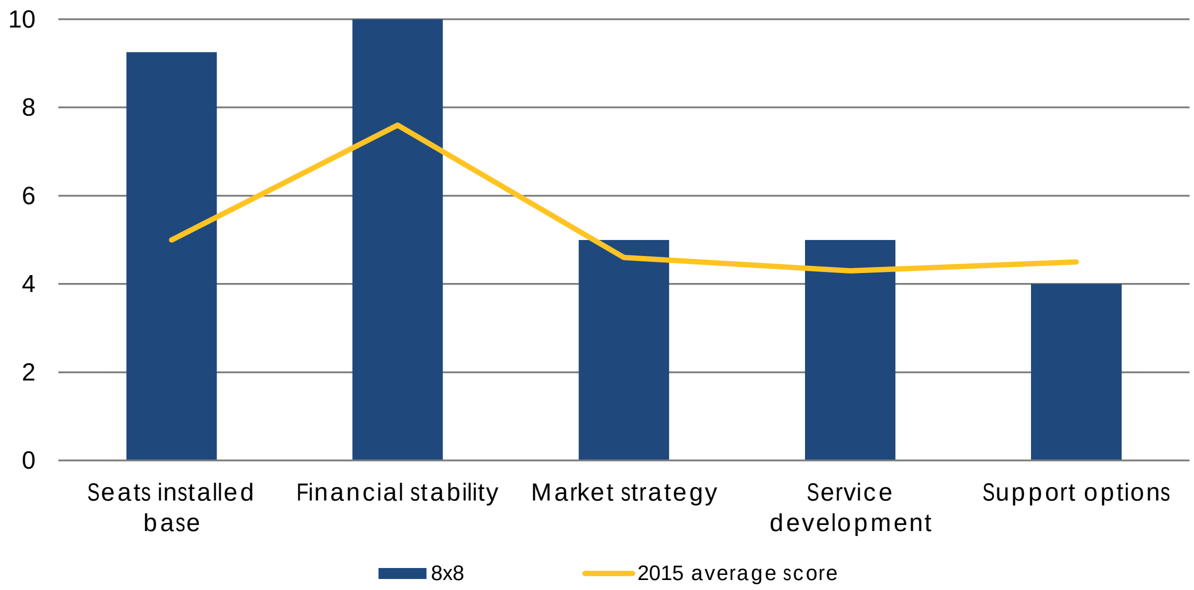
8x8 has found success with highly distributed companies in verticals such as healthcare, transportation, retail, and insurance. A recent example is ChenMed, a provider of outpatient healthcare services with 38 locations and 1,400 employees. Another example is FishNet Security, a provider of information security solutions with more than 700 employees and 30 offices across the US. In 2012, it won TMW Systems, a transportation company that represents approximately 1000 lines across seven locations, where the individual sites look and feel like micro businesses but collectively make up a large enterprise. In 2014, the company won KC Integrated Services, which spans 14 locations across 6 US states and Ontario, Canada.

As of 4Q14, the company's average revenue was $305/month per business customer (up from $274/month a year prior). Many of its smaller customers move to 8x8 from basic business lines, which results in higher value service capabilities and features.

Throughout 2014, 8x8 has worked on achieving a variety of compliance certifications including HIPAA, FISMA, and FIPS 140-2.

8x8 uses direct sales and a channel partner program to sell its services. It has been growing channel sales over the past year with telecom agents and VARs and has recently partnered with Arrow Systems Integration to expand its channel presence. Additionally, 8x8 uses its hosted contact center business to pull through the hosted PBX solutions to those customers.

Exhibit 2 **8x8's Scores vs. Average Scores of All 10 VoIP Providers**



LEADERSHIP METRIC DEFINITIONS

The leadership metrics are defined as follows:

Installed base: Determined the top service providers based on number of lines/trunks or seats reported as of the end of calendar year 2014.

Financial stability best positions a provider for long-term success (i.e., provides the ability to maintain the business as a standalone entity and to take advantage of investing in new services and infrastructure). Financial stability is also extremely important for business customers that are entering into multi-year contracts.

Market strategy: Though voice services continue to experience downward pricing pressure and competition abounds from other providers and alternative solutions, VoIP providers must have a strong market differentiation for long-term success and commitment to the market. How a service provider executes its market strategy is extremely important and includes channel programs, target market development (e.g., verticals or customer size segmentation), and geographical strategy.

Service capabilities: Service differentiation provides the ability to maintain or increase average selling prices. We look at the degree to which the service provider is adding UC applications, integrated web conferencing, Web 2.0 mashups, HD voice, and video solutions.

Support options: Business customers' top buying criteria include reputation, reliability, and service and support; this is particularly true for fully hosted services that include services down to a user's desktop. Comprehensive service and support policies are critical in maintaining customers and reputation of high quality services will position providers in maintaining customers.

SERVICE DEFINITIONS

Hosted VoIP and UC: Hosted, multi-tenant solutions that replaces a premises-based PBX or key system, including value-added applications and unified communications (UC); UC integrates multiple and disparate communication modes (voice, e-mail, fax, chat, etc.) into a unified and cohesive communications experience. Hosted UC aggregates telephony, presence/IM, messaging, collaboration and conferencing into a unified service delivered to multiple devices that is managed and sold as a subscription based model.

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ABOUT INFONETICS RESEARCH

Infonetics Research, now part of IHS Inc. (NYSE: IHS), is an international market research and consulting analyst firm serving the communications industry since 1990. A leader in defining and tracking emerging and established technologies in all world regions, Infonetics helps clients plan, strategize, and compete more effectively.

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