



8x8, Inc.

2014 North American Hosted IP Telephony and UCC Services
Customer Value Leadership Award



F R O S T & S U L L I V A N



50 Years of Growth, Innovation & Leadership

Industry Challenges

The hosted Internet Protocol (IP) telephony and unified communications and collaboration (UCC) services market is growing rapidly at compound annual growth rates (CAGR) of 25 to 30 percent in terms of both installed users and service provider revenues. Demand for hosted services is increasing as customer organizations seek to improve business agility and gain faster and more economical access to advanced capabilities and a larger pool of technology skills. In response to customer demand, service providers are introducing scalable and feature-rich hosted IP telephony and UCC services that enable them to provide greater value to customers, generate new revenue streams and differentiate from the competition.

As the market continually evolves, service providers face certain challenges. In spite of the compelling benefits of hosted/ cloud services, many businesses continue to use premises-based systems for a variety of reasons, including: security, control, a more comprehensive feature set, unique functionality, more flexible customization, and so on. Furthermore, the lack of a strong leader and limited provider differentiation in the hosted IP telephony and UCC services market cause a level of confusion and hesitation among business decision makers.

Provider success in the hosted communications market, as in most other industries, is determined by both strategy and execution. Certain providers have failed due to lack of a viable strategy and sustainable business model; yet others have been unable to sustain competitive growth rates due to poor execution despite their seemingly compelling vision.

Most hosted communications providers have deployed third-party platforms, which require incremental investments in software licenses as providers grow their installed base, thus limiting their ability to gain economies of scale. Furthermore, providers using third-party solutions are dependent on the vendors' technology vision and roadmap, which impacts the providers' ability to quickly respond to evolving customer needs or differentiate from the competition through unique features and capabilities. For example, many providers have been unable to meet growing customer demand for mobile access to company communications applications due to lack of support for mobile device integration on the third-party platforms they have deployed.

Providers using home-grown, cloud-based platforms have been able to more effectively address industry challenges and more rapidly grow their market share. The ability to more tightly control both platform capacity costs and feature development allows such providers to scale more cost-efficiently and provide greater value to customers investing in hosted communications solutions.

Furthermore, there is increasing awareness of the need to focus on other business aspects beyond features and functionality in order to increase customer satisfaction, reduce churn and improve other performance metrics. For example, there is an increased effort to

ensure greater infrastructure reliability by building geo-redundant data centers. Key factors enabling successful execution in the hosted IP telephony and UCC services market include quality of service and network reliability, a consultative sales approach, efficient back-end (OSS/BSS) platforms and processes, effective customer onboarding and ongoing management, and access to an extensive channel network.

As the market consolidates and matures, broader market reach through the right mix of resellers will become a critical factor for success. Going forward market share, a strong brand, high growth rates, profitability and reference customer accounts will be key considerations in customer selection of cloud communications providers.

A customer value leadership position in this sector indicates a powerful vision; commitment to technology innovation, service quality and customer value; superior customer service; and strong performance metrics. A successful combination of all these factors is likely to enable a provider to accelerate growth and expand market share over the next five to six years.

Customer Impact and Business Impact of 8x8

A pioneer in the hosted IP telephony and UCC services market, 8x8 has gained a leadership position among a broad array of competing providers through its visionary growth strategy and strong execution. Key tenets of its success include a compelling price/performance value, a tight focus on the customer ownership experience, strong brand equity, focus on security and compliance, excellence in financial performance, accelerated customer acquisition in the midmarket business segment, and continued investment in expanding the company's growth potential worldwide.

Price/ Performance Value

In the past, hosted communications providers struggled to compete with premises-based solutions in terms of features and functionality. Developed over many decades and continually enhanced, advanced PBX and UCC solutions provide a broad array of capabilities that address the needs of a diverse customer audience. Little competition and a shorter product development track record in the hosted communications platforms space, on the other hand, resulted in more limited functionality in the first generation of hosted solutions. For this reason, many hosted communications providers dependent on third-party platforms focused on price as their key competitive tool and differentiator.

Unlike many of its competitors, 8x8 leverages a patented, home-grown platform that has enabled it to rapidly and economically innovate. It has developed an extensive set of hosted communications and collaboration applications that rivals the capabilities provided by premises-based UCC solutions and ranks among the most compelling hosted communications offerings.

In addition to a standard set of PBX functionality, voicemail and unified messaging, 8x8 also includes instant messaging (IM) and presence, conferencing, soft clients, mobility,

SMS and video conferencing in its bundled offerings. It is one of few market participants that have introduced hosted IM, presence and video conferencing to their customer base. Other features include the ability to integrate distributed enterprise locations onto a single Virtual PBX while allowing each to operate autonomously, making overall system administration and disaster preparedness/recovery simple and easy to manage. 8x8 also offers some of the most advanced hosted PBX capabilities in the market today. Workforce and Quality Management capabilities are integrated with the hosted contact center application. Increasingly, hosted PBX providers acknowledge their customers' need for advanced call routing and other contact center functionality and are looking to develop or acquire such capabilities. 8x8 is well ahead of its competitors in enabling businesses to better serve their own customers.

8x8 also caters to a growing customer need to support mobile and remote workers. 8x8 has introduced a white-boarding and file-sharing capability and continually enhances its virtual meetings product, which help improve collaboration across geographically distributed teams.

Furthermore, 8x8 helps businesses improve mobile worker productivity with some of the most advanced mobile capabilities in this market. Deployable on Android devices, iPhone and iPad, 8x8 mobile clients support visual voicemail, fax, IM, SMS and presence in addition to mobile access to the hosted PBX directory, call handling, routing and other features. 8x8 also supports peer-to-peer video calling on mobile devices, including the ability to communicate with Polycom video conferencing endpoints.

In addition to its comprehensive UCC services portfolio, 8x8 solutions' flexibility is further expanded through integration with other vendors' products and solutions. It provides tight integration with Outlook and a number of popular customer relationship management (CRM) solutions such as Salesforce.com, Netsuite, Zendesk, Microsoft Dynamics and Zoho. Through APIs and professional services, it has also enabled integration with various industry-specific, line-of-business and other third-party products including Teleopti for Workforce Management and KnoahSoft for Quality Management.

8x8 hosted solutions are packaged in compelling feature-rich bundles. In addition, certain capabilities are modular to allow customers to deploy only what they deem as their specific business necessities. The standard Virtual Office solution includes PBX functionality; a conference bridge; a web-based user interface; complex call forwarding; auto attendant; voicemail to email; integration with third-party applications; and Android and iOS clients. Virtual Office Pro includes all the Standard functionality, as well as call recording and more web-based features such as online fax and web-based conferencing. List prices range from \$25 to \$35 per user per month—which is very competitive for the broad array of services and rich functionality offered.

Overall, 8x8 offers some of the most comprehensive feature sets in the industry at very compelling price points.

Customer Ownership Experience

8x8 customers receive the benefits of a tightly integrated IP PBX, UCC and contact center portfolio. By providing a one-stop shop for a broad set of capabilities, 8x8 enables business customers to eliminate the cost and hassle associated with deploying, integrating and managing disparate multi-vendor technologies. It allows customers to consolidate vendor relationships and thus realize operational efficiencies related to vendor management, service provisioning, billing, upgrades and so on.

In addition to advanced features and capabilities, hosted IP telephony and UCC services customers also demand high service reliability. Cloud technologies have greatly improved over the years, however not all hosted communications services offer the same type of service quality and reliability. Many providers have experienced significant service issues due to poorly designed networks, which have resulted in customer discontent and churn.

Unlike many of its competitors, 8x8 has focused on service reliability as well as product features and functionality. 8x8 runs two fully mirrored and geographically redundant data centers in Santa Clara, CA, and Ashburn, VA. 8x8 SLAs guarantee four-nines (99.99 percent) uptime; however, it outperformed its own standards in over the past 2 years with actual uptime of nearly five-nines (99.997 percent). Compared to most competitors 8x8's performance ranked among the best of the past year.

8x8 services are unique in that they support a wide array of critical security and compliance requirements, including HIPAA/HITECH, FISMA, CPNI, FIPS and PCI-DSS. 8x8 conducts gap analysis based on security requirements to ensure compliance with various industry regulations. For example, from HIPAA compliance point of view, 8x8 has 141 controls in place related to audit and accountability, contingency planning, etc.

Furthermore, 8x8 is continually investing in improving its customers' deployment, onboarding and service management experiences. Most customers, especially smaller businesses with limited IT resources, highly value personalized customer service and support. Larger enterprises, where 8x8 is seeing the most growth, have needs that are more complex and, as such, receive dedicated resources with very detailed project planning and implementation standards to insure a successful installation of their services. Over the past couple of years, 8x8 has invested in improving its onboarding processes, which now include free telephone assistance or on-site implementation support at an additional charge.

Finally, 8x8 recently launched a major Big Data initiative. The provider enhanced its platform so that at the end of each call the endpoints publish data to 8x8's Big Data environment for better assessment of current and potential service-related issues. This allows 8x8 to proactively, on a global basis, identify, isolate and resolve potential threats to the network before customers experience degraded service. The company also launched new initiatives related to customer service and support, such as leveraging a proprietary dashboard for relationship and technical analysis.

Brand Equity

After its initial public offering (IPO) in 1997, 8x8 was the first publicly-traded provider focusing entirely on hosted IP telephony and UCC services. This placed it in the spotlight and entailed tight scrutiny from customers, partners and competitors. However, this also enabled 8x8 to build a strong brand that is now broadly recognized in the industry. Customers looking for hosted communications solutions are more likely to consider 8x8 and its services as they can find reliable information about the company's corporate health, performance and track record. Furthermore, as one of the market share leaders in this space, the 8x8 brand inspires greater confidence among business decision makers.

8x8's strong brand and market visibility position it competitively vis-a-vis alternative providers in the eyes of businesses considering a move to the cloud. 8x8's brand equity developed throughout the years is likely to help the provider continue to grow rapidly and maintain a large market share in the future.

Financial Performance

8x8 is one of the top two hosted IP telephony and UCC service providers in North America in terms of installed users and revenues. It generated \$122 million in product and services revenues from hosted communications in calendar 2013. 8x8 has demonstrated strong financial performance over the past several years, marked by revenue growth and improving financial metrics such as profitability and metrics directly impacting profitability such as customer churn, number of users and services per business, and so on.

The company's total revenues grew by 22.3 percent in 2012 and by 21.0 percent in 2013, which led to similar growth in gross profit and earnings before interest, taxes, depreciation and amortization (EBITDA). 8x8 has reported decreasing user churn over the years with estimated user churn rate of about 1.5 percent in 2013. Revenue churn has been relatively stable at around 1.2 percent over the past few quarters. These metrics compare well to those of industry competitors.

Other operating statistics as of the end of 8x8's fiscal 2014 third quarter, which coincides with the end of calendar 2013, also improved, as follows:

- Number of new services sold during the third quarter was a record 61,286 versus 44,366 in the same period last year.
- Average number of subscribed services per new business customer added during the quarter grew 20 percent to a record 20.4 from 17.0 in the same period last year.
- Average monthly service revenue per business customer was a record \$274, compared with \$252 in the same period last year.

- Channel and mid-market sales comprised a record 35 percent of new monthly recurring revenue sold in the quarter, a 57 percent increase compared with the same period last year.
- Service margin was 81 percent, compared with 80 percent in the same period a year ago; overall gross margin was 71 percent, compared with 69 percent in the same period a year ago.

Operational success continues into calendar 2014, 8x8's fiscal 2015. The company reported a 26.0 percent increase in the number of services per business in fiscal 2014 (ending March 2014) compared to fiscal 2013 and a 12.1 percent increase in average monthly customer revenue in the fourth quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013. Average number of subscribed services per business customer increased from 11.6 at the end of fiscal 2013 to 13.5 at the end of fiscal 2014.

Overall, 8x8 is well positioned to continue to experience improved financial performance over the coming quarters and years.

Customer Acquisition

8x8 has steadily grown its installed base of hosted IP telephony and UCC users over the years. As of the end of 2013, it reported 361,000 users, which represented a 24 percent increase compared to the previous year. With improved onboarding, training, and service management capabilities, 8x8 is set to continue or improve on this growth trajectory over the next few years.

A key factor in 8x8's customer acquisition success is its increased focus on larger accounts and more specifically on the mid-market. With its broad communications and collaboration services portfolio it can effectively address the needs of this customer segment. One of its strongest assets in delivering services to larger organizations is its contact center business, which provides additional value to customers and differentiates the company from most of its competitors in the hosted IP telephony and UCC market.

Furthermore, 8x8 recently added capabilities specifically targeted at distributed organizations. Now a single hosted PBX can more elegantly manage multiple locations within the customer organization. 8x8's solution effectively ties all of a customer's sites with a single auto attendant, while providing separate receptionist lines at each location. The solution also provides an advanced routing functionality for multi-location customers.

8x8 is also likely to see accelerated customer acquisition through the expansion of its channel network. With over 120 reseller partners and agents, 8x8 is seeing increasing penetration in the mid-market and distributed enterprises. As of the end of its fiscal year 2014, 8x8 reported that 34 percent of its new monthly recurring revenue sold in the fiscal year came from the mid-market and channel sales teams targeting these customers compared with 25 percent in fiscal 2013.

Finally, 8x8 has started expanding internationally with the acquisition of Voicenet in the UK and increased presence in Asia Pacific. International presence is likely to help the provider target both customers based in other countries and regions and United States-based companies with international operations.

With automated service provisioning for very small businesses and high-touch sales and technical support for larger organizations, well-trained direct sales staff, a growing channel, and a broad and yet modular services portfolio, 8x8 is well positioned to win businesses of various sizes, industries and geographical locations

Growth Potential

The North American and international hosted IP telephony markets are still largely untapped, but are experiencing rapid growth rates. Frost & Sullivan estimates that there were approximately 138.2 million business telephony users in North America in 2013, of which only 5 million were using hosted IP telephony and UCC services at the end of last year. Hosted IP telephony penetration in other regional markets is also quite small. This creates a large growth potential for 8x8 both domestically and internationally.

8x8 has already captured a significant share of the small business market and is well positioned to expand its penetration in that segment leveraging its compelling feature set, competitive pricing, automated provisioning and brand recognition. However, it is now poised for growth in the medium and large business segment as well through product enhancements such as branch-office support, an expanding sales channel, improved customer onboarding and support, more extensive regulatory compliance and a growing number of customer references in that segment.

International expansion presents another key area for growth for 8x8 as it increases its presence in the UK and other European countries in the near term and other world regions in mid and long term.

With 95 patents, a broad set of industry certifications, 17 quarters of profitability, improving financial and operational performance metrics, and a revamped executive leadership team, 8x8 is set on a strong growth trajectory.

Conclusion

8x8 ranks highest among North American hosted IP telephony and UCC service providers in terms of customer value through the delivery of an extensive feature set at compelling price points, high service reliability, tight focus on the customer experience, a strong brand, and financial stability through revenue growth and profitability.

With its strong overall performance, 8x8 has earned Frost & Sullivan's 2014 Customer Value Leadership Award.

Significance of Customer Value Leadership

Ultimately, growth in any organization depends upon customers purchasing from your company, and then making the decision to return time and again. Delighting customers is therefore the cornerstone of any successful growth strategy. To achieve these dual goals (growth and customer delight), an organization must be best-in-class in three key areas: understanding demand, nurturing the brand, differentiating from the competition. This three-fold approach to delivering customer value is explored further below.



Understanding Customer Value Leadership

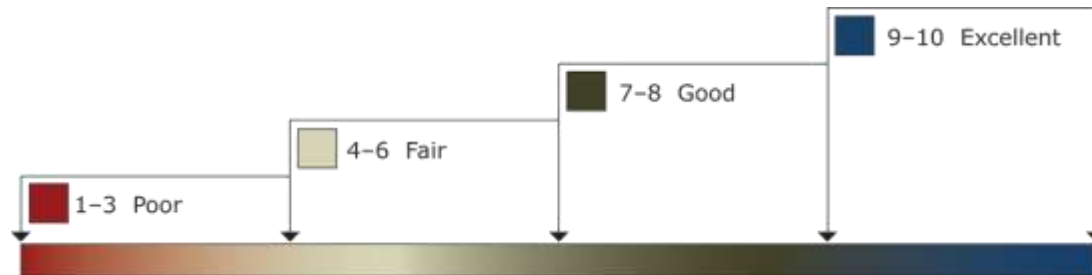
Customer Value Leadership is defined and measured by two macro-level categories: customer impact and business impact. These two sides work together to make customers feel valued, and confident in their products' quality and long shelf life. This dual satisfaction translates into repeat purchases and a high lifetime customer value.

Best Practice Award Analysis for 8x8

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 Customer Impact and Business 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 in as Company 2 and Company 3.

DECISION SUPPORT SCORECARD FOR CUSTOMER VALUE LEADERSHIP AWARD (ILLUSTRATIVE)

<i>Measurement of 1-10 (1 = poor; 10 = excellent)</i>			
Customer Value Leadership	Customer Impact	Business Impact	Average Rating
8x8	9.8	9.8	9.8
Competitor 2	9.4	9.8	9.6
Competitor 3	9.2	9.6	9.4

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

Business Impact

Criterion 1: Financial Performance

Requirement: Strong overall financial performance in terms of revenues, revenue growth, operating margin and other key financial metrics

Criterion 2: Customer Acquisition

Requirement: Customer facing processes support the efficient and consistent acquisition of new customers, even as it enhances retention of current customers

Criterion 3: Operational Efficiency

Requirement: Staff is able to perform assigned tasks productively, quickly, and to a high quality standard

Criterion 4: Growth Potential

Requirements: Customer focus strengthens brand, reinforces customer loyalty and enhances growth potential

Criterion 5: Human Capital

Requirement: Company culture is characterized by a strong commitment to quality and customers, which in turn enhances employee morale and retention

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 CUSTOMER VALUE LEADERSHIP AWARD (ILLUSTRATIVE)

