Vonage Holdings Corporation (VG)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>14 - 4</td>
<td>Suitability:</td>
<td>Higher Risk</td>
<td>Q1</td>
<td>0.06A</td>
<td>0.05A</td>
<td></td>
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<tr>
<td>Market Cap (mil):</td>
<td>2.247</td>
<td>Price Target ($) :</td>
<td>13</td>
<td>Q2</td>
<td>0.08A</td>
<td>0.03E</td>
<td></td>
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<tr>
<td>Shares Out (mil):</td>
<td>250.5</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>10%</td>
<td>Q3</td>
<td>(0.03)A</td>
<td>0.03E</td>
<td></td>
</tr>
<tr>
<td>Float (mil):</td>
<td>230.1</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>5%</td>
<td>Q4</td>
<td>0.06A</td>
<td>0.04E</td>
<td></td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>4.56</td>
<td>Debt/Cap:</td>
<td>48.7%</td>
<td>NA</td>
<td>0.18A</td>
<td>0.15E</td>
<td>0.11E</td>
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<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>ROE:</td>
<td></td>
<td>FY P/E</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Yield (%):</td>
<td>0.0</td>
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Company Description

Vonage is a unified cloud communications service provider servicing business and consumer customers with a Voice over Internet Protocol (VoIP) network, text, video, collaboration and data solution. Vonage's solutions replace traditional on-premise phone systems and enable customers to communicate via any cloud-connected device from anywhere with an internet connection. Vonage is also a CPaaS provider, through its Nexmo brand, providing customers with the ability to embed communication functionality into their applications.

Revenue Profile

![Total Revenue Growth ($M)](image)

Source: Company reports, Baird & Co. estimates

Competition

In the business segment, Vonage competes with a range of UCaaS and CCaaS providers, pure-cloud players, legacy telcos, enterprise hardware PBX providers and an increasing array of larger technology and cloud providers, including AT&T, Verizon, Microsoft, Cisco, RingCentral, 8x8, Five9 and NICE. On the CPaaS side, it competes with players like Twilio, Bandwidth and others.

Quick Summary

We rate the stock Outperform based on the following factors:

- **Large market opportunity.** Targeting a $50 billion+ global market that appears to be <15% penetrated.
- **Significant CPaaS opportunity.** The CPaaS segment has been growing 40%+, driven by strength in APAC and EMEA, with North America an upside opportunity.
- **Consumer cash flow strong.** While it dilutes revenue growth, the legacy consumer VoIP business provides significant cash flow to fund the business opportunities.
- **Attractive SOTP.** Using discounts to the public cloud communications comps., we arrive at our sum-of-the-parts target price.
**Investment Thesis**

**Significant CPaaS opportunity.** The CPaaS segment has been growing 40%+, driven by strength in APAC and EMEA, with North America an upside opportunity.

**Consumer cash flow strong.** While it dilutes revenue growth, the legacy consumer VoIP business provides significant cash flow to fund the business opportunities.

**Attractive SOTP.** Using discounts to the public cloud communications comps., we arrive at our sum-of-the-parts target price.

**Growing competition.** Legacy telcos, hardware providers and cloud providers are all targeting the UCaaS space to varying degrees, with Microsoft, Amazon and Cisco long-term threats. CPaaS competition is also likely to intensify.

**Consumer declining.** VG's consumer business is declining double-digits, significantly diluting consolidated growth, though the declines are been moderating.

**Risks & Caveats**

**Competitive industries.** Although UCaaS is a large industry poised for significant growth, Vonage faces tough competition from legacy on-premise providers such as Cisco, pure-play cloud providers such as 8x8 and RingCentral, and legacy telcos such as AT&T and Verizon. CPaaS competition is also likely to intensify.

**Limited profitability.** Vonage's business segments have been a drag on overall profitability, with the consumer business likely accounting for virtually all of EBITDA.

**Integration risks.** VG remains interested in acquisitions and has recently acquired various companies, which could create dislocation in the integration process.

**CPaaS early.** While the CPaaS market looks large, it remains early, with long-term growth and profitability uncertain. Nexmo is also a distant No. 2 to Twilio.

**Supplemental Information**

VG is currently trading at 2.2x 2021E consolidated revenue and 2.4x business service revenue, backing out an assumption for consumer. That business revenue multiple compares to the broader UCaaS/CPaaS group at an average of ~10x.

Our $13 target price is based on 4x our 2021E business services revenue with no value to consumer cash flow, conservatively putting it below the UCaaS/CPaaS average multiple of ~10x reflecting slower consolidated growth, including weaker than average application services growth and competitive risks.
Vonage Holdings Corporation
May 14, 2020

Appendix - Important Disclosures and Analyst Certification

Approved on 14 May 2020 16:03EDT/ Published on 14 May 2020 16:08EDT.

Rating and Price Target History for: Vonage Holdings Corporation (VG) as of 05-13-2020

3 Robert W. Baird & Co. Incorporated and/or its affiliates have received investment banking compensation from Vonage Holdings Corporation in the past 12 months.

1 Robert W. Baird & Co. Incorporated makes a market in the securities of VG.

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