

# Q3 2019 Investor Presentation

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Five9 (NASDAQ: FIVN)



The Intelligent Cloud Contact Center

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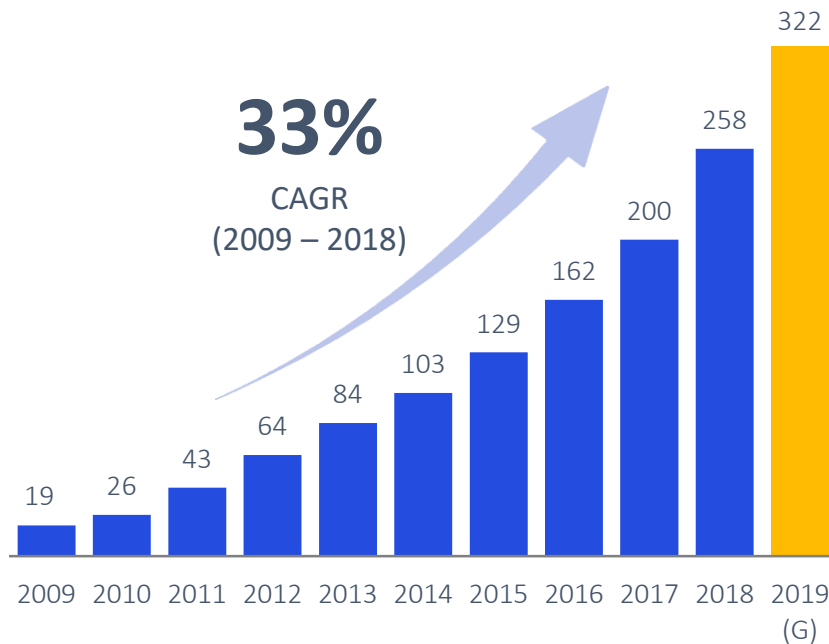
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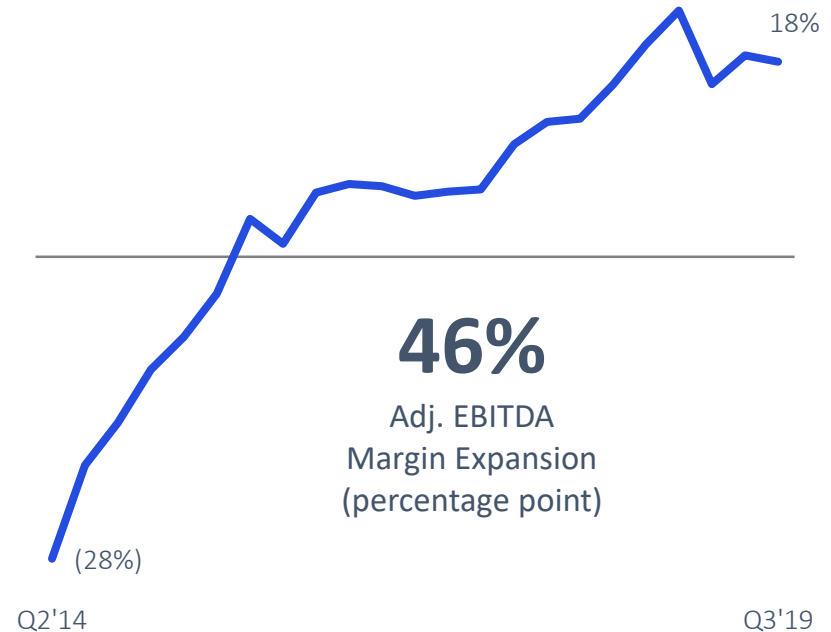
This presentation contains statistical data that we obtained from industry publications and reports generated by third parties. Although we believe that the publications and reports are reliable, we have not independently verified this statistical data.

# Leader in Cloud Software for Contact Centers

Annual Revenue (\$M)



Adj. EBITDA Margin Since IPO



**100%**

Cloud

**100%**

Organic

**80%**

Enterprise  
(LTM)

**36%**

Enterprise Subscription  
YoY Growth (LTM)

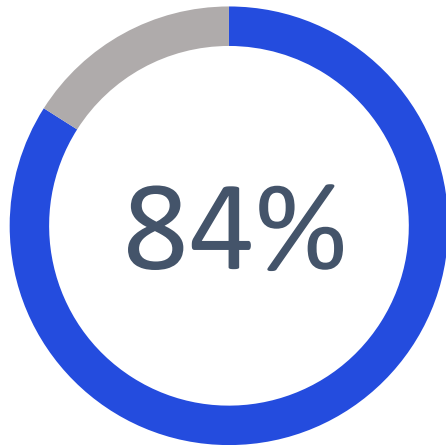
**49**

\$1M+ ARR Enterprise  
Customers (Q3'19 Ann.)

Note: 2019 (G) represents the midpoint of revenue guidance disclosed on 11/5/19. Reader shall not construe presentation of this information after 11/5/19 as an update or reaffirmation of such guidance. LTM metrics as of 9/30/19. \$1M+ ARR based on Q3'19 annualized. Historical results prior to 2018 based on ASC 605

# The Problem:

## Consumers Dislike Customer Service

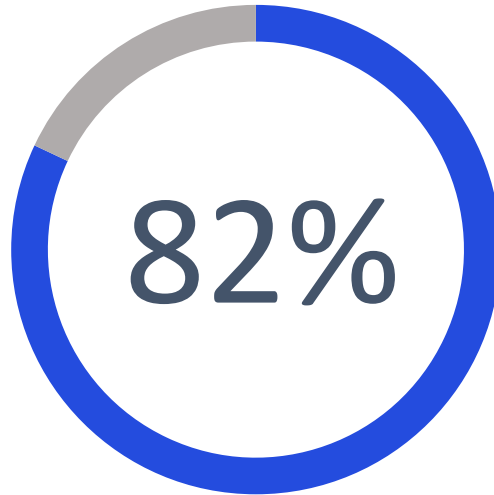


Of end customers say being treated like a person, not a number, is very important to winning their business

- Difficulty speaking to an agent
- Depersonalized and disconnected experiences
- Labyrinthian IVR trees
- Long wait times

# Customer Service Must Transform

(one of the most important parts of Digital Transformation)

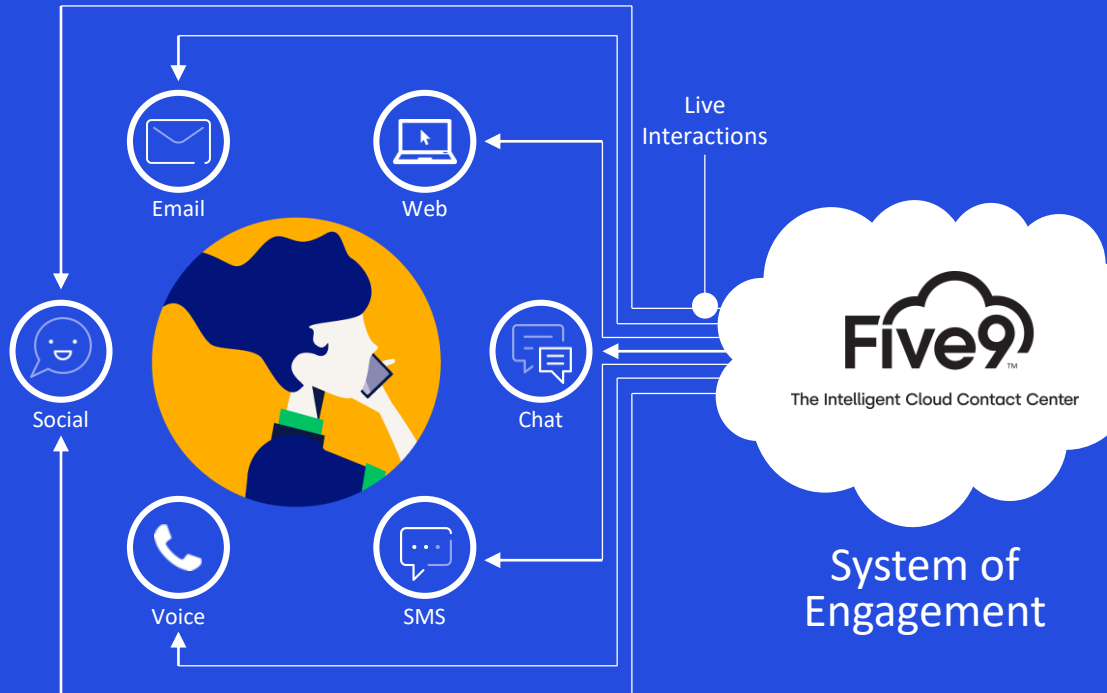


Of service decision makers  
say their company's customer  
service must transform  
to stay competitive

# Five9 Enables Companies to Engage Better

- 1 Serve customers in the channel(s) they prefer**
- 2 Unify customer information into a single view**
- 3 Modern engagement platform**

## Customer



# 1

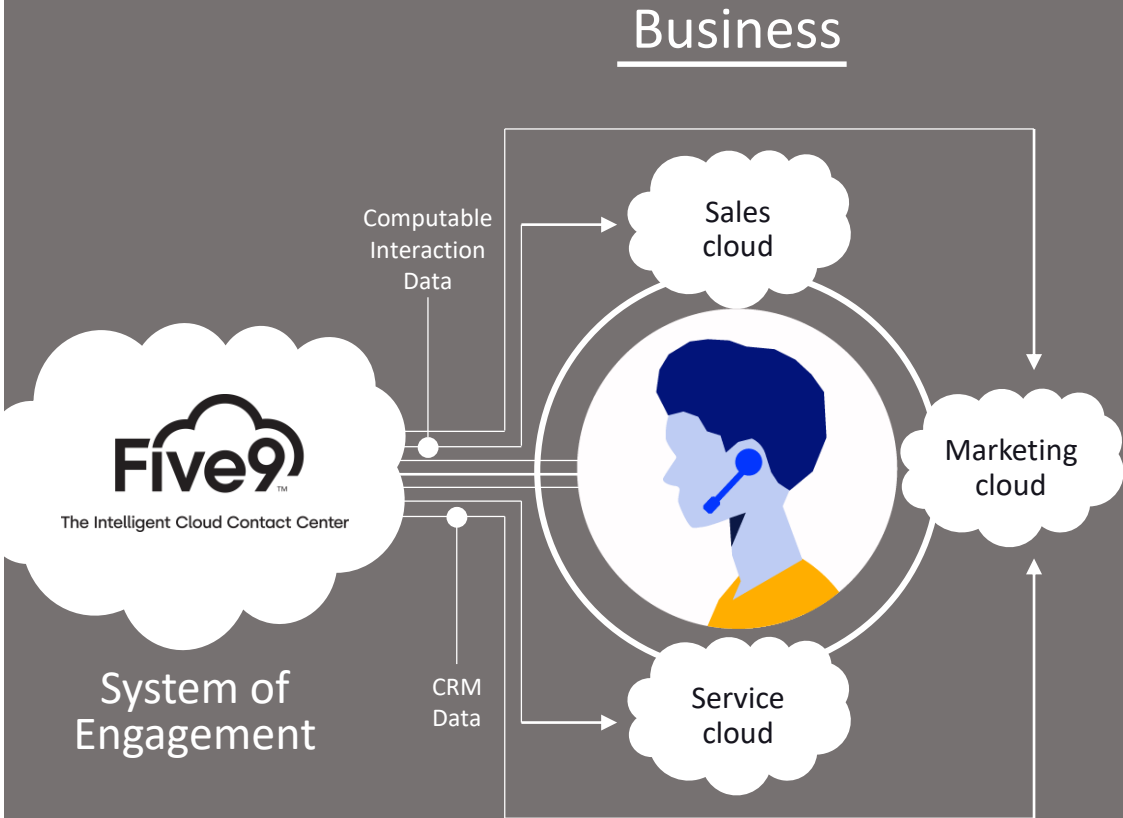
Serve customers  
in the channel(s)  
they prefer

- Fully blended, omnichannel platform
- Any channel, voice or digital
- Any interaction, live or live-ish
- Anytime and anywhere

# 2

## Unify customer information into a single view

- Hand-in-glove CRM integration
- Enrich CRM insights with Five9's computable interaction data
- Personalize service across the customer journey

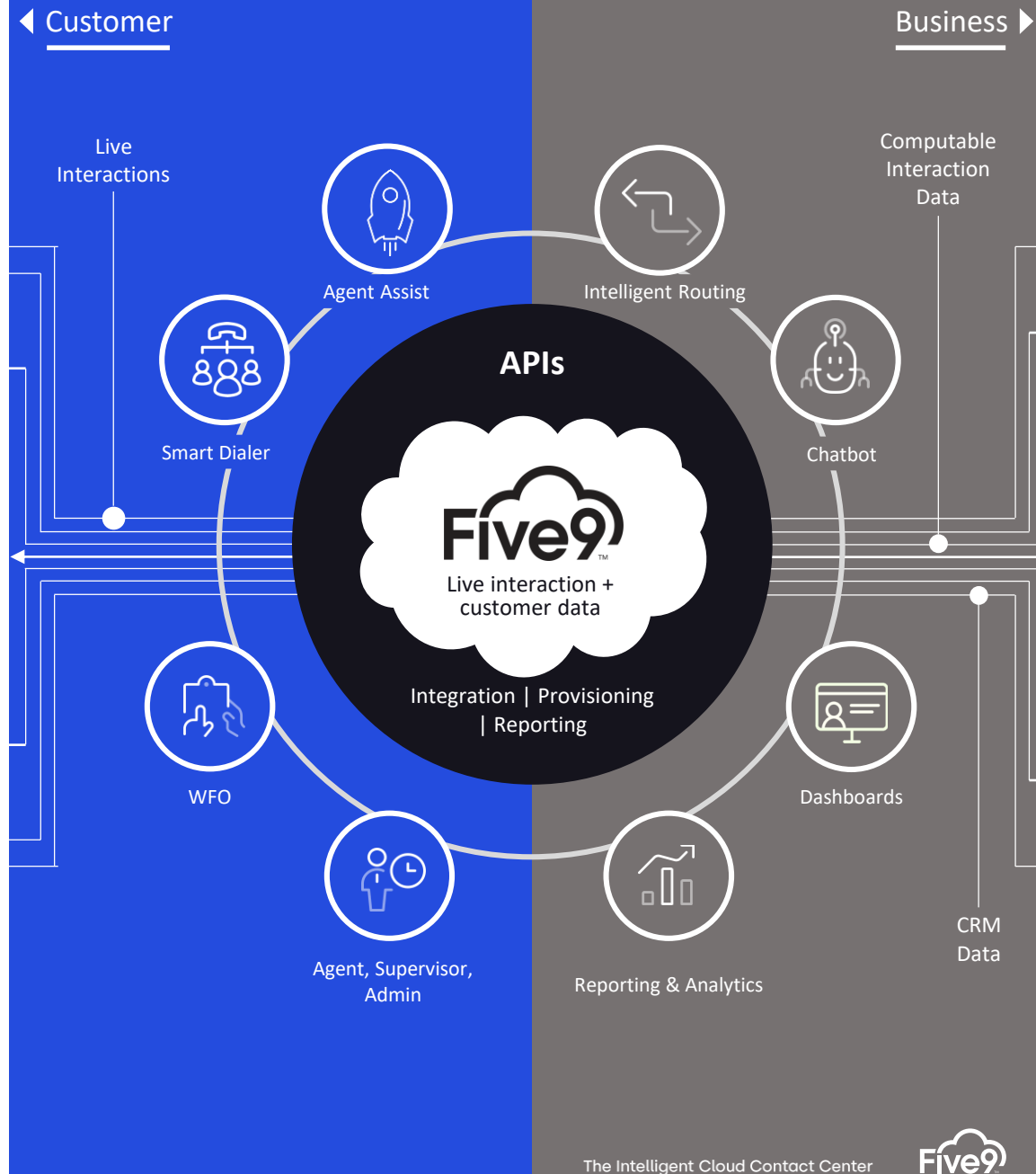




# 3

## Modern engagement platform

- Intelligently route customers to agents that best address needs
- Provide best-in-class tools to agents, supervisors and admins
- Turn interaction data into actionable insights

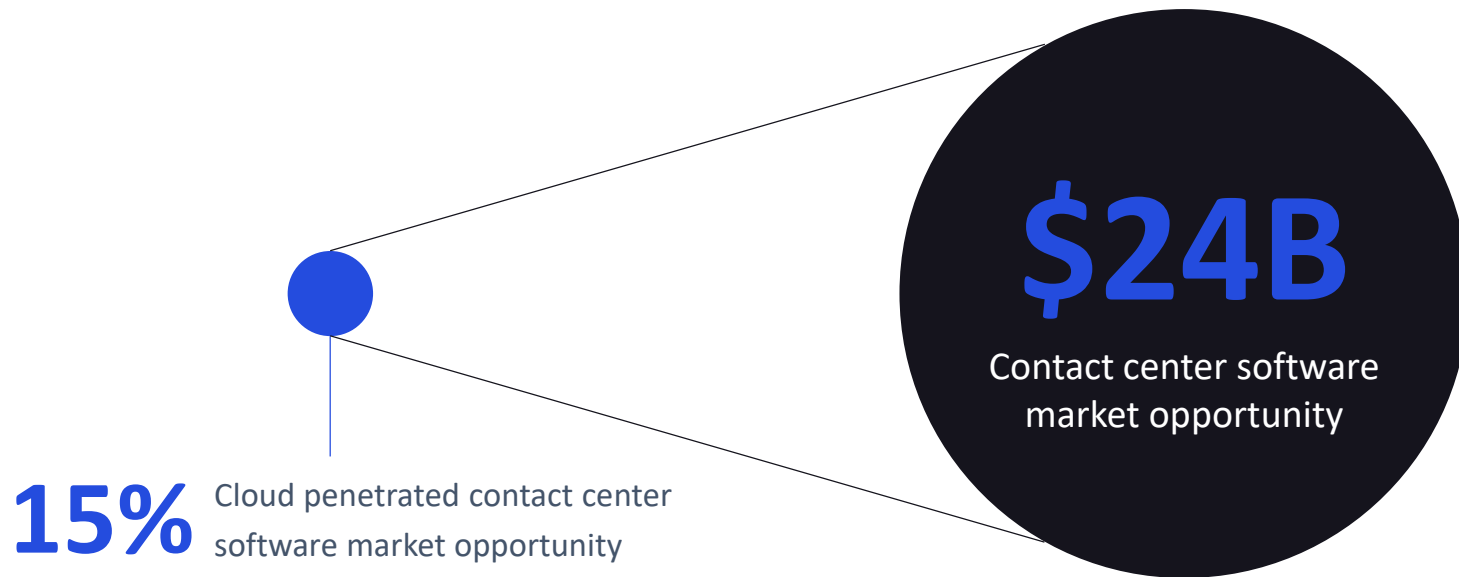


# The Market is Strong

Legacy to cloud

Digital  
transformation

# Large and Underpenetrated Market Opportunity



Current addressable market opportunity

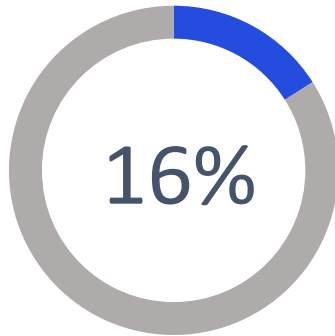
Source: Company estimates; Gartner estimates, Oct 2018; MZA estimates, Oct 2018  
Note: 15% penetration represents estimated penetration in North America

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The Intelligent Cloud Contact Center



# Longer-Term Expansion into the Market for Contact Center Labor Spend



Percentage of customer service representatives that will be displaced due to automation by 2030  
– McKinsey



Long-term addressable market opportunity

# Why Enterprise Customers Choose Five9

- **Full Feature Set:** ACD, IVR, dialer, inbound, outbound, blending, omni-channel, WFO, reporting, APIs...
- **Superior User Experience / Customer Experience**
- **Innovation:** Customer journey, analytics, mobile...
- **Deepest CRM Integrations:** Salesforce, Oracle, Zendesk, Microsoft, ServiceNow...



## End-to-End Solution



## Five9 TRUST Platform

- **Reliable:** 99.99%+ uptime
- **Secure 8 Layer Approach:** Security zones, IPS / IDS, CSA
- **Compliant:** PCI DSS, HIPAA, BAA, CPNI
- **Scalable:** 5B+ call minutes annually
- **End-to-End Network Connectivity:** Tier 1 carrier redundancy, MPLS Agent Connect, high QOS

- **Our People:** Recruit and retain top talent with a customer-first attitude
- **Chemistry:** “Whatever it takes mentality,” teamwork and communication
- **KPIs:** Cross-functional metrics focused on customer success



## Customer-First Culture



## Implementation & Support

- **High-Touch / On-Site Implementation**
  - Detailed Discovery
  - Design & Testing
  - Training & Optimization
- **Premium Support:** Ongoing dedicated TAM

# Five9 is a Leader in Cloud Contact Center Software



**Five9 Named a Leader** for the 5<sup>th</sup> Year  
in a Row in Gartner Magic Quadrant  
Contact Center as a Service

Figure 1. Magic Quadrant for Contact Center as a Service, North America



Source: Gartner (October 2019)

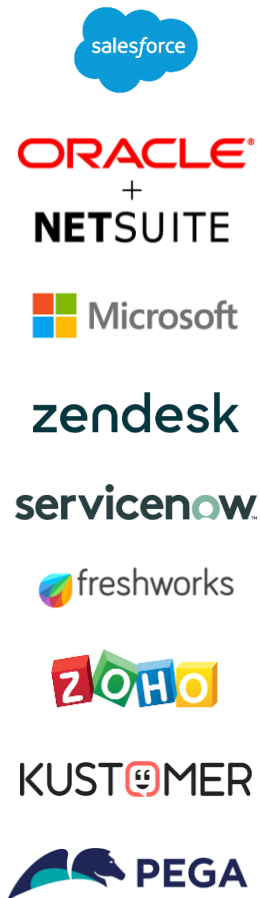


**Five9 Named a Leader** in The Forrester  
Wave™: Cloud Contact Center



# Vibrant Partner Ecosystem

## CRM



## Systems Integrator



## Technology / WFO / UC



## ISV



## Master Agents / Resellers



# Multiple Vectors for Long-Term Growth





# Leadership Team



**Rowan Trollope**

CEO



**Dan Burkland**

President



**Barry Zwarenstein**

CFO



**Jonathan Rosenberg**

CTO and Head of AI



**Ryan Kam**

CMO



**David Pickering**

EVP, Engineering



**Scott Welch**

EVP, Cloud Operations



**Anand Chandrasekaran**

EVP, Product Management



**James Doran**

EVP, Strategy & Operations



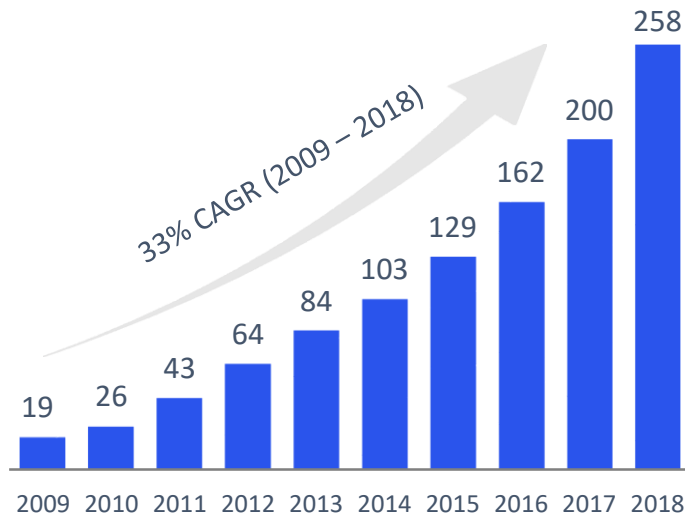
**Tricia Yankovich**

SVP, Human Resources

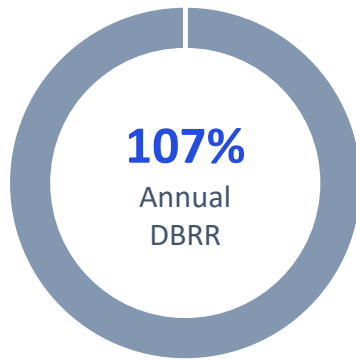
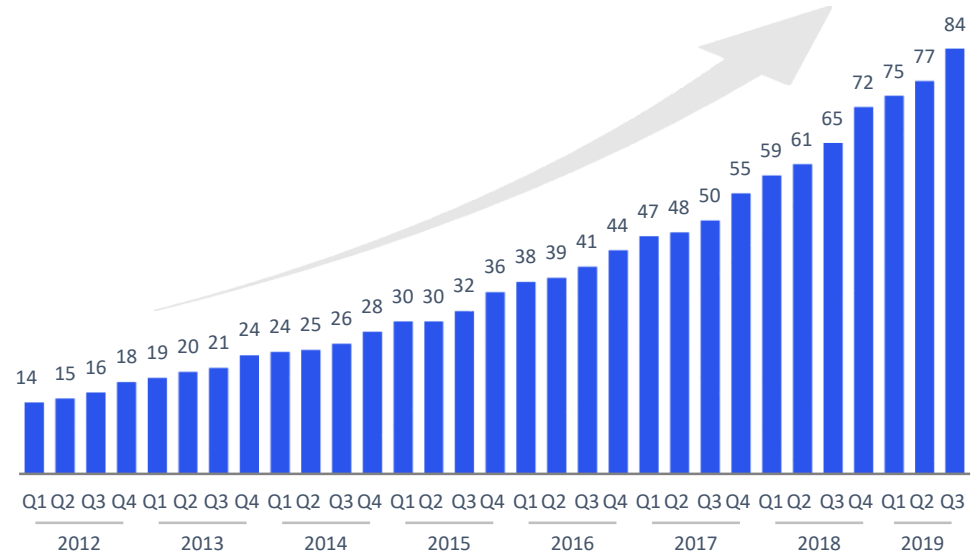


# Strong, Consistent Revenue Growth

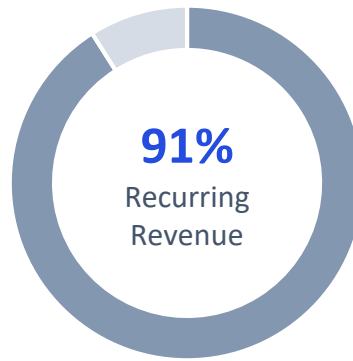
Annual Revenue (\$M)



Quarterly Revenue (\$M)



High Retention



High Visibility



No Concentration

Note: Annual DBRR, recurring revenue and client concentration as of Q3'19. Historical results prior to 2018 based on ASC 605

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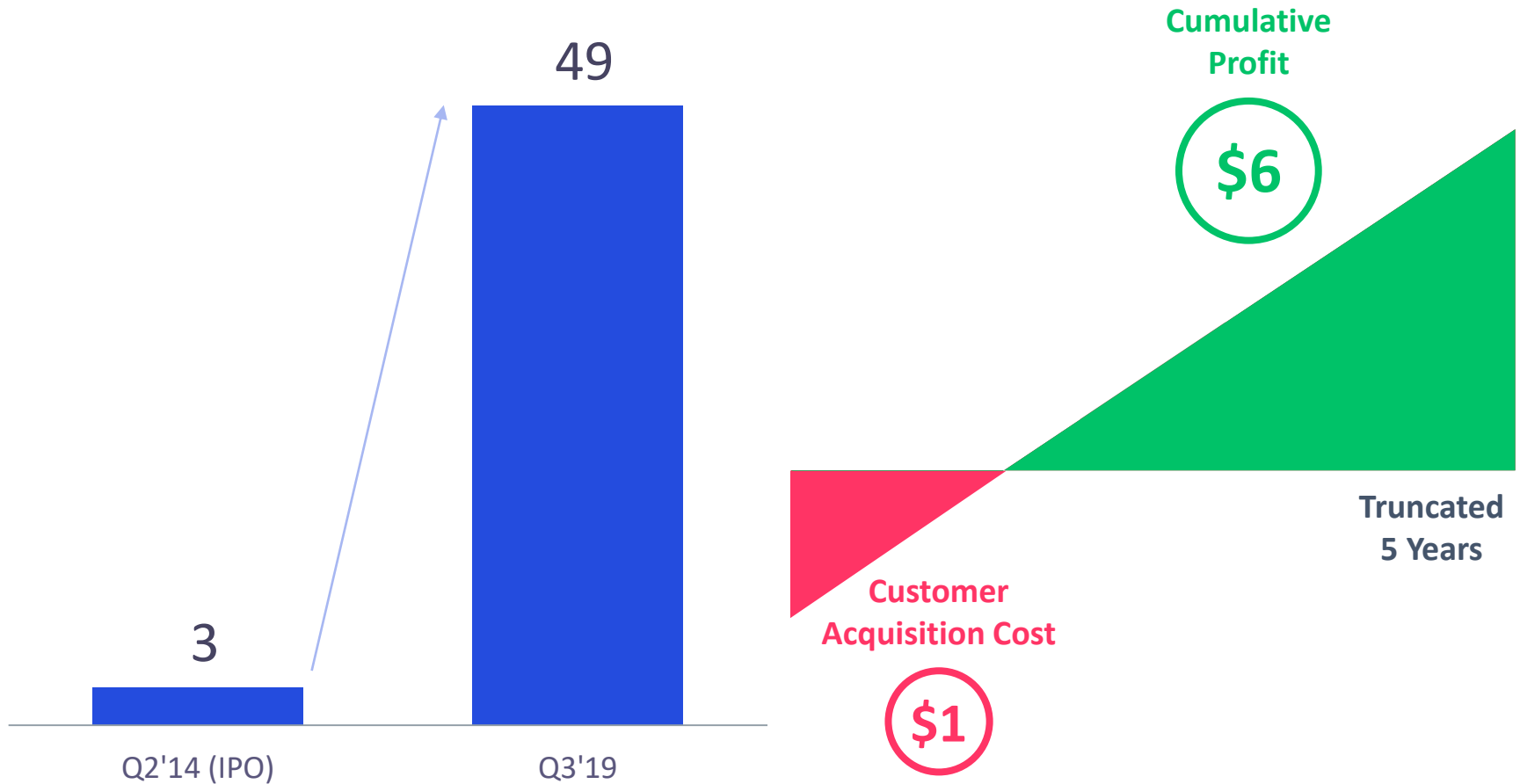
The Intelligent Cloud Contact Center



# Enterprise Driving Strong Growth and Profitability

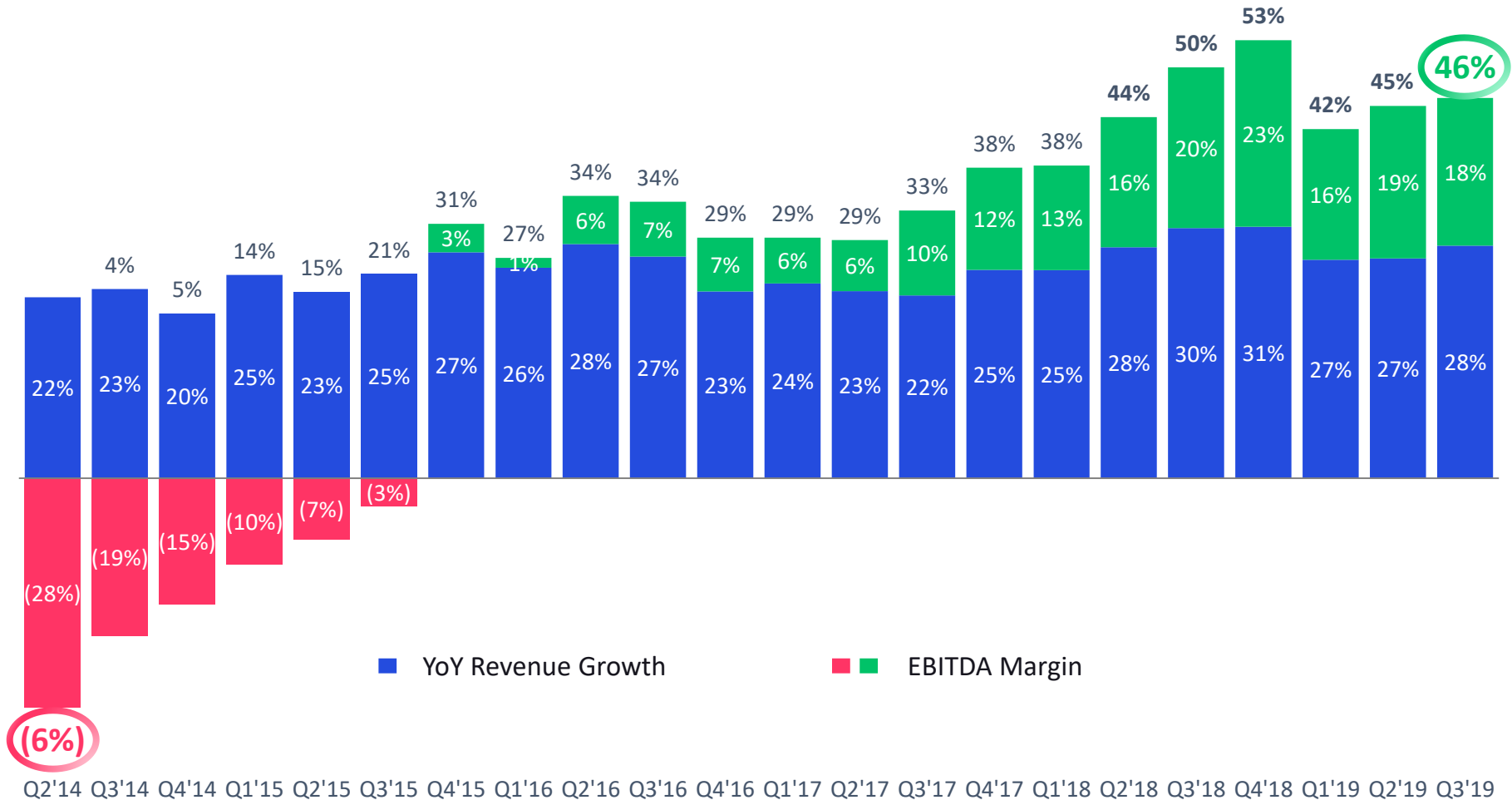
Enterprise Customers \$1M+ ARR (Q3'19 Ann.)

Strong Unit Economics



Note: Unit economics calculated as estimated cumulative profit from Enterprise customers over a 5-year period divided by direct costs attributable to customer acquisition. \$1M+ ARR based on Q4'18 annualized

# Exceeding “Rule of 40” Despite Increased Investments



Note: ASC 606 for 2018-2019 periods and ASC 605 for prior periods

# Margin Expansion and Operating Leverage

Non-GAAP

## Adj. Gross Margin

12.5% expansion

IPO

Today

51.5%

64.0%

Q2'14

Q3'19

## Non-GAAP Opex (% of revenue)

33.3% improvement

IPO

Today

79.3%

G&A

21.4%

S&M

37.5%

R&D

20.4%

46.0%

8.8%

26.3%

11.0%

Q2'14

Q3'19

## Adj. EBITDA Margin

45.8% expansion

IPO

Today

(27.8%)

18.0%

Q2'14

Q3'19

Note: Non-GAAP metrics exclude depreciation, intangibles amortization, stock-based compensation and unusual transactions. Q2'14 metrics based on ASC 605. See appendix for reconciliation of non-GAAP measures to most comparable GAAP measure

# Long-Term Operating Model

Non-GAAP

% of Revenue	2014	2015	2016	2017	2018	Q3'19	Long-Term Model
Adj. Gross Margin	53%	59%	62%	63%	64%	64%	Subscription / PS margin expansion and increasing subscription mix 70%+
S&M	35%	31%	31%	31%	25%	26%	Continue to invest in GTM in line with revenue growth 26% – 30%
R&D	19%	16%	13%	12%	11%	11%	Current acceleration offset by long-term leverage 8% – 10%
G&A	21%	16%	13%	11%	10%	9%	Economies of scale 5% – 7%
Adj. EBITDA	(22%)	(4%)	5%	9%	18%	18%	27%+

Based on ASC 605

Based on ASC 606

Note: Non-GAAP metrics exclude depreciation, intangibles amortization, stock-based compensation and unusual transactions. 2014-2017 metrics based on ASC 605. See appendix for reconciliation of non-GAAP measures to most comparable GAAP measure

# Balance Sheet

\$ in Millions	Quarter Ended	
	September 30, 2019	June 30, 2019
Cash, cash equivalents and marketable investments	\$321.0	\$307.5
Working capital	313.8	302.6
Total assets	454.0	435.8
Total finance leases	6.0	7.9
Total debt	206.3	203.1
Total stockholders' equity	\$178.0	\$166.6

# Investment Highlights



Largest 100% Cloud Contact Center Provider

~\$335M Revenue Run Rate (Q3'19)

Disrupting Large Market

\$24B TAM

Strong Revenue Growth

36% Growth in LTM Enterprise Subscription Revenue

Marching to Long-Term 27%+ Adjusted EBITDA

Powerful Business Model / Excellent Unit Economics

Comprehensive Solution

Enables Digital Transformation

Vibrant Partner Ecosystem

>60% of Enterprise Deal Flow Influenced by Channels

Proven Leadership Team

Recognized as a leader in Gartner MQ and Forrester Wave





# Appendix

# GAAP to Adjusted Gross Profit Reconciliation

## Q2'14 – Q3'19

	Quarter Ended																					
	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP gross profit	11,216	12,365	13,734	15,496	16,004	17,475	20,398	21,405	22,122	23,192	28,437	27,043	27,454	29,584	33,040	34,203	36,306	39,125	43,996	43,687	46,188	49,297
% GAAP gross margin	45.4%	47.8%	48.6%	51.2%	52.9%	54.1%	56.6%	56.3%	56.9%	56.6%	64.3%	57.5%	57.5%	59.1%	59.6%	58.1%	59.4%	59.9%	60.8%	58.6%	59.6%	58.8%
Depreciation & amortization	1,373	1,272	1,291	1,439	1,558	1,470	1,483	1,680	1,616	1,668	1,608	1,576	1,716	1,397	1,611	1,794	1,864	2,021	2,129	2,366	2,504	2,602
Stock-based compensation	121	158	176	188	218	233	227	265	329	357	424	434	575	599	594	678	853	860	942	1,229	1,658	1,702
Reversal of accrued federal fees	—	—	—	—	—	—	—	—	—	—	(3,114)	—	—	—	—	—	—	—	—	—	—	—
Out of period adj. for accrued federal fees	—	—	235	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjusted gross profit	12,710	13,795	15,436	17,123	17,780	19,178	22,108	23,350	24,067	25,217	27,355	29,053	29,745	31,580	35,245	36,675	39,023	42,006	47,067	47,282	50,350	53,601
% adjusted gross margin	51.5%	53.3%	54.6%	56.6%	58.7%	59.4%	61.4%	61.4%	61.9%	61.5%	61.9%	61.8%	62.3%	63.1%	63.6%	62.3%	63.8%	64.3%	65.1%	63.4%	65.0%	64.0%

Note: Historical results prior to 2018 based on ASC 605

# GAAP to Adjusted Gross Profit Reconciliation

## 2014 – 2018

	Year Ended				
	2014	2015	2016	2017	2018
GAAP gross profit	48,441	69,373	95,156	117,121	153,630
<i>% GAAP gross margin</i>	<i>47.0%</i>	<i>53.8%</i>	<i>58.7%</i>	<i>58.5%</i>	<i>59.6%</i>
Depreciation & amortization	5,138	5,950	6,573	6,300	7,808
Stock-based compensation	542	866	1,375	2,202	3,333
Reversal of accrued federal fees	—	—	(3,114)	—	—
Out of period adj. for accrued federal fees	235	—	—	—	—
Adjusted gross profit	54,356	76,189	99,990	125,623	164,771
<i>% adjusted gross margin</i>	<i>52.7%</i>	<i>59.1%</i>	<i>61.7%</i>	<i>62.7%</i>	<i>63.9%</i>

Note: Historical results prior to 2018 based on ASC 605

# GAAP Net Inc. (Loss) to Adj. EBITDA Reconciliation

## Q2'14 – Q3'19

	Quarter Ended																					
	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
GAAP net income (loss)	(8,659)	(11,435)	(9,372)	(8,903)	(7,369)	(6,048)	(3,518)	(4,911)	(3,468)	(3,890)	409	(5,255)	(4,007)	924	(631)	(607)	(2,042)	(1,305)	3,733	(1,924)	(1,860)	(1,604)
Non-GAAP adjustments:																						
Depreciation and amortization	1,699	1,567	1,605	1,775	1,910	1,840	1,863	2,103	2,060	2,140	2,086	2,095	2,270	1,881	2,068	2,320	2,449	2,667	2,838	3,192	3,361	3,497
Stock-based compensation	1,723	1,877	1,957	2,235	1,830	1,945	1,720	1,994	2,414	2,519	2,716	3,129	3,854	3,720	4,640	5,325	6,797	8,869	7,493	8,686	10,436	11,075
Interest expense	1,092	1,116	1,175	1,139	1,155	1,235	1,198	1,199	1,197	961	869	882	888	865	836	810	2,378	3,595	3,462	3,396	3,406	3,486
Interest income and other	28	(95)	(146)	(2)	49	(119)	(28)	45	33	(12)	(54)	(118)	(90)	(118)	(164)	(398)	(206)	(1,352)	(1,359)	(1,745)	(1,490)	(1,460)
Provision for (benefit from) income taxes	12	13	33	18	(20)	50	13	28	42	(2)	(14)	49	50	43	126	45	64	41	150	(49)	29	50
Extinguishment of debt	—	—	—	—	—	—	—	—	—	1,026	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of accrued federal fees	—	—	—	—	—	—	—	—	—	—	(3,114)	—	—	—	—	—	—	—	—	—	—	—
Legal settlement	—	—	—	—	—	—	—	—	—	—	—	1,700	—	—	—	—	—	—	—	—	420	—
Legal and indemnification fees related to settlement	—	—	—	—	—	—	—	—	—	—	—	135	—	—	—	—	241	258	93	292	64	—
Reversal of contingent sales tax liability (G&A)	(2,766)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of interest and penalties on accrued federal fees (G&A)	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,133)	—	—	—	—	—	—	—	—
Accrued FCC charge (G&A)	—	2,000	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Out of period adj. for accrued federal fees (COR)	—	—	235	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Out of period adj. for sales tax liability (G&A)	—	—	183	575	190	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Adjusted EBITDA	(6,871)	(4,957)	(4,330)	(3,163)	(2,255)	(1,097)	1,248	458	2,278	2,742	2,898	2,617	2,965	5,182	6,875	7,495	9,681	12,773	16,410	11,848	14,366	15,044
% adjusted EBITDA margin	(27.8%)	(19.2%)	(15.3%)	(10.4%)	(7.4%)	(3.4%)	3.5%	1.2%	5.9%	6.7%	6.6%	5.6%	6.2%	10.3%	12.4%	12.7%	15.8%	19.6%	22.7%	15.9%	18.6%	18.0%

Note: Historical results prior to 2018 based on ASC 605

# GAAP Net Loss to Adjusted EBITDA Reconciliation

## 2014 – 2018

	Year Ended				
	2014	2015	2016	2017	2018
GAAP net income (loss)	(\$37,786)	(\$25,838)	(\$11,860)	(\$8,969)	(\$221)
Non-GAAP adjustments:					
Depreciation and amortization	6,463	7,388	8,390	8,314	10,274
Stock-based compensation	6,753	7,730	9,643	15,343	28,484
Interest expense	4,161	4,727	4,226	3,471	10,245
Interest income and other	(245)	(100)	13	(490)	(3,315)
Provision for (benefit from) income taxes	85	61	54	268	300
Extinguishment of debt	—	—	1,026	—	—
Reversal of accrued federal fees	—	—	(3,114)	—	—
Legal settlement	—	—	—	1,700	—
Legal and indemnification fees related to settlement	—	—	—	135	592
Change in fair value of convertible preferred and common stock warrant liabilities	(1,745)	—	—	—	—
Reversal of contingent sales tax liability (G&A)	(2,766)	—	—	—	—
Reversal of interest and penalties on accrued federal fees (G&A)	—	—	—	(2,133)	—
Accrued FCC charge (G&A)	2,000	—	—	—	—
Out of period adj. for accrued federal fees (COR)	235	—	—	—	—
Out of period adj. for sales tax liability (G&A)	183	765	—	—	—
Adjusted EBITDA	(\$22,662)	(\$5,267)	\$8,378	\$17,639	\$46,359
% adjusted EBITDA margin	(22.0%)	(4.1%)	5.2%	8.8%	18.0%

Note: Historical results prior to 2018 based on ASC 605

# GAAP to Non-GAAP COR and OpEx Reconciliation

## Q2'14 – Q3'19

	Quarter Ended																						
	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	
GAAP COR	13,469	13,504	14,540	14,778	14,270	14,812	15,635	16,610	16,764	17,790	15,770	19,971	20,273	20,497	22,363	24,702	24,814	26,179	28,339	30,851	31,248	34,472	
% of revenue	54.6%	52.2%	51.4%	48.8%	47.1%	45.9%	43.4%	43.7%	43.1%	43.4%	35.7%	42.5%	42.5%	40.9%	40.4%	41.9%	40.6%	40.1%	39.2%	41.4%	40.4%	41.2%	
Depreciation & amortization	(1,373)	(1,272)	(1,291)	(1,439)	(1,558)	(1,470)	(1,483)	(1,680)	(1,616)	(1,668)	(1,608)	(1,576)	(1,716)	(1,397)	(1,611)	(1,794)	(1,864)	(2,021)	(2,129)	(2,366)	(2,504)	(2,602)	
Stock-based compensation	(121)	(158)	(176)	(188)	(218)	(233)	(227)	(265)	(329)	(357)	(424)	(434)	(575)	(599)	(594)	(678)	(853)	(860)	(942)	(1,229)	(1,658)	(1,702)	
Reversal of accrued federal fees	—	—	—	—	—	—	—	—	—	—	3,114	—	—	—	—	—	—	—	—	—	—	—	
Out of period adj. for accrued federal fees	—	—	(235)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Non-GAAP COR	11,975	12,074	12,838	13,151	12,494	13,109	13,925	14,665	14,819	15,765	16,852	17,961	17,982	18,501	20,158	22,230	22,097	23,298	25,268	27,256	27,086	30,168	
% of revenue	48.5%	46.7%	45.4%	43.4%	41.3%	40.6%	38.6%	38.6%	38.1%	38.5%	38.1%	38.2%	37.7%	36.9%	36.4%	37.7%	36.2%	35.7%	34.9%	36.6%	35.0%	36.0%	
GAAP R&D	5,554	5,503	5,828	6,038	5,568	5,473	5,580	5,802	5,799	6,041	6,236	6,847	6,836	6,689	6,748	7,772	8,367	9,582	8,451	10,546	10,811	11,665	
% of revenue	22.5%	21.3%	20.6%	19.9%	18.4%	17.0%	15.5%	15.3%	14.9%	14.7%	14.1%	14.6%	14.3%	13.4%	12.2%	13.2%	13.7%	14.7%	11.7%	14.1%	14.0%	13.9%	
Depreciation & amortization	(50)	(58)	(75)	(87)	(102)	(126)	(140)	(148)	(161)	(204)	(224)	(206)	(237)	(182)	(170)	(194)	(233)	(278)	(331)	(440)	(450)	(450)	
Stock-based compensation	(471)	(583)	(527)	(574)	(340)	(475)	(401)	(435)	(528)	(547)	(549)	(637)	(801)	(797)	(807)	(877)	(1,064)	(2,352)	(1,010)	(1,470)	(1,907)	(2,022)	
Non-GAAP R&D	5,033	4,862	5,226	5,377	5,126	4,872	5,039	5,219	5,110	5,290	5,463	6,004	5,798	5,710	5,771	6,701	7,070	6,952	7,110	8,636	8,454	9,193	
% of revenue	20.4%	18.8%	18.5%	17.8%	16.9%	15.1%	14.0%	13.7%	13.1%	12.9%	12.4%	12.8%	12.1%	11.4%	10.4%	11.4%	11.6%	10.6%	9.8%	11.6%	10.9%	11.0%	
GAAP S&M	9,674	9,296	9,453	9,931	10,594	10,797	10,720	12,706	12,637	12,925	14,480	15,778	16,932	16,502	17,358	17,478	17,912	17,818	18,793	21,701	23,250	25,014	
% of revenue	39.2%	35.9%	33.4%	32.8%	35.0%	33.4%	29.8%	33.4%	32.5%	31.5%	32.8%	33.6%	35.5%	33.0%	31.3%	29.7%	29.3%	27.3%	26.0%	29.1%	30.0%	29.9%	
Depreciation & amortization	(48)	(50)	(50)	(49)	(51)	(52)	(54)	(53)	(54)	(56)	(58)	(30)	(30)	(30)	(30)	(29)	(30)	(30)	(6)	(1)	(1)	(2)	
Stock-based compensation	(368)	(361)	(455)	(524)	(458)	(448)	(370)	(434)	(544)	(626)	(759)	(928)	(1,224)	(1,084)	(1,128)	(1,362)	(1,585)	(1,613)	(1,747)	(2,249)	(2,749)	(3,017)	
Non-GAAP S&M	9,258	8,885	8,948	9,358	10,085	10,297	10,296	12,219	12,039	12,243	13,663	14,820	15,678	15,388	16,200	16,087	16,297	16,175	17,040	19,451	20,500	21,995	
% of revenue	37.5%	34.3%	31.6%	30.9%	33.3%	31.9%	28.6%	32.1%	31.0%	29.9%	30.9%	31.5%	32.8%	30.7%	29.2%	27.3%	26.7%	24.8%	23.6%	26.1%	26.5%	26.3%	
GAAP G&A	3,515	7,967	6,763	7,275	6,027	6,087	6,433	6,536	5,882	6,143	6,511	8,860	6,845	4,679	8,767	9,103	9,833	10,746	10,766	11,762	12,042	12,146	
% of revenue	14.2%	30.8%	23.9%	24.0%	19.9%	18.9%	17.9%	17.2%	15.1%	15.0%	14.7%	18.8%	14.3%	9.3%	15.8%	15.5%	16.1%	16.5%	14.9%	15.8%	15.6%	14.5%	
Depreciation & amortization	(228)	(187)	(189)	(200)	(199)	(192)	(186)	(222)	(229)	(212)	(196)	(283)	(287)	(272)	(257)	(303)	(322)	(338)	(372)	(385)	(406)	(443)	
Stock-based compensation	(763)	(775)	(799)	(949)	(814)	(789)	(722)	(860)	(1,013)	(989)	(984)	(1,130)	(1,254)	(1,240)	(2,111)	(2,408)	(3,295)	(4,044)	(3,794)	(3,738)	(4,122)	(4,334)	
Legal settlement	—	—	—	—	—	—	—	—	—	—	—	(1,700)	—	—	—	—	—	—	—	—	(420)	—	
Legal and indemnification fees related to settlement	—	—	—	—	—	—	—	—	—	—	—	(135)	—	—	—	—	(241)	(258)	(93)	(292)	(64)	—	
Reversal of contingent sales tax liability	2,766	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Reversal of interest & penalties on accrued federal fees	—	—	—	—	—	—	—	—	—	—	—	—	—	2,133	—	—	—	—	—	—	—	—	
Accrued FCC charge	—	(2,000)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Out of period adj. for sales tax liability	—	—	(183)	(575)	(190)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Non-GAAP G&A	5,290	5,005	5,592	5,551	4,824	5,106	5,525	5,454	4,640	4,942	5,331	5,612	5,304	5,300	6,399	6,392	5,975	6,106	6,507	7,347	7,030	7,369	
% of revenue	21.4%	19.3%	19.8%	18.3%	15.9%	15.8%	15.3%	14.3%	11.9%	12.1%	12.1%	11.9%	11.1%	10.6%	11.5%	10.9%	9.8%	9.4%	9.0%	9.9%	9.1%	8.8%	

Note: Historical results prior to 2018 based on ASC 605

# GAAP to Non-GAAP COR and OpEx Reconciliation

## 2014 – 2018

	Year Ended				
	2014	2015	2016	2017	2018
GAAP COR	\$54,661	\$59,495	\$66,934	\$83,104	\$104,034
% of revenue	53.0%	46.2%	41.3%	41.5%	40.4%
Depreciation & amortization	(5,138)	(5,950)	(6,573)	(6,300)	(7,808)
Stock-based compensation	(542)	(866)	(1,375)	(2,202)	(3,333)
Reversal of accrued federal fees	—	—	3,114	—	—
Out of period adj. for accrued federal fees	(235)	—	—	—	—
Non-GAAP COR	\$48,746	\$52,679	\$62,100	\$74,602	\$92,893
% of revenue	47.3%	40.9%	38.3%	37.3%	36.1%
GAAP R&D	\$22,110	\$22,659	\$23,878	\$27,120	\$34,172
% of revenue	21.4%	17.6%	14.7%	13.5%	13.3%
Depreciation & amortization	(229)	(455)	(737)	(795)	(1,036)
Stock-based compensation	(1,931)	(1,790)	(2,059)	(3,042)	(5,303)
Non-GAAP R&D	\$19,950	\$20,414	\$21,082	\$23,283	\$27,833
% of revenue	19.3%	15.8%	13.0%	11.6%	10.8%
GAAP S&M	\$37,445	\$42,042	\$52,748	\$66,570	\$72,001
% of revenue	36.3%	32.6%	32.5%	33.2%	27.9%
Depreciation & amortization	(196)	(206)	(221)	(120)	(95)
Stock-based compensation	(1,510)	(1,800)	(2,363)	(4,364)	(6,307)
Non-GAAP S&M	\$35,739	\$40,036	\$50,164	\$62,086	\$65,599
% of revenue	34.7%	31.1%	30.9%	31.0%	25.5%
GAAP G&A	\$24,416	\$25,822	\$25,072	\$29,151	\$40,448
% of revenue	23.7%	20.0%	15.5%	14.6%	15.7%
Depreciation & amortization	(900)	(777)	(859)	(1,099)	(1,335)
Stock-based compensation	(2,770)	(3,274)	(3,846)	(5,735)	(13,541)
Legal settlement	—	—	—	(1,700)	—
Legal and indemnification fees related to settlement	—	—	—	(135)	(592)
Reversal of contingent sales tax liability	2,766	—	—	—	—
Reversal of interest & penalties on accrued federal fees	—	—	—	2,133	—
Accrued FCC charge	(2,000)	—	—	—	—
Out of period adj. for sales tax liability	(183)	(765)	—	—	—
Non-GAAP G&A	\$21,329	\$21,006	\$20,367	\$22,615	\$24,980
% of revenue	20.7%	16.3%	12.6%	11.3%	9.7%

Note: Historical results prior to 2018 based on ASC 605

# GAAP Op. Inc. to Non-GAAP Op. Inc. Reconciliation

## Q3'19

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Income from operations	\$ 472	\$ 979	\$ 235	\$ 1,023
Non-GAAP adjustments:				
Stock-based compensation	11,075	8,869	30,197	20,991
Intangibles amortization	88	117	264	349
Legal settlement	—	—	420	—
Legal and indemnification fees related to settlement	—	258	356	499
Non-GAAP operating income	<u>\$ 11,635</u>	<u>\$ 10,223</u>	<u>\$ 31,472</u>	<u>\$ 22,862</u>



# GAAP Net Loss to Non-GAAP Net Inc. Reconciliation

## Q3'19

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
GAAP net loss	\$ (1,604)	\$ (1,305)	\$ (5,388)	\$ (3,954)
Non-GAAP adjustments:				
Stock-based compensation	11,075	8,869	30,197	20,991
Intangibles amortization	88	117	264	349
Amortization of debt discount and issuance costs	—	89	—	129
Amortization of discount and issuance costs on convertible senior notes	3,250	3,049	9,484	4,782
Legal settlement	—	—	420	—
Legal and indemnification fees related to settlement	—	258	356	499
Gain on sale of convertible note held for investment	—	—	(217)	(352)
Non-GAAP net income	<u>\$ 12,809</u>	<u>\$ 11,077</u>	<u>\$ 35,116</u>	<u>\$ 22,444</u>
GAAP net loss per share:				
Basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>
Non-GAAP net income per share:				
Basic	<u>\$ 0.21</u>	<u>\$ 0.19</u>	<u>\$ 0.58</u>	<u>\$ 0.39</u>
Diluted	<u>\$ 0.20</u>	<u>\$ 0.18</u>	<u>\$ 0.56</u>	<u>\$ 0.37</u>
Shares used in computing GAAP net loss per share:				
Basic and diluted	<u>60,781</u>	<u>58,454</u>	<u>60,074</u>	<u>57,790</u>
Shares used in computing non-GAAP net income per share:				
Basic	<u>60,781</u>	<u>58,454</u>	<u>60,074</u>	<u>57,790</u>
Diluted	<u>63,438</u>	<u>61,997</u>	<u>63,042</u>	<u>61,191</u>

# Summary of Stock-Based Compensation, Depreciation and Intangibles Amortization

	Three Months Ended					
	September 30, 2019			September 30, 2018		
	Stock-Based Compensation	Depreciation	Intangibles Amortization	Stock-Based Compensation	Depreciation	Intangibles Amortization
Cost of revenue	\$ 1,702	\$ 2,514	\$ 88	\$ 860	\$ 1,933	\$ 88
Research and development	2,022	450	—	2,352	278	—
Sales and marketing	3,017	2	—	1,613	1	29
General and administrative	4,334	443	—	4,044	338	—
Total	<u>\$ 11,075</u>	<u>\$ 3,409</u>	<u>\$ 88</u>	<u>\$ 8,869</u>	<u>\$ 2,550</u>	<u>\$ 117</u>

	Nine Months Ended					
	September 30, 2019			September 30, 2018		
	Stock-Based Compensation	Depreciation	Intangibles Amortization	Stock-Based Compensation	Depreciation	Intangibles Amortization
Cost of revenue	\$ 4,589	\$ 7,208	\$ 264	\$ 2,391	\$ 5,415	\$ 264
Research and development	5,399	1,340	—	4,293	705	—
Sales and marketing	8,015	4	—	4,560	4	85
General and administrative	12,194	1,234	—	9,747	963	—
Total	<u>\$ 30,197</u>	<u>\$ 9,786</u>	<u>\$ 264</u>	<u>\$ 20,991</u>	<u>\$ 7,087</u>	<u>\$ 349</u>

# GAAP to Non-GAAP Net Income (Loss) Reconciliation

## Guidance

	Three Months Ending December 31, 2019		Year Ending December 31, 2019	
	Low	High	Low	High
GAAP net loss	\$ (1,379)	\$ (379)	\$ (6,765)	\$ (5,765)
Non-GAAP adjustments:				
Stock-based compensation	11,688	11,688	41,884	41,884
Intangibles amortization	87	87	351	351
Amortization of discount and issuance costs on convertible senior notes	3,304	3,304	12,788	12,788
Legal settlement	—	—	420	420
Legal and indemnification fees related to settlement	—	—	356	356
Gain on sale of convertible note held for investment	—	—	(217)	(217)
Income tax expense effects <sup>(1)</sup>	—	—	—	—
Non-GAAP net income	<u>\$ 13,700</u>	<u>\$ 14,700</u>	<u>\$ 48,817</u>	<u>\$ 49,817</u>
GAAP net loss per share, basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>
Non-GAAP net income per share:				
Basic	<u>\$ 0.22</u>	<u>\$ 0.24</u>	<u>\$ 0.81</u>	<u>\$ 0.82</u>
Diluted	<u>\$ 0.21</u>	<u>\$ 0.23</u>	<u>\$ 0.77</u>	<u>\$ 0.78</u>
Shares used in computing GAAP net loss per share and non-GAAP net income per share:				
Basic	<u>62,000</u>	<u>62,000</u>	<u>60,600</u>	<u>60,600</u>
Diluted	<u>64,800</u>	<u>64,800</u>	<u>63,500</u>	<u>63,500</u>

Note: Represents guidance disclosed on 11/5/19. Reader shall not construe presentation of this information after 11/5/19 as an update or reaffirmation of such guidance

<sup>(1)</sup> Non-GAAP adjustments do not have an impact on our income tax provision due to past non-GAAP losses

# Capital Expenditure and Free Cash Flow

\$ in Thousands	Q1'18	Q2'18	Q3'18	Q4'18	12 mo ended 12/31/18	Q1'19	Q2'19	Q3'19
<b>Net cash provided by operating activities</b> <i>(Refer to cash flows from operating activities in cash flow statement)</i>	\$7,997	\$5,711	\$9,444	\$15,471	\$38,622	\$11,190	\$6,789	\$17,676
<b>Capital expenditure</b>								
Purchases of property and equipment <i>(Refer to cash flows from investing activities in cash flow statement)</i>	433	659	3,411	4,757	9,261	3,985	4,241	4,551
Equipment obtained under capital lease <i>(Refer to non-cash investing and financing activities in cash flow statement)</i>	2,635	2,358	(12)	161	5,142	261	7	(302)
Equipment purchased and unpaid at period-end								
Beginning balance	145	281	738	779		1,583	1,875	1,602
Ending balance <i>(Refer to non-cash investing and financing activities in cash flow statement)</i>	281	738	779	1,583	1,583	1,875	1,602	863
Change in equipment purchased and unpaid during period	136	457	41	804	1,438	292	(273)	(739)
<b>Total capital expenditure</b>	<b>\$3,204</b>	<b>\$3,474</b>	<b>\$3,441</b>	<b>\$5,723</b>	<b>\$15,841</b>	<b>\$4,538</b>	<b>\$3,974</b>	<b>\$3,510</b>
<b>Free cash flow</b> <i>(operating cash flow less capex paid in cash)</i>	<b>\$7,564</b>	<b>\$5,053</b>	<b>\$6,033</b>	<b>\$10,713</b>	<b>\$29,362</b>	<b>\$7,205</b>	<b>\$2,548</b>	<b>\$13,126</b>