February 23, 2015

# Five9 Reports Fourth Quarter and Fiscal Year 2014 Results

*Record Q4 Revenue of $28.3 Million, Up 20% Year-Over-Year*

*Annual Revenue of $103.1 Million, Up 23% Year-Over-Year*

*Annual Enterprise Revenue, Up 28% Year-Over-Year*

SAN RAMON, Calif., Feb. 23, 2015 (GLOBE NEWSWIRE) -- Five9, Inc. (Nasdaq:FIVN), a leading provider of cloud contact center software, today reported results for the fourth quarter and fiscal year ended December 31, 2014.

**Fourth Quarter Highlights**

- Revenue increased 20% year-over-year to a record $28.3 million
- Adjusted gross margin improved by over 270 basis points year-over-year
- Adjusted EBITDA margin improved by 620 basis points year-over-year

"We are extremely pleased to report fourth quarter results that were better than expected across all metrics and capped off a strong year for Five9. Our strong revenue growth and gross margin improvements, combined with diligent expense management, resulted in significant improvements to our bottom line. We remain focused on investing at the appropriate levels to achieve solid top line growth while at the same time continuing our path to profitability as evidenced by the fact that we narrowed our fourth quarter Adjusted EBITDA loss by 620 basis points year-over-year. Demand for our cloud-based software solution was strong throughout 2014 as we continued to build momentum by adding clients and expanding existing client engagements. The positive response we are receiving for our cloud-based solution gives us confidence in our ability to capture more market share in 2015 and beyond."

*- Mike Burkland, President and CEO, Five9*

**Fourth Quarter 2014 Financial Results**

- Total revenue for the fourth quarter of 2014 increased 20% to $28.3 million compared to $23.6 million for the fourth quarter of 2013.
- Annual dollar-based retention rate for the period ended December 31, 2014 was 96%.
- GAAP gross margin was 48.6% in the fourth quarter of 2014 compared to 46.5% for the same period in 2013.
- Adjusted gross margin was 54.6% for the fourth quarter of 2014 compared to 51.9% for the same period in 2013.
- Adjusted EBITDA for the fourth quarter of 2014 was a loss of $(4.3) million, or 15% of revenue, compared to a loss of $(5.1) million for the fourth quarter of 2013, or 22% of revenue.
- GAAP net loss for the fourth quarter of 2014 was $(9.4) million, or $(0.19) per share, compared to a GAAP net loss of $(8.6) million, or $(1.72) per share, for the fourth quarter of 2013.
- Non-GAAP net loss for the fourth quarter of 2014 was $(6.8) million, or $(0.14) per share, compared to a non-GAAP net loss of $(6.9) million, or $(1.38) per share, for the fourth quarter of 2013.

A reconciliation of the non-GAAP financial measures to their related GAAP financial measures is set forth in the tables attached to this release.

**2014 Financial Results**

- Total revenue for 2014 increased 23% to $103.1 million, compared to $84.1 million in 2013.
- GAAP gross margin was 47.0% for 2014, compared to 42.0% for the prior year.
- Adjusted gross margin was 52.7% for 2014, compared to 46.6% for the prior year.
- Adjusted EBITDA for 2014 was a loss of $(22.7) million, compared to a loss of $(22.0) million in 2013.
- GAAP net loss for 2014 was $(37.8) million, or $(1.00) per share, compared to GAAP net loss of $(31.3) million, or $(7.82) per diluted share, in 2013.
- Non-GAAP net loss for 2014 was $(32.3) million, or $(0.86) per share, compared to net loss of $(27.4) million, or $(6.84) per diluted share, in 2013.

**Business Outlook**

- **For the first quarter of 2015, Five9 expects to report:**
  - Revenue in the range of $28.0 to $29.0 million
  - GAAP net loss in the range of $(10.3) to $(11.3) million or $(0.21) to $(0.23) per share
  - Non-GAAP net loss in the range of $(7.8) to $(8.8) million or $(0.16) to $(0.18) per share
- **For the full year 2015, Five9 expects to report:**
  - Revenue in the range of $117.0 to $122.0 million
  - GAAP net loss of $(37.1) to $(40.1) million or $(0.73) to $(0.79) per share
  - Non-GAAP net loss in the range of $(27.4) to $(30.4) million or $(0.54) to $(0.60) per share

**Conference Call Details**

Five9 will discuss its fourth quarter and fiscal year 2014 results today, February 23, 2015, via teleconference at 4:30 p.m. Eastern Time. To access the call (ID 8236187), please dial: 888-329-8903 or 719-325-2499. An audio replay of the call will be available through March 9, 2015 by dialing 888-203-1112 or 719-457-0820 and entering access code 8236187. A copy of this press release will be furnished to the Securities and Exchange Commission on a Current Report on Form 8-K, and will be posted to our web site, prior to the conference call.

A webcast of the call will be available on the Investor Relations section of the Company's website at http://investors.five9.com/.

**Non-GAAP Financial Measures**

In addition to disclosing financial measures prepared in accordance with U.S. generally accepted accounting principles (GAAP), this press release and the accompanying tables contain certain non-GAAP financial measures. Non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similarly titled measures presented by other companies. Five9 considers these non-GAAP financial measures to be important because they provide useful measures of the operating performance of the company, exclusive of unusual events, as well as factors that do not directly affect what we consider to be our core operating performance. The company's management uses these measures to (i) illustrate underlying trends in the company's business that could otherwise be masked by the effect of income or expenses that are excluded from non-GAAP measures, and (ii) establish budgets and operational goals for managing the company's business and evaluating its performance. In addition, investors often use similar measures to evaluate the operating performance of a company. Non-GAAP financial measures are presented for supplemental informational purposes only for understanding the company's operating results. The non-GAAP financial measures should not be considered a substitute for financial information presented in accordance with GAAP. Please see the reconciliation of non-GAAP financial measures to the most directly comparable GAAP measure attached to this release.

**Forward Looking Statements**

This news release contains certain forward-looking statements, including the Company's investment strategy and approach and its expectations with respect to profitability, the Company's confidence in its ability to increase its market share and the other statements in the quote from our Chief Executive Officer, and the financial projections set forth under the caption "Business Outlook," that are based on our current expectations and involve numerous risks and uncertainties that may cause these forward-looking statements to be inaccurate. Risks that may cause these forward-looking statements to be inaccurate include, among others: (i) our quarterly and annual results may fluctuate significantly, may not fully reflect the underlying performance of our business and may result in decreases in the price of our common stock; (ii) we may be unable to attract new clients or sell additional services and functionality to our existing clients; (iii) our recent rapid growth may not be indicative of our future growth and we may fail to manage our growth effectively; (iv) the markets in which we participate are highly competitive and we may be unable to compete effectively; (v) we may be unable to manage our technical operations infrastructure, which could cause our existing clients to experience service outages, cause our new clients to experience delays in the deployment of our solution and subject us to, among other things, claims for credits or damages; (vi) a decline in our dollar-based retention rate could cause our revenues and gross margins to decrease and our net loss to increase and we may be required to spend more money to grow our client base to maintain our revenues; (vii) sales of our solutions to larger organizations may require longer sales and implementation cycles and we may be unable to offer the configuration and integration services or customized features and functions required by larger organizations, which could delay or prevent sales of our solution to them; (viii) downturns or upturns in new sales will not be immediately reflected in our operating results and may be difficult to discern; (ix) third-party telecommunications and internet service providers on which we rely may fail to provide our clients and their customers with reliable telecommunication services and connectivity to our cloud contact center software; (x) we may be unable to achieve or sustain profitability; (xi) we may be unable to secure additional financing on favorable terms, or at all, to meet our future capital needs; and (xii) the other risks detailed from time-to-time under the caption "Risk Factors" and elsewhere in our Securities and Exchange Commission filings and reports, including, but not limited to, our most recent quarterly report on Form 10-Q. Such forward looking statements speak only as of the date hereof and readers should not unduly rely on such statements. We undertake no obligation to update the information contained in this press release, including in any forward-looking statements.

**About Five9**

Five9 is a leading provider of cloud contact center software, bringing the power of the cloud to thousands of customers and facilitating more than three billion customer interactions annually. Since 2001, Five9 has led the cloud revolution in contact centers, delivering software to help organizations of every size transition from premise-based software to the cloud. With its extensive expertise, technology, and ecosystem of partners, Five9 delivers secure, reliable, scalable cloud contact center software to help businesses create exceptional customer experiences, increase agent productivity and deliver tangible results. For more information visit www.five9.com.

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 58,289 | $ 17,748 |
| Short-term investments | 20,000 | — |
| Accounts receivable, net | 8,335 | 6,970 |
| Prepaid expenses and other current assets | 1,960 | 1,651 |
| Total current assets | 88,584 | 26,369 |
| Property and equipment, net | 12,571 | 11,607 |
| Intangible assets, net | 2,553 | 3,065 |
| Goodwill | 11,798 | 11,798 |
| Other assets | 1,428 | 3,439 |
| **Total assets** | $ 116,934 | $ 56,278 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 4,179 | $ 4,306 |
| Accrued and other current liabilities | 7,318 | 5,929 |
| Accrued federal fees | 7,215 | 4,206 |
| Sales tax liability | 297 | 98 |
| Notes payable | 3,146 | 1,522 |
| Capital leases | 4,849 | 4,857 |
| Deferred revenue | 5,346 | 4,375 |
| Total current liabilities | 32,350 | 25,293 |
| Revolving line of credit | 12,500 | 12,500 |
| Sales tax liability — less current portion | 2,582 | 5,350 |
| Notes payable — less current portion | 22,778 | 7,095 |
| Capital leases — less current portion | 4,423 | 4,358 |
| Convertible preferred and common stock warrant liabilities | — | 3,935 |
| Other long-term liabilities | 548 | 715 |
| **Total liabilities** | 75,181 | 59,246 |
| **Stockholders' equity (deficit):** | | |
| Convertible preferred stock | — | 53,734 |
| Common stock | 49 | 5 |
| Additional paid-in capital | 170,286 | 34,089 |

| | | |
|---|---|---|
| Accumulated deficit | (128,582) | (90,796) |
| **Total stockholders' equity (deficit)** | 41,753 | (2,968) |
| **Total liabilities and stockholders' equity (deficit)** | $ 116,934 | $ 56,278 |

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | **December 31, 2014** | **December 31, 2013** | **December 31, 2014** | **December 31, 2013** |
| | (Unaudited) | (Unaudited) | (Unaudited) | |
| Revenue | $ 28,274 | $ 23,643 | $ 103,102 | $ 84,132 |
| Cost of revenue | 14,540 | 12,646 | 54,661 | 48,807 |
| Gross profit | 13,734 | 10,997 | 48,441 | 35,325 |
| Operating expenses: | | | | |
| Research and development | 5,828 | 4,850 | 22,110 | 17,529 |
| Sales and marketing | 9,453 | 7,727 | 37,445 | 28,065 |
| General and administrative | 6,763 | 5,953 | 24,416 | 18,053 |
| Total operating expenses | 22,044 | 18,530 | 83,971 | 63,647 |
| Loss from operations | (8,310) | (7,533) | (35,530) | (28,322) |
| Other income (expense), net: | | | | |
| Change in fair value of convertible preferred and common stock warrant liabilities | — | (694) | 1,745 | (1,871) |
| Interest expense | (1,175) | (414) | (4,161) | (1,080) |
| Interest income and other | 146 | 10 | 245 | 29 |
| Total other income (expense), net | (1,029) | (1,098) | (2,171) | (2,922) |
| Loss before provision for income taxes | (9,339) | (8,631) | (37,701) | (31,244) |
| Provision for income taxes | 33 | 1 | 85 | 70 |
| Net loss | $ (9,372) | $ (8,632) | $ (37,786) | $ (31,314) |
| Net loss per share: | | | | |
| Basic and diluted | $ (0.19) | $ (1.72) | $ (1.00) | $ (7.82) |
| Shares used in computing net loss per share: | | | | |
| Basic and diluted | 49,003 | 5,013 | 37,604 | 4,006 |

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

| | Twelve Months Ended | |
|---|---|---|
| | **December 31, 2014** | **December 31, 2013** |
| | (Unaudited) | |
| **Cash flows from operating activities:** | | |
| Net loss | $ (37,786) | $ (31,314) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 6,463 | 4,415 |
| Provision for doubtful accounts | 76 | 89 |
| Stock-based compensation | 6,753 | 1,949 |

| | | |
|---|---|---|
| Loss on the disposal of property and equipment | 1 | (5) |
| Non-cash interest expense | 293 | 6 |
| Changes in fair value of convertible preferred and common stock warrant liabilities | (1,745) | 1,871 |
| Accretion of discounts on short-term investments | (7) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,390) | (1,574) |
| Prepaid expenses and other current assets | (216) | (322) |
| Other assets | (128) | (136) |
| Accounts payable | 300 | 196 |
| Accrued and other current liabilities | 1,863 | 1,429 |
| Accrued federal fees and sales tax liability | 440 | 2,325 |
| Deferred revenue | 1,012 | 106 |
| Other liabilities | (208) | 6 |
| Net cash used in operating activities | (24,279) | (20,959) |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (1,025) | (554) |
| Cash paid to acquire Face It, Corp., net of cash acquired of $128 | — | (2,836) |
| Restricted cash | (25) | (121) |
| Purchase of short-term investments | (49,992) | — |
| Proceeds from sale of short-term investments | 30,000 | 2,490 |
| Net cash used in investing activities | (21,042) | (1,021) |
| **Cash flows from financing activities:** | | |
| Net proceeds from IPO, net of payments for offering costs | 71,459 | — |
| Payments for deferred offering costs | — | (821) |
| Net proceeds from issuance of convertible preferred stock | — | 21,794 |
| Proceeds from exercise of common stock options and warrants | 1,212 | 702 |
| Proceeds from sale of common stock under ESPP | 660 | — |
| Proceeds from notes payable | 19,536 | 5,000 |
| Repayments of notes payable | (1,556) | (810) |
| Payments of capital leases | (5,449) | (4,598) |
| Proceeds from revolving line of credit | — | 18,500 |
| Repayments on revolving line of credit | — | (6,000) |
| Net cash provided by financing activities | 85,862 | 33,767 |
| Net increase in cash and cash equivalents | 40,541 | 11,787 |
| **Cash and cash equivalents:** | | |
| Beginning of period | 17,748 | 5,961 |
| End of period | $ 58,289 | $ 17,748 |

**Reconciliation of GAAP Gross Profit to Adjusted Gross Profit**

(Unaudited, in thousands)

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| GAAP gross profit | $ 13,734 | $ 10,997 | $ 48,441 | $ 35,325 |
| GAAP gross margin | 48.6% | 46.5 % | 47.0% | 42.0% |
| Non-GAAP adjustments: | | | | |
| Depreciation | 1,204 | 1,128 | 4,787 | 3,637 |

| | | | | |
|---|---|---|---|---|
| Intangibles amortization | 87 | 72 | 351 | 72 |
| Stock-based compensation | 176 | 67 | 542 | 194 |
| Out of period adjustment for accrued federal fees | 235 | — | 235 | — |
| Adjusted gross profit | $ 15,436 | $ 12,264 | $ 54,356 | $ 39,228 |
| Adjusted gross margin | 54.6% | 51.9% | 52.7% | 46.6% |

**Reconciliation of GAAP Net Loss to Adjusted EBITDA**

(Unaudited, in thousands)

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| GAAP net loss | $ (9,372) | $ (8,632) | $ (37,786) | $ (31,314) |
| Non-GAAP adjustments: | | | | |
| Depreciation and amortization | 1,605 | 1,513 | 6,463 | 4,415 |
| Stock-based compensation | 1,957 | 923 | 6,753 | 1,949 |
| Interest expense | 1,175 | 414 | 4,161 | 1,080 |
| Interest income and other | (146) | (10) | (245) | (29) |
| Provision for income taxes | 33 | 1 | 85 | 70 |
| Change in fair value of convertible preferred and common stock warrant liabilities | — | 694 | (1,745) | 1,871 |
| Reversal of contingent sales tax liability (G&A) | — | — | (2,766) | — |
| Accrued FCC charge (G&A) | — | — | 2,000 | — |
| Out of period adjustment for accrued federal fees (COR) | 235 | — | 235 | — |
| Out of period adjustment for sales tax liability (G&A) | 183 | — | 183 | — |
| Adjusted EBITDA | $ (4,330) | $ (5,097) | $ (22,662) | $ (21,958) |

**Reconciliation of GAAP Net Loss to Non-GAAP Net Loss**

(Unaudited, in thousands, except per share data)

| | Three Months Ended | | Twelve Months Ended | |
|---|---|---|---|---|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| GAAP net loss | $ (9,372) | $ (8,632) | $ (37,786) | $ (31,314) |
| Non-GAAP adjustments: | | | | |
| Stock-based compensation | 1,957 | 923 | 6,753 | 1,949 |
| Intangibles amortization | 128 | 105 | 512 | 105 |
| Non-cash interest expense | 83 | 6 | 293 | 6 |
| Change in fair value of convertible preferred and common stock warrant liabilities | — | 694 | (1,745) | 1,871 |
| Reversal of contingent sales tax liability (G&A) | — | — | (2,766) | — |
| Accrued FCC charge (G&A) | — | — | 2,000 | — |
| Out of period adjustment for accrued federal fees (COR) | 235 | — | 235 | — |
| Out of period adjustment for sales tax liability (G&A) | 183 | — | 183 | — |
| Non-GAAP net loss | $ (6,786) | $ (6,904) | $ (32,321) | $ (27,383) |
| Non-GAAP net loss per share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic and diluted | $ (0.14) | $ (1.38) | $ (0.86) | $ (6.84) |
| Shares used in computing non-GAAP net loss per share: | | | | |
| Basic and diluted | 49,003 | 5,013 | 37,604 | 4,006 |

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

(Unaudited, in thousands)

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2014 | | | December 31, 2013 | | |
| | Stock-Based Compensation | Depreciation | Intangibles Amortization | Stock-Based Compensation | Depreciation | Intangibles Amortization |
| Cost of revenue | $ 176 | $ 1,204 | $ 87 | $ 67 | $ 1,128 | $ 72 |
| Research and development | 527 | 75 | — | 261 | 59 | — |
| Sales and marketing | 455 | 21 | 29 | 330 | 18 | 23 |
| General and administrative | 799 | 177 | 12 | 265 | 203 | 10 |
| Total | $ 1,957 | $ 1,477 | $ 128 | $ 923 | $ 1,408 | $ 105 |

| | Twelve Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2014 | | | December 31, 2013 | | |
| | Stock-Based Compensation | Depreciation | Intangibles Amortization | Stock-Based Compensation | Depreciation | Intangibles Amortization |
| Cost of revenue | $ 542 | $ 4,787 | $ 351 | $ 194 | $ 3,637 | $ 72 |
| Research and development | 1,931 | 229 | — | 499 | 214 | — |
| Sales and marketing | 1,510 | 82 | 114 | 751 | 60 | 23 |
| General and administrative | 2,770 | 853 | 47 | 505 | 399 | 10 |
| Total | $ 6,753 | $ 5,951 | $ 512 | $ 1,949 | $ 4,310 | $ 105 |

**Reconciliation of GAAP Net Loss to Non-GAAP Net Loss - GUIDANCE**

(Unaudited, in thousands, except per share data)

| | Three Months Ending March 31, 2015 | | Year Ending December 31, 2015 | |
|---|---|---|---|---|
| | Low | High | Low | High |
| GAAP net loss | $ (10,278) | $ (11,278) | $ (37,144) | $ (40,144) |
| Non-GAAP adjustments: | | | | |
| Stock-based compensation | 2,267 | 2,267 | 8,891 | 8,891 |
| Intangibles amortization | 128 | 128 | 512 | 512 |
| Non-cash interest expense | 83 | 83 | 341 | 341 |
| Non-GAAP net loss | $ (7,800) | $ (8,800) | $ (27,400) | $ (30,400) |
| GAAP net loss per share, basic and diluted | $ (0.21) | $ (0.23) | $ (0.73) | $ (0.79) |
| Non-GAAP net loss per share, basic and diluted | $ (0.16) | $ (0.18) | $ (0.54) | $ (0.60) |
| Shares used in computing GAAP and non-GAAP net loss per share: | | | | |

| | | | | |
|---|---|---|---|---|
| Basic and diluted | 49,700 | 49,700 | 51,000 | 51,000 |

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