A L L I A N C E   R E S E A R C H

Tenant Credit Report

Helping the Commercial Real Estate Industry Reduce Financial Risk Since 1989

8x8

Highlights

Key Positives

- 8x8's revenue has more than doubled since 2015, reaching $446 million in 2020.
- Gartner considers 8x8 a leader in the Unified and Call Center Communications-as-a-service markets (UCaaS and CCaaS), which 8x8 estimates is a >$60 billion total addressable market.
- With its acquisition of Wavecell in early 2020, 8x8 entered the cloud platform-as-a-service market.
- 8x8 has been expanding its indirect channel partner network, with channel bookings increasing 63% year-over-year from 2019 to 2020.
- Although the majority of 8x8's customers are small- to medium-sized businesses, the Company has increasingly targeted larger accounts over the last five years, leading to revenues from large enterprise customers increasing by 79% from 2019 to 2020.
- Over half of 8x8 customers currently purchase CCaaS from the company to complement their UCaaS deployments.
- As of March 31, 2019, 8x8's available liquidity was comprised of $137.4 million of cash and $33.5 million of short-term investments.

Key Negatives/Risks

- 8x8 is highly leveraged due to the debt taken on in 2019.
- EBITDA turned negative in fiscal year 2019 after several years of margin erosion starting in 2016.
- The Company's free cash flow segued into a deficit in 2019 and 2020.
- 8x8 faces significant competition from numerous emerging cloud communication providers, as well as incumbent telephone giants such as AT&T, Century Link, Comcast, and Verizon Communications.

Financial Highlights

($ 000)	2017	2018	2019	2020
Revenues	$253,388	$296,500	$352,586	$446,237
EBITDA	25,464	12,466	(6,250)	365
Cash & equivalents	41,030	31,703	276,583	137,394
Total assets	333,855	227,209	546,358	700,641
Convertible senior notes	0	0	216,035	291,537
Stockholders' equity	288,601	218,774	249,390	509,910

Conclusions

Risk Assessment/Credit Quality

8x8 has made the decision to de-emphasize profitability and focus on top line growth and capturing market share, resulting in steep declines in profits and free cash flow. Our rating of the level of tenant risk (see Rating Guide on page 11) in a lease with 8x8 at 154 Indigo Circle reflects our concerns about the risks inherent in that shift in strategy.

That risk is particularly acute in such a competitive market, with that risk increased by 8x8's 2019 decision to take on debt.

We suggest that Arrow Realty put a letter of credit in place to protect up to 25% of its investment, and to keep that security in place until a number of financial benchmarks have been achieved that indicate the push for growth has been successful.

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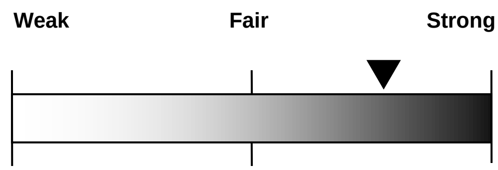
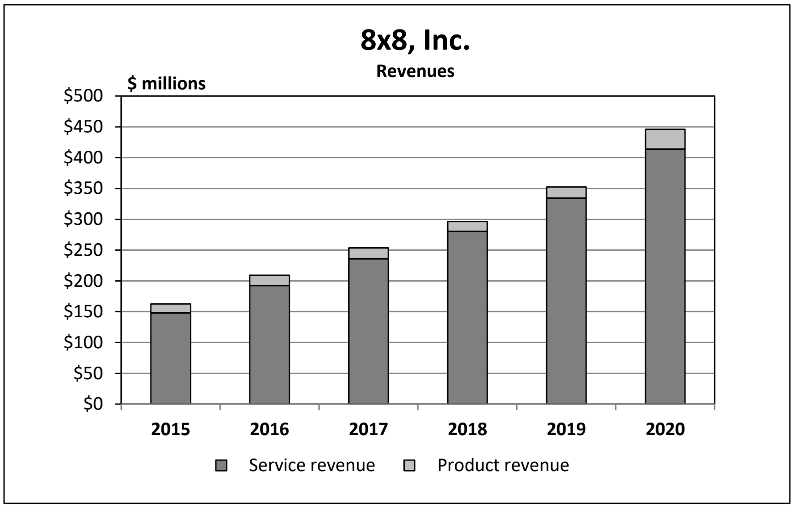
Financial Analysis

Revenues

The rating of Revenues is a judgment on a bundle of issues, including the positives/negatives related to the Company's overall size in its markets, growth rates versus a group of similar companies, customer concentration, geographic mix, and diversity of product offerings.





8x8's revenues grew by double digit percentages in all periods reviewed and more than doubled since 2015, reaching $446 million in fiscal year 2020 that ended on March 31 (see chart to the left). The Peer Group Comparison table on page 9 shows the Company's top line growth has been competitive with its peers.

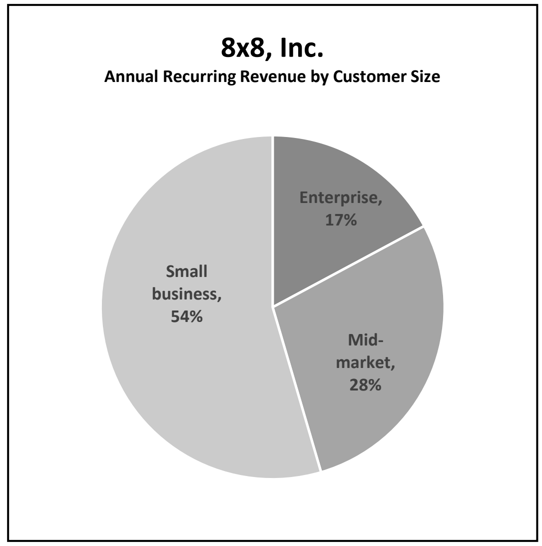
Historically, 8x8 segmented its revenue into two categories: **service revenue** attributable to the provision of its cloud communication and collaboration software solutions, along with revenues from professional services; and **product revenue,** which consists primarily of revenues from sales of IP telephones in conjunction with its cloud telephony service. In 2020, the Company reclassified professional services out of services and combined it with products under "Other Revenues."

According to 8x8, their products sell into a ~$64 billion total available market. Unified Communications-as-a-service (UCaaS) is their core market, which offers small and large businesses a suite of integrated, cloud-based communications software and services. Call Center-as-a-service (CCaaS) provides capabilities for running critical cell center functions via the cloud. The Company recently entered the Cloud Platform-as-a-service market with their acquisition of Wavecell in Asia. They now have an integrated offering that includes all of their services (named the "X-Series" platform) that they plan to upsell to current customers.

While the Company's growth has been strong, with 1 million customers in 150 countries, 8x8 faces significant competition from other providers of unified cloud communication services, such as RingCentral, Fuze, Vonage, Dialpad, Nextiva and Shoretel (acquired by Mitel in 2017). With regard to its cloud contact center services, 8x8 competes with other providers of cloud and premise-based contact center software services, such as NICE/inContact, Five9 and Interactive Intelligence. With so many competitors offering fairly similar products, market share could be volatile.

8x8 also considers incumbent telephone companies as competitors, including legacy on-premises communication equipment vendors such as AT&T, CenturyLink, Comcast, and Verizon Communications in the United States. Furthermore, if large cloud players such as Microsoft or Amazon decide to emphasize internal UCaaS offerings, it could have a significant impact on pricing for 8x8 and the industry.

Although the majority of 8x8's customers are small- to medium-sized businesses, the Company has prioritized targeting larger accounts over the last five years, leading to revenues from large enterprise customers increasing by 79% from 2019 to 2020. The chart to the right shows annual recurring revenues by customer size, with Enterprise up to 17% versus 13% in fiscal 2019. 8x8 defines Enterprise customers as any customer with revenues over $1 billion and small customers with revenues less than $50 million.

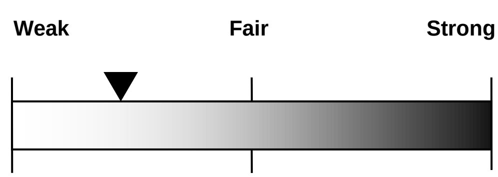


8x8 has been focusing on expanding its indirect channel partner network, along with its direct sales force, resulting in channel bookings increasing 63% year-over-year from 2019 to 2020. The channel partners are not employees but sell 8x8's products for a commission. Consequentially, costs associated with a direct sales force are reduced.

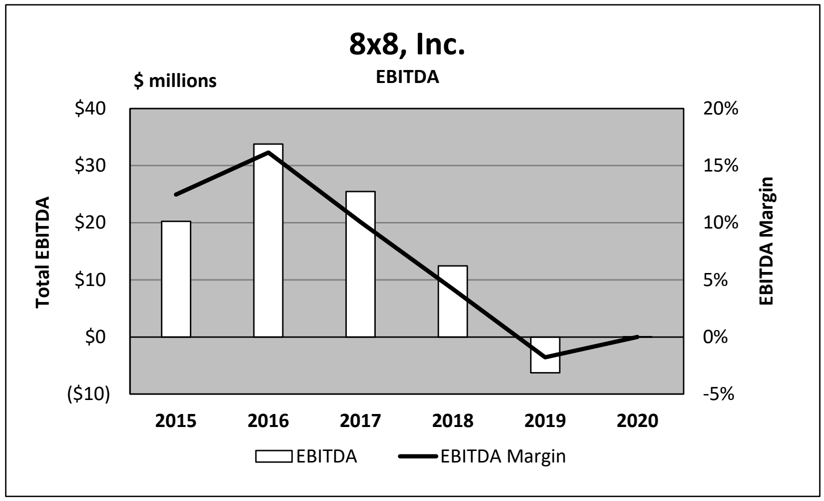
In 2018, 90% of revenues came from the U.S., but the Company has been slowly building out their international footprint over the past few years. As of the end of 2020, international markets (primarily EMEA and APAC) accounted for 21% of sales, due in large part to the Company's acquisition of Wavecell, an Asia-based global communications platform-as-a-service, in early fiscal 2020.

Profitability

The Profitability rating is an evaluation developed from an analysis of 8x8's current earnings and includes a comparison with a group of peers, which establishes a frame of reference for judging the Company's operating performance. The rating comes from scrutiny of what factors are contributing to/detracting from current profitability and is a judgment as to whether current profit levels restrict or enhance the Company's ability to grow and compete effectively in its markets.

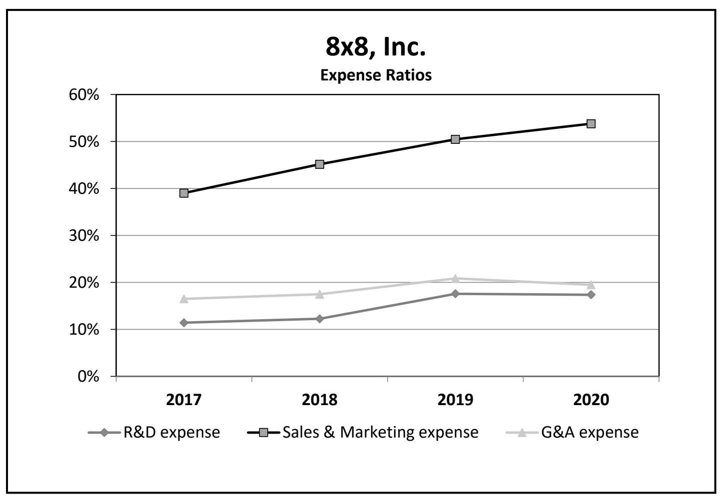


As the adjacent graph shows, the Company's profits reached a peak in 2016 and then trended steadily downward into a loss in 2019. Management's explanation for this steep downtrend is that the Company was de-emphasizing profitability as a short-term corporate goal and was focusing instead on increasing the investments necessary to accelerate its top line growth and improve its products and technology.



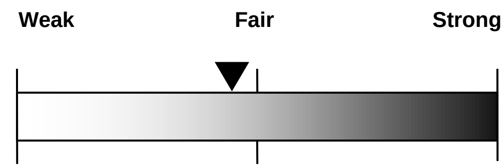
Because the Company believes that the communications industry is at a critical point, when businesses are increasingly shifting away from legacy on-premise solutions to cloud services, 8x8 has made the decision to focus on growth rather than profits at this juncture in its evolution. The result is a shift to accelerated investing in its technology platform and expanding its sales and marketing activities. As a result, EBITDA margins turned negative in fiscal year 2019 after several years of margin erosion starting in 2016 (see chart above), before getting back to barely breakeven in fiscal 2020. The increased investment in growth is reflected in increasing expense ratios (see chart below). From 2017 to 2020, R&D expense as a percentage of revenues has grown from 11.4% to 17.4%, while sales and marketing expense has expanded from 39.0% to 53.8%.

The Peer Table on page 9 shows that 8x8's primary competitors are all generating comfortable levels of profitability, which includes Five9 that has lower revenue levels.



Expense ratio trends were volatile over the past five years (see spreadsheet), but a significant portion of this has been driven by changes in the way the Company classifies certain expenses. For instance, customer training, customer support, and related expenses that were previously classified in Sales & Marketing were reclassified to cost of revenues in 2017. Plus, certain expenses related to customer deployments that were previously classified in Sales & Marketing expenses were reclassified to Research & Development expenses. Although the changes in classification did not affect earnings overall, the Company's gross margin declined by nine percentage points between 2016 to 2017 and expense ratios were also affected.

Capitalization



The Capitalization rating provides a measure of how well 8x8's capital base supports overall operations. It was developed from a scrutiny of overall liquidity, asset quality, the availability of and the ongoing need for capital, the level of debt, and the current state of receivables and payables.

When 8x8 adopted the ASC 606 accounting standard on April 1, 2018, some sales commissions were recognized as contract assets and therefore showed up on the Company's 2019 balance sheet as deferred sales commission costs. Effects of the changes in accounting standards were minimal to the Company's revenue line.

On February 19, 2019, 8x8 issued $287.5 million of a 0.50% coupon convertible senior note due 2024 in a private placement, resulting in $216 million of debt coming onto its balance sheet, with the balance being an equity component after expenses such as debt issuance costs were deducted. The inflow of funds from the senior note resulted in cash reserves growing from $31.7 million in fiscal year 2018 to $276.6 million in fiscal year 2019. In November 2019, the Company issued an additional $75 million of 0.50% coupon convertible notes due 2024, taking total debt to $291,537. The excess of the principal amount of the liability component over its carrying amount ("debt discount") is amortized to interest expense at the effective interest rate of 6.5% (for the original notes) and 5.3% (for the additional notes) over the contractual terms of the Notes.

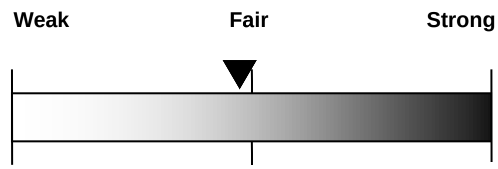
The Company's asset base rose significantly in 2020 due to three primary factors. First, in early fiscal 2020 8x8 acquired Wavecell, an Asia-based communication-as-a-service platform, for $59 million, which sharply increased their goodwill. Second, the Company added significant PP&E primarily related to the buildout of their corporate headquarters. Finally, due to new accounting rules, the Company began recognizing operating lease assets and liabilities. As a result, despite the higher debt and lower cash, the Company's shareholder's equity significantly rose year-over-year.

Although 8x8's balance sheet displays healthy liquidity, as evidenced by its 2.2 current ratio as of March 31, 2020, the new debt makes the Company highly leveraged, with deficit free cash flow coverage of interest expense in both 2019 and 2020.

The Peer Table on page 9 shows that 8x8 compares favorably in a number of balance sheet categories but falls well behind its peers in its high level of leverage.

Cash Flow/Liquidity

This rating measures the existing availability and the ongoing flow of funds for covering the Company's short-term capital needs. This score assesses 8x8's ability to support its debt, as well as gauging the liquid assets available to serve as backup to internal cash flow.



As of March 31, 2020, 8x8's available liquidity was comprised of $137 million of cash and $33 million of short-term investments. This is down from $276 million and $69 million due to a combination of elevated CAPEX related to the build-out of a new corporate office, as well as the acquisition of Wavecell for ~$59 million.

Free cash flow (FCF) was positive in all periods through 2018, with FCF turning negative in 2019 when higher expenses pressured EBITDA, while CAPEX continued to grow, leading to FCF deficits of ($15) million and ($35) million in 2019 and 2020, respectively. This technically resulted in deficit coverage of interest expense (we use FCF as a rough measure of a company's ability to support its debt) as the Company issued debt for the first time in 2019. However, it is worth noting that 8x8 does not pay cash interest on the convertible notes as the interest expense is simply an amortization of the debt discount provided when the notes were issued. The notes do not mature until February 2024.

Given the Company's focus on revenue growth, 8x8 does not pay a dividend nor have they bought back a material number of shares over the past five years.

Financial Profile

8x8, Inc.

Income Statement Data (Fiscal year ends March 31)

($ 000)	2017	2018	2019	2020
Revenues	$253,388	$296,500	$352,586	$446,237
EBITDA (adjusted)	25,464	12,466	(6,250)	365

Profit Margins

Gross margin	64.4%	64.0%	63.1%	54.9%
EBITDA margin	10.0%	4.2%	(1.8%)	0.1%

Cash Flow

EBITDA	25,464	12,466	(6,250)	365
Capital expenditures	(8,851)	(9,178)	(9,096)	(35,834)
Free cash flow	16,613	3,288	(15,346)	(35,469)

Balance Sheet Data

Cash & equivalents	41,030	31,703	276,583	137,394
Current assets	197,354	178,598	397,391	277,162
Goodwill & intangible assets	63,174	52,012	51,374	152,301
Total assets	333,855	227,209	546,358	700,641
Current liabilities	43,344	56,263	74,705	123,425
Long-term debt	0	0	216,036	291,537
Total Equity	288,601	218,774	249,390	509,910

Key Financial Ratios

Current ratio	4.6	3.2	5.2	2.2

Company Description

8x8 is a provider of global cloud communications and customer engagement solutions to over a million business users worldwide, with 1,500 employees operating from five countries. The Company's suite of products integrates cloud communications, conferencing, collaboration, and contact center solutions. Gartner has recognized 8x8 as a leader on its Unified Communications-as-a-Service "magic quadrant" for the last seven years and as a "challenger" on its Contact Center-as-a-Service (CCaaS) quadrant. 8x8 is a public company and trades on the NYSE under symbol 'EGHT'.

Scope of Analysis

Our analysis of 8x8 included (i) a review of the Company's 10-Ks for fiscal 2015-2020; (ii) online search and review of information about the Company and its markets; (iii) a review of articles from trade and business publications; and (iv) a review of corporate and financial documents for a number of 8x8's public peers.

Analyst Notes

Market Overview

As a cloud communications and customer engagement solution provider, 8x8 engages in two main product areas called Unified Communications-as-a-Service (UCaaS) and Contact Center-as-a-Service (CCaaS).

Unified Communications-as-a-Service provides a cloud-based business communications system across multiple channels and devices. UCaaS combines phone service, video conferencing, team messaging, SMS, fax, and other communications tools on a single integrated cloud platform. It is designed to be accessed from any device -- desktops, laptops, tablets, or mobile phones.

According to Gartner, by 2021, 90% of IT leaders will no longer purchase new premises-based UC infrastructure — up from 50% in 2018 — because future cloud UC offerings will be far ahead in terms of features, functions, portals, analytics, and dashboards. Recent reports suggest that the COVID-19 pandemic, which has forced many to work remotely, will speed up this transition due to the enhanced accessibility offered by UC over various devices.

Contact Center-as-a-Service is a cloud-based customer experience solution that allows companies to utilize a contact center provider's software, allowing businesses to purchase only the technology they require, which reduces the need for internal IT support. CCaaS is a good option for many contact centers, offering scalability as operational needs change. A contact center employee could be anywhere in the world and staff can be expanded or decreased depending upon the need.

According to several sources, at least 80% of contact centers still have on-premise equipment and have not moved to the cloud, indicating a substantial opportunity for growth in this market. Including their new entrance into the CPaaS business, 8x8 estimates that the penetration rate of all cloud-based products into their addressable market remains <15%, suggesting a long runway for growth for 8x8 and their cloud-based competitors.

Both UCaaS and CCaaS are cloud-based with the potential to reduce IT support costs by outsourcing hardware and software maintenance to the provider, as compared to legacy on-premise solutions. This Software-as-a-Service model, which is sold via subscriptions, also reduces the cost and complexity relative to implementation and upgrades of on-premise solutions. When the provider adds to the functionality of its software, the customer receives the benefits, in most cases, as part as a software update.

Analyst Notes

Peer Group Review

Because 8x8 is on the Gartner "Magic Quadrant" for both UCaaS and CCaaS, we chose peers from both product sets. Five9 is considered a leader in CCaaS products, while RingCentral is one of the recognized leaders in UCaaS. We also chose to include Vonage because, like 8x8, it supports both UCaaS and CCaaS product areas.

Peer Group Comparison
($ in millions)

	8x8	Five9	Ring Central	Vonage
Revenues	$446.2	$328.0	$902.8	$1,189.3
Revenue Growth				
Latest fiscal year	27%	27%	34%	13%
Prior year	19%	29%	34%	5%
Prior year	17%	24%	32%	5%
EBITDA Margin				
Latest fiscal year	0.1%	18.5%	19.8%	13.3%
Prior year	(1.8%)	18.0%	16.4%	16.0%
Prior year	4.2%	8.8%	13.0%	17.0%
Cash	$137.4	$ 77.9	$ 343.6	$ 23.6
Goodwill/Intangible assets	152.3	27.3	182.6	852.8
Assets	700.6	482.4	1,450.7	1,364.7
Long-term debt	291.5	209.6	386.9	497.2
Stockholders' equity	509.9	196.4	745.7	567.0
Current ratio	2.2	5.8	1.9	0.7
Leverage ratio	High	3.4	2.2	3.1

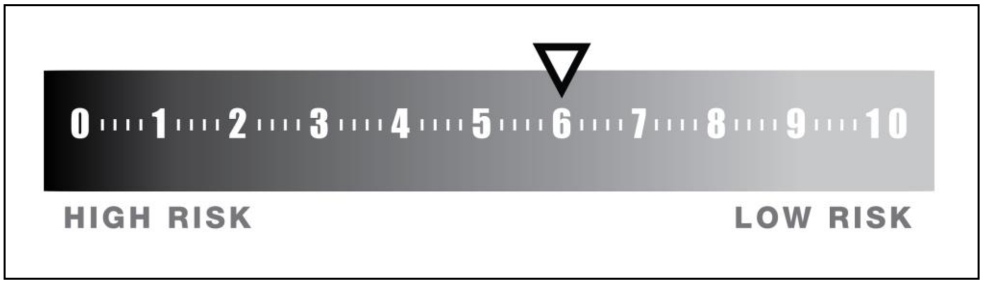
8X8, Inc.
Financial Spreadsheet

Fiscal year ends March 31

($ in thousands) *Fiscal year*	*2016*	*2017*	*2018*	*2019*	*2020*
For the period					
Revenues					
Service revenue	$192,241	$235,816	$280,430	$334,438	$414,078
Product revenue	17,095	17,572	16,070	18,148	32,159
Total revenue	209,336	253,388	296,500	352,586	446,237
Year-to-year growth rate	29%	21%	17%	19%	27%
Pre-tax income (as reported)	(5,967)	(4,877)	(38,203)	(88,170)	(171,536)
EBITDA (adjusted)	33,795	25,464	12,466	(6,250)	365
Margins					
Gross margin	72.7%	64.4%	64.0%	63.1%	54.9%
EBITDA margin	16.1%	10.0%	4.2%	(1.8%)	0.1%
Expense ratios (% of revs.)					
R&D expense	11.5%	11.4%	12.3%	17.6%	17.4%
Sales & Marketing expense	52.3%	39.0%	45.2%	50.5%	53.8%
G&A expense	12.3%	16.5%	17.5%	20.9%	19.5%
Cash Flow					
EBITDA	33,795	25,464	12,466	(6,250)	365
Capital expenditures	(4,894)	(8,851)	(9,178)	(9,096)	(35,834)
Free cash flow	28,901	16,613	3,288	(15,346)	(35,469)
From operating activities	23,567	28,478	22,041	(14,868)	(93,905)
From investing activities	(36,295)	(22,194)	(7,272)	10,872	(106,294)
From financing activities	(7,248)	1,596	(16,440)	249,238	72,095
Net change in cash & equiv.	(19,534)	7,454	(1,227)	244,880	(128,272)
***At period end*[1]**					
Assets					
Cash & equivalents	33,576	41,030	31,703	276,583	137,394
Short-term investments	129,274	133,959	120,559	69,899	33,458
Accounts receivable	11,070	14,264	16,296	20,181	37,811
Deferred sales commission costs	0	0	0	15,601	22,444
Total current assets	185,900	197,354	178,598	397,391	277,162
Prop., plant & equip. (net)	12,375	24,061	35,732	52,835	94,382
Operating lease assets	0	0	0	0	78,963
Intangible assets	21,464	17,038	11,958	11,680	24,001
Goodwill	47,420	46,136	40,054	39,694	128,300
Deferred sales commission costs	0	0	0	33.693	53,307
Restricted cash	0	0	8,100	8,100	19,017
Total assets	313,452	333,855	227,209	546,358	700,641
Liabilities/Equity					
Accounts payable	10,954	18,631	23,899	32,280	40,261
Operating lease liabilities	0	0	0	0	5,875
Deferred revenue	1,925	2,144	2,559	3,336	7,105
Total current liabilities	34,734	43,344	56,263	74,705	123,425
Operating lease liabilities LT	0	0	0	0	92,452
Convertible senior notes	0	0	0	216,035	291,537
Deferred revenue	154	60	2,153	6,222	2,496
Stockholders' equity	275,306	288,601	218,774	249,390	509,910
Key financial ratios					
Current ratio	5.4	4.6	3.2	5.3	2.2

[1] These are balance sheet highlights. Certain line items have been excluded.

Rating Guide



Tenant Risk[2]/Credit Quality

Rating	Tenant Risk	Credit Quality	Security Recommended
0 – 1	Very high	Deficient	Avoid as tenant
1 – 3	High	Unsafe	Full security
3 – 5	Worrisome	Poor	Full/Partial security
5 – 7	Some concerns	Fair	Partial security
7 – 9	Low	Good	None or partial security
9 – 10	Very low	Excellent	No security

This rating is based on an analysis of a company's key financial documents and business fundamentals, as well as comparative data drawn from the Alliance Group's proprietary Tenant Index of more than 6,000 companies that reside in our research database. In our peer group studies, IndexSearch software is used to categorize and weigh companies by size, industry, risk levels, and other key factors to narrow the peer group and ensure a meaningful group of comparable companies.

Michael F. Calhoun has 25 years of experience in financial analysis, business management, and corporate evaluation. He is President of The Alliance Group, a consulting firm specializing in corporate due-diligence studies, acquisition searches, business valuations, and investment analysis services. Mr. Calhoun is a former investment analyst for both the Dreyfus Corporation and Oppenheimer Management.

[2] Tenant Risk refers to the possibility that a tenant will default during the life of a lease.