

RingCentral

4Q Wrap: FCF flywheel supports Buy rating

Reiterate Rating: BUY | PO: 45.00 USD | Price: 30.86 USD

RNG remains attractive in unforgiving quarter

RNG remains an attractive FCF and market share generation story. The stock sold off after market (down 7%) on marginally light (-1%) top line guidance for 2024 and underwhelming operating margin guidance. Top line guidance reflects conservatism, in our view. Operating margin guidance includes 200bp of pressure from increased cash compensation to offset lower SBC (100bp) and investment in sales and marketing (100bp). Unlevered and levered FCF are projected to increase 26% and 14% to \$4.24 and \$3.63 per share in 2024 (mid-point of guidance).

Demand stabilizing, SBC declining materially

Management commentary suggests 1) a stabilizing demand environment, 2) expected share gains in both UC and CC in '24, and 3) intensifying commitment to reducing SBC-driven dilution (net new grants to decline 50% Y/Y in '24). Other key positives in the quarter include new (ARPU accretive) products are expected to contribute \$100mn in ARR by 2025-end, and enterprise ARR crossing the \$1bn milestone.

Results in line, FCF guidance solid but rev guide light

RingCentral reported 4Q23 total revenue in line with BofA and non-GAAP OpMs 70bps above our estimate, and introduced FY24 total revenue guidance of \$2,383mn (consensus \$2,405mn) at the mid. Total ARR grew 10.9% YoY to \$2,329bn. Non-GAAP gross margin was 78.4% and operating margin of 20.5% was above our estimate of 19.8%. FY24 non-GAAP OpM guidance was introduced at 21% (Street at 20.6%).

Reiterate Buy, but lowering PO to \$45 PO (from \$55)

We update our estimates to reflect guidance/results and lower our PO to \$45 (from \$55), representing EV/Rev of 2.2x our CY25E estimates (prior 2.8x on '24E estimates). We roll forward our multiple and adjust for a slightly lower growth outlook, partially offset by higher expected FCF. Our 2.2x multiple is relatively in line with the peer group at 2.3x based on margin upside, positive FCF and market share gains, offset by slowing growth. We reiterate our Buy rating based on RNG's attractive FCF generation profile and market share capture.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.99	3.23	3.59	4.28	5.11
GAAP EPS	(9.23)	(1.73)	(1.09)	(0.07)	0.87
EPS Change (YoY)	48.5%	62.3%	11.1%	19.2%	19.4%
Consensus EPS (Bloomberg)			3.52	3.99	4.28
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	15.5x	9.6x	8.6x	7.2x	6.0x
GAAP P/E	NM	NM	NM	NM	35.5x
EV / EBITDA*	8.5x	6.4x	5.7x	5.0x	4.4x
Free Cash Flow Yield*	3.5%	10.9%	12.4%	17.6%	20.7%

* For full definitions of *IQmethod*SM measures, see page 11.

21 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	45.00
2024E Rev (m)	2,417.1	2,387.3
2025E Rev (m)	2,700.3	2,574.7
2026E Rev (m)	NA	2,787.7
2024E EPS	3.95	3.59
2025E EPS	4.71	4.28
2026E EPS	NA	5.11

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Stock Data

Price	30.86 USD
Price Objective	45.00 USD
Date Established	20-Feb-2024
Investment Opinion	C-1-9
52-Week Range	25.08 USD - 43.28 USD
Mkt Val (mn) / Shares Out (mn)	2,963 USD / 96.0
Free Float	96.6%
Average Daily Value (mn)	34.74 USD
BofA Ticker / Exchange	RNG / NYS
Bloomberg / Reuters	RNG US / RNG.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

SBC = stock-based compensation

UC: unified communications

CC: contact center

ARPU: average revenue per user

ARR: annualized recurring revenue

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Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10.

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iQprofileSM RingCentral

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.7%	27.5%	29.6%	14.9%	18.2%
Return on Equity	688.2%	NM	NM	215.2%	60.9%
Operating Margin	12.4%	19.1%	21.4%	23.6%	25.7%
Free Cash Flow	105	324	367	522	613

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.3x	1.3x	1.4x	1.4x
Asset Replacement Ratio	0.4x	0.3x	0.3x	0.4x	0.4x
Tax Rate	NM	NM	NM	137.1%	32.1%
Net Debt-to-Equity Ratio	NM	NM	NM	70.2%	-10.6%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,988	2,202	2,387	2,575	2,788
% Change	24.7%	10.8%	8.4%	7.9%	8.3%
Gross Profit	1,555	1,724	1,886	2,038	2,212
% Change	25.3%	10.9%	9.4%	8.1%	8.5%
EBITDA	492	654	742	840	952
% Change	71.3%	32.8%	13.4%	13.2%	13.4%
Net Interest & Other Income	6	19	0	0	0
Net Income (Adjusted)	191	312	349	423	509
% Change	52.8%	63.2%	11.7%	21.3%	20.3%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(888)	(167)	(106)	(7)	87
Depreciation & Amortization	247	234	231	233	235
Change in Working Capital	12	(59)	(65)	(56)	(111)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	821	391	387	437	496
Capital Expenditure	(86)	(76)	(80)	(86)	(93)
Free Cash Flow	105	324	367	522	613
% Change	31.9%	208.9%	13.3%	42.2%	17.5%
Share / Issue Repurchase	(100)	(311)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(35)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	270	222	589	1,111	1,724
Trade Receivables	311	364	464	570	692
Other Current Assets	215	262	433	537	619
Property, Plant & Equipment	185	184	169	156	149
Other Non-Current Assets	1,092	912	777	642	642
Total Assets	2,074	1,945	2,432	3,016	3,826
Short-Term Debt	0	20	20	20	20
Other Current Liabilities	653	613	663	722	778
Long-Term Debt	1,659	1,554	1,554	1,554	1,554
Other Non-Current Liabilities	46	62	62	62	62
Total Liabilities	2,357	2,248	2,298	2,357	2,413
Total Equity	(283)	(303)	133	659	1,413
Total Equity & Liabilities	2,074	1,945	2,432	3,016	3,826

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Server & Enterprise Software

Company Description

RingCentral offers a cloud-based solution for business communications that replaces legacy and expensive on-premise communications systems. It is delivered as an application that follows the user regardless of device (office phone, smartphone, desktop, tablet). Features include team collaboration, voice, text, fax, audio conferencing, and integration with document and customer relationship management systems.

Investment Rationale

RingCentral offers a cloud-based service that replaces the need to install business communication systems (dubbed PBXs) on-premise, offering advantages such as minimal investment and management ease. This architecture aligns well with hybrid work trends likely to persist post-COVID. The company's partnerships with legacy communications are a top factor in RingCentral's differentiation and should support the company's high growth profile and margin expansion for the foreseeable future.

Stock Data

Average Daily Volume 1,125,837

Quarterly Earnings Estimates

	2023	2024
Q1	0.76A	0.79E
Q2	0.83A	0.85E
Q3	0.78A	0.94E
Q4	0.86A	0.99E

OpM solid, rev guidance slightly light

RingCentral reported 4Q23 total revenue of \$571.3mn (+8.9% YoY), in line with our estimate and consensus of \$571.3mn and \$570.7mn respectively. Subscription revenue of \$547.4mn (+9.1% YoY) was also in line with \$547.8mn and consensus \$545.7mn. Total ARR grew 10.9% YoY to \$2,329bn. Non-GAAP gross margin was 78.4% and operating margin of 20.5% was above our estimate of 19.8%. Management provided initial 1Q24 guidance for total revenue of \$575mn to \$580mn (consensus \$581.6mn), subscription revenue of \$550mn to \$555mn (consensus \$555.8mn) and non-GAAP EPS of \$0.79 to \$0.80 (consensus \$0.82). Management also introduced FY24 subscription and total revenue guidance of \$2,273mn and \$2,382mn at the mid. FY24 non-GAAP operating margin guidance was introduced at 21% (Street at 20.6%).



Exhibit 1: RingCentral reported in line revenues for 4Q23

RNG 4Q23 variance analysis

\$ in Thousands (except per share data)	BofA Estimates	4Q23 Actuals	Variance
Revenues			
Services	\$547,765	\$547,373	0%
Product	\$23,500	\$23,898	2%
Total revenues	\$571,265	\$571,271	0.0%
Total cost of revenues	\$121,681	\$123,274	1%
Gross profit	\$449,584	\$447,997	0%
Operating expenses			
Research and development	\$62,839	\$59,942	-5%
Sales and marketing	\$228,506	\$230,722	1%
General and administrative	\$45,130	\$40,369	-11%
Total operating expense	\$336,475	\$331,033	-2%
Income/(Loss) from operations	\$113,109	\$116,964	3%
Other income (expense), net	\$0	\$6,605	NA
Net income before taxes	\$107,279	\$107,064	0%
Corporate tax expense	\$24,138	\$24,089	0%
Proforma net income	\$83,141	\$82,975	0%
Proforma EPS	0.86	0.86	0%
GAAP Net Income	(\$55,369)	(\$47,243)	NA
GAAP EPS	\$ (0.59)	\$ (0.50)	NA
Diluted shares outstanding (proforma)	94,311	94,018	0%
Growth Analysis Y-Y			
Services	9.2%	9.1%	-0.8%
Product	1.6%	3.3%	107.5%
Total revenues	8.9%	8.9%	0.0%
Income/(Loss) from operations	54.1%	59.3%	9.7%
Proforma net income	43.2%	42.9%	-1%
Proforma EPS	43.2%	43.9%	2%
Margin Analysis			
Gross margin	78.7%	78.4%	0%
Research and development	11.0%	10.5%	-5%
Sales and marketing	40.0%	40.4%	1%
General and administrative	7.9%	7.1%	-11%
Operating margin	19.8%	20.5%	3%
Pre-tax margin	18.8%	18.7%	0%
Tax rate - pro forma	22.5%	22.5%	0%
Net Margin	14.6%	14.5%	0%
Balance Sheet & Cash Flow Analysis			
Total cash and equiv.	\$446,938	\$222,195	-50%
Cash Flow from Operations	85,515	113,844	33%
Free Cash Flow	\$64,586	\$90,502	40%

Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH



Exhibit 2: We are lowering our FY24 revenue estimates

RNG estimate revisions

	1Q24E				2024E				2025E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Services	\$555,057	9.2%	\$553,024	8.8%	\$2,313,695	10.1%	\$2,283,481	8.7%	\$2,592,471	12.0%	\$2,469,129	8.1%
Product	\$25,649	1.0%	\$25,649	1.0%	\$103,388	1.7%	\$103,806	1.7%	\$107,785	4.3%	\$105,611	1.7%
	\$580,70		\$578,67		\$2,417,08		\$2,387,28		\$2,700,25		\$2,574,74	
Total revenues	6	8.8%	3	8.4%	3	9.7%	7	8.4%	6	11.7%	0	7.9%
Proforma net income	\$85,274	16.4%	\$76,161	4.0%	\$392,124	25.5%	\$348,835	11.7%	\$486,174	24.0%	\$423,231	21.3%
Pro forma EPS	0.87	15.5%	0.79	4.9%	3.95	22.5%	3.59	11.0%	4.71	19.2%	4.28	19.2%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Exhibit 3: We expect RNG to generate \$2,387mn in 2024 revenues

RNG income statement

\$ Thousands, except EPS	YEAR FY21A	YEAR FY22A	YEAR FY23A	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Revenues	1,482,080	1,887,756	2,100,329	553,024	559,859	576,699	593,900	2,283,481	2,469,129	2,680,541
Services	0	6	9	25,649	25,930	27,134	25,093	103,806	105,611	107,189
Product/pro-serv/other	112,674	100,574	102,100							
Total revenues	1,594,754	1,988,330	2,202,429	578,673	585,789	603,833	618,993	2,387,287	2,574,740	2,787,730
Y/Y rev growth	34.7%	24.7%	10.8%	8.4%	8.6%	8.2%	8.4%	8.4%	7.9%	8.3%
Cost of revenues										
Service	260,562	331,748	380,334	99,544	100,775	103,806	106,902	411,027	444,443	482,497
Product/other	93,679	102,003	97,829	22,315	22,559	23,607	21,831	90,311	91,881	93,255
Total cost of revenues	354,241	433,751	478,163	121,859	123,333	127,412	128,733	501,337	536,325	575,752
Gross profit (total)	1,240,513	1,554,579	1,724,266	456,814	462,455	476,420	490,260	1,885,949	2,038,415	2,211,978
Operating expenses										
Research and development	221,885	246,987	229,858	62,497	62,094	57,209	61,854	243,654	260,203	278,888
Sales and marketing	705,021	888,028	901,358	230,312	231,794	239,908	240,711	942,724	978,106	1,017,179
General and administrative	151,491	173,677	172,810	50,664	46,863	45,236	46,424	189,188	193,728	198,552
Total operating expense	1,078,397	1,308,692	1,304,026	343,473	340,750	342,353	348,989	1,375,566	1,432,037	1,494,618
Income/(Loss) from operations	162,116	245,887	420,240	113,341	121,705	134,067	141,270	510,384	606,378	717,360
EBITDA	220,984	317,926	503,107	135,121	143,696	156,653	164,398	599,868	702,795	821,731
Interest expense	(64,382)	(4,807)	(35,997)	(15,068)	(15,068)	(15,068)	(15,068)	(60,274)	(60,274)	(60,274)
Other income (expense), net	63,869	5,922	18,719	-	-	-	-	-	-	-
Net income before taxes	161,603	247,002	402,962	98,273	106,636	118,999	126,202	450,110	546,105	657,086
Corporate tax expense	36,361	55,586	90,666	22,111	23,993	26,775	28,395	101,275	122,874	147,844
Pro forma net income	125,242	191,416	312,296	76,161	82,643	92,224	97,806	348,835	423,231	509,242
Pro forma EPS	1.34	1.99	3.23	0.79	0.85	0.94	0.99	3.59	4.28	5.11
GAAP Net Income	(376,250)	(879,166)	(165,240)	(44,882)	(29,422)	(17,998)	(11,551)	(103,854)	(6,306)	84,586
GAAP EPS	(4.02)	(9.23)	(1.73)	(0.48)	(0.31)	(0.19)	(0.12)	(1.09)	(0.07)	0.87
Basic shares outstanding	93,500	95,236	95,663	94,018	94,818	95,618	96,418	95,218	96,918	97,718
Weighted average shares diluted	93,500	96,219	96,626	96,007	96,807	97,607	98,407	97,207	98,907	99,707

Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH



Exhibit 4: RingCentral ended 2023 with \$222mn in cash

RNG balance sheet

\$ Thousands	YEAR FY22A	YEAR FY23A	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Current Assets									
Total cash and equiv.	269,984	222,195	286,845	377,595	453,735	589,151	589,151	1,110,854	1,723,812
Accounts receivable, net	311,318	364,438	381,924	398,336	422,683	464,244	464,244	569,693	692,056
Inventory	-	-	-	-	-	-	-	-	-
Deferred sales commission costs	158,865	184,620	231,469	263,605	332,108	340,446	340,446	435,647	473,512
Prepaid expenses and other current assets	55,849	77,396	88,930	90,705	92,951	92,530	92,530	101,805	145,696
Total Current Assets	796,016	848,649	989,168	1,130,241	1,301,477	1,486,371	1,486,371	2,217,999	3,035,075
PP&E, net	185,400	184,390	181,315	177,023	172,640	168,519	168,519	155,957	148,906
Operating lease right of use asset	35,433	42,989	42,989	42,989	42,989	42,989	42,989	42,989	42,989
Long-term investments	4,559	-	-	-	-	-	-	-	-
Deferred sales commission costs, noncurrent	438,579	395,724	395,724	395,724	395,724	395,724	395,724	395,724	395,724
Acquired intangibles, net	528,051	393,767	359,977	326,188	292,398	258,608	258,608	124,319	124,319
Other assets	85,624	79,394	79,394	79,394	79,394	79,394	79,394	79,394	79,394
Total Assets	2,073,662	1,944,913	2,048,567	2,151,558	2,284,621	2,431,605	2,431,605	3,016,382	3,826,407
Current Liabilities									
Accounts Payable	62,721	53,295	46,294	46,863	48,307	49,519	49,519	53,618	58,278
Accrued liabilities	380,113	325,632	329,844	322,184	332,108	352,826	352,826	382,029	364,240
Capital Lease ST	-	-	-	-	-	-	-	-	-
Short-Term Debt	-	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Deferred Revenue	209,725	233,619	248,024	253,154	258,194	260,501	260,501	286,314	355,029
Total Current liabilities	652,559	632,546	644,162	642,201	658,609	682,846	682,846	741,961	797,548
Long-Term Debt	1,638,411	1,525,482	1,525,482	1,525,482	1,525,482	1,525,482	1,525,482	1,525,482	1,525,482
Other Long Term Liability	45,848	61,827	61,827	61,827	61,827	61,827	61,827	61,827	61,827
Lease LT	20,182	28,178	28,178	28,178	28,178	28,178	28,178	28,178	28,178
Total Liabilities	2,357,000	2,248,033	2,259,649	2,257,688	2,274,096	2,298,333	2,298,333	2,357,448	2,413,035
Stockholders' Equity									
Cumulative Trans Adjustment									
Series A, B, C, D and E convertible preferred stock	199,449	199,449	199,449	199,449	199,449	199,449	199,449	199,449	199,449
Exchangeable share obligation (warrants)									
Common stock and Additional paid-in-capital	1,051,109	1,196,567	1,296,099	1,392,754	1,489,367	1,585,311	1,585,311	1,965,265	2,348,707
Accumulated Deficit	(1,533,896)	(1,699,136)	(1,706,630)	(1,698,333)	(1,678,291)	(1,651,488)	(1,651,488)	(1,505,781)	(1,134,784)
Total liabilities and shareholder equity	2,073,662	1,944,913	2,048,567	2,151,558	2,284,621	2,431,605	2,431,605	3,016,382	3,826,407

Source: BofA Global Research, company filings

Exhibit 5: We expect RingCentral to generate \$447mn in CFO during 2024

RNG cash flow statement

\$ Thousands, except EPS	YEAR FY21A	YEAR FY22A	YEAR FY23A	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Cash Flows from Operations:										
Net Income	(376,250)	(879,166)	(165,240)	(44,882)	(29,422)	(17,998)	(11,551)	(103,854)	(6,306)	84,586
Depreciation and Amortization	125,292	246,561	233,940	56,792	57,446	58,141	58,885	231,264	233,176	234,803
Prior Period Adj to Retained Earnings	-	-	-	-	-	-	-	-	-	-
Gain/(Loss) on non-cash items	33,128	203,483	(53,400)	-	-	-	-	-	-	-
Amortization of deferred sales commission costs	74,165	115,184	138,134	34,534	35,114	35,655	35,705	141,008	141,669	141,795
Amortization of debt discount and issuance costs	64,063	4,468	4,566	1,142	1,147	1,114	1,126	4,529	4,516	4,513
Reduction of operating lease right of use	-	19,907	20,469	-	-	-	-	-	-	-
Provision for bad debt	-	9,367	6,852	1,713	1,458	1,271	1,524	5,966	5,828	5,814
Stock based compensation	357,965	386,009	426,679	99,532	96,655	96,613	95,944	388,744	379,954	383,442
Other	-	309,678	2,992	-	-	-	-	-	-	-
	(126,212)	(224,186)	(215,330)	(64,253)	(52,284)	(78,688)	(25,241)	(220,466)	(150,810)	(148,532)
Changes in Working Capital Accounts										
Changes in Accounts Receivable	(64,940)	(87,843)	(57,819)	(17,486)	(16,412)	(24,347)	(41,562)	(99,806)	(105,448)	(122,363)
	(178,358)	(235,869)	(156,734)	-	-	-	-	(155,826)	-	-
Changes in deferred sales commission costs	-	-	-	(46,849)	(32,136)	(68,503)	(8,338)	-	(95,202)	(37,864)
Changes in Inventory	-	-	-	-	-	-	-	-	-	-
Changes in Prepaids	9,111	3,812	14,492	(11,534)	(1,775)	(2,246)	421	(15,134)	(9,275)	(43,891)
Changes in Other Assets	-	-	-	-	-	-	-	-	-	-
Changes in Accounts Payable	17,852	(6,166)	(21,213)	(7,001)	569	1,444	1,213	(3,776)	4,099	4,660
Changes in Deferred Revenue	34,227	33,275	17,681	14,405	5,130	5,040	2,306	26,882	25,813	68,715
Changes in Liabilities	55,896	68,605	(11,737)	4,212	(7,660)	9,924	20,718	27,194	29,204	(17,789)
Total Cash Flow from Operating Activities	152,151	191,305	399,662	84,576	110,115	96,108	156,391	447,190	608,028	706,421
EBITDA	244,545	317,926	503,107	135,121	143,696	156,653	164,398	599,868	702,795	821,731
Investing Activities:										
(Purchase)/ sale of Fixed Assets	(28,959)	(32,713)	(23,513)	(6,202)	(5,455)	(5,787)	(6,207)	(23,651)	(25,291)	(27,372)
Capitalized software	(43,692)	(53,730)	(52,227)	(13,724)	(13,910)	(14,181)	(14,768)	(56,582)	(61,034)	(66,091)
Purchases of available-for-sale securities /LT intangibles	(11,880)	(3,990)	-	-	-	-	-	-	-	-
	(312,298)	-	-	-	-	-	-	-	-	-
Intangible assets/M&A/proceeds from mkt sec	-	3,223	(14,709)	-	-	-	-	-	-	-
	(396,829)	(87,210)	(90,449)	(19,927)	(19,365)	(19,968)	(20,975)	(80,234)	(86,325)	(93,463)
Total Cash Flow from Investing Activities	(396,829)	(87,210)	(90,449)	(19,927)	(19,365)	(19,968)	(20,975)	(80,234)	(86,325)	(93,463)
Financing Activities:										
Increase/(Decrease) in loan principal	(138,343)	-	(35,211)	-	-	-	-	-	-	-
Proceeds for issuance of stock in connection with stock plan	-	15,855	16,687	-	-	-	-	-	-	-
Payments for taxes related to net share settlement of equity awards	-	(7,598)	(9,062)	-	-	-	-	-	-	-
Payment for contingent consideration for business acquisition	-	-	(3,567)	-	-	-	-	-	-	-
	-	-	(311,088)	-	-	-	-	-	-	-
Issuance/(Buy Back) of stock	11,292	(99,793)	-	-	-	-	-	-	-	-
Other/fin oblig/contingent consideration	-	(6,682)	(15,777)	-	-	-	-	-	-	-
	(127,051)	(98,218)	(358,018)	-	-	-	-	-	-	-
Changes in Financing Activities	(127,051)	(98,218)	(358,018)	-	-	-	-	-	-	-
Currency Adjustments	(962)	(3,055)	1,016	-	-	-	-	-	-	-
	(372,691)	-	-	-	-	-	-	-	-	-
Change in Cash and Cash Equivalents	(372,691)	2,822	(47,789)	64,650	90,750	76,140	135,416	366,956	521,703	612,958
Cash Beginning Balance	639,853	267,162	269,984	222,195	286,845	377,595	453,735	222,195	589,151	1,110,854
Cash Ending Balance	267,162	269,984	222,195	286,845	377,595	453,735	589,151	589,151	1,110,854	1,723,812

Source: BofA Global Research, company filings



Price objective basis & risk

RingCentral (RNG)

Our \$45 PO is based on 2.2x CY25e EV/revs. Our target multiple is relatively in line with the communication peer group at 2.3x. We believe that an in line multiple is supported by RNG's margin upside, positive FCF, and market share gains, offset by slowing growth.

Downside risks to our PO are 1) benefits of the Avaya and other partnerships taking longer than expected, 2) changes in strategic direction, 3) failure to scale upmarket, 4) higher-than-anticipated customer support and acquisition costs as the company scales up market, 5) macro economy negatively affecting the company's SMB-centric customer base, and 6) competition including Microsoft and Zoom Phone.

Analyst Certification

I, Michael J. Funk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Dropbox	DBX	DBX US	Michael J. Funk
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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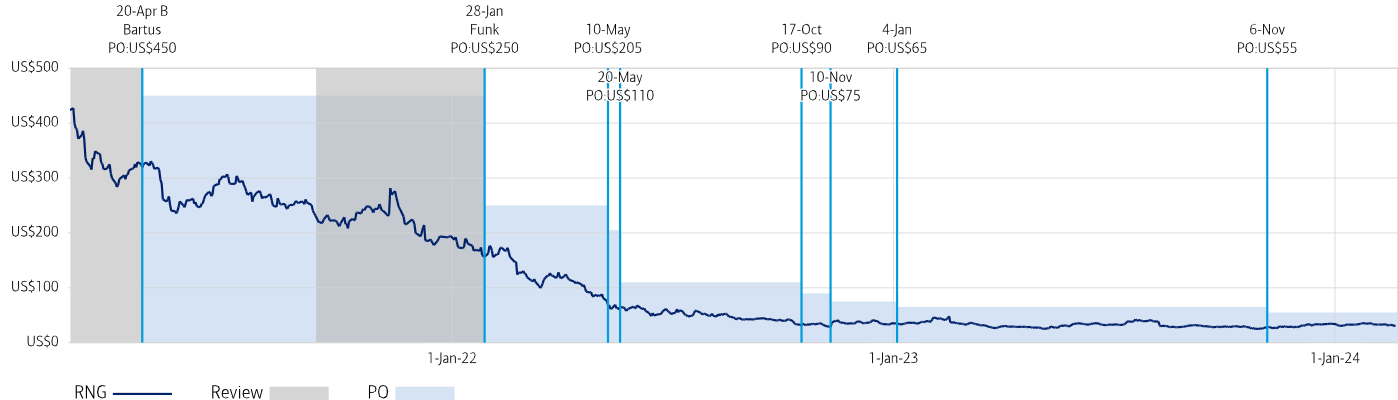
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Disclosures

Important Disclosures

RingCentral (RNG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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