



BREAKAWAY Q&A

Don Joos, ShoreTel

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By Orlaith Farrell for Bloomberg

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BACKGROUND

ShoreTel (NASDAQ: SHOR) is a provider of cloud, premises-based and hybrid business telephony and unified communications (UC) solutions, helping companies to integrate their voice, data and messaging communications needs. The company was founded in 1996 and had its initial public offering in 2007. Don Joos became CEO in 2013 after working as the company's SVP of business operations.

DON JOOS, CEO AND PRESIDENT, SHORETEL, INC.



Don Joos was appointed CEO in August 2013. He has a proven track record of building and transforming businesses through innovative growth plays, and brings a wealth of strategy, operations and execution experience to ShoreTel.

Joos joined ShoreTel in April 2011 as vice president of global services, and later served as senior vice president of business operations overseeing company operations through the direct management of engineering/R&D, product management, global support and services, IT, quality and operations. Prior to joining ShoreTel, Joos spent nine years as a company vice president at Avaya. Joos applied his business entrepreneurial capabilities helping to build an e-commerce start-up and

has held service and operational roles at Williams Communication Solutions, Nortel Communication Solutions and Marshalls Inc.

He holds a bachelor's degree in sports management from Springfield College in Massachusetts.

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Bloomberg: Let's start with a look back at the last year for the company. It has been a big year for you with the company shifting its efforts to cloud. What have been some of the strategic successes for ShoreTel during fiscal 2016?

Don Joos: It's been a great year; I think it's been a great three years for the company as we've continued through our strategic transformation. This past year, we hit the final phase of our strategic transformation because we had it broken down into three phases: foundation, migration, and acceleration. As we entered our fiscal 2016, we were entering the acceleration phase and that was really captured in the launch of the ShoreTel Connect product, our innovative product that was based on a single code base that can be delivered in the cloud or onsite, as well as in a hybrid scenario of mix-and-match, giving customers flexibility and choice. It was a big year also because we expanded our hosted offering outside the U.S. into the UK, Australia, and Canada. We did two acquisitions during that time frame. We did an acquisition in Australia to help accelerate our geographic expansion there. We also did an acquisition in January of a company called Corvisa that brought us some additional technical capabilities; from a technical tuck-in perspective, it brought some us technical resources that were just a great addition to the company, and it also brought us, technology-wise, a communication platform-as-a-service capability. So, while all that was going on, we continued to grow our channels' adoption of our hosted solution, so the breadth of contribution from our channel partners and our cloud bookings continued to grow. At the same time, we continued to have solid financials. It's kind of interesting, as a company making a transition, from a one-time product to a recurring revenue model, we've been able grow our cash balance and continue to improve our financials during this time frame. I don't think many companies get to re-architect the product, make a lot of changes to their go-to-market, and simultaneously improve their financials.

Bloomberg: How important was the ShoreTel Connect product to this year's successes?

Joos: It was a huge part of our success. It's very much a unique differentiator in the market because it does give that customer that flexibility and choice. They can stay under the ShoreTel umbrella and choose a particular delivery model, whether they want to go cloud, onsite, or mix-and-match called the HYBRID, where they may have a corporate headquarters with remote offices on a cloud-base, but it's all one code base. So, as they evolve, and they want to move from one delivery model to another, they don't have to do a rip-and-replace. There's no one else in the marketplace that's offering that right now, so that is bringing a change to our architecture—it's key from that perspective. Also, from a collaboration perspective, we've brought out a new client with a whole new user interface that has been well received from a market perspective, too. It's not just the deployment model but also the applications and the tools that are coming with it. That has been a key part that our channel has been anxious and excited for.

Bloomberg: Right now, what do you estimate is the breakdown of the UC (unified communications) market overall? What percentage estimate remains on premise and what percentage is hosted at the moment?

Joos: Right now, in round numbers, the hosted market is only about 10-15 percent, and the rest of the market still is premise, so it's very early stage from a maturity perspective and still very much unpenetrated.

Bloomberg: It's still maturing and the market is still quite fragmented. What's your hope for the position of ShoreTel say in 3-5 years' time?

Joos: It's a big market, it's a \$7 billion market, so in the near term I would say that multiple people can be successful. I don't think it's a winner take all. As I look out over the next 3-5 years, I see ShoreTel in the top slots of that 1,2,3. That's what we're driving towards right now, and part of that is we believe we have the innovative solution to get new customers, but we also have a large install base: 4 million seats of premise customers who are eventually going to migrate, and they're a captive audience because we already know who they are, and they're

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already with ShoreTel. That's a unique advantage we have over our cloud competitors who don't have an installed base. It's more cost effective for us to go after them.

Bloomberg: Your global expansion is gaining momentum. Australia, the UK, Canada—what does that effort look like over the next year?

Joos: Over the next year, in the UK, Canada and Australia, we will continue to ramp up our hosted growth. That growth will come as more and more of our partner community—our channel—continues to adopt the offering and it gets traction in the marketplace. The UK is a kind of a starting point into the European market, and then we will want to expand into the different countries from a Western Europe perspective.



Bloomberg: One of the challenges facing ShoreTel is visibility outside of the telecommunications space in comparison to some of your competitors with more brand recognition. What steps are you taking at ShoreTel to conquer that?

Joos: I think ShoreTel actually has a very good brand because of word-of-mouth. We don't do a lot from a big marketing perspective. Because we focus on more of the companies—I would put them into more of that mid-enterprise customer—so we're not trying to be all things to all people. For the market segment that we focus on, actually we have become a very well-known entity. People know us as being a brilliantly simple solution—from a user interface, implementation, and an overall architecture perspective—so our consideration rate with companies has continued to increase on a year-over-year basis. That's just again our ongoing traction in the marketplace.

Bloomberg: You're also now facing competition in the marketplace from internet portal providers, particularly the likes of Microsoft and Google. What growth in that market space are you watching with interest?

Joos: Microsoft has definitely made a lot of noise from that perspective. Obviously, they are all-in from a cloud perspective—whether that's from a data center perspective, whether that's from a 365, or a Skype for business—so they are aggressively going after that market. There's a lot of other portal players. I feel like they focus very much on

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the low-end—from the single user to a couple of users, much smaller companies—and that's not an area that we put as much attention on, so I worry a little bit less from that perspective. The history of the company has built a lot of capabilities from what I would call an enterprise-grade capability. The features and functionality of the company with 1000-5000 employees, it's just table stakes that you need to have that someone with two or three or five employees wouldn't be looking for. So, that's why this comes down to a market segmentation focus for us.

Bloomberg: The market is definitely maturing. Do you see a point in the near future when it will start to consolidate and will become less fragmented?

Joos: I think at a broader level, not just within our space, if you look across technology as a whole, you're seeing a lot of market consolidation that's happening right now, and that's at a very broad level. I think that trend is going to continue right now, partly just because of the fragmentation, and partly it's just larger companies who are looking for ways—organic or inorganic—to drive growth. I do think that is a component of what is driving this broader market consolidation. It just gets to a point of scale. Once you get out of the early stages and get into that mid-stage where there is a lot more rapid growth, it becomes a scaling game, and that also starts to weed out some of the smaller players because they just can't scale with some of the larger players.

Bloomberg: Can we talk about ShoreTel Summit, the platform for developers to build voice and SMS apps, etc. Who do you see as your customer for that service? Who are you going after in that segment?

Joos: There are two primary customers who are going to take advantage of the ShoreTel Summit, the communication platform-as-a-service. [The first] is part of a growing trend in the industry right now—there's a lot of mid-to-large enterprise companies who are looking for a platform and an environment where they can do some very quick building of a solution that isn't necessarily tied to their core UC product. That's why this is different than some of our competitors right now, who are simply talking about opening up API's into their UCASS solution. This is a technology platform from development. As an example, we had a customer who built an IVR. They did not have a ShoreTel contact center product, but they built their IVR on the Summit platform. It allowed them to reduce their inbound call volume that agents had to handle by about 50 percent because they were able to introduce so many new self-service capabilities, and they were able to build that right on the platform. Another customer is building a customer survey application on the platform, even though they have other products that are not ShoreTel. So, it works great if you're ShoreTel, but you're not limited to ShoreTel, because this is an open platform. Enterprise customers are looking to mix and match. They want to buy certain applications from the manufacturer, but they also want that flexibility and choice to be able to customize and build things that are purpose built for their organization because they all have unique business processes, unique work flows and, typically, their secret sauce is something proprietary that they do. This enables them to do that while still leveraging a lot of the core communication capabilities that we provide. The other customer is developers, who got a great idea, and they want to build an application—they just need an environment to build it in. Where ShoreTel is unique is that we have a distribution channel in to the market, and we have a large install base. So, we become attractive to the developer because we have the technical answer, but we also have a route to market to get their idea to people who can consume it. Those are our two customers.

Bloomberg: What is exciting you in the short term for ShoreTel. When you look at 6, 12, 18 months out, what are you looking forward to most?

Joos: There's probably a [few] things. One, to continue to see the expansion of our communication platform—as-a-service is definitely going to be exciting, because I do see that as the next industry evolution that's going to occur. We've been through a series of them, and I believe this is the next one that's happening and so us, having the technology in place with customers on it is a great opportunity. That's really exciting for me. Two, is just continuing our geographic expansion of our hosted offering because that's all new opportunity for us. It also allows us to work better with larger customers from a multinational perspective. From an excitement perspective, it is continuing to see the evolution of our technology roadmap as we continue to bring new products out into the marketplace, now that

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we have Connect launched. So for me, that's another great and exciting component. The last is just seeing our install base convert as we start to migrate our premise customers over to a hybrid or a pure cloud solution, and the financial implications that could have for us is a twenty-time multiplier. We saw for every dollar we lose in support, we gain \$20 in hosted revenue based on our Q4 results. That's a very lucrative program, and we're excited about what that can do for us.

"It's always easier to assess your strategic opportunities from a position of strength."

Bloomberg: On the flip-side, what would be some of the greatest challenges you're facing?

Joos: We have a wealth of ideas and opportunities in front of us, so it's really balancing the operational and financial dynamics. The operational is just making sure that we continue to live up to the expectations that customers have and continue to be a brilliantly simple company, balancing that with speed and time to market. It's a competitive market—people are moving fast, so we have to balance that pace. Not losing our core identity as a company, yet still aggressively moving in the market. That's one challenge, and then we balance that against the financials. We're a public company, and we have proven that we can produce good cash flow and produce a good non-GAAP profit while we make this transition, so we have to continue to balance that and continue to do this at the right pace, so that we're grabbing our opportunity—our 'unfair' share – in the marketplace, but also still delivering the financial results people are expecting.

Bloomberg: You're setting up a strategic advisory committee of independent directors and I'm just curious about the timing of that on the back of what was essentially a great year.

Joos: That's exactly why we're doing it. It's always easier to assess your strategic opportunities from a position of strength versus a position of weakness, and we have momentum right now, and we have strength. It's really just looking at it from the broader execution of our strategic plan. We're in a position of strength, so now is the time to assess things, but I really just see it as another work stream in the execution of our strategic plan: are there alternate paths that we should be considering that allow us to continue to scale and grow our hosted business, while creating maybe a better return for our shareholders? And so, we'll assess a range of paths, which could include a range of things, including maybe it's nothing different than what we're doing today. But the timing of it is because we are in a position of strength, that's why we want to look at it now.

Bloomberg: It's a competitive market for talent. As a CEO, you know that great hires are key for continued success. How do you make sure that you're hiring and retaining the right people?

Joos: I think with the attractive proposition we have—being a public company, so we're out there more in the marketplace—with our results and our unique proposition, it affords us the ability to have people attracted to us. They want to be a part a company that's on the move, a company who is trying to create change. I think now with our communication platform launched, that opens us up to a potentially different market of people interested, but it also really starts to attract the talent of people who are very, very good from the customization from an API perspective or application perspective, so it starts to introduce new talent to us. We've been very fortunate that we have been very, very good in our ability to attract talent. Some of that has to come down to my own energy and excitement when I'm talking with people about where we're going and drawing them into the art of the possible and the vision of this transformation that we're about to create. That we're uniquely positioned, in that most companies can't do this or don't get the opportunity to do it.

Most people told me when I stepped into the role that either you're going to transform the business or you're going to transform the financials; you can't do both. I chose not to listen, and we did both, and we did both successfully because I believed it was doable. We were the right size company at the right time with the right opportunity, and we took advantage of it. That's what most people get excited about. People get excited if they can be a part of a company at the right time, with the right market opportunity, with the right solutions, and they're given what I call the

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“velvet ropes”—they’re given parameters that have some flexibility to it to go drive this change. People love change when they’re in control of it. People don’t like change when it’s dictated to them, and that’s what we’re trying to create here—a culture that is really driving and in control of our change.

Bloomberg: What people were giving you that advice, that you couldn’t change the business and the financials? Was that coming from other CEOs or people within the company?

Joos: It was a lot of the external people. Definitely there was industry—a lot from Wall Street told me that, and a lot of industry analysts. Just from a peer group, a lot of CEOs told me that, too. Definitely Wall Street told me that you have to pick one or the other. I said it’s kind of ironic that we were a communications company and I chose not to listen.

“I felt that doing nothing was a bigger risk to the business. Standing still, we weren’t going to survive.”

Bloomberg: At any point during that, were you thinking, “I should be listening to the Wall Street types?”

Joos: No, I didn’t. Again, that’s because I had an inner-knowledge. I had been with the company two years before I stepped in, so it wasn’t like I needed to assess the situation. I had a pretty good read on it. In my prior role, I had pretty broad responsibility for the business. A lot of people [said to] me that it had to be pretty scary. It really wasn’t scary for me because I felt that actually standing still and doing nothing was a bigger risk to the business. As much as outside people were saying, “Wow, you took a huge risk,” I looked it as taking the least risky path because I was moving to where the future was. Standing still was the biggest risk because I knew where the market trend was going and, standing still, we weren’t going to survive. So, for me it wasn’t that hard of a decision because this was all about moving forward and aligning our organization and our business to the needs of where the customer was going. For me, it wasn’t that risky; from that perspective, it seemed pretty logical.

Bloomberg: After you became CEO and enacted all of these strategic changes, was there was a definitive moment or a financial earnings result that you thought: what these people told me was a risk, is starting to pay off.

Joos: In April 2015, we had our worldwide partner conference. We had our sales and our worldwide partners together, 1500 people together. It was so interesting to watch the energy build over the course of the three days. You go to any conference and the last day, usually you have the worst attendance because people are starting to drop-off, and I remember they had to add row after row after row of chairs because so many people had come. For me, that kind of a tipping point, and it was right on the cusp of later that summer when we launched Connect and had the event at the Nasdaq, ringing the bell and so forth, but it was at that moment when I watched the energy of our channel and our own employees build on a day-by-day basis—that’s when I knew we were on to something special. That’s when it really started to crystallize for me.

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