LIVEPERSON INC
Form 10-K
February 25, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission File Number 000-30141
LIVEPERSON, INC.
(Exact Name of Registrant As Specified in Its Charter)

Delaware	13-3861628
(State of Incorporation)	(I.R.S. Employer Identification Number)

475 Tenth Avenue, 5th Floor
New York, New York 10018
(Address of Principal Executive Offices) (Zip Code)
(212) 609-4200
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company o	Emerging growth company o
ý	o	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes o No ý

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $1,207,203,816 (computed by reference to the last reported sale price on The Nasdaq Global Select Market on that date). The registrant does not have any non-voting common stock outstanding.

On February 19, 2019, 63,936,625 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for the 2019 Annual Meeting of Stockholders, which we plan to file subsequent to the date hereof, are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

LIVEPERSON, INC.
2018 ANNUAL REPORT ON FORM 10-K
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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

STATEMENTS IN THIS REPORT ABOUT LIVEPERSON, INC. THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS BASED ON OUR CURRENT EXPECTATIONS, ASSUMPTIONS, ESTIMATES AND PROJECTIONS ABOUT LIVEPERSON AND OUR INDUSTRY. THESE FORWARD-LOOKING STATEMENTS ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL FUTURE EVENTS OR RESULTS TO DIFFER MATERIALLY FROM SUCH STATEMENTS. THESE FORWARD-LOOKING STATEMENTS ARE BASED ON OUR CURRENT EXPECTATIONS, WHICH MAY NOT PROVE TO BE ACCURATE. MANY OF THESE STATEMENTS ARE FOUND IN THE "BUSINESS" AND "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" SECTIONS OF THIS FORM 10-K. WHEN USED IN THIS FORM 10-K, THE WORDS "ESTIMATES," "EXPECTS," "ANTICIPATES," "PROJECTS," "PLANS," "INTENDS," "BELIEVES" AND VARIATIONS SUCH WORDS OR SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL FORWARD-LOOKING STATEMENTS, INCLUDING, WITHOUT LIMITATION, OUR EXAMINATION OF HISTORICAL OPERATING TRENDS, ARE BASED UPON OUR CURRENT EXPECTATIONS AND VARIOUS ASSUMPTIONS. OUR EXPECTATIONS, BELIEFS AND PROJECTIONS ARE EXPRESSED IN GOOD FAITH, AND WE BELIEVE THERE IS A REASONABLE BASIS FOR THEM, BUT WE CANNOT ASSURE YOU THAT OUR EXPECTATIONS, BELIEFS AND PROJECTIONS WILL BE REALIZED. ANY SUCH FORWARD-LOOKING STATEMENTS ARE MADE PURSUANT TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. IT IS ROUTINE FOR OUR INTERNAL PROJECTIONS AND EXPECTATIONS TO CHANGE AS THE YEAR OR EACH QUARTER IN THE YEAR PROGRESS, AND THEREFORE IT SHOULD BE CLEARLY UNDERSTOOD THAT THE INTERNAL PROJECTIONS AND BELIEFS UPON WHICH WE BASE OUR EXPECTATIONS MAY CHANGE PRIOR TO THE END OF EACH QUARTER OR THE YEAR. ALTHOUGH THESE EXPECTATIONS MAY CHANGE, WE ARE UNDER NO OBLIGATION TO INFORM YOU IF THEY DO. ACTUAL EVENTS OR RESULTS MAY DIFFER MATERIALLY FROM THOSE CONTAINED IN THE PROJECTIONS OR FORWARD-LOOKING STATEMENTS. IMPORTANT FACTORS THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE FORWARD-LOOKING STATEMENTS WE MAKE IN THIS FORM 10-K ARE SET FORTH IN THIS FORM 10-K, INCLUDING THE FACTORS DESCRIBED IN THE SECTION ENTITLED "ITEM 1A — RISK FACTORS." IF ANY OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR IF ANY OF OUR UNDERLYING ASSUMPTIONS ARE INCORRECT, OUR ACTUAL RESULTS MAY DIFFER SIGNIFICANTLY FROM THE RESULTS THAT WE EXPRESS IN OR IMPLY BY ANY OF OUR FORWARD-LOOKING STATEMENTS. WE DO NOT UNDERTAKE ANY OBLIGATION TO REVISE THESE FORWARD-LOOKING STATEMENTS TO REFLECT FUTURE EVENTS OR CIRCUMSTANCES.

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PART I
Item 1. Business
Overview

LivePerson, Inc. ("LivePerson", the "Company", "we" or "our") makes life easier by transforming how people communicate with brands. During the past decade, the consumer has made the mobile device the center of their digital lives, and they have made mobile messaging the center of communication with friends, family and peers. Our technology enables consumers to connect with businesses through these same preferred conversational interfaces, including Facebook Messenger, SMS, WhatsApp, Apple Business Chat, Google Rich Business Messenger and Alexa. These messaging conversations harness human agents, bots and Artificial Intelligence (AI) to power convenient, personalized and content-rich journeys across the entire consumer lifecycle, from discovery and research, to sales, service and support, and even marketing and brick and mortar engagements. For example, consumers can look up product info like ratings, images and pricing, search for stores, see products in the store, schedule appointments, apply for credit, approve repairs, make purchases or payments - all without ever leaving the messaging channel. We call these AI and human-assisted conversational experiences over messaging Conversational Commerce.

LiveEngage, our enterprise-class, cloud-based platform, was designed for Conversational Commerce, enabling businesses to securely deploy messaging, coupled with bots and AI, at scale for brands with tens of millions of customers and many thousands of customer care agents. LiveEngage powers conversations across each of a brand's primary digital channels, including mobile apps, mobile and desktop web browsers, short message service (SMS), social media and third-party consumer messaging platforms. Brands can also use LiveEngage to message consumers when they dial a 1-800 number instead of having them navigate interactive voice response systems (IVRs) and wait on hold.

Our robust, cloud-based suite of rich mobile messaging and real-time chat offerings features intelligent routing and capacity mapping, queue prioritization, customer sentiment, real-time analytics and reporting, content delivery, Payment Card Industry (PCI) compliance, cobrowsing and a sophisticated proactive targeting engine. With LiveEngage, agents can manage all conversations with consumers through a single console interface, regardless of which disparate messaging endpoints the consumers originate from; i.e., WhatsApp, Line, Apple Business Chat, IVR, or Google Home. An extensible application programming interface (API) stack facilitates a lower cost of ownership by facilitating robust integration into back-end systems, as well as enabling developers to build their own programs and services on top of the platform. More than three dozen APIs are available on LiveEngage.

LiveEngage also features Maven, a robust AI engine that was custom designed for Conversational Commerce. Maven, announced in December 2018, puts the power of bot development, training and management into the hands of the contact center and its agents, the teams most familiar with how to structure sales and service conversations to drive successful outcomes. The platform enables what we call "the tango" of humans, AI and bots, whereby human agents act as bot managers, overseeing AI-powered conversations and seamlessly stepping into the flow when a personal touch is needed. Through Maven Assist, agents become ultra-efficient, leveraging the AI engine to serve up relevant content, define next-best actions and take over repetitive transactional work, so that the agent can focus on relationship building. By seamlessly integrating LiveEngage with Maven, as well as third-party bots, the platform provides businesses with a comprehensive view of all AI-based and human-based conversations from a single console.

Complementing LiveEngage are teams of technical, solutions and consulting professionals that have developed deep domain expertise in Conversational Commerce across industries and messaging endpoints. We are a leading authority in Conversational Commerce, publishing a proprietary Conversational Quotient™ index that measures each customer across multiple key indicators to ascertain their level of conversational maturity. Each business is then benchmarked against industry peers to determine their relative progression. We have developed a Transformation Model that is introduced to existing and prospective customers to help guide them on their journeys from legacy and oftentimes inefficient legacy voice, email and chat solutions to modern conversational ones powered by messaging and AI. LivePerson's products, coupled with our domain knowledge, industry expertise and professional services, have been proven to maximize the effectiveness of Conversational Commerce and deliver measurable return on investment. Certain of our customers have achieved the following advantages from LiveEngage:

the ability for each agent to manage as many as 40 messaging conversations at a time, as compared to one at a time
· for a voice agent and two to four at a time for a good chat agent. Adding AI and bots provides even greater scale to
the number of conversations managed;

· labor efficiency gains of at least two times that of voice agents, effectively cutting labor costs by at least 50%;

· improving the overall customer experience, thereby fueling customer satisfaction increases of up to 20 percentage
points, and enhancing retention and loyalty;

· more convenient, personalized and content-rich conversations that increase sales conversion by up to 20%, increase
average order value and reduce abandonment;

· more satisfied contact center agents, thereby reducing agent churn by up to 50%;

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- maintain a valued connection with consumers via mobile devices, either through native applications, websites, text messages, or third-party messaging platforms;
- leverage spending that drives visitor traffic by increasing visitor conversions;
- refine and improve performance by understanding which initiatives deliver the highest rate of return; and
- increase lead generation by providing a single platform that engages consumers through advertisements and listings on branded and third-party websites.

As a "cloud computing" or software-as-a-service (SaaS) provider, LivePerson provides solutions on a hosted basis. This model offers significant benefits over premise-based software, including lower up-front costs, faster implementation, lower total cost of ownership, scalability, cost predictability, and simplified upgrades. Organizations that adopt a fully-hosted, multi-tenant architecture that is maintained by LivePerson eliminate the majority of the time, server infrastructure costs, and IT resources required to implement, maintain, and support traditional on-premise software. More than 18,000 businesses, including Citibank, HSBC, Orange, and The Home Depot use our Conversational Commerce solutions to orchestrate humans and AI, at scale, and create a convenient, deeply personal relationship.

Our consumer services offering is an online marketplace that connects independent service providers (Experts) who provide information and knowledge for a fee via mobile and online messaging with individual consumers (Users). Users seek assistance and advice in various categories including personal counseling and coaching, computers and programming, education and tutoring, spirituality and religion, and other topics.

LivePerson was incorporated in the State of Delaware in November 1995 and the LivePerson service was introduced in November 1998. In April 2000, the company completed an initial public offering and is currently traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange. LivePerson is headquartered in New York City with U.S. offices in Alpharetta (Georgia), Austin (Texas), San Francisco (California) and Seattle (Washington), and international offices in Amsterdam (Netherlands), Berlin (Germany), London (United Kingdom), Mannheim (Germany), Melbourne (Australia), Milan (Italy), Paris (France), Ra'anana (Israel), Reading (United Kingdom), Tel Aviv (Israel), and Tokyo (Japan).

Market Opportunity

LivePerson's LiveEngage platform enables consumers and businesses to use natural language over conversational interfaces such as SMS, Messenger, Apple Business Chat, Google's Rich Business Messenger, and in-home personal assistants like Alexa, in order get answers to questions, make purchases and resolve customer care inquiries. These conversational messaging capabilities target lower costs and increased customer satisfaction, retention and revenue by utilizing human agents, AI and bots to provide convenient, personalized and content-rich communication as alternatives to calling a 1-800 number, navigating a website or downloading an app.

Our view is that once a consumer has established their favorite brands as contacts in their preferred messaging app, they will no longer see a need to call that brand's 1-800 number, visit their website or download their app. Instead, they will simply select the contact, open up the thread with their entire history with the brand, and then renew the conversation. As a result, the billions of dollars previously invested by brands across these legacy channels will be increasingly allocated to Conversational Commerce experiences on LiveEngage.

Historically, brands have predominantly promoted calling the 1-800 number or using email as the primary means of contact with consumers. According to a 2018 IBM report, approximately 270 billion customer service calls are made to contact centers each year. With a median cost per call of approximately $5.60, according to US Contact Center Decision-Makers' Guide, we estimate that businesses spend approximately $1.5 trillion annually to support their 1-800 number call centers. We believe that moving these calls to messaging represents the largest portion of what we estimate is a nearly $200 billion addressable market. We arrive at this target by extrapolating our current average revenue per interaction to the global market of 270 billion annual services calls.

LivePerson is already capitalizing on this Conversational Commerce transformation. We cite the following considerations:

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Consumer preference has already shifted away from calling to messaging in our personal lives. Gartner, a technology research firm, estimates that the proportion of voice-based communication will drop from 41% in 2017 to 12% in 2022. In contrast, WhatsApp and Facebook users combined send more than 65 billion messages a day, and, according to Portio Research, people worldwide were estimated to send an estimated 23 billion text messages a day in 2015. According to Gartner, by 2020, more than 500 million consumers will use voice-enabled conversational AI to purchase on digital commerce platforms, growing from 160 million in 2017. The International Smartphone Mobility Report by mobile data tracking firm Infomate found that Americans spend about 26 minutes a day texting, as compared to six minutes a day on voice calls. A survey by transportation booking app, Hailo, found that making phone calls has dropped to the sixth most popular use of a mobile device, behind sending messages, receiving

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messages, checking email, surfing the Web, and using the alarm clock. The adoption of messaging has not been constrained to younger generations. According to Experian Marketing Services, adults 55 and older send and receive an average of nearly 500 text messages a month.

- Calling a 1-800 number typically leads to a poor customer experience. Roughly 50% of calls to 1-800 numbers go unresolved, according to IBM, and a 2014 Harris Interactive survey found that "81% of all consumers agree that it is frustrating to be tied to a phone or computer to wait for customer service help." Research by enterprise analytics firm Mattersight, reinforces this view, with 74% of consumers feeling that call centers are getting worse or at best staying the same. The risk of poor customer service is material, according to Harris Interactive, which found that 89% of consumers will leave and go to a competitor due to bad customer experiences.

- Conversational Commerce, which harnesses the power of human agents, bots and AI over messaging has been demonstrated to provide a superior alternative to voice calls. LivePerson customers typically see contact center agent efficiency increase by at least two times for messaging on our platform versus voice, while fueling higher customer satisfaction and increased sales conversions. According to a RingCentral survey, "at least 78% of consumers who text wish they could have a text conversation with a business." An Amdocs global consumer survey had a similar finding, with 76% of consumers stating they would rather use a mobile app than call the contact center. According to Forrester Research's Customer Experience Survey, 73% of US online adults say that valuing their time is the most important thing a company can do to provide them with good service.

- We believe the combination of strong alignment to consumer communication preferences, high returns on investment and a growing list of proven referenceable customers has positioned Conversational Commerce at an inflection point. More than 40% of our enterprise customers had adopted messaging by the end of 2018, up from approximately 20% at the end of 2017 and less than 10% at the end of 2016. In addition, more than 50% of messaging conversations had automation attached at the end of 2018, up from approximately 25% at the end of 2017. Mobile accounted for 54% of our interactions in the fourth quarter of 2018, up from 44% in the year-earlier period.

In addition to market share opportunities in the legacy 1-800 number call center, we believe that consumer traffic and digital spending will increasingly shift away from websites and mobile apps to Conversational Commerce engagements on our platform. We think that websites and e-commerce have not lived up to the expectations of businesses and that consumers are likewise frustrated with the navigational experience and the challenges of getting questions answered on websites. In fact, after more than 20 years, e-commerce still only accounts for approximately 11% of total commerce and, in the United States, Amazon.com accounts for approximately half of this share. Even more alarming, is the growing disconnect as consumers go mobile. According to Adobe Analytics, on Cyber Monday in 2018, mobile accounted for approximately 51% of overall website traffic, but accounted for only approximately 31% of total revenue generated.

The low penetration rates of online and mobile e-commerce reflect disappointing website conversion rates, which average less than 5%. Low conversion rates are likely a factor of the trend for websites to be designed for content, as opposed to commerce, so that they can be indexed to show up in web searches. According to Forrester Research, 53% of customers are likely to abandon their online purchases if they can't find quick answers to their questions. This conflict between content and commerce not only impacts revenue, but also drives higher costs, as we estimate that 60%-80% of all calls to 1-800 numbers originate from consumers first visiting a website and then getting confused or not obtaining the answers they seek.

We believe that the LiveEngage platform, which powers Conversational Commerce, once again provides a superior alternative. Certain LivePerson customers have demonstrated increases in website sales of up to 20%, while lowering the cost of engagement relative to voice or email. No longer are consumers navigating through clicks and searches to find answers across multiple static web pages. Instead they use natural language to engage conversationally with a brand. These conversations can be personalized to each brand's unique identity and to each consumer's unique history and preferences. The engagements are content rich, featuring images, reviews, ratings, and videos, and they are

convenient, letting the consumer drive the conversation when it meets their needs, and offering the ability to integrate to credit cards, pay wallets and calendars.

We also believe that LiveEngage will steadily eliminate the need for investment in branded apps. We conclude that consumers will increasingly opt to connect with brands through their preferred messaging channels, such as Apple Business Chat, WhatsApp, SMS, Messenger, or Twitter, rather than clutter their mobile devices, waste storage, and potentially impact performance by downloading a multitude of individual apps.

Another emerging market opportunity for LivePerson is the leveraging of brick and mortar operations as an extension of the contact center. Retailers, telecommunications companies, and financial services companies, among others, all operate brick and mortar storefronts, where thousands of employees often sit idle during off peak hours. LiveEngage enables our customers to set up campaigns where these employees can connect through messaging to customers in their community, with check-ins, follow ups, and special offers, reinforcing relationships at the local level. For example, a telecommunications company targeted consumers

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that were local to its storefronts with a trade-in offer. Additionally, our platform can arm employees in the field with the ability to rapidly obtain answers to questions as they engage with customers in the stores. For example, a consumer may have a specific question about a new appliance in a home improvement store, and the employee can engage through our platform with a specialist bot or human agent to obtained detailed information on that appliance.

Strategy

The key elements of LivePerson's business solutions strategy include:

Build awareness and drive adoption of Conversational Commerce. LivePerson brought our first customer live on messaging in June 2016. Since that time, we have been focused on building awareness for Conversational Commerce and driving adoption. We have educated businesses on the financial and operational transformation that occurs when a contact center shifts to an asynchronous messaging environment, where the consumer controls the pace of the conversation, which can last minutes, hours or days, from a synchronous call or chat center, where conversations occur in real-time and have a distinct start and end.

A key component of our industry awareness marketing strategy has been to hold multiple global customer summits each year that target executives from enterprise customers and prospects, and feature a key theme within Conversational Commerce, such as Apple Business Chat, Google Rich Business Messenger, IVR deflection or AI. LivePerson customers are the centerpoint of these summits, presenting why they chose LivePerson for Conversational Commerce, how they achieved success, and what type of ROI they have realized. Each attendee then receives a blueprint for how they can achieve similar outcomes. We have found this strategy to drive strong results for LivePerson, as we have seen a greater than 40% conversion rate on opportunities that were created or advanced as part of the customer summits. By year end 2018, we had brought more than 200 customers live on messaging and increased adoption within our enterprise customers to more than 40%. In addition, more than 50% of messaging conversations had automation attached. We will continue to focus on building awareness for Conversational Commerce and driving adoption of messaging and AI across our customer base.

Increase volumes on LiveEngage by deploying a broad messaging ecosystem and expanding customer use cases. Our strategy is to drive higher volumes on LiveEngage by going both wide across messaging endpoints and deep across consumer use cases. LivePerson offers a platform usage pricing model, where customers are offered access to our entire suite of messaging technologies across their entire agent pool for a pre-negotiated cost per interaction. We believe that over time this model will drive higher revenue for LivePerson by reducing barriers to adoption of new messaging endpoints and use cases.

In order to go wide across messaging endpoints, it is imperative that LiveEngage integrates to all of the messaging apps that consumers prefer to use for communication. For example, if a consumer is an avid WhatsApp user, and a brand only offers SMS as a messaging option, that consumer may be reluctant to try messaging the brand. Therefore, a key strategy of ours has been to build one of the industry's broadest ecosystems of messaging endpoints. In June 2016, we launched with In-App messaging. In 2017, we introduced Facebook Messenger, SMS, Web messaging and IVR deflection integrations. In 2018, we added Apple Business Chat, Google Rich Business Messenger, Line, WhatsApp, Alexa, Google Home, Google Ad Lingo and Twitter.

Each channel added opens the door to hundreds of millions of new consumers, providing brands a greater opportunity to shift share away from their legacy contact center channels into messaging. LivePerson makes the management of all these disparate channels seamless to the brand. The LiveEngage intelligent routing, queuing and prioritization software orchestrates these conversations at scale, regardless of which messaging endpoint they originated from, so that human and bot agents can engage with all customers through just one console.

In order to go deep across customer use cases, we are focused on extending LiveEngage beyond just taking share of the 270 billion calls made to customer service 1-800 numbers each year, into sales, marketing and brick and mortar conversations. For example, in 2018, a home improvement retailer launched a bot that autonomously sells millions of dollars of grills; a leading global concessions manager launched a service that lets patrons in a sports arena order beverages to their seats through Apple Business Chat; and a telecommunications company used LiveEngage to drive pre-sales for an iPhone series launch.

We believe that this strategy has influenced LivePerson's enterprise and mid-market revenue retention rate, (the trailing-twelve-month change in total revenue from existing customers after upsells, downsells and attrition) which was greater than 110% in 2018. The benefit can also be seen in LivePerson's average revenue per user (ARPU) for our enterprise and mid-market customers, which increased more than 25% in 2018 to approximately $285,000 from approximately $220,000 in 2017. For this same customer set, when examining only the subset that have adopted messaging, the ARPU in 2018 increased to approximately $500,000. When examining customers that have adopted at least three endpoints, the APRU in 2018 increased into the low seven figures. We believe these ARPU trends are a clear indication of how LivePerson's strategy to drive messaging adoption has successfully influenced our revenue growth by taking share from legacy communication channels. We will continue to focus on adding new messaging endpoints and driving higher adoption of each of these channels within our customer base.

Globalize R&D to attract the industry's best AI, machine learning and conversational talent. We believe that AI and machine learning are critical to successfully scaling Conversational Commerce, and that in order to develop the industry's leading

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technology, we need to open offices where the best talent is located. To spearhead that globalization effort, in 2018, LivePerson recruited Alex Spinelli, key architect of the Alexa Operating System at Amazon.com, as our Global CTO. Under Mr. Spinelli's leadership, LivePerson opened an Advanced Technology Center in Seattle, Washington, in 2018, expanded our Mannheim, Germany development center, and added key development talent through the acquisitions of BotCentral in Mountain View, California and Conversable in Austin, Texas. The Company added more than 70 machine learning, AI and Conversational Commerce developers in 2018, recruiting top talent from firms such as Nike, Amazon.com, Microsoft and Target. We expect to continue adding industry leading development talent across our global offices in 2019.

Bring to market best-in-class AI and machine learning technologies designed for Conversational Commerce. We believe that over the past few years many vendors introduced AI and bot offerings that created frustrating experiences for consumers and businesses alike, which in turn has eroded trust in automation. Many of these solutions have proven difficult to build and scale, and have been limited by stand alone implementations that lacked the measurement, reporting and human oversight of Conversational Commerce platforms such as LiveEngage. In December 2018, LivePerson announced Maven, a patent pending AI engine that is designed to overcome these shortcomings and help brands rapidly bring to market conversational AI that can scale to millions of interactions, while increasing customer satisfaction and conversion rates.

Unlike alternative solutions designed solely for IT departments, Maven was built to be used by developers and contact center agents. By putting the power of conversational design and bot management in the hands of contact center agents, Maven gives brands the ability to leverage the employees closest to the customer, those who are most versed in the voice of the brand, and with the most expertise in how to craft successful outcomes for customer service and sales journeys.

Some of the key innovations behind Maven include:

- bot building software that is based on dialogue instead of workflow or code, so non-technical employees like contact center agents can design automations
- the ability to bootstrap conversations with existing transcripts, reducing design effort and speeding time to market
- the establishing of contact center agents as bot managers, ensuring that every conversation is safeguarded by a human and that agents are continuously training the AI to be smarter and drive more successful outcomes
- powerful Assist technology that multiplies the efficiency of agents by analyzing intents in real time and then suggesting next best actions, predefined content, and bots that can take over transactional work
- pre-built templates for target verticals that provide out of the box support for the top intents and back-end integrations
- third-party AI NLU integration, so customers aren't boxed into one vendor
- AI analytics and reporting tailored to Conversational Commerce

Our strategy is to continue to enhance the Maven AI engine and related products, leveraging our global R&D footprint and substantial library of mobile and online conversational data, with the aim of increasing agent efficiency, decreasing customer care costs, improving the customer experience and increasing customer lifetime value.

Sustain our leadership position by aligning brands to a vision that transforms how they communicate with consumers and delivers a superior return on investment. We believe that most contact center technology vendors incorrectly view messaging as a feature. They are content with building integrations to a messaging endpoint and offering messaging as just another product in their suite. LivePerson holds the perspective that messaging and AI are the foundation for Conversational Commerce, which transforms how agents operate and how brands engage with consumers across service, sales, marketing, and brick and mortar. Brands must adapt their contact centers to an asynchronous messaging environment and leverage a combination of human agents, bots and AI to achieve scale and efficiencies. When done correctly, the entire consumer lifecycle with a brand will be maintained within the Conversational Commerce relationship, and traffic will steadily shift away from lower returning voice calls, websites and apps to higher returning messaging endpoints.

We believe that LivePerson is uniquely positioned to deliver this transformation due to its technology and expertise:

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The LiveEngage enterprise-class, automation-first, cloud-based platform, was designed for AI-assisted and human-powered messaging in mobile and online channels. The platform offers best-in-class security and scalability, offers the broadest ecosystem of messaging endpoints, is designed for ease of use, and features an AI engine custom built for Conversational Commerce, robust real-time reporting, role-based real-time analytics, predictive intelligence, and innovations in customer satisfaction and connection measurement. Additionally, LiveEngage is an open platform with pre-built, enterprise-grade integrations into back-end systems as well as the ability to work across natural language understanding (NLU) providers.

LivePerson has deep domain expertise across verticals and messaging endpoints, a global footprint, referenceable enterprise brands and a team of technical, solutions and consulting professionals to assist customers along their transformational journeys. We are positioned as an authority in Conversational Commerce, publishing a proprietary Conversational Quotient™ Index that measures each customer across multiple key indicators to ascertain their level of conversational maturity. Each business is then benchmarked against industry peers to determine their relative

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progression. We have developed a Transformation Model that is introduced to existing and prospective customers to help guide them on their journeys from legacy and oftentimes inefficient legacy voice, email and chat solutions to modern conversational ones powered by messaging and AI.

We believe that LivePerson's differentiated approach to the Conversational Commerce industry, combined with our unique technology and expertise has established us as a market leader, with an ability to deliver superior returns on investment. LivePerson customers manage as many as 40 messaging conversations at a time, as compared to one at a time for a voice agent and two to four at a time for a good chat agent. Adding AI and bots provides even greater scale to the number of conversations managed. Our customers often see labor efficiency gains of at least two times that of voice agents, effectively cutting labor costs by at least 50%. Furthermore, our ability to deliver more convenient, personalized and content-rich conversations often drives increases in customer satisfaction of up to 20 percentage points and increases in sales conversions of up to 20%, while enhancing average order value, customer retention and loyalty.

Strengthen our position in both existing and new industries. We plan to continue to develop our market position by increasing our customer base, and expanding within our installed base. We will continue to focus primarily on key target markets: consumer/retail, telecommunications, financial services, travel/hospitality, technology and automotive within both our enterprise and mid-market sectors, as well as the small business (SMB) sector. Healthcare, insurance, real estate and energy utilities are new target industries and natural extensions of our primary target markets. We are increasingly structuring our field organization to emphasize our domain expertise and strengthen customer relationships across target industries.

Continue to build our international presence. We are focused on expanding our international revenue contribution, which increased to 41% of total revenue in 2018, from 37% in 2017 and 34% in 2016. We generated positive results from previous investments in direct sales and services personnel in the United Kingdom and Western Europe. We also continued to focus on expanding our presence in the Asia Pacific region, leveraging our relationships with partners.

Leverage our open architecture to support partners and developers. In addition to developing our own applications, we continue to cultivate a partner eco-system capable of offering additional applications and services to our customers. We integrate into nearly a dozen third-party messaging endpoints including SMS, Facebook Messenger, Apple Business Chat, Google Rich Business Messenger, Line, WhatsApp, Alexa, Google Home, Google Ad Lingo and Twitter, multiple IVR vendors and dozens of branded apps. Our offering is AI vendor agnostic, empowering our customers to manage a mix of different bots, human agents and technologies from one control panel, thereby optimizing contact center efficiency. LivePerson's proprietary and third-party AI/bots enable brands to partially or fully automate communications with their customers.

In addition, we have opened up access to our platform and our products with more than three dozen APIs that allow customers and third parties to develop on top of our platform. Customers and partners can utilize these APIs to build our capabilities into their own applications and to enhance our applications with their services. In 2019, we expect to increase our marketing efforts to developers, raising awareness for how they can build programs and services on top of our platform.

Expand sales partnerships to broaden our presence and accelerate sales cycles. We are focused on broadening our market reach and accelerating sales cycles by partnering with systems integrators, technology providers, business process outsourcers, value added resellers and other sales partners. We formalized a relationship with IBM Global Business Services in 2017 and Accenture in 2018. LivePerson increased the number of partners focused on SMBs by more than 300% in 2018, to over 150 at year end from over 40 at the start of the year. These efforts are increasingly yielding positive results for us, as nearly one-third of annual contract value signed in 2018 was directly influenced by partners. We expect to increase investment in our partner channels in 2019.

Maintain Market Leadership in Technology and Security Expertise. As described above, we are devoting significant resources to creating new products and enabling technologies designed to accelerate innovation. We evaluate emerging technologies and industry standards and continually update our technology in order to retain our leadership position in each market we serve. We monitor legal and technological developments in the area of

information security and confidentiality to ensure our policies and procedures meet or exceed the demands of the world's largest and most demanding corporations. We believe that these efforts will allow us to effectively anticipate changing customer and consumer requirements in our rapidly evolving industry.

Evaluate Strategic Alliances and Acquisitions When Appropriate. We have successfully integrated several acquisitions over the past decade. While we have in the past, and may from time to time in the future, engage in discussions regarding acquisitions or strategic transactions or to acquire other companies that can accelerate our growth or broaden our product offerings, we currently have no binding commitments with respect to any future acquisitions or strategic transactions.

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Products and Services

Business solutions offerings

LivePerson's hosted platforms harness human, AI and bot-powered messaging on mobile apps, mobile and desktop web browsers, SMS, social media and third-party consumer messaging platforms. Our business-to-business services are all managed from a single user interface. By supplying a complete, unified consumer view, our solutions enable businesses to deliver a relevant, timely, personalized, and seamless consumer experience for heads of digital and customer care, as well as e-commerce, marketing, and contact center executives. In addition to product offerings, LivePerson provides professional services and value-added business consulting to support complete deployment and optimization of our enterprise solutions. Revenue attributable to our monthly hosted Business services accounted for 79% of total revenue for the year ended December 31, 2018 and 82% of total revenue for the years ended December 31, 2017 and 2016.

LiveEngage. LiveEngage, LivePerson's enterprise-class, cloud-based platform, enables businesses and consumers to connect through conversational interfaces, such as in-app and mobile messaging, while leveraging bots and AI to increase efficiency. The platform, which is targeted at heads of digital and customer care, as well as e-commerce, marketing, and contact center executives, combines sophisticated mobile and online engagement technology with robust business intelligence and big data to produce compelling, measurable results by intelligently engaging consumers based on a real-time understanding of consumer needs. Rich, contextually aware targeting, actionable insights and personalized experiences, empower businesses to get the most out of their existing online, mobile and social platforms. Potential benefits of LiveEngage include increased agent efficiency, decreased customer care costs, improved customer experiences, higher conversion rates and increased customer lifetime value.

LiveEngage was designed for Conversational Commerce, enabling businesses to securely deploy messaging, coupled with bots and AI, at scale for brands with tens of millions of customers and many thousands of customer care agents. LiveEngage powers conversations across each of a brand's primary digital channels, including mobile apps, mobile and desktop web browsers, SMS, social media and third-party consumer messaging platforms. Brands can also use LiveEngage to message consumers when they dial a 1-800 number instead of having them navigate interactive voice response systems and wait on hold. The platform seamlessly integrates LivePerson's Maven AI engine as well as third-party bots, enabling brands to manage both AI-based agents and human agents from a single console. The robust, cloud-based suite of rich mobile messaging and real-time chat offerings features intelligent routing and capacity mapping, queue prioritization, customer sentiment, real-time analytics and reporting, content delivery, Payment Card Industry compliance, cobrowsing and a sophisticated proactive targeting engine. With LiveEngage, agents can manage all conversations with consumers through a single console interface, regardless of which disparate messaging endpoints the consumers originate from; i.e., WhatsApp, Line, Apple Business Chat, IVR, or Google Home. An extensible API stack facilitates a lower cost of ownership by facilitating robust integration into back-end systems, as well as enabling developers to build their own programs and services on top of the platform. More than three dozen APIs are available on LiveEngage.

LiveEngage enables the combination of real time on-site data and off-site behavioral data, with a broad set of historical and operational data. Proprietary analytics utilize this data to target end users with compelling engagement options at any step in the conversion funnel and throughout the customer lifecycle. LiveEngage enables customers to maximize online revenue opportunities, improve conversion rates and reduce shopping cart abandonment by proactively engaging the right visitor, using the right channel, at the right time. Our solution identifies segments of website visitors who demonstrate the highest propensity to convert, and engages them in real-time with relevant content and offers, helping to generate incremental sales. LiveEngage also reduces costs in the contact center relative to voice, by identifying consumers who may be struggling with their self-help experience, and proactively connecting them to a live consumer care specialist via messaging, who can manage several conversations at once. This comprehensive solution blends a proven value-based methodology with an active rules-based engagement engine and deep domain expertise to increase first contact resolution, improve consumer satisfaction, and reduce attrition rates.

Maven. Maven, announced in December 2018, operates as the brains behind new LivePerson AI-based products, and was developed using our conversational data set of millions of brand-to-consumer interactions. Maven was custom

designed for Conversational Commerce, putting the power of bot development, training and management into the hands of the contact center and its agents, the teams most familiar with how to structure sales and service conversations to drive successful outcomes. The platform enables what we call "the tango" of humans, AI and bots, whereby human agents act as bot managers, overseeing AI-powered conversations and seamlessly stepping into the flow when a personal touch is needed. Through Maven Assist, agents become ultra-efficient, leveraging the AI engine to serve up relevant content, define next-best actions and take over repetitive transactional work, so that the agent can focus on relationship building. By seamlessly integrating LiveEngage with Maven, as well as third-party bots, the platform provides businesses with a comprehensive view of all AI-based and human-based conversations from a single console. Some of the first products developed on the Maven AI engine include: