Q2-21
Conference Call Results

August 12, 2021

Operator: Ladies and Ladies and gentlemen, thank you for standing by. Welcome to the Radcom Ltd. Results Conference Call for the Second Quarter of 2021. All participants are present in a listen-only mode. Following Management's formal presentation, instructions will be given for the question-and-answer session. For operator assistance during the conference, please press star-zero. As a reminder, this conference is being recorded, and will be available for replay on the company's website at www.radcom.com later today. On the call are Eyal Harari, Radcom's CEO, and Amir Hai, Radcom's CFO. Please note that Management has prepared a presentation for your reference that will be used during the call. If you have not downloaded it yet, you may do so through the link in the Investor section of Radcom's website at www.radcom.com/investor-relations. Before we begin, I would like to review the Safe Harbor provision. Forward-looking statements in the conference call involve several risks and uncertainties, including but not limited to the company's statements about its visibility into the second half of 2021, its sales pipeline, momentum, demand for its products, and new requests and potential expansion of opportunities. The company's continued investment in technology and R&D expectations regarding the 5G market size and trends in industry investments and spending, the company's expectations with respect to the digital trend in telecom, the company's market position, cash position, potential and expected growth, the company's expectation with respect to its relationships with Rakuten and AT&T, its potential expansion with a top tier LATAM operator, the potential for additional grants from the Israel Innovation Authority, the potential for additional partnerships with top cloud providers in the future, and its revenue guidance. The company does not undertake to update forward-looking statements. The full Safe Harbor provisions, including risks that could cause actual results to differ from these forward-looking statements are outlined in the presentation and the company's SEC filings. In this conference call, Management will be referring to certain non-GAAP financial measures, which are provided to enhance the user's overall understanding of the company's financial performance. By excluding certain non-cash stock-based compensation expenses, non-GAAP results provide information helpful in assessing Radcom's core operating performance, and evaluating and comparing our results of operations consistently from period to period. The presentation of this additional information is not meant to be considered a substitute for the corresponding financial measures prepared in accordance with the Generally Accepted Accounting Principles. Investors are encouraged to review the reconciliations of GAAP to non-GAAP financial measures, included in the quarter's earnings release available on our website. Now, I would like to turn over the call to Eyal. Please go ahead.

Eyal Harari: Thank you, Operator, and thank you all for joining us today. Earlier this morning, we issued a press release stating our second quarter 2021 results. We are pleased with the results. We delivered another solid quarter as we continue to execute the company's strategy and invest in our advanced 5G cloud technology as we engage in a significant higher number of sales opportunities. Total revenue for the second quarter of 2021 was 9.8 million dollars, representing an eighth consecutive quarter of year-over-year revenue growth. Additionally, we secured several meaningful orders from our existing customer base during the quarter, increasing our visibility into the second half of 2021. We made progress with the initial deployment at the top tier LATAM operator that we announce in May. This order covers the operator's 4G network with the expectation of expanding to their 5G network in the future. This win was achieved based on our innovative technology and the advanced capabilities of Radcom ACE, which we believe provides significant value to operators as 5G radio automated assurance platform. We are pleased with our progress as we remain focused on delivering on our commitments and expanding these relationships. We continue to invest strategically in R&D, announcing last week our enriched AI-driven insights. We introduce a new innovative AI solution as part of Radcom ACE. This solution automatically analyze millions of data sessions in real time and can reveal underlying network faults that otherwise would be unlikely to be identified quickly in 5G networks. This solution helps operator overcome the challenges of operating complex, multi-vendor networks and ensure the quality of services. I am proud of our team worldwide for their dedication and commitment to advancing our cloud technology and delivering on our customer commitments. Even with the ongoing impact of the pandemic, the telecom industry is moving forward. There has been a massive culture shift towards the digital, and more and more people are adopting new technologies and communication tools. As a result, operator worldwide are operating their existing networks or building new networks to keep pace with this trend. We believe that this trend will positively impact the future of our business. We see a ramp-up in 5G activity for new network infrastructure contracts to partnerships between telecom operators and large-scale cloud providers, creating a favorable environment for our solutions. As mentioned before, 5G has multiple phases. In the first phase, compatible handsets connect to both 5G and 4G radios, joining the subscriber to the same existing 4G network. This is known as non-standalone 5G. Today, we are still at this stage of 5G. The second phase is known as standalone 5G. Operators will deploy an entirely new network core in this network environment and with new assurance solutions to monitor more advanced services like network slicing, and edge deployments. There are early signs of standalone 5G opportunities, but the critical mass is still at the early stage of this transition. We expect to see some early adopters begin the multi-stage process of choosing their assurance solutions during 2021 and beyond. Over the next five years, operators are projected to invest more than 1.1 trillion dollars in their networks. According to a report from GSMA Intelligence, about 80% of that will be for 5G. We are already noticing new 5G use cases such as edge computing, network slicing and private networks, evolving as operators request them in the tender process. We are well equipped to handle these new requests due to our solution's cloud-native architecture, that delivers automation and advanced 5G capabilities. As one of the industry's first standalone 5G assurance contracts, Radcom continues to provide Rakuten Mobile with critical service assurance for delivering next-generation mobile experiences. In May, Rakuten Mobile announced that it had achieved 80% population coverage for its network rollout in Japan. Rakuten also plan to launch its standalone 5G services in 2021, so it has already started deploying its standalone network, which Radcom ACE intelligently monitors. During the second quarter, industry analysts Analysys Mason published a case study about Radcom's innovative deployments at Rakuten Mobile, stating the importance of our solution in supporting their journey as they are building the world's first fully virtualized end-to-end network. Radcom solution provides end-to-end service and subscriber visibility, all in a cloud-native environment. Our solution also enables the use of artificial intelligence for automation, which was one of Rakuten Mobile critical requirements. We are delighted with the progress in our partnership with Rakuten. We have developed our solution using the latest cloud-based deployment processes to provide state-of-the-art software releases as their network continually evolves. In addition, we are testing new features without affecting live services, which provides Rakuten Mobile the confidence to roll out rapid changes in its network. As noted in the case study, Radcom solution is currently being integrated into Rakuten's communication platform RCP, the cloud platform on which Rakuten Mobile's network is built. This platform packages in markets Rakuten's innovative network architecture to other operators worldwide and it's already gaining momentum. For example, this month, Germany's 1&1 contracted Rakuten to help build its new mobile network. In addition, 1&1 will have access to Rakuten's communication platform. Together with Rakuten, 1&1 will create Europe's first fully virtualized mobile network with high-performance and extensive automation and agility to exploit the full potential of 5G. As mentioned in previous quarters, standalone 5G network are built on cloud-native technology. As a result, we continue seeing lots of collaboration between telecom operators and public cloud providers. For example, in June, Microsoft announced it was acquiring AT&T's carrier-grade network cloud platform technology, which AT&T's 5G core network runs on. In addition, AT&T recently committed to using Microsoft at the edge of its network to support network workloads at a scaled level for efficiency. As a reminder, we announce in March, that Radcom ACE was fully integrated with Microsoft Azure. We continue to engage with additional cloud providers to expand the availability of our solution to more public cloud ecosystems, as we expect operators to deploy in multi-cloud environments. AT&T continues to be a key strategic customer for us. As a leading network provider, AT&T frequently emphasized customer experience as a key priority to their success. Our cutting-edge software is embedded in their network cloud and monitors the customer experience as they continue evolving their underlying network infrastructure to the cloud. We continue to deliver new capabilities and cutting-edge software releases to AT&T as we support the evolution of its cloud network. Given that Radcom is working with leading operators in deploying our cloud-native technology, we are gaining invaluable hands-on experience monitoring these networks. In addition, it serves as a testament to our ability to innovate and build out new capabilities and increase our technological leadership in cloud expertise with telecom operators. Earlier, I mentioned the growth in our pipeline. To give some color, we are currently engaged with a significant higher number of sales opportunities with some reaching the proof-of-concept stage. From the beginning of the year, we have seen the number of opportunities increase by double-digit percentage with a significant number of these being new logos. To summarize, we secure several significant orders this quarter and even though the 5G transition is only at the early stages of the journey, momentum is building. As a result, we expect the demand for next-generation assurance solution to increase. We are reiterating our full year 2021 revenue guidance of 39 million to 41 million dollars, based on our current visibility. With that, I would like to turn the call over to Amir Hai, our CFO, who will discuss the financial result in detail. Amir, please go ahead.

Amir Hai: Thank you, Eyal, and good morning, everyone. Now please turn to slide 7 for our financial highlights. To help you understand the results, I will be referring mainly to non-GAAP numbers, which exclude share-based compensation. We ended the second quarter of 2021 with 9.8 million dollars in revenue, increasing from 9.2 million dollars in the second quarter of 2020. Our gross margin in the second quarter of 2021 on a non-GAAP basis was 75%. Please note that our gross margin can fluctuate depending on the revenue mix. Our gross R&D expenses for the second quarter of 2021 on a non-GAAP basis were 4.9 million dollars, an increase of 400 thousand dollars compared to the second quarter of 2020. This decrease is mainly related to a negative exchange rate between the US dollar and the Israeli New Shekel, and an increase in our headcount as part of our product investments. We receive grant of 70 thousand dollars from the Israel Innovation Authority during the quarter, compared to a grant of 572 thousand dollars in the second quarter of last year. In addition, we are engaged in ongoing discussions with the Israel Innovation Authority to improve additional development plans. Therefore, we will have clearer visibility for 2021 during the next quarter. As a result, our net R&D expenses for the second quarter of 2021 on a non-GAAP basis were 4.8 million dollars, compared to 3.9 million dollars in the second quarter of 2020. Sales and marketing expenses for the second quarter of 2021 were 2.3 million dollars on a non-GAAP basis, a slight increase of 100 thousand dollars from the second quarter of 2020. G&A expenses for the second quarter of 2021 on a non-GAAP basis were 841 thousand dollars, approximately the same as the second quarter of 2020. Operating loss on a non-GAAP basis for the second quarter of 2021 was 646 thousand dollars compared to an operating income of 102 thousand dollars for the second quarter of 2020. Net loss for the second quarter of 2021 on a non-GAAP basis was 304 thousand dollars or a net loss of 0.02 cents per diluted share compared to a net income of 231 thousand dollar or a net income of 0.02 cents per diluted share for the second quarter of 2020. On a GAAP basis, as you can see on slide 6, our net loss for the second quarter of 2021 was 1.1 million dollars or a net loss of 0.08 cents per diluted share, compared to a net loss of 0.2 million dollars or a net loss of 0.01 cents per diluted shares for the second quarter of 2020. At the end of the second quarter of 2021, our headcount was 280. Turning to the balance sheet. As you can see on slide 10, our cash, cash equivalents and short-term bank deposits, as of June 30, 2021, were 64.9 million dollars. We believe that our strong balance sheet provides us with the flexibility to execute the opportunities ahead of us and remain agile through a global uncertainty. That ends our prepared remarks. I will now turn the call back to the Operator for your questions.

Operator: *[pause]* Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the headset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. *[pause]* The first question is from Bhavan Suri of William Blair. Please go ahead.

Bhavan Suri: Good morning, or good afternoon over there, guys. Thanks for taking my question, and a nice job. Excited actually about the pipeline traction you're seeing. I guess, I'd love to get a little color into that pipeline growth. You said double-digits. What regions? And maybe what types of carriers? What tier? And specific for the POCs, sort of – I know that in POCs – but are these deals in a size that we might see with Rakuten and AT&T? Any color would be very helpful.

Eyal Harari: Good morning, Bhavan, and thank you. I think that overall, we see growth in – that is driven from the 5G evolution. We see it, if you follow where 5G is evolving, these are the areas that we see more and more growth. And in general, the growth is coming from most of the regions. This is because the technology is evolving now with a – in general, and we see many of them operate both in Americas, in Europe, and in APAC, progressing into the next stages with 5G and starting to look into solutions of service assurance. As I pointed out, the growth is coming in double-digit percentage, and it's in the different stages of the opportunities. Some of them are early pipeline deals that will probably take some time. But we see also progress with more opportunities that are more mature. I am not sharing the exact number of POCs, but some of them are in the POC stage. And in overall, we are very positive on the pipeline growth as we see it today. We believe that this growth is reflecting the technology advantage we have, and increasing the demand that is coming due to the initial investment into 5G.

Bhavan Suri: Got it, got it. Now that was – that was helpful. I'd love to talk about the LATAM deal, and how is that deployment doing in I know you touched on AT&T and others coming for renewal, but I'd like to understand how the LATAM deal is going? And then I've got a question on sort of the COVID risk. But let's talk about LATAM first.

Eyal Harari: Sure. So, as we announced in May, we got orders from this LATAM operator for their 4G network. We are in the last few months starting to implement the solution. The implementation is going well. This is something that will be happening in the next few months and we are in a very good relationship with the customer, and everything is going by plan. As indicated, this win is not only significant and sizable by itself, but moreover, is a potential into a further expansion into 5G once this operator is going to turn his 5G network in the future. This is something that is likely to happen, probably, next year. So, we are very excited from this relationship with them.

Bhavan Suri: Now, that sounds really good. I guess, two quick questions. One, you didn't increase full year guidance. I'd love for you to just provide some color on, sort of, how the POCs might, sort of, trend into revenue? Is that a calendar '22 thing? How should we think about it, is that 12, 18 months out? How do these POCs typically, if you win them, turn into deployments or turn into revenue?

Eyal Harari: Yes. Most of – we are now in August, so most of the POCs that are starting now are mainly to build the 2022 numbers and the visibility. This being said, we are working in the last year on some activities. Some opportunities are already post-POCs and get – can get closed earlier than that. But I am mainly focused on 2022 numbers. We mention that we have very good visibility into 2021, based on the orders we secured already. And we are looking on longterm growth and continue to move business forward.

Bhavan Suri: Got it, got it. And one last one for me. And obviously, we're seeing some concerns around the delta variants, at least in the United States and other regions. As you look back, I mean, there was sort of a, you know, a hiccup up a little bit, people took a little more delay in some of the decision-making, or when COVID originally happened. Are you seeing anything from your customers, any sort of hesitation or concern, in terms of spending around delta? Or is it just sort of business as usual right now?

Eyal Harari: I think, we – this is obviously a discussion and concern on a personal level, but not a delay or something that would, I see a significant business implication. We know telecom projects are always taking their time, and overall, it's looking that its progress is expected.

Bhavan Suri: Great. Great. Thanks for taking my questions, guys and a nice job. Look forward to …

Eyal Harari: Thank you.

Bhavan Suri: … POCs convert. Thank you.

Operator: The next question is from Michelle Waller of Needham and Company. Please go ahead.

Michelle Waller: Thanks. Hi guys. This is Michelle on for Alex. I guess, just for the first one, can you speak on the recently announced AT&T and Microsoft Azure deal, and how you see that impacting the assurance market over time? And maybe more specifically to your guys' business with AT&T?

Eyal Harari: So, the – we see a general technology trend of the public cloud providers looking into telecom as a huge opportunity. The telecom workloads as of today are primarily based on either proprietary hardware, or in the more modern cases, on data centers that telecom operators build for themselves. We are starting to see more and more investments from the cloud provider to try to take those workloads and implement the data center for the telcos, either on site or as a public cloud service, which would probably take some more time. In the specific announcement from Microsoft and AT&T's deal, AT&T build their own network cloud technology in-house, and they sold their IP and intellectual property to Azure, and build this collaboration. I believe in the short term, this is going to be not making a big difference, but in the longer term, the expectation and the – what I believe is that, it shows the commitment of Microsoft Azure into the investment to the telecom. And this could be door opener into more opportunities as customer are implementing Microsoft Azure in their cloud environment. As I mentioned before, we have our integration with Azure that was announced in March. This is very important for us and the overall trend of more and more telco operators partnering with cloud provider, is part of the overall trying to move to virtualization and cloudification, which is a growth driver into company like Radcom, as we are excelling and the most advanced into the area of fully containerized application, and this enables more potential for us. We see similar investment from Rakuten that are implementing their own cloud, and Rakuten, they are experts on cloud platform as well. And this is very exciting for us to see this technology evolution in the industry

Michelle Waller: Great. Thanks. And so, just, as we look into the second half, I guess, you know, you guys sound pretty upbeat, there doesn't seem to be anything that's just really a de– a deceleration. So, you know, as I look at the year-over-year growth comps that you guys are coming up against in the second half, I would think, maybe September would be a higher growth opportunity, compared to December quarter, just because the comparable quarters on a year-over-year basis are easier? Is that fair to assume? Or do you see it being more linear, that the growth going into the second half?

Amir Hai: Hi, Michelle, it's Amir. Basically, you know, we provide annual guidance since the revenue can fluctuate between the quarters, if kind of a project is implemented in – and has some delays, so we cannot know exactly the time for that. But, as we've stated in the beginning, we believe that we will keep the – we will be in the range of from 39 to 41. And, so, this is our target.

Michelle Waller: Okay. And just one last one, real quick on the Israeli government grants. It sounds like you guys are in discussions with them right now. I think you guys have said, and maybe, correct me if I am wrong, but, for calendar '21, you had previously been expecting a similar amount, you know, from the government grants this year, compared to last year. So, when you're talking about going, you know, just going back to having discussions with, you know, the government over these grants, are you saying to re-discuss the additional grants? Or is – has that – the overall expectation for the year changed?

Amir Hai: Yeah. Basically, again around – last year we gain around 1.2, 1.3 million dollars in grants. Right now, we started the process that 2021 grant in Q1, and at that time, there was a government transition, and without any state budget approval. This creates kind of a budget limitation. So, as of now, what you see in the P&L is about 70, 75 thousand dollar per quarter, this is secured. And for the other plans, we are still in discussions with the Israeli authorities, and we hope that making – we will make progress, you know, in the becoming month. If we succeed, you know, to gain this grant, this will be paid retroactively from the beginning of the year.

Michelle Waller: Okay. Great. Thanks. That's all for me. Thanks, guys.

Eyal Harari: Thank you.

Operator: If there are any additional questions, please press star-one. If you want to cancel your request, please press star-two. Please stand by we poll for more questions. *[pause]* The next question is from Sasha Karim of IPI. Please go ahead.

Sasha Karim: Hi, guys. First question from me. Is there anybody else, is there any other assurance provider, currently engaging with Rakuten to be integrated in their ITP? Or to the best of your knowledge, are you the only company doing that?

Eyal Harari: I don't want to referring to specific things about Rakuten. But overall, we are having a very good relationship with Rakuten. We just mentioned a few quarters ago, our expansion into 5G with them, and this is one of the first deals in the market for 5G standalone, if not the first. We are now very busy to integrate our solution and deploy it into their live network as they are evolving with 5G. This is targeted to get live by end of the year. And our relationship, it's very tight with them, and as you could indicate from the last analyst reports we had with them, and testimonials we had with them, we are working very closely. They are very important customers and we feel very comfortable about our relationship with them.

Sasha Karim: Thanks. Next question would be, are you expecting to recognize any significant revenue this year from the tier-1 LATAM win? Or does that not begin properly until 2022?

Eyal Harari: The revenue is – depends on the implementation of the project. This is something few months down the road, and likely to happen more in the 2022 revenue year.

Sasha Karim: Got it. Thank you. And then, my last one would just be on cloud opportunities. I think, we've seen DISH going for it very strongly, maybe not so much the case for established telcos. But would you agree with the general thesis that Greenfield operators are more willing to outsource their network to cloud, and therefore in theory, it should be a better opportunity for you, given your cloud-native software?

Eyal Harari: I believe the whole telco industry as a whole is going into the public cloud architecture and solutions. Obviously, Greenfield operators have less legacy and less limitations, therefore they can move faster and take more strategic decision earlier. While we see more of the other operators, brown operators that are already established with networks, are also taking steps, and there were mainly press releases by the different public cloud providers on partnership with operators, like we mentioned AT&T and Azure, but there were others as well. This is a trend that is gaining a momentum, and it's a very exciting momentum for us, because all of our technology investment, and all of our R&D investment, including our lately released AI framework capabilities on top of the Radcom ACE – this is all targeted and driven into such an environment. And we believe this is creates a favorable environment for us in the assurance space.

Sasha Karim: Great, thank you very much.

Eyal Harari: Thank you.

Operator: *[pause]* There are no further questions at this time. This concludes the Radcom Ltd. second quarter 2021 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call]

[End of conference call]