



Q1 2022 Financial results conference call
Management's prepared remarks and Q&A

May 12, 2022

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Radcom Ltd. Results Conference Call for the First Quarter of 2022. All participants are at 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 a replay on the company's website at www.radcom.com later today. On the call are Eyal Harari, Radcom's CEO, and Hadar Rahav, 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 full year 2022 revenue guidance, continued investment in research and development, its leadership in the 5G assurance market, and the potential increase in market share and ability to continue to drive positive returns, its expectation to gain further interest from operators and play an important role in facilitating the transition to 5G, its expectations about its pipeline and momentum, further demand to our products and growth, the potential for additional multiyear contracts, engagements and expansion of opportunities, the company's expectations with respect to its relationship with Rakuten and AT&T, and the expected benefits of its in-person events starting to resume and potential grants from the Israeli Innovation Authority. 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 filing. In this conference

call, Management will be referring to certain non-GAAP financial measures, which are provided to enhance the user 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 operation 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. I would now like to turn over the call to Eyal. Please go ahead.

Eyal Harari: Thanks, Operator. Good morning, everyone, and thank you for joining us for our first quarter 2022 earnings call. You may have seen early today, we announced that DISH selected Radcom to monitor the new 5G cloud network. This exciting news continues the positive momentum since the start of 2022. This is the second new 5G customer win that brings us to a total of 50 million dollars in new contracts this year. Our first quarter was another quarter of solid revenue growth, while at the same time we significantly improve our bottom line. Revenue grew 16% year-over-year for the first quarter, reaching 10.6 million dollars. This is our 11th straight quarter of revenue growth year over year, and I am very pleased with our results. As mentioned, DISH selected Radcom to monitor America's first 5G smart network. This wireless announced a few years ago that they plan to deploy a 5G network capable of serving 70% of the US population by June 2023. DISH started this nationwide rollout at the beginning of the month by launching first in Las Vegas. DISH announced in the recent earning calls that they expect to launch in about 25 markets by June. We feel proud to be DISH assurance partner as they begin

to roll out America's first 5G smart network. DISH selected Radcom because they wanted best-in-class assurance solution that seamlessly integrates into the cloud. Radcom ACE will monitor their stand-alone 5G network, the first fully deployed on public cloud. Our cloud technology will run on Amazon Web Services, AWS, and help DISH launch 5G smoothly and monitor the service quality across its nationwide rollouts. Last month, we announced a multiyear 5G assurance contract win with a mobile network in Europe. This new order covers assurance for this European operator's 5G network. Radcom ACE will enable the operator to monitor its end-to-end 5G network performance and provide end-to-end visibility that helps the operator make real-time, data-driven decisions and proactively improve their network performance, ensuring top-quality services are delivered to its customers. These wins were achieved based on our innovative cloud technology and the advanced capabilities of Radcom ACE, which provides an intelligence automated assurance platform built for the cloud and 5G. We believe they strengthen our position as a 5G assurance provider and are an important acknowledgment of our leadership in this market. Therefore, we expect Radcom ACE to gain further interest from operators and play an essential role in facilitating the transition to 5G. With these two new customers and previous wins, our 5G strategy is paying off. At the same time, we remain focus on capturing the growth potential we see in our current sales pipeline with both new and existing customers. We also see good momentum for the 5G market in the mid and long term and believe it will be a catalyst for growth as the market ramps up, creating more sales engagements that can bring additional multiyear contracts and increased market share. So we believe that our 5G strategy provides us with a foundation for future revenue growth beyond our current sales engagements. With the market evolving rapidly, our continued investment in research and development to extend our

technological leadership within this space is vital. We believe this to be a key enabler for our future business. We will continue to invest strategically in R&D to enhance our Radcom ACE solution, increase our 5G capabilities, expand our AI-driven insights and seamlessly integrated our solution to the cloud. All these capabilities are aligned with the market needs and have already borne fruits as noted with our recent wins. Our pipeline continue to be healthy and expand, while having a good mix of opportunities from our current installed base and new customers. We also see positive momentum with the number of engagements, the level of engagement and our pipeline's total addressable market size. We believe that our position as best-in-class assurance provider for cloud-native 5G networks and our cloud expertise and knowledge will continue to drive positive returns. The bottom line is that the demand looks strong, and we have a solid pipeline of opportunities that has the potential to increase our market share. Turning to the installed base. Last month, we announced that AT&T renewed its multiyear assurance contract with Radcom, as we entered our sixth year of partnership with this leading telecom operator. With this contract, we have a significant backlog that provides good visibility into 2022, and we expect our business with AT&T to remain strong as we continue our partnership. AT&T mentioned in their recent earning call that their Net Promoter Score are up year-over-year. In addition, they are experiencing historically low churn levels, which they assign to their improvements to the customer experience. We believe that assurance solutions are vital for monitoring service quality and ensuring a good customer experience. Therefore, we continue delivering cutting-edge software releases as we support the evolution of their network and monitoring their customer experience as they continue evolving their underlying network infrastructure to the cloud. Rakuten Mobile achieved a very high score in newly published report from "umlaut" which compared network performance

in Tokyo with other cosmopolitan cities all over the world. This report demonstrates our Rakuten Mobile has deployed a high-performing quality network in Japan at lightning speed using the latest cutting-edge technology that competes with leading operators worldwide. Rakuten has stated our solution importance in supporting their journey as they build the world's first virtualized network. Our solution provides end-to-end service and subscriber visibility in a cloud-native environment and it's vital to help them ensure network performance and automate their network operations. We are delighted with the progress in our partnership with Rakuten. We continue to develop our solution using the latest cloud-based deployment processes to provide state-of-the-art software releases and their network continually evolves. We believe this work will continue helping our product mature and provides valuable experience when more operators implement standalone 5G and look to our 5G standalone assurance expertise. In February, our sales team attended the Mobile World Congress in Barcelona, Spain, the leading telecom industry event. The event was held in person after a couple of years due to COVID limitations. As we covered in a recent blog post that summarize the Congress, we saw evidence of our belief that real-time analysis through automated assurance will be vital for 5G network operations. Operators need to make their network more intelligent, dynamic and autonomous to deliver quality 5G services. Strong themes at the Congress were the transition to 5G standalone, cloud-based networks, public cloud providers and Rakuten Symphony. All these are areas of interest for Radcom and inquiries about our solution were very positive, which we believe will lead to additional sales opportunities. Similar to the Mobile World Congress returning, we see that in-person industry events in general are starting to return. After two years of being an online event in the US, the big 5G event, the leading industry conference in North America is back to an in-person

event. We see this is happening globally, which is a positive sign, as we believe that in-person meetings are starting to resume. As a result, we will be able to generate more sales opportunity and advance our current engagements. We believe the 5G market remains strong, while still only being at the early stages. We see that the direction and momentum of our market are very positive and align with our strategy. The complexity of these new 5G network architectures requires automated assurance solution to isolate network issues, optimize performance and provide cornerstone to building network with extensive automation. We also hear this from our customers. To summarize, I am incredibly pleased with our performance at the start of fiscal year 2022. Revenues are up year over year, and we improved our bottom line. In addition, we continue to receive industry-wide recognition by telecom operators rolling out advanced cloud-based 5G networks and looking for forward-looking assurance solution to help their 5G transformations. We are excited to win several new noteworthy multiyear assurance contracts. We were selected by DISH as the assurance vendor to monitor America's first 5G smart network and added another new customer in Europe for a further 5G assurance contract. We look forward to providing our advanced cloud-native software to help ensure great mobile experiences for more subscribers. Our cloud and 5G assurance expertise continue to expand through multiple customers' deployments, which we believe will become a key differentiator as the market gains momentum. We are helping operators make data-driven decisions in real time by transitioning to software based, more intelligent and more automated networks. I am confident of our future success, and the business strategy we are pursuing with our innovative cloud native offering and the world we expect to play in the 5G transformation. Based on our recent wins that provides greater visibility and our healthy pipeline of opportunities, we are optimistic about our ability to

deliver a growth year above our initial revenue guidance provided in February. Therefore, we are increasing our fiscal 2022 revenue guidance from a range of 42 to 45 million dollars to a range of 43 to 47 million dollars. With that, I would like to turn the call over to Hadar Rahav, our CFO, who will discuss the financial results in detail.

Hadar Rahav: Thank you, Eyal, and good morning, everyone. Now please turn to slide 8 for our financial highlights. To help you understand the results, I will refer mainly to non-GAAP numbers, which exclude share-based compensation. We ended the first quarter of 2022 with 10.6 million dollars in revenue, increasing from 9.1 million dollars in the first quarter of 2021. We are pleased with our consistent growth trend representing an 11 consecutive quarter of year-over-year growth. Our gross margin in the first quarter of 2022 on a non-GAAP basis was 74%. Please note that our gross margin can fluctuate depending on the revenue mix. Our gross R&D expenses for the first quarter of 2022 on a non-GAAP basis were 4.9 million dollars, a slight increase of 113 thousand dollars compared to the first quarter of 2021. We received a grant of 218 thousand dollars from the Israel Innovation Authority during the quarter compared to a grant of 68 thousand dollars in the first quarter of last year. As a result, our net R&D expenses for the first quarter of 2022 on a non-GAAP basis were 4.7 million dollars compared to 4.8 million dollars in the first quarter of 2021. We expect the Israel Innovation Authority grant in the second quarter to be a similar level as in the first quarter. Sales and marketing expenses for the first quarter of 2022 were 2.6 million dollars on a non-GAAP basis, increasing 227 thousand dollars compared to the first quarter of 2021. G&A expenses for the first quarter of 2022 on a non-GAAP basis were 825 thousand dollars with no significant change from the first quarter of 2021. Operating loss on a non-GAAP basis for the first quarter of 2022 was 274 thousand dollars compared to an operating loss of one million 130 thousand

dollars for the first quarter of 2021. Net income for the first quarter of 2022 on a non-GAAP basis was 614 thousand dollars or a net income of 4 cents per diluted share compared to a net loss of one million 30 thousand million dollars or a net loss of 7 cents per diluted share for the first quarter of 2021. The positive net income was due to financial income derived from interest and fluctuation of foreign exchange. On a GAAP basis, as you can see on slide 7, our net loss for the first quarter of 2022 was 0.6 million dollars or a net loss of 4 cents per diluted share compared to a net loss of 1.7 million dollars or a net loss of 12 cents per diluted share for the first quarter of 2021. In the end of the first quarter of 2022, our head count was 286. Turning to the balance sheet. As you can see on slide 11, our cash, cash equivalents and short-term bank deposits as of March 31, 2022, were 70.9 million dollars. 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 Arjun Bhatia of William Blair. Please go ahead.

Arjun Bhatia: Perfect. Thank you very much for taking my questions. And congrats on the – on the DISH win. Maybe I'll just start there. With the subscription model, can you just give us a sense for the timing of how that deal may layer into the model over time? Is that something that can be fully ramped this year some time, maybe Q3, Q4? And then, how do you think about the future expansion opportunity you have with DISH as the rollout proceeds? Is there room for further expansion there?

Eyal Harari: Hi, good morning. So, yeah, DISH, we are very excited from our new announcement about the win – of the agreement with DISH Wireless. This is as our business model with other accounts, is a multiyear subscription like concept, that we are expecting revenue to be over the multiple year costs. The win is recent and typically takes one or two quarters until revenue starts. So we expect revenue to start in the second part of the year, while most of the revenue will come in the – in the following years, and we will get into full capacity as we evolve. DISH, as you're probably aware, we are building now a new 5G network, and we cover in the agreement this multiyear term, but we are definitely looking and exciting – excited to further expand with them into additional areas and expand with them as they grow. As they just announced this week in Las Vegas, they are looking to go nationwide and capture dozens of millions of subscribers. So it's definitely a very excited – a very exciting time for us.

Arjun Bhatia: Perfect. That's very helpful. And then, if I can just ask on the product side, you know. Can you touch a little bit, not just with DISH, but overall in terms of the pipeline you're seeing. What role is AI and, kind of, you know, predictive analytics playing and driving pipeline and new business? Obviously, that's a big value proposition for these network operators where they want to predict an outage before it occurs, and they want to get better visibility into their networks. Is that a major part of the conversations that you're having with customers? And how has that – maybe that dynamic and the conversation changed over – over the last year or so?

Eyal Harari: Actually, this is a great question, as in the last two years, we were very busy building the infrastructure and the, I would call it, the basic capabilities in order to have the best solution to monitor 5G networks. Last year, we announced our Radcom ACE AI capabilities, which are exactly addressed, as you mentioned, how we can do more predictive and more automated analytics

and generate insight from the network. This is actually becoming our secret sauce. And in many occasions, we see more and more interest from customers to see not only how they can monitor and assure their network, but really how they can use these advanced technologies to become more efficient, to enhance their automation, and to get more of the data that is collected by the assurance solution. So definitely, this is something that is being discussed. It's something that capture a lot of interest, and I see more and more demand for this technology as we go. And this is part of the area we are going to continue and invest as part of our R&D investments.

Arjun Bhatia: Great. And, last one for me. You mentioned, you know, Mobile World Congress in Barcelona. Just with the traction that you're seeing in the pipeline with reopening and travel and expenses returning, how do you think about the change or the increase in operating expenses as we get back to in-person events, and your salespeople, you know, start going out and having in-person meetings again? Should we expect the second half of the year to ramp up as – as travel comes back? Or, you know, is that – I assume that's obviously baked into guidance, but would just love to hear how you're thinking about that as the year progresses here?

Eyal Harari: Yeah. So, first of all, we are very excited to see that the industry is starting to get back to on-site. Some of the effect is already there, as we resumed in the last quarter and even in the previous quarter, some of our travel and on-site engagements. We do expect to see a slight increase on our sales and marketing due to these on-site events. But we are all eager to meet our customers. I believe this would enhance our ability to close new business and mainly as Radcom that we are targeting to land and expand into new accounts, this is definitely going to help us to get more confidence for more customers. So, overall, we are very happy from this new trend. And hopefully, with COVID you never know, hopefully, this will continue during

'22. So, slight increase, not something dramatic. But yes, some of the expense are going to be higher as travel has a cost.

Arjun Bhatia: Perfect. Yeah, I think we're all – we're all for that return to in-person events, on seeing everybody in person. Thanks for taking the questions. Congrats, again.

Eyal Harari: Thank you.

Operator: *[pause]* There are no further questions at this time. This concludes the Radcom Ltd. first quarter '22 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call]
