



***Ladies and gentlemen, thank you for standing by. The conference will begin shortly.**

Veidan Operator

Ladies and gentlemen, thank you for standing by. Welcome to the **RADCOM Limited Results Conference Call for the Second Quarter of 2022.**

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 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 Investors 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, expected growth in 2023, expectations regarding the enterprise market for telecom operators, continued investment in and benefits from research and development, 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 for its products and growth, levels of expenses and keeping them below revenues, the potential for additional multi-year contracts, engagements and expansion of opportunities, the Company's expectations with respect to its relationships with Rakuten and AT&T 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 filings.

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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 the 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 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.

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Eyal Harari – CEO

Thanks, operator. Good morning, everyone, and thank you for joining us for our second-quarter 2022 earnings call.

We achieved another strong quarter with solid financial results. Also, as recently announced, we won two new 5G assurance contracts and extended our multi-year agreement with AT&T. Total revenue for the second quarter was 11.1 (eleven-point one) million dollars, representing a twelfth consecutive quarter of year-over-year revenue growth, up 14% compared to the second quarter of 2021.

I am pleased with the strong demand for our innovative solutions as we win new customer logos and expand business with our installed base. The 5G market is ramping up, reflected in the momentum of our business. In the first six months of 2022, revenue grew by over 15 percent compared to the first six months of 2021.

With the growth in our business and the efficient management of costs, we have generated over \$3 million in cash since the beginning of 2022, resulting in cash and short-term deposits reaching \$73.1 million, a 4-year high.

Since the beginning of the year, we have been at a breakeven point, and we believe the positive momentum will continue into the year's second half.

As we announced in May, DISH selected Radcom to monitor America's first 5G smart network. It started its nationwide rollout in May, launching in Las Vegas. After a month of testing, DISH's 5G network was made available to the public in over 120 US cities, covering 20 percent of the US population.

We feel proud to be DISH's assurance partner as they roll out their 5G network. DISH chose RADCOM ACE to monitor their standalone 5G network, the first fully deployed on the public cloud. RADCOM was selected because DISH wanted a best-in-class assurance solution that seamlessly integrates into the cloud and provides network-wide visibility.

Our previous R&D investments with partners like AWS to integrate Radcom ACE with public cloud providers have borne fruit. Our integration with AWS enables DISH to use the AWS Cloud along with Radcom ACE to simplify 5G rollouts and smartly manage network services more automatically.

As DISH moves forward with its nationwide rollout, it is expected to have more flexibility and capabilities to be leveraged to generate new revenue.

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In a recent Analyst Day hosted by DISH, they stated that the enterprise would be a significant opportunity for attaining new revenue streams with its smart 5G cloud platform. DISH can offer enterprise customers different flavors of private networks for advanced 5G connectivity and services.

This is where our cloud assurance technology can help. DISH can offer enterprise customers our assurance solution to monitor these private networks to ensure service quality and certify SLAs. As a result, they could provide “Service Assurance as a Service” as part of their managed services to the enterprise. We believe the enterprise market for telecom operators has much potential, with operators taking their 5G cloud and selling premium services for new revenue across multiple verticals.

We also announced a new multi-year 5G assurance contract win with a European mobile network. 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 its network performance, ensuring top-quality services are delivered to its customers.

We are excited about these new wins and the progress we are making in integrating our assurance solution into these networks.

Like with DISH, we continue seeing lots of collaboration between telecom operators and public cloud providers like Amazon Web Services. For example, Telefónica Brazil recently validated AWS as an option for their 5G SA core. Telefónica wants to increase automation and drive new revenues with cloud-based 5G platforms. The ease of use and speed with which operators can roll out new networks and services with these public cloud providers continues to gain traction, reflected in recent cloud providers’ earnings results that have beaten analyst expectations.

We believe that our integration into several cloud providers will continue generating additional opportunities. In addition, we will continue working with technology partners to integrate Radcom ACE with other platforms to help operators manage the complexity of launching 5G and ensuring the customer experience.

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Last month we announced RADCOM ACE's integration into another cloud platform. Rakuten Symphony selected our cloud assurance technology as its service assurance solution that will be globally available in their Symworld™ marketplace.

Rakuten Symphony is a business dedicated to selling the Rakuten Communications Platform and managed services to telecom operators worldwide. Symworld™ provides a single platform, which includes all the applications, cloud, and operational data that telecom operators need to run their networks more efficiently and launch services fast.

Making RADCOM ACE available in the Symworld™ marketplace with easy click and deploy access will increase our solution availability and comes with built-in workflows and unified data analytics to help more operators rapidly deploy and roll out 5G with Rakuten Symphony. We believe that being part of this platform will open significant opportunities for us in the future.

We remain confident that our product offerings are best-in-class and will play an essential role in the 5G transformations as more opportunities evolve.

We continue to enhance our software solutions with expanded automation and intelligence AI-based capabilities to bring value to our customers as they roll out 5G and move to launch advanced services. In addition, we are working with the Israeli Innovation Authority and academic institutions to push cutting-edge technology forward within the telco space.

Our solution automatically analyzes millions of user sessions in real time and reveals underlying faults that otherwise would be unlikely to be identified quickly in 5G networks. Furthermore, with the amount of data crisscrossing the network increasing monthly, our solution continually evolves to help operators overcome the challenges of operating complex networks to ensure the quality of services.

As we grow the business, we maintain our laser focus on retaining and nurturing top talent. Our employee retention efforts are bearing fruit as we have kept a similar headcount since the beginning of the year.

We place a high priority on creating a culture that fosters success for our employees. We aim to provide attractive career paths and promote internal talent. Our team is composed of talented people with unique knowledge and expertise driving our success. I wish to take this opportunity to thank all of RADCOM's employees as they continue to help us meet our business commitments.

The strong demand for RADCOM ACE and the 5G market ramp-up is reflected in the momentum of our business and our healthy pipeline of opportunities.

We are engaged with operators worldwide looking to provide their customers with exciting new 5G services and use our solution to make their networks more intelligent and automated. As a result, we see the number of engagements, the level of engagements, and RADCOM win

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rates very positively. At the same time, we continue to manage our expenses while investing in the business strategically and efficiently.

To summarize, I am pleased with our performance in the second quarter. Revenues are up, and our bottom line continues to improve.

We see solid demand for our solutions and remain focused on executing our strategy as more operators transition to 5G and look for innovative assurance solutions to support their network transformation. As a result, we remain confident in our business strategy and the role we expect to play in the 5G evolution.

Thanks to the recent wins, our growing business in our installed base, and our ongoing sales engagements, we have good visibility, and we are raising our revenue guidance to \$45 million-\$48 million, a second consecutive rise this year.

We believe this accelerated momentum will continue into 2023, to deliver a fourth successive year of growth.

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 – CFO

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 second quarter of 2022 with \$11.1 (eleven point one) million dollars in revenue, increasing from \$9.8 (nine point eight) million dollars in the second quarter of 2021.

At the same time, as we increased revenue by over 14%, we managed costs and maintained the same operational expenses as in the second quarter of 2021. This contributed to us reaching a breakeven point and improving the bottom line.

Our gross margin in the second quarter of 2022 on a non-GAAP basis was 72% (seventy-two) percent. Please note that our gross margin can fluctuate depending on the revenue mix.

We are pleased with our consistent growth trend and believe the positive momentum will continue into the year's second half.

Our gross R&D expenses for the second quarter of 2022 on a non-GAAP basis were 4.7 (four-point seven) million dollars, a decrease of 196 (one hundred ninety-six) thousand dollars compared to the second quarter of 2021.

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We received a grant of 197 (one hundred ninety-seven) thousand dollars from the Israel Innovation Authority during the quarter, compared to 70 (seventy) thousand dollars in the second quarter of last year.

As a result, our net R&D expenses for the second quarter of 2022 on a non-GAAP basis were 4.5 (four point five) million dollars, compared to 4.8 (four point eight) million dollars in the second quarter of 2021.

We expect the Israel Innovation Authority grant in the third quarter to be at a similar level as in the second quarter.

Sales and marketing expenses for the second quarter of 2022 were 2.5 (two-point five) million dollars on a non-GAAP basis, an increase of 221 (two hundred twenty-one) thousand dollars compared to the second quarter of 2021.

G&A expenses on a non-GAAP basis were 841 (eight hundred forty-one) thousand dollars, in both the second quarter of 2022 and 2021.

Operating income on a non-GAAP basis for the second quarter of 2022 was 176 (one hundred seventy-six) thousand dollars compared to an operating loss of 646 (six hundred forty-six) thousand dollars for the second quarter of 2021.

Net income for the second quarter of 2022 on a non-GAAP basis was 15 (fifteen) thousand dollars or a net income of 0.00 (less than a cent) per diluted share compared to a net loss of 304 (three hundred four) thousand dollars or a net loss of 0.02 (two cents) per diluted share for the second quarter of 2021. The positive net income was due to the increase in revenue and a decrease in operating expenses offset by the unfavorable impact of changes in foreign exchange rates.

On a GAAP basis, as you can see on Slide 7, our net loss for the second quarter of 2022 was 1.2 (one point two) million dollars, or a net loss of 0.09 (nine cents) per diluted share. Compared to a net loss of 1.1 (one-point one) million dollars, or a net loss of 0.08 (eight cents) per diluted share, for the second quarter of 2021.

At the end of the second quarter of 2022, our headcount was 284 (two hundred eighty-four).

Turning to the balance sheet.

As you can see on Slide 11, our cash, cash equivalents, and short-term bank deposits as of June 30, 2022, were 73.1 (seventy-three point one) million dollars.

That ends our prepared remarks. I will now turn the call back to the operator for your questions.

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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 handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. The first question is from

Alex Henderson from Needham and Company. Go ahead.

Alex Henderson: Hello. Thanks for a nice print. And congratulations on being able to raise the guide. So, nice progress. I think I pretty much know the answer to this, but I'm going to ask it anyway, just to be sure. It sounds like your level of visibility, the number of deals that you're chasing, the degree to which those are progressing, is improving despite the economic conditions. Can you confirm that the – that there's no impact from the macro environment based on the strategic importance and – of these projects? That you're fairly well inflated from that?

Eyal Harari: Hi, good morning, Alex, and thank you for your kind words. Yes. Our improved results and our overall execution is based on our recent wins and our positive momentum with our new and existing customers. As we continue to focus on our project and transformation to 5G networks, we don't currently see any impact from the global economic environment. We continue to see demand for our solution, and we continue to see operators invest in their migration of their network to 5G.

Alex Henderson: On a similar vein, could you just remind me, I believe your price in dollars globally. Is that accurate?

Eyal Harari: Sorry, can you repeat?

Alex Henderson: Yes. I believe your price in dollars globally. Is that accurate?

Eyal Harari: Yes, yes. Our – main part of our business is based on dollar, and we do have some opportunities or deals that are in foreign exchange, but vast majority's in dollar.

Alex Henderson: So, do you have any forex risk to the – to the revenue base, that we should be aware of?

Eyal Harari: No, I think it's a marginal effect, as our P accounts and our largest contracts are with – in US dollar. And we do not anticipate any

fluctuations due to foreign exchange.

Alex Henderson: And, conversely, if I look at your operating structure, you, as I recall, you don't hedge the shekel. Correct?

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Eyal Harari: Correct.

Alex Henderson: So, the shekel is obviously moved quite sharply against the dollar, now it's rebound a little bit. But it's still down substantially year over year. At these levels, how much of a positive is that, relative to your cost structure?

Eyal Harari: So, yes, we do not hedge, and we did add some benefit of the weakening of the shekel as part of our expenses there. I believe, about 25% of our expense is in shekel. So I think it's something like couple of hundreds of dollar that we gained due to the – due to the change.

Alex Henderson: That per quarter?

Eyal Harari: Yes.

Alex Henderson: So, based on the current environment, with the shekel having fallen considerably, assuming it stays where it is, do you plan to accelerate a little bit of spending? How does that set up relative to the OpEx going forward?

Eyal Harari: So, we are – as I mentioned in the previous calls, we are going to maintain our expense level. This might fluctuate a bit because of currency, but overall we are looking to keep a similar level while increasing a bit our excess in marketing in order to reach more accounts. So any improvement there goes to the bottom line. As we see in this quarter, we managed to create some profit because of this – saving in – in the R&D cost.

Alex Henderson: Right. So, can you just give us a little bit of a sense of what you expect, in terms of the interest income line? It's bouncing around all over the place. Between almost a million dollars in the first quarter, and ... contribution to an expense in the second quarter. What should we be using in the back half of the year, and what should we be using as we go out over time. Assuming the exchange rate stays stable at current levels.

Eyal Harari: So, with the – I believe that overall we are looking on a – expecting a small positive. But you can never know, because of the fluctuations of – we have some money not in US dollar, some in shekel, some in other currencies, and the fluctuations are, as you know, not always – are not predictable. But overall, I think, in average, we are neutral to that. We do see increased interest rate on the – on the cash that we have as interest rates are going up. So we are expecting to generate some money, but it's not – I think something like – 2% a year.

Alex Henderson: Right. And then, does the tax rate line just continue around 50-60 thousand dollars a quarter kind of a thing?

Eyal Harari: Yes.

Alex Henderson: Good. In terms of the, you know, the pipeline. Sounds like it's progressing very well. Do you expect a – between now and year end, that you'll have additional meaningful wins

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that'll give you, you know, visibility to continuing double-digit growth in 2023 at this point? Or do you think that the environment is such that things have slowed down a little bit. And it might be more challenging to achieve that rate of growth in '23?

Eyal Harari: So, we are definitely continue to engage with multiple opportunities. Some of them are – definitely can close this year, or – and some of them beginning of next year, which will help us to improve our revenue to next year, to 2023. As you – as I noted in my prepared remarks, we are already have very good visibility into 2023, and we already have – I

believe we can have double digit growth already with the visibility we have today. We still, obviously, have some – some things to execute. And between our recent wins and our good progress with our existing accounts, and due to the fact that our business model is, as you know, multi-year, recurring – we already have the visibility for double digit growth for 2023. And we continue to work in order to accelerate that – and have even higher growth.

Alex Henderson: Just to be clear. You're not impacted by the number of subscribers in any way. So, for instance, Rakuten lowering the number of subscribers that it expected doesn't have an impact on you, right?

Eyal Harari: We have different business models. But we have some customers that are using what we call Pay as you Grow, some are in an enterprise license that is not dependent on subscriber. Overall, we have like a minimum spend with most of our accounts, with some of them – with additional up side if they grow more than anticipated.

Alex Henderson: Okay. Thanks. I'll cede the floor.

Eyal Harari: Thank you.

Operator: [pause] The next question is from Arjun Bhatia of William Blair. Please go ahead.

Arjun Bhatia: Yes. Thank you for taking my questions. And congrats on a – on a good quarter, guys. Can you talk about this Symworld partnership that you have, getting on their marketplace. What does that do for Radcom, what kind of operators does that help you reach that you wouldn't have had access to otherwise? And what kind of contribution should we expect there over the next couple of years?

Eyal Harari: So, I would look on that as a – you know, we can go by ourselves to any operator globally. But we are today focus on some operators which are –

most advanced with 5G, and in the regions and areas that we feel there is a best fit to – in terms of their maturity and size. Having Rakuten Symphony as a partner is a big benefit for us and a potential growth driver, as they are in parallel marketing the whole telecom stack. And every operator that they are going to engage will be a possible up side for us, looking into expanding the assurance which we are today the assurance solution within this stack. So, first it

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accelerate our go-to-market efforts, and in some cases the integrated approach that our solution is already pre-integrated with the – a lot of the technology, allow access also smaller carriers that are not always being approach by us. Our focus is more on the tier one. But I would mainly look on that, that it's another strategic channel that could – any success of Rakuten Symphony – Symphony could be a success for us, for additional carrier and accelerating our growth.

Arjun Bhatia: And do you have – is there anything that you can disclose just in terms of how the partnership works, you know, if you do – if you are able to get additional carriers, that come in there, what are the economics that we should expect that you have with Rakuten, as a part of that agreement?

Eyal Harari: So, eventually it's all, you know, Rakuten are mainly priming their overall solution, and I would look on this kind of like an OEM solution, that we are one of the options within their overall stack. And, you know, OEM referring that if they are providing their solution, they could then also include our part as part of their overall deal.

Arjun Bhatia: Okay, got it. Very helpful. And then, you talked about a lot of the opportunities that you have, you know, further down the road, to – to potentially expand with DISH as that rollout continues. What do you – what do you expect in terms of timeline, from how long those expansion

opportunities take to fly out? You know, is this still, is it a multiyear process that we're talking about? ... there anything, you know, near term, that can happen there?

Eyal Harari: So, it's very hard to say, we just announced our win, a partnering with DISH a few months ago, I think like two-three months ago. So we are now busy on implementing our solution and make sure that DISH get the full benefit of the Radcom ACE solution to support their 5G launch and build of the network. We are engage with them closely to make sure we provide most value possible to make them successful. And with this engagement, there are obviously arranged additional ideas and capabilities. Very hard – hard for me to predict when could the up side could come. But we are mainly focusing now on providing them the value out of this multiyear that we – multiyear agreement we signed with them recently.

Arjun Bhatia: Okay, fair enough. And then, last one for me. We did see that the gross margins picked up and there was momentum there, I think, Hadar, you talked about that as well. What's the – what's the driver there, and how high do you think that can – that can go, over time?

Hadar Rahav: Well, we believe that our gross margin will be around average gross margin that was in 2021, around 72%. And this quarter, the gross margin was 72%, due to third party components. Of course, that our gross margin is actuate depending on the revenue mix.

Arjun Bhatia: Okay, got it. All right, awesome. Thank you very much for taking the questions asked.

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Eyal Harari: Thank you.

Operator: [pause] Thank you. This concludes Radcom second quarter '22 results conference call. Thank you for your participation. You may go ahead and

disconnect.

[End of conference call]