***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 First Quarter of 2023**.

All participants are present in a listen-only mode. Following management's formal presentation, instructions for the question-and-answer session will be given. 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 still need to download it, 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 2023 revenue guidance as well as revenue from its business with AT&T, levels of gross margin, operating expenses and headcounts, expected growth in 2023 and beyond, expectations regarding the enterprise market for telecom operators, including trends in the market and the effect of general economic conditions, 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, the potential to leverage Continual's technology and products to the benefit of Radcom with Vodafone and other customers, its expectations about its pipeline, opportunities, leadership position and momentum, further demand for its products and growth, the Company's expectations with respect to its relationships with AT&T Rakuten 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.

**Q1-23 Transcript**

In this conference call, management will refer 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.

**Q1-23 Transcript**

**Eyal Harari – CEO**

Thanks, operator. Good morning, everyone, and thank you for joining us for our first quarter 2023 earnings call.

We continued our strong momentum from 2022 into the first quarter of 2023 with a revenue increase of 13% compared to the same quarter last year, a fifteenth consecutive quarter of year-over-year growth.

Our solid performance and careful expense management improved all our profitability KPIs. We also introduced some new product use cases built using advanced AI for 5G.

This quarter we significantly improved our profitability, tripling our non-GAAP net income compared to the first quarter of 2022 and achieving a 15% non-GAAP net margin. In addition, we are happy to report that our GAAP profitability reached a four-year high, driven by solid team execution and increased revenues.

We also had an encouraging start to 2023 by securing a new logo in North America. Our solution will smartly collect, process, and analyze traffic in a highly automated way across both 5G and 4G networks, which helps the operator deliver high-quality services nationwide while proactively ensuring great customer experiences. This exciting news continues the positive momentum since the beginning of 2022.

5G networks continue to roll out with telecom operators investing in infrastructure and new technology while ensuring a seamless transition for customers so they receive top-quality services. At the same time, operators must be efficient and keep the costs at a reasonable level.

Operators can use our innovative assurance technology to manage the network through actionable insights to ensure excellent customer experiences while saving OPEX and driving automation. This is our added value, which is why operators turn to our solutions.

We continue to develop our AI-driven use cases to push our vision of autonomous networks that will help operators deliver great user experiences, save costs, and monetize their services.

During the first quarter, we announced that we partnered with Rakuten Mobile to offer the telecom industry's first Network Data Analytics Function (NWDAF) in production. RADCOM NWDAF is a complementary product line to RADCOM ACE and part of our long-term vision of helping enable autonomous networks.

The overall NWDAF market is at its very earliest stages, so the product will not generate revenue in the short term. However, it is an important investment for the future as it is a native network function deployed in an operator's network and not an add-on. It uses advanced AI to enhance the customer experience and drive closed-loop automation.

This partnership with Rakuten demonstrates our market leadership and innovation in AI, automation, and 5G.

AT&T remains a key strategic customer, and we believe our business will remain strong. Last year, we announced that AT&T renewed its multi-year assurance contract with RADCOM as we continue to expand our relationship by providing additional value and cutting-edge software releases. We expect revenue from AT&T in 2023 to remain at a similar level to last year, with the potential for further growth.

Turning to our product innovation.

We continue our commitment to delivering innovative solutions as we enhance our software with additional automation and intelligence AI-based capabilities to bring value and expand use cases for our customers as 5G technology moves forward.

During the quarter, we announced RADCOM's Virtualized Network Operations Center (vNOC). This new use case is powered by extensive AI and enhanced with our telco domain knowledge to digitize the network operations center for 5G. The vNOC helps operators transition from manual operations to automatically detecting anomalies and performing root cause analysis. This enables operators to solve customer-affecting issues and drastically improve resolution times, making network teams more efficient while saving costs and improving the customer experience.

We also advanced our cloud expertise, announcing tighter integration of RADCOM ACE with Amazon Web Services (AWS) so operators can gain complete assurance lifecycle management on AWS to drive network automation. This provides operators adopting the public cloud with extensive operational agility that saves OPEX and enhances the user experience on AWS. We believe our integration into cloud providers will help generate additional opportunities.

In February, our sales team attended the Mobile World Congress in Barcelona, Spain, the leading telecom industry event, with an audience of almost 90,000 people from 202 countries. We were excited to once again engage in face-to-face meetings with customers, top-tier operators, and partners. We had many positive meetings, including interest in our new mobility experience offering acquired from Continual. We believe that some of these meetings could lead to new sales opportunities.

As we covered in a recent blog post on the event, we saw evidence of our belief that automated assurance will be vital for 5G network operations. Operators must make their network more intelligent, dynamic, and autonomous to deliver quality 5G services. So, strong themes were the transition to the cloud, network automation, and the importance of AI.

All these are areas of interest for RADCOM, and the 5G market remains promising while still in the early stages. The complexity of these new 5G network architectures requires automated assurance solutions to provide the cornerstone to building a network with extensive automation. We also hear this from our customers.

Now I would like to provide more color on Continual.

In February, we entered into a definitive agreement to acquire Continual. After satisfying customary and transaction-specific closing conditions and regulatory approvals, we completed the acquisition in May.

Continual focuses on telco network analytics, specializing in mobility insights. These insights enable the operator to understand the movement of their customers and how to improve service quality and coverage, with a particular focus on the radio network and 5G. These mobility experience insights use AI technology and are cloud-based. So, they fit into our product philosophy and solution architecture while adding value to our current offering.

It will offer a differentiator from our competitors with Continual's unique, innovative location-based technology. A modular add-on solution as a possible entry point into new accounts and additional upsell opportunities into our install base. In addition, it brings us new logos, like Vodafone, and offers us opportunities to expand into different areas. Finally, it adds further talent and telco domain knowledge to our team.

We believe that adding Continual's advanced mobility experience analytics, and intellectual property, will enrich our 5G assurance solution and create new opportunities for RADCOM.

We see that new figures from GSMA Intelligence published during the MWC show that 5G connections are expected to double over the next two years, expedited by technological innovations and new network deployments in more than 30 countries in 2023 alone.

As operators invest heavily in 5G, they seek new revenue streams to regain their investments and streamline network operations through cost savings. This trend is even more critical with the uncertainties around the macroeconomy. So, we believe our position as an advanced automated assurance provider for 5G will continue to drive positive returns.

Our pipeline continues to be healthy, with a good mix of opportunities from our current installed base and new customers. In 2023, we are gradually increasing our sales and marketing teams to accelerate growth. 5G is moving forward, but rollouts take time.

We are laser-focused on our business strategy and the 5G market. We believe our position as a leading assurance provider for cloud-native 5G networks and our cloud expertise and knowledge will continue to drive the growth of our business.

To summarize.

We have continued our strong momentum from 2022 into the first quarter of 2023. Our solid financial results demonstrate our successful strategy, execution, and unique market position in supporting telecom operators as they roll out 5G.

We believe this solid track record will drive consistent financial results in the future and continued improvements to the bottom line. We have a solid foundation in place for a strong 2023 and a fourth successive year of revenue 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.

To help you understand the results, I will refer mainly to non-GAAP numbers excluding share-based compensation. Now please turn to Slide 8 for our financial highlights.

We achieved record revenues in the first quarter, reaching 12 (twelve) million dollars, representing a fifteenth consecutive quarter of year-over-year revenue growth and an increase from 10.6 (ten point six) million dollars in the first quarter of 2022. First-quarter revenue grew by double-digits, with year-over-year growth of 13% (thirteen) percent. This resulted in non-GAAP net income for the quarter of 1.8 (one point eight) million dollars, a five-year high.

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

Our gross margin in the first quarter of 2023 on a non-GAAP basis was 73% (seventy-three) percent. Please note that our gross margin may fluctuate between the quarters depending on the revenue mix. We expect that the second quarter will remain at a similar level.

Our gross R&D expenses for the first quarter of 2023 on a non-GAAP basis were 4.2 (four point two) million dollars, a decrease of 724 (seven hundred and twenty-four) thousand dollars compared to the first quarter of 2022.

We received a grant of 262 (two hundred and sixty-two) thousand dollars from the Israel Innovation Authority during the quarter, compared to 218 (two hundred and eighteen) thousand dollars in the first quarter of last year.

As a result, our net R&D expenses for the first quarter of 2023 on a non-GAAP basis were 4 (four) million dollars, compared to 4.7 (four point seven) million dollars in the first quarter of 2022.

We expect the Israel Innovation Authority grant in the second quarter to be about 150 (one hundred and fifty) thousand dollars.

**Sales and marketing** expenses for the first quarter of 2023 were 3 (three) million dollars on a non-GAAP basis, an increase of 407 (four hundred and seven) thousand dollars compared to the first quarter of 2022.

**G&A** expenses for the first quarter of 2023 were 964 (nine hundred and sixty-four) thousand dollars on a non-GAAP basis, an increase of 139 (one hundred and thirty-nine) thousand dollars compared to the first quarter of 2022.

**Operating income** on a non-GAAP basis for the first quarter of 2023 was 833 (eight hundred and thirty-three) thousand dollars compared to an operating loss of 274 (two hundred and seventyfour) thousand dollars for the first quarter of 2022. The increased revenue and favorable FX drove this growth.

**Net income** for the first quarter of 2023 on a non-GAAP basis was 1.8 (one point eight) million dollars or a net income of 0.12 (twelve cents) per diluted share compared to a net income of 614 (six hundred and fourteen) thousand dollars or a net income of 0.04 (four cents) per diluted share for the first quarter of 2022.

On a GAAP basis, as you can see on Slide 7, our net income for the first quarter of 2023 was 621 (six hundred and twenty-one) thousand dollars or a net income of 0.04 (four cents) per diluted share. This compares to a net loss of 592 (five hundred and ninety-two) thousand dollars, or a net loss of 0.04 (Four cents) per diluted share, for the first quarter of 2022.

At the end of the first quarter of 2023, our headcount was 277 (two hundred and seventy-seven).

We expect our headcount to grow to approximately 300 in the second quarter. This increase includes additional sales and marketing employees and onboarding of the Continual team.

We expect the Continual team's onboarding to slightly increase our operating expenses while helping to improve our topline as we integrate the solutions, upsell to our current install base, and sell to new customers as a unique product differentiator. slightly Turning to the balance sheet.

As shown on Slide 11, our cash, cash equivalents, and short-term bank deposits as of March 31, 2023, were 77.9 (seventy-seven point nine) million dollars.

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

**Operator:**

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. *[pause]* The first question is from Arjun Bhatia of William Blair. Please go ahead.

**Arjun Bhatia:**

Perfect. Thank you, guys for taking the question. Eyal, can you talk about some of the AI investments that you're making? What – what capabilities are you introducing into the platform? And, you know, as we kind of roll some of these features out, how do you think about monetizing them? Is that going to be included in the core platform? Or is that something that you can upsell as customers adopt that?

**Eyal Harari:**

Hi, good morning. The AI is a pivotal area of investment for us as part of our – the overall vision for creating autonomous network operation. The main driver for us is to see how we can turn manual processes used today, expensive engineering teams, and implementing leveraging the AI capabilities to be done in a much more efficient way. In addition, it also adds a lot of improvements to the time to repair. As if you need to do things manually, it always takes time and you have resource constraints. And if we are able to do it with our AI capabilities, operators are able to identify and solve the – the faults much faster. If we look on the business side, we are looking in two ways. Definitely, this is an added sale into our installed base. It's another – we are packaging it in different applications, creating different use cases on top of our main Radcom ACE platform. But this is also very key as a differentiator when we are approaching new customers and they are puzzled on the reasoning to replace their incumbent solutions. One of the key drivers for them is once we show them the – improving the network operation and efficiencies, which helps to justify the ROI for a replacement of their old legacy tools. So it's a mix of upsell to the existing accounts and also enabler that improve our positioning with new accounts.

**Arjun Bhatia:**

Okay. That's helpful. And then, on Continual, congrats on closing the deal. What – I'm trying to understand, what were operators doing to understand subscriber movement before Continual? Like is this a – is there a tool that they had in place to do this? And – or is there something else that you think you'll replace or consolidate, as you roll this out and cross-sell into the base?

**Eyal Harari:**

So, the Continual product line is actually adding a totally new dimension to the analytics we can do. Networks, you – you always try to analyze them by geographies, by locations, and this is a technology and concept that are already in place for telecom. But the main complexity of mobile networks are people that are taking calls and sessions, while they're on a move, and you can see them in a different location in different time, but you don't – it's very hard for you to identify the overall journey without a dedicate solution. So it's actually a very innovative concept, that as – as I mentioned that they are in many times blind otherwise or use, I would say, more – primitive tools that shows them only part of the time. Part of reasoning is it's very hard for them to really isolate the different quality issues results specifically due to mobility. Because it might be that while I'm making my call, I'm traveling across five cells, each of them by itself is providing good quality to the area. But while I'm in transition, I actually get inferior quality. So operators today do not know how to differentiate that, and by that they are blind into the quality of experience of their subscribers, they over assume that they give better service than they actually do. And this conflict makes up their customer less satisfied and more likely to churn. Mobility is always most complex when we are in a move, mainly when we are in a car that we move in a higher speed, maybe on trains, as this really challenge the technology. And we feel this is really unique approach, this is what we like about this company. And it definitely adds into our cutting-edge offering with new application. So we are very excited on that.

**Arjun Bhatia:**

Yeah, definitely. That sounds very interesting. I appreciate the color. Last one for me, just when we're thinking about margins for the year, it looks like you're driving some upside here. How should we think about the leverage and the model throughout the course of this year? And – and how much room is there to improve the margin profile? It sounds like there's some investment going on in product and go to market, but just help us walk through the – the cadence for the year?

**Eyal Harari:**

So we are – we – we saw that this quarter, we executed better than even in our expectation and we are very happy for – on the results. We hope to continue to overachieve and beat our expectations. We do have increase of cost as we augmented the Continual teams into our operational expense. This is a bit offset by the – weakening of the shekel, compared to the US dollar. But overall, we are looking to – we increase our operational expense a bit. If all goes well and we continue to grow and win more accounts, we are looking to continue and see the trend of profitability improving. And of course, we are still relying on the – on the rate of the shekel, if the shekel will continue to be in a similar level, this is very favorable for us. We have some, like, maybe 5% gain due to the weakening compared to the dollar, as our R&D expense is heavily based on shekels.

**Arjun Bhatia:**

[pause] Okay, got it. Thank you for taking my questions, guys.

**Operator:**

If there are any additional questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by we poll for more questions. *[pause]* The next question is from Alex Henderson of Needham and Company. Please go ahead.

**Alexander Henderson:**

Great, thanks. So, I wanted to just get down into the addition to Continual, and I assume some additional hiring that you're doing independent of that acquisition. By my math, it sounds like your expectation for headcount is up about 8.5% sequentially. And so, should we be considering that kind of rise, on average, in your OpEx? And can you give us a little bit of a sense of the split between R&D and sales and marketing in that – in that cost addition?

**Eyal Harari:**

Yes, Alex. Good morning. We are – incrementing our headcount, we are looking to inflate our headcount to – next quarter in the range of 8, 9%, as primarily by addition of Continual team, but also with our continued increase of investment in the sales and marketing, while Continual team is mainly R&D. And, on top of that, we add our additional investment into sales and marketing, I would say that this will be around the same ratio, on both R&D and sales and marketing, where G&A is going to stay about the same. *[pause]* Of course –

**Alex Henderson:**

So, should we –

**Eyal Harari:**

– not taking effect of any FX changes.

**Alex Henderson:**

So, we should be taking about a 10% increase in both sales and marketing, and a very minor increase in G&A?

**Eyal Harari:**

Again, about 8 to 10%, correct.

**Alex Henderson:**

Obviously, it's – you're not adding to your G&A from that acquisition, so I would assume it's a little – a little higher than the 8% number, primarily with the increase in – in those key lines.

*[speaking together]*

**Alex Henderson:**

So, based off of the strength of – of the quarter, you know, should we be looking at any sequential growth? Or is it fairly stable on the top line sequentially, as we go out with most of the increase in revenues remaining to get to your target in the back half of the year?

**Eyal Harari:**

So we start – we see that we – managed to get over 12 million dollar a quarter based on our recent wins. We are looking to keep improving and add additional revenue quarter over quarter. With that, you know, it's very hard to forecast exact – when exactly will we have additional upside, as we are looking to get more revenue both from our existing and new customers. I think that overall we are going to gradually continue with our plan, and we need to make our guidance that we are still feel comfortable that this year will be another growth year for us.

**Alex Henderson:**

*[pause]* In – in context of the US wireless market, it's become increasingly clear that there is a challenge around the open 5G core. Many of the service providers appear to be struggling with the mechanics of getting that to work. We've heard that there's going to be a push out in the time that they move from 4.5G to 5G core. I can read that in two ways, one way to – to read it would be, there could be a delay in spending for your products. The other way to read it would be that just significantly increases the need for your products, as visibility and analytics are critical to solving the software challenges of doing the open core. So, can you talk a little bit about that issue, and how it might imply if there's a delay in the timing of the – the transition to a, you know, full standalone 5G?

**Eyal Harari:**

Yes. First and foremost, it's evident today that all telco operators are in the process of implementing 5G, and in specific, 5G core or 5G standalone, is a strategic investment. This is very important as this is the foundation of our strategy as we build the company and we build the product and technology towards that transformation of telcos, this adds for us an opportunity to replace the legacy solutions, as it's a technology revolution, but it also require operators to move to the cloud. This being said, timing wise, there are some factors that make things more complicated and slower, one of them is the technology itself that is quite complex and not as mature, and it takes for the network vendors time to implement and the operators are – it takes them longer than before. For us, it's a good thing, because the more complicated the technology is, the more relying of solution like ours up, they are. So we are in a – helping them to correct this complexity. We see that customers that adopt our technology, like Rakuten and DISH, and more, are managing to move faster than others in the 5G space. The macroeconomy is definitely make everyone – pacing their investment, they are shrinking, and sometimes we think that with the optimizations, that it's harder for them to progress with the project. This obviously might create some delay with the investment, but the good thing is that our business model is robust. We are working with the leading carriers, we have a multi-year view, we have recurring revenue. Even in this environment and delays, as you could see, we are able to perform continuous growth, and – and be prepared to the – to the journey that it will take. I will want – I would want to highlight that our – my personal belief is that this is – the 5G is progressing, this is why we are increasing our sales and marketing, but we look on this as a journey. This is not things that happens over a quarter. But we see the next two years are going to be critical and additional customers and additional operators are going to migrate to 5G. So we believe in this space, and we investing in this space. Timing is always a question. But you need to work closely with the operator in order to make sure that you are the selected solution, when they are ready.

**Alex Henderson:**

So, just going back to – to the point, it sounds like, yes, there may be some slowdown in the timing of – of open cloud based 5G core, but the complexity challenges are being realized in a way that drives increased need for your product, and therefore, while it may be a detriment to, say, a Nokia or an Ericsson, this actually could be a positive for you guys in that context? The other side of this is, the international markets have generally cleaved to a lesser open, but still cloud oriented 5G core. And that in turn is easier to implement. And so, I guess the question is. do you see some – some acceleration or improved opportunities in the international market as a result of that dynamic?

**Eyal Harari:**

Yes, we do see that there is more adoption of cloud technology. Going back to my comment about Mobile World Congress back in the end of February. We saw the hyperscalers, you know, Amazon, Google and Microsoft taking a prime attention of all telcos. This was dominated by European carriers, and we see mainly a lot more investment by all parties, and we start to see more and more projects of telco going into the cloud. This is a good sign for us. As, as I mentioned, any investment to this direction make our value much higher. Our – differentiator more critical, and we really believe that this trend could help. 5G progressing in Europe and in Asia and we start to see additional signs in Latin America. For us, we don't look necessarily on geographies. We are mainly looking on the market, as – how advanced operators are with 5G. The more advanced they are with 5G, the more advanced they are with cloud, they have a better fit. So we are really targeted in our approach, and trying to partner with all that are more advanced. So even if we don't know the pace of the adoption, but we want to make sure that all the early adopters, or many of them as possible, are partnering with Radcom, and this will help us to continue and innovate, continue to create unique capabilities, and raise the bar for any competition that might try to follow

**Alex Henderson:**

Okay. Two – two more questions, fairly brief, though. The Continual acquisition, obviously, has some nice incremental technology. I assume it is not included in your AT&T or Rakuten contracts. How do you see that technology being adopted by your existing customers? And, what kind of uplift would there be to your revenues at individual clients, if they did that? In other words, if, say, we're selling – just choosing a number randomly here – a million dollars to – to AT&T in a year, and they adopted this, would that be a million 1, or a million 2? What would the incremental uplift be, you know, for – for that adoption?

**Eyal Harari:**

So, we are – we are still early in trying to introduce this technology into our install base. So, overall, we see excitement from that. And, I would say that, while currently, you know, Continual was a start-up and their revenue level, as we mention, is – insignificant to our numbers in this stage. We see a potential that this could grow and help to improve our top line. I would say this would grow up to 15, 20% of our revenue, if – if all goes well. But it's really depends on the adoption, but this is just like, an initial sense. We are still looking to continue and introduce it to the market, and we are still finalizing the – all the details, closing gap in just couple of weeks ago. And I am sure that we will be smarter in couple of quarters, when we start to plan our 2024..

**Alex Henderson:**

Great. Thank you so much.

**Operator:**

*[pause]* This concludes the Radcom Ltd. first quarter 2023 results conference call. Thank you for your participation. You may go ahead and disconnect.

*[End of conference call]*