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

**Veidan Conference Coordinator**

Ladies and gentlemen, thank you for standing by. Welcome to the **RADCOM Limited Results Conference Call for the Third Quarter of 2023.**

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](http://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](http://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, the potential to scale up to a mid-size software company, levels of gross margin, further increases to revenues and profitability in 2024, operating and stock-based compensation expenses, headcount, expectations regarding continued rollouts in the 5G market and investments in networks, sales opportunities, pipeline, momentum, potential and expected growth, the effects of the war in Israel, its expectations with respect to investments in research and development and sales and marketing, as well as grants from the Israel Innovation

Authority, deployment of its 5G solutions in multiple cloud environments and the potential benefits to its clients, the potential of the Company's products with respect to artificial intelligence (AI) and generative-AI and customer satisfaction. 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 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, acquisition-related expenses, and amortization of intangible assets related to acquisitions, 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.

Profitability significantly improved

invested

### **Management's Formal Presentation**

**Eyal Harari – CEO**

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

I want to start by commenting on the terrorist attack on October 7th and the situation in Israel.

The RADCOM family is appalled by the attack and wishes to extend our deepest sympathies and condolences to those affected. This was the worst attack in Israel's 75-year history and has been felt on a global scale, with victims from at least 30 nations affected by this tragedy and over 240 people kidnapped. Our heart is with them, and we hope they will come home safely. We also pray for the victims, their families, and their loved ones.

We empathize with every individual impacted and strongly condemn the acts of violence that have occurred. We are confident in Israel's strength that will not let terror win.

I want to thank all our customers, partners, and stakeholders for their unwavering support and best wishes, and we are grateful for their continued confidence in RADCOM.

Our operations in Israel continue without interruption, and we are tending to our employees' and their families' needs and well-being. Our business continuity plan has been activated, and while we are closely monitoring the situation, our Israel office is fully operational and running on all cylinders.

Looking at the broader picture, most of our workforce is outside Israel, so we don't expect these events to impact our overall business. As a software company, our operations are in the cloud, which means we are agile and can adapt to the evolving situation. Our global support centers span multiple regions and are all running as planned. We continue fulfilling our customer commitments, providing 24/7 support, and focusing on growing the business.

We remain steadfast in our commitment to driving the company forward. Our team continues to work diligently to fulfill our obligations for 2023 and pave the way for 2024. I want to express my appreciation for their hard work and devotion.

## Q3-23 Transcript

### Turning to Q3 results

The positive business momentum of the first six months continued in the third quarter of 2023. We achieved record quarterly revenues of \$13.2 million, up a double-digit percentage, and delivered a seventeenth consecutive quarter of year-over-year revenue growth.

Net income in the third quarter reached a 6-year high, and we continued to improve our gross margin.

Strong team execution led to good financial performance, driving revenue growth and improving our bottom line.

We believe that during the fourth quarter of this year, revenue growth and profitability improvements will continue and extend into 2024 as we provide operators with AI-powered analytics to ensure excellent customer experiences. This reinforces our guidance as we expect to deliver a fourth consecutive growth year in 2023 and scale up to a mid-size software company for the first time in the Company's history.

### Turning to our customers

We have made good progress in our existing and new accounts thanks to our focused team performance.

With the additional account activities, increased by further customer expansions during the year, our existing teams scaled to meet the higher demand and continued to provide value and deliver cutting-edge software releases to our customer base.

### Turning to the 5G market.

We see operators continue to roll out 5G and invest in their networks. The market direction is clear, while the pace may vary.

We are engaged in multiple opportunities at different stages of maturity. These engagements include a mix of new and current customers as operators continue their 5G transformation.

Therefore, we increased our investment in sales and marketing to meet the expected demand for our carrier-grade solutions.

A couple of weeks ago, Open Signal published its latest mobile network experience report on the highly competitive Japanese market. It showed that just three-and-a-half years after launching, Rakuten Mobile's efforts to deliver high-quality, easily accessible mobile services had been validated by expert research. The report stated that the country's newest operator performs highly in several key measures.

Dish announced another world-first, setting a significant simultaneous uplink/downlink speed in the United States. Dish can offer faster 5G speeds and low latency, delivering a better customer experience for data-heavy applications like video conferencing and uploads.

Also, AT&T recently delivered strong results in the United States with solid 5G growth as they continue to invest in best-in-class 5G connectivity and enhance the largest wireless network in North America.

In all these examples, we believe assurance solutions are vital in managing the complexity, ensuring subscribers receive excellent customer experiences and enjoy high-quality services.

So, we continue to invest in R&D to enhance our product portfolio and provide customers with best-in-class assurance solutions to help them drive their networks forward and innovate.

Operators play in a highly competitive market, especially in the current economic climate, as they are pressured to control costs and streamline their processes. This trend leads them to rely on assurance to improve efficiencies across their operations. This could generate new opportunities for RADCOM as they turn to next-generation cloud technology to optimize costs and roll out 5G.

We continue to work within the 5G cloud ecosystem. We offer potential customers integration with all three leading public cloud providers: Amazon Web Services, Microsoft Azure, and Google Cloud.

In previous calls, I mentioned the importance of generative AI or Gen-AI, and all the leading public cloud providers or hyperscalers are emerging as having a pivotal role in the Gen-AI ecosystem. We see an opportunity to bring our unique telco-centric assurance skillset to help these hyperscalers boost their push into the telco space.

The team is already working hard on embedding Gen AI technology into our solutions to enable innovations to help operators manage their networks more dynamically and efficiently through AI and automation. We hope to share some of these exciting updates in the fourth quarter.

Turning to our pipeline.

Our pipeline continues to be healthy, offering further scope to grow the business with new and existing logos. Demand for our advanced assurance solutions continues to be strong, boosted by the integration of Continual's unique technology that has enriched our cloud-focused portfolio. So, we continue investing in sales and marketing to create more sales engagements that can lead to additional multi-year contracts and increased market share.

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

## Q3-23 Transcript

Over the last ten months, we have announced multiple innovative capabilities and features to our solution. Our product strategy is making networks more intelligent and autonomous through our AI-powered analytics. As we begin our internal product work plan discussions for 2024 and beyond, we use these two pillars to guide our strategy that continues to drive the growth and transformation of the company. We will expand on this in our fourth quarter and full-year results.

To summarize.

We have made good progress in advancing our business performance, increasing revenues, and improving profitability while seeking sustainable growth. We believe this positive momentum will continue in Q4 and beyond as we innovate and deliver value to our customers.

Our pipeline continues to be healthy, offering growth opportunities with new and existing logos. Our progress in our overall business strategy demonstrates the value of our solutions and the strength of our business model. Therefore, we are reiterating the 2023 revenue guidance of \$50 million to \$53 million.

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, acquisition-related expenses, and amortization of intangible acquisition assets. Now, please turn to Slide 8 for our financial highlights.

We achieved record revenues in the third quarter, reaching 13.2 (thirteen point two) million dollars, representing a seventeenth consecutive quarter of year-over-year revenue growth and an increase from 12.4 (twelve point four) in the second quarter of 2023.

Third quarter revenue grew by double-digits, with year-over-year growth of 10% (ten) percent. This resulted in non-GAAP net income for the quarter of 2.4 (two point four) million dollars, a six-year high.

At the same time, we continue to take a deliberate approach to managing our expenses with a strong focus on innovation and investing in business efficiently.

Our gross margin on a non-GAAP basis in the third quarter of 2023 was 75% (seventy-five) percent. Please note that our gross margin may fluctuate between the quarters depending on the revenue mix. We expect that the fourth quarter will remain at a similar level.

Our gross R&D expenses for the third quarter of 2023 on a non-GAAP basis were 4.3 (four point four) million dollars, a decrease of 302 (three hundred and two) thousand dollars compared to the third quarter of 2022.

We received a grant of 104 (one hundred and four) thousand dollars from the Israel Innovation Authority during the quarter, compared to 187 (one hundred and eighty-seven) thousand dollars in the third quarter of last year.

As a result, on a non-GAAP basis, our net R&D expenses for the third quarter of 2023 were 4.2 (four point two) million dollars, compared to 4.5 (four point five) million dollars in the third quarter of 2022.

We expect the Israel Innovation Authority grant to remain at a similar level in the fourth quarter.

Sales and marketing expenses for the third quarter of 2023 were 3.4 (three point four) million dollars on a non-GAAP basis, an increase of 524 (five hundred and twenty-four) thousand dollars compared to the third quarter of 2022.

G&A expenses for the third quarter of 2023 were 962 (nine hundred and sixty-two) thousand dollars on a non-GAAP basis, similar to the third quarter of 2022.

Operating income on a non-GAAP basis for the third quarter of 2023 was 1.4 (one point four) million dollars compared to an operating income of 0.5 (zero point five) for the third quarter of 2022. The increased revenue drove this growth.

Our financial income for the third quarter of 2023 was 1 (one) million dollars, mainly due to interest rate income on short-term bank deposits.

## Q3-23 Transcript

Net income for the third quarter of 2023 on a non-GAAP basis was 2.4 (two point four) million dollars or a net income of 0.15 (fifteen cents) per diluted share compared to a net income of 1 (one) million dollars or a net income of 0.06 (six cents) per diluted share for the third quarter of 2022.

On a GAAP basis, as you can see on Slide 7, our net loss for the third quarter of 2023 was 0.3 (zero point three) million dollars or a net loss of 0.02 (two cents) per diluted share. This compares to a net loss of 0.4 (zero point four) million dollars or a net loss of 0.03 (three cents) per diluted share for the third quarter of 2022.

This quarter, we recognized stock-based compensation expenses in the amount of \$2.5M, compared to \$1.2M in the first and second quarters of the year. The increase in the third quarter resulted from a change in a forfeiture rate estimation that led to a one-time expense this quarter of \$1.3M. This estimation change reflects the company's success in retaining its key employees and the efficiency of the RSU grant plan from October 2021.

We expect the stock-based compensation expenses in the fourth quarter to be similar to previous levels.

At the end of the third quarter of 2023, our headcount was 301 (three hundred and one). We expect our headcount to rise slightly in the fourth quarter.

Turning to the balance sheet.

As shown on Slide 11, our cash, cash equivalents, and short-term bank deposits as of September 30, 2023, were 78.6 (seventy-eight point six) million dollars.

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



**OPERATOR / Q&A:**

Thank you. Ladies and Gentlemen, at this time, we will begin the question and answer session. If you have a question, please press \* 1. If you wish to cancel your request, please press \* 2.

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 while we poll for your questions.

The first question is from Arjun Bhatia of William Blair. Please go ahead.

**Faith:**

Hi. It's Faith on for Arjun. Just a couple of questions for you guys. You talked about overall the directions clear in the market, that 5G rollout is here. But can you talk about, maybe, how the pace is varying depending on the different size and locations, and what you guys are seeing there?

**Eyal Harari:**

Hi, good morning. So, I think the most important to emphasize is that we see that we are able to continue our revenue growth with another consecutive quarter of double-digit improvement to our revenue. And you can also see the immediate impact on our bottom line. We see that our net income about triples, both for the – this quarter, and also, if you look on the nine month. We see that if the market is progressing even in the current pace, we are able to continue our growth, and we are still very optimistic with the 5G development, as we see, as I mentioned in my previous remark, that operators see 5G strategically. While overall pace is varied between customers, we see that as an industry, there is more and more activity in this space. While there are some operators going slow, there are many more operators that are invested now in 5G. So it's a matter of timing, like always in telco. I think the most encouraging part for us is that we are managing to grow and continue to improve our performance KPIs very, very consistently.

**Faith:**

Okay. Thanks for the color on that. And then just another quick one. I know you guys called out, you're working on embedding more AI solutions across the platform and you're going to be announcing these in the next quarter. So, but, if you had to talk high level where, you know, the general priorities are and what are customers asking for, where do these kind of concentrate across your platform?

**Eyal Harari:**

So, Radcom invested in AI in the last three years as we feel that our cloud platform is in enable to gain a lot of more value from the insurance platform we built. What – what we see that operator today are mainly looking for cost sizing, and improving efficiencies. The only way to do it is to replace labor intensive work with automation. So most of our AI efforts across the platform are to see how we can increase the operator efficiency by taking actions that are today done manually and automate them and close the loop as possible, to gain not only the better efficiency and cost, but also when you do it with AI, you can gain much better quality that affects the customer experience. So we have the huge advantage that we are – we have a lot of data sets collected from the network by our monitoring capabilities, and we leverage the AI technology to analyze them in real time and provide automation processes to – to close the loop and improve the network, and by that gain those two goals. And as mentioned, I will elaborate more next quarter, once we share more about our 2024 plans.

**Faith:**

All right. Perfect. Well, that's it for me. Thank you, guys. Congrats again on the quarter.

**Eyal Harari:**

Thank you.

**Operator:**

The next question is from Alex Henderson of Needham and Company. Please go ahead.

**Alex Henderson:**

Great, thanks. And, Eyal and – and team, I just wanted to express my, you know, heart's with you guys relative to this horrific terrorist attack on your country. And I hope all your employees and family are safe. Looking at the model, I think you commented that you expect gross margins to be similar to the third quarter in the fourth quarter. That's quite a bit higher than recent quarters, and, kind of above the, you know, the – the normal range. Can you talk a little bit about what in the mix is causing that, and whether that's something that we should see persist into the '24 timeframe? Or will the mix regress back to a – more like a 72 and a half type number that you've posted in a number of historical quarters?

**Eyal Harari:**

So, Alex, as you know, we – and as we mentioned before – we see our gross margin is trending to improve as the revenue grows. We create some efficiencies that allow us to improve with scale, also the gross margin, and we are a software company and this allow us to be very profitable with the incremental revenue. What we are seeing now is depending, as you recall, on our revenue mix, and it trends that similar higher level is what we are looking for on the long run. This being said, on a quarter-by-quarter, there might be some fluctuations, and we expect to vary between the range of the 70 to 75, most – but trending to the 75-ish range as the revenue continues to grow. And this, again, as comment below was driving us with the significant improvement of our profitability, which is starting to be very sizable.

**Alex Henderson:**

Great. So, it's logical, then, that we're going to have a 74-ish type margin here for the year. Is it reasonable to think that we're at least 74 in '24? It sounds like a good – good outcome.

**Eyal Harari:**

It's very hard to estimate exactly, because there might be some fluctuations, but you see what our performance in the last couple of years, you see the trend, and I think this is what we are heading.

**Alex Henderson:**

Okay. Then, on the OpEx side, can you remind us of what percentage of your cost structure is shekel based, and what portion is outside of Israel? Obviously, the shekel weakness is setting up for a pretty easy set of compares on the OpEx in Israel?

**Eyal Harari:**

So, about 40% of our employees are based in Israel, most of them are high-paid employees, so I believe around 60% or so, 60% of our cost is based on shekels, something in this range.

**Alex Henderson:**

So, have you guys done any hedging? Or are you – or you're ...

**Eyal Harari:**

No. Hedging –

**Alex Henderson:**

... on that?

**Eyal Harari:**

Typically, most of our cash is in – paid in US dollars, and – we did in the past from time to time some very short term hedging if required, but currently we are mainly leveraging the shekel weakness, and part of what helps us to continue improve profitability.

**Alex Henderson:**

... given guidance, but is there any reason to believe that – that it's going to be any more than 4-5% growth in OpEx? Because given the shekel level, it's a pretty good, you know, offset to any spending growth. And what do you think the merit rate raises look like in the '24?

**Eyal Harari:**

Again, we are still building our work plan for 2024, as we speak. We are – if I look strategically, as mentioned, we keep our R&D in similar levels, and we continue to incrementally increase our sales and marketing as we see additional opportunities and we want to have better coverage. Of course, foreign exchange fluctuations are not something we can expect. I guess once we have the 2024 plans, we will have better – better modeling and expectations, but, the important part in this stage is that all things are trending very consistently, the revenue growth, the profitability, the gross margin, so I think we can get a good sense of – of the model for the company and where we are heading.

**Alex Henderson:**

Going down on the income statement, I was a little surprised the interest income declined quarter-to-quarter, as you are generating solid cash, interest rates are rising. Is there some – is there, you know, some charge, or something of that sort, in that line, that caused it to come down to 140 thousand dollars, quarter to quarter?

**Eyal Harari:**

So, Alex, can you repeat the question? I couldn't hear you well.

**Alex Henderson:**

I'm sorry. The interest income line declined 240 thousand dollars quarter to quarter. Given rising interest rates and rising cash balances, I would have thought it might have gone the other direction. Can you talk to why that occurred? Was there a charge, or some offset? And do we expect it to – you know, to recover sequentially, in the December quarter back to the June quarter level?

**Eyal Harari:**

So, interest rates fluctuate a bit, and – they were lower in the previous quarter, compared to the quarter before. We see also, in the net income, also the changes in some of the foreign exchange that we have in some of our – customer debt and so on. So, overall, I believe this current level is a good estimation for what we expect in the near future. I think it's ...

*[speaking together]*

**Alex Henderson:**

You're saying ...

**Eyal Harari:**

... due to both the change in interest rates and some foreign exchange that we are exposed to. And so, most of the ...

*[speaking together]*

**Alex Henderson:**

All right.

**Alex Henderson:**

I'm surprised that interest rates declined, I thought interest rates were going up, but – okay, any thoughts on the tax line? It's the last question for me.

**Eyal Harari:**

Hadar?

Q3-23 Transcript

**Hadar Rahav:**

Sorry? Can you repeat? ...

**Eyal Harari:**

About the tax?

**Alex Henderson:**

Yeah, any change in tax expectations going forward? I've heard that there are some increases in euro taxes coming down the pike that you're operating in certain geographies that might impact you. Any – anything?

**Hadar Rahav:**

No – no, we expect the same level of expense in the fourth quarter and ... the year 2024.

**Alex Henderson:**

All right. Thanks. I appreciate your time. And nice, ...

**Eyal Harari:**

Thank you, Alex.

Operator:

This concludes the **Radcom Ltd. Third Quarter 2023 results** conference call.

Thank you for your participation. You may go ahead and disconnect.