



Q2-24 Management prepared remarks and Q&A

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Publication Date: August 24

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Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Radcom Ltd. Results Conference Call for the Second Quarter of 2024. All participants are present in a listen-only mode. Following Management's formal presentation, instructions will be given for the question-and-answer session. For operator assistance during the conference, please press star-zero. As a reminder, this conference is being recorded, and will be available for replay on the company's website at www.radcom.com later today. On the call are Hilik Itman, Radcom's Interim 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 5G and launches, demand for the Company's products and services, sales opportunities, sales cycles, and pipeline, momentum, maintaining and increasing profitability and growth, its ability to provide value to customers and shareholders, the Company's expected growth, its expectations with respect to expenses and headcount, as well as grants from the Israel Innovation Authority, the Company's expectations with respect to its relationships with its customers, the potential of the Company's long term vision and the use of artificial intelligence in its products, levels of gross margin, the Company's revenue guidance, and the search for a permanent Chief Executive Officer. 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, 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, including in the quarter's earnings release available on our website. Now, I would like to turn over the call to Hilik. Please go ahead.

Hilik Itman: Thanks, Operator. Good morning, everyone, and thank you for joining us for our second quarter 2024 earnings call. Before I'm diving into our results, I want to provide an update on the CEO search process. The board has engage a top executive recruitment firm and establish a committee to appoint the next CEO. Significant progress has been made, and the committee is now in the advanced stage of candidate selection. The committee has evaluated candidates from Israel and abroad, especially the US, who has the necessary leadership qualities, and experience to drive Radcom's next phase of growth and success. I have fully confident in the Board ability to appoint the right candidate. Hopefully, this process will be finalized soon. As the company's COO, I will continue focusing on R&D, product innovation, and customer success. Then, I will be able to invest more time in driving innovation

and taking the company to the next level of growth journey alongside the new CEO. Now, turning to the results. I'm excited to share our strong performance and execution in this quarter. Our results highlighted the benefit of our customers' trust and our ability to deliver value through our carrier-grade and innovative solutions. We achieved solid growth momentum in both our top and bottom lines. We reached record quarterly revenues of 14.8 million dollars, up 20% from the second quarter of 2023. We generate a positive cash flow, hitting a new record of 86.1 million dollars in cash, cash equivalents, and bank deposits. We achieved record half-year revenue and profitability for the first six months of 2024. Since the start of the *[glitch]*, we have secured over 50 millions in new contracts, including several seven-digit contracts across various geographic markets, while maintaining significant recurring revenues. This shows the demand for our leading solutions and boost our revenues as operators transition to 5G. Our entire organization remains committed to delivering profitable growth, increasing our market share, and driving ongoing technology innovation as we look to provide long-term value to our customers and shareholders. Turning to the telecom market. Customer interest and sale activities are noticeably increasing in the US and other regions. This upturn is evident in the number of opportunities our teams are currently pursuing and the 5G tenders issued by operators. As the interim CEO, my primary focus is driving existing sale activities. In this role, I provide executive level support for our sales efforts and spearhead future innovations. *[glitch]* heightened interest in automated assurance and intelligent analytics to several key factors. First, most US operators are progressing in their transition to 5G standalone networks, requiring the adoption of cloud-based

automated assurance and intelligence analytic solutions. Additionally, as legacy assurance system age or reach the end of life, operator must replace outdated equipment as part of the natural upgrade cycle. Additionally, some competitors have not develop a cloud-native automated assurance and intelligence analytic solution, which required significant R&D investment, an investment that Radcom has made. This process leads operators to conduct thorough due diligence, evaluating the available options in the market to identify new best-in-class automated assurance and intelligence analytic solutions. Given these market factors, we see significant opportunities to increase our market share in the US and other regions, driving sustainable and continued growth, while delivering more value to our shareholders. Turning to the cloud. Adopting a cloud architecture is part of operators' transition to more efficient and dynamic software-centric network operations. We continue to see increasing cloud adoption, with operators replacing legacy with modern cloud-based networks. Our solution help operators manage this transition efficiently and with a customer-centric focus by gathering all the analytics across the cloud networks. In the previous calls, we mentioned the importance of GenAI and that all the leading public cloud providers or hyperscalers are emerging as having a pivotal role in the GenAI ecosystem. During the second quarter, we announced that Radcom NetTalk, our GenAI application, was now available on AWS. Although GenAI is in the innovation stage, customers see our innovation and top leadership in this space, which can be a door opener that lead to sales opportunities. As demonstrated in our support for GenAI on AWS and the contract win to offer our solution as a SaaS in the US, we continue engaging with operators in the cloud-based ecosystem. As a reminder, we offer potential customer

integration with all the leading public cloud providers, Amazon Web Services, Microsoft Azure, and Google Cloud. And we believe our integration into cloud providers will help generate additional opportunities. Turning to the pipeline, we see positive market momentum that can drive growth, increase sales engagement, and lead to additional multi-year contracts. The more robust demand for cloud-based automated assurance and intelligence analytics technology is reflected in our increased pipeline as we engage with multiple prospects across various sales cycle stages. While these sales process can take time and are unpredictable, we believe our solution align with operators' needs, drive a unique value, and address critical network challenges. This set the stage for future business growth. In today's telecom macroeconomic landscape, operators seek solutions that help them reduce significant costs while ensuring a seamless transition to 5G cloud network infrastructure and technologies. These are essential use case for assurance and network analytics. This present a significant opportunity for Radcom, and we believe our position as an innovative automated assurance and intelligence analytics provider will continue to drive positive returns. Turning to our installed-base, AT&T and DISH remain key strategic customers. And we believe our business with these operators will remain strong. We continue to provide software enhancement and new releases to help them manage their networks. In the second quarter, we were selected to provide a SaaS Service Assurance Solution on AWS, in the US for an existing customer. Deploying Radcom ACE on AWS will enable this operator to achieve high level of automation and flexibility when using their automated assurance and intelligence analytic solution to gain real-time insight and analytic into the network. This allows the operator to adapt quickly

to network capacity changes, ensuring excellent customer experience and delivering top-quality services. We also announced that our collaboration with Rakuten Mobile in Japan has been extended to our strong long-term performance and support. So, business with Rakuten Mobile remains robust following the renewal of our multi-year contract. We have achieved high satisfaction level within our install base, by offering a robust and innovative product and focusing on customer requirements and needs, driving growth and recurring revenue. We continue to invest in sales and marketing, to capitalize on the rising demand on our solutions. We have expanded our sales team to seize these opportunities by recognizing significant growth potential in our pipeline. We expanded our sale channels during the quarter, particularly in Europe and South America, by strengthening our partnership with local agencies and distributors. This approach allows us to address potential sales activities and effectively meet growing demand. Our combined indirect and direct sales teams ensure an increased presence on the ground from a sales perspective. We are also actively participating in numerous industry events worldwide, where the sales team's engagement creates interest in our automated and intelligence analytics. Our executive team frequently speaks at these events, further enhancing interest in our solution and solidifying our thought leadership in the 5G assurance and analytics space. This interaction have led to many promising discussions, including significant interest in our new generative AI applications, which could translate into future sales opportunities. We believe we have a differentiated solution aligned with key market trends and are well-positioned to address telecom operators' needs. We continue to enhance our software with additional automation, intelligence, and AI-

based capabilities to add value and expand our customer use cases. We announce Generative AI Application Support for AWS. So operators can roll out new services fast on AWS while improving operational efficiencies using Radcom ACE enhanced by generative AI. Radcom is a company with many years of expertise in telco space. We know how to analyze data and deliver valuable insight to the telecom operators. So, we approach all our product innovation from this unique perspective, starting from a foundation of a good data and telco-domain knowledge. We will continue creating value for our customers and shareholders by building upon our strategic position as the leading automated assurance and intelligence analytic platform for 5G and the cloud. Innovating technologies empower our solution through significant product investments made over the year. We continue investing in R&D because we believe it is a crucial enabler for future business. We serve as operators' smart co-pilot to help navigate its 5G network complexity. This means continually evolving our automated assurance and intelligence analytic solution, adding new AI-powered capabilities and use cases to maintain our 5G assurance leadership. I am excited to announce that the company received industry recognition. We were recently named finalist for the 2024 Leading Light award. This telecom-focus program recognizes the industry's top companies' achievements in next-generation communications technology and innovation during the year. To summarize. Our strong results demonstrate that our team is executing effectively. Our performance in the second quarter and the consistent achievement across multiple quarters position us for a successful 2024. Our business strategy yields positive outcomes, as evidenced by our profitable growth and consistent positive cash flow. Our momentum remains strong, and

we believe the best is yet to come, as we aim to elevate the company's evolution and enhance shareholder value. We are experiencing increasing demand for our innovative assurance and analytic solutions across multiple regions. This growing interest is evident in our expanding sales pipeline, which has the potential to drive future growth. Our R&D team is continuously innovating and supporting our customers' needs. Therefore, we remain confident we can deliver a fifth consecutive year of revenue growth and increase profitability. This gives us the confidence to raise our 2024 revenue guidance to a range of 58 million to 61 million dollars, up from the previous range of 57 million to 60 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, Hilik, and everyone, for joining us today. Now, let's turn to the results. While the slides contain GAAP and non-GAAP results to review our financial performance, I will mainly refer to non-GAAP numbers, excluding stock-based compensation, acquisition-related expenses, and amortization of intangible assets related to acquisitions. As noted earlier in the call, since the beginning of the year, we have secured over 50 million dollars in new contracts, including several 7-digit contracts across various geographic markets. Most of these revenues will be recognized in 2025 and beyond. This influx of contracts underscores the robust demand for our leading solutions and positions us well to capitalize on the industry transition to 5G, significantly boosting our revenue. Now please turn to slide 5 for the financial highlights. Second-quarter revenue grew by 20%, reaching a new record of 14.8 million dollars. Our positive start to the year is driven by strong team execution, which has led to good financial performance, revenue and profitable growth, and measurable improvements to our

bottom line. Non-GAAP net income for the second quarter was 3.1 million dollars, and the non-GAAP net margin was 21%, which grew by 4% compared to the second quarter of 2023. GAAP net income for the second quarter doubled to 1.7 million dollars, and EPS was up by 120% compared to the second quarter of 2023. Our gross margin on a non-GAAP basis in the second quarter of 2024 grew to 75%. Note that our gross margin can vary slightly from quarter to quarter, depending on the revenue mix. We expect that the third quarter will remain at a similar level. Regarding R&D investment, the company's strategy is to continue investing at a similar level as in 2023 to enhance our Radcom ACE solution, increase our 5G capabilities, expand our AI-driven insights, and seamlessly integrate our solution into the cloud. Our investment in research and development is vital to extending our technological leadership. This is a key enabler for our future business. We believe that R&D as a percentage of revenue will decrease along with revenue increase. On a non-GAAP basis, our gross R&D expenses for the second quarter of 2024 were 4.1 million dollars. Excluding any impact from exchange rates, we expect that our R&D expenses will remain similar in the next quarter. During the quarter, we received a grant of 180 thousand dollars from the Israel Innovation Authority, the same as in 2023. We expect the Israel Innovation Authority grant to remain at a similar level in the third quarter. As Hilik mentioned, the transition to 5G presents attractive growth opportunities. We are excited about this potential and will continue to invest incrementally in sales and marketing, mainly by expanding the global sales team. Additionally, in the last quarter, we expanded our sales channels by partnering with new local agents and distributors, allowing us to capture more opportunities. In the second quarter of 2024, sales and

marketing expenses reached 3.8 million dollars on a non-GAAP basis, an increase of 27%, compared to the second quarter of 2023. In the following quarters, we expect a gradual increase in sales and marketing expenses to support an increasing pipeline of opportunities. G&A expenses for the second quarter of 2024 were 1.2 million dollars on a non-GAAP basis, an increase of 230 thousand dollars from the second quarter of 2023. This increase was mainly due to special expenses incurred for the CEO search. Turning to the company's profitability. Due to higher revenues and careful expenses management, operating profit on a non-GAAP basis reached 2.3 million dollars, growing by 170% or 1.4 million dollars from the second quarter of 2023. Our non-GAAP operating margin was 15.4%, doubling our operating margin in the second quarter of 2023. Net income on a non-GAAP basis was 3.1 million dollars, growing approximately 50% by more than 1 million dollars, compared to the second quarter of 2023. Diluted EPS for the quarter was 20 cents, growing 7 cents from the second quarter of 2023. As shown in slide 7, our GAAP net income for the second quarter of 2024 was 1.7 million dollars. Diluted EPS was 11 cents, growing 6 cents from the second quarter of 2023. Turning to the balance sheet. As shown on slide 11, we continued generating cash and ended the second quarter with 86.1 million dollars in cash, cash equivalents, and short-term bank deposits. Our headcount was 307 at the end of the second quarter of 2024. We expect our headcount to remain similar in the third quarter. 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 while we poll for your questions. *[pause]* The first question is from Bhatia Rosen [sic] of William Blair. Please go ahead.

Arjun Bhatia: *[pause]* Yes. Hey guys. It's Arjun here. Congrats on the – on the momentum and the – the strong execution here. Look, it sounds like the – you're getting some pretty good adoption from 5G contracts. I think you cited 50 million in these top 5G contract signs from the start of the year. What – what is driving that in your view? Is it, you know, just where we are in the 5G cycle and build out? Or is there some other catalysts that – that you think is driving momentum with – with some of these contracts here?

Hilik Itman: Hi. first, I think that the – the momentum now is positive. It's not that it's not was expected three years ago in the 5G. But in this – at least in the last six or 10 months, we see changing in the momentum, and there is much more opportunity of 5G transition. I think that it's related that – as I said, I think also in the previous *[glitch]* trend is – nobody can stop it, stop this trend. The 5 – the 5G is happening, and it's – it's connecting very – very tight to – to cloud transition also. And Radcom is well-positioned with our product and technology and experience. So, we're not ... for the last year from – to address all these requirements. So, this is – this is the momentum that I see.

Hadar Rahav: I would add –

Arjun Bhatia: Okay – *[pause]* Yeah, go ahead. Sorry.

Hadar Rahav: I would add that, in general, we are still confident in the market evolving into 5G. And we still see a demand for our various products. And as we executed well this quarter, we are expecting our broad journey to continue. And we do still see that 5G is strategic to top

operators, and they are still progressing with their 5G programs, and they continue to expand and to evolve into 5G standalone. And by that, creating the demand for our products. I think that operators, we can divide them into two groups. Those who are excited with our ... AI, and the autonomous solutions, that will invest more strategically in the transition to 5G. And those who are more conservative, that, you know, will invest less in the beginning, and to increase the investment in a moderate pace. And we, Radcom, definitely support these two models as we believe in a long-term relationship, and it all depends on the customer's level of confidence and their 5G strategy.

Arjun Bhatia: *[pause]* So, that's very helpful. Thanks, Hadar. And then – one, if I can, on AWS. It – it sounds like you had one existing customer transition to your SaaS solution. When you think out over the next couple of years, is this something you anticipate that – that most operators and most of your customers will shift to the SaaS model – your SaaS model over time? And, as that happens, how are your economics, whether it's pricing or gross margins, different? Or SaaS versus – versus your, kind of ,original offering?

Hilik Itman: Focusing that most of the operator will do the transition to cloud. Part of them will do it on – on private, part of them are going to do that on public cloud. And then, the – the option of SaaS is – is valid for us, and I think it's a big opportunity for – for the company to = to implement our product in more operator in – with SaaS, because the advantage is clear, of – of SaaS deployment. So, yeah, I think that – it – it will happen. We saw – we saw it this year and – and we have an engagement with more customer in this area. So it's very positive.

Arjun Bhatia: And is there – maybe this one's for Hadar. But is there anything that we should think about just from an economics perspective, margins,

margin impact from more SaaS adoption? Or is it too early to tell at this point?

Hilik Itman: Yeah, I think that– the advantage is very clear on SaaS, because it's – the installation, it's much more easy, and – and the whole – the technology options are – are more – more advance in this area. And very attractive for – mainly for medium and small customers, that they don't need to buy some equipment, or, you know, directly with the – with the cloud providers. So, the economical perspective is very attractive, because it will be – help us, you know, to – to get much more operators, compared to – to code solution or – or public cloud or – or compared to private clouds, or code solution.

Hadar Rahav: And –

Arjun Bhatia: Perfect –

Hadar Rahav: I would like to add – I would like to add that the SaaS model may improve our gross margin, as more operators transition to this model. The SaaS model is a win-win situation. On the one hand, the operators save cost, and doesn't need to invest additional cost on – infrastructure. And for Radcom, the marginal cost will decrease while the revenue will increase. What will improve our gross margin.

Arjun Bhatia: *[pause]* All right. That's very helpful, thank you. I'll – I'll cede the floor here and – congrats again, guys.

Operator: Thank you, Arjun, for your question. The next question is from Alex Henderson. Please go ahead.

Alex Henderson: Thanks. So, you've obviously produced some – some very strong numbers over an extended period here. And there is, obviously, also some lumpiness in this business, which can have an impact in any given quarter. So, as I'm looking forward into the September quarter, seasonally, that's a little bit softer quarter. Should we anticipate that

the - that the – the business is a little bit more skewed to the December quarter? And that the September quarter might be down a hair, sequentially, from the – the June quarter? Or should we assume that the 14.8 is at least attainable again in – in the September quarter here?

Hadar Rahav: Mm-hmm. So I will take it. Alex, we are very excited with the results. And obviously, our consistent execution is driving the order growth. We did better than expected, and we are encouraged by our momentum and see a long runway of growth. We expect these trends to continue and remain on pace to meet our guidance. And – actually, we have a very good visibility for 20 – for 2024. And this is why we increased our guidance. And if you look on the guidance, you see that we are likely to have a higher second half of the year. And if you look on the higher range of our guidance, this could be around 18% year – year-over-year revenue growth, which is the full acceleration to what we deliver in 2023. I believe that this growth will be reflected in each of the next two quarters. And that we will see a linear growth. So, this is in terms of the revenue. And if no change in the Forex, we expect a similar trend on the bottom line. As I said in the call, we would like to maintain a similar level of R&D expenses, and expect a gradual increase in sales and marketing. So, as I said, the – except any false impact of profit, we believe that our profit – and our profit as a percentage from revenue, will be improved.

Alex Henderson: Second question's, kind of, on the same general trajectory. There's been an extremely large amount of volatility around the yen, your – one of your anchor customers, Rakuten, is based out of Japan. Does that have any impact on your business?

Hadar Rahav: No.

Alex Henderson: And then, relatively speaking, the – R&D is expected to be fairly flat

sequentially, I'm assuming in June to September. Is the NRE also fairly flat?

Hadar Rahav: We believe that in the third quarter, the NRE will be at a similar level. And I expect that on the fourth quarter, we will see decrease in the NRE – due to –

Alex Henderson: Okay.

Hadar Rahav: – completion of existing programs.

Alex Henderson: I see. And then, just broadly speaking, I would assume that there is some upward bias to the OpEx as a – as a total in the third quarter. Is it reasonable to think that, you know, you're – you're fairly flat sequentially on the revenues, and therefore, a little bit of upward bias that – that the EPS in the third quarter ought to be, maybe, a hair below the 20 cent number?

Hadar Rahav: Yes.

Alex Henderson: Okay. Great. Wanted to go back to the commentary that you made on the call regarding end of life of comp– of – competitive products in the field that are more appliance-based in nature. Obviously, the transition to 5G is – is a decision point for most companies. But is that causing an acceleration in that adoption rate that's – that's meaningful? How large a – an EOL event is that. for your competitors?

Hilik Itman: Yeah, so, first of all, the – the end of life, it's not only related to 5G, but it's – most of the time it's related, and – but – but also I want to emphasize that we see that also the – our competitors' systems are start to be end of life, and the connecting with the 5G is a – is a real compelling event for transition to our system. And – and we see that a lot of customer and – also Tier 1 customer, that's struggling with – with the all the – all the service assurance platforms. And they – it's true that they try to, you know, to managed. But it's –eventually, it's not working

for them. So sure, it will not work for – forever, and not even for the – for the next few years. So, I think it's remarkably going to – to help us take more and more customers in the logo.

Alex Henderson: I would think that the installed base of those appliance-based systems are multiples of your revenue, in terms of, you know, your share has been fairly low in the historical 4G base. That the magnitude of that upgrade cycle could be very substantial over the next two to three years. Is that a fair way to look at this, you know, this transition?

Hilik Itman: Yeah, sure. So, we – we're seeing it. And – and again, our solution that is totally software-based, that the cloud native based, is – is totally aligned with this transition, and – and address all the customer needs in this area, and I say it by myself a few times during the last quarter, these are big customers. ...

Alex Henderson: Two last questions and I'll cede the floor. The 50 million dollars in orders that you announced – previously announced in the first half. Do you think that the order rate in the back half of the year is likely to – to be similar? Or do you think that was a spike in – in wins, and that there's more of a lull here, short-term?

Hadar Rahav: So Alex, as you know, during the second quarter, we renewed our eight-figures contract with Rakuten. And this is thanks to our strong incumbent relationship with them. And except Rakuten, we won a new deals, including 5G deals, that had competitive interest, but we secured then due to our strong historical performance, differentiated technology, and established relationship. We remain focused on profitable growth, and we are going to continue to push the pedal on it, because we believe that we are uniquely positioned, positioned to do it well. And we are confident that our differentiated solution is aligned with the key technology trends and they are well positioned to

address our customer – our customers' needs, but it's very hard to predict what will be the level of booking during the next – second half of the year.

Alex Henderson: So, suffice to say, you've got a strengthening pipeline, but the exact closure dates are always difficult. I get it. Just wanted to go back to NetTalk for a – for a moment. What do you see as the trajectory of that business, in terms of delivering incremental orders and backlog?

Hilik Itman: Yeah. So first, I think the NetTalk is based on GenAI. And as you know, GenAI today is very – you know, there's a big hype around the GenAI, and it's – it's – we see its not only in our area, it's in all – all the areas of the industry today. And, you know, we think that we have unique value here, mainly the synthesis between our – our data and all the knowledge of networks and insight that we synthesize together. I think that, you know, when we plan to do operator, a new logo, and also on current customer, they want to see our vision and our top leadership. And I think that it's really advance and progress us in the sale, because nobody will want – will go –with this new service assurance system without a new top leadership on AI and GenAI, mainly because the – all the information transition that telecom is going to – to – mainly to cost mon– to save – to save cost. So I think it's – it will – it will influence on our performance for sure, and today, it's helped us in the new logo's engagement. So I see it very, very important in – for us.

Alex Henderson: Great. Thanks.

Hadar Rahav: Thank you, Alex.

Operator: This concludes the Radcom Ltd. second quarter results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call]