RDCM Earnings Call Transcript

Date: 2025-08-13

Quarter: 2

Operator: Ladies and gentlemen, thank you for standing by. Welcome to RADCOM's Limited Results Conference Call for the Second Quarter of 2025. [Operator Instructions]. 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 Benny Eppstein, 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. This conference call will contain forward-looking statements. Forward-looking statements in the conference call involve several risks and uncertainties, including, but not limited to, the company's statements about its momentum, strategic direction and goals, market position and trajectory, future execution and delivery of value to customers, strengthening its core customer base, development of and enhancing strategic partnerships and expected benefits from collaborations. The success of new technologies, including AI to, among other things, enhance automation, pipeline opportunities and customer engagements demand for its products and solutions, including AI capabilities, trends in the market, innovation, expanding its business, the expected benefits of its AI-driven assurance solutions its expectations with respect to gross margins, research and development and sales and marketing expenses. Its expectations regarding grants, from the Israel Innovation Authority, expectations regarding the impact of foreign exchange rates and potential tariffs, expectations regarding the growth and convergence of 5G and AI. Its ability to deliver consistent value, while driving operational excellence and long-term shareholder returns and its full year 2025 revenue guidance and future growth and profitability. 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 today's press release 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 noncash stock-based compensation that has been expensed in accordance with ASC Topic 718 financial income expenses related to acquisitions and amortization of its 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 as 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, www.radcom.com. Now I would like to turn over the call to Benny. Please go ahead.

Benjamin Eppstein: Thank you, operator. Good morning, everyone, and thank you for joining us for RADCOM Second Quarter 2025 Earnings Call. RADCOM delivered strong results again this quarter, extending the growth trajectory we established over the past few years. In Q2, revenue increased 19% year-over-year supported by demand for our intelligent service assurance platform and strengthening engagement across our core customer base. We also reported solid profitability and cash generation ending the quarter with more than $100 million in cash and no debt. As many of you know, I stepped

into the CEO role in December 2024. From day 1, my focus has been to drive our global sales effort, expanding strategic partnerships, ultimately leading RADCOM into the next phase of growth, particularly through the development of cutting-edge solutions powered by accelerated computing and Agentic AI technologies. With background serving global Tier 1 operators, I have seen firsthand how network complexity and customer expectations are evolving. The context is shaping how we execute, and I'm encouraged by the early results. The first half of 2025 has reflected strong performance underscored by disciplined execution and expanding customer engagement. We are deepening our commitment to become a key vendor in the new era of intelligent Agentic AI-powered ecosystem. Our investment in RMB, our strategic partnership with market leaders and our alignment around long-term initiatives are collectively reinforcing our market position and setting the stage for sustained growth. Today, RADCOM is focusing on addressing key operators pain points and future market drivers such as data volume growth, visibility and network complexity. We are simplifying next-generation automated assurance for AI-driven networks, enabling us to penetrate previously untapped market with unique insight and value. Through close collaboration with our partners, we are scaling innovation to meet our customers' evolving needs and bring their future vision for customer experience to life. All while reducing the total cost of ownership, optimizing network performance and enhancing quality of experience. As you can see on Slide 7, this quarter, we achieved new revenue record of $17.7 million, reflecting 19.3% year-over-year growth alongside profitability improvement and positive cash generation. Operating income increased by more than 50% compared to Q2 last year, and our non-GAAP operating margin expanded to nearly 20% of revenue, demonstrating both the strength of our long-term engagement and ongoing discipline across our operations. GAAP and non-GAAP net income also grew year-over-year, and we generated $2.6 million in positive cash flow during the quarter. We ended Q2 with over $100 million in cash, the highest in our company history, and we remain debt free. These results reflect positive sales momentum across the business and position us well to continue investing in growth while carefully managing expenses. Looking ahead, we remain focused on converting active sales engagements and pursuing new avenues for growth as well as strengthening our position with current and prospective customers. As we close a successful first half of the year, our priority remains on delivering consistent value, while driving operational excellence and long-term shareholder returns. Turning to Slide 8. I will discuss our company's strategy. In a fast developing AI markets and building on the momentum of the last few quarters, we continue to invest in R&D.; Our goal is to deliver advanced service assurance framework that will support operators' AI-driven customer-centric vision. In particular, we are advancing our work in agent to agent and multi-model workflows, while exploring new innovation pathways align with emerging market needs. Since announcing our collaboration with NVIDIA in the first quarter to develop high-capacity user analytics solution, we've generated encouraging traction. Several customers have already advanced from initial discussion to lab deployments, validating both the relevance of our high-capacity user analytics and the distinct competitive value we're bringing to the market. In parallel, our broader strategic alliances continue to expand our addressable market and are expected to drive incremental value through deeper customer engagement. We remain focused on our key markets, North America, Japan and EMEA, where we are actively engaged in field trials with Tier 1 operators and advancing multiple proof-of-concept deployments. This brings us to our key customers in Slide 9. AT&T;, the largest wireless network in North America continues to be strong reference customer. Their customer first strategy has earned recognition from RootMetrics for best overall network performance at both national and state level. The mobile network analytics firm specifically mentioned AT&T;'s strength in consistency and reliability, especially across core markets. RADCOM provide AT&T; with intelligent and automated assurance that drives end-to-end network visibility and improve the quality of the subscribers' experience, which is Boost Mobile added 212,000 subscribers last quarter and was ranked #1 in 5G reliability and coverage across 15 major U.S. cities by OpenSignal. Earlier this year, they also received top marks for 5G reliability in New York City. RADCOM's assurance platform underpins this performance by proactively monitoring and optimizing Boost 5G network. This enables them to deliver more consistent and dependable experience to their growing subscriber base. Slide 10. In Japan, Rakuten now serves over 9 million subscribers and was recently recognized by industry peers in the second cloud- native telco market perception study. Our solution embedded in their private cloud

infrastructure assures network functionality and stability as they continue to scale. This capability is critical to supporting Rakuten fully virtualized cloud-native architecture and enables reliable service delivery at scale. Across these leading operators, RADCOM's assurance solutions are helping translate strategic investment into measurable network performance gains, enhancing visibility and improving service quality enabling our customers to achieve industry-leading results. Turning to the telecom market trends in Slide 11. The telecom industry is undergoing a profound transformation driven by the convergence of 5G and AI. According to Accenture, 84% of telecom executives expect Agentic AI to fundamentally reshape their organization and digital infrastructure. At the same time, data volume growth continues with acceleration of IoT adoption, along with introduction of new devices and applications. This introduced significant challenges for operators. This includes delivering new workflows and services relying on real-time analytics as well as data aggregation, monitoring and real-time visibility. On the network side, the pace of 5G adoption is picking up. The LoRa Group projects 6% growth in the mobile core market through to 2029. And in Q1 alone, operators added 145 million new 5G subscriptions globally, bringing the total to 2.4 billion. We believe the convergence of AI and 5G will drive the next-generation service delivery and RADCOM is uniquely positioned to lead this new era. Powered by our innovation in Agentic AI in high-capacity real-time intelligence assurance, RADCOM offers complete network visibility for complex 5G networks. By correlating network and customer data across silos, our solution analog reach insights to streamline operational efficiency and improve quality of services across multiple domains. Moving to our go-to-market activities on Slide 12. Our go-to-market effort this quarter included major industry events such as Network X, Knowledge and FutureNet. As seen on Slide 13, at the TM Forum DTW event, we received 2 awards, the most Interactive Showcase Award of the Agentic ODA for proactive customer experiences, catalyst program, and the Tech for Good Award for the SATCOM with an Edge Phase III catalyst program. These events, along with increased collaboration across our partners' ecosystem, are expanding our visibility and positioning us for continued growth in the second half of the year. To summarize, in the second quarter and the first half of 2025 RADCOM delivered record revenue, extending our technology leadership and deepening our relationship with strategic customers and partners. We remain focused on executing our long-term strategy combining technical excellence with commercial momentum and customer-centric innovation. Turning to Slide 14. As we look to the remainder of the year and beyond, our strategy remains focused on 3 critical goals: 1, deliver measurable value and elevate customer satisfaction through deep automation real-time visibility and proactive assurance, capabilities that are increasingly critical for operators managing complex 5G environments. 2, grow our customer base by leveraging our advanced AI and agent-based technologies, establishing them as a foundation for delivering actionable customer experience, insights across multiple domains. 3, expand our assurance offering and continue pioneering innovation through our strategic partnerships, including ServiceNow and NVIDIA as part of our advanced and future-ready ecosystem. Turning to Slide 15. As the industry continues shifting towards cloud-native architectures and advanced AI-driven operations, RADCOM's differentiated technology is playing an increasingly central role in helping telecom operators ensure real-time performance, optimize operations and enhance customer experiences. We remain confident in our full year revenue guidance of 15% to 18% growth. This outlook is supported by healthy customer engagement and ongoing market shifts toward intelligent, automated real-time assurance. 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, Benny, and good morning, everyone. I'll focus on our non-GAAP results unless stated otherwise. You can find the GAAP to non-GAAP reconciliation on Slide 3 and in today's press release. All comparisons are year-over-year unless noted. Please turn to Slide 17 for our financial highlights. Second quarter revenue grew by 19.3% to a new company record of $17.7 million. We continue to manage expenses carefully, while making strategic targeted investments to drive growth, foster innovation and maintain our competitive edge. This disciplined approach enabled us to deliver our highest ever non-GAAP operating income of $3.4 million, representing 19.5% of quarterly revenues. Our non-GAAP gross margin for the second quarter of 2025 was 76.2%, as a software company, we don't expect U.S. tariffs to add a material impact on our gross margin next quarter, though results may fluctuate depending on our revenue mix. As shown on Slide 21, our non-GAAP gross R&D; expenses for the second quarter of 2025 were $4.5 million up 10.7% year-over- year. This increase

reflects our commitment to strengthening collaborations, driving continuous innovations and expanding our portfolio. We will continue to invest strategically in R&D; to deliver advanced intelligent solutions with a focus on agent-to-agent and multi-model workflows, while supporting our strategic partnerships and productization plans. This quarter, we didn't receive a grant from the Israel Innovation Authority compared to the $180,000 grant we received in the same quarter last year. For the second half of 2025, we are in the final stages of securing grant approvals, which we anticipate receiving in Q3 and Q4. Our net R&D; expenses for the second quarter of 2025 were $4.5 million an increase of $620,000 compared to the second quarter of 2024. Sales and marketing expenses were $4.3 million an increase of $514,000 from Q2, 2024, reflecting our active engagement with existing and potential customers. We expect a gradual increase in sales and marketing in the coming quarters to support a growing pipeline and expand our presence in high-value regions. Non-GAAP G&A; expenses for the second quarter of 2025 were $1.2 million, in line with the same period in 2024. Most of our revenues are in U.S. dollars, but about 60% of our operating expenses are in shekel. So they are affected by the dollar weakening against the shekel. We don't currently hedge these expenses, but we are closely monitoring currency movements and we'll adjust our spending as needed to mitigate any foreign exchange headwinds. Driven by higher revenue and disciplined expense management, non-GAAP operating income for the second quarter of 2025 was $3.4 million or 19.5% of revenue and an increase of $1.2 million from the second quarter of 2024. Non-GAAP net income was $4.2 million or $0.25 per diluted share compared to $3.1 million or $0.20 per diluted share last year. On a GAAP basis, turning to Slide 20. Our net income for the second quarter of 2025 was $2.4 million an increase of $731,000 year-over-year. At the end of the second quarter of 2025, our head count was 319. Turning to the balance sheet on Slide 24. We ended the second quarter with a record $101.6 million in cash, cash equivalents and short-term bank deposits. This reflects a positive cash flow of $2.6 million for the quarter, driven by our strong performance. That concludes our prepared remarks. Thank you, and I will now turn the call back to the operator for your questions.

Operator: [Operator Instructions] The first question is from Alinda Li of William Blair.

Alinda Li: Congrats on a great quarter here. Benny, could you touch on -- you mentioned NVIDIA partnership...

Operator: Alinda, I'm sorry, you were disconnected. Could you start your question again?

Alinda Li: Yes. Can you hear me now?

Operator: Yes, you sound perfect.

Alinda Li: Perfect. Yes. So I just wanted to touch on how is the partnership with service management system vendors like ServiceNow and AWS going?

Benjamin Eppstein: This is Benny. The partnership is actually going very well. We are basically co-development and interconnecting our platforms as right now, a few of the connectors are already in place, and we start building the agent-to-agent use cases together.

Alinda Li: Well, how should we think about the capital allocation with now you guys have $100 million roughly in cash on the balance sheet?

Benjamin Eppstein: We're looking into potential M&A; as the first priority. We are progressing with a few candidates and based on the progress we will decide when and how to proceed with the capital allocation.

Operator: The next question is from Ryan Koontz of Needham & Company.

Ryan Boyer Koontz: Nice execution there by the team. Some basics, Benny, if you think about your growth over the next 18 months, what percentage of that -- of your pipeline do you see is coming from existing customer expansion versus new logo wins?

Benjamin Eppstein: We're thinking about around 2/3 from existing and 1/3 from new, Ryan.

Ryan Boyer Koontz: Got it. Helpful. And then on the revenue split, can you give us any idea what percentage of your current revenue base is coming from 5G roughly versus -- is there any legacy network revenue that we should be concerned about?

Benjamin Eppstein: I think there's still a lot of LTE network is up and running and it will take some time until they will -- will transform to 5G. So it will take a while. And while I think 5G is growing all over the place. So definitely 5G is the focus but that still remains to stay for at least a few years.

Ryan Boyer Koontz: Right. That makes sense. Great. And on your pipeline of new Tier 1 opportunities,

you mentioned several. Can you give us any color as to where those are in the RFP process? And what kind of timing you expect on decisions from any Tier 1s you have in the pipeline?

Benjamin Eppstein: We are participating in more than a few RFPs globally. We expect at least a few of them within the next half of this year and we get to know whether we -- we're going to be awarded or not.

Ryan Boyer Koontz: Got it. And in terms of emerging opportunities, is there an opportunity in the direct-to-device satellite space have been doing a lot of work on that segment?

Benjamin Eppstein: There is an active opportunity in certain customers, but it's still not clear in terms of their capital allocation. So we're looking -- we're waiting to see how they're progressing on their side, but definitely, there are some opportunities there that we are participating.

Ryan Boyer Koontz: That's great to hear. And maybe last one, if I could squeeze it in. Any change in the competitive environment you point out relative to your peers?

Benjamin Eppstein: Not too much. We still see our competitors that are trying to shift out of telcos, while we are were doubling down and investing in innovation. So supporting TCO reduction, supporting AI and Gen AI journey for our customers. So I don't see big differences on our competitive landscape.

Operator: Thank you. This concludes the question-and-answer session and the RADCOM Ltd Second Quarter 2025 Results Conference Call. Thank you for your participation. You may go ahead and disconnect.