

RDCM Earnings Call Transcript

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Quarter: 3

Operator: Welcome to the RADCOM Limited Results Conference Call for the Third Quarter of 2025. [Operator Instructions] As a reminder, this conference is being recorded and will be available for replay at 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 statement about its commitment to deliver solutions that are transforming the assurance landscape, continued adoption and investment in AI and 5G as well as other favorable market trends, the resilience of the company's operating model and the value of its AI-driven assurance solution, providing lowering total cost of ownership and enabling comprehensive observability across customer networks, converting the company's robust pipeline into revenue, expanding the company's current installed base, levels of investment and advancing the company's strategic partnerships, expectation for initial revenue from certain partnerships and timing thereof as well as its full year 2025 revenue guidance, expectation with respect to margin and expenses and future growth, momentum opportunities 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 those 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 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 the accordance with the generally accepted accounting principles. Investors are encouraged to review the reconciliation of GAAP to non-GAAP financial measures, including the quarterly earnings release available on our website. Now I would like to turn over the call to Benny. Please go ahead.

Benny Eppstein: Thank you, operator, and good morning, everyone. The third quarter was a record quarter for RADCOM, marked by strong growth and further evidence of our scalable and profitable business model. We are deepening deployments with existing customers while continuing to develop new opportunities in the market. Operators are increasing their investment in 5G stand-alone networks and AI operation, AIOps to enhance efficiencies, improve the customer experiences and reduce costs. As the market evolves, RADCOM holds strong competitive edge with our field-proven next-generation assurance platform, RADCOM ACE. Turning to Slide 7. I'd like to give a brief overview of the Q3 results. For the third quarter of 2025, RADCOM achieved record revenue of \$18.4 million, representing 16.2% year-over-year growth with continued profitability, expanding profit margins and positive cash generation. We achieved record non-GAAP operating income of \$3.8 million, representing 20.9% of

revenue. This is the highest since 2017, reflecting both the scalability of our model and the disciplined execution across our operations. Our results demonstrate a strong balance between growth and profitability as evidenced by significant margin expansion. Importantly, we generated a positive cash flow of \$5.1 million and ended the quarter with cash balance of \$106.7 million and no debt. Our strong balance sheet positions us well for continued investment and strategic flexibility as we pursue both profitable organic expansion and targeted inorganic growth. Turning to Slide 8. At the broader market level, RADCOM is well positioned to capitalize on the strong and durable tailwinds driving telecom spending. AI native networks are rapidly evolving, enabling operators to deliver superior customer experiences. At the same time, they offer new opportunities to improve operational efficiency. To capture this value, operators need trusted data and deep telecom domain expertise to power AI use cases and ensure end-to-end network observability. These dynamics give us a distinct advantage built on years of investment in assurance innovation, telco domain AI and strong ecosystem partnerships. It's aligned perfectly with our strategic and product road map. As AI innovation accelerates, a second major shift is taking hold across the telecom landscape. Operators are doubling down on customer experience as a core driver of retention, reduced churn and long-term revenue growth. To compete effectively, they need real-time visibility across network operations, enabling them to detect issues and anomalies before they impact subscribers proactively. These trends align directly with our value proposition to deliver end-to-end intelligent cloud-native solutions that provide granular insights into users and services at a highly cost-effective rate. These capabilities offer significant savings compared to competing solutions. We believe this positions us strongly for new opportunities to demand for customer experience insights and intelligent service assurance continues to rise. Turning to Slide 9. Let me speak to our partnership strategy. The third quarter performance underscores the continued success of our strategy. We are deepening our strategic partnership with NVIDIA, ServiceNow and system integrators. This helps strengthen our technology leadership, expand our market reach and enhance customer retention. We are focusing on developing an Agentic AI-powered automation layer with our partner systems, which will enable networks to communicate autonomously and complete complex workflows and business processes. We anticipate initial revenue contributions from these partnerships in 2026. In the third quarter, we also completed the integration of RADCOM AIM, our AIOps solutions with ServiceNow service operation management platform. Our solution is now certified and available as a connector in the ServiceNow store. This enables continuous real-time network monitoring and supports advanced use cases such as intelligent anomaly detection and complaint validation. It also offers a comprehensive 360-degree view of network data for automated workflows, enhancing service quality and operational performance. Turning to Slide 10. We recently launched our next-generation high-capacity user analytics solution powered by NVIDIA BlueField-3 data processing units or DPUs. RADCOM is the first network assurance vendor to capture speeds up to 400 gigabyte per second on a single server. This solution demonstrated a reduction of up to 75% in operational costs in field trials compared to traditional network probes. Furthermore, it provides complete visibility without requiring any compromises due to cost constraints. In essence, the solution delivers real-time analytics at a fraction of the cost, a key enabler for 5G assurance and AIOps. This innovative DPU-based solution is seamlessly integrated into our comprehensive automated service assurance platform and Agentic AI framework, which drives business processes across care, service management and network orchestration. This empowers operators to capture and process massive volumes of network traffic efficiently, bridging the gap between engineering and customer-facing teams. Our NVIDIA DPU-powered high-capacity user analytics solution is now in the lab and field trials with key customers, showing promising momentum. RADCOM is also advancing its Agentic AI solution with accelerated computing to provide telecom operators with real-time actionable customer and service insights. These innovations enable telecom operators to automate networks for enhanced efficiency, superior service quality and sustained long-term value. Our Agentic AI architecture enables us to expand our addressable market by reaching operators at a time when demand for proactive analytics-based network visibility is rising. In our customer engagements, we're seeing a clear industry shift, particularly in Europe, but also across other regions. Some operators are accelerating their network modernization plans, recognizing the strategic importance of moving from legacy monolithic solutions to advanced cloud-native platforms that leverage AI to automate operations. We've seen this trend firsthand with

customers such as Norlys and more recently, 1Global. This positive momentum reflects the growing demand for innovative future-ready assurance solution, further solidifying RADCOM's position as trusted partner for operators seeking to enhance network performance, efficiency and competitive advantage. As noted on Slide 11, we recently announced a new partnership with 1Global to deploy RADCOM ACE, enhancing customer experiences across Europe, North America and Asia and supporting more than 43 million connections. RADCOM ACE will provide voice and data monitoring, enabling precise and highly efficient troubleshooting across all required protocols. We also secured a business expansion with one of our existing customers. This progress underscore our land and expand strategy. As we demonstrate our value proposition, we are well positioned to grow as our customers expand their network and manage increased network traffic. Let me now speak to our installed base. Turning to Slide 12. AT&T; continues to add subscribers and RADCOM continues to support their net add gains, providing real-time assurance for service quality and user experience. Rakuten Mobile continues to expand its 5G footprint, surpassing 9 million subscribers in Japan and demonstrating increasing momentum in one of the world's most mature mobile markets. The operators continues to rely on RADCOM assurance solution as part of its effort to deliver scalable, reliable, high-quality performance across its fully virtualized cloud-native network. Across our customer base, we're seeing broader deployments and deeper integration of our AI-powered capabilities. These solutions are enabling operators to achieve new level of automation, performance and efficiency. Go-to-market activities. As noted in Slide 13, we attended many key industry events in Q3, including DT Campus, Innovate Americas, Network X and others, where we met with potential and current customers and business partners. Our cutting-edge solution continued to receive strong recognition from leading industry bodies. Most recently, our Argentic AI solution, RADCOM Predictive Complaint Resolution was honored with Best AI/ML Innovation Award at the Global Connectivity Award in London. The prestigious awards saw us outperform prominent global vendors and operators. Such industry validation underscores our technology leadership and reinforces the differentiated value we deliver to our customers and stakeholders. Turning to Slide 14. As we look ahead, we believe that the current trends, combined with improving capital conditions will drive sustained investment across our customer base, continuing to fuel growth opportunities for RADCOM. Our focus remains on: one, converting a strong pipeline into revenue and looking to expand our current customer base even further; two, deepening strategic partnerships to drive innovation and expand our addressable market opportunity; three, investing in AI and automation to maintain our leadership, driving lower total cost of ownership for real-time network intelligence; and four, delivering consistent profitability and cash generation as we expand our global footprint. In conclusion, the third quarter marked another milestone for RADCOM, achieving record results, strong execution and expanding opportunities across the AI-driven telecom ecosystem. We entered the final quarter of 2025 with strong momentum and clear visibility toward our full year outlook of 15% to 18% revenue growth, underpinned by disciplined execution, technology leadership and growing customer adoption. We will provide full year 2026 guidance when we release our fourth quarter results. Before I hand the call over to our CFO, Hadar Rahav, to review the financial results in detail, I'd like to take a moment to share an update. As announced last week, Hadar will be leaving RADCOM after supporting the transition to our incoming CFO, Hod Cohen, during the first quarter. On behalf of the entire company, I want to thank Hadar for her outstanding leadership and many contributions over the year that helped strengthen RADCOM financial foundation and growth. We're grateful for her dedication and wish her the very best in the next chapter. We are also pleased to welcome Hod, a highly accomplished finance executive with deep experience in the telecom industry. We're confident he will build on this strong foundation and help drive our continued success. Hadar, over to you.

Hadar Rahav: Thank you, Benny, and good morning, everyone. As a reminder, unless otherwise noted, I will discuss non-GAAP results. Reconciliations between GAAP and non-GAAP measures are provided in our press release and presentation. Additionally, all comparisons are on a year-over-year basis unless otherwise noted. Please turn to Slide 16 for our financial highlights. RADCOM delivered another quarterly record in revenues with total revenue of \$18.4 million, up 16.2% year-over-year. Simultaneously, we continue to effectively manage expenses while growing our strategic investment in sales and marketing. As a result, we delivered significant improvements in margins and record

profitability. The gross margin in the quarter was just over 77%. Please note that our gross margin may vary based on the revenue mix. Our strong gross margin reflects a more favorable revenue mix with a lower proportion of third-party cost elements. We believe this level of gross margin will be sustained in the fourth quarter. Our non-GAAP gross R&D; expenses for the third quarter were \$4.7 million, up 11.6% year-over-year. This increase reflects our focus on deepen collaborations, driving innovation and expanding our portfolio. We plan to continue our strategic R&D; investments to deliver advanced intelligent solutions with an emphasis on agent-to-agent and multi-model workflows while supporting our strategic partnerships and productization plans. During the quarter, we received a grant of \$189,000 from the Israel Innovation Authority, consistent with the same quarter last year. Of this amount, approximately \$130,000 is related to programs from the prior years. As a result, we expect the grant in the fourth quarter to be approximately \$50,000. Our net R&D; expenses for the third quarter of 2025 were \$4.5 million, an increase of \$483,000 compared to the third quarter of 2024. Sales and marketing expenses were \$4.6 million, an increase of 15.4% compared to the third quarter last year, reflecting our intentional investment to grow our sales presence. 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 operating margin was \$3.8 million, beating the record we achieved in the second quarter with an operating margin of 20.9%. Non-GAAP net income was \$4.9 million or \$0.29 per diluted share, the highest in the company's history compared to \$3.7 million or \$0.23 per diluted share last year. On a GAAP basis, as shown on Slide 19, our net income for the third quarter of 2025 was \$3.5 million, an increase of 54% year-over-year. GAAP earnings per share were \$0.21 per diluted share compared to \$0.14 per share last year. We ended the third quarter of 2025 with 319 employees. Turning to the balance sheet on Slide 23. We closed the quarter with record cash, cash equivalents and short-term bank deposits of \$106.7 million, supported by a \$5.1 million positive cash flow in the third quarter, driven by our strong operating 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 Arjun Bhatia of William Blair.

Arjun Bhatia: For the newly launched high-capacity user analytics solution, what are the early feedback from customers so far? And what are you most excited about?

Benny Eppstein: Thanks for the question. We're super excited about it. It's currently in a couple of field trials. We see great performances, and we see targeting this to materialize in 2026. But so far, we are very happy with the performance we see in the field.

Arjun Bhatia: All right. Helpful. And in terms of -- you mentioned expansion within existing customers this quarter. What trends are you seeing overall in terms of expansion within your existing customers? And in particular, what are the specific expansion efforts from these customers are you seeing in terms of adding to their existing stack?

Benny Eppstein: Are you talking specifically about the NVIDIA piece or generally speaking?

Arjun Bhatia: I think both. So if you could kind of narrow down first and then broader picture, overall, what trends you're seeing, that would be great.

Benny Eppstein: Sure. Overall, we see pretty good buildup of a solid pipeline through the year right now, also building towards the end of this year. We're still targeting a double-digit growth, and we still see more and more opportunities coming up until 2026.

Operator: [Operator Instructions] The next question is from Ryan Koontz of Needham.

Ryan Koontz: I wanted to ask about your visibility as it relates kind of looking into next year. It sounds like you're feeling a little more confident. Can you give any color there around visibility? And as you look ahead into next year, any major renewals or anything coming up that would make you concerned about maintaining your current run rate of revenue into '26?

Benny Eppstein: We're still targeting -- thanks, Ryan. But we're still targeting double-digit growth for next year. We do see a lot of new opportunities coming up in the market for us specifically to the move the cloud native and the 5G stand-alone piece is driving a lot of transformation on the customer side. And then obviously, the line of spend, we still see some activities within our customers that need to consolidate certain applications, and we're going to support that. So overall, I think we can continue to support the double-digit growth also in 2026.

Ryan Koontz: That's great. Great to hear. In terms of earnings leverage next year, it sounds like you're

planning to spend a little more on the sales and marketing line. Any other puts and takes you'd point out on leverage, '26?

Benny Eppstein: Yes, marketing and R&D; yes, that's right.

Ryan Koontz: Great. And maybe last one, just a macro question about 5G core. It certainly sounds like we're starting to see some real deployments out there, at least in the U.S. Can you validate that view? And also any updated thoughts on the other kind of geographies in APAC or EMEA around 5G core deployments stand-alone?

Benny Eppstein: Absolutely. We see good momentum on 5G core stand-alone Open RAN as well through U.S., Europe and some areas in Japan and Asia. And it is driving a lot of the activities, as I mentioned earlier, moving -- having a cloud-native application to support the troubleshooting and customer experience. The NVIDIA piece is really driving full user population visibility, and this is also driving a lot of excitement on the customer side.

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