Q4-17 Financial Results Conference Call

Management's Prepared Remarks and Q&A

February 14, 2018

Ladies and gentlemen, thank you for standing by. Welcome to the Radcom Ltd. Fourth Quarter 2017 Results Conference Call. All participants are currently on 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 from February 14, 2018

On the call today is Yaron Ravkaie, Radcom's CEO, and Ran Vered, Radcom's CFO. By now, we assume you have seen the earnings press release, which was issued earlier today. It is available on all the major financial news feeds. 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 a link on the Investors section of Radcom's website at www.radcom.com/investor-relations. If you have any trouble, please send Mark Rolston an e-mail at markr@radcom.com, and he will send it to you right away.

Before we begin, I'd like to review the Safe Harbor provision. Forward-looking statements in the conference call involve a number of risks and uncertainties, including but not limited to the company's statements about its 2018 revenue and other performance guidance, momentum, sufficiency of capital, resources and plans to extend the Company's workforce, strategy, launching new products and potential sales of such products, market share growth, and extension of its leadership position, potential pipeline and opportunities, as well as success in trials, AT&T's continuance as an important customer and key reference, and its plans to virtualize approximately 75% of their network over the longer term, industry trends, and project sales cycles, orders, engagements, and expanding relationships with top-tier carriers and entering into new contracts, including with a tier-1 multi-carrier operator.

The company does not undertake to update forward-looking statements. The full Safe Harbor provisions, including risks that can 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 be referring 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, and non-cash write-offs of importation taxes, non-GAAP results provide information that is useful in assessing Radcom's core operating performance, and in evaluating and comparing our results of operations on a consistent basis 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, which are included in the quarter's earnings release which is available on our website. I'd like to repeat the information about the presentation. If you have not downloaded it yet, you may do so through a link on the Investor section of Radcom's website at www.radcom.com/investor-relations. If you have any trouble, send Mark an e-mail at markr@radcom.com, and he will send it to you directly. Now, I'd like to turn over the call to Yaron. Please go ahead.

Yaron Ravkaie:

Thank you, Operator. And thank you all for joining us today. We're very pleased with our fourth quarter results, which mark a strong end to the year for RADCOM. For the full year 2017, we delivered revenue growth of 26% and maintained a healthy level of profitability, while investing for future growth.

A year ago, we highlighted the momentum in our business as we were actively engaged with 9 major carriers and were executing network proof-of-concept trial deployments with four of them. During 2017, we continue to execute on these comprehensive trials, demonstrating significant technology leadership in NFV. At the same time, we continue delivering to our current customers and expanding our business with them. We are very excited to share that one of these major NFV trials has come to fruition and resulted in RADCOM being selected by a tier-1 multi-carrier operator. We expect this to result in a formal contract during the first half of 2018, and we are making preparations for project execution.

As for our contract with the new top-tier operator that we announced in the fourth quarter of 2017, we are now in advanced stages of execution, and are progressing with a healthy strategic relationship with this operator. Our focus continues to be on the finalization of more NFV trials in our pipeline, and we feel confident about the progress made. We see more NFV efforts underway, and potential customers are eager to learn from our telco virtualization expertise and gain our insights and how to integrate cloud-native assurance into the network.

Additionally, our relationship with AT&T remains strong, and as the leader in the network virtualization, AT&T continues to highlight NFV's importance to their operational efficiencies. In particular, AT&T stated on its most recent earnings call that it exceeded its goal by virtualizing 55% of their network as of the end of 2017 and reiterated its long-term goal of 75% or more. As a result, we continue to expect AT&T to remain a significant customer and key reference for the company, as we continue to play a major part in their network virtualization strategy over the coming years.

During Q4 we also continued to expand with our existing MaveriQ customers. In particular, we signed a multi-million-dollar expansion order with a tier-1 operator in Latin America. This expansion order is another example of our hybrid approach of enabling a path to NFV and future-proofing purchasing decisions as this operator is now assuring both wireline and wireless services with us.

The industry has also progressed with some new announcements gravitating around OpenStack as the operating system for cloud networks, as well as the ONAP being the open-source standard for advanced service and network orchestration. Specifically, we view Verizon's recent announcement to join ONAP as a platinum member very favorably, given their leadership in the North America market. ONAP is now driving the underlying NFV architecture and requirements, and RADCOM is a major part of this ecosystem. We will continue to follow these very favorable industry trends closely, and we believe that as additional operators transition to NFV, the technology maturity and standardization with ONAP will drive them to transform their networks.

Our product leadership coupled with our very advanced cloud-native product has generated significant interest among leading operators, and we continue to execute lab trials and workshops that demonstrate our in-depth network expertise, virtualization know-how, and product leadership. On the product side, we plan to launch at Mobile World Congress at the end of the month a new product that builds on our virtualization expertise and product leadership to help operators gain full network visibility for their NFV transformation. We expect this product to enhance our cloud native portfolio and be invaluable for operators migrating their networks to NFV.

These network visibility products are addressing a new significant total addressable market, TAM, and we expect to show a differentiated offering focused on NFV and adding a further disruptive dimension to our NFV assurance leadership. As we execute on all these fronts, we expect to yield additional engagements with more operators in 2018, as well as up-sales to our existing installed base.

Given our strong and growing pipeline of opportunities, our new top-tier contract and our recent selection by tier-1 multi-carrier operator, we have scaled the company in Q4 focusing on engineers in R&D and professional services. We are confident that our investment in infrastructure will continue to pay off, allowing us to capture additional opportunities. Also, our strong balance sheet will allow us to execute on our strategy of facilitating engagements and delivering major projects through multiple top-tier operators.

Now, moving onto to the results of the fourth quarter. We are very pleased with our fourth quarter results, and as you can see on slide 5, revenues for the quarter increased by 32% year-over-year to 10.6 million dollars. Our GAAP net income was 2.3 million dollars or 17 cents per share. We achieved a non-GAAP net income of 2.7 million dollars or 21 cents per diluted share. Similar to the past few quarters, we are focused on continuing our very close relationship with AT&T, executing on the newly won top-tier contract, expansions with current customers, and converting trials into new customers. All this while investing in our engineering resources as we move to a new phase of the company's development and prepare for more top-tier customers.

The ongoing progress during the fourth quarter and full year ended 2017 highlights the advantage of being a first mover in this space and participating in the most aggressive transformation today. Our approach to demonstrating a very advanced cloud-native platform, coupled with our in-depth knowledge, is resonating with customers, and we expect the momentum to continue during the remainder of the year and beyond.

So, to summarize, we were very pleased with our execution during the fourth quarter. Given that Radcom remains the go-to NFV vendor for virtual probe-based service assurance, and customer experience management, we are well positioned to maintain the momentum. With that, I'll stop and turn the call over the Ran Vered, our CFO, to discuss the financial results. Ran, please.

Ran Vered:

Thank you, Yaron. Please turn to slide 6 for our financial highlights. To help you understand the results, I will be referring mainly to non-GAAP numbers, which excludes share-based compensation.

Revenues for the quarter was 10.6 million dollars, up 32% year-over-year.

Our gross margin for the quarter was 75% on a non-GAAP basis, in line with our expectations. Gross margin was helped by better mix of high-margin revenue in Q4. As a reminder, we expect gross margin to continue to fluctuate depending upon the mix of each quarter's revenue.

Our gross R&D for the quarter on a non-GAAP basis increased to 2.9 million from 2.4 million in the fourth quarter of 2016.

Also, during the fourth quarter, we received 1.5 million dollars from the Israel Innovation Authority, compared to 500 thousand and 52 thousand dollars in the fourth quarter of 2016. As a result, our net R&D for the quarter was 1.8 million, same as in the comparative period last year.

Sales and marketing expenses for the quarter were 2.7 million on a non-GAAP basis compared to 2.8 million in the fourth quarter of 2016. G&A expenses for the quarter on a non-GAAP basis totaled 846 thousand dollars compared to 632 thousand dollars in the fourth quarter of 2016.

Operating income on a non-GAAP basis for the quarter was 2.7 million, compared with 381 thousand for the fourth quarter of 2016.

Net income for the quarter on a non-GAAP basis was 2.7 million or 20 cents per diluted share. On a GAAP basis, as you can see in slide 5, we reported net income for the quarter of 2.3 million or 17 cents per diluted share

I will now highlight our results for the full year 2017. Total revenue was 37.2 million, an increase of 26% compared to full year 2016, and in line with our expectations. During the year, AT&T accounted for above 60% of total revenue. During the full year 2017, the non-GAAP gross margin was 72%, and non-GAAP operating income was 4.8 million and non-GAAP EPS was 41 cents for the year based on 12.4 million diluted shares. At the end of 2017, our head count was 214 employees. Turning to balance sheet, as you can see on slide 9, our cash, cash equivalents and short-term bank deposits at the end of the quarter were 62.6 million. We believe that our strong cash balance places the company on a solid footing to execute on the opportunities in front of us.

Now, turning to guidance. We entered the year with good momentum and believe that we are in position to grow our market share given our disruptive offering and ongoing strong pipeline of opportunities globally. As a result, we believe we can achieve fiscal 2018 revenue in the range of 43 to 47 million. We view this as a solid starting point for the year, given the high growth rate delivered in 2017. This guidance also assumes ongoing traction with AT&T of our new tip – our new top tier operator, as well as the addition of new customers from a strong pipeline, including the new tier-1 multi-carrier operator.

We have good visibility into our revenue guidance and similar to this past year, we expect growth to be higher in the second half of 2018, as we close some of the opportunities in the pipeline.

Also, while we don't tend to provide quarterly guidance, I want to point out our expectations that first quarter revenues in 2018 may be slightly below fourth quarter of 2017. This is due to seasonality, although it might change due to potential lumpiness in our revenue, coupled with customer-driven project milestones that are not always under our control.

Regarding profitability, while we don't tend to provide specific EPS guidance, similar to past years, we tend to continue to invest in our infrastructure to support growth, while remaining profitable on a non-GAAP basis. We do expect non-GAAP profitability for the first quarter of 2018 to be below the fourth quarter of 2017, due to the timing of anticipated grants from the Israel Innovation Authority.

As a reminder, we view, and continue to manage our business on an annual basis, because our quarterly results can fluctuate due to the timing of implementation milestones.

That ends our prepared remarks. Yaron and I will turn the call back to the operator, so we can take questions.

Operator:

Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. If you have a question, please press star-one. If you wish to cancel your request, please press star-two. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by we poll for your questions. *[pause]* The first question is from Dmitry Netis of William Blair. Please go ahead.

Dmitry Netis:

Okay, thank you very much, and nice quarter guys, and good momentum. Let me touch on the guidance first. As you kind of laid out pretty much in line guide there, and looking for second half acceleration – how should we think about the first quarter? Is it going to be down as sort of typical in the industry? Or are you not – you have plenty of orders to kind of fulfill with continued sequential growth. Just give us a little bit of idea of what Q1 – March quarter would do?

Ran Vered:

So – hi, Dmitry, it's Ran. So, as I stated in prepared remarks, it may be – our first quarter may be in terms of revenue less than the fourth quarter, because it mainly depends on some – achieving some milestones in projects that's not sometimes in our control. But generally speaking, we do expect that the second half of the year will be stronger than the first half. And in Q1 it may be – the revenue may be reduced from Q4, mainly because of milestone and some seasonality's.

Dmitry Netis:

Okay, great. And then, you did very well on the margin, gross margin side, jumped quite substantially. Can you unpack that and tell us exactly what drove that? Was – and while you're doing that, maybe you can mention what the AT&T contribution was in the quarter?

Ran Vered:

So, AT&T for the quarter was above 75%, we had very strong quarter with AT&T. And compared to previous quarters, we have some – you know, in some of the quarters we have revenue that has some mix of hardware because of our existing installed base. And with quarters that we have a mix of more software, then we show much better gross margin. I can say that, you know, in – on an annual basis, we still – and this is how we manage the business, we do still want to maintain above 70% gross margin annually.

Dmitry Netis:

Okay. So, how should we think about the 2018 then, above 70, but you – so, somewhere in the range between 70 and 75? Or closer to 70? What should be sort of the run rate we should be assuming for 2018?

Ran Vered:

So, it should be relatively the same as 2017 or slightly above. Any range between 70 to 75, it's good enough.

Dmitry Netis:

Okay.

Ran Vered:

We ended the year with 72%, so, this is the range that we're also expecting in 2018.

Dmitry Netis:

Okay got it. Then, back to AT&T, obviously very strong quarter. Last quarter, September was also quite strong, I think you did 78% contribution of the total revenue from AT&T then. Yet the margins were a little lower, so there was definitely something else going on as far as additional software that came in, if I read this right. Yeah?

Ran Vered:

We will – we had almost zero – we had some other customers that who had zero hardware on that, except AT&T. This was the main contribution to this high gross margin this quarter.

Dmitry Netis:

Got you. And then, there was no – I suppose there is no contribution from the second major NFV customer that you announced middle of last year. Is that correct? That's all 2018 event. And as you talk to that customer, can you give us a sense if you're getting any more visibility out of that customer beyond the initial – I think you said 5 million dollar order, or more than 5 million dollar order, that you received. So that's in 2018. Just verify that that's the case, and whether there is additional visibility of more con – more orders, more con – more revenues, supposedly coming in, as you build out that network?

Yaron Ravkaie:

It's Yaron. Hi, Dmitry. I would say that we have a healthy progress with them, with – it's still a little early to give a number on that. But everything is moving positively. So, we're building additional plans with them, but we're going to need to wait a little bit until we put a number on it.

Dmitry Netis:

Okay, great. And, last one, if I may. Just, Yaron, if you could talk to this new win, this new multi-carrier operator – where is it based geographically? What exactly are you doing? Is it similar to AT&T? Is it – what type of network – is it wireless, is it fixed line, is it IoT, something else? If you could just describe a little more of what you're doing with them, it would be very helpful. And is that for Probe, or is that for your new product that you announced? I think that color would help, as well.

Yaron Ravkaie:

I'm going to give partial color, because we need to be sensitive that we're exactly in the contract stage, and now things change, and exactly how they want to roll out, and at what capacity – I would say that, you know, the day that we will be able to unveil exactly the logo, this is a very formidable strategic customer. I'm not going to mention the geography because of sensitivity, and people can do the math and start to figure it out, which we don't want, out of the sensitivity here. It's a – we said in the prepared remarks, it's a multi-operator carrier, I call it – you heard me say before, Galaxy operator. This is exactly in line with our strategy of going after these huge tier-1's. This case, it's a tier-1 Galaxy operator that has many OpCo's, and the strategic relationship that we can start the project this year and, you know, continue to grow into next year and beyond. So, it's a very nice win for us. I think – also, maybe one last thing – we believe that they choose us, it was a competitive situation, they chose us because of our leadership in NFV.

Dmitry Netis:

And this is virtual probe, not the active broker, is that correct?

Yaron Ravkaie:

Yes.

Dmitry Netis:

Got you. All right, thank you. I'll get in the back of the line. Thank you.

Yaron Ravkaie:

Thanks, Dmitry.

Operator:

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

Alex Henderson:

Great. So – just some housekeeping. Can you tell us what the ending share count was? Obviously, having done the transaction, it moves around a little bit versus the average.

Yaron Ravkaie:

Yeah, so it was 13.5 million, this was the ending share count. And the average for the year was, you can see it, 12.4 million.

Alex Henderson:

Right. Going back to the large tier-1 multi-operator. If you were to scale out the business there, is that going to take – I assume that's going to take some time to get through the initial design, and other elements of the, you know, preset, that therefore it's more of a CY19 kind of ramp, in the same way that your second tier-1 North American customer is lagged, roughly a year from the time that contract was signed, before it shows up as meaningful revenue. Is that the right way to think about, sort of, the way that feathers in?

Yaron Ravkaie:

I think you're – the way that we're looking at it now, you're thinking about it too conservatively. We expect already this multi-operator carrier to impact 2018, and it's built baked in already into our plans and into our guidance.

Alex Henderson:

I see. And will you be able to discuss when you win the sub-operators within that hunting field? I assume this is a more of a license to hunt than a hard PO in that context.

Yaron Ravkaie:

I would. I would say it's, first of all, you know, to your comment, some of these multi-Galaxy operators behave in a way that they put you on their price list and then you have a license to run. This is not the case, you know. It is a multi-tier – you know, multi-company operator, a Galaxy operator, that is doing a lot of their stuff in a centralized way, and they are working with us on, you know, a concrete plan in a centralized way of what they want to do at this stage in 2018. In 2019 and beyond, this will be work, you know, based on what we do this year. But everything is already being discussed and on the table. So, this is why we're optimistic that we can impact already this year.

Alex Henderson:

Going back to the pipeline for a second. Because obviously, new wins are a primary driver of, you know, your outlook. Clearly ONAP is now consolidated into the de facto standard, OpenStack is the de facto standard, you're the – a major piece of both of those architectures. How is that showing up in your pipeline of leads, and the quality of the conversations with the people in that pipeline? Is it now moving to a more articulated, more rapid process, where we start to see, you know, accelerated flow of transactions over time? Can you talk about that a little bit more qualitatively? Obviously, you can't be too detailed, but the more you can give us, the better.

Yaron Ravkaie:

Okay. I would say it's a couple of things. First of all, from the industry perspective, we see more movement towards NFV in the last, like several months, than we saw, let's say, a year ago. So, the industry is moving towards the right direction. We're doing many, many meetings including – you know, at many levels, including C-levels with many of these large op-cos.

Think what we get from them is, there are the ones that moved, like, you know, AT&T, and that additional top-tier carrier that we won. There are ones that are putting plans in place and are starting to move, and there are the ones that will put the plans in place and move in 2018 and towards 2019.

We see more awareness now, that there is a need to invest in the assurance for this. We see also now a trend of some of these carriers understand that it makes sense to invest in the assurance as one of the early virtual network functions, that is another very positive trend for us.

These are beginning of trends, so I don't want to, you know, say it's like a sweeping trend. But it's a very, very good sign, and these signs weren't there, you know, a year ago, we – a lot of it, I think, is due to the work that is being done across the board in the industry, and the work that we do, and the work that AT&T does, and now all the other participants in ONAP. I think the fact that ONAP now has AT&T, has Verizon in it, has the Chinese operators in it, and Vodafone, of course, which we also followed on that, if you recall, during the year. It's a critical mass, this is, you know, at the end of the day, helpful for us, okay? Because I think everybody is learning from it, that – and we – you know, I would make an educated guess, it's not – I don't have a crystal ball. But I would make an educated guess that we will see during the year more carriers join. So, as all these things comes together, their maturity into putting NFV plans, the fact that we're spending time with them, the fact that they're seeing more and more carriers also, together with us, make these selections, and putting a very nice priority on NFV assurance – is very good momentum for us.

Alex Henderson:

Can you talk about whether any competitor is making any inroads at all in terms of, you know, penetrating into ONAP, becoming part of that architecture, being perceived as a viable competitor to your virtualized product?

Yaron Ravkaie:

I would say that we see some – when I look at the competitive landscape, we see some of our competition talk about NFV. From the discussions that we're having with the customers, and we're having, you know, in-depth workshops with many of them – the feedback that we're getting from the customers is that they're not seeing anything even remotely similar to what we're showing them from any other carrier – from any other competitors.

So, I think the good news is that, you know, we're the market leader in this, it's a market that's starting to happen. We're getting copied, if I would say that word, at least on the slide side, from some of the competitors we chose, you know, very good validations that this market is going to continue to happen. And I would say that we maintain, if not increase, the level of competitive advantage that we have. You know, just this year, we produced, I think, eight very significant releases in the cloud-native space, so it's going to be very hard for competitors to catch on.

Alex Henderson:

Couple more quick questions, if I could. About a year ago, I think it was, you guys announced a feature that you refused to discuss what was – and I assume you're still selling that feature, and still haven't announced it, from what I can tell. So, you know, this mystery feature, has that become a meaningful, you know, portion of revenues? Is it getting good uptake? How – can you give us at least some traction, even if you won't tell us what it is?

Yaron Ravkaie:

So – you're going to see exactly much more what it is at Mobile World Congress. This is what I mentioned in the prepared remarks that we are going to launch it in a very structured way. It's in – it's going to be a disruptive technology in the realm of visibility solutions. It's going to – it's based on technology that we have rolled out in production, that's, you know, doing a lot of work there. And we've started to create some pipeline on it, but the entire idea is now to launch it very publicly, that the company created the right investments, you know, in R&D and professional services, and we've executed on this investment, that we can execute, you know, large-scale implementations on it. So, everything is – that I mentioned with this product is baked into our guidance.

Of course, there could be potential upside, as this – as we roll this out, because, you know, we did take at the end of the day some conservative approach around this product because it's new. And – but we have high expectation, because we believe that we came out with – or coming out with something differentiated, with a lot of focus on virtual, that will give us an advantage in the marketplace, and will strengthen – It has also synergies with MaveriQ and our probe-based assurance will also strengthen the pipeline there. So, it will be synergetic to what we do.

Alex Henderson:

Two – two more questions, if I could. The second – first one, is, I think, just accounting issue. Where are you guys in terms of adopting 606? And the second question is, your inventory popped up in the quarter to over a million dollars, which is little bit surprising, given your virtualized product offering. I assume that that's related to some of the older products that go into some of the smaller accounts. Can you talk a little bit about that inventory increase, and why that occurred? And what you're doing with 606?

Ran Vered:

Yeah, sure. Hi, Alex, it's Ran. Thanks for the question. So, for 606, so actually – already did all the preparation to implement. It's going to actually be a little bit in our favor, because it allows us to do better allocations between elements that you can do – which couldn't have been done in the previous accounting. But in the – in reality, the impact of it, if at all, will be negligent. So, we'll come more – on more details probably on the first quarter. But based on the analysis that we made, the impact is really going to be negligent.

As for the inventory – so your comment was right, we – actually, it was inventory that we buy to some of our existing customers that we're going to deliver some project in the first half of 2018. So, all of that is going to deliver to our existing customers. Yaron just mentioned in his prepared remarks that we signed a significant expansion deal with one of our major customers in Latin America, for part of this inventory is for this customer, and the other is for our other existing customers. Our inventory that is not related to customer is still in a very, very low level, as you – as it was in the end of Q3.

Alex Henderson:

Okay. Just one last comment. So, just to be clear. You guys do not hedge, and therefore you're fully absorbed all of the pressures from currency swings over the course of '17. A lot of companies that have been following have been surprising people with, you know, our year-end hedges ran out and all of a sudden, we've got an adjustment. Just to be clear – you guys don't hedge, correct?

Ran Vered:

You are 100% correct, Alex, and the impact of it on our – on annual 2017 was roughly 1 million dollars. Negative 1 million dollar.

Alex Henderson:

That's great. Thank you very much.

Operator:

The next question is from Mike Arnold. Please go ahead.

Mike Arnold:

Hi guys, nice quarter. I had a quick question on this Galaxy operator. Was it a direct sale, or did you go to market with a partner?

Yaron Ravkaie:

Direct.

Mike Arnold:

Okay. And I'm curious, are you still seeing engagements where customers are trying to run on open-source MANO? Or are most of the engagements that you're looking at ONAP-based customers?

Yaron Ravkaie:

You know, open-source MANO is primarily driven by the Telefonica Group. They have been trying to push it, I'm not – they work with the industry, that's what we're seeing. I'm not seeing it pick up, though, so there are other operators that participated in it. I would – again, from my point of view, it's my opinion – it looks like more of a thought process than an actual tool to deploy, so it's dealing with more problems that will be, like, futuristic problems. So, you know, I wouldn't be surprised if we'd see that roll-out in – that roll-in into ONAP, I don't know at what timeframe, you know, I don't have any hard information, but I'm making an educated guess that it might happen.

Mike Arnold:

Okay. There's been also a lot of noise around 5G, especially the U.S. carriers. I've read AT&T and Verizon's consider NFV a building block for 5G. Is 5G another functionality carriers will need a license for in the future? Does it run on the back of NFV? How does that work?

Yaron Ravkaie:

So, 5G – I think there is a clear understanding in the industry that the way to implement 5G is on top of an NFV infrastructure. North America, and, you know, we see the same things from AT&T and Verizon, and I wouldn't be surprised if we see the other mobile operators there, T-Mobile and Sprint, make the investment in 5G. If in the beginning we thought that investments would be made in – and – or implementations would be made in 2020, I think we're going to see some beginning implementations in 2019, which means that we'll see these carriers doing lab and trials in 2018.

Now this is going to have a positive effect on NFV and us, and – you know, primarily because some of the architecture in these networks change, there is a need to go, and – or a desire, I would say – to go as part of this architecture to do something called Edge Computing which the entire idea around – a major idea around 5G is to reduce the latency, so to use it in the future for things like connected cars and autonomous cars that will require very low latency from the network. At the end of the day you need to assure these types of networks, there is no significant changes that come in these networks. So, you know, from our standpoint, we believe that it will be some additional good wind in our sails.

Mike Arnold:

Okay. Final question. Do you guys have any new partnerships that can lead to more deals or improve your competitive positioning? There is a Light Reading article that came out last week on the company, and that mentioned the former relationship with Red Hat, and it sounds like you're embedded with their OpenStack product. Is it – I guess, is that true? And is that something you guys are seeking, is more partnerships with, you know, companies like that?

Yaron Ravkaie:

So, we have a partnership with Red Hat, you know, I'm disclosing it now, which is okay, and you will see some more come out of it toward Mobile World Congress. It's not a secret, it's a signed relationship, with an agreed reference. We have – and we will continue to develop – Red Hat is an important ecosystem partner, they provide, you know, implementation services to customers that are implementing their NFV infrastructure, what's called in the industry NFVI.

We see a lot of operators discuss Red Hat – you know, again, this move to NFV is happening, so some carriers – I would make an educated guess that – or a prediction – that some of these carriers that will move in 2018-2019 and create NFVI platforms, from what I hear from their decision–making, they would use Red Hat. Which, again, is good for us because we work very closely with Red Hat on how to implement the assurance for this, so it gives an advantage. Beyond that, you need to be patient and see what additional ones we bake. But we're all the time in touch with the industry, and we are not sitting idle.

Mike Arnold:

Okay, great. Thank you. Good luck.

Yaron Ravkaie:

Thanks.

Operator:

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

George Marema:

Yeah, hi, thanks for taking my call. Yaron, can you comment at all about your offerings geared towards enterprise market?

Yaron Ravkaie:

Yeah, we are not entering the enterprise market at this stage. We are very focused on the communication service provider market, and, you know, at our size, and – you know, our growth that we're demonstrating, there is a lot of work for us to capitalize on that market, it's a market that is investing a lot in NFV.

You need different – you know, almost, I would say dumbed-down versions of the product if you want to tackle the enterprise market, and it's not something that we want to do now. We also believe that a major advantage for us is that we specialize, that the entire company specializes in communication service provider, allowing us to be agile, to, you know, fit our platform-based solution to these communication service providers.

George Marema:

Okay. Can you give me a little bit about your roadmap, for future creation of new VNFs, both that you develop internally, or you may acquire?

Yaron Ravkaie:

So, one major new one is this visibility product that you will get more information on it if you will be patient for, in a couple of weeks, as we unveil it with more technical information. That's a major one that we can talk about. Other than - you know, I can't talk about anything else.

George Marema:

But you do have more planned out for the rest of '18, '19?

Yaron Ravkaie:

We have plans to expand the portfolio and to expand our offering, you know, but it's highly competitive and we – I think you will see when we roll out now this visibility product that we put a lot of thinking on it, it's a differentiated product, it takes – it, you know, encapsulates in it a disruptive approach. So, this is why we wait and make sure that we're ready to launch it and we keep it very secret, okay? So – and you will see more stuff come out of Radcom at the right timing.

George Marema:

Okay. And on this new top tier-1 thing disclosed today – is this going to be a similar flavor contractually as the one you announced, the other tier-1 global carrier in the fall of last year? Or more of AT&T-style contract? Or, what sort of style of contract will this look like?

Yaron Ravkaie:

We just got awarded the tender, basically, so we're working now on the contract, so you need to be a little patient. It's – there is not going to be anything crazy on it, it will look like – you know, an implementation contract with a license and some services associated with it, that we start to recognize as, you know, as we do these projects, you know, for the different elements of this operator. But – but there is not so much color that I can give beyond that.

George Marema:

All right. Thank you, Yaron.

Operator:

There are no further questions at this time. This concludes the Radcom Ltd. fourth quarter 2017 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call]