Q1-20 Financial results conference call

Management's prepared remarks and Q&A

May 12, 2020

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to the RADCOM Ltd. Results Conference Call for the First Quarter of 2020. 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 a replay from the company's website at www.radcom.com later today.

On the call are Eyal Harari, RADCOM's CEO, and Amir Hai, 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 on 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 several risks and uncertainties, including but not limited to the company's statements about its investment in technology and R&D, the expected transition to and enroll out of 5G networks and customer level of investments in their networks, the company's market position and leadership, the company's execution of its commitment to existing and future customers and resiliency of the telecom market, company's expectations to be well positioned to handle uncertainties and other impacts to the COVID-19, its revenue guidance and anticipated gross margins. 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 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, non-GAAP results provide information that is useful in assessing RADCOM's core operating performance, and in evaluating and comparing our 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, which are included in the quarter's earnings release which is available on our website.

I would like to repeat the information about the presentation. If you have not downloaded it yet, you may do it through a link on the Investor section of RADCOM's website at www.radcom.com/investor-relations.

Now, I'd like to turn over the call to Eyal. Please go ahead.

Eyal Harari:

Thank you, Operator. And thank you all for joining us today.

Earlier this morning we issued a press release, stating our first quarter results for 2020. We are pleased with our continued progress this quarter as we advanced our virtualized technology and deliver on our customer commitments. We played an important role in Rakuten Mobile commercial launch of its greenfield fully-virtualized network in Japan last month, despite the spread of COVID-19.

As you may have seen, total revenue was 8.3 million dollars for the first quarter of 2020, which was in line with our expectations with little impact from COVID-19. The global pandemic has highlighted the importance of telecom networks in today's world for maintaining mission-critical communication services for first responders, to keeping business running through videoconferencing. We expect the telecom industry to show resilience throughout the pandemic.

We are continuing to deliver to existing customers, continuing to market to potential customers, and continue to be well positioned with a competitive 5G products offering. There is uncertainty due to COVID-19 and the economic situation, which could affect sales cycles. However, we believe that we are in a good position, given our strong balance sheet and multiyear contracts with industry-leading customers. We continue to see a flow of new RFP activities, and our ability to pursue this new business has not been significantly interrupted. Based on our current visibility and the current expectations regarding COVID-19 impact, we reaffirm our 2020 revenue guidance of 35 to 38 million dollars.

In these challenging times, our top priority has been the health and welfare of our employees. We adhere to the local and regional guidelines on safe distancing policies and provided our entire global workforce the ability to work from home with minimal interaction to our activities, suspended all work related travel, and moved all customer interactions to virtual communication. These steps already taken, we have completed the transition to social distancing and are well equipped to continue our product development and to support our customers without interruption. I would like to express my gratitude to all RADCOM employees for their ability to meet head on the challenges that COVID-19 has presented, as well as the extra efforts that demonstrate your commitment to the company and in supporting our customers throughout these trying times.

With higher network traffic volumes and usage, our customers are relying on our solutions to ensure end-to-end service performance. For social distancing and remote working, connectivity has become even more critical, and operators are playing an even more essential role in enabling this connectivity. For businesses that now rely on latency sensitive videoconferencing applications, such as Zoom and WebEx to run the company, operators need to monitor and optimize these services. With network traffic increases, the service quality can suffer, and so using assurance solutions has become even more essential to pinpoint and resolve issues to ensure an excellent customer experience.

During this quarter, we worked closely with Rakuten Mobile to help prepare them for their commercial launch by pinpointing any network or service issues. For a greenfield network deploying a new innovative cloud-native technology, using our virtualized solution has been essential in ironing out issues before launch. We continue to support Rakuten Mobile, as they launched the world's first fully virtualized mobile network in April that adopted a 5G architecture from the start. They are now the fourth largest mobile operator in Japan. We are proud of the significant role we played in Rakuten Mobile's commercial launch. This is a strong vote of confidence in our technology and further cement our position as the leading most advanced virtualized assurance vendor for operators building new virtualized platforms for the launch of 5G. Our virtualized solutions and expertise will be more important as more and more operators transition to 5G. RADCOM's virtualization expertise, timely support, and innovative offering helped Rakuten Mobile launch this new virtualized network and ensures that the delivery of superior customer experience. We believe our continued work with them is a statement to our market leadership and advanced solutions. Rakuten Mobile's cost saving network architecture allows for a substantial reduction in capital investment, which enables them to pass on these savings to customers through a simple and affordable service plan. They aim to offer customers comprehensive communication services combining flexible service plans and cutting-edge technology. Rakuten plans to perfect its cloud connectivity platform in Japan, and then take the same platform to other markets worldwide.

Our customers continue investing in the advancement of their networks. AT&T stated in the last earning call that it would continue investing in critical growth area and expect nationwide 5G coverage this summer. Our cutting-edge software and support play an important role as AT&T continues to move forward with its network virtualization to prepare for their expected nationwide rollout of 5G. Although, there is a higher degree of uncertainty on the global scale, we are encouraged by our customers' continued investments toward the network enhancements and virtualization.

Turning to our activities during the quarter, we continue to execute according to our plans. We remain focused on enhancing our 5G solutions by investing in research and development and continue to work closely with customers to innovate and meet current needs. We still believe that the 5G revolution has begun as more operators start to launch commercial 5G services. And we are continuing to position RADCOM firmly to benefit from this technological transformation. We are engaged in multiple opportunities for 5G and have already released software that supports assuring stand-alone 5G networks. Stand-alone 5G will require operators to deploy an entirely new network call. This means, operators will need the new service assurance solution to monitor mission-critical services, using a dynamic cloud native network, which creates a unique opportunity for RADCOM.

We have significantly invested in our cloud native solution and continue to deepen our expertise to offer operators a seamless transition to 5G. So far 73 operators in 41 countries have launched 5G services, which has increased by 10 operators over the last month or so. Although, the next stage of 5G standard has been postponed for three months until June 2020, due to COVID-19, most operators are moving forward with their network roadmap as planned. Looking at the rest of 2020, we still expect a growth here. We plan to continue to invest in R&D to support our customers' needs, as they transition to 5G, and we expect the rollout of 5G to spur the adoption of our innovative solutions.

With that, I would like to turn the call over to Amir Hai, our CFO, who will discuss the financial results in detail.

Amir, please go ahead.

Amir Hai:

Thank you, Eyal, and good morning, everyone. Now, 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 exclude share-based compensation. We ended the first quarter of 2020 with revenues of 8.3 million dollar, an increase from 6 million dollar in the third quarter of 2019. Our gross margin of 63% was impacted by increased level of power of purchase related to a multiyear contract with one of our customers. We expect full year gross margin levels to be similar to the previous year.

Operating expenses for the first quarter of 2020 on a non-GAAP basis were 7.8 million dollars compared to 7.1 million dollars for the first quarter of 2019, which resulted in an operating loss of 2.5 million dollar on a non-GAAP basis. Our gross R&D expenses for the first quarter of 2020 on a non-GAAP basis were 4.6 million dollars, a slight increase compared to 4.5 million dollars in the first quarter of 2019. Additionally, we did not receive any grants from the Israel Innovation Authority during the period. So, our net R&D expenses for the quarter was the same as the gross amount. We want to point out that in the second quarter of 2020, the Israel Innovation Authority approved an annual grant of approximately 1.3 million dollars. Sales and marketing expenses for the first quarter of 2020 were 2.3 million dollars on a non-GAAP basis, the same as the first quarter of 2019. G&A expenses for the first quarter of 2020 on a non-GAAP basis were 838 thousand dollars compared to 710 thousand dollars in the first quarter of 2019. Operating loss on a non-GAAP basis for the first quarter of 2020 was 2.5 million dollars compared to an operating loss of 2.8 million dollars in the first quarter of 2019. Net loss for the first quarter of 2020 on a non-GAAP basis was 2.4 million dollar, or a net loss of 17 cents per diluted share compared to a net loss of 2.7 million dollar or a net loss of 20 cents per diluted share for the first quarter of 2019.

On a GAAP basis, as you can see on Slide 5, we reported a net loss for the first quarter of 2020 of 2.9 million dollar or a net loss of 21 cents per diluted share, compared to 3.1 million dollars of net growth or 23 cents per diluted share in the first quarter of 2019. At the end of the first quarter of 2020, our headcount was 264. Turning to the balance sheet.

As you can see on Slide 9, our cash, cash equivalents, and short-term bank deposits at the end of the first quarter of 2020 were 63.3 million dollars. We believe that our strong balance sheet provides us solid footing to execute the opportunities ahead of us and overcome the current global uncertainty.

That's end 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 we poll for your questions. [pause] The first question is from Alex Henderson of Needham and Company. Please go ahead.

Alex Henderson:

Thanks. Just a couple of questions. So, just to be clear, you're not expecting any additional hardware in the upcoming quarters. It's a little unusual to see that kind of hardware head in the quarter on the GMs.

Amir Hai:

I will take it

Eyal Harari:

Hi, Alex, good morning.

Alex Henderson:

Good morning.

Eyal Harari:

So, you know, we are – this hardware expense is always a matter of fluctuation of the product mix. As you recall, we discussed this in previous quarters. In some project we are providing the servers for the project, which is creating an initial cost, mainly on the first stage of the project where we deploy the infrastructure. While there is – our main focus is always keeps to be our software and our virtualized offering, we are in sometimes required to provide also the infrastructure for the operators in order for them to get an integrated solution. So, this is, you know, we see those in the previous quarters that from time to time we have that. But looking forward, we continue as before to be expecting to be in a similar gross margin level on the yearly level and continue with mainly software revenue.

Alex Henderson:

Great. On the NRE, obviously, it's an important item for quarterly forecasting and it's very difficult to understand the timing of it. Not all that concerned about 1Q. But could you give us some sense of whether you think it's going to be very heavily back-half loaded, or do you think you'll be, you know, taking that 1.3 over the course of the year relatively evenly, or – what's going on in the June quarter, relative to that piece?

Eyal Harari:

It's typically – you see the spread along the year from previous year. It's typically quite evenly, although because of the later approval this year, there might be higher on the second quarter. Overall, this is a support on our R&D, which is part of the, you know, all the year investment that we do. You can take a look on our previous years that happened to us before that IAA approved the grant only in the second quarter and then it's create some higher number typically on – of participation on that quarter, we then evenly spread of the rest.

Alex Henderson:

I see. Can you remind us what you do relative to FX? And, you know, obviously, the shekel has been all over the map because of COVID, it plunged dramatically but then it recovered most of that plunge. So, were you able to take advantage of that short window when it was under that much pressure? Or was that just too short a period to be down there, you know, and therefore no real impact?

Amir Hai:

I can take that.

Eyal Harari:

Can you take that?

Amir Hai:

Yes, yes, I can take it. Basically, you're right. The fluctuation from the growth towards the shekel was in the very short term. We do some hedging, and it maybe will be affected in Q2. So, we're taking advantage, but not the full year, it will be effectively most in Q2.

Alex Henderson:

I see. Okay. Going back to Rakuten, obviously, a major deployment there, it was a little later than expected. Can you talk a little bit about how you expect that company's deployment to unfold and whether you think there's potential for add-on there over the short term, or whether it's really a much more longer-term scenario? What's the status there?

Eyal Harari:

So, I would start with stating that Rakuten is first of all a demonstration to our industry, our telecom industry, of the power and maturity of the virtualized network technology. While maybe some question the maturity and ability to execute their very ambitious plan, you can definitely admire their being able to launch on April, during the COVID-19 peak, and still leverage the benefit of the virtual technology. I think this is the most important as a company that is a big believer in the cloud-native and believes that the telecom will go there. Above our relationship with them, I think it's an important pivotal milestone to the industry. More and more operators globally are getting confidence from this successful launch, to bet more on this mainly when we look on the move to 5G.

Now with regard to us, our focus is a long-term relationship with Rakuten. As you recall, we have a multiyear contract with them, and we continue to support them in Japan. We hear now Rakuten publicly announce more vocally, it's not a big surprise, that they are continuing full speed ahead to 5G, which can create an opportunity in the midterm, I would say, it's not for the next quarter also. But it's definitely something that we are looking to partner with them moving forward.

As we talked in the previous quarter, there is also a longer term opportunity as Rakuten are now being very vocal and they are trying to take their software stacks and their expertise as they build into a network into additional carriers globally. As we are their provider in Japan, this well positions us to be able to replicate that into additional countries, as they manage to implement their stack. But this is obviously a bit longer-term, and dependent on, first of all, on their success to be able to replicate this globally or decide to open additional greenfield operators on – in another country.

So, I would say there is definitely opportunity around the 5G, that we are excitedly looking for with Rakuten. And there is a longer-term opportunity once Rakuten be able to replicate their success from Japan to other countries.

Alex Henderson:

If I could, has the inclusion in the Rakuten architecture resulted in incoming calls from other vendors, other service providers that see that as an architecture for an open RAN future. Does that – is that causing an influx of additional interest?

Eyal Harari:

So, you know, it's – it – if you follow the news you see more and more operators are being more – going public with their announcement of betting on virtual technology. I think the latest announcement from DISH in the U.S. that they selected Mavenir for a virtual RAN. I think this is a second greenfield operator that is betting –on virtual RAN. We see other legacy operators also starting to increase the investment on virtual RAN. So, this all eventually, as part of a global trend of the industry that we see it for the last few years, that will all come together with the 5G.

I think that 5G is a consensus to be cloud-native technology. I personally didn't hear anyone that is looking 5G on the long run to be on an appliance base. Everyone, both the vendor community and the operators are focusing on cloud-native architectures. And all those success case studies are gaining more confidence that this is the right direction. I don't think it's now a question of if, it's more a question of when, and the when is, when 5G are starting to be implemented.

Alex Henderson:

Yeah, well, clearly that's the case. I guess the question is, has it translated into activity – a pickup in activity, is really what I was getting at.

Eyal Harari:

So – so we don't share our pipeline or activity. But what I can say is that the level of interest in general in the industry on cloud native technology is increasing. And the 5G and the interest on 5G, the requirement for 5G solutions is increasing.

Operator:

Ladies and gentlemen, it seems the caller has disconnected. We will move on to the next question. I repeat, if there are any questions, please press star-one. If you wish to cancel your request, please press star-two. Please stand by we poll for more questions. [pause] The next question is from Matt Stotler of William Blair. Please go ahead.

Matt Stotler:

Hi, guys. Thanks for taking the questions. Congratulations on the solid results, good to see that. And obviously, the guidance reiteration is really encouraging here. I would love to, I guess, first touch on you know, you mentioned some, you know, positive, obviously, to see Rakuten come out and launch their network commercially amid this challenging environment.

You also mentioned some really positive commentary out of AT&T. Would love to just dig into the, you know, broader conversations that you're having with customers, and the spending behaviors, both with existing customers and when you look at your pipeline, and, kind of the trends that you're seeing there in the current environment?

Eyal Harari:

Good morning, Matt. So, this is a question we are being asked, obviously, the COVID-19 has had uncertainty on the global level. I would say that we feel privileged to be part of the telecom industry, that today more than ever becoming critical to allow this remote connectivity. We hear there is increased usage of networks and traffic peaks is getting to new highs. Number of calls is getting to new records. And I must admit, as part of the telecom industry, I feel proud of how telecom industry served the world due to – during this COVID-19, while overall service is in good quality.

We believe that solutions like ours is exactly the reason why they can maintain their network, while the traffic behavior change and the traffic capacity increase. Now, there is – there was a lot of question even before about the pace of 5G, and whether COVID-19 will affect the investment in 5G. While there is definitely uncertainty that is still not clear of the overall effect, what we see and what we read is that the investment on 5G continues. I think this is very encouraging. We saw the PR from AT&T; we saw PR from Ericsson showing – seeing also demand for 5G. And while there might be some short-term fluctuations, I see the industry sees the need and the need for additional capacity and will continue to spend and advance 5G.

This is what we see as of today, while again, there – this is not in yet full effect of the COVID-19. We are still in progress. So, we monitor that closely and making sure that there is no short-term fluctuations that we need to adjust. But on the long run, we are still big believers on the 5G. And we as RADCOM continue to invest in our product and solution towards that – that technology evolution. So overall, I would say that the demand is still there. And there is no slowdown that we see, so far, due to the COVID-19. This is why we reaffirmed our guidance to the year.

Matt Stotler:

Right, right. Yes it's very, very encouraging to see. And I guess the next question would be to kind of dig into that guidance a little bit. Like you said, you know, reiterated the original range, obviously came in a little bit, you know, maybe a little bit better on Q1.

When you look at that full year guidance, how much of that is based on revenue coming from existing customers versus the expectation of revenue coming in from new customers? Or, I guess, incremental expansions, you know, within the installed base as well. And, you know, have you done any scenario analysis around the potential impact for COVID and what that could look like? Obviously, in the context of, you know, still having a lot of uncertainty, and, you know, having to deal with that?

Eyal Harari:

Yes. So, majority of our revenue is coming from our existing customers, as we stated before. We are working with the top-tier customers on multiyear contracts. During the quarter, we also secured additional orders from some of them, which increase our visibility for the year, which gave us the confidence to reiterate the guidance even though the COVID-19 situation. So, as usually, we are mainly counting on existing customers, and existing projects, which we have good visibility. There is some level that we also based on winning new accounts. We are also looking for and market our solution to new customers, and this is definitely continuing in full pace as we speak. So, while there is very good visibility from the existing customers, and very good demand for our technology, we can definitely say that the 35 to the 38 guidance that we gave is something that is achievable as we see today, after the effect of the COVID-19, as we see now.

Everyone is trying to get, you know, what is the level of certainty. We all understand that the COVID-19 is not fully clear. So, we assess it the best as we can as of today. And overall, we are positive, and see that the demand is still there, and our existing customers that are telcos, tier-ones with multiyear contracts are giving us confidence.

Our strong balance sheet is also very important in these days, it's allowed us to keep the investment. But I think the most important with RADCOM, as we have stated, is the long run with 5G that we believe that will increase the demand more and more to our cloud-native technology.

So, the long-term story even if there will be some fluctuations or some slowdowns in some area, we still believe that the long-term story is still the same. And the industry is continuing to invest in 5G. I think this is the most important part.

Matt Stotler:

Right. Absolutely. Yeah, that's helpful. And, you know, to your point, you know, trying to – we're all trying to gauge the near-term impact here, but, you know, the longer term themes, they're obviously still, you know, very much strong drivers going forward, and especially on the other side of this. So, any impact from this is understandably temporary.

Maybe next you could just touch on, you know, any renewals that are in the pipeline for 2020. Obviously, a lot of the, you know, kind of large customers that you've discussed, you know, I mean we've talked about several large contracts that you've closed in the past year or two. Obviously, the recent – relatively recent renewal of AT&T.

So, to your point, on the, you know, contract side, there's a lot of, you know, really strong multiyear contracts that you have with customers that account for a substantial amount of revenue. But any renewals in the pipeline for 2020 that we should be thinking about?

Eyal Harari:

So, again, we don't reveal the specifics on specific customers. But, obviously, we are always engaged with our customers through both upsells and renewals, and along the year. This is true to all of our customers. And while we have our relationship, we always believe that the most important part is to continue and support them and make sure they are satisfied from the service, from the solution, from the software. And this is the only way to guarantee a long-term relationship. We have customers that are working with us for many years now. You mentioned AT&T, I think we are working with them already five years.

So, we are building our relationship on the long run. And in any given time we are always in discussions with them on renewals and expansions. But we don't share any specifics, for obvious reasons, on the exact status on each of the accounts.

Matt Stotler:

Right. Okay. Maybe, changing gears a little bit. You mentioned, you know, the continued commitment in investing in R&D, you know, just given that the long-term drivers here remain intact I would love to just double-click on that a little bit, and how you think about your investment priorities, and kind of thoughts on overall spending in the uncertain environment, you know, areas where you, you know, continue to kind of push forward, areas where maybe you're pulling back a little bit, obviously, saving in areas like travel. Would love to maybe just maybe talk a little bit about the puts and takes there?

Eyal Harari:

Yes. So, when everything started, we had our internal discussion to see whether we really believe in our vision and plans and we continue full steam ahead, or should we now try to stop a bit and look on short-term saving.

On the – our decision is to continue and invest as stated, primarily in R&D, and in order to progress the technology. I believe that hesitation in this stage will hurt us on the long run, because we are in the next few years, three to five years, there's going to be a revolution around the 5G. And we want to make sure that our technology is kept in the cutting edge and we provide the best solutions to our customers and potential customers. Our market is typically choosing the best technology, and we need to make sure we are there.

Obviously, there are costs that are being saved, primarily on travel and office expense. This is due to ban in international travel and mainly working from home. So, this creates some saving on those area. But on the long run we are keep pushing. The fact that we can still reaffirmed our guidance allow us the confidence to continue with our investment. We see that many companies are unable to reaffirmed or need to fix their guidance.

We are still in a very good position. And as stated, our balance sheet allows us also a great deal of confidence to – to keep this investment.

Matt Stotler:

Right, absolutely. Just a couple more from me. One, you know, I think it was something that Alex was touching on, but maybe you'd like to dig into a little bit more with the opportunity with Rakuten. You know, just – obviously, the network's still pretty fresh, you know, launched last month.

But how do you think about, kind of, the overall opportunity with that customer, you know, specifically as they look to expand into more geographies, you know, how repeatable that is? And, kind of, how you think about that overall opportunity for the business?

Eyal Harari:

So, yes, I think that the interesting view is how Rakuten go global. And then it's becomes from specific country opportunity, this could grow into a much bigger opportunity. This requires, as I stated, Rakuten's being able to replicate their software stack into their – to additional carriers in other countries. They are being very vocal on that; they are trying to market their solution into multiple countries. And I think that – this was mentioned before that their launch is a pivotal event that everyone is eying and want to make sure that they are being successful. The more confidence they will gain in Japan, they will be able to get more credibility and more likely to be able to replicate that.

Now, they might replicate it by open new operations by themselves in some countries or trying to just offer it as a service. So, as I mentioned before, this becomes like a channel for RADCOM, because as we are integral part of the software stack, any operators that they'll be able to sell their offering, it's a potential for us to also include our software stack in this implementation. So, you can imagine that this could be a channel for multiple additional opportunities. Then it depends on the specific country and scale of the network in order to estimate the size of the deal. So, on the long run, this creates a very interesting opportunity.

Matt Stotler:

Right, absolutely. It's a very helpful way to think about it. And then, last one, just, you know, one more question on the gross margin. You know, obviously, you know, we've seen this – the hardware impact before we saw it in Q3 of last year.

So it's not necessarily shocking to see that – just any visibility, you made it very clear that for the full year gross margin should be, you know, relatively similar to 2019. But on a, you know, quarterly basis, looking at the linearity of that line item, do you have any visibility into other hardware expenses following in subsequent quarters here?

Eyal Harari:

Not something specific that we have today, but we always market and continue, and if customer are showing requirement for hardware, we are not hesitating to offer that, as part of our promotion of the software deals that we do.

So, we are still promoting multiple deals and multiple RFPs. And some of them potentially may include an hardware component. But I think it's important that the model of the company didn't change, and the overall number should be the same on the yearly level. It's very hard to predict on a specific quarter. Obviously, if you look previous years, it's typically coming in specific quarters. It's not that every quarter we have such a high number, but the fluctuation can happen.

Matt Stotler:

Right, right. That's helpful. Congrats again and thank you for taking my questions.

Eyal Harari:

Sure. Thank you, Matt.

Operator:

The next question is from David Kreinberg of Globis Capital. Please go ahead.

David Kreinberg:

Hi, good morning. Congratulations on the quarter.

Eyal Harari:

Good morning, David.

David Kreinberg:

Hi. Just had a question. You've mentioned a few times on the call about the long-term drivers remaining intact with 5G and the like. And any time people, investors, hear about long-term drivers remaining intact, and the company is talking about that, there is sometimes a concern that there's a problem in the short term.

Yet, you're one of the few companies out there that's able to reiterate their guidance in this environment. So, I just want to clarify, when you talk about long-term drivers remaining intact, you were not seeing any problems short run. Is that correct?

Eyal Harari:

Definitely. We are aware that many of the companies are not be able to reiterate and we do it carefully. And we do add the caveat because of this, there is some level of uncertainty that we are not aware of in this scale, the COVID-19 is not something we are used to. But the visibility we have for the year is high, and a majority of the year revenue is already in our backlog. It's in our hands to execute, so this allowed us to be reiterating the guidance for the year. So, we don't see any major impact so far.

Obviously, things are being a bit harder this time, because of working from remote, and customers on the long run are – might look on a slower sales cycle, and decisions may be taken more carefully. But this is still – on the long run, we believe that the 5G trend will be much bigger impact, because any operators that move to 5G is requiring to change, innovate, or replace his current service assurance solution. So, this potential is still ahead of us, which is important. And the mix of – be able to have good visibility for the year and see that the long run driver is still there, and operators and vendors still see 5G moving forward in similar pace. It's very encouraging.

David Kreinberg:

And on the 5G opportunity, do you see that mostly with your current customers? Or do you see that also an opportunity for you to penetrate new customers?

Eyal Harari:

Definitely, our existing customers is the first opportunity this true to any vendor in the industry. We are working closely with our customers. And as I mentioned, we look our customers' long-term relationships, we invest a lot in their satisfaction, and making sure they are getting our cutting-edge technology, but RADCOM is also looking to grow into new carriers. We believe that we are, as I mentioned, before a big opportunity of 5G that everyone will need to replace their assurance.

So we are definitely looking after more accounts that will need to replace – some of them are using obsolete technology that is good for the 4G, because the 4G is in many operators still physical appliances and implementation, and they can continue and stay with their 4G legacy assurance solution. But when it come to 5G, they will need to change. And this is something we are going after and trying to market to all of those that are progressing with their 5G, in order to win new logos.

So, it's a mix of continuing working very close with our existing customers, which is our base, this what's give us the visibility for the short term. But on the long run, we believe that additional growth will come from new customers.

David Kreinberg:

Okay, great. Thank you. Keep up the good work.

Eyal Harari:

Thank you, David.

Operator:

Thank you. There are no further questions at this time. This concludes the RADCOM Ltd. first quarter 2020 results conference call. Thank you for your participation. You may go ahead and disconnect.

[End of conference call]