Q3-16 Financial Results Conference Call Management's Prepared Remarks and Q&A

November 1, 2016

Operator:

Ladies and gentlemen, thank you for standing by. Welcome to RADCOM Ltd. third quarter 2016 results conference call. All participants are at 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 *0. As a reminder, this conference is being recorded, November 1st, 2016. 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 the 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 investor section of RADCOM's website at www.radcom/investorrelations. 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, include but not limited to product demand, pricing, market acceptance, changing economic conditions, product technology development, the effect of the company's accounting policies and other risk factors detailed in the company's SEC filings. The company does not undertake to update forward-looking statements. The full safe harbor provisions are set forth in the presentation.

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 companies and financial performance. By excluding the non-cash charges, 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.

I would 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/investorrelations. If you have any trouble, send Mark an e-mail at markr@radcom.com, and he will send to you directly. Now, I would like to hand the call over to Yaron. Please go ahead.

Yaron Ravkaie:

Okay, thank you, operator, and thank you all for joining us today. I hope, you have our presentation in front of you, and I will begin with **slide 3**.

As you can see, our results for the quarter were very strong, with sales up over 62% year-over-year to $7.7 million. In addition, we achieved a non-GAAP net profit of $1 million or $0.09 per share.

Our focus during the third quarter was to continue executing on existing contracts, expanding with current customers, running trials with new customers and ramping up our engineering resources in anticipation of potential new projects.

We will continue making significant investments in the business to support our growth strategy. We believe this is the right approach to meet market demand for our solution, despite the near-term impact on profitability over the next several quarters. As we discussed last quarter, AT&T publicly disclosed that they are using our innovative MaveriQ product suite as the service assurance component of their new NFV network.

We continue to move forward in the implementation, and are working closely with the customers to expand functionality and integration into AT&T's integrated cloud.

As a reminder, AT&T plans to virtualize approximately 75% of their network by 2020, and given our rollout and expansion during the past few quarters, RADCOM is a key piece of this transformation.

We also continue to focus on our existing business in the rest of the world. During the quarter, we were very pleased to receive two expansion deals.

The first expansion deal was in Asia Pacific-based Tier 1 operator. This multimillion dollar deal expanded on our original three-year framework contract that we announced in May, 2015.

We have been a long-time partner of this operator, who was the first customer to upgrade to MaveriQ, and this latest order highlights the benefits of our solution in assuring the network and providing real time customer experience insights.

Our second expansion deal was with a Latin America Tier 1 operator. This expansion to the customer's MaveriQ deployment boosts the solution capacity and functionality to assure the operator's mobile services while they are significantly increasing their network capacity.

We continue to be engaged with leading top-tier carriers about their respective NFV strategies, and the public endorsements from AT&T have only accelerated our efforts. As mentioned on our previous call, we are engaged with nine potential customers, with several of these accelerating their proof of concept timelines.

Also, we are starting to see other operators who have reached the detailed planning stage of their migration to NFV and have either issued or are planning to issue a tender for pure NFV with network architectures, similar to other leading operators who have already begun the transition.

Our approach to NFV transformation is being received very well and creating the right excitement and traction with these customers. As I've said in the past, the sale cycles for this type of deals are longer, as top-tier carriers are looking for comprehensive solutions for big transformation projects. As a result, they move carefully before making any commitment. That being said, and given the progress we are making, we continue to remain confident that these activities will materialize into new deals and are planning accordingly.

As to the state of the NFV market, carriers continue to be very interested in our MaveriQ platform, since they recognize that RADCOM is the only vendor in the market that can provide a path to NFV and future proof their purchasing decision.

As a result, we continue to feel strongly that our hybrid strategy, of running a virtual NFV service assurance solution in a hybrid world of both physical and virtualized network elements, is correct. We also continue to work to strengthen our positioning within the NFV ecosystem.

We have publicly announced partnerships with Amdocs and HP in the past, and with the more recent AT&T announcement we have been working on opportunities with additional partners. As to our organization, we continue to scale up our workforce with particular focus on our engineering resources.

Last quarter, we welcomed additional leaders to our management team, and this quarter we focused on expanding our engineering team to handle the unprecedented requests for field tests and our ability to scale and execute projects in parallel. Acquiring the right type of talent takes time, as we only started onboarding people late in the third quarter and started the fourth quarter. We are also ramping up our presence in North America. Eyal Harari, RADCOM's COO, is relocating to our offices in New Jersey, where he will focus on building out our local presence in North America, as we expect that new projects will materialize there. Looking forward, we are going to continue to invest in our engineering capabilities to maintain our product leadership in NFV and to support growth. So in summary, we are very pleased with our progress and continue to focus on execution. Looking forward, we remain excited by our prospects given RADCOM's strong position in the industry. And with that, I will stop and turn the call over to Ran Vered, our new CFO, to discuss the financial results. Ran, please.

Ran Vered:

Thank you, Yaron. Since you have the financial results, beginning on **slide 6**, we'll just go over the highlights. To help you understand the results, I will be referring mainly to non-GAAP numbers which exclude share-based compensation.

Revenues for the quarter were $7.7 million, up 62% year-over-year. This is a new record for RADCOM, demonstrating that we have entered in a field of course and increased visibility, based on large multi-year projects with defined milestones. Our gross margin for the quarter was 70% on a non-GAAP basis, in line with our expectations and consistent with the second quarter of 2016.

Our gross margins continue to reflect the recognitions from all the projects which have a higher… of components. In general, we expect that the gross margin will continue to fluctuate, depending upon the mix of each quarter's revenue. On a long-term basis, we expect the gross margin to be at higher levels as more carry contract with us based on an NFV software license model.

As you can see on **slide 6**, our gross R&D for the quarter on a non-GAAP basis was $1.8 million, up 40% from last quarter, from last year. In addition, we received $385,000 from the Israel Innovation Authority during the period, reducing net R&D for the quarter to $1.4 million.

It should be noted that our R&D expense did not increase as much as planned because some of our hiring took place towards the end of the quarter and into Q4. That said, we are on track with our R&D hiring and continue to increase our capabilities to support our customers, and to widen the gap between us and our competitors.

Sales and marketing expenses for the quarter totaled $2.3 million on a non-GAAP basis, up 9% compared to the third quarter of 2015, primarily due to commissions paid to our partners.

Overall, we expect this… to continue to increase gradually over time as we build up the sales and marketing organization. G&A expenses for the quarter on a non-GAAP basis totaled 690,000 compared to 477,000 in the third quarter of 2015.

We expect G&A expenses to increase slightly going forward, as most of the large increases are behind us. Operating profit on a non-GAAP basis for the quarter was $994,000 compared with $956,000 for the third quarter of 2015. We also posted $39,000 in financial income for the quarter. Net income for the quarter on a non-GAAP basis was $1 million or $0.09 per diluted shares.

The result included $385,000 or $0.03 per diluted share benefit related to grants from the Israel Innovation Authority.

During Q3 of 2015, grants from the Israel Innovation Authority were approximately $867,000 or $0.09 per diluted shares. On a GAAP basis, we were approximately breakeven compared to net income of $561,000 or $0.06 per diluted share during the third quarter of 2015.

The… decline was primarily due to increase in stock-based compensation. Turning to balance sheet, as you can see in **slide 11**, our cash and cash equivalent as of the end of the quarter was $43.2 million, more than five times their level at September 30, 2015.

We believe that our strong cash balance bases the company on solid footing for embracing the big Tier 1 opportunities. Now turning to guidance. We are reiterating our full-year revenue guidance range of $28 to $29.5 million. In terms of profitability, while we are not providing specific EPS guidance, we do expect profitability for the fourth quarter to be below the third quarter due to expenses associated with market trials, the revenue mix and continued investment in the business.

As Yaron mentioned in his remarks, we believe that our decision to make significant investments, primarily in engineering resources to support our growth strategy is the right thing to do given the demand for our solution. As a reminder, we view and continue to manage our business on an annual basis, because our quarter results can fluctuate due to the timing of implementation milestone. With that, let me turn it back to you, Yaron.

Yaron Ravkaie:

Thank you, Ran. In summary, the third quarter was one of the strongest in the company's history. With NFV tailwinds at our back, we are fully engaged to materialize significant growth to continue and innovate, be a first mover in healthcare and unlock the full potential of NFV as we support them in assuring the successful accelerated transformation. With that, we would be happy to take your questions. Operator?

Operator:

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press *1. If you wish to cancel your request, please press *2. If you're using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by while we poll for your questions.

The first question is by Alex Henderson of Needham & Company. Please go ahead.

Alex Henderson:

So I guess I got a couple of questions for you. First one, it's pretty clear that, you know, there's a pretty good relationship between you guys and the guys over at Gigamon. It looks like Gigamon announced a major AT&T contract that also pulls them into support between the AT&T and AWS platforms. Is that a project that you would also be pulled into or is that, you know, something that you might get involved with down the line? Can you help us understand whether that AT&T-AWS relationship is relevant to you?

Yaron Ravkaie:

I, you know, I don't, I need to be careful not to disclose any customer specific things. I would emphasize, I think, what I disclosed in the past when we disclosed the AT&T deal, that the focus for the NFV transformation of what we're doing in this year and into next year is the mobile network. And I think you can probably do the math of what that means regarding AWS and Gigamon. It sounds to me like in a different space, so,

Alex Henderson:

Okay. Second question I had for you was you obviously need to accelerate your investment. You talked about significant increases, but you didn't give us a lot of granularity on it, down sequentially off a $0.09 number is not a particularly granular guide. Can you give us a little bit more detail on the number of headcount at the end of the quarter, where you think it might be by the end of the year, and you know, maybe a little bit more sense of how much you expect to drive that, you know, over, into the first half of '17, so that we can get a better sense of the baseline? We took a proactive stance here to give you a lot more room on that by bringing our expenses up pretty sharply in a preview note here. Are we on track with that or did we overdo it? Can you just help us out a little bit with granularity on that?

Yaron Ravkaie:

So I'll give you the broader picture and Ran, I think, can talk specifically, add here. First of all, from a business perspective, we're seeing, you know, the demand for the trials and the continued investment that we need to do in R&D and the setup that we need to do for 2017 and 2018 in front of us. So we are going to continue to scale the R&D and the engineering resources, etc. That being said, you know, the, it's now November, the quarter is almost over, so you are not, from a number's perspective, so Ran will touch on it. I don't think you're going to see crazy things happen, but we continue to ramp up and we can't exactly disclose the exact number because it's a small amount of numbers. Okay? We are talking 5, 10, you know, people each time that we are ramping up every quarter in the engineering side, and it depends if we sign them in Jan, excuse me, in November. We sign them up in December, it affects the quarter. So it's hard for us to give the exact number that will, it will affect us because of the small numbers. And when we look into next year, you know, we're doing now exactly the planning for next year. We're going to have the board sessions to approve it at the end of the year, so we're going to be able to nail down the plans only towards the end of the year. So at a high level, we're going to want to manage next year in a way that we invest a lot back into the business, and I think the responsible thing for us is to make sure that we can capture as many of the trials and potential out there and turn them into new business and create the infrastructure in advance for that. So in general, from, again, without going into a specific number yet, from my perspective I think you are on track.

Ran Vered:

Just to add on that, Alex, so we actually add quite large ramp up at the end of Q3, and also we continue the ramp up in the beginning of Q4. We are currently on plans on the ramp up, and as Yaron said, its variation will be 5 or 10. We won't have a specific figure, but that's about that.

Alex Henderson:

Well, can you give us the headcount in the June quarter and the headcount in the third quarter? What was the change in the headcount for the already reported quarter?

Ran Vered:

It was, it was roughly, yeah, so Alex, we're going to file the number of the resources in our full-year reports. It's going to be in the next quarter.

Alex Henderson:

So no headcount, I guess. Okay. Going, going out, just looking out for next year, is it reasonable to think that, you know, sort of a target of 6 to 7 million kind of numbers quarterly is the right ballpark on Opex?

Yaron Ravkaie:

Opex.

Alex Henderson:

If I put in R&D, G&A and sales and marketing all together in a bucket, you know, you did 4.4 million non-GAAP in the September quarter. Is it reasonable to think that 6 to 7 is kind of the band for next year?

Ran Vered:

It's, I think it's a little bit premature to have these figures. As Yaron said, we are now in the process, in the finalization of the process to finalize our plans for next year, that is going to be approved by our board the end of the year. So we will provide more color on it in the next, in the next quarterly call.

Alex Henderson:

Okay, I'll see you at the fourth, thanks.

Ran Vered:

Thanks, Alex.

Yaron Ravkaie:

Thanks, Alex.

Operator:

The next question is from Dmitry Netis of William Blair. Please go ahead. One moment, sorry. We are having a technical issue. One moment please, I'm sorry. The next question is from Martin Cohen. Please go ahead. Martin, please go ahead.

Martin Cohen:

Hi, good, hi, good morning, or good afternoon in Israel. I noticed something very interesting in your income statement, and that is that you're actually putting all the profit, the gross margins, back into R&D. Is that because you feel that there is a good reason for continuing the R&D in the present appliances, so to speak, or do you feel this is new R&D, something that you're moving into that you haven't told us as yet?

Yaron Ravkaie:

Hi, thanks for the question. It's Yaron. Basically, what we're doing is we're, everything is, I would say 99% of everything is new R&D, new R&D in engineering resources that we're getting the company ready to do two things: Deliver on our existing commitments, and we're starting to forecast the coming, you know, 18 months of demand for the product and getting our engineering resources ready for that. So we're creating the infrastructure for that.

Martin Cohen:

Great. All right, thank you so much.

Yaron Ravkaie:

You're welcome.

Operator:

Thank you. The next question is from Dmitry Netis of William Blair. Please go ahead. I'm sorry, one moment. The next question of Noah Steinberg of G2 Investment Partners. Please go ahead. Online with you now is Dmitry Netis of William Blair. Please go ahead.

Dmitry Netis:

Gentlemen, can you hear me now?

Yaron Ravkaie:

Yes.

Ran Vered:

Yes.

Dmitry Netis:

Okay, third time's a charm.

Yaron Ravkaie:

It will give you an assurance solution, somewhere.

Dmitry Netis:

Exactly, right? Mobile, mobile assurance.

Yaron Ravkaie:

Yeah.

Dmitry Netis:

Okay, so a couple of questions just, I joined a little bit late, so I apologize if those were met, were tackled already, but a couple of the clarifications and then maybe a bigger picture question. On the clarifications, what were the DSO in the quarter?

Ran Vered:

53 days. 52 days, sorry.

Dmitry Netis:

52, okay. And that's up from, call it 18, 19, last quarter?

Ran Vered:

It was 13 last quarter.

Yaron Ravkaie:

Just, what we said was,

Ran Vered:

Not very unusual.

Yaron Ravkaie:

Unusual positive, right.

Dmitry Netis:

Okay. Well, I take it your visibility hasn't really changed. It's still pretty solid through the end of the year, right? You're reiterating guidance and you feel pretty good about where we are in Q4.

Yaron Ravkaie:

Yes.

Dmitry Netis:

Okay, but as far as the new deals then go, what, what have you said in terms of the total count of trials and how close are you in landing maybe yet another deal? And we're looking now into '17 timeframe, early '17, middle of '17. If you could sort of give a timeline of when you expect another deal to come through, that would be really helpful. I don't know if you have that visibility just yet, but just comment on that please. And I apologize if you already did. Just wanted to hear that one more time.

Yaron Ravkaie:

No, no reason, Dmitry. So as I mentioned also next, last quarter, and I touched on it also in the script, we were engaged with nine operators. Now, these nine operators are not, are not just randomly nine operators. They are the ones that are more aggressive on NFV and on this hybrid approach and have the most to benefit from NFV. And, you know, they're all Tier 1 operators, you know. Now, over the course of the last, I would say, quarter and half, almost two quarters, what's happening is part of those nine are accelerating their trials with us, and that's the picture now that we are facing. Now the way that the way that I'm, when you translate it now into an Excel sheet with probabilities and pipeline management and things like that, it speaks out that it will bring deals in the second half of the year, okay? That's, when you do the math it takes, you know, a typical trial would be nine months, they need to go deep, you know, some probabilities on the win, etc. When I look at the business, it makes sense to me, and I would say that we're aiming for that, for the new deals to come in the second half of the year. Saying all of that, from what I see on the ground, there might be positive surprises. So, you know, the models are modeling to the second half of the year and, you know, we'll see one of the carriers will want to move, one or two other carriers will want to move faster than that, we might see a positive surprise.

Dmitry Netis:

Okay, understood. So, second half is what you're sort of counting, and if it's something earlier you would be very happy with that.

Yaron Ravkaie:

Exactly.

Dmitry Netis:

What are you expecting out of AT&T for next year? Are we still sort of targeting the $18 million out of AT&T next year?

Yaron Ravkaie:

It's hard to pinpoint an exact number. It's going to, it's not going to be half or not going to be double, okay? But it can gravitate also to be a little bit higher than that. It depends, you know, on many moving parts. But that's pretty much the area of where, where they'll gravitate around.

Dmitry Netis:

Okay. And has anything changed as far as maybe new deals, new step-up in services, step-up in new applications at AT&T? Has anything changed this quarter versus last, more incrementally positive, negative, about feeling the same. How do you kind of take, your take on the AT&T current outgoing business?

Yaron Ravkaie:

So, first of all I think, the most important thing is that the implementation is going okay. So at the end of the day it's a multi-year agreement and, you know, it's their transformation and it's not a simple implementation, and it's a very complicated one and it's going okay. I think, the second thing, it's a live implementation, so the relationship is good and the scope changes and they need sometimes to contract more projects, and we see that as part of the healthy relationship. So it's going up, not going down. And, you know, I would expect the relationship to continue to be managed okay into next year. There is lot of activity coming, you know, and both AT&T is in our table for next year.

Dmitry Netis:

Okay, but incrementally there's no new revenue. No new application sort of being added here, as you saw, for example, last quarter?

Yaron Ravkaie:

No new applications this year, but there are, this quarter we are, you know, there are, again it's live, so there are some expansions that we're doing them, with them, on the existing applications, on the scope, and how they're using the product, at what areas of the business they're using the products. Sometimes they need something faster and that type of stuff. But I can't, I'm not able to disclose any, like specifics, beyond that.

Dmitry Netis:

Understood. Okay, that's helpful. And then on kind of a legacy, if I'd call it. It may not necessarily be a legacy, but let's call it Tier 2, Tier 3 business, you know, with some of the carriers used.

Yaron Ravkaie:

Emerging markets.

Dmitry Netis:

In the past.

Yaron Ravkaie:

I call it emerging markets.

Dmitry Netis:

I'm sorry, you what?

Yaron Ravkaie:

I'm calling it emerging markets, the emerging markets.

Dmitry Netis:

Emerging markets, fair enough. What's the run rate of that business? Can you sort of, you know, the telecoms and the Globe in Philippines. So, I mean, what, if you combine them in one bucket, what would be roughly the run rate in your expectations of, you know, kind of the revenue contribution from that group?

Yaron Ravkaie:

No, you can do the math, right? If we're guiding to 28 to 29.5 and, you know, we said that somewhere around 18 is the number from AT&T, then everything the rest is from that. And I would say that probably, you know, maybe together it accounts for 90% if you want to be accurate, okay? 92% on it?

Dmitry Netis:

Okay. Well, is that the same expectation for next year? Are you expecting any sort of ramp up in that bucket next year, or is that pretty much steady, as we've seen this year?

Yaron Ravkaie:

We are working on some projects that can actually be a ramp up. So, again, it's a little bit early to put the full forecast. But, you know, it's not, I don't see it going down. And there are some potential there that it's a region where data is exploding and they need some additional solutions. You know, most of the focus of the company is on the NFV, so we're not, you know, putting more sales, we're not putting more sales efforts into those regions. But on the existing accounts, and adjacent to those existing accounts, we see positive activity.

Dmitry Netis:

Okay. And then maybe just the big picture here. If you look at, you know, the deal that you have with AT&T and the pricing there, you have the enterprise license of every function, every subscriber sort of covered under this enterprise license agreement. As you move into sort of this new world, where you obviously have a first mover advantage, you're working through many other trials and operating with many other operators at the moment, what should we expect? Should we expect you to have some leverage in pricing going into those new deals? New operators which would be essentially little better than what you had with AT&T, or how are you thinking about that? I mean, provided, maybe they are the same size. Well, they can't be the same size, unless it's Verizon or something along the line of, you know, with the same number of subscribers that AT&T has. But it most likely will be slightly lower than that big deal that you landed. So would the pricing more than compensate for that? I'm just trying to get a sense of how to think about that?

Yaron Ravkaie:

Businesswise, it's a little bit too early to say. Modeling-wise, the way I model it in my head is that I don't, I'm not, at this stage I'm not like building a premium for the next customer. So I would just say, okay, if it's a carrier, you know, half the size of AT&T, then I'm not sure it'll be half the implementation, but it'll be lower. So you can, you know, you can, somehow model it that way, but it's a little bit too early to say exactly how it will unveil itself businesswise, you know. Businesswise, at the end of the day, NFV is a disruptive approach to equipment, and everything that we are doing is pure 100% software. So the way that we, you know, we'll build the business. We did it with AT&T and we'll build the business with additional customers. We'll be around to help them disrupt the equipment base. Now, exactly how much goes to their benefit and how much we can monetize, that's, that's at the end of the day the scale of that. So, and there's a scale there. You know, they can get benefits and we can get benefit, but it's very hard to predict exactly how it will unveil itself.

Dmitry Netis:

Understood. I was just trying to get to the sort of should we model it based on number of subscribers in the network, you know, per function, be it mobileCore or Virtual CTE or anything along those lines, or should we just kind of assume what we've seen here with AT&T, which is the enterprise-wide license agreement? That's sort of the gist.

Yaron Ravkaie:

Basically, I would say that a carrier with, you can, I would model it based on how some subscriber in the carrier are on it. Even if it's translated to an enterprise license, the enterprise license will be much bigger for a bigger network. And the subscriber indication, plus, you know, some sort of the indication, whether, you know, it's North America or Europe, there might be some price differences there. It should be enough to model.

Dmitry Netis:

Okay, understood. My last question and I'll cede the floor. Just, again, a big picture on the NFV market and sort of the TAM of that market. I don't know if you guys had thought of, I know it's very difficult to model sort of what's the actual size of that market may look like, you know, five years out. There's some industry kind of data out there that may support some calculation around virtual probes, etc. But as you look at your business, guys, you know, the virtual probe, you know, your entry into the load balanced space, maybe security down the road, I mean, that you talked to. What do you think your TAM is or will be, let's say in the next five years, vis-à-vis kind of the total NFV markets? And I've seen numbers anywhere in 20s and $30 billion. But, you know, as you look at the sliver of the business that you're delivering to the carrier, what do you think that the size of that market is, addressable market is?

Yaron Ravkaie:

You're catching me off guard. You know, a five-year TAM on an earnings call it's, yeah. So we talked about TAM in the past. I would say that just for the pure assurance in NFV, there is probably north of $100 million out there in the next five years, okay? Because we're talking about assurance, a $1 billion market. And you know, you can even probably make a claim and it's for the next three years, and that's, you know, analysts have picked up on that industry. Analysts have picked up on that, on that number number. Now, if you start to add additional products and expand to that, it'll be more. So it'll be in the hundreds of millions. You know, some of these areas are as big as assurance. Some might be even bigger. So it's not a negligible TAM. I would also caution, you know, all of us that NFV is very hard to predict. So everybody is trying to model, you know, some sort of hockey stick at a pace of disruption and what paces will it happen. So I would expect, as more carriers move to NFV in the next two years, I would expect all these models to change and this industry to be in focus.

Dmitry Netis:

Alright, good enough. Thank you so much. Keep up the good work, gentlemen.

Yaron Ravkaie:

Thanks, Dmitry.

Ran Vered:

Thanks.

Operator:

The next question is from Noah Steinberg of G2 Investment Partners. Please go ahead.

Josh Goldberg:

Good morning, it's Josh Goldberg for Noah. How are you doing?

Yaron Ravkaie:

Hi, Josh, doing good.

Josh Goldberg:

Just couple of quick questions. I guess, first, you know, obviously you've been here now nine months and the results so far have been very strong. You know, best, best revenue quarter in company's history. Obviously, you know, good healthy financing to support the growth. And specifically, your comment that you have an expanding relationship with AT&T and ongoing momentum with Tier 1 carriers globally. I think what would just help people is understand, number one, when you look at all nine carriers combined, roughly how much bigger than AT&T? My guess is, you know, if even all of them or half, it would be four to five times the size of what AT&T is providing for you. And my second question is, based on your expectation, obviously you're spending now, so you're seeing what's going on in the field. Can you give us a sense of the amount of your spending and how much it should correlate with possible Tier 1 wins in the next sort of 12 to 18 months?

Yaron Ravkaie:

Okay, so let me start from the second. I would say that the company is gearing itself to execute several projects in parallel. Now, are we going to, do we execute three projects in parallel or five projects in parallel or six projects? It's hard to predict that stage, and the infrastructure investment is not so much different, whether you are executing, you know, the low number or the higher number. Because a lot of it is going to R&D, in automation and how to scale the business, etc. But that's, that's, you know, the mindset is to scale the company to execute multi-Tier 1 projects in parallel with the R&D associated with it and the engineering resources associated with it, understanding that it's in, all in NFV in virtual, which is very advanced tech and we need to keep the product alive in order to, you know, as part of the implementation. So a lot of moving parts. The first part,

Josh Goldberg:

Well I guess I'm trying to get, get there before you answer that first question, is if you are accelerating your investments, that must mean that you're seeing better visibility from these opportunities. I just want to make sure that everyone here hears that, because I think people are worried about the expenses and this and that for the next, you know, quarter or two. But as you look out now for the next year or two, it sounds like you feel better about your position and about the size and about the wins that you could win.

Yaron Ravkaie: You know, that's basically why we are doing the investment. Because what keeps me awake at night is not that, you know, some people can be awake at night. Other companies, you know, if they're worried that there's a market or there's a demand for the product. What we're seeing is we are seeing a lot of interest from the marketplace for the product. Some of it is translated into trials, and we need to get the infrastructure ready for that. So that's what's, that's the, and I touched on it, I think, last quarter, and I'm touching on it again now. A lot of the focus of the company is making sure that we have the infrastructure to execute. Yeah, and I would be doing it if, I wouldn't be doing it if, you know, I wouldn't be seeing the demand, so you are absolutely right.

Josh Goldberg:

Okay. And then regards to just where you are now versus where you felt you were nine months ago. How do you feel about the company?

Yaron Ravkaie:

So, you know, we've done a lot in nine months. I feel good about what we've done. The relationship with AT&T is a good relationship, not, it's very non-trivial to get, you know, lot of superlatives in an ongoing basis from AT&T, and I think that came out very well with their endorsement of us with that public PR. We've done a lot of scale the company. We've done a lot, a huge investment in the product. We've released many releases of the product in agile to support NFV. The company is a 100% software company. So many, you know, things to tick on, to put a checkmark as progressing. And I'm happy with the progress and I think everybody will see that the next coming quarters are going to be active quarters and continue to build everything out and making sure that the infrastructure is ready to progress with AT&T and with other clients, and that's the journey ahead of us, so it's a good feeling.

Josh Goldberg:

Last question for me. You know, obviously AT&T is a frame agreement, but how often do you receive orders from them? I mean, it seems like we haven't seen a press release of an order recently, but obviously your confidence with them for next year seems to be pretty high. So maybe you could just help us understand how that works in terms of frame orders versus , versus what you see out there. Thanks. And, by the way, the 8 o'clock timeframe is a good start instead of 9. Thank you.

Yaron Ravkaie:

Thanks. So, it's a little tricky, okay? Because it's a complicated agreement, but basically the way to look at it, it's not a framework agreement, okay? It's an agreement that is a holistic agreement. There is actually various agreements there. You know, there's a big agreement there's maintenance agreement. We're not going to go and publish all of them, but by the way, there is more color on them for everyone that reads the 20F that we, I think, put last year and we'll put another this year. So whatever we can disclose, we disclosed there. And the orders are, some of the orders associated with the big agreement are just invoicing mechanisms. So we're not going to disclose each time that we receive an order for an invoice and a payment. And that's the mechanism, and when we do have like big expansions, we'll disclose them.

Operator:

The next question is a follow-up by Alex Henderson of Needham & Company. Please go ahead.

Alex Henderson:

Yeah, hi. I was just wondering if you could tell us, you announced that you had some new products, but you are keeping them under wraps to the street and to the broader industry by requiring people to sign in NDAs in order to trial them. Can you give us an update on when you think you might, you know, give us some more information on what those products look like and, you know, when you plan on opening it up to the broader industry?

Yaron Ravkaie:

I can't, because, primarily because I think everybody understands that it's a competitive edge. Like I just said, that the customers that we did sign NDAs with and, you know, the nine customers and the subsets that are progressing ahead, with some of them the new, the new areas are included and we're seeing excitement there. So we're keeping it under wraps and we'll continue to do it in the near future, primarily to maintain this competitive advantage.

Alex Henderson:

Okay. I just wanted to check to see if there was any update. Thanks.

Operator:

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

Mike Arnold:

Hi, Yaron. I wanted to drill down a little bit into the nine trials that we are currently engaged with. I think last year we got some updates throughout the year in terms of what the competitive situation looked like. It sounds like there was competitors that were dropping off as we went through new rounds of trials. Is that sort of the same thing that's happening with these nine, or is it basically, are these nine trials ours to lose basically, given we've got this technology edge against the competition? Just want to get your perspective on that. Thanks.

Yaron Ravkaie:

A lot of them are ours-to-lose type of trials. We have, we have a competitive advantage in the marketplace. You know, it's being validated by AT&T and the fact that it's public. It gives comfort to these, to these clients. Some of them are also in touch with AT&T. And, you know maybe the word ours to lose is as little bit very ... and sounds aggressive, but I would say that a lot of these customers that we are engaged with see, the feedback that we're getting is that they see the cutting-edge technology from what we're showing, they see why it's differentiated, they see the validation from AT&T, and primarily they're evaluating with us the technology, okay? They're not doing like a multivendor evaluation.

Mike Arnold:

Okay so there is, there is, are there any other, any other competitors that are trialing, or is it just basically you guys are in there with the nine carriers basically?

Yaron Ravkaie:

Again, it's, I 'm not going to go and break down the nine to each one, but with most of them they are evaluating just our technology.

Mike Arnold:

Okay, excellent. And I'm curious with AT&T. I know that they've got DIRECTV and I've seen some reports that suggest that NFV could potentially be a nice use case for cable operators and maybe even satellite operators. Is there an opportunity to expand in the DIRECTV and some other opportunities within AT&T?

Yaron Ravkaie:

There is many opportunities in AT&T. I think, you know, cable, enterprise. There's, you know, who knows what then in this next merger will bring us. Primarily what I see that if it goes through the Time Warner Cable, just going to add more traffic to the mobile network. All of these things are positive, and AT&T are just focusing with us at this stage on the mobile network, so there is, and our solution supports more than that, so there is a lot to do with AT&T going forward.

Mike Arnold:

Okay, so it sounds like your addressable market includes cable operators, satellite operators and mobile operators.

Yaron Ravkaie:

Yes, some of our existing clients as well.

Mike Arnold:

Okay. Alright, thanks. That's all I had.

Operator:

The next question is a follow-up by Noah Steinberg of G2 Investment Partners. Please go ahead.

Josh Goldberg:

Hi, Josh Goldberg here again. Just two other questions based on some other responses so far. So, could you tell us, like obviously moving your COO to the Americas sounds like there is some more opportunity there. Maybe you can give us a sense of out of the nine how many you are in North America, or a sense of, you know, what you're seeing here that's getting you a little more excited. And I don't think you answered how many, if you took the entire subscribers, all nine, how much, how bigger is that, how much bigger is that than AT&T? Thank you.

Yaron Ravkaie:

I am not sure I know how to calculate it like off the top of my head, but I'm trying to do the math but I won't calculate it. There,

Josh Goldberg:

I just want you to at least convey, convey that it's certainly not, you know, equal to what AT&T will be. It's significantly bigger. That's all I need.

Yaron Ravkaie:

What I, all of them are very formidable Tier 1 operators, you know, whether they're in Europe or in North America. They're big and I think everyone can probably do some napkin modeling from the standard. But, you know, of course there are, if you accumulate, sometimes you accumulate two carriers, they're bigger than AT&T, so, but AT&T is a very big carrier, saying that. What was the last question now?

Yaron Ravkaie:

Ah, about Eyal. Part of scaling the business, yeah, yeah. Part of the strategy of scaling the business is focused, and I mentioned that in the past, it's NFV is going to happen in Western Europe and in North America probably sooner than it will happen in the emerging markets. Now, again there is some, in Asia Pacific there are some carries that are not emerging markets carriers, right? There is Japanese carriers, there is Australian carriers, others like that. But if we look at the, if I put Asia Pacific aside for a second and we look at Europe and North America, most of our R&D is in Israel, we have a branch of the company in India, we can support Europe with some local presence out of Israel. It's very close, it's a three-hour flight, it's not that far. When you look at North America, and I've done a lot of work in North America in the past, you need a strong presence in North America to support the business in North America. That's the primary reason why Eyal is relocating to the U.S., to the East Coast, to Jersey, and he will scale our presence here. And of course it comes, you know, with both serving AT&T, which I think you touched on the, everybody touched on the call. There is a lot of to do now. There is also a lot of potential going forward with them, and also additional potential customers.

Operator:

If there are any additional questions, please press *1. If you wish to cancel your request, please press *2. Please stand by while we poll for more questions. There are no further questions at this time. Mr. Ravkaie, would you like to make your concluding statement?

Yaron Ravkaie:

No, I just want to thank everybody. We have a very interesting journey ahead of us and we feel very good about it. And, you know, I look forward to seeing everybody next quarter. Thank you very much.

Operator:

Thank you. This concludes the RADCOM Ltd. third quarter 2016 results conference call. Thank you for your participation. You may go ahead and disconnect.

(End of conference call)