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AudioCodes Is Optimistic About Growth Amid Rising Competition 2005-11-28 10:26 (New York)

By Gwen Ackerman

Nov. 28 (Bloomberg) -- AudioCodes Ltd., a maker of devices that enable Internet phone calls, said telecommunication giants such as Lucent Technologies Ltd. pose little threat to their business even as they buy companies that make Internet-calling gear.

"We are not worried about that phenomenon," said Lior Aldema, vice president of marketing and product management, in an interview in AudioCodes's Yehud, Israel-based offices. The voice over Internet Protocol, or VoIP market is forecast to grow more than threefold to \$13.8 billion by 2008, according to Synergy Research.

AudioCodes' profit and sales have risen in the past year as telecommunications companies, including cable broadcasters, start offering consumer Internet call services over broadband networks. AudioCodes's market got a boost with EBay Inc.'s September acquisition of Skype Technologies SA for \$2.6 billion.

"It is clear, with the Skype acquisition, that everyone understands the importance of this industry," Ran Israeli, analyst for Clal Finance Batucha Investment Management Ltd., said in a phone interview. "The technology is little by little being realized."

As recognition of AudioCodes's market and technology grows, it will face more competition, possibly from consolidated global companies who may decide to produce their Internet call equipment in-house, analysts said. Lucent, the biggest U.S. telephone-equipment maker, in May 2004 agreed to buy Telica Inc., a maker of systems that use VoIP, for \$295 million in stock.

Lucent has an agreement with AudioCodes to resell its equipment under its name and Aldema said that the deal with Telica will have little impact on the company. "If they didn't buy Telica, we could have sold them more, but there is still big potential there for us," he said. "If they are using Telica, it is for a specific segment."

Services Trend

The trend among companies such as Siemens AG, Germany's largest engineering company, Alcatel SA, the world's largest provider of broadband Internet gear, Lucent, and Nortel Networks Corp., the largest North American telephone-equipment maker, is to put their money in services rather than in development of media gateways, said Aldema. Moreover, those companies are moving towards becoming integrators who are more willing to buy products like AudioCodes's to complete a network, he said.

``The issue for us is if there will be more competitors of our own size, and we don't see anyone yet," he said.

Rami Rosen, an analyst at Oscar Gruss & Son Inc., said that while competition is always a concern, AudioCodes's business model, which relies heavily on original equipment manufacturers or OEM agreements, ``can help it neutralize some of the competition."

``Nortel can buy from AudioCodes because they don't compete with them," Rosen said in a phone interview. ``AudioCodes is outside the playing field." Rosen rates AudioCodes a ``buy" and expects sales to grow 29 percent in 2006 and net profit to rise by 48 percent.

`Reaching Everyone'

Seventy-five percent of the company's overall sales come from OEM agreements, which allow companies like Nortel to resell AudioCodes devices under their own names, Chief Financial Nachum Falek said in the interview.

``If five years ago, VoIP was a game played by foreign workers who wanted to save international calls and children speaking over the Internet, we are now talking about an infrastructure that is reaching everyone," Falek said. ``We believe that with the right technology and right business model of not competing with the giants like Lucent and Nortel, but to work with them, we are in a good position in an excellent market."