

## Company Uncovered: AudioCodes (AUDC)

*Can you tell us a bit about AudioCodes?*

**Nachum Falek, CFO:** AudioCodes (Nasdaq: AUDC) is a telecommunications firm focused entirely on Voice-over Internet Protocol, or VoIP. We create hardware and systems to connect and secure networks. We are leaders in feature richness and voice quality and have been in VoIP for 15 years, an extremely long time for this nascent market. We are a pureplayer in VoIP unlike some of our competitors who still maintain legacy businesses.

*Can you tell us about your technology?*

**NF:** We have three families of products: our Media Gateway, which is located on the edge of the network and converts between old and new networks. Our Session Border Controllers also sit on the edge and con-

nects one IP network to another. The majority of the network is still PSTN and when connecting between two IP networks, you still need an SBC. Lastly, we have our Media Server which sits in the middle of the network and provides all the functionality of VoIP like conferencing, announcements to the network and prepaid billing integration.

*How has your business evolved?*

**NF:** We began by selling DSP chips and matured our business into selling blades by integrating our own chips on boards. We're still in the business of selling blades to OEMs as part of our Technology Group and this accounts for around 30% of our revenues.

### AudioCodes (Nasdaq: AUDC)

as of 26-May-2008

Recent Price	4.22
Market Cap (m)	194
Float	33.65
% Shares Held by Insiders	21.8
% Shares Held by Institutions	31.7
<b>Earnings Per Share</b>	
2006 EPS	\$0.16
2007 EPS	(\$0.01)
2008 EPS	\$0.20
Revenue Growth 2007	7.5%
Revenue Growth 2008	18%

AUDICODES LTD  
as of 23-May-2008



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**Nachum Falek**  
Vice President, and Chief Financial Officer

*Nachum Falek joined AudioCodes in April 2000 and served as Director of Finance until he became Vice President and Chief Financial Officer in November 2003. Mr. Falek holds a B.A. in Accounting and Economics from Haifa University, a M.B.A. from Tel Aviv University, and is a licensed CPA in Israel.*

About three years ago, we made the change from pure OEM to going local and building out our service provider business. We now have AudioCodes people in over 20 different locations around the world. Our Network Group markets an entire VoIP solution, including our Media Gateways and SBCs to OEMs and Service Providers. This business now accounts for about 70% and is the growth engine for AudioCodes. Having a local presence is really important in terms of winning service provider business and contributes to our ability to grow our customer relationships by creating demand for our products and solutions.

*Can you speak about your growth prospects?*

**NF:** Industry research says that the overall telecom industry is slated to grow at single digits in terms of capex over the next few years. You're not going to see a lot of growth in overall capex. The VoIP segment, however, is growing fast and growing its share of capex. We haven't seen a slowdown.

Five-year CAGR according to industry sources is estimated to be 20%. Emerging markets are building VoIP networks. MSOs and Cablecos are all looking to roll out voice services as part of a triple-play package. Broadband firms are introducing voice services in the form of VoIP. Here in Israel, Hot and 012.Smile (Nasdaq: SMLC) are both using AudioCodes to accomplish this. The enterprise, as a whole, is looking for cost savings across the board and that's driving demand for VoIP. Microsoft (Nasdaq: MSFT) is now connecting the PBX to Microsoft Exchange. A leading carrier said that any new deployments they do will work with VoIP. We're seeing buildouts driven by two things: the first is cost savings brought about by using VoIP. The second reason, and we're just beginning to see this, is for the features offered by VoIP.

*We've read about some of your recent wins in the public sector. Can you talk about these?*

**NF:** The wins haven't been significant in terms of revenues. We have direct relationships and indirect ones via our partners with governments internationally. It's not really a focused target for us. So, *where's the spending on VoIP coming from?*

**NF:** It's coming mainly from the enterprise. We're seeing a lot of momentum and experiencing new design wins and winning

new customers. MSOs are also targets and we probably have seen the majority of the consolidation in the industry already occur. AudioCodes is in a unique position that because we offer a complete VoIP system, we can work with all of the OEMs.

WiMAX is also a driver for VoIP. Any time you have different networks using different protocols that need to converge, you need VoIP.

*Where are you seeing competition?*

**NF:** We used to say it was Nuera Communications who was our closest competitor, but we purchased them about 18 months ago. We see firms' internal solutions as competition as well. That's why our goal is not just to sell to more customers, but to continue to get more and more business from our customers.

*What risks do you see for AudioCodes?*

**NF:** We're in a pretty good position regarding our products and our technology. As the market for our products grows, we could do well. Even in a bad market, history shows that OEMs outsource more businesses.

*How has the strength of the shekel against the dollar impacted you?*

**NF:** Our expenses have certainly gone up. That said, we have a lot of people outside Israel which helps mitigate this issue. Fortunately, part of our revenues are denominated in euros. In the past we've hedged our currency positions successfully. We'll be hedged for part of this year.

*You have a sizeable cash position of \$100M. Are you invested in any auction rate securities?*

**NF:** The cash is very clean. We're also continuing to generate cash. In terms of deploying our cash, we've done 5 M&As over the years and strategic purchases are part of our strategy. Right now, I'd say we're more focused on the business. We have some converts coming due in 2009 and we may need to cash

depending on what happens.

*The story sounds strong. How come the stock has lagged the past couple of years?*

**NF:** Again, we're focused on operations. We are working on the same IR strategy that's brought Tier 1 analysts to cover the Au-

dioCodes story. We're talking to investors and really believe that with good performance, the numbers should speak for themselves. We announced a buyback and have already bought in 5% of the outstanding shares, or 50% of our announced buyback.

*Thanks, Nachum.*