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AudioCodes Reports Third Quarter 2019 Results

Lod, Israel – October 29, 2019

Third Quarter Highlights

- Quarterly revenues increased by 15.5% year-over-year to \$51.4 million;
- Quarterly service revenues increased by 16.2% year-over-year to \$16.3 million;
- Quarterly UC-SIP revenues increased more than 15% year-over-year;
- Quarterly GAAP gross margin percentage was 62.9%; quarterly Non-GAAP gross margin percentage was 63.2%;
- Quarterly GAAP operating margin percentage was 11.7%; quarterly Non-GAAP operating margin percentage was 14.5%;
- Quarterly cash flow from operating activities was \$4.0 million;
- Quarterly GAAP net income was \$4.4 million, or \$0.14 per diluted share;
- Quarterly Non-GAAP net income was \$7.4 million, or \$0.24 per diluted share;
- AudioCodes declared a semi-annual cash dividend of 12 cents per share. The dividend, in the aggregate amount of \$3.5 million, was paid on September 3, 2019.

Details

AudioCodes (NASDAQ: AUDC), a leading vendor of advanced voice networking and media processing solutions for the digital workplace, today announced financial results for the third quarter ended September 30, 2019.

Revenues for the third quarter of 2019 were \$51.4 million compared to \$49.5 million for the second quarter of 2019 and \$44.5 million for the third quarter of 2018.

Net income was \$4.4 million, or \$0.14 per diluted share, for the third quarter of 2019 compared to \$4.1 million, or \$0.14 per diluted share, for the third quarter of 2018.

On a Non-GAAP basis, net income was \$7.4 million, or \$0.24 per diluted share, for the third quarter of 2019 compared to \$5.8 million, or \$0.19 per diluted share, for the third quarter of 2018.

Non-GAAP net income excludes: (i) share-based compensation expenses; (ii) amortization expenses related to intangible assets; (iii) expenses or income related to revaluation of an earn-out liability in connection with the acquisition of Active Communications Europe; (iv) financial income or expenses related to exchange rate differences in connection with revaluation of assets and liabilities in non-dollar denominated currencies and (v) non-cash deferred tax expenses. A reconciliation of net income on a GAAP basis to a non-GAAP basis is provided in the tables that accompany the condensed consolidated financial statements contained in this press release.

Net cash provided by operating activities was \$4.0 million for the third quarter of 2019. Cash and cash equivalents, long- and short-term bank deposits and short-term marketable securities were \$69.5 million as of September 30, 2019 compared to \$65.4 million as of December 31, 2018. The increase in cash and cash equivalents, long- and short-term bank deposits and short-term marketable securities was the result of cash from operating activities offset, in part, by the use of cash for the continued repurchasing of the Company's ordinary shares pursuant to its share repurchase program and the payment of cash dividends during 2019.

"We are pleased to report record financial results for the third quarter of 2019," said Shabtai Adlersberg, President and Chief Executive Officer of AudioCodes. "We continue to enjoy growth trends in the UC and UCaaS markets and an increased pace of migration of service providers to All-IP. Our strong execution across our business lines, aided by these growth trends, enabled us to expand our business. We improved our financial performance on both revenues and profits. Our improved operational efficiency and the growth in our operating margin percentage to 14.5% underscored our financial success."

"With greater industry focus on the meeting space, we have increased our investments in this area since the beginning of 2019. Earlier in October we announced our entry into the market in collaboration with Dolby. Our Room Experience (RX) solution suite is designed to address a wide range of customer room environments from huddle rooms to large rooms and the boardroom. Our solutions include a comprehensive portfolio of devices built around Dolby hardware and audio technology in order to deliver an exceptional audio experience in rooms of all sizes. The initiative also includes Meeting Insights, an enterprise software solution designed to easily capture, organize, share and distribute the content of enterprise meetings using AudioCodes' state-of-the-art Voice.ai technology."

"A continued theme in our investments is the emerging voice.ai area where we are making progress with encouraging results. We continue to prudently invest in our future offerings and remain focused on maximizing the return on these investments for our shareholders," concluded Mr. Adlersberg.

Cash Dividend

On August 6, 2019, the Company declared a cash dividend of \$0.12 per share. The dividend, in the aggregate amount of \$3.5 million, was paid on September 3, 2019 to all of the Company's shareholders of record on August 19, 2019.

Conference Call & Web Cast Information

AudioCodes will conduct a conference call at 8:30 A.M., Eastern Time today to discuss the Company's third quarter of 2019 operating performance, financial results and outlook. Interested parties may participate in the conference call by dialing one the following numbers:

United States Participants: +1 (877) 407-0778

International Participants: +1 (201) 689-8565

The conference call will also be simultaneously webcast. Investors are invited to listen to the call live via webcast at the AudioCodes investor website at <http://www.audiocodes.com/investors-lobby>

Follow AudioCodes' social media channels:

AudioCodes invites you to join our online community and follow us on: [AudioCodes Voice Blog](#), [LinkedIn](#), [Twitter](#), [Facebook](#), and [YouTube](#).

About AudioCodes

AudioCodes Ltd. (NASDAQ, TASE: AUDC) is a leading vendor of advanced voice networking and media processing solutions for the digital workplace. AudioCodes enables enterprises and service providers to build and operate all-IP voice networks for unified communications, contact centers, and hosted business services. AudioCodes offers a broad range of innovative products, solutions and services that are used by large multi-national enterprises and leading tier-1 operators around the world.

For more information on AudioCodes, visit <http://www.audiocodes.com>.

Statements concerning AudioCodes' business outlook or future economic performance; product introductions and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are "forward-looking statements" as that term is defined under U.S. Federal securities laws. Forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially from those stated in such statements. These risks, uncertainties and factors include, but are not limited to: the effect of global economic conditions in general and conditions in AudioCodes' industry and target markets in particular; shifts in supply and demand; market acceptance of new products and the demand for existing products; the impact of competitive products and pricing on AudioCodes' and its customers' products and markets; timely product and technology development, upgrades and the ability to manage changes in market conditions as needed; possible need for additional financing; the ability to satisfy covenants in the Company's loan agreements; possible disruptions from acquisitions; the ability of AudioCodes to successfully integrate the products and operations of acquired companies into AudioCodes' business; and other factors detailed in AudioCodes' filings with the U.S. Securities and Exchange Commission. AudioCodes assumes no obligation to update the information in this release.

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Summary financial data follows

**AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**
U.S. dollars in thousands

| | September 30, 2019 <u>(Unaudited)</u> | December 31, 2018 <u>(Audited)</u> |
|---|---|--|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 51,097 | \$ 31,503 |
| Short-term and restricted bank deposits | 7,394 | 12,381 |
| Short-term marketable securities and accrued interest | 10,006 | 19,602 |
| Trade receivables, net | 24,072 | 22,279 |
| Other receivables and prepaid expenses | 5,303 | 5,885 |
| Inventories | 30,172 | 22,620 |
| Total current assets | <u>128,044</u> | <u>114,270</u> |
| LONG-TERM ASSETS: | | |
| Long-term and restricted bank deposits | \$ 994 | \$ 1,894 |
| Deferred tax assets | 2,719 | 4,350 |
| Operating lease right-of-use assets | 30,750 | - |
| Severance pay funds | 18,738 | 17,518 |
| Total long-term assets | <u>53,201</u> | <u>23,762</u> |
| PROPERTY AND EQUIPMENT, NET | <u>4,472</u> | <u>3,865</u> |
| GOODWILL, INTANGIBLE ASSETS AND OTHER, NET | <u>37,211</u> | <u>37,475</u> |
| Total assets | <u><u>\$ 222,928</u></u> | <u><u>\$ 179,372</u></u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Current maturities of long-term bank loans | \$ 2,456 | \$ 2,487 |
| Trade payables | 7,819 | 6,188 |
| Other payables and accrued expenses | 23,098 | 22,541 |
| Deferred revenues | 29,746 | 23,727 |
| Short-term operating lease liabilities | 8,605 | - |
| Total current liabilities | <u>71,724</u> | <u>54,943</u> |
| LONG-TERM LIABILITIES: | | |
| Accrued severance pay | \$ 20,072 | \$ 18,728 |
| Long-term bank loans | 1,814 | 3,687 |
| Deferred revenues and other liabilities | 8,945 | 7,466 |
| Long-term operating lease liabilities | 22,530 | - |
| Total long-term liabilities | <u>53,361</u> | <u>29,881</u> |
| Total shareholders' equity | <u>97,843</u> | <u>94,548</u> |
| Total liabilities and shareholders' equity | <u><u>\$ 222,928</u></u> | <u><u>\$ 179,372</u></u> |

AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except share and per share data

| | Nine months ended | | Three months ended | |
|---|-------------------|-----------------|--------------------|-----------------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) | | (Unaudited) | |
| Revenues: | | | | |
| Products | \$ 100,375 | \$ 89,237 | \$ 35,079 | \$ 30,462 |
| Services | 47,115 | 41,209 | 16,333 | 14,057 |
| Total Revenues | 147,490 | 130,446 | 51,412 | 44,519 |
| Cost of revenues: | | | | |
| Products | 43,682 | 38,428 | 15,532 | 13,414 |
| Services | 10,914 | 10,071 | 3,529 | 3,413 |
| Total Cost of revenues | 54,596 | 48,499 | 19,061 | 16,827 |
| Gross profit | 92,894 | 81,947 | 32,351 | 27,692 |
| Operating expenses: | | | | |
| Research and development, net | 30,258 | 25,626 | 10,599 | 8,283 |
| Selling and marketing | 37,885 | 37,377 | 12,665 | 12,020 |
| General and administrative | 8,354 | 7,713 | 3,091 | 2,402 |
| Total operating expenses | 76,497 | 70,716 | 26,355 | 22,705 |
| Operating income | 16,397 | 11,231 | 5,996 | 4,987 |
| Financial income (expenses), net | (1,992) | 186 | (913) | (37) |
| Income before taxes on income | 14,405 | 11,417 | 5,083 | 4,950 |
| Taxes on income, net | (2,195) | (2,454) | (716) | (815) |
| Net income | \$ 12,210 | \$ 8,963 | \$ 4,367 | \$ 4,135 |
| Basic net earnings per share | \$ 0.42 | \$ 0.31 | \$ 0.15 | \$ 0.14 |
| Diluted net earnings per share | \$ 0.40 | \$ 0.30 | \$ 0.14 | \$ 0.14 |
| Weighted average number of shares used in computing basic net earnings per share (in thousands) | 29,195 | 28,855 | 29,157 | 28,797 |
| Weighted average number of shares used in computing diluted net earnings per share (in thousands) | 30,705 | 30,118 | 30,642 | 30,272 |

AUDIOCODES LTD. AND ITS SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME TO NON-GAAP NET INCOME
U.S. dollars in thousands, except per share data

| | Nine months ended | | Three months ended | |
|---|-------------------|-----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) | | (Unaudited) | |
| GAAP net income | \$ 12,210 | \$ 8,963 | \$ 4,367 | \$ 4,135 |
| GAAP net earnings per share | \$ 0.40 | \$ 0.30 | \$ 0.14 | \$ 0.14 |
| Cost of revenues: | | | | |
| Share-based compensation (1) | 121 | 138 | 55 | 51 |
| Amortization expenses (2) | 204 | 522 | 68 | 174 |
| | 325 | 660 | 123 | 225 |
| Research and development, net: | | | | |
| Share-based compensation (1) | 648 | 445 | 226 | 181 |
| Selling and marketing: | | | | |
| Share-based compensation (1) | 1,360 | 861 | 606 | 307 |
| Amortization expenses (2) | 45 | 45 | 15 | 15 |
| | 1,405 | 906 | 621 | 322 |
| General and administrative: | | | | |
| Share-based compensation (1) | 1,204 | 854 | 465 | 314 |
| Revaluation of earn-out liability (3) | (23) | 200 | - | - |
| | 1,181 | 1,054 | 465 | 314 |
| Financial expenses: | | | | |
| Exchange rate differences (4) | 2,330 | - | 1,072 | - |
| Income taxes: | | | | |
| Deferred tax (5) | 1,632 | 1,752 | 544 | 584 |
| Non-GAAP net income | \$ 19,731 | \$ 13,780 | \$ 7,418 | \$ 5,761 |
| Non-GAAP diluted net earnings per share | \$ 0.63 | \$ 0.45 | \$ 0.24 | \$ 0.19 |

- (1) Share-based compensation expenses related to options and restricted share units granted to employees and others.
- (2) Amortization of intangible assets related to the acquisitions of Mailvision and Active Communications Europe assets.
- (3) Expenses or income related to revaluation of an earn-out liability in connection with the acquisition of Active Communications Europe.
- (4) Financial income or expenses related to exchange rate differences in connection with revaluation of assets and liabilities in non-dollar denominated currencies.
- (5) Non-cash deferred tax expenses.

Note: Non-GAAP measures should be considered in addition to, and not as a substitute for, the results prepared in accordance with GAAP. The Company believes that non-GAAP information is useful because it can enhance the understanding of its ongoing economic performance and therefore uses internally this non-GAAP information to evaluate and manage its operations. The Company has chosen to provide this information to investors to enable them to perform comparisons of operating results in a manner similar to how the Company analyzes its operating results and because many comparable companies report this type of information.

**AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
U.S. dollars in thousands

| | Nine months ended | | Three months ended | |
|--|-------------------|----------|--------------------|----------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) | | (Unaudited) | |
| <u>Cash flows from operating activities:</u> | | | | |
| Net income | \$ 12,210 | \$ 8,963 | \$ 4,367 | \$ 4,135 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 1,522 | 1,666 | 542 | 561 |
| Amortization of marketable securities premiums and accretion of discounts, net | 79 | 271 | - | 83 |
| Increase in accrued severance pay, net | 124 | 43 | 239 | 182 |
| Share-based compensation expenses | 3,333 | 2,298 | 1,352 | 853 |
| Decrease in deferred tax assets, net | 1,481 | 1,689 | 528 | 563 |
| Decrease (increase) in accrued interest and exchange rate effect of loans, marketable securities and bank deposits | 120 | (79) | (39) | (64) |
| Changes in operating leases, net | 385 | - | (965) | - |
| Decrease (increase) in trade receivables, net | (2,006) | (4,395) | 617 | (1,500) |
| Decrease (increase) in other receivables and prepaid expenses | 482 | (3,133) | 279 | (2,063) |
| Increase in inventories | (7,677) | (5,500) | (421) | (3,414) |
| Increase (decrease) in trade payables | 1,631 | 988 | (2,036) | 530 |
| Increase (decrease) in other payables and accrued expenses | 1,424 | 2,761 | (641) | 1,880 |
| Increase in deferred revenues | 7,648 | 8,392 | 217 | 1,736 |
| Net cash provided by operating activities | 20,756 | 13,964 | 4,039 | 3,482 |
| <u>Cash flows from investing activities:</u> | | | | |
| Investment in short-term deposits | - | (3,500) | - | - |
| Proceeds from short-term deposits | 10,962 | - | 4,991 | 400 |
| Proceeds from long-term deposits | 900 | 807 | 300 | 300 |
| Proceeds from redemption of marketable securities | 19,385 | 1,577 | - | - |
| Purchase of marketable securities | (10,006) | - | (10,006) | - |
| Purchase of property and equipment | (1,676) | (978) | (315) | (362) |
| Net cash provided by (used in) investing activities | 19,565 | (2,094) | (5,030) | 338 |

**AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
U.S. dollars in thousands

| | Nine months ended | | Three months ended | |
|--|-------------------|-----------|--------------------|-----------|
| | September 30, | | September 30, | |
| | 2019 | 2018 | 2019 | 2018 |
| | (Unaudited) | | (Unaudited) | |
| <u>Cash flows from financing activities:</u> | | | | |
| Purchase of treasury shares | (8,002) | (11,569) | - | (1,058) |
| Repayment of bank loans | (1,853) | (1,887) | (616) | (625) |
| Cash dividends paid to shareholders | (6,720) | (5,761) | (3,502) | (5,761) |
| Payment related to the acquisition of ACS | (410) | (151) | - | - |
| Proceeds from issuance of shares upon exercise of options and warrants | 2,233 | 4,583 | 771 | 2,906 |
| Net cash used in financing activities | (14,752) | (14,785) | (3,347) | (4,538) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | 25,569 | (2,915) | (4,338) | (718) |
| Cash, cash equivalents and restricted cash at beginning of period | 31,503 | 24,235 | 61,410 | 22,038 |
| Cash, cash equivalents and restricted cash at end of period | \$ 57,072 | \$ 21,320 | \$ 57,072 | \$ 21,320 |