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PRESENTATION

Operator

Greetings, and welcome to the AudioCodes Fourth Quarter and Year-end 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Brett Maas, Investor Relations for AudioCodes. You may begin.

Brett Maas - *Hayden IR, LLC - Managing Principal*

Thank you. Hosting the call today are Shabtai Adlersberg, President and Chief Executive Officer; and Niran Baruch, Vice President of Finance and Chief Financial Officer.

Before we begin, I'd like to remind you that the information provided during this call may contain forward-looking statements related to AudioCode's business outlook, future economic performance, product introduction, plans and objectives related thereto, and statements concerning assumptions made or expectations as to any future event, conditions, performance or other matters are forward-looking statements as the term is defined under U.S. federal securities law. Forward-looking statements are subject to various risks and 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 the global economic conditions and conditions in general and in AudioCodes as an 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 markets and pricing on AudioCodes and its customer 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's business; and other factors detailed in AudioCodes's filings with the SEC, U.S. Securities and Exchange Commission. AudioCodes assumes no obligation to update this information.

In addition, during the call, AudioCodes will refer to non-GAAP net income and net income per share. AudioCodes has provided a full reconciliation of the non-GAAP net income and net income per share to its net income and net income per share according to GAAP in the press release that is posted on its website.

Before I turn the call over to management, I'd like to remind everyone that this call is being recorded. An archived webcast will be made available on the Investor Relations section of the company's website at the conclusion of the call.

With all that said, I'd like to turn the call over to Shabtai. Shabtai, please go ahead.

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Thank you, Brett. Good morning, and good afternoon, everybody. I would like to welcome all to our fourth quarter and full year 2019 conference call.

With me this morning is Niran Baruch, Chief Financial Officer and Vice President of Finance of AudioCodes. Niran will start off by presenting a financial overview of the quarter. I will then review the business highlights and summary for the quarter and then discuss trends and developments in our business and the industry. We will then turn it into the Q&A session. Niran?

Niran Baruch - *AudioCodes Ltd. - CFO & VP of Finance*

Thank you, Shabtai, and hello, everyone. As usual, on today's call, we will be referring to both GAAP and non-GAAP financial results. The earnings press release that we issued earlier this morning contains a reconciliation of the supplemental non-GAAP financial information that I will be discussing on this call.

Revenues for the fourth quarter were $52.8 million, an increase of 2.7% from the prior quarter and a 15.3% increase compared to the fourth quarter last year. Full year 2019 revenues increased by 13.7% to $200.3 million.

Services revenues for the fourth quarter were $17.5 million, accounting for 32.2% of total revenues. On an annual basis, services revenues increased by 14.7% compared to the previous year.

The amount of deferred revenues as of December 31, 2019, was $62.2 million compared to $49.2 million as of December 31, 2018. Nonpaid deferred revenues as of December 31, 2019, at the amount of $19 million, was deducted from the trade receivables in the balance sheet.

Revenues by geographical region for the quarter were split as follows: North America, 39%; Central and Latin America, 12%; EMEA, 36%; and Asia Pacific, 13%.

Our top 15 customers in aggregate represented 63% of revenues in the quarter, of which 51% are attributed to our 11 largest distributors.

The variance between GAAP and non-GAAP is of particular importance this quarter because, as announced in November of 2019, we entered into a royalty buyout agreement with the IIA, the Israeli National Authority for Technology and Innovation, relating to certain grants we had received. The contingent net royalty liability to the IIA with respect to these grants at the time of the royalty buyout agreement was approximately $49 million. As part of the royalty buyout agreement, we agreed to pay approximately $32.2 million to the IIA to settle the $49 million debt in full in 3 annual installments, starting in 2019. The $32.2 million expense is included in the GAAP cost of revenues for the fourth quarter of 2019 and impacts GAAP results for the 3 months and full year ended 31st of December 2019. Non-GAAP results exclude this expense.

In addition, during the fourth quarter of 2019, we recorded a deferred tax asset in the amount of $20.5 million, which represents the approximate amount of net operating losses and temporary tax differences we estimate to be utilized over the next few years.

GAAP net income for the fourth quarter and full 2019 year reflect the effect of the tax benefit associated with the certain (sic - see press release, "creation") of this deferred tax asset.

Non-GAAP net income excludes this noncash deferred tax benefit.

With that understanding, let me discuss the results. GAAP gross margin for the quarter inclusive of this $32.2 million expense for the royalty buyout was 3.9% compared to 62.6% in Q4 2018. GAAP operating loss for the quarter was $26 million compared to an operating income of $5.1 million in Q4 2019 -- '18.

Full year 2019 GAAP operating loss was $9.6 million. GAAP net loss for the quarter was $8.2 million or $0.28 per share compared to net income of $4.5 million or $0.15 per share in Q4 2018. Full year 2019 GAAP net income was $4 million or $0.13 per share.

As noted above, results for the quarter and full year were impacted by the $32.2 million expense incurred in connection with the royalty buyout agreement. Pursuant to the royalty buyout agreement, we eliminated all royalty obligations related to our future revenues with respect to these grants. This will have a positive impact on GAAP gross margin, starting in the first quarter of 2020.

Non-GAAP results are as follows: non-GAAP gross margin for the quarter was 65.1% compared to 63% in Q4 2018. Non-GAAP quarterly operating income was $8.3 million or 15.7% of revenues compared to an operating income of $6.3 million in Q4 2018. Full year 2019 non-GAAP operating income was $28.2 million. Non-GAAP quarterly net income was $8.1 million or $0.26 per share compared to $6.3 million or $0.20 per share in Q4 2018. Full year 2019 non-GAAP net income was $27.8 million or $0.89 per share.

Our balance sheet remained strong at the end of December 2019. Cash, cash equivalents, and bank deposits totaled $71.9 million. Net cash provided by operating activities was $2.4 million during the quarter and $23.2 million for the full year 2019. Both numbers were impacted by the $10.7 million payment made in December 2019, which was the first installment pursuant to the royalty buyout agreement.

Days sales outstanding as of December 31, 2019, were 48 days.

In August 2019, we received court approval in Israel to purchase up to an aggregate of $12 million of additional ordinary shares pursuant to our share repurchase program. The court approval also permitted us to declare a dividend of any part of the $12 million during the approved validity period. This court approval will expire on February 3, 2020. As of today, we have used an aggregate of $3.5 million of this authorized amount to declare cash dividend.

In December 2019, we submitted a new application to the Israeli court, requesting approval of an additional repurchase program for $12 million of ordinary shares. The application also requested the court to permit us to declare cash dividends of any part of this amount. A decision on our application is expected during February 2020.

We continue to expect top line revenue growth and operating margin expansion in 2020. We expect revenues in the range of $214 million to $222 million, and non-GAAP diluted earnings per share of $1.08 to $1.12.

I will now turn the call back over to Shabtai.

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Thank you, Niran. We are pleased to report record financial results for the fourth quarter and the full year 2019. 2019 has been our best year ever and for -- fourth year in a row of continued growth in revenues and net income in every single year.

And so when discussing 2019 and looking forward to 2020 and beyond, it's clear that we are now reaping the fruit of success in ROI on investments we have been doing during the past 5 years with a very -- focus on providing more comprehensive and larger scale solution and services to our partners and customers in the unified communication and all-IP markets.

Underlying our success in 2019 is the progress we made in several key financial indicators, which best demonstrate our success since 2015.

Let me touch on each of them. Revenue growth. We saw double-digit revenue growth for the second year in a row. We grew 13.7% in 2019. We grew 12.4% in 2018.

Margin expansion. Let me talk first on gross margins. We saw steady progress in improving gross margins, from 60% in 2015 to 63.7% in 2019. Planning for 2020, we expect further increase in gross margin.

Operational margin improved in a more impressive manner. We ended 2019 with operating margin of 14.1% compared to the year ago margin of 11.7% and compared to just 8.2% in 2017. For 2020, we target, again, meaningful increase of operating margin to well above 15%.

Net income growth: for 4 years in a row, we are delivering high double-digits net income growth in the range of 30% to 60% in every single year. In 2019, we delivered 38.9% growth on the heels of delivering 54.9% growth in 2018.

Cash flow. We have demonstrated fairly consistent ability to deliver growing positive operating cash flow results in previous 5 years, generating $33.9 million in 2019 compared to the $25.6 million in 2018. Out of the funds generated in the fourth quarter of '19, we paid about $10.7 million to the Israel Innovation Authority as part of the royalty buyout agreement signed in November 2019.

Finally, deferred revenues, which grew more than 25% in 2019 to a level of $62.2 million by the end of 2019 versus just $49.2 million in the fourth quarter of 2018.

When we analyze what has driven the success in 2019, it is clear that the improved financial performance was achieved mainly due to the strong trend of PSTN transition to all-IP in North America and in about 3 or 4 countries in Western Europe with a handful of major Tier 1 service providers. We expect this migration trend to IP to continue in coming years, and we plan to engage with more service providers in countries which have yet to start it all transforming their networks and services to businesses to all-IP in the coming decade. We're talking about 5, 10 years going forward.

But on a more general level, if I have to highlight the key fundamental reasons for the success we enjoy, I will say on a general level that the strength of our business is primarily related to the very strong and healthy markets we serve, and obviously, our execution capability.

I've talked so far about the all-IP markets. A bigger market that keeps growing for the past 10 years, and we should keep growing for the next foreseeable future, is the unified communications and unified communications as a service market. This market exhibits compound annual growth rate of about 18% for several years now, and with wall penetration only, it's about 25% in North America and only 7% globally. This market offers a lot of room for expansion and growth for a voice infrastructure vendor like us.

When you add to the mix the leadership position we developed and the strong ties with our partners, the picture gets rosier.

Same growth trends apply to global digital transformation trend of businesses gearing towards a digital workplace. And similarly, such opportunity exists in the process of contact center migrating to the cloud and to a SaaS model. So as long as we keep executing as we did in 2019 and in previous years, we should see positive results in coming years. On top of this, and in order to keep the business momentum and allow further expansion of our business in the future, we are investing substantial efforts and resources in new growth engines such as the Voice. AI business announced 2 years ago and the new evolving meeting space market.

Now to the business lines. Key to the success in 2019 is the consistent progress in our networking business, which grew 17.7% year-over-year to $191.7 million, accounting now to 96% for our overall business in 2019. The networking business comprises of 2 key business lines, the UCC business line and the gateway business line. The UCC business line grew above 20% in fourth quarter '19 and full year 2019, and provides now to about 55% of our business, about $110 million in 2019. While investments have stabilized inside -- in this business line over the past several years, revenues continue to grow at about 15% to 20% annually. As a result, the business line becomes quite profitable. It first achieved profitability in 2018, and now it has more than doubled in 2019. As such, we now enjoy growing profit margins as a result of the operational leverage.

At this stage, we do not anticipate a change in this 15% to 20% annual growth trend in the coming years for the business line. Quite important to note is that the steady annual increase of sales of more software products. In growing services in the UCC business line, we experienced substantial improvement in the gross margin of this business line. And please remember, at this stage, this is $110 million line, 55% of our revenues in 2019.

Now let's talk a bit about our gateway business, what led to the growth in UC-SIP. We enjoyed in 2019 a strong year in our gateway business, which grew above 10% compared to 2018 and reached a level of about $70 million.

As mentioned before, this is substantially due to the ongoing strength in the multiyear continued migration of service providers' PSTN networks to all-IP.

Global Services also demonstrated very solid growth and strength. I'll touch on that later on. Providing a quick snapshot into the first quarter of 2020, I'm glad to know that at this stage, the trend in our business continues in January, the first month of the first quarter of 2020.

Touching on the highlights of sales in the fourth quarter in 2019. Generally, sales performed very well to and above the target we set for them. We saw a very good performance, remarkable performance, primarily in North America, in the DACH region, which is Germany, Switzerland and Austria; in the U.K.; in CALA; Russia; and Asia Pacific.

On an annual level, it will -- those were mainly North America, the DACH region and in South Europe that provided most of the revenue.

To mention some of the notable deals in the quarter. We won a huge multi-million project in CALA. We're talking about project managed by Telefónica, and which provide a solution to a large company. I'll refer to more details about that later. Also, on the business services side, we had a very large purchase order with a North American service provider that's a buying customer for several years now. Same, since already mentioned the name, Deutsche Telekom. Deutsche Telekom was very strong for us, overall 2019 and also in the quarter, a few hundreds of thousands of dollars.

Touching on the contact center space. I'll note 2 deals, 1 in Brazil, 1 in Canada, both through -- both deals relied on using our session border controls and gateways with Genesys and others.

To give you some examples to our customer wins, let me put more color and share a few examples of customer wins and expansions that we have secured as part of this quarter. Outlining several of these examples, you can get a sense for how is our business -- our enterprise business, how it is evolving with large opportunities in large corporations and how our strategy is aligned and growing with cloud adoption.

Let me first touch on that South America, multi-million project. Last year -- sorry, last quarter presented a multi-million dollar win in the healthcare space in the U.S. This quarter, we were awarded an even bigger multimillion Microsoft Teams deal at a Latin American government agency. This agency, which is part of the local ministry of labor, obviously, is a large national chain of schools for developing employee skills. In this bid, we have positioned our entire portfolio of products and services, including devices, networking, management tools and implementation services. We are proud to win such deals as they demonstrate again that our strategy of single stop shop solutions holds tremendous value for the customers and end users.

This deal validates our ability to offer networking solution for over 100 branches, together with over 10,000 of IP phones. It clearly sets apart -- us apart from competition in our ability to balance and offer a broad value proposition to the customer.

Second, and staying on the Microsoft Teams program and exploring the dynamics of markets for very large enterprises, we started to roll out a Teams deployment at one of the world's largest consumer goods companies. This company was referred to us by Microsoft at one of their (inaudible) shows. This was because we were highlighted at that show as the vendor empowering the rollout of hundreds of thousands of Skype for Business seats across 4 multinational enterprises. This large consumer goods company has thoroughly vetted the Microsoft solution and is just getting started with their global rollout. At first phase, we are providing our session border controllers and professional services. This deal is representative of many such large enterprises globally that we work with on their Microsoft Teams journey.

Third and last, a very large project in the U.S. related to our all-IP migration solution for service provider: a very important multi-million win came from a Tier 1 service provider in the U.S., where we were engaged to provide gear and services in a multi-million dollar deal, combining SD-WAN and UC services to a nationwide healthcare company. In this deal, our unique offering of universal CPE, combining wireless and Ethernet access with voice functionality, was chosen as the SD-WAN platform in order to reduce the number of several cities to -- down to only 1 product. This product, combined with our gateways, phones, centralized management, and professional services were the deciding factor that got us this sizeable deal.

Now let me touch on Microsoft. Revenue was above 40% of the quarter revenue. In terms of growth, we saw 16% growth above the year-ago quarter. On an annual level, revenue in the Microsoft ecosystem grew about 12% to over $80 million in 2019.

Key in the quarter was a seemingly better environment for Microsoft Teams Voice. While hesitant during the first 3 quarters of 2019, we saw more large end users embracing Teams in the fourth quarter of 2019, a trend we continue to see in January 2020. Also, some customers are continuing in parallel with Skype for Business and Teams.

From Microsoft announcements, we all know that Teams's daily active use is growing rapidly in 2019, and so we expect that side-by-side with this dramatic growth in users -- number of users and with the expected completion of gaps on the voice side in Teams, which are expected this first half of 2020, we should see better overall market in 2020.

Gradual progress in developing market awareness to our meeting solution, RX suite of conferencing devices, and Dolby partnership is another positive development in the quarter, and we all look for 2020 to be the first year of our greater penetration in the conferencing space with our devices and solutions.

Like to mention also our session border controllers line, which is the leading and most promising line at this stage within the UC-SIP business line.

In the fourth quarter, revenue grew 18.4% year-over-year. Looking on overall 2019, we grew more than 20%. We also saw very strong booking. Booking grew in the fourth quarter by 28%. This business line is characterized by extremely high gross margin, that's above 85%, growing in comparison to the previous quarters. This is mainly to the fact that a quarter for our sales of product is now in software. So we are being deployed generally substantially more in cloud, in software solution, in virtualized version in data centers. All in all, a very successful, fast-growing and high profit margin line.

On terms of geo split, we saw nice use, both almost equal between North America and Western Europe; also saw some 10% in Asia Pacific and then less than that in CALA.

To mention the type of few customers that we serve in that business line. So we had one very large North American service provider using our SBC. We sold SBC for more than $1.5 million. We saw 2 large banks, 1 in Brazil, 1 in Russia, consuming our session border controllers for WebRTC and our solution for software-designed voice networks. Also, in Asia Pacific, large service provider is using our session border controllers within Azure as a hosted solution for Teams direct route SBC. All in all, very successful quarter for the SBC business line.

Last, let me touch on global services. In the press release, you saw the recognition side of the business. Let me talk about the booking side of the business. So on a quarterly basis, we saw the following: we saw an increase of 26.2% in the fourth quarter for total services. We have seen 19.2% growth in maintenance contracts, but we have seen more than 60% growth in professional services, all that in the fourth quarter. When we go to the annual level and talking about what has changed, so overall, booking of services reached above $70 million in the year. We grew about 19% on an overall services level, close to 18% on the maintenance contracts, 24% on the professional services. So all in all, quite successful and rapid growth here.

Substantially, we saw -- to give some color on that, we saw substantial growth in North America professional services, mainly. The team there is doing a fantastic job. We keep winning new managed services contracts, mainly in [desire throughout] the SBC area. Also, we see a growing number of requests to deploy and manage the Teams voice on the Office 365 side.

Now to our guidance for 2020. First, a general comment. We have not factored in any possible impact of the potential economic developments in 2020 as a result of the coronavirus. It is simply too early for that for us.

Now let me touch on revenue and earnings. Revenue, based on current plans and data we have, we guide for another year of growth, with revenue range set for $215 million to $222 million. The mid-range guidance is set at about $218 million, and that represents growth of about 9% compared to 2019. This is pretty much in line with the 10% growth we guided for a year ago for 2019.

Now let me touch on earnings. Before I present our guidance for the year, I'd like to touch on a key factor affecting the -- for us as a company at core and based mostly in Israel. I'm talking about a much different U.S. dollar versus the new Israeli shekel conversion rate environment, which is now expected for 2020 versus what we had in 2019. Based on current rates for budgets and planning purposes, we assume a rate of ILS 3.45. In 2019, the average conversion rate has been about ILS 3.57. So we are talking about an increase of about 3.4% regarding all expenses [nominated] in new Israeli shekel, which are about ILS 45 million a year, translating to an impact about $1.6 million or $0.05 impact on our bottom line compared to 2019.

Now to the guidance. As a result of that, we now guide for continuing growth in the earnings of than 20% in 2020, and we are setting the range to $0.0108 to $0.0112.

With that, I have basically completed my introduction for the session. Thank you very much. Operator, would you take us to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Rich Valera with Needham & Company.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

I would like to open with a question on the Microsoft business. It looks like you saw a nice pickup in the fourth quarter of the Microsoft businesses; I guess Teams is starting to gain some momentum. Can you talk about what is still in the pipeline for Teams in terms of features that you see that could help further accelerate Teams? And how you're thinking about the overall Microsoft business in 2020 versus the 12% growth that you saw in 2019?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Right. Thank you, Rich. First, we know that there are several features missing for the voice implementation within Teams. From our ongoing discussion with Microsoft, we know that the plan is now to complete them in the first half of this year. So all in all, we hope that much will start happening in the second half.

Second, as I've mentioned before, in the beginning of 2019 we've seen a lot of potential end users, large corporation, sitting on the fence, people who are hesitant; the transition from Skype for Business to Teams has just started. Teams was not complete yet, and there was much delay. That gives some explanation to why we grew only 12% in '19 versus more than 30% in 2018.

Now we do expect and we've seen that that's where we have a much more comprehensive portfolio. And you can apply that to more phones that will be introduced during 2020. We can talk about the conferencing devices that we just -- end of the year, we just sent the first few hundred devices for evaluation by customers. So a much more complete portfolio in 2020. Also, we are increasing the set of services we offer. And as I've mentioned -- or maybe it was not emphasized enough -- we now start to deal substantially with more deployments where we not only deliver the products but also provide services, and in several cases lately, managed services, meaning large companies. A few hundreds and sometimes thousands of companies will rely on AudioCodes to provide their ongoing daily Microsoft Teams operation.

So all in all, we're very optimistic regarding that could be a definite change in 2020 compared to 2019. And we will just have to wait and see for the next 2 quarters to see that indeed happening.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. And I want to move on to Voice. AI. This has been an area of significant investment for you. I was just hoping you could get a little -- put a little more color on kind of, one, how much revenue contribution you've actually seen from that to date, and how much investment you've put into that on an annual basis, and how you're thinking about the potential growth of that business over the next couple of years?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Right. So first, let me put an overall framework on this. We have, at this stage, about 60 people employed in the Voice. AI business, which we officially announced 2 years ago. The business is still growing. Last year, we did above $2 million of sales in that line. We do expect an increase of at least 50% to 100% this year in 2020.

The investment -- basically, we have 2 parts of the business: one is the recording services; the other one is more the speech recognition and NLP services. So in the recording side of the business, we have an -- compliance recording application, which is growing and starts to grow further. And now the Teams is a new market for them.

We also discussed a few months ago launching Meeting Insights, which will allow to record interactions in the office. We're talking about meetings which will be recorded and will later on allow management and other people to analyze them and look for facts, automated -- automate action item taking, identify speakers. You'll have, you know, great repository of voice interaction in the office that are searchable, pretty much compared to when you go for your Outlook to look for a mail or a data message that was sent.

Then we substantially improved our stack of technologies in the voice recognition area. We have developed a very strong Nuera network solution. It's now deployed in 2 languages. At this stage, it's Hebrew and German. Also, going to be deployed shortly with U.S. English.

NLP has been developed. We've been working substantially on opportunities in the customer engagement area, virtual assistant; and we definitely start to pick up in the number of projects that we perform. So all in all, we're very -- while investing a lot, by the way. The expense on that business in 2019 was about $4.5 million, meaning that it's quite a large investment. But we do feel that within the next 3 years, this operation will become fairly successful, growing fast.

I'll mention also that we did a very unique development that we call Voice. AI Gateway, and that technology allows you to voice enable chatbots. And with chatbots and bots being used increasingly in the enterprise and in other places, the ability to add voice channels to it both in the recognition side and then in the synthesizing side is a great solution. This solution is already being implemented with 2 or 3 large corporations. There are 5 or more in the pipeline. So all in all, very encouraged by the products we're making on the Voice. AI.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then why don't you just talk about your -- the seasonality of your business into the first quarter. It sounds like it's -- you're continuing to see pretty good momentum; and the last couple of years, you've actually seen a modest seasonal uptick Q4 to Q1. So just wondering how we should think about, from a modeling perspective, the Q1 revenue relative to the Q4 revenue?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Yes. I've learned in the past not to rely on miracles, enjoy them. So for planning purposes, I usually plan on a down quarter that will be roughly around 2%. But as you have mentioned rightly, yes, in the past years, we've been able to beat that and actually grow. So we try to stay modest; I think you saw that in our guidance for the revenues and profits, and we'll start a new year just as we did in 2019.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

That's great. And then just wanted a clarification on the royalty agreement. Understanding that will have a positive impact on the gross margin, I believe, starting in first quarter of '20, did it have any impact on the non-GAAP gross margin in the fourth quarter of '19?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Yes, yes, definitely. You are so right. Yes, already in the fourth quarter of 2019, we had a contribution of several hundreds of thousands of dollars in the quarter, but we do expect that in 2020, we will have close to $1 million contribution on each and every single quarter.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. And then just 1 more for me, if I could. The non-GAAP share count for the quarter? You have a GAAP share count, but the -- I couldn't find the non-GAAP share count for fourth quarter of '19.

Niran Baruch - *AudioCodes Ltd. - CFO & VP of Finance*

The non-GAAP share for diluted EPS is 31.4 million shares.

Richard Frank Valera - *Needham & Company, LLC, Research Division - Senior Analyst*

31.4 million. Okay.

Operator

Our next question comes from the line of Mike Latimore with Northland Capital Markets.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

I'm just curious -- on the cloud, UCaaS, CcaaS, that whole kind of market segment, how much of your revenue comes from kind of the cloud market today?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

So it's growing. It's not substantial at these days. It's growing. We are deployed with our session border controllers and the management, centralized managed suite, and the routing application in both AWS and Azure. We grew -- actually in fourth quarter we grew very nicely with our SBC in Azure; and in Teams, that is related to the SBC direct route. We are basically putting all efforts towards that. So it's a process, but it will take time.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Got it. And then it sounds like, obviously, Microsoft's sort of the biggest platform environment into which you sell. Who would be sort of #2 and 3 on the list there after Microsoft?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

We have a number of partners. We have mentioned in the past a few names like RingCentral, Amazon, Zoom and a few others. Obviously, we had in the past also BroadSoft, now Cisco, so that's a partner. If I have to call number two in terms of volume of sales it's Genesys at this stage. All of the others are still not comparable in size to either Microsoft or Genesys and/or BroadSoft/Cisco.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Okay, got it. And then Teams, obviously, the Teams subscriber count has grown rapidly; I think it was over $20 million in the September quarter. Do you know, like, what percent of those Teams users are also using some form of Microsoft Voice? And where might that go?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

So you touch on an interesting point. We do see actually -- obviously, there's a large installed base Skype for Business users, and some of -- we have seen in the fourth quarter a number of them starting to move some of their users to Teams. So I assume that going forward, there will be pure new Teams accounts. But at the same time, we will see some of our older customer base of Skype for Business adding Teams users.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Got it. And then you talked about a number of large Teams wins, I believe, in the quarter. I assume those deployments will be in a cloud delivery model?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Yes. Yes. When we're talking about Teams, we're talking about cloud deployments; we're talking -- but then some of the components may be installed on-prem, and session border controllers could be placed either in a cloud and/or on-premise. But all in all, the majority or the whole implementation is meant to be cloud-based, yes.

Michael James Latimore - *Northland Capital Markets, Research Division - MD & Senior Research Analyst*

Great. And just last one. How important are acquisitions to your sort of medium term strategy?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Good question. Well, we keep growing nicely on the top line, you know, 13.7% this year; on the bottom line, more than 30%. It's not crucial. We will -- if there's one area I'd like to look at, it would be more the Voice. AI business, where we would like to inject larger, bigger operation into that business unit. Then we would maybe look more for M&A. So it's not, by all means, we have very nice organic growth, and we'll keep doing that. It's not crucial but will definitely be helpful growing the new business.

Operator

(Operator Instructions)

Our next question comes from the line of Greg Burns with Sidoti & Company.

Gregory John Burns - *Sidoti & Company, LLC - Senior Equity Research Analyst*

You had mentioned your expectation for UC-SIP to continue growing at about 15% to 20%. Based on the guidance, I think that's implying like a flattish year for gateways, but can you just maybe give your outlook for the gateway business in 2020 based on your revenue guidance?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Yes, UC-SIP will keep growing at the rate we've mentioned. Gateways, we enjoyed a very unique year of up 10%. Obviously, we have done our bottom-up analysis for 2020. It looks like we'll continue to grow, but on a more modest mode. Whether the line will stay flat, or grow, and/or decline by several percent, that is still to be seen throughout the year. So -- but we do build on our growth on UC-SIP mainly, and then on gateways to hold the line for us. A very profitable business line, but we do not expect growth from that.

Gregory John Burns - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay. And then in terms of your partnership with Dolby, and you're entering the meetings market, what's been the early reception? What are you hearing from customers? And maybe what gives you confidence as we go into 2020 in your ability to gain share in that market?

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Okay. So this is a bit premature. We announced the launch in -- around September or October of last year. We did send the first product -- it's a joint product by us and Dolby -- to several large companies, at this stage some hundreds of units. We know there's interest in those units. The feedback first with is probably expected around February or March this year.

Gregory John Burns - *Sidoti & Company, LLC - Senior Equity Research Analyst*

Okay, thanks. And can you just update us on your tax status in both the U.S. and Israel? With the tax asset that you announced this quarter, plus you expect to be full taxpayer in Israel, and I think you're paying in the U.S. already; but can you just update us on the tax (inaudible)?

Niran Baruch - *AudioCodes Ltd. - CFO & VP of Finance*

If you are referring to the expected tax payment in the next 1 or 2 years, we do not expect more than $1 million in terms of cash tax payment. We have NOLS, and we created a deferred tax asset for that, and that will offset any future tax payment, both in Israel and in the U.S.

Operator

Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Adlersberg for any final comments.

Shabtai Adlersberg - *AudioCodes Ltd. - Co-Founder, President, and CEO*

Thank you, operator. We would like to thank everyone who attended our conference call today. With continued good business momentum and execution in 2019, we believe we are on track to achieve another strong growth year in 2020 in our business. We look forward to your participation in our next quarterly conference call. Thank you very much. Have a nice day. Bye-bye.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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