

Ribbon Communications Inc. (Nasdaq: RBBN)

Rating: Buy

Price Target: \$6.50

Share Price: \$3.89

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Company Data

Average Daily Volume (M)	550.19
52-Week Range	2.75-5.38
Shares Outstanding (M)	176.54
Market Cap (M)	686.76
Enterprise Value (M)	1,035.56
Total Cash (M), mrq	60.45
Total Debt (M)	409.25
Total Debt to Cap	52.50%

Estimates

FYE: Dec		2025E	2026E
EPS	Q1	(\$0.03)A	
	Q2	\$0.05	
	Q3	\$0.06	
	Q4	\$0.16	
	FY	\$0.25	\$0.37
P/E		15.6x	10.5x
Rev (M)	Q1	\$181.28A	
	Q2	\$220.58A	
	Q3	\$219.77	
	Q4	\$258.32	
	FY	\$879.95	\$928.64
EV/Sales		1.2x	1.1x

One-Year Performance Chart



As of July 24, 2025. Source: E-Trade.

Ribbon Prints a Solid 2Q, But Guidance for 3Q Points to Some Margin Pressure.

Reiterate BUY Rating and \$6.50 Price Target.

Strong 2Q print. Revenue was \$221M, compared to \$193M for 2Q of 2024, and up 15% year-over-year. Our total revenue estimate was \$214M. Non-GAAP EPS was \$0.05 versus our \$0.07 and the Street's \$0.05 estimate, mostly due to higher OpEx levels.

Robust demand across the board. Demand in the North American market was better than expected across both Service Provider and Enterprise market verticals. Overseas, Ribbon also saw accelerating momentum in its IP Optical business in India and North America, supporting fiber and mobile network expansion. Management indicated on the earnings call that visibility into 2H'25 and into next year is good, and that it is expecting a strong finish to 2025 in 4Q.

Deferred revenue up again. RBBN's deferred revenue (some of which correlates to order backlog) was up significantly quarter-over-quarter at the end of 2Q, to \$31.7M versus \$23.5M at the end of 1Q, and \$20.9M at YE'24. Although management stated that Book-to-Bill ratio at the end of 2Q was simply >1, we believe that the significant acceleration of deferred revenue in 2Q represents a foundation for an unusually strong finish to 2025 in 4Q.

Some margin pressure is likely in 2H'25. Non-GAAP gross margin was 52.1%, compared to 54.4% for 2Q of 2024. Our estimate was 51.8%. The decrease was a function of both a higher Service & Support revenue contribution, as well as a

higher percentage of hardware sales in the quarter. But the silver lining here, we believe, is that higher hardware sales usually presage a shift to higher software sales later in the deployment cycle, pointing to a high likelihood of margin acceleration a couple of quarters out. This is a normal trajectory in the carrier network space, as the hardware installed base gets populated with plug-in modules or additional software, all of which tend to carry higher margins.

Guidance: A strong finish to the year. Management guided to a seasonally stronger second half with revenue increasing 15% to 20% as compared to first half results, similar to FY 2024. The Company continues to project revenue in line with full year guidance of \$870M to \$890M and stated that visibility to this target remains good. Focusing on 3Q, management expects the business to look very similar to the strong 2Q.

In the Cloud & Edge segment, Ribbon is projecting revenue consistent with last year and in a similar range to 2Q of this year. Management expects higher sales to a variety of enterprise and U.S. federal customers, offsetting lower shipments in 3Q to U.S. Tier 1 service providers. Verizon deployments are expected to continue at a very strong pace with strong professional service revenue, but lower equipment and software revenue in 3Q. The Company is still early in the initial phase of that multiyear program, as well as another large potential opportunity as Verizon completes the acquisition of Frontier Communications. In the IP Optical segment, management is projecting 5% to 10% year-over-year growth in 3Q.

Ribbon is now a Verizon vassal, and that's good for the company – in the beginning. In 2Q, Verizon Communications was not only Ribbon's largest customer but accounted for close to 20% of Ribbon's total revenue number of \$221M. Telecom/service provider revenue grew a significant 28% year-over-year in the Company's Cloud & Edge segment, with Verizon dominating the customer list. (Overall, among other Tier 1 carriers, AT&T was a Top 5 customer, as was Lumen Technologies). Ribbon is now a key strategic supplier for Verizon's multi-year voice transformation program, focused on replacing hundreds of legacy central office switches. The company is also working with Verizon to virtualize their existing wireline voice softswitch cores with its Virtual C20 Call Controller and the Neptune Router for IP traffic aggregation.

We view Ribbon's growing dependence on Verizon as initially a positive, as the company finally enters the "big leagues" of optical transport and next-generation switching, traditionally dominated by the likes of Nokia and Ciena. With the competitive landscape of major carrier suppliers continuing to shrink (more recently with the exit of Huawei from the Western carrier markets), Ribbon is increasingly well-positioned to fill those voids and continue to gain carrier market share, we believe. However, Verizon Communications is notorious for relentlessly driving its strategic vendors to provide more for less, often driving them towards reduced profitability and increased R&D spending. Over time, we hope that Ribbon does not fall victim to such tactics and continues to maintain a healthy customer balance between carrier, enterprise, and data center customers.

Changes to our model. We are making only minor adjustments to our estimates, primarily in 3Q. Our YE'25 estimate is \$879.9M/\$0.25 (non-GAAP), and our YE'26 estimate is \$928.6M/\$0.37. We are

modeling a slight dip in gross margin in 2H'25, followed by a gradual rebound in 2026 as the revenue mix shifts back towards higher software content and away from Service & Support.

RBBN shares are currently oversold, we believe. Shares sold off after the 2Q print and are attractively valued, we believe. They are currently trading at 10-11x our FY 2026 non-GAAP EPS estimate of \$0.37, versus the peer average of >20x. Our \$6.50 price target assumes a full valuation P/E multiple of ~17-18x our FY 2026 estimate, which is still below the current peer group average forward P/E multiple.

Company Overview

Ribbon Communications Inc. (Nasdaq: RBBN) is a global provider of secure cloud communications and IP and optical networking solutions. The Company plays a crucial role in helping service providers, enterprises, and critical infrastructure sectors modernize their networks to meet the increasing demands of data-intensive and mission-critical communications infrastructure. Ribbon's market focus is heavily centered on network transformation, driven by key trends: the proliferation of 5G and IoT devices, the critical need for low-latency data processing, and the ever-growing demand for bandwidth. These drivers are particularly evident in the North American market, where significant expansion is occurring across cloud computing, edge computing, and IP optical networks. Ribbon's solutions are designed to enable this evolution, supporting everything from modern cloud-based voice services to high-capacity optical transport for 5G backhaul and data center interconnects. Ribbon serves a diverse global customer base exceeding 1,000, including major Tier One service providers, federal defense agencies, enterprise customers, and participants in rural broadband initiatives. A core part of Ribbon's strategy is leveraging these relationships to cross-sell solutions across its portfolio. This involves integrating offerings, such as combining IP routing with voice transformation products for service providers or bundling hardware and software for enterprise secure communications. Strategic partnerships, like the significant voice network modernization project with Verizon, and participation in government-backed programs, including the U.S. BEAD program for rural broadband, are key drivers for both revenue growth and cross-selling opportunities. By providing integrated solutions and capitalizing on network modernization trends across various sectors, Ribbon is strategically positioned for continued growth and expansion.

Ribbon Communications Inc. (RBBN-NASDAQ)													
GAAP Basis													
	Dec'22	Dec'23	Mar'24	Jun'24	Sep'24	Dec'24	Dec'24	Mar'25	Jun'25	Sep'25 E	Dec'25 E	Dec'25 E	Dec'26 E
	FY	FY	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FYE	FYE
Revenue:													
Product	442.68	445.15	87.61	99.13	112.15	148.34	447.23	81.99	115.06	117.76	154.27	469.07	497.22
Service	377.08	381.19	92.05	93.49	98.09	103.02	386.65	99.29	105.53	102.01	104.05	410.88	431.42
Total Revenue	819.76	826.34	179.66	192.62	210.24	251.36	833.88	181.28	220.58	219.77	258.32	879.95	928.64
Revenue Growth (%):													
Year/Year		1%	-3%	-9%	3%	11%	1%	1%	15%	5%	3%	6%	5.5%
Quarter/Quarter		NA	-21%	7%	9%	20%	NA	-27.9%	21.7%	-0.4%	17.5%	NA	NA
Cost of Revenue:													
Total cost of revenue	418.82	418.26	87.71	94.75	100.62	111.29	394.37	98.91	111.28	115.78	128.38	454.35	469.67
Gross profit	400.94	408.08	91.96	97.87	109.62	140.07	439.51	82.37	109.31	103.98	129.95	425.61	458.97
Gross Margin (%)	49%	49%	51%	51%	52%	56%	53%	45.4%	49.6%	47.3%	50.3%	48.4%	49.4%
Operating expenses:													
Research and development	203.68	190.66	45.76	43.49	45.65	45.04	179.94	43.57	44.70	44.53	49.08	181.88	185.73
Sales and marketing	147.77	137.46	34.72	32.98	33.06	37.07	137.83	31.79	32.54	32.42	36.17	132.91	139.30
General and administrative	51.05	54.96	15.19	14.90	21.59	17.06	68.74	15.13	16.63	16.57	18.08	66.41	74.29
Amortization of acquired intangible assets	29.65	28.60	6.71	6.51	6.46	6.30	25.97	6.16	5.98	5.98	5.98	24.08	24.08
Acquisition-, disposal- and integration-related	6.29	4.48							3.90			3.90	
Restructuring and related	10.83	16.21	3.07	1.92	3.79	1.38	10.16	5.34	1.35	1.35	1.35	9.38	9.38
Total operating expenses	449.26	432.37	105.44	99.80	110.54	106.85	422.64	101.98	105.08	100.84	110.65	418.55	432.78
EBIT (Operating Income)	(48.32)	(24.29)	(13.49)	(1.93)	(0.93)	33.22	16.87	(19.61)	4.23	3.15	19.30	7.06	26.19
Interest expense, net	(19.78)	(27.32)	(5.99)	(3.88)	(11.95)	(12.00)	(33.82)	(10.50)	(10.98)	(10.50)	(10.50)	(42.48)	(42.00)
Other expense, net	(44.50)	(3.77)	(7.51)	(9.50)	1.06	(13.16)	(29.12)	3.13	(2.18)	(3.00)	(3.00)	(5.05)	(5.00)
Loss before income taxes (Pretax Income)	(112.60)	(55.37)	(26.99)	(15.32)	(11.82)	8.06	(46.07)	(26.98)	(8.93)	(10.35)	5.80	(40.47)	(20.81)
Income tax (provision) benefit	14.52	(10.83)	(3.38)	(1.50)	(1.60)	(1.69)	(8.17)	0.75	(2.18)	(1.24)	0.70	(1.98)	
Tax %	-14.8%	16.4%	11.1%	8.9%	11.9%	-26.6%	15.1%	-2.9%	19.6%	12.0%	12.0%	4.7%	0.0%
Net Income	(98.08)	(66.21)	(30.36)	(16.82)	(13.42)	6.36	(54.24)	(26.23)	(11.12)	(11.59)	6.49	(42.45)	(20.81)
Non-GAAP Adjustments	115.43	102.05	29.27	25.34	21.91	21.92	98.43	21.65	20.73	22.00	22.00	86.37	86.37
Net Income (Non-GAAP)	17.35	35.85	(1.10)	8.52	8.49	28.28	44.19	(4.58)	9.61	10.41	28.49	43.93	65.57
Per Share													
EPS (GAAP)	(0.63)	(0.39)	(0.18)	(0.10)	(0.08)	0.04	(0.31)	(0.15)	(0.06)	(0.07)	0.04	(0.24)	(0.12)
Shares Outstanding	157	170	172	174	175	174	174	176	177	177	177	177	177
EPS (Non-GAAP)	0.11	0.21	(0.01)	0.05	0.05	0.16	0.25	(0.03)	0.05	0.06	0.16	0.25	0.37
Shares Outstanding	157	170	172	174	175	174	174	176	177	177	177	176.75	177.15

Source: Company reports; Kingswood Capital Partners estimates.
All figures in millions of U.S. Dollars except % and per share items

Risks to Price Target

Company-specific risks to the target price include:

Technological differentiation. Despite Ribbon's positive trajectory, several risks warrant investor attention. The competitive landscape in both Cloud & Edge and IP Optical Networks segments remains intense, with numerous established players and emerging competitors. Ribbon must continue investing in innovation to maintain technological differentiation.

Growth might be subdued. The disparity in segment performance, with Cloud & Edge showing strong growth while IP Optical Networks experienced revenue decline, presents a balanced growth challenge. Management must address the underperforming segment while maintaining momentum in the stronger business unit.

Customer concentration. Given Ribbon's customer base, which includes major service providers, large enterprises, and U.S. federal defense agencies (noted as a primary revenue driver), a high degree of reliance on a few key accounts could expose the company to volatility. Top 10 customers account for 40% of revenue.

Competition risk. A significant factor for technology companies like Ribbon Communications, operating in dynamic markets such as telecommunications equipment and software is the risk of competition. This risk stems from the presence of numerous competitors, ranging from large, established global players to smaller, specialized vendors, all vying for market share within the Cloud & Edge and IP Optical Networks segments. Ribbon's ability to compete effectively depends on its continued innovation, the strength of its integrated portfolio (Cloud & Edge with IP Optical), its focus on specific market segments (like critical infrastructure and rural broadband), its global sales and support capabilities, and its ability to adapt to changing market dynamics and customer needs.

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Company-Specific Disclosures

Distribution of Ratings				
Kingswood Capital Partners, LLC				
Investment Banking Services/Past 12 Months				
Rating	Count	Percent	Count	Percent
BUY	9	81.81	2	22.22
HOLD	1	9.09	0	0.00
SELL	0	0.00	0	0.00
NOT RATED	1	9.09	1	100.00

As of June 2025

Kingswood Capital Partners has not received compensation from Ribbon Communications, Inc. during the past 12 months. Kingswood is not currently engaged by Ribbon Communications to provide investment banking or advisory services.

Ribbon Communications, Inc. Rating History as of July 24, 2025



Source: E-Trade.

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