

EARNINGS PREVIEW | COMMENT

JULY 30, 2007

NICE Systems Ltd. (NASDAQ: NICE)

Executing On Plan

**Outperform
Above Average Risk**

Price:	32.82	Price Target:	45.00
Shares O/S (MM):	54.0	Implied All-In Return:	37.1%
Dividend:	0.00	Market Cap (MM):	1,772
Float (MM):	48.6	Yield:	0.0%
Debt to Cap:	0.0%	Tr. 12 ROE:	11.30%
Institutional Ownership:	65%	Enterprise Val. (\$MM):	1,723.0
		Avg. Daily Volume (MM):	0.27
		3-Yr. Est. EPS Growth:	25.00%

RBC Capital Markets Corp.

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FY Dec	2005A	2006A	2007E	2008E
EPS (Op) - FD	0.83	1.15	1.41	1.78
P/E	39.5x	28.5x	23.3x	18.4x
Revenue (MM)	311.1	418.1	510.7	624.0
EPS (Op) - FD	Q1	Q2	Q3	Q4
2005	0.15A	0.18A	0.22A	0.28A
2006	0.21A	0.28A	0.31A	0.37A
2007	0.31A	0.35E	0.36E	0.38E
2008	0.34E	0.42E	0.46E	0.56E
Revenue (MM)	2005	2006	2007	2008
	66.1A	72.2A	82.7A	90.0A
	87.9A	97.7A	112.2A	120.4A
	117.0A	123.5E	125.2E	145.0E
	141.7E	152.3E	157.8E	172.2E

Starting 3Q06 revenue are proforma on M&A adjustments.

All values in USD unless otherwise noted.

Event

Previewing 2Q07 / June Quarter slated for release on August 1 before market open.

Investment Opinion

We believe NICE continues to execute well and expect on-track 2Q07 numbers, with potential for nominal upside. However, numbers release will be less eventful as FY07 bar was already set early July following Actimize acquisition.

While fundamentals remain solid, shares slid 18% from 52-week high on inline guidance and Actimize near-term dilution accounting for half of the dip with recent market weakness adding an extra 9% cut last week. We reiterate Outperform as current levels offer investors good entry point with compelling risk-reward as downside seems limited and we view upside potential towards mid-40's on solid execution.

Looking for another good quarter

We project 2Q07 at \$123.5m / \$0.35, essentially inline with street. We expect seasonal build in enterprise division (77% mix), up 5% sequentially and 31% Y/Y (organic growth in low-teens). Though security business tends to be lumpy, we expect recovery from the 7% slide in 1Q07 with 8% sequential gain in 2Q07 on solid business momentum and string of recent wins.

Solid fundamentals

Our recent checks continue to indicate NICE business momentum and pipeline is healthy, translating into growing backlog and visibility. Contacts pointed to ongoing interest in contact center solution and analytics along with good industry backdrop and additional major projects in security, especially in the transportation arena.

Maintaining growth path

For 3Q07 we assume flat growth in enterprise and slight sequential up-tick in security, conservatively modeling 3Q07 at \$125m / \$0.36, below street average at \$126m / \$0.37. We expect continued growth in 4Q07 with Actimize boosting 4Q07 top line by \$10-12m yet shaves 4-5c off EPS, modeling \$145m / \$0.38. Recall management already set guidance in post Actimize acquisition at \$506m / \$1.37. Our estimates are above guidance midpoint at \$511m / \$1.41, while many on the street are yet to incorporate Actimize impact on numbers

For FY08 we project \$624m / \$1.78 and introduce our quarterly estimates, assuming Actimize deal dilution in 1H08 and accretion in 2H08. Our estimates assume +22% Y/Y growth, with 13% organic. We project +26% Y/Y organic hike in EPS as we conservatively project neutral net impact of Actimize.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 4.

Valuation

NICE shares are trading essentially in line with peers in enterprise analytics and security applications at 23x FY07E EPS and 18x our FY08E EPS.

Our 12-18 month target of \$45 is based on 25x FY08E EPS and also reflects 30x FY07E EPS. Our FY08E multiple is similar to NICE's expected bottom line growth and to the multiple assigned to shares of late based on FY07E numbers.

We believe NICE shares warrant the assigned premium to peers for the Company's solid fundamentals, good visibility, strong management execution and clean story. We are employing FY08E based valuation to reflect NICE's long term potential.

Price Target Impediment

Potential risks and price target impediments include:

- IT-cycle and acceptance of multimedia content-analysis.
- NICE's business model is top-driven and earnings tend to fluctuate in wide range.
- Change in government budgets for Homeland-Security and related changes in regulation.
- Channel dependency on Avaya (~20% of 2006 revenue) and smaller indirect channels.
- Macro backdrop, competition, pricing, technology shifts, execution, and other usual suspects.

Company Description

NICE Systems is a leading provider of multimedia logging and monitoring solutions. Its Enterprise division (~75% mix) helps enterprises improve and leverage contact-center interaction with customers, improve contact center operations with workforce management solutions and support financial service trading floors. NICE's Security Group (~25% mix) includes its digital video logging business and its multimedia logging for government, law-enforcement, and aviation bodies.

Income Statement

(\$ millions except per share, FY Dec)

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	2005A	1Q06A	2Q06A	3Q06A	4Q06A	2006A	1Q07A	2Q07E	3Q07E	4Q07E	2007E	1Q08E	2Q08E	3Q08E	4Q08E	2008E
		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec	
Product Revenue	\$ 206,355	\$ 57,274	\$ 61,544	\$ 71,621	\$ 74,313	\$ 264,752	\$ 73,375	\$ 77,400	\$ 78,400	\$ 92,200	\$ 321,375	\$ 90,000	\$ 96,800	\$ 100,400	\$ 109,600	\$ 396,800
% mix	66%	65%	63%	64%	62%	63%	63%	63%	63%	64%	63%	64%	64%	64%	64%	64%
Service Revenue	104,755	\$ 30,641	\$ 36,158	\$ 40,532	\$ 46,048	153,379	\$ 43,637	\$ 46,100	\$ 46,800	\$ 52,800	189,337	\$ 51,700	\$ 55,500	\$ 57,400	\$ 62,600	227,200
% mix	34%	35%	37%	36%	38%	37%	37%	37%	37%	36%	37%	36%	36%	36%	36%	36%
Total Revenue	\$ 311,110	\$ 87,915	\$ 97,702	\$ 112,153	\$ 120,361	\$ 418,131	\$ 117,012	\$ 123,500	\$ 125,200	\$ 145,000	\$ 510,712	\$ 141,700	\$ 152,300	\$ 157,800	\$ 172,200	\$ 624,000
Q/Q		-2%	11%	15%	7%		-3%	6%	1%	16%		-2%	7%	4%	9%	
Y/Y	23%	33%	35%	36%	34%	34%	33%	26%	12%	20%	22%	21%	23%	26%	19%	22%
Product Cost	65,921	18,776	17,800	20,632	19,878	77,100	17,557	18,400	18,500	21,100	75,557	20,800	22,200	22,900	24,800	90,600
Product margin	68.1%	67.2%	71.1%	71.2%	73.3%	70.9%	76.1%	76.2%	76.4%	77.1%	76.5%	76.9%	77.1%	77.2%	77.4%	77.2%
Service Cost	68,959	20,199	21,493	23,584	23,047	88,300	26,454	27,500	27,700	30,600	112,254	30,400	32,300	33,100	36,000	131,800
Service Margin	34.2%	34.1%	40.6%	41.8%	50.0%	42.4%	39.4%	40.3%	40.8%	42.0%	40.7%	41.2%	41.8%	42.3%	42.5%	42.0%
Total Cost of Revenue	\$ 134,880	\$ 38,975	\$ 39,293	\$ 44,216	\$ 42,925	\$ 165,409	\$ 44,011	\$ 45,900	\$ 46,200	\$ 51,700	\$ 187,811	\$ 51,200	\$ 54,500	\$ 56,000	\$ 60,800	\$ 222,400
Gross Profit	\$ 176,230	\$ 48,940	\$ 58,409	\$ 67,937	\$ 77,436	\$ 252,722	\$ 73,001	\$ 77,600	\$ 79,000	\$ 93,300	\$ 322,901	\$ 90,500	\$ 97,800	\$ 101,800	\$ 111,400	\$ 401,600
Gross Margin	56.6%	55.7%	59.8%	60.6%	64.3%	60.4%	62.4%	62.8%	63.1%	64.3%	63.2%	63.9%	64.2%	64.5%	64.7%	64.4%
Research and Development, net	30,895	9,023	10,812	11,600	12,055	43,490	12,387	12,600	12,800	15,800	53,587	15,800	16,400	16,700	17,500	67,400
R&D, % of revenue	9.9%	10.3%	11.1%	10.3%	10.0%	10.4%	10.6%	10.2%	10.2%	10.9%	10.5%	11.2%	10.8%	10.6%	10.2%	10.8%
Sales and Marketing, net	72,868	19,742	20,339	24,378	27,353	91,812	25,989	26,900	27,300	31,800	111,989	31,800	32,800	33,200	34,200	132,000
S&M, % of revenue	23.4%	22.5%	20.8%	21.7%	22.7%	22.0%	22.2%	21.8%	21.8%	21.9%	21.9%	22.4%	21.5%	21.0%	19.9%	21.1%
General and Administrative	37,742	10,900	12,663	14,176	16,104	53,843	17,019	17,300	17,300	19,600	71,219	19,600	20,100	20,300	20,700	80,500
G&A % of revenue	12.1%	12.4%	13.0%	12.6%	13.4%	12.9%	14.5%	14.0%	13.8%	13.5%	13.9%	13.8%	13.2%	12.9%	12.0%	12.9%
Total Operating Expenses*	\$ 141,505	\$ 39,665	\$ 43,814	\$ 50,154	\$ 56,212	\$ 189,845	\$ 55,395	\$ 56,800	\$ 57,400	\$ 67,200	\$ 236,795	\$ 67,200	\$ 69,300	\$ 70,200	\$ 72,400	\$ 279,900
OpEx % of revenue	45.5%	45.1%	44.8%	44.7%	46.7%	45.4%	47.3%	46.0%	45.8%	46.3%	46.4%	47.4%	45.5%	44.5%	42.0%	44.9%
Operating Income*	\$ 34,725	\$ 9,275	\$ 14,595	\$ 17,783	\$ 21,224	\$ 62,877	\$ 17,606	\$ 20,800	\$ 21,600	\$ 26,100	\$ 86,106	\$ 23,300	\$ 28,500	\$ 31,600	\$ 39,000	\$ 121,700
Operating margin	11.2%	10.5%	14.9%	15.9%	17.6%	15.0%	15.0%	16.8%	17.3%	18.0%	16.9%	16.4%	18.7%	20.0%	22.6%	19.5%
Y/Y	73%	71%	106%	87%	67%	81%	90%	43%	21%	23%	37%	32%	37%	46%	49%	41%
NOPAT (Net Operating Income After Tax)	\$ 29,775	\$ 7,619	\$ 11,344	\$ 14,295	\$ 16,970	\$ 50,237	\$ 14,000	\$ 16,500	\$ 17,100	\$ 21,100	\$ 68,700	\$ 18,900	\$ 23,100	\$ 25,500	\$ 31,400	\$ 98,118
Financial Income	5,390	3,866	4,064	2,138	3,203	13,271	3,250	3,500	3,600	1,300	11,650	1,400	1,600	1,800	2,000	6,800
% of pretax income	13%	29%	22%	11%	13%	17%	16%	14%	14%	5%	12%	6%	5%	5%	5%	5%
Other Income	(5)	-	78	24	172	274	-	-	-	-	-	-	-	-	-	-
Pretax Income*	\$ 40,110	\$ 13,141	\$ 18,737	\$ 19,945	\$ 24,599	\$ 76,422	\$ 20,856	\$ 24,300	\$ 25,200	\$ 27,400	\$ 97,756	\$ 24,700	\$ 30,100	\$ 33,400	\$ 41,000	\$ 128,500
Y/Y	70%	103%	125%	85%	69%	91%	59%	30%	26%	11%	28%	18%	24%	33%	50%	31%
Taxes	5,718	2,346	4,174	3,912	4,931	15,363	4,227	5,000	5,200	5,300	19,727	4,700	5,700	6,500	8,000	24,900
Tax Rate	14.3%	17.9%	22.3%	19.6%	20.0%	20.1%	20.3%	20.6%	20.6%	19.3%	20.2%	19.0%	18.9%	19.5%	19.5%	19.4%
Net Income*	\$ 34,392	\$ 10,795	\$ 14,563	\$ 16,033	\$ 19,668	\$ 61,059	\$ 16,629	\$ 19,300	\$ 20,000	\$ 22,100	\$ 78,029	\$ 20,000	\$ 24,400	\$ 26,900	\$ 33,000	\$ 103,600
Net margin	11.1%	12.3%	14.9%	14.3%	16.3%	14.6%	14.2%	15.6%	16.0%	15.2%	15.3%	14.1%	16.0%	17.0%	19.2%	16.6%
Y/Y	61%	87%	100%	79%	59%	78%	54%	33%	25%	12%	28%	20%	26%	35%	49%	33%
Shares Outstanding, fully diluted	41,283	51,386	51,708	52,248	53,516	52,897	53,977	54,800	55,400	57,900	55,519	58,000	58,200	58,400	58,800	58,350
Fully Diluted Earnings per ADR	\$ 0.83	\$ 0.21	\$ 0.28	\$ 0.31	\$ 0.37	\$ 1.15	\$ 0.31	\$ 0.35	\$ 0.36	\$ 0.38	\$ 1.41	\$ 0.34	\$ 0.42	\$ 0.46	\$ 0.56	\$ 1.78
Q/Q		-26%	34%	9%	20%		-16%	14%	3%	6%		-10%	22%	10%	22%	
Y/Y	46%	44%	57%	42%	29%	39%	47%	25%	18%	4%	22%	12%	19%	28%	47%	26%

* Ex. one time items. Model does not incorporate impact of employee stock compensation under FASB123 of ~\$10-13M per annum. Stock splits May 31, 2006.

** Dictaphone-CRS added to books in June 2005, FAST added in 1Q06, IEX and Preformix deals contribute starting 2H06. Includes impact of follow-on offering starting mid December 2005.

Source: RBC Capital Markets, Company Reports

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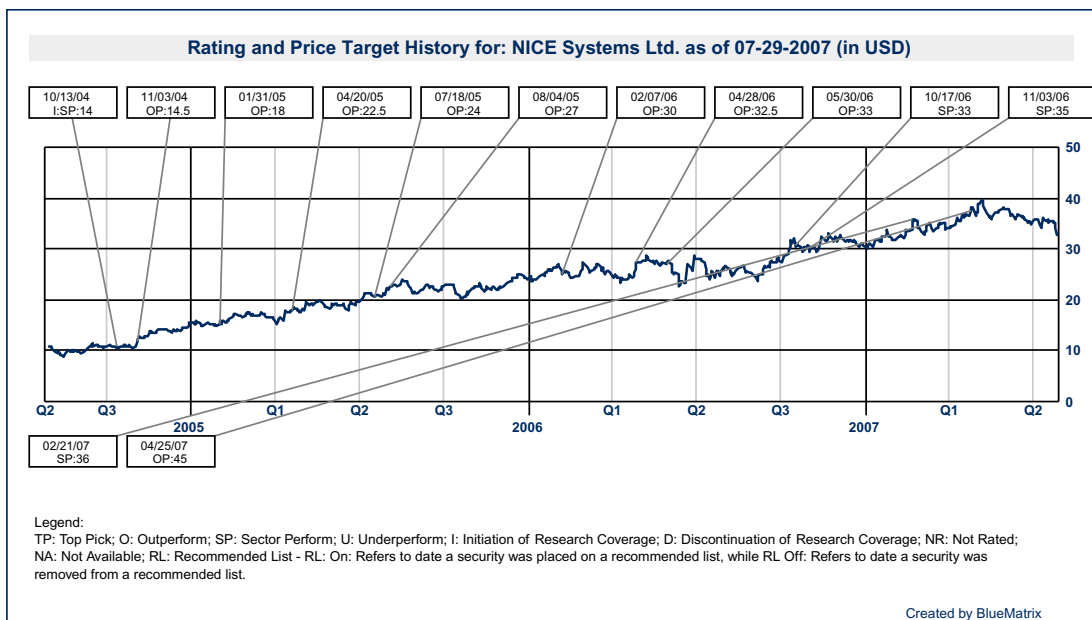
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