

(CRNT^{5,8} \$9.94) Buy

January 25, 2008

Upgrading to Buy

■ Upgrading to Buy

We are upgrading CRNT to Buy on the recent pullback in the stock and our expectation that the company will post a solid 4Q07 and reiterate its outlook for growth of 25-30% in 2008 when the company reports results on Monday.

■ Wireless Trends Remain Positive

We believe CRNT is benefiting from deployment of next generation wireless data and 3G services in Europe and the U.S. and rapid deployment of wireless voice services in Asia. We expect these trends to continue. In addition, as carriers begin to migrate their core infrastructures to IP, we believe CRNT is well positioned to benefit, as the company stands apart from much of the competition with a seamless TDM-to-IP migration strategy. We believe the company is competing for major deployments with Tier 1 carriers in Europe and could see decisions over the next several quarters. The company could also benefit from emerging deployments of WiMAX and other 4G technologies over the next several years, providing significant long-term potential for the company.

■ Establishing \$13 Price Target

We are establishing a \$13 price target, 30% upside from recent levels. This target is 20x our 2008 EPS estimate of \$0.62. We use a 20x multiple, a significant discount to the 30% earnings growth we are modeling for 2008, but in-line with traditional telecom equipment multiple ranges.

■ Reports Monday, 1/28

Ceragon will be reporting 4Q07 results on Monday, January 28th with a conference call at 9am EST. We are estimating revenue of \$47 million, at the top end of the company's \$44-47 million revenue guidance. Our EPS estimate is \$0.14.

■ Risks

Risks to our outlook include the weak dollar, which could impact expenses and interest income returns on recently raised capital, capital spending trends, significant competition, an economic slowdown impacting deployment trends and aggressive pricing by competitors. Also, FiberTower (FTWR, \$1.58, NR), which has been a large customer in the past but not a 10% customer in recent quarters, recently announced the CEO's departure, which could affect CRNT's relationship with FTWR longer term, though we do not anticipate an impact.

Key Data

52-Week Range	\$21.89 - \$5.11
Shares Outstanding (MM)	32.5
Float (MM)	26.5
% Held Institutionally	29%
Market Capitalization (MM)	\$323
Average Daily Volume (000)	868
Revenues – LTM (MM)	\$149
Total Debt (MM)	\$4.8
Cash per Share (estimated)	~\$2.91
Long Term Growth Rate	25%
Current 12-Month Price Target	\$13

Fiscal Year Ends: Dec.	2006A	2007E	2008E	
Revenue (MM)	\$108	\$163	\$206	
Earnings per Share				
	Q1	\$0.04	\$0.10	\$0.14
	Q2	\$0.04	\$0.11	\$0.15
	Q3	\$0.07	\$0.13A	\$0.16
	Q4	<u>\$0.09</u>	<u>\$0.14</u>	<u>\$0.17</u>
Year	\$0.24	\$0.48	\$0.62	
P/E	41x	21x	16x	
Diluted Shares (MM)	28.3	32.1	38.7	

Ceragon was founded in 1996, in Tel Aviv, Israel and completed its IPO in 2000. The company is a leading provider of point-to-point wireless transmission products. Ceragon's systems enable wireless backhaul and BWA for carriers and point-to-point network connectivity for enterprise and private networks, and can be a substitute for wired PDH/SDH/SONET networks.

Contact

Rich Church

(212) 389-8051
rchurch@collinsstewartLLC.com

Gina Chen

(212) 389-8079
gchen@collinsstewartLLC.com

Disclaimers regarding the content of this report as well as full disclosure of Collins Stewart LLC's ratings and information on the firm's position(s) in securities mentioned herein appear on the final page of this report.

Table 1
Ceragon Networks
Annual Earnings Model, 2004-2008E

(in thousands)

	<u>2004</u>	<u>2005A</u>	<u>2006E</u>	<u>2007E</u>	<u>2008E</u>
Revenue	\$54,831	\$73,777	\$108,415	\$162,743	\$206,000
Cost of sales	32,191	45,013	70,175	104,035	132,405
Gross profit	22,640	28,764	38,240	58,708	73,595
Research and development, net	7,393	8,949	11,483	15,080	18,900
Sales and marketing	11,645	13,613	16,949	24,200	27,200
General and administrative	2,429	3,068	4,448	4,792	6,800
Total operating expense	21,467	25,630	32,880	44,072	52,900
Amortization of deferred stock comp	374	31	-	-	-
Operating income	1,173	3,134	5,360	14,636	20,695
Financial income, net	674	607	1,283	826	3,450
Other income	141	64	54	-	-
Income before taxes	1,988	3,805	6,697	15,462	24,145
Income tax (pro forma)	-	-	-	-	-
Net income	1,988	3,805	6,697	15,462	24,145
Non-GAAP EPS (diluted)	\$0.07	\$0.14	\$0.24	\$0.48	\$0.62
Avg. shares out. (diluted):	27,085	28,062	28,337	32,100	38,650
Yr/Yr % change:					
Revenues	59%	35%	47%	50%	27%
Gross profit	64	27	33	54	25
Operating income	(124)	167	71	173	41
Pretax income	(155)	91	76	131	56
Net income	(155)	91	76	131	56
EPS	(147)	85	74	104	30
Avg. shares outstanding	17	4	1	13	20
Gross margin	41.3%	39.0%	35.3%	36.1%	35.7%
Research and development, net	13.5	12.1	10.6	9.3	9.2
Sales and marketing	21.2	18.5	15.6	14.9	13.2
General and administrative	4.4	4.2	4.1	2.9	3.3
Operating Expense	39.2	34.7	30.3	27.1	25.7
Operating margin	2.1	4.2	4.9	9.0	10.0
Pretax margin	3.6	5.2	6.2	9.5	11.7
Net margin	3.6	5.2	6.2	9.5	11.7
Tax rate	0.0	0.0	0.0	0.0	0.0

Source: Company data and Collins Stewart LLC estimates

Table 2
Ceragon Networks
Quarterly Earnings Model, 2006-2008E
(in thousands)

	1Q06	2Q06	3Q06	4Q06	1Q07	2Q07	3Q07A	4Q07E	1Q08E	2Q08E	3Q08E	4Q08E
Revenue	\$21,322	\$23,640	\$30,508	\$32,945	\$33,936	\$37,337	\$44,470	\$47,000	\$48,000	\$50,000	\$53,000	\$55,000
Cost of sales	13,322	14,971	20,895	20,987	21,598	23,802	28,461	30,174	30,864	32,150	34,026	35,365
Gross profit	8,000	8,669	9,613	11,958	12,338	13,535	16,009	16,826	17,136	17,850	18,974	19,635
Research and development, net	2,674	2,651	2,741	3,417	3,428	3,393	4,059	4,200	4,300	4,500	5,000	5,100
Sales and marketing	3,742	4,068	4,161	4,978	5,102	6,060	6,438	6,600	6,600	6,700	6,900	7,000
General and administrative	939	1,046	1,122	1,341	968	838	1,486	1,500	1,500	1,700	1,700	1,900
Total operating expense	7,355	7,765	8,024	9,736	9,498	10,291	11,983	12,300	12,400	12,900	13,600	14,000
Operating income	645	904	1,589	2,222	2,840	3,244	4,026	4,526	4,736	4,950	5,374	5,635
Financial income, net	384	191	293	415	173	49	104	500	750	850	900	950
Other income	6	-	-	48	-	-	-	-	-	-	-	-
Income before taxes	1,035	1,095	1,882	2,685	3,013	3,293	4,130	5,026	5,486	5,800	6,274	6,585
Income tax (pro forma)	-	-	-	-	-	-	-	-	-	-	-	-
Net income	1,035	1,095	1,882	2,685	3,013	3,293	4,130	5,026	5,486	5,800	6,274	6,585
Non-GAAP EPS (diluted)	\$0.04	\$0.04	\$0.07	\$0.09	\$0.10	\$0.11	\$0.13	\$0.14	\$0.14	\$0.15	\$0.16	\$0.17
Avg. shares out. (diluted):	28,027	28,426	28,081	28,814	29,149	30,715	32,536	36,000	38,500	38,600	38,700	38,800
Yr/Yr % change:												
Revenue	27%	32%	62%	64%	59%	58%	46%	43%	41%	34%	19%	17%
Gross profit	18	20	34	57	54	56	67	41	39	32	19	17
Operating income	(14)	(0)	146	167	340	259	153	104	67	53	33	25
Pretax income	20	7	112	161	191	201	119	87	82	76	52	31
Net income	20	7	112	161	191	201	119	87	82	76	52	31
EPS	21	6	114	149	180	178	89	50	38	40	28	22
Avg. shares outstanding	(1)	1	(1)	5	4	8	16	25	32	26	19	8
Gross margin	37.5%	36.7%	31.5%	36.3%	36.4%	36.3%	36.0%	35.8%	35.7%	35.7%	35.8%	35.7%
Research and development, net	12.5	11.2	9.0	10.4	10.1	9.1	9.1	8.9	9.0	9.0	9.4	9.3
Sales and marketing	17.5	17.2	13.6	15.1	15.0	16.2	14.5	14.0	13.8	13.4	13.0	12.7
General and administrative	4.4	4.4	3.7	4.1	2.9	2.2	3.3	3.2	3.1	3.4	3.2	3.5
Operating Expense	34.5	32.8	26.3	29.6	28.0	27.6	26.9	26.2	25.8	25.8	25.7	25.5
Operating margin	3.0%	3.8%	5.2%	6.7%	8.4%	8.7%	9.1%	9.6%	9.9%	9.9%	10.1%	10.2%
Pretax margin	4.9	4.6	6.2	8.1	8.9	8.8	9.3	10.7	11.4	11.6	11.8	12.0
Net margin	4.9	4.6	6.2	8.1	8.9	8.8	9.3	10.7	11.4	11.6	11.8	12.0
Tax rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Qtr/Qtr % change:												
Revenue	6%	11%	29%	8%	3%	10%	19%	6%	2%	4%	6%	4%

Source: Company data and Collins Stewart LLC estimates

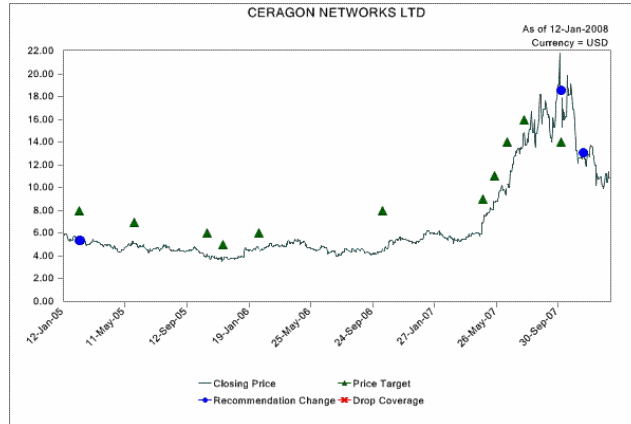
Table 3
Ceragon Networks
Quarterly Balance Sheet, 2005-2007

	<u>4Q05</u>	<u>4Q06</u>	<u>1Q07</u>	<u>2Q07</u>	<u>3Q07</u>
(in thousands)					
Cash and cash equivalents	\$10,315	\$10,170	\$15,752	\$20,439	\$24,531
Short term bank deposits	3,917	5,364	2,086	4,429	4,435
Marketable securities	5,654	6,578	6,421	6,040	7,128
Trade receivables, net	15,079	27,433	29,546	28,452	34,232
Other A/R and prepaid expenses	5,141	11,092	5,282	4,750	7,231
Inventories, net	16,144	23,144	32,122	35,981	39,069
Total current assets	56,250	83,781	91,209	100,091	116,626
Long-term bank deposits	5,322	2,873	2,903	0	1,012
Long-term marketable securities	7,814	4,500	2,385	1,935	0
Long-term receivables	0	0	0	0	0
Severance pay funds	2,142	2,537	2,610	2,657	2,983
Property and equipment, net	2,464	2,660	2,814	3,021	3,907
Total assets	\$73,992	\$96,351	\$101,921	\$107,704	\$124,528
Trade payables	\$12,382	\$22,147	\$21,880	\$22,498	\$29,652
Deferred revenues	3,456	3,739	7,580	5,186	7,189
Other payables and accrued expenses	5,541	10,627	10,406	10,647	12,186
Total current liabilities	21,379	36,513	39,866	38,331	49,027
Accrued severance pay	3,424	4,352	4,389	4,408	4,811
Other payables		7,925	5,948	5,910	4,262
Total liabilities	24,803	48,790	50,203	48,649	58,100
Total shareholders' equity	49,189	47,561	51,718	59,055	66,428
Total liabilities and stockholders' equity	\$73,992	\$96,351	\$101,921	\$107,704	\$124,528

Balance Sheet Metrics

Net cash	31,740	27,670	27,768	31,092	35,278
Net cash per share	1.16	0.96	0.95	1.01	1.08
Change in net cash	312	723	98	3,324	4,186
Change in accounts receivable	3,536	689	2,113	(1,094)	5,780
Change in net inventory	(4,924)	1,823	8,978	3,859	3,088
LT debt to capital (%)	6.5	8.4	7.8	6.9	6.8
Working capital	34,871	47,268	51,343	61,760	67,599
DSO	67	75	78	69	69
Turns	2.9	3.6	2.6	2.4	2.4

Source: Company data and Collins Stewart LLC estimates



CERAGON NETWORKS LTD					
Currency = USD					
Date	Closing Price	Recommendation Change	Date	Closing Price	Price Target
21-Nov-2007	13.07	MARKET PERFORM	03-Oct-2007	18.60	14.00
03-Oct-2007	18.60	UNDER PERFORM	24-Jul-2007	14.79	16.00
10-Feb-2005	5.42	BUY	14-Jun-2007	9.30	14.00
10-Feb-2005	5.42	BUY/BUY	23-May-2007	8.71	11.00
			30-Apr-2007	6.94	9.00
			12-Oct-2006	4.60	8.00
			06-Feb-2006	4.63	6.00
			29-Nov-2005	3.68	5.00
			27-Oct-2005	3.95	6.00
			27-May-2005	5.15	7.00
			10-Feb-2005	5.42	6.00

Collins Stewart LLC Ratings

Collins Stewart LLC assigns research equity ratings of Buy, Hold or Sell. For Buys, we will publish a 12-month price target for any stock with an estimated appreciation potential of 20% or more. For Sells, we also publish a 12-month price target for any stock with an estimated underperformance potential of 20% or more.

- Buy: 12 months, estimated 20% or more appreciation
- Hold: Performance in line with the market averages anticipated.
- Sell: 12 months, estimated underperformance of 20% or more

Disclaimers

This report is for informational purposes only, and the information herein is obtained from sources that we believe to be reliable, but its accuracy and completeness, and that of the opinions based thereon, are not guaranteed. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Further, this report is not intended as an offer or solicitation to buy or sell any securities or related instruments. The investments discussed or recommended in this report may not be suitable for the specific investment objectives, financial situation or needs of the reader, and should not be relied upon without consultation with an investment professional. Opinions expressed in this report are subject to change without notice. Collins Stewart LLC accepts no liability whatsoever for any loss or damage of any kind arising out of the use of any part, or all, of this report. This report is for distribution only under such circumstances as may be permitted by applicable law, and may not be reproduced or distributed in any form without the specific consent of Collins Stewart LLC. Redistribution of this, via the Internet or otherwise, report without permission is specifically prohibited, and Collins Stewart LLC accepts no liability for the actions of third parties in this regard.

From time to time, Collins Stewart LLC or its employees may have a long or short position in the securities of company (ies) discussed herein and, at any time, may make purchases and/or sales as principal or agent.

	% of CSTI Universe with this rating	% of rating tier for which CSTI provided IB services
Buy	64%	83%
Hold	33%	17%
Sell	3%	0%

The research analyst who is primarily responsible for the research contained in this research report and whose name is listed first on this report: (1) attests that all of the views expressed in this research report accurately reflect that research analyst's personal views about any and all of the securities and issuers that are the subject of this research report; and (2) attests that no part of that research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the research analyst in this research report.

All Collins Stewart LLC ("CSTI") employees, including research associates, receive compensation that is based in part upon the overall performance of the firm, including revenues generated by CSTI's investment banking department.

Footnotes for CSTI, a member of SIPC and NASD

- 1 - The research analyst or a member of his/her household has a financial interest in the securities of this company.
- 2 - The research analyst or a member of his/her household is an officer, director or advisory board member of this company.
- 3 - The research analyst or a member of his/her household received compensation in the past 12 months from this company.
- 4 - CSTI officers, other than research associates, serve as officers, directors or advisory board members of this company.
- 5 - CSTI makes a market in this company's securities. CSTI, in its market making capacity, sells to or buys from customers the securities of this company on a principal basis.
- 6 - CSTI has managed or co-managed a public offering and/or private placement of securities for this company in the past 12 months.
- 7 - CSTI has received compensation for investment banking services from this company in the past 12 months.
- 8 - CSTI expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.
- 9 - This company is, or during the past 12 months prior to distribution was, a client of CSTI.
- 10 - CSTI received compensation for products or services other than Investment Banking services from this company in the past 12 months.
- 11 - CSTI beneficially owns 1% or more of an equity security of this company.