



COMPANY UPDATE | COMMENT

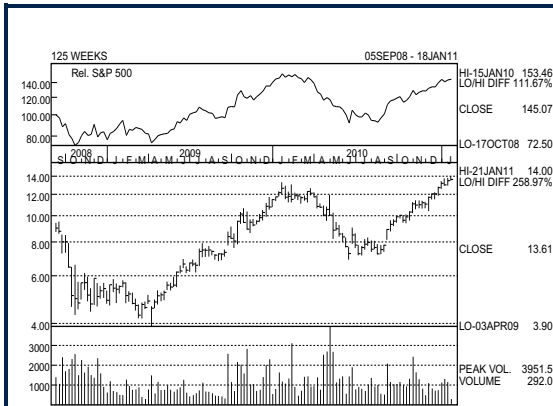
JANUARY 19, 2011

Ceragon Networks Ltd. (NASDAQ: CRNT)
Deal-Changing Move

Outperform
Speculative Risk

Price:	14.24	Price Target:	16.00
Shares O/S (MM):	36.8	Implied All-In Return:	12%
Dividend:	0.00	Market Cap (MM):	524
ROE:	4.0%	Yield:	0.0%
Float (MM):	33.0	Tr. 12 ROE:	20.00%
Debt to Cap:	0%	Enterprise Val. (MM):	344
Institutional Ownership:	41%	Avg. Daily Volume (MM):	0.30
		3-Yr. Est. EPS Growth:	20.00%

Priced at market close January 19, 2011 ET.



RBC Capital Markets, LLC

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FY Dec	2009A	2010E	2011E	2012E
EPS (Op) - FD	0.20	0.54	0.23	1.28
Prev.			0.72	
P/E	71.2x	26.4x	61.9x	11.1x
Revenue (MM)	184.0	248.0	451.4	546.2
Prev.			300.0	
EPS (Op) - FD	Q1	Q2	Q3	Q4
2009	0.03A	0.03A	0.05A	0.09A
2010	0.11A	0.13A	0.15A	0.16E
2011	(0.03)E	0.03E	0.06E	0.16E
Prev.	0.15E	0.16E	0.18E	0.22E
Revenue (MM)				
2009	44.0A	42.0A	45.0A	53.0A
2010	60.0A	61.0A	62.0A	65.0E
2011	94.6E	110.8E	117.1E	128.9E
Prev.	66.0E	70.0E	77.0E	88.0E

All values in USD unless otherwise noted.

Visionary M&A move by CRNT extends its market reach

We believe Ceragon's acquisition of Nera offers good strategic fit in product offering, regional reach, customer base, and professional services. Naturally, management has its work cut out in integrating the businesses and the deal may be dilutive through late-2011 until Ceragon improves Nera's operating profitability; however, this material leap-frog opportunity to #1 pure-play comes with an undemanding price-tag of ~0.3x EV/S. Pending execution on cross-sell opportunities and cost savings, Ceragon's acquisition of NERA may become materially accretive in 2012; revenue may more than double within 18-24 months toward a \$600m annual run-rate with 10% earnings power. Near-term, investors may deem CRNT an execution story rather than a pure growth name until they gain comfort with the integration process. We believe Ceragon's move could create material shareholder revenue in the medium term once the transition period is completed and growth and earnings potential surfaces toward late-2011. We are updating our estimates to reflect the deal and reiterate our Outperform, Speculative Risk rating.

- Ceragon announced today a definitive agreement to acquire competitor NERA for \$48.5m on cash-free/debt-free basis with \$13.5m cash at hand and \$35m in bank debt. Nera's acquisition positions the combined company as the clear pure-play wireless backhaul provider and amongst the top industry players.
- We believe the deal is highly complementary with regard to regions, product and offerings. Regionally, NERA is well positioned in Latin America and Africa and offers diversified customer base beyond telecom. Product-wise, Nera adds long-haul capabilities to Ceragon's short-haul.
- Management expects the acquisition to be dilutive through most of 2011, as NERA had material operating losses. Management expects initial contribution to come at a ~\$40m revenue run-rate per quarter with gross-margin in low-20's and quarterly OpEx of ~\$13.5m post initial \$1.5m savings by 2Q11. Further out in 2012, management expect combined sales of >\$150m per quarter with operating margins >10%.
- We are adjusting our estimates to reflect the acquisition, conservatively assuming 18% organic growth and a 2011 run-rate of over \$40m for Nera. When combining Ceragon's and Nera's gross margins, we began 2011 with 28%, building back toward 35% in 2012. We expect operating margin to hurt in the short term but expect the synergies to lift margins back toward 10%. Overall, we expect \$450m/\$0.21 for 2011 and we introduce 2012 combined results of \$544m/\$1.26.

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

For Required Conflicts Disclosures, see Page 4.

Details

Ceragon announced today a definitive agreement to acquire Norway-based competitor NERA for \$48.5m on a cash-free/debt-free basis. The buyout of the veteran industry player will be funded by \$13.5m in cash on hand and \$35m in bank debt. The acquisition positions the combined company as the clear pure-play wireless backhaul provider and amongst the top industry players. We believe Ceragon is solidifying its position in emerging markets that benefit from strong subscriber growth and it may see benefits from carriers' 3G/4G upgrades to cope with booming mobile data growth. We may see strong multiple expansion pending execution, which may drive upside to our target as growth and earnings potential materialize.

We believe the deal is highly complementary with regard to regions, product and offerings:

Regionally, NERA complements Ceragon's geographic reach with strong positioning in Latin America (64% of Nera's 2009 revenues) and Africa (16% of Nera mix), while Ceragon has solid position in APAC (37% of CRNT's 2009 mix), Europe (~20%) and the U.S. (16%). Nera also diversifies vertical customer base beyond telecom. Product-wise, Nera adds long-haul (~50% mix) capabilities to Ceragon short-haul offering. In addition, Nera brings strong professional services expertise with proven turnkey project know-how.

We are adjusting our estimates to reflect the acquisition, conservatively assuming 18% organic growth and adding Nera's contribution estimated at ~\$40m per quarter with modest sequential growth until year-end. When combining Ceragon's 36% gross margin with Nera's 12%, we began our 2011 estimates with 28%, building back toward Ceragon's numbers by 2012. We believe the company's Operating margin will be hurt in the short term as Ceragon assumes Nera's relatively high OpEx, but we expect the synergies and management to drive operating margins back toward the 10% mark by 2012. Overall, we expect 2011 revenues of \$450m with gross margin of 30.1% and EPS at \$0.21; we introduce our 2012 combined results with revenues of \$544m (up 18% Y/Y), gross margin of 34.6%, and operating margin of 9.6%, leading to EPS of \$1.26.

At the end of 3Q10, Ceragon had a net cash position of \$77m; after working capital expenses and ~\$48m for the Nera acquisition, we estimate Ceragon will remain with ~\$25m net cash.

Valuation

We believe 2011 to be a transition year and focus our valuation on 2012 estimates.

Ceragon now trades at 11x our 2012E EPS, below closest peer DRWI at 26x and the multiple afforded on growth cycles. CRNT also trades at EV/S of 0.8x and EV/E of 8.7x, which is below peers at 14x for 2012E.

Our \$16 target is based on (i) 12x 2012E P/E and (ii) 0.9x EV/S, in line with peers at P/E of 12x for 2012.

Our target is further supported by our recent checks, which point to strengthening demand that should drive numbers higher as well as multiple expansion. Furthermore, considering Ceragon's strong execution and the secular growth in high-capacity wireless backhaul, we view Ceragon's in-line valuation as undemanding.

Price Target Impediment

We assign a Speculative Risk qualifier as key investment risks include competition, channel dependency, execution and slowdown in Telecom CapEx and IT spending. In addition, CRNT shares' trading volume is fairly low.

We highlight that Ceragon is a fairly small player in the space with competition from larger players; as the high capacity segment becomes mainstream, vendors are introducing new solutions that compete with Ceragon's products.

In addition, Ceragon has a high dependency on indirect channels.

Unsuccessful integration with Nera.

Company Description

Ceragon provides communications backhaul systems for various applications, connecting heavy-traffic points of aggregation such as high-capacity wireless base stations and large "out of territory" enterprises to nodes on the fiber-optic core network. Key applications include wireless providers (such as CellularOne, FiberTower, Telcel / America Movil, Tele 2, Nextel, Sonofon, Cellcom), broadband wireless and wireline network extensions (AT&T, KPN, Belgacom, Swisscom), and organizations seeking high data transport capacity (General Dynamics, Israeli Air Force). Ceragon Networks was founded in 1996 and is headquartered in Israel.

Ceragon Networks Ltd. (CRNT)
Income Statement

(\$ 000 except per share, FY Dec)

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	2009A	1Q10A Mar	2Q10A Jun	3Q10A Sep	4Q10E Dec	2010E	1Q11E Mar	2Q11E Jun	3Q11E Sep	4Q11E Dec	2011E	2012E
Revenues	184,220	59,687	60,889	62,293	64,600	247,469	94,600	110,800	117,100	128,900	451,400	546,200
<i>YoY</i>	-15%	12%	2%	2%	4%	34%	46%	17%	6%	10%	18%	21%
<i>Margin</i>	36%	44%	39%	21%	34%	8%	13%	20%	30%			
Cost of Goods Sold*	123,238	39,245	39,348	39,420	40,700	158,713	67,600	78,200	81,700	88,200	315,700	357,800
<i>Margin</i>	66.9%	65.8%	64.6%	63.3%	63.0%	64.1%	71.5%	70.6%	69.8%	68.4%	69.9%	65.5%
Gross Income*	60,982	20,442	21,541	22,873	23,900	88,756	27,000	32,600	35,400	40,700	135,700	188,400
<i>QoQ</i>		12%	5%	6%	4%		13%	21%	9%	15%		
<i>YoY</i>	-16%	37%	59%	60%	31%	46%	32%	51%	55%	70%	53%	39%
<i>Margin</i>	33.1%	34.2%	35.4%	36.7%	37.0%	35.9%	28.5%	29.4%	30.2%	31.6%	30.1%	34.6%
Research and Development, net*	19,545	5,096	5,585	5,998	6,200	22,879	9,600	10,000	10,600	11,100	41,300	44,800
<i>Margin</i>	10.6%	8.5%	9.2%	9.6%	9.6%	9.2%	10.1%	14.5%	14.2%	13.2%	9.1%	8.2%
Sales and Marketing*	28,811	8,920	8,607	9,073	9,300	35,900	14,400	16,700	17,200	17,700	66,000	70,000
<i>Margin</i>	15.6%	14.9%	14.1%	14.6%	14.4%	14.5%	15.2%	15.1%	14.7%	13.7%	14.6%	12.8%
General and Administrative*	6,371	2,314	2,752	2,708	2,800	10,574	4,300	4,900	5,100	5,300	19,600	21,000
<i>Margin</i>	3.5%	3.9%	4.5%	4.3%	4.3%	4.3%	4.5%	4.4%	4.4%	4.1%	4.3%	3.8%
Operating Expenses	54,727	16,330	16,944	17,779	18,300	69,353	28,300	31,600	32,900	34,100	126,900	135,800
<i>Margin</i>	29.7%	27.4%	27.8%	28.5%	28.3%	28.0%	29.9%	28.5%	28.1%	26.5%	28.1%	24.9%
Operating Income*	6,255	4,112	4,597	5,094	5,600	19,403	(1,300)	1,000	2,500	6,600	8,800	52,600
<i>QoQ</i>		17%	12%	11%	10%		-123%	-177%	150%	164%		
<i>YoY</i>	-60%	462%	617%	271%	60%	210%	-132%	-78%	-51%	18%	-55%	598%
<i>Margin</i>	3.4%	6.9%	7.5%	8.2%	8.7%	7.8%	-2.0%	1.5%	3.4%	7.9%	3.0%	9.6%
Financial Income (expense), net	1,496	234	276	621	500	1,631	100	100	100	200	500	800
Income before tax	7,751	4,346	4,873	5,715	6,100	21,034	(1,200)	1,100	2,600	6,800	9,300	53,400
Income Tax	489	352	273	249	400	1,274	(100)	100	200	600	800	4,539
<i>% Pretax income</i>	6%	8%	6%	4%	7%	6%	8%	9%	8%	9%	9%	9%
Other Income (expense)	-	-	-	-	-	-	-	-	-	-	-	-
Net Income*	7,262	3,994	4,600	5,466	5,700	19,760	(1,100)	1,000	2,400	6,200	8,500	48,861
<i>QoQ</i>		15.9%	15.2%	18.8%	4%		-119.3%	-190.9%	140.0%	158%		
<i>YoY</i>	-58%	298%	343%	208%	65%	172%	-128%	-78%	-56%	9%	-57%	
<i>Margin</i>	3.9%	6.7%	7.6%	8.8%	8.8%	8.0%	-1.7%	1.5%	3.2%	7.4%	2.9%	
EPS*	\$ 0.20	\$ 0.11	\$ 0.13	\$ 0.15	\$ 0.16	\$ 0.54	\$ (0.03)	\$ 0.03	\$ 0.06	\$ 0.16	\$ 0.23	\$ 1.28
<i>QoQ</i>		15%	17%	19%	4%		-119%	-190%	138%	156%		
<i>YoY</i>	-55%	282%	327%	200%	65%	165%	-128%	-79%	-57%	5%	-58%	
Wtd. Avg. Diluted Shares Out.*	35,491	36,765	36,318	36,233	36,500	36,454	36,800	37,100	37,400	37,800	37,275	38,200

* Pro forma results exclude stock-based comp, amortiz
 Source: Company Reports and RBC estimates.

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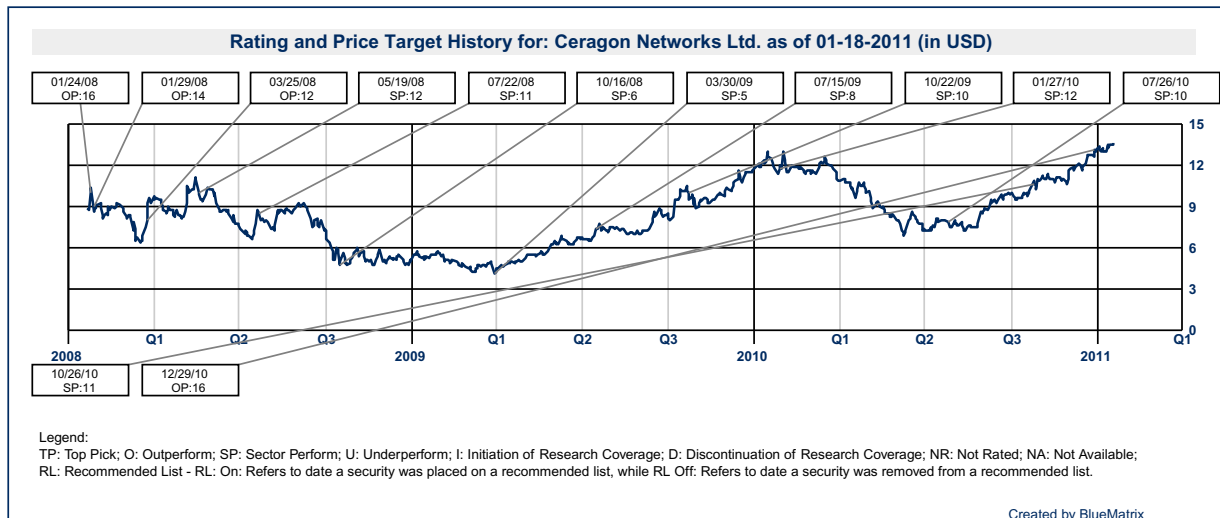
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