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## Your Calls Are Being Recorded, Probably by NICE Systems

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23 September 2005

What do Hurricane Katrina, the rise in casino construction, and the outsourcing of call centers to India have in common? They are all reasons why a company called **NICE Systems** (NICE \$43) should be on your screen.

**NICE Systems** is the company most often behind the audio and video surveillance used by police departments, casinos, insurance companies, and myriad other entities for emergency response, security assistance, or to maintain quality control.

NICE is the leader in providing what they call (and have trademarked as) Insight From Interactions. Specifically, they claim about 33.7% of the global quality monitoring market. The company, which was founded in 1986, is headquartered in Israel, but operates worldwide.

According to the Vice President of Marketing, Eyal Danon, NICE initially sold surveillance systems to military organizations. Today, the company supplies call monitoring and analysis to 78 of the Fortune 100 companies, the world's top 10 banks, and 23,000 customers overall.

Heightened concerns about terrorism and the growth of outsourcing are but two of the factors driving the growing demand for the company's services. Added business is also being generated by new technologies, which take vast amounts of raw data and produce analysis useful to their clients.

Some 75% of the company's revenues and profits come from services and products sold to commercial enterprises such as banks, insurance companies, and stock brokers. Products are designed to enhance business performance, help companies comply with regulations, and control risk. For instance, if a customer claims that his broker bought instead of sold a stock, contrary to instructions, the brokerage firm can go back and confirm the original instructions.

Companies also use NICE products to train calling agents. As companies have moved more calling centers outside America to take advantage of lower-wage rates, the ability to monitor agent performance has become even more essential.

Some of NICE's customers receive and record as many as 300,000 calls a day. Historically, companies have only been able to analyze a tiny portion of these conversations for data that might prove useful to sales or marketing personnel. A sophisticated new software system called NICE Perform can today analyze essentially all incoming calls, tracking key words, emotional responses, and other input for helpful information.

In all, the software sorts for 212 elements, and can slice retrieved information into separate data streams, which are then sent to different interested parties. If, for instance, a product isn't selling well, and customers repeatedly mention the name of a competitor when declining a promotional offer, the sales department is informed of the problem.

There are already 40 customers using the NICE Perform product.

The remaining 25% of the company's revenue still comes from the public sector, and includes video and audio monitoring of airports, casinos, and even urban centers. The company was particularly pleased to have set up a monitoring program in a small area of downtown Baltimore for the local police department. Mr. Danon said, "Not long after, the city experienced a double-digit drop in crime." NICE had supplied the local command center with sophisticated analysis software, allowing unprecedented monitoring of many city blocks. The algorithms used by NICE to detect suspicious behavior allow an almost instantaneous response.

Other NICE customers in the public sector include New Jersey Transit, the Statue of Liberty, and the NYPD. It's easy to imagine that in today's world this is an expanding business. The ability of the London police to track those responsible for the recent subway bombings through recorded video may well inspire some American transit groups to consider implementing more sophisticated monitoring software.

The company's rapid growth has not gone undetected. The company's ADRs, traded on the Nasdaq, have doubled in the past year, and 40% of the stock is currently owned by institutions. Still, few of the larger brokers appear to follow the company, always suggesting further opportunity, and management recently raised expectations for upcoming results.

For the year, earnings are now pegged at \$1.55 to \$1.63, compared to \$1.13 last year. Analysts are projecting 2006 results at \$2.11, and most consider the upside for the shares to be in the low 50s.