

Ceragon Networks First Quarter 2020 Formal Remarks
Final

Operator

Good day, everyone. Welcome to the Ceragon Networks Limited First Quarter 2020 Results conference call.

Today's call is being recorded and will be hosted by Mr. Ira Palti, President and CEO of Ceragon Networks.

Today's call will include statements concerning Ceragon's future prospects that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs, expectations and assumptions of Ceragon's management. For examples of forward-looking statements, please refer to the forward-looking statements paragraph in our press release that was published earlier today. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including the risk of a disruption to our and our customers' business related to the outbreak of the novel coronavirus (COVID-19) pandemic ("Coronavirus"); the risk of macro-economic downturn and slowdown of development and significant decline of business that can harm our and our customers' ability to conduct or further develop our/their business, including, cancellation, suspension or reduction in the investment in new equipment purchase, postponement or cancellation of rollout of wireless networks, postponement in the transition to 5G technologies and in the introduction of new products and capabilities, inability to deliver and perform under our contracts, disruption to our supply chain and production capacity, adverse effect on our and our customers' financial performance, cashflow, revenue and financial results, available cash and financing, and our ability to bill and collect amounts due from our customers; the risks relating to the concentration of a significant portion of Ceragon's expected business in certain countries and particularly in India, where a small number of customers are expected to represent a significant portion of our revenues, including the risks of deviations from our expectations of timing and size of orders from these customers; the risk of delays in converting design wins into revenue as well as the expected revenue growth; risks associated with any failure to meet our product development timetable and specifications and to maintain our technological advantage over our competitors; risks associated with any failure to effectively compete with other wireless equipment providers; the risk that the rollout of 5G services could take longer or differently than anticipated; and other risks and uncertainties detailed from time to time in Ceragon's Annual Report on Form 20-F and Ceragon's other filings with the Securities and

Exchange Commission, that represent our views only as of the date they are made and should not be relied upon as representing our views as of any subsequent date. Such forward-looking statements do not purport to be predictions of future events or results and there can be no assurance that it will prove to be accurate. We do not assume any obligation to update any forward-looking statements.

Ceragon's public filings are available from the Securities and Exchange Commission's website at www.sec.gov or may be obtained from Ceragon's website at www.ceragon.com.

Also, today's call will include certain Non-GAAP numbers. For a reconciliation between GAAP and Non-GAAP results please see the table attached to the press release that was issued earlier today.

I will now turn the call over to Mr. Ira Palti, President and CEO of Ceragon. Please go ahead, sir.

Ira Palti President and CEO

Good morning and good afternoon to everyone joining us on the call today.

With me on the call today are Ran Vered, our Chief Financial Officer, and Osi Sessler, Head of Investor Relations.

I hope you and your family are staying healthy during these unprecedented times.

During this period, our top priority is ensuring the health and safety of all of our employees around the globe as we continue to serve our customers.

As you are well aware, COVID-19 has turned the world upside down since our last conference call. It has changed the way we work, shop, learn and stay entertained – literally overnight.

For telecom, the impact has been dramatic.

Operators everywhere are experiencing unprecedented demand for bandwidth.

- According to the New York Times, operators like Comcast, Vodafone and Telefonica and many ISPs - have never seen such a steep and sudden surge in demand.
- T-Mobile's US President of Technology, Neville Ray, says its mobile hotspot usage is up 60%, meaning that people frustrated by poor home broadband are moving to the cellphone as a hotspot device.
- Use of collaboration tools like Zoom, Teams and Webex is up 87% and use of online educational tools is up 135%.

The change in telecom usage that we expected to see over the period of a few years - has accelerated into just weeks.

Although no one knows what the long-term outcome will be, one thing is clear: **broadband connectivity has become widely recognized as an essential utility, like electricity or water.**

Consumers and businesses both expect a new level of speed to support the connectivity needed to support HD-quality video streaming and better online gaming, remote office and virtual meeting experiences.

As a result, operators throughout the world now understand the need to ramp up their capabilities - and we believe that they will compete to address the demand.

This brings urgency to the need to increase the capacity of existing networks, and to extend coverage into areas where it is unavailable.

Wireless hauling is an important enabler of the process, since it is the fastest and most flexible way for achieving these goals.

In fact, in many places in the world, mobile wireless is the only broadband connectivity that exists.

All of this argues for the acceleration of 5G, which supports 10 times higher connectivity speeds, more reliable service and greatly increased capacity as compared with 4G.

We therefore believe that the current situation will serve as a catalyst for long-term 5G investment, resulting in increased demand for expanding and densifying wireless networks, as well as for building greenfield networks. **These are obviously trends that will work to Ceragon's advantage in the mid and long term.**

(take a breath)

For the short-term, however, the outlook is more complex.

In support of the optimistic scenario, some service providers are accelerating their investment in both 4G and 5G. For example, AT&T announced that it has cancelled a \$4 billion stock buyback to keep cash available for major network investments, including nationwide 5G rollouts. T-Mobile, having completed its merger with Sprint, announced that they are moving quickly to fill out their nationwide 5G. And there are many other examples.

At the same time, there are significant challenges. Our industry has been affected on an operational level, along with the rest of the world economy, as it faces the risk of a global recession.

All aspects of the supply chain are working slower, and no one knows how to predict the timing of the recovery.

While operators want to accelerate their investments, the cash they have available may be less than planned, due to two main factors:

- The fact that they have had to consume a higher proportion of their budgets early in the year to cope with capacity shortages in networks **in rush mode**, reducing the resources available for spending during the rest of the year on 5G network development; and
- The reduction of revenues from enterprise accounts whose employees are on leave.

(take a breath)

This could clearly have a negative impact on Ceragon for the short-to-mid-term.

For the long-term, however, **we believe the market is headed for accelerated 5G development** – and we expect to emerge as leaders in the growing market.

For now, I would like to make the following points:

- We are currently experiencing **high demand for our products from certain operators, including both existing customers and new customers.**
Demand was especially strong towards the end of the first quarter.

- This demand has so far translated into **very strong bookings.**

During the first quarter, our book-to-bill ratio was well above 1, reflecting significant new orders from Tier-1 operators in India, Asia-Pacific, the US, and Latin America.

Just last week, we announced a new order from Airtel, one of our large customers in India, indicating an end of last year's freeze in this important region.

We are seeing an acceleration of projects within our customer base, including in North America, Europe and India. And we are reaching out to existing customers, offering to help them increase capacity to resolve capacity bottlenecks.

This is giving them an increased appreciation for the flexibility that our technology provides.

- **Nonetheless, the situation has brought us up against significant challenges. In the short-term, the pandemic may delay the placing of orders by our customers, in addition to impacting our ability to translate bookings into revenues.**

Many of our suppliers are working at reduced capacity, and sourcing substitutions is often slow and expensive. Shipments are taking longer to complete, and installations are taking longer to perform.

We have been working around the clock to resolve the challenges, to ensure that our employees and customers are safe, and to keep the company resilient and agile.

We have remained fully operational, transitioning into a new mode of operations and supporting our customers under a firm Business Continuity Program.

Even though most of our employees have been working partially or fully from home, it has been “business as usual”.

We recently completed a significant R&D release on full remote, and we have maintained a continuous PR and market presence. And we are proud to have been able to have achieved such a strong quarter from a bookings perspective - despite having **no face-to-face meetings**.

But revenues can't be recognized until the equipment is delivered, and when we sell with installation services, we can't bill and recognize until the equipment is installed and operational.

This was the main reason for our low revenues and gross margin for the first quarter, as Ran will explain in more detail. As it looks now, we expect the impact to continue in Q2.

For the long-term, however, while still too early to make detailed projections, we currently believe that markets will return to a “new normal” in the third and fourth quarters.

We expect to take our fair share - and hopefully more - of accelerated long-term network investments.

(take a breath)

Turning to our recent business and financial performance, I'll just note that our first quarter results were in line with the update we provided on April 6th.

We are pleased with our progress in almost all regions, demonstrating our continued progress in winning new 5G design wins and substantial projects for expanding and densifying 4G networks. This is another demonstration of our **technology leadership** and our **global capabilities**.

- **India:** India has returned to activity after last year's slowdown. We just announced a major new contract with Airtel India, a customer for more than a decade and India's largest telecommunications company, for a project to increase its 4G network capacity in urban areas, to expand its coverage in rural regions and to prepare for its future evolution to 5G.

As the country's telecom market wakes up, we are taking market share, a testament to our strong network rollout capabilities, which allow us to deploy hundreds of sites every month.

- **North America:** In the US, we have begun benefitting from the merger of T-Mobile and Sprint, both long-term customers, which was completed on April 1st. As you recall, last year they both cut back on their orders during the merger process. But right before the close of the merger, they expedited an order with us, and we expect to continue supplying them with 4G and 5G wireless backhaul equipment for their network rollout.

In addition, following a new 5G Design Win, we have been working intensively with the lab of another Tier-1 US service provider to integrate our products into their network blueprint. Once completed, we expect this step to lead to IP-20 and IP-50 orders during the second half of the year.

- **Europe:** In Europe, while we had weak revenues, we had our **highest Q1 booking** in 6 years. This reflects the fact that service providers, operators and ISPs in a number of countries, including Italy and Spain, are turning to us to help provide bandwidth to their locked-down populations and to enable emergency projects.

- ***Africa:*** Africa was very weak both from revenue and booking perspective
- ***Latin America:*** In Latin America, we continued executing on 4G expansion projects for a Tier 1 pan-LATAM operator across several countries, including Argentina, Brazil, Colombia and more. Unfortunately, we have experienced delays with a large project in Peru and Colombia due to the region's very strict lockdown measures.
- ***Asia Pacific:*** In Australia, we received follow-on orders from a Tier-1 service provider against a 5G Design Win that we secured last year, and our remote management has been particularly successful. Other 4G-related projects with operators in the region have progressed during the quarter, and we expect Asia to continue to expand its 4G during 2020. And in Japan, we are working with a 5G mobile operator with the goal of securing their future business.

So, as you can see, despite the uncertainty, the crisis has brought us many new opportunities, while supporting our long-term strategy. This gives us room for optimism.

(take a breath)

I'd like to end with a discussion of our **readiness as a company to take advantage of the opportunities.**

From a **product and technology** point of view, we are ideally positioned to address the 5G opportunity.

- Our **existing** platforms continue to stand out in the market for their technology leadership, flexibility and speed.

- In parallel, we are on track with our development of our next generation wireless hauling chipset for the more advanced stages of the 5G network transformation.

It will allow us to provide even higher 5G network capacity, driving to 100Gbps speeds with a focus on smart, efficient spectrum asset management, with far more flexibility for the deployment of 5G networks.

From a financial point of view, as Ran will explain, we believe we are in excellent shape to ride out the current crisis and to take advantage of the opportunities that come with the recovery.

- **Even though this was an extremely challenging quarter, we remain strong and cash positive.**
- Our customers are primarily large - whether top-tier operators, whose broadband services are increasingly recognized as **essential utilities, or** large companies, like utilities and public service organizations.
With significant bases of customers and subscribers, all are likely to continue investing in their infrastructure.

So although no one knows what the next few months will look like, we believe that momentum will continue to build for Ceragon.

Now I'd like to turn the call over to Ran to discuss our finances in more detail. Ran?

Ran Vered Chief Financial Officer

Thank you, Ira. Since you have all seen the press release, I'll focus first on the highlights.

Revenues

As we indicated in the pre-release in April 6, our revenues for the quarter were lower than originally expected – approximately \$56 million – in line with what we shared. This reflects the normal seasonality of the first quarter, compounded by delays in the pace of network rollouts and shipments, as lockdowns and other COVID-19-related measures caused a slowdown in the ability of our customers to execute on their network expansion plans.

- Regionally, India was our strongest market, accounting for about 25% of our revenues. This, together with strong bookings, demonstrates that India has returned as an important focus market, despite the fact that hundreds of installations became impossible to carry out due to the lock-down.

- India was followed by APAC, which continued with a normal level of revenues despite COVID-19.
- The U.S., Europe, Latin America and Africa all had weak revenues compared with previous quarters due to delays in our ongoing projects compounded by normal Q1 seasonality.

We had three above-10% customers in the first quarter.

Bookings

Our bookings for the quarter were very strong, with a book-to-bill ratio well above 1. This demonstrates the **strong positive momentum** that has been developing since the beginning of the year, including

- The return of India as a major source of business;
- Continued strong activities in Latin America, Europe and Asia Pacific; and
- The steady quarter that we had in the US, countered somewhat by a weak quarter in Africa.

In general, many of our customers have accelerated the pace of existing projects to address the sudden increase in demand for capacity.

Gross Profit & Gross Margin

Our Non-GAAP gross profit for the quarter was \$14 million, giving us a gross margin of 25.1%. This is the lowest it has been in many years, reflecting the low revenues as compared to our fixed costs, compounded by a less favorable geographical and customer mix and increased sourcing and supply chain costs.

Our expectation is that once the volume of our revenues picks up, our gross margin will return to a normal range.

Operating Expenses

Our Non-GAAP operating expenses for the first quarter were \$19.6 million, which is below our plan.

- **R&D** continued at its normal level, as we continue to move forward with the development of our new chipset and IP-50 platform.
- **Sales and marketing** were lower than their normal run rate, reflecting lower variable compensation and lower travel expenses due to the travel limitations of the Corona environment.

- **General & Administrative** expenses remained at their normal level.
- **Financial Expenses and Other Expenses** were lower than their normal expected level.
We do expect them to return to their regular levels in Q2.

Given the current environment, we expect OPEX to continue around this level for the second quarter, and then probably to rise gradually back to the normal rate of \$21- to-\$22 million per quarter.

Tax expenses for the quarter were low at a bit less than \$400k.

Net results

On a non-GAAP basis, net loss was \$(6.7) million, or \$(0.08) per diluted share.

Our GAAP Net loss was \$(6.9) million, or \$(0.09) per diluted share.

Balance Sheet

Turning to the balance sheet, we were pleased to remain cash flow positive despite the low revenues. Our cash balance is up by \$20 million, reflecting the combination of \$1.9 million of free cash generated from our operating and investing activities, together with the \$18 million draw from our revolving credit facility that we carried out as a precautionary measure. We aim to reduce our short-term loans in Q2.

Our receivables decreased to \$104.2 million, giving us DSOs of 140 days. This reflects our successful ongoing collection effort, and we will continue to put a major focus on it.

Similarly, our inventories decreased by another \$2.5 million, reflecting our continuous efforts to reduce them to the levels we had in 2018. We are continuing with this effort to optimize our inventories in this challenging period.

Turning to the near-term outlook, our current view is that our expected Q2 revenues will be lower than the \$70-75 average quarterly run rate that we previously projected, due to ongoing COVID-19-related difficulties in supply chain, installations, etc.

With the situation far from resolved, it is too early to make predictions about the rest of the year.

As Ira said, while we believe that long-term trends are working in our favor, there is a lot of uncertainty in the short-to-mid-term.

We continue to invest in our major development programs to assure that our future roadmap supports our design wins efforts, sustaining our positioning as the strongest company in wireless hauling and the key to generating future revenues.

Now, I would like to open the call for questions, operator?

Ira's closing remarks:

So there you have it. We believe that we are well positioned to weather this challenging period, and that industry trends will support long-term growth for our company.

One final note: I want to draw your attention to our newly-designed website, Blog and LinkedIn page. We have tried to make them as informative as possible.

Besides our own press releases, we are updating them all the time with information about our markets and products that we think you will find interesting. We invite you to have a look at www.ceragon.com and to check back in frequently.

Thank you and good day.