

Ceragon Networks Q1 2022 Earnings Conference Call Script

May 2nd, 2022 – FINAL

Welcome - Operator

Welcome to Ceragon Networks First Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

[OPERATOR INSTRUCTIONS]

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Maya Lustig, Investor Relations of Ceragon. Thank you, you may begin.

Safe Harbor - Maya

Thank you, operator, and good morning everyone. I am joined by Doron Arazi, Ceragon's Chief Executive Officer, and Ran Vered, Ceragon's Chief Financial Officer.

Before we start, I would like to note that this call includes information that constitutes "forward-looking statements" within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations therefrom will not be material. Such statements involve risks and uncertainties that may cause future results to differ materially from those anticipated. These risks and uncertainties include, but are not limited to, such risks, uncertainties and other factors that could affect our results as detailed in our press release that was published earlier today and as further detailed in Ceragon's most recent Annual Report on Form 20-F and in Ceragon's other filings with the Securities and Exchange Commission.

Such forward-looking statements 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 they will prove to be accurate. Ceragon may elect to update these forward-looking statements at some point in the future, but it specifically disclaims any obligation to do so.

Ceragon's public filings are available on the Securities and Exchange Commission's website at www.sec.gov, and may also 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 Doron. Please go ahead.

Overview commentary by Doron Arazi

Thank you, Maya and good morning, everyone.

We began the year with strong momentum that has built up since beginning of 2021, especially in North America and Europe. We saw exceptionally strong bookings in Q1 2022, the highest in the last four years, and on par with second quarter of last year. We continue to make good progress in all three of our strategic pillars together, which constitutes our growth strategy, as you may recall from earlier discussions.

Our first strategic pillar has to do with increasing our traditional business which is the best-in-class all-outdoor MW and mmW market segments. With the massive ongoing 5G network rollouts in North America and Europe, we received significant value of orders this past quarter.

Our second pillar involves expanding our business into Open Network architecture domains. Our IP-50FX Disaggregated Cell Site Gateway (DCSG) solution, launched in the first quarter, uses best-of-breed software and hardware to integrate a cell site router and a radio indoor unit, offering both in a single solution. This quarter, we already received a PO for IP50 FX from a large Tier 1 operator in Latin America.

And our third pillar is strengthening our Managed Services offering to deepen our relationships with our customers. This offering has garnered considerable attention from operators, private networks, and carriers in North America, Latin America and Europe.

In fact, the results of our most recent customer survey which was conducted in the first quarter demonstrate that 28% of our existing customers would be interested in our Managed Services. And we are already seeing this interest turn into POCs and orders for NOC support, connectivity as a service, and more, across different regions.

Our customer survey also shows that our product satisfaction rate stands at a competitive 85%; that 85% of our customers think our main advantage is us being their "Trusted advisor" and they rate us among the top 3 technology leaders in the industry. In addition, a staggering 97% report that they are likely to increase or maintain their business with us. According to them, what sets us apart is our product quality, ease of use & reliability.

These results allow us to confirm our continued confidence in the strong demand for our solutions in 2022.

I will now give you an overview per region.

In North America we experienced high demand and received healthy bookings. Based on the current outlook we anticipate another record year in this region.

As we announced earlier today, we signed a contract with DISH and started receiving orders worth multimillion dollars. DISH will leverage our ultra-high-capacity IP-50C microwave and IP-50E millimeter wave transport solutions to support its nationwide 5G network rollout. We will also provide them with deployment services for smooth roll-out and network asset management. DISH is America's first cloud-native 5G network service provider and we feel proud to be their choice of partner.

Also, in the first quarter we won a deal with a large North American carrier to provide them with our all-indoor technologies.

In this region, in addition to accelerated 5G rollout by large operators, we are seeing the ISPs and private networks market expand. In Q1, we enhanced and grew our sales funnel significantly, winning a tender in this domain as well.

In India, the continued high demand is reflected in the strong orders and the bookings we received. Here, we mainly work with the region's Tier 1 operators helping them with fast site upgrades and network expansion to prepare for the 5G era and deliver uninterrupted connectivity. In February, a leading Tier 1 operator placed orders for our all-outdoor 5G-ready multicore solution, with delivery scheduled for Q2 and Q3 2022.

Country-wide, the 5G spectrum tender is on track. E-Band spectrum release for backhauling is on its way which presents a significant opportunity for us. We believe that our long-time market leadership and reputed name will help us have a decent market share in this domain.

In Europe, we had an exceptionally strong quarter. In fact, it was a record quarter in the past two years. Here, as large operators begin their 5G field trials, we provide them with our latest capabilities and technologies. A leading Tier 1 operator and a third-party DCSG have tested our RAON which proved that our RAON software works well with other open network elements.

We also finished a successful POC with a Tier1 global operator as part of their TIP activity. In addition, we acquired a new Tier 2 customer. We will be supporting them with their nationwide 5G projects.

In **APAC**, we saw an improvement in the business environment compared to the last quarter. Post-Covid, countries are opening up and the market is working its way back to normal, except for China. This past quarter, we acquired two new private network customers in this region. Bookings were strong.

In **LATAM**, we experienced a very strong start to the year thanks to strong bookings. The pandemic seems to be behind and businesses recovering. Despite some political instability which has an impact on business decisions and ongoing projects, investments are beginning to increase in several different countries. We received POs for our IP50 FX from leading Tier 1 operators in Paraguay and Argentina.

In **Africa**, we had a slow quarter, in line with our expectations, due to seasonality.

On the delivery and gross margin front, this quarter we continued to experience the challenges we spoke about in our previous call. These challenges caused our revenue to be somewhat lower than our expectations. So was the gross margin. This quarter, an issue that stood out was shipping costs relative to our expectations. We have been analyzing the main reasons for this specific cost increase in order to take action where we can and to get a better control of it. As stated in our previous analyst call, we believe that these challenges are temporary. Improvement in our gross margin is expected only during the second half of the year, assuming gradual improvement in our supply chain and shipping constraints and costs.

Our main goal is to continue to meet the increased demand we are seeing from our customers and maintain and expand our market share. That said, we are doing our utmost to improve our gross margin via short-, mid-, and long-term cost reduction initiatives, as well as price increases, where applicable.

Looking ahead, we feel confident about our core domain products as well as our newer products such as IP50 FX which help us leverage the fast-growing open networks trend. We believe that our positioning as best-in-class providers of MW and mmW technologies as well as a leader in the new, disaggregated market will continue to drive positive returns. As I mentioned earlier, these two areas cover the first two pillars of our growth strategy. In addition, expansion in the third pillar, which is Managed Services, will bring us more recurring business and revenues and improve our gross margin. Our belief is that, together, increased activity in all three pillars will help us achieve margin expansion, which is our core aim.

The bottom line is that demand looks strong, and we see opportunities to increase our market share. Thus, in spite of the challenges associated with deliveries and cost increases, we are optimistic about the future.

With that, let me now turn the call over to Ran to discuss the financials for the quarter. Ran?

Financials - Ran Vered

Thank you, Doron and good morning, everyone.

To help you understand the results, I will be referring mainly to non-GAAP numbers. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's press release.

Like Doron mentioned, during Q1 2022 we saw strong bookings coming from North America, Europe, India and Latin America. We see strong continued demand overall.

Let me now review the actual numbers with you.

Revenues for the first quarter were \$70.3 million, up by 2.9% compared with \$68.3 million in Q1 last year, somewhat lower than expected. In Q1 we experienced several challenges, which included delivering some of our products on time due to component shortages and supply chain disruptions. That said, as I mentioned earlier demand continues to be high.

Our strongest region in terms of revenues for the quarter is **India** with \$15.6 million, reflecting ongoing deliveries for our main customers and in line with the strong demand we see in this region.

Our second and third strongest regions in terms of revenues for the quarter were **LATAM** and **North America** with revenues of \$13.9 million and \$13.3 million, respectively. As Doron mentioned, in LATAM the pandemic seems to be behind us, and business is recovering.

We had 2 above 10% customers in the first quarter.

Gross profit for the first quarter on a non-GAAP basis was \$19.5 million, giving us a non-GAAP gross margin of 27.7%, lower by almost 2% than the first quarter of 2021. The relatively low gross profit is mainly due to expedite costs derived from component shortages and increased shipping costs.

Operating expenses on a non-GAAP basis for the first quarter were \$20.1 million, in line with our expectations.

Research & Development expenses for the first quarter on a non-GAAP basis were \$6.8 million, lower than in Q1 2021. We expect an increase in our R&D expenses in the next quarter as part of the continued productization efforts for our new chip.

Sales & Marketing expenses for the first quarter on a non-GAAP basis were \$8.5 million, compared to \$8.2 million in Q1 2021.

General and Administrative expenses for the first quarter on a non-GAAP basis were \$4.8 million, same as our expectations.

Financial and Other Expenses for the first quarter on a non-GAAP basis were \$1.2 million, lower than our expectations.

Our tax expenses for the first quarter on a non-GAAP basis were \$0.1 million. This is in line with our expectations.

Net loss on a non-GAAP basis for the quarter was \$1.9 million, or \$(0.02) per diluted share.

As for our balance sheet, our **inventory** at the end of Q1 2022 was \$58.1 million, up from \$48.5 million at the end of Q1 2021 but lower than Q4 2021. The level of inventory still reflects our need to stock long lead-time and strategic items as a result of increased customer orders as well as the ongoing component shortages. We strive to keep our inventory levels lower but given the current environment, sometimes the need to stock key and long-lead items arises.

Our **trade receivables** are now at \$120.7 million, up from \$106.7 million at the end of Q1 2021. Our DSOs now stand at 150 days, higher than the 141 days in Q1 2021.

This quarter we were able to better control our cash flow from operations and investing activities, compared to Q4 2021. We have a strong balance sheet including \$25 million of cash and have available unused credit facility of \$23M.

Net cash used in operating and investing activities for the first quarter was \$4.5 million.

Net cash provided by financing activities for the first quarter was \$12.2 million.

Looking forward, we see strong operator demand. But as the year unfolds, we also see that the global component shortage, supply chain disruptions, and shipping issues continue to create business challenges as well as fluctuations in our gross margin. Although the situation remains volatile, we are constantly taking measures to counter the challenges, and are well positioned to take full advantage of long-term opportunities.

We continue to target revenue growth in 2022. Assuming an improvement in the components, supply chain and shipping drawbacks, we now expect yearly revenue to be between \$300-\$315 million. Improvement in our gross margin is expected only during the second half of the year, assuming gradual improvement in our supply chain and shipping constraints and costs.

With that, I now open the call for your questions. Operator?

Doron's Closing Remarks

Thank you.

In closing, we will continue to stay focused in the areas that add value to our business and market leadership in the medium and long term. We will continue to sharpen our competitive edges, which are our technology leadership, our growing managed services offering, and our reputation that spans over twenty-five years. Our latest product IP50FX, our newest customers, orders and bookings are all testaments to our strengths and to the trust our customers continue to place in us. As 2022 unfolds, we will continue to build on and amplify these distinctions through our growth strategy and by focusing on the best opportunities in each region.

I look forward to updating you further on our next call.

Have a good day everyone.