Ceragon Networks 2nd Quarter 2020 Formal Remarks
August 3, 2020

Operator
Good day, everyone. Welcome to the Ceragon Networks Limited Second 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.

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 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, the effects of general economic conditions, the effect of the COVID-19 crisis on the global markets and on the markets in which we operate, including the risk of a continued disruption to our and our customers', providers', business partners and contractors' business as a result of the outbreak and effects of the COVID-19 pandemic, and such other 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, including as to the risks, uncertainties and other factors that could affect our results, 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. Ceragon may elect to update these forward-looking statements at some point in the future but the company specifically disclaims any obligation to do so.

Ceragon's public filings are available from 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 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.

Before getting into the quarter, I hope that you, your loved ones and your co-workers are healthy and well. I want to assure you that our top priority is ensuring the health and safety of all our employees wherever they are, even as we work to serve our customers.

It has been 3 months since we first discussed the impact that COVID-19 was making on our business. In some ways we are smarter than we were then, and in other ways there is still plenty of uncertainty.

But taken as a whole, I believe that we are in very good shape.

- As you can see from results, Q2 was better than Q1, with improved revenues, margins and net results. All of these metrics came in better than market projections.

- With a focus on execution, we have reduced our accounts receivable and inventory, enabling us to generate a healthy $4 million in cash flow while also allowing us to reduce our loans.
- Our ability to deliver continues to improve day to day.
- And perhaps most important, our bookings for the quarter were above 1, driven by an improving business environment and a growing number of 5G opportunities and other projects in many regions.

So despite the uncertainty in the market, we have performed well and continue to move forward. Though it remains very difficult to make predictions, current indications are that we are on track for returning to our normal quarterly revenue run rate of $70 to 75 million in Q3. Ran will give the details.

In fact, as we said in May, we believe that the net effect of COVID-19 will be positive for us over the long-term, because the change in lifestyle that it has created is bringing new urgency to the need for broadband for countries, consumers and businesses across entire industries. This is leading operators to accelerate their 5G rollouts and to continue to invest in 4G network expansions.

For the short-term, however, the outlook is harder to predict. With the situation changing from day to day, it is difficult to forecast the timing of orders – to forecast supply chain dynamics – to forecast deployment schedules, and therefore our ability to execute at 100% efficiency.

In response, we have been focusing on handling the **challenges** that come up in our day-to-day operations – and I believe we have been handling them well.

- First, we are doing everything in our power to keep our employees safe and healthy, including full compliance with all health directives. Our office-workers have transitioned to dividing their time between home and the office, with meetings taking place mostly via collaborative video meetings. Despite the change in routine, all our departments continue to progress in line with our work plan.

- We are also managing our customer interactions closely using remote tools, and this is working well. While we prefer face-to-face interactions, the “new normal” has had some surprising advantages – for example, the ability to take prospective customers on “virtual demos” through our labs - and to actually carry out more customer interactions each day.

- At the same time, the situation has created significant challenges for our supply chain. Many suppliers and shippers are not working at full capacity, making shipments harder to organize and more expensive. Once equipment is delivered, the installation process can take longer than planned due to changing operator work schedules and local lockdowns.

- On top of this, the situation has impacted some of our customer's network build-out plans.

    - For example, much of Latin America, including our clients in Colombia, Peru and Mexico, went into full lockdown during the quarter.

    - In addition, some customers are delaying capital investments and are affected by currency fluctuations. For example, A customer in Peru froze a project for 6 months, while others in Latin America were affected by local reductions in revenue and currency fluctuations. This obviously led our revenues from Latin America to be lower than expected.

At the same time, the situation is creating **opportunities** that we could not have predicted six months ago. We see signs of increased focus on 5G network development by operators in the US, Europe and the Pacific Rim, together with 4G expansions with others. These are aimed at delivering “broadband for all” and enhancing connectivity, the need for which has been amplified by the current situation. The quickest effect came from wireless ISPs in Europe and the US, who saw the need and have moved swiftly to serve their customers. This has increased our overall bookings and backlog.

The need for capacity, deployment speed and flexibility has sharpened the case for open, unbundled networks, convincing more operators to adopt a best-of-breed approach that is based on all-outdoor solutions for backhaul and fronthaul.

As the pioneer of wireless backhaul and fronthaul, this plays to our strengths. Our technology is increasingly recognized as a key piece of 5G deployment strategies, leading to increased interest as 5G plans develop, and opportunities, as well as challenges, unfold.

For example,

- In Europe, we have been awarded several new contracts for 5G network rollouts, some with existing customers and some with new operators, in countries from the northwest through the central and eastern parts of the continent. Each of these operators takes a different approach to 5G network development - and our industry-leading 5G all-outdoor backhaul portfolio across the vast millimeter-wave and microwave spectrum allows us to cater for diverse operator 5G network development plans.

For example, some selected our latest microwave technology, which can deliver 4Gbps in a single all-outdoor device over recently-regulated ultra-wide 224MHz channels to ensure 5G macro cells capacity over distance. That's 4x wider channels than commonly used in 4G. We have a unique capability to do so thanks to our Multicore chipset technology.

Others use our compact millimeter-wave solutions over ultra-wide 2,000MHz channels to modernize macro cells to 5G with a 10Gbps backhaul. And some selected a combination of the two approaches.

- In the US, a new wireless service provider has invited us to participate in a field trial for the wireless backhaul portion of its new 5G network.

- We are also in discussions with a new wireless service provider in Japan for wireless fronthaul and backhaul solutions that will deliver speeds of 20Gbps for its 5G and 4G networks.

We believe that this is just the beginning. With COVID highlighting the need for more cost-effective and flexible solutions, operators in the US, Europe, and APAC are continuing - and in some instances accelerating - their 5G projects. And more and more operators are now looking at the Open Network concept.

In addition, as lockdowns are released, many countries have moved towards initiating or accelerating rural 4G network expansion programs, and ramping up their 4G network backbone capacity.

For example,

- In Sub-Saharan Africa, we were selected by Orange Niger, a new customer for us, to modernize and build an extensive wireless backbone for its newly-built 4G network, and
- We are pursuing similar projects with others in the region.

Finally, in India, during the quarter we returned to a good run-rate of deliveries for our Bharti projects.

There are two more developments that are worth mentioning.

- In several countries, governments are providing stimulus packages to encourage telecom infrastructure investment – like the 10-year, $20 billion RDOF - Rural Digital Opportunity Fund launched by the FCC in the US. It is earmarked to close the digital divide by facilitating the deployment of high-speed broadband networks in rural America. We expect that a portion of that will be relevant to our market, resulting in projects that will benefit Ceragon.

- In addition, several countries, including the UK and India so far, have limited the use of telecom equipment and services from China. This may mean that local operators who have been using Chinese equipment will have to find alternatives. If so, this may work to our advantage.

From a **product development** point of view, we continued to make progress in the development of our next-generation wireless hauling chipset, a big step forward that will support our products for the more advanced stages of the 5G network transformation in the years to come. We now expect to reach tape-out by the end of Q1 2021.

During the quarter, some of you participated in our virtual R&D tour, in which we covered our concept and differentiating technologies in depth and showed some of our progress on working versions of test chips for this new generation. By the way, we probably would not have thought about such a tour before COVID-19, but now, we would like to offer them to all our investors. So if you did not participate, please be in contact with Osi for future tours.

As we explained during the tour, our new chipsets are key enablers for 5G backhaul and fronthaul, bringing capacities that are 50 to 100 times higher than 4G, driving to 100Gbps speeds via wireless, with a focus on smart, efficient spectrum asset management to secure network growth. This will enable much quicker introduction of services while simplifying and optimizing networks and operations, opening more opportunities for 5G network development.

So that's the second quarter from my point of view. We see risks in the short term, but big opportunities in the mid-to-long-term.

While no one knows what the next few months will look like, we are coping well with the situation, and well-positioned to benefit from its opportunities.

Our results are better than expected, and we expect them to continue to improve in the future due to the drivers we discussed.

With that, 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.

As you can see, our revenues for the quarter were $62.4 million.

The revenues were divided more or less equally across the major regions, demonstrating our global diversification. In North America and APAC, business continued more or less normally, while in Europe revenues were strong during the quarter in alignment with the strong bookings from the region during Q1. Revenues from Africa were weak during the quarter.

We had 2 above-10% customers in the second quarter.

Our bookings for the quarter were stable despite the situation, giving us a book-to-bill ratio above 1. However there were significant differences between regions.

- Bookings in Europe, APAC and North America were stable.
- Bookings in India were weak because of the very strong bookings we recorded in q1.
- In LATAM, bookings were weaker due to delays of several projects, currency devaluations that caused a delay in CAPEX investments, and the fact that some of our customers in the region placed their orders for Q2 and Q3 deployments already during Q1.
- Africa had very strong bookings for the quarter, the strongest we have seen since 2014, mainly due to the large project with Orange Niger that we signed during the quarter.

Our Non-GAAP gross profit for the quarter was $16.5 million, giving us a gross margin of 26.5%. This is a slight improvement over the first quarter, though still much lower than normal. Given the relatively lower revenues, the increasing costs of sourcing and the increased supply chain expenses of the current environment – together with our focus on re-using inventory, our less favorable regional and sub-regional mix- this is the level that we expected, but not that we are satisfied with. Going forward, we expect our gross margin to return to a normal range once revenues start to pick up.

Our Non-GAAP operating expenses for the second quarter were $19.5 million, about the same as the first quarter. This is about $2-to $3 million lower than had been expected before COVID-19.

- **R&D,** was down about $400K from the first quarter of 2020;
- **Sales and marketing** expenses, which were $8.0 million, much lower than our standard quarterly run-rate reflecting the sharp reduction in travel, accommodation expenses and variable compensation.
- **G&A,** which was $4.8 million, was actually about $500K higher than the first quarter of 2020.

For Q3, we expect opex to increase to a level of $20.5 to $21.5 million, mainly due to the increased R&D investment in the final stages of the chip development that is planned for the quarter.

Financial Expenses and Other Expenses were back to their normal expected level.

Tax expenses for the quarter were low at $500k.

On a non-GAAP basis, net loss improved to $(4.9) million compared with the first quarter, or $(0.06) per diluted share.

Our GAAP net loss was $(5.5) million, or $(0.07) per diluted share.

Turning to the balance sheet, we worked intensively throughout the quarter to improve our stability and working capital, and you can see our success in almost every parameter.

We reduced our inventory by another $6 million during the quarter, and we are now at approximately $54 million – down $20 million from our peak a year ago.

Our focus on collections has reduced our receivables to $97.5 million, down $21 million since the beginning of the year. Our DSOs now stand at 136 days.

We have returned $13 million in loans, a step that reduces our financing expenses while increasing our stability.

The net result of all this is that we generated $4 million positive cash flow from operations and investing activities for the quarter.

In parallel, we extended our credit line from a consortium of banks for another year while raising our credit line from $40 million to $50 million. This is a vote of confidence in our prospects and financial responsibility.

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

While the short term may be “lumpy” and hard to predict, we believe that long-term trends are working in our favor, and that we will benefit when markets return to the “new normal”.

Current indications lead us to believe that we are returning to our “normal” $70 to $75 million average quarterly run-rate for the third quarter, and expect that we will remain at that level for the fourth quarter.

However, with COVID-19 still having a clear impact on our supply chain, installations, etc. and the situation far from resolved, there are many unknowns that could affect the timing of revenues, changing the indicators we see today.

Meanwhile, we continue with our work to improve our financial stability and to strengthen our operations.

So that’s the second quarter.
I would like now to open the call for your questions.
Operator?

Ira’s closing remarks:

So there you have it. We are operating well in an uncertain reality, working to position the company to benefit from both short-term opportunities and long-term market growth.

The second quarter was an improvement over the first, and we expect even better for Q3 and beyond.

Thanks for your interest, and we would be happy to see you on our next virtual R&D tour.

Thank you and good day.