

1 **Ceragon Networks Q2 FY 2024 Earnings Call Script**

2

3 August 7, 2024

4

5 **Operator**

6 Welcome to Ceragon Networks Second Quarter 2024 Earnings
7 Conference Call. At this time, all participants are in a listen-only mode.
8 Following management's prepared remarks, we will host a question-and-
9 answer session.

10

11 If you wish to participate and ask a question on today's call you will need
12 to click on the "raise your hand" icon within the zoom application on your
13 desktop or mobile device.

14

15 As a reminder, this call is being recorded. It is now my pleasure to
16 introduce your host, Rob Fink of FNK IR.

17

18 **Rob Fink**

19 Thank you, operator, and good morning, everyone. Hosting today's call
20 is Doron Arazi, Ceragon's Chief Executive Officer and Ronen Stein, Chief
21 Financial Officer.

22

23 Before we start, I would like to note that certain statements made on
24 this call, including projected financial information and other results and
25 the company's future initiatives, future events, business outlook,
26 development efforts and their potential outcome, anticipated progress
27 and plans, results and timelines and other financial and accounting-
28 related matters, constitute "forward-looking statements" within the
29 meaning of the Securities Act of 1933, as amended and the Securities
30 Exchange Act of 1934, as amended, and the safe-harbor provisions of the
31 Private Securities Litigation Reform Act of 1995.

32

33 Ceragon intends forward-looking terminology, such as believes, expects,
34 may, will, should, anticipates, plans or similar expressions to identify
35 forward-looking statements. Such statements reflect only current
36 beliefs, expectations, and assumptions of Ceragon's management--
37 actual results, performance, or achievements of Ceragon may differ
38 materially, as they are subject to certain risks and uncertainties, which
39 could cause Ceragon's actual results to differ materially from those
40 projected in such forward-looking statements. Such risks and
41 uncertainties include, but are not limited to the risks and uncertainties
42 that are described in Ceragon's most recent Annual Report on Form 20-
43 F and as may be supplemented from time to time in Ceragon's other
44 filings with the SEC, including today's earlier filing of the earnings PR, all

45 of which are expressly incorporated herein by reference. Forward-
46 looking statements relate to the date initially made, do not purport to be
47 predictions of future events or results, and there can be no assurance
48 that they will prove to be accurate, and Ceragon undertakes no
49 obligation to update them.

50

51 Ceragon's public filings are available on the Securities and Exchange
52 Commission's website at www.sec.gov, and may also be obtained from
53 Ceragon's website at www.ceragon.com.

54

55 Also, today's call will include certain non-GAAP numbers. For a
56 reconciliation between GAAP and non-GAAP results, please see the table
57 attached to the press release that was issued earlier today which is
58 posted on the Investor Relations section of Ceragon's website.

59 I will now turn the call over to Doron. Please go ahead.

60

61

62 **Doron Arazi**

63

64 Thank you, Rob, and good morning, everyone.

65

66 Let me start by providing some context. Over the past year or so, we have
67 been implementing a strategic plan to diversify our business. Under this
68 plan we intend to increase our market share in Private Networks and
69 move up the value chain from an equipment provider to assisting our
70 customers with network operation, optimizing their investments, all
71 while maintaining our strong position in Tier 1 carriers. We expect that
72 successful execution of this strategy will result in increased customer
73 diversification, higher levels of recurring revenues and expanded
74 margins.

75

76 The second quarter results reflect continued progress in implementing
77 this strategy. We had another quarter of significant bookings from new
78 private networks customers. New customers from Private Networks
79 accounted for more than 50% of our overall new customers, both in
80 number of accounts as well as in dollars. For further evidence, our first
81 half annualized bookings in Private Networks was up more than 35% vs.
82 last year and we are growing our funnel of opportunities. The integration
83 of the recent Siklu acquisition has continued in accordance with our

84 plans and has been helping to enhance our competitive position with ISP
85 and private network customers.

86

87 In our journey to generate higher software-led recurring revenue, we
88 also started generating meaningful adoption of our Smart Activation Key
89 software, as well as creating opportunities for our Network Digital Twin
90 solutions leading to proof of concept engagements.

91

92 All of that while continuing to maintain and even increase our market
93 share in Tier1 operators primarily in India and NA.

94

95 To summarize, each of these initiatives is showing progress, and this
96 progress is increasing our confidence in our strategy.

97

98 Demand for our solutions from our customers remained strong across
99 the globe and we were able to gain new customers primarily in Private
100 networks. Our dependency on 5G related spending is decreasing as we
101 are focusing on increasing our market share in private networks and, as
102 significant spending is ongoing in 4G upgrades and expansions primarily
103 in rural areas. In fact, our backlog, especially in North America and India,
104 gives us confidence that we can continue with our growth momentum
105 into the second half of the year.

106 As expected, our new offerings have started to translate to bookings and
107 revenue. For example, some of the new solutions in our portfolio, that
108 are worth highlighting include:

- 109 • The IP-50EX which continues to garner customer interest. This is an
110 ultra-compact, high-capacity E-Band radio which is ideally suited
111 for a variety of use cases, especially when small size and low OPEX
112 are priorities.
- 113 • In addition, our recently introduced Smart Activation Key software
114 has generated meaningful customer adoption. Tens of thousands
115 of licenses have been secured by several customers across multiple
116 regions within the first half of the fiscal year. This innovative
117 software simplifies the activation process for network radios and
118 their various licensable features, allowing customers to activate
119 and upgrade thousands of devices simultaneously, significantly
120 enhancing operational efficiency and reducing costs. Importantly,
121 this software solution is a major step in our initiatives to drive
122 recurring revenue, reducing the volatility inherent with project-
123 based, non-recurring revenue. Over time, we anticipate solutions
124 like this to become an increasingly important contributor to our
125 revenues.
- 126 • We continue to release more frequencies of our 50CX, a solution
127 that has already demonstrated huge success in India. These

128 additional bands will enable us to cover additional market needs
129 and meet demand in other regions.

130

131 I'd now like to provide an overview of our Q2 highlights by region. Noting
132 that on today's call we will focus primarily on activities in North America
133 and India, the two regions that have, and we expect will continue to
134 have, the greatest impact on our results in the near term.

135

136 **In North America**, revenue was \$23 million. This was a strong quarter for
137 our private network group, as we added nine new **customers** and
138 generated substantial private network bookings. In the first half of 2024,
139 on an annualized basis, we have delivered tremendous growth from
140 Private Networks, with bookings up more than **45%** of our 2023 booking.
141 We also had another strong quarter selling and delivering Siklu by
142 Ceragon products, primarily to ISPs. Overall, we continue to maintain
143 strong booking and revenue levels in North America, and the growing
144 contribution of Private Network and ISP business has smoothed out
145 natural fluctuations related to Tier-1 service providers' CAPEX trends. .
146 This result was exactly our objective: to diversify our revenue and
147 smooth out the impact of large, project-based orders from Tier-1
148 customers. We were successful in this quarter, and we are encouraged
149 by the trends.

150

151 In **India**, revenue was \$36 million. As a reminder, in Q1, we had record
152 bookings related to the large agreement we disclosed in the fourth
153 quarter as well as a high value of orders received from one of our
154 longstanding customers. As expected, delivery and deployment of the
155 new customer orders began in the second quarter, and deployment is
156 expected to take approximately two years, with about 75% of the \$150m
157 project value expected to be recognized during this timeframe.

158

159 Overall, in India, we are benefiting from 4G expansion in rural areas as
160 well as certain 5G upgrades. Key customers continue to invest heavily in
161 both phases of this capacity upgrade, and we are growing our market
162 share in this regard. We are also seeing large opportunities, which can
163 fuel our business in 2025 and working to win them against competition.

164

165 Clearly, we have continued to be successful in India and North America,
166 and this has been facilitating our growth and profitability.

167

168 As a last comment, I would point to our success in other regions as
169 further evidence of success regarding our new strategy. I'd note that in
170 the first half of 2024 other regions, notably Latin America and APAC, have
171 also seen the benefits of this new strategy with significant growth in

172 private network business. This is very encouraging, especially in light of
173 the fierce competition against Chinese vendors in those regions.

174

175 With that, I'll turn the call over to Ronen Stein, our CFO, to discuss the
176 results in more detail. Ronen, over to you.

177

178 **Ronen Stein**

179

180 Thank you Doron, and good morning, everyone.

181

182 As Doron outlined, we continue in our progress towards our stated
183 strategy. Simultaneously, we continue to deliver on our growth plans and
184 improve our operating leverage on a non-GAAP basis.

185

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

190

191 Let me now review the actual results:

192

193 **Revenues** were \$96.1 million, up 11.5% from \$86.2 million in Q2 2023.
194 Our strongest regions in terms of revenues for the quarter were **India**
195 and **North America** with \$35.5 and \$23.3 million, respectively, in line
196 with the continuous strong demand we see in these regions. Our third
197 strongest region in terms of revenues was **EMEA** with \$19.0 million.

198

199 We had one customer in the second quarter that contributed more than
200 10% of our revenues.

201

202 **Gross profit** for the second quarter on a non-GAAP basis was \$33.8
203 million, an increase of 11.1% compared to \$30.4 million in Q2 2023. Our
204 non-GAAP gross margin was 35.2% compared with gross margin of 35.3%
205 in Q2 2023. We continued to achieve high gross margins within the
206 guidance range, despite the fact mixture changed and revenues from
207 India increased significantly.

208

209 We achieved this by increasing revenues and recognizing continued
210 improvement in product costs. We also maintain control over our fixed
211 costs, all of which had a positive effect. Our gross margins may continue
212 to fluctuate from quarter to quarter, due to changes in product and
213 regional mix.

214

215 As for our **operating expenses**:

216

217 In general, operating expenses in 2024 fully include the impact of the
218 Siklu acquisition at the end of 2023 and thus impact the comparison to
219 2023 operating expenses.

220

221 **Research & Development** expenses for the second quarter on a non-
222 GAAP basis were \$8.2 million, up from \$7.6 million in Q2 2023. As a
223 percentage of revenue, our R&D expenses were 8.5% in the second
224 quarter compared to 8.8% in the second quarter last year.

225

226 **Sales & Marketing expenses** for the second quarter on a non-GAAP basis
227 were \$11.0 million, up from \$9.4 million in Q2 2023. As a percentage of
228 revenue, sales and marketing expenses were 11.5% in the second
229 quarter compared to 10.9% in the second quarter last year.

230

231 **General and Administrative expenses** for the second quarter on a non-
232 GAAP basis were \$1.4 million, compared to \$6.1 million in Q2 2023. As a
233 percentage of revenues, G&A expenses were 1.5% in the second quarter
234 compared to 7.0% in the second quarter last year. The main reason for
235 the reduction in G&A is the impact of a \$4 million benefit related to an
236 initial collection from a \$12 million debt settlement agreement reached

237 with a South American customer, for which we accounted a credit-loss
238 at the end of 2022.

239

240 This is a great opportunity to note that last week we collected the second
241 installment of \$4 million from this customer, bringing us to a collection
242 of \$8M out of the \$12M debt. This recent collection is expected to be
243 reflected in our financial Q3 results.

244

245 I'd note that our GAAP operating expenses include integration costs
246 related to Siklu. These charges are backed out of our non-GAAP
247 operating expenses. We believe the integration is mostly completed and
248 we do not anticipate any further meaningful integration charges in
249 future periods.

250

251 **Operating income** for the second quarter on a non-GAAP basis was \$13.1
252 million compared with \$7.4 million for Q2 2023. As a percentage of
253 revenues, non-GAAP operating income was 13.7% in the second quarter
254 compared to 8.5% in the second quarter last year.

255

256 Without the \$4 million debt collection benefit included in the G&A, non-
257 GAAP operating income would be \$9.1 million and as a percentage of
258 revenues 9.5%.

259

260 **Financial and Other Expenses** for the second quarter on a non-GAAP
261 basis were \$2.6 million.

262

263 **Our tax expenses** for the second quarter on a non-GAAP basis were \$0.6
264 million.

265

266 **Net income** for the second quarter on a non-GAAP basis was \$9.9 million,
267 or \$0.11 per diluted share, compared to \$4.4 million, or \$0.05 per diluted
268 share for Q2 2023.

269

270 Without the \$4 million benefit related to the debt collection included in
271 the G&A, non-GAAP net income would be \$5.9 million or \$0.07 per
272 diluted share.

273

274

275 As for our **balance sheet**:

276

277 Our **cash position** at the end of the second quarter was \$26.3 million,
278 compared to \$28.2 million at the end of 2023. Short-term loans were
279 \$28.5 million compared to \$32.6 million as of December 31, 2023. We

280 believe we have cash and facilities that are sufficient for our operations
281 and working capital needs.

282

283 Our **inventory** at the end of Q2 2024 was \$59.5 million, down from \$68.8
284 million at the end of December 2023 and down from just over \$61 million
285 at March 31. The reduction is mainly as our efforts during 2023 to
286 streamline inventory levels following the improvement in components
287 availability have materialized, and initial shipments to the larger order in
288 India. We continue to monitor inventory levels, taking into consideration
289 the improvements in availability of components and expected changes
290 in demand.

291

292 Our **trade receivables** are at \$112.9 million, as compared to \$104.3
293 million at the end of December 2023.

294

295 Our DSO now stands at 114 days.

296

297 As for our **cashflow**:

298

299 Net cash flow generated **by operations and investing activities** in the
300 first six months of 2024 was \$1.7 million.

301

302 We are reiterating our full-year outlook. For 2024, we expect revenue of
303 \$385 million to \$405 million, representing growth of 11% to 17%
304 compared to 2023. This guidance includes the contribution from Siklu.
305 Non-GAAP operating margins are targeted to be at least 10% at the mid-
306 point of the revenue guidance. As a result, we expect increased non-
307 GAAP profit and positive free cash flow for the full year of 2024.

308

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

310

311 **Doron's Closing Remarks**

312

313

314 Ceragon's competitive position continues to improve, and we continue
315 to deliver on our strategic plan for growth and profitability. Our new
316 products and solutions are gaining meaningful traction and our wins in
317 private networks are encouraging. We believe that our new products and
318 solutions as well as our roadmap, including the Neptune based future
319 products, are positioning us for long-term growth as they are expected
320 to result in increasing market share in our space.

321

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

323

324 Have a good day everyone.