

1 **Ceragon Networks Q3 2022 Earnings Call Script**

2 November 6, 2022 – FINAL

3

4 **Operator**

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

8

9 [OPERATOR INSTRUCTIONS]

10

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

13

14 **Maya Lustig**

15 Thank you, operator, and good morning, everyone. I am joined by Doron Arazi, Ceragon’s Chief  
16 Executive Officer and Ronen Stein, Chief Financial Officer.

17

18 Before we start, I would like to note that certain statements made on this call, including  
19 projected financial information and other results and the company's future initiatives,  
20 constitute “forward-looking statements” within the meaning of the Securities Act of 1933, as  
21 amended and the Securities Exchange Act of 1934, as amended, and the safe-harbor provisions  
22 of the Private Securities Litigation Reform Act of 1995.

23

24 Ceragon intends forward-looking terminology, such as believes, expects, may, will, should,  
25 anticipates, plans or similar expressions to identify forward-looking statements. Such  
26 statements are subject to certain risks and uncertainties, which could cause Ceragon’s actual  
27 results to differ materially from those projected in such forward-looking statements. Such risks  
28 and uncertainties include, but are not limited to, those that are described in Ceragon’s most  
29 recent Annual Report on Form 20-F and as may be supplemented from time to time in  
30 Ceragon’s other filings with the SEC, all of which are expressly incorporated herein by  
31 reference. Forward-looking statements relate to the date initially made, do not purport to be  
32 predictions of future events or results, and there can be no assurance that they will prove to be  
33 accurate, and Ceragon undertakes no obligation to update them.

34

35 Ceragon’s public filings are available on the Securities and Exchange Commission’s website at  
36 [www.sec.gov](http://www.sec.gov), and may also be obtained from Ceragon’s website at [www.ceragon.com](http://www.ceragon.com).

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

40

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

42

43 **Doron Arazi**

44

45 Thank you, Maya, and good morning, everyone.

46

47 I would like to start by thanking all our employees and the leadership team for an outstanding  
48 quarter, especially given all the challenges and uncertainties we dealt with.

49

50 The third quarter was a highly busy quarter for us on multiple fronts. First of all, we have a new  
51 CFO, Ronen Stein, whom I'd like to acknowledge for deciding to join the Company at such a  
52 turbulent time and already starting to play a key role in strengthening our financials. Ronen will  
53 be sharing with you the financials later in the call.

54

55 I'm pleased to report that in the third quarter of 2022, we achieved significantly improved  
56 results in many key areas. Also, our diligent execution on our long-term strategy has begun to  
57 bear fruit and prove directionally correct.

58

- 59 • Our increased focus on North America and the software upgrade portion of our offering  
60 manifested into a very strong gross margin of 35.5%.
- 61 • Our book of orders continued to be very high, in fact it was the highest for a single quarter  
62 since the beginning of 2017. And more importantly our backlog grew significantly.
- 63 • We placed an increased focus on delivery optimization, and we saw some improvement  
64 over previous quarters, though supply chain disruptions are still part of our daily challenges.
- 65 • I'm also pleased to share that we generated positive cashflow.

66

67 Though the nature of our business is lumpy, these strong signs of success show us we must  
68 continue to pursue our strategy and that high margins are within our reach.

69

70 Looking at the big picture, as global demand continues to grow for faster speeds, network  
71 upgrades, and expanded services, we are there to support the operators by enabling faster 5G  
72 rollouts. And we are there to support private networks to modernize their networks. Our third  
73 quarter 2022 wins and bookings reflect our growing market presence across key regions.

74

75 I'd now like to give you an overview per region.

76

77 **In North America**, the third quarter 2022 was very successful for us, with bookings exceeding  
78 our record second quarter. This record quarter was driven by strong demand which came from  
79 multiple customer segments, primarily top-tier operators followed by ISPs and critical  
80 infrastructure.

81

82 A leading top-tier North American operator selected our equipment, software, rollout services,  
83 and managed services for a large expansion project. This operator is planning to leverage our  
84 high-band spectrum assets to enhance its 5G service offering. Implementation of this multi-  
85 million-dollar project is expected in the first half of 2023, and it is expected to further expand  
86 our market share in North America.

87

88 We have made good progress on executing our strategy to increase our market share in private  
89 networks and small operator domains. Since the beginning of the year, we accumulated wins  
90 and orders in these domains. For example, in Q3, we signed a deal with a public agency utility in  
91 the US, namely the Yuba Water Agency in California, to replace and modernize their legacy  
92 private network with a high-capacity low-latency 5G network. Such wins and project orders  
93 present strong signals that encourage us to continue to pursue market share in these segments.

94

95 We continue to invest and intensify our sales and marketing efforts in North America and plan  
96 for further growth in all segments with higher than our average margins, coupled with an  
97 increase in our services portion.

98

99 **In India**, the 5G roll-out started intensely. Operators are fast augmenting their network  
100 capacities with additional fiber and wireless deployments to achieve high-speed. The opening  
101 of the E-band resulted in major orders. Bharti Airtel already booked its first wave of E-Band  
102 orders with us, as well as continued the procurement of our Microwave solutions, reaching  
103 bookings worth tens of millions of dollars just this quarter.

104

105 The E-Band orders from Bharti were at higher quantity than we had planned, and I believe we  
106 have received the lion's share of the initial wave. The main reason is simple – when Bharti  
107 entered its decision-making stage, we were the only vendor with successful field-proven trials  
108 of E-Band with a vendor agnostic multi band solution, and the best total cost of ownership.

109

110 In India, in addition to everything I said, we saw improvement in our delivery capabilities  
111 towards the end of the quarter. We are in negotiation stages with all other main players in this  
112 market, leveraging our plans to launch our new lower cost E-Band product in 2023.

113 **In Europe**, given the macroeconomic environment and the impact of the war in Ukraine, we are  
114 seeing some deals slow down. In addition, competition previously focused on Russia has now  
115 become more aggressive in other countries.

116  
117 In the third quarter, we continued to see strong demand for 5G. We had new wins, and saw  
118 good traction in our growth engines, namely our disaggregated cell site router and managed  
119 services and software offering.

120  
121 Overall, we are pleased with the execution of our strategy in this region. As supply chain issues  
122 continue to thaw and our new low-cost series is launched, we believe we will be able to  
123 increase our market share in Europe.

124  
125 In **APAC**, the market continues to be ultra-competitive. Yet we continue to be successful  
126 keeping our position with a potential business increase in our strategic accounts. We signed a  
127 large multi-year contract with a leading Tier 1 Oceania operator to extend and strengthen their  
128 nationwide 4G and 5G coverage. They will be deploying our microwave and millimeter wave  
129 solutions, SDN Suite, as well as turn-key services. This contract is valued at a potential of over  
130 \$44 million over the next three years.

131  
132 In **LATAM**, we saw heightened competition. Each country in this region presents different  
133 economic circumstances and challenges. Despite these challenges, we had a good quarter with  
134 increased bookings year on year. We are encouraged by the traction our managed services  
135 offering has achieved and plan to increase our focus in the services domain.

136  
137 In **Africa**, while business closing is still soft, we achieved new wins in the Managed Services  
138 domain.

139  
140 To summarize, the 5G era is not just a next-generation communications technology. 5G is  
141 creating new markets and majorly reshaping existing ones. So far, our strategy has proven to be  
142 an excellent approach to these developments. We continue to provide leading wireless  
143 solutions in our core wireless backhaul domain. We developed first-in-the-industry solutions for  
144 Open Network architecture, and we leverage our knowledge and homegrown software  
145 development for software-led services and managed services, all enabling us to capitalize on  
146 the opportunities the 5G era presents.

147  
148 We expect to continue to be the first choice for our customers thanks to our category-defining  
149 technologies, vast experience in products and services, and customer-focused attitude.

150

151 I'll now turn the call over to Ronen to review the financials. Ronen?

152

153 **Ronen Stein**

154

155 Thank you Doron, and good morning, everyone. I'm excited to be here and to be participating  
156 on my first earnings call since joining Doron and the team at Ceragon a few weeks ago. I would  
157 like to thank everyone for the warm welcome. I will now share a detailed review of our third  
158 quarter 2022 financial results.

159

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

163

164 Let me now review the actual numbers with you.

165

166 **Revenues** for the third quarter were \$78.6 million, up by 3.3% compared to \$76.1 million in Q3  
167 last year.

168

169 Our strongest regions in terms of revenues for the quarter were **India** and **North America** with  
170 \$22.1 million and \$21.6 million, respectively, reflecting ongoing deliveries for our main  
171 customers and in line with the strong demand we see in these regions.

172

173 Our third strongest region in terms of revenues was **Latin America** with \$13.4 million, followed  
174 by **Europe** with \$10.0 million.

175

176 We had 2 above 10% customers in the third quarter. Historically, we had always had such big  
177 customers from India, and I'm happy to report that we now have such a large customer from  
178 North America as well. They've been a long-term customer and this year their business with us  
179 grew substantially.

180

181 **Gross profit** for the third quarter on a non-GAAP basis was \$28.0 million, giving us a non-GAAP  
182 gross margin of 35.5% compared to 31.0% in Q3 2021, and 30.5% in Q2 2022.

183

184 Our improved gross margin in Q3 as compared to Q2 of this year is primarily due to the  
185 fulfillment of orders with better margins mainly in North America, strong software upgrade  
186 sales, and to a lesser extent a reduction in shipping costs.

187

188 I'd like to emphasize that the majority of our business is still project-based, and we see  
189 continued lumpiness in our revenues and gross margin from quarter to quarter. That said, the  
190 upward trajectory of our gross margin is very encouraging and reflects our ability to gain high  
191 margins when we execute on our strategy and operational efficiencies.

192  
193 **Operating expenses** on a non-GAAP basis for the third quarter were \$21.5 million, in line with  
194 our expectations. I'd like to draw your attention to the fact that on a GAAP basis, our operating  
195 expenses were higher, primarily due to a one-time expense of approximately \$4 million, related  
196 to Aviat's hostile attempt.

197  
198 **Research & Development** expenses for the third quarter on a non-GAAP basis were \$7.2  
199 million, up from \$6.6 million in Q3 2021, and down from \$7.5 million in Q2 2022.

200  
201 **Sales & Marketing expenses** for the third quarter on a non-GAAP basis were \$8.3 million, same  
202 as in Q3 2021 and down from \$9.1 million in Q2 2022.

203  
204 **General and Administrative expenses** for the third quarter on a non-GAAP basis were \$6.1  
205 million compared to \$4.6 million in Q3 2021, and \$4.6 million in Q2 2022. The increase is  
206 primarily due to an increase in doubtful debts.

207  
208 **Operating profit** for the quarter was \$6.4M, compared to \$4 million in Q3 2021, reflecting an  
209 increase of 60%. When we take the 9 months view, we see that our cumulative operating profit  
210 in 2022 is \$6.2 million, which again represents more than 16% increase over the same period in  
211 2021. The increase in revenues coupled with increased gross margins both on a quarterly and  
212 cumulative basis contributed to the increase in operating profits.

213  
214 **Financial and Other Expenses** for the third quarter on a non-GAAP basis were \$2.0 million,  
215 within our expected range.

216  
217 **Our tax expenses** for the third quarter on a non-GAAP basis were \$0.3 million.

218  
219 **Net profit** on a non-GAAP basis for the quarter was \$4.1 million, or \$0.05 per diluted share  
220 compared to \$1.4 million, or \$0.02 per diluted share in Q3 2021.

221  
222 As for our **balance sheet**:

223  
224 We increased our **cash position** to \$26.0 million, while reducing short term loans by \$2.0  
225 million from last quarter.

226 Our **inventory** at the end of Q3 2022 was \$64.2 million, up from \$60.7 million at the end of Q2  
227 2022, still reflecting our need to stock long lead-time and strategic items as a combined result  
228 of increased customer orders, the ongoing component shortages, and the impact resulting from  
229 replacing one of our contract manufacturers, which we discussed last quarter.

230

231 We strive to keep our inventory levels lower and expect an inventory reduction following the  
232 completion of the transition between the contract manufacturers and as the components  
233 industry improves.

234

235 Our **trade receivables** are at \$115.9 million, down from \$122.7 million at the end of Q2 2022.  
236 Our DSOs now stand at 142 days.

237

238 As for our **cashflow**:

239

240 Our **cash flow from operations and investing activities** in Q3 2022 was \$4.1 million, noting that  
241 most of the \$4 million one-time expense related to Aviat's hostile attempt recorded in Q3 2022  
242 will impact our cash flow only in Q4 2022. This is the first quarterly positive cash flow from  
243 operations and investing activities since Q4 2020. This positive quarterly cash flow was mainly a  
244 result of our focus on collection and increased factoring of our blue-chip customers' debts. As a  
245 result, we increased our cash position while reducing short term loans as mentioned before.

246

247 **Net cash used for financing activities** for the third quarter was \$1.7 million mainly as we  
248 decreased short term loans balance. Therefore, at the end of Q3 2022, we had available unused  
249 credit facility of \$20.1 million.

250

251 Given only a slight improvement in supply chain issues, which continue to impact our ability to  
252 convert our strong backlog into revenues, we now expect to finish the year with a revenue  
253 range of \$296 - \$304 million. Our revenues within the new range will primarily be affected by a  
254 recent policy change by one of our leading customers regarding equipment receipt prior to  
255 year-end. We expect that any portion which will not be delivered to this customer in Q4 2022  
256 will be delivered in Q1 2023.

257

258 Our 2023 revenue guidance of \$325 - \$345 million remains unchanged.

259

260 Our guidance is subject to potential upsides and downsides as we continue to address the  
261 supply chain challenges facing the industry.

262

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

264 **Doron's Closing Remarks**

265

266 Thank you.

267

268 The third quarter had us reach new milestones and achieve substantial success in key areas of  
269 our business. Our bookings and backlog continued to strengthen, and our initiatives to improve  
270 gross margin proved highly effective. All of that, plus our progress in our long-term strategy  
271 execution, signal that we are headed in the right direction.

272

273 As global demand for faster speeds, network upgrades, and expanded services increases, and as  
274 supply chain issues improve, we look to the future with rising confidence.

275

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

277

278 Have a good day everyone.