

Ceragon Networks 3rd Quarter 2020 Formal Remarks
November 2, 2020

Operator

Good day, everyone. Welcome to the Ceragon Networks Limited Third 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 and operations as a result 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 except as may be required by law.

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. Here at Ceragon, the health and safety of our employees continues to be our top priority. We are managing well in the “new normal” with all departments continuing at full speed.

As you can see from the results, Q3 was a strong period for Ceragon.

Our revenues were \$70.6 million - nearly back to “pre-Covid” levels, and our gross margin was above 33%, the highest it has been in more than a year. This, combined with lower operating expenses, gave us **a profitable quarter, in line with our forecast.**

Our performance reflects a market with a stronger-than-ever need to increase network capacity, as the world goes

increasingly online to shop, work and socialize. It also reflects the complexity and operating difficulty of Covid, which is still with us.

The need for broadband is driving urgency for building new 5G networks, expanding 4G networks, and extending ISP services into additional areas.

As operators accelerate 5G plans, a key consideration is being able to deploy their networks faster while controlling overall costs - and this has led to a complete change in the way networks are built. Many operators are now embracing an open network architecture in which both RAN and Core Network domains shift towards a cloud-native, software-centric paradigm - “Open RAN” and “Open Core”.

With this approach, networks shift from tightly-integrated hardware and software to a disaggregated model that enables operators to create virtual, software-based network functions. This makes it much easier to adapt to constantly changing requirements.

We at Ceragon play a key enabling role in this process, with a new class of equipment designed specifically for the OpenRAN environment. We have recently released our new IP-50 Platform, an open

solution architecture for wireless backhaul, midhaul and fronthaul. As part of the development process, we achieved several exciting technological breakthroughs that led to its recognition last week by the Telecom Infra Project - TIP - community as one of the leading platforms for open wireless hauling. They also recognized Ceragon as the only solution provider that offers both technology and products for all components of the open wireless hauling architecture.

Although this industry shift has been coming for several years, it is intensifying now. Operators making the shift are looking for best-in-class, cloud-native offerings for each network domain - and this is leading them to Ceragon. This is a testament to our strategy of providing best-in-class technology solutions which drive high customer value for winning market share.

These market dynamics are creating strong tailwinds for our 5G efforts around the globe. We are very busy with 5G network design wins and POC processes, as well as with activities around the release of our new 5G products.

We are participating in various stages of the 5G selection process for operators throughout the world, each with the potential to lead to very large multi-year sales. These are long-term efforts that begin with Design Wins, progress

towards POCs, or Proof of Concepts, with small initial shipments, and finally, as we believe we'll see - volume shipments and deployment.

- On the POC front, we are preparing for a PoC with an emerging greenfield service provider in North America. It will test a wide-coverage 5G solution with gigabit backhaul to support its upcoming 5G rollout.
- We are also preparing for a field trial with one of the Pacific Rim's leading open network operators following a very successful lab trial. Our solution will provide them with 20Gbps 5G midhaul capacity in millimeter-wave spectrum.
- We have also seen an increased number of design wins, including multiple recent awards from service providers in Europe and North America preparing to transition to 5G. They are looking to upgrade their backhaul install-base with minimal hardware changes, and our solution takes care of it with a simple swap of a module, as well as by providing a set of new radios in microwave and millimeter-wave bands, which seamlessly integrate with their installed base.
- We have begun shipping our newly-released IP-50C in Europe to support a number of ongoing 5G network

rollouts. The IP-50C is an innovative, all-outdoor quad-carrier solution for bringing 5G onto macrocells. It provides extreme 5G backhaul network capacities in microwave spectrum, while ensuring network reliability and availability. It is unique in its support of operations in channels that are 2-4 times wider than our competitors can provide - 8 gigabits in the air -- with the smallest footprint. This is the requirement for 5G macrocells, achieving a double-to-quadruple increase in capacity. Operators understand the immense benefits and are already acting in a number of countries to realize this fantastic network development approach to 5G. And we are proceeding with regulatory lobbying with regulators worldwide to open up 224MHz channels, uniquely supported by our technology, which allows the extreme 5G backhaul capacities that are required for this market.

By the way, the operators that are preparing for 5G are taking a variety of routes to get there. Some are opting for fiber-first deployments in densely populated areas, following later at a second stage with microwave deployments in less dense and rural areas. Others are going ahead first with end-user upgrades to be ready for 5G quickly when the time comes.

Therefore, our development activities are designed to make us the “go-to” supplier for every variation of the 5G opportunity, allowing customers to transform their network, at their pace and in their own fashion, to a fully virtualized cloud-native paradigm.

This is positioning us ideally and uniquely as a leader of 5G technology.

As to 4G, we continue to benefit from large, expedited operator projects to increase network reach in markets where 4G is currently lacking, whether because of increased demand or inadequate coverage. In some of these projects, the operators are already “seeding in” the backhaul infrastructure that is required for 5G.

- In Africa, we were awarded a big 4G order from Orange Niger, and continued shipments to other operators for ongoing 4G upgrade and expansion projects.
- In India, we continued achieving a good delivery and installation run-rate for our Bharti projects, despite

Covid constraints, giving us strong revenues from both products and services.

- And in APAC, we delivered very strongly in Southeast Asia, where multiple operators are ramping up their 4G networks.
- In contrast, our business in LATAM was very weak during the quarter due to Covid. One of our largest customers across the region remains in a CAPEX freeze, and other clients are coping with supply chain delays. We believe the situation is improving somewhat and that budgets for 2021 will begin opening up already by the end of this year.

The last market I'd like to discuss is the ISP market, which is benefiting strongly from the long timelines of 4G and 5G rollouts. Given the massive new demand for bandwidth stemming from COVID stay-at-home directives, large population areas have been left with insufficient broadband. ISPs – both national and regional – have been

rushing in to fill the demand, especially in North America, and, to some extent, in Europe.

So to summarize, demand for network capacity has increased dramatically, leading to

- more 5G design wins, some which we have already translated into small orders;
- continued large scale 4G expansion projects; and
- increased ISP demand.

At the same time, significant variability and uncertainty remains regarding the timing of planning, purchasing, network rollout and supply chain factors, as Covid dynamics move according to their own rhythms across the world.

We remain extremely focused in this uncertain environment, progressing on-track with our IP-50 platform development efforts and moving strongly ahead with new 5G design wins, PoCs and orders.

I'll stop here and 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 on the highlights.

As you can see, Q3 was a good quarter from a financial point of view.

Our revenues were \$70.6 million, up 13% compared with the second quarter, and 26% compared with the first quarter of 2020. They were down just 2% compared with Q3 last year.

The revenues varied from region to region in line with the effect that COVID has had on local business operations and network build-out plans.

Our strongest revenues were from India, reflecting ongoing deliveries for Bharti projects, and APAC.

Revenues from North America and Europe were in line with expectations, reflecting continued progress with ongoing projects – primarily ISPs and small 5G projects in Europe.

Africa had an exceptionally strong quarter, reflecting shipments for the Orange Niger project we announced in August.

And, as Ira discussed, LATAM had a very weak quarter, with budgets and projects frozen in the face of Covid 19.

We had 1 above-10% customer in the third quarter.

In contrast to revenues, our book to bill ratio for the quarter was below 1. This resulted from the fact that some of our customers booked their orders earlier in the year, together with very low bookings across Latin America. Bookings in APAC were actually strong, and bookings in North America, Europe and India were stable.

Overall, our accumulated book-to-bill ratio for the 9- month period is above 1.

Gross profit for the quarter on a non-GAAP basis was \$23.6 million, giving us a gross margin of 33.5%. **This is our highest gross margin in over a year** – compared with 26.5% last quarter and 32.2% for the third quarter of 2019.

It reflects the return of our revenues to their normal range, together with approximately \$1 million in import tax relief that we recorded during the quarter.

Excluding this relief, the Gross Margin would still have been about 32%, similar to Q3 last year - and stronger than it has been in the last three quarters.

Our Non-GAAP operating expenses for the third quarter were \$19.9 million, approximately \$0.3M higher than they were in Q2, but down compared with pre-COVID and our projections.

- **R&D** was \$7.3 million, \$0.5 million higher than Q2. The increase due mainly to our progress into the final stages of our chip development, as planned.
- In contrast, our **Sales and marketing** expenses declined again during the quarter, to \$7.8 million. This is down about 18% from Q3 last year, reflecting the reduced travel and variable compensation that have come with Covid.
- **G&A** for the quarter was \$4.8 million, in line with our expectations.

For Q4, the expectation is for opex to increase to a level of \$20.5 million - \$22 million, which is more in line with our normal pattern. In general, our operating expenses are higher for Q4 than for other quarters, reflecting higher variable compensation. In addition, we expect to continue accelerating our investment in chip R&D during the fourth quarter, resulting in a further increase of the R&D line.

Financial Expenses and Other Expenses were a bit lower than their normal expected level during the quarter, and tax expenses for the quarter were low at \$0.2M.

Our focused execution, which led to strong revenues, a high gross margin and controlled OPEX, combined with lower taxes, gave us a strong net income. On a non-GAAP basis, we posted a \$2.3 million net profit, or \$0.03 per diluted share.

On a GAAP basis, we posted net profit of \$1.6 million, or \$0.02 per diluted share.

Turning to the balance sheet, we continued working to improve our stability and working capital, and you can see our success in many parameters.

We reduced our inventory by another \$2 million during the quarter, and are now at approximately \$52 million – down approximately \$22 million from our peak 5 quarters ago.

Our receivables are now at \$108.4 million, down \$10 million since the beginning of the year. Our DSOs now stand at 152 days.

For Q3, we had \$4.5 million negative cash flow from operating and investing activities, while for the 9-month period we had \$1.4 million in positive cash flow.

In addition, we reduced our loans during the quarter, helping to strengthen our balance sheet.

Despite the lockdowns and challenges, we continue on schedule with our operations. With focused execution, we have been able to convert a large portion of our backlog, a development which will benefit us going forward. And we continue on-track with our major development programs to assure that our future roadmap supports our design win efforts, supporting our target positioning as the strongest company in wireless hauling and the key to generating future revenues.

Looking forward, we expect to see significant operator activities – alongside continued uncertainty. If the world enters into a second or third wave with extensive lockdowns, this would obviously impact our customers and us.

For this reason, we are taking a cautious approach to our projections for Q4 with a bit wider range than usual: 69 to 75 million.

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

Ira's closing remarks:

So there you have it. Despite today's uncertain environment, we are operating well, taking advantage of short-term trends and positioned to benefit strongly from long-term opportunities.

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

Thank you and good day.