

1 **Ceragon Networks Q3 FY 2023 Earnings Call Script**

2

3 November 6, 2023

4

5 **Operator**

6 Welcome to Ceragon Networks Third Quarter 2023 Earnings Conference Call. At this time, all  
7 participants are in a listen-only mode. Following management's prepared remarks, we will host  
8 a question-and-answer session.

9

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

12

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

15

16 **Rob Fink**

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

19

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

27

28 Ceragon intends forward-looking terminology, such as believes, expects, may, will, should,  
29 anticipates, plans or similar expressions to identify forward-looking statements. Such

30 statements reflect only current beliefs, expectations, and assumptions of Ceragon's  
31 management-- actual results, performance, or achievements of Ceragon may differ materially,  
32 as they are subject to certain risks and uncertainties, which could cause Ceragon's actual results  
33 to differ materially from those projected in such forward-looking statements. Such risks and  
34 uncertainties include, but are not limited to, uncertainties as to the occurrence and timing of  
35 the consummation of the transaction with Siklu and the potential failure to satisfy the  
36 conditions to closing of such transaction, the effects of the evolving nature of the recent war in  
37 Gaza between Israel and the Hamas as well as other risks and uncertainties that are described  
38 in Ceragon's most recent Annual Report on Form 20-F and as may be supplemented from time  
39 to time in Ceragon's other filings with the SEC, including today's earlier filing of the earnings PR,  
40 all of which are expressly incorporated herein by reference. Forward-looking statements relate  
41 to the date initially made, do not purport to be predictions of future events or results, and  
42 there can be no assurance that they will prove to be accurate, and Ceragon undertakes no  
43 obligation to update them.

44

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

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

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

51

52

53 **Doron Arazi**

54

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

56

57 Ceragon Networks delivered another strong quarter, our third solid quarter in what is expected  
58 to be the strongest year of Non-GAAP operating and net profit since 2018. Our strategy to  
59 increase market share within the private networks and with smaller service providers is bearing  
60 fruit. Since the start of this year, we have received initial orders from 20 new customers in  
61 these categories and we expect our performance in these growth markets will be reinforced by  
62 the pending acquisition of Siklu. Siklu's strengths align well with our strategy to diversify our  
63 business beyond our core of Tier1 and Tier 2 service providers, with a broader range of  
64 solutions that can help us expand our addressable market, further pursuing private networks  
65 and small service provider opportunities, to accelerate revenue growth and expand margins.

66

67 Ceragon continues to successfully navigate macro economic challenges effecting our industry,  
68 demonstrating the durable demand for our solutions primarily in North America and India.  
69 Similarly, the ongoing hostilities in the Gaza Strip have not had any material impact on our  
70 business to date. While we are proud to be a company headquartered in Israel, the majority of  
71 Ceragon employees are based outside of Israel, close to customers and partners. The vast  
72 majority of our manufacturing and our suppliers are also located outside of Israel. We have a  
73 detailed contingency plan, which anticipates conflicts in the region, and this planning has  
74 enabled us to minimize the impact of the current events.

75

76 Following the horrific terrorist attacks of October 7<sup>th</sup>, approximately 3.5% of our total employee  
77 base has been called up to active duty in the Israeli Defense Force. Based on our analysis, we  
78 don't anticipate this level to materially change and don't expect it to disrupt our operations in  
79 any meaningful way.

80

81 For now, our office in Israel is open and some employees are working there while others are  
82 working remotely. We are following the same type of protocols we used during the pandemic.  
83 We are in constant communication with our team and our priority is the safety and well-being  
84 of our employees and their families. These are challenging times, but Israelis are resilient and  
85 we have a devoted team.

86

87 We continue to see robust demand, particularly in India and North America, and we are  
88 executing well in the face of geopolitical and economic concerns impacting others. This  
89 demonstrates the durability of our business. We believe our growth strategy, involving  
90 expanding our addressable market beyond the Tier-1 and Tier 2 customers that have  
91 historically been our base, is coming into clear focus, and the acquisition of Siklu, which we  
92 expect to close later this quarter, will only accelerate this initiative.

93

94 For the third quarter in a row, revenues surpassed \$80 million dollars. We remain solidly  
95 profitable, generating significant cash from operations and investing activities.

96

97 Our performance in the first nine months of 2023, combined with improving visibility into the  
98 fourth quarter which is only dependent on smooth delivery and absent surprises, has given us  
99 the confidence to further narrow and raise the mid-point of our annual revenue guidance  
100 range. We believe we will end the year with a strong fourth quarter, giving us significant  
101 momentum as we move into 2024, which we expect to be another growth year for Ceragon.  
102 We are executing well, de-risking our business and reinforcing our competitive advantages.  
103 While the timing of bookings is not in our full control and we are susceptible to shifts in orders,  
104 we also believe that we will end the year with a book to bill ratio above 1, increasing the strong  
105 backlog we had at the beginning of the year.

106

107 Revenue for the quarter was \$87.3 million, up 10.9% year over year. Demand remains strong  
108 primarily in India and North America. Revenue in India reached quarterly highs since Q2 2018,  
109 and this was the third consecutive quarter with North America revenues exceeding \$20 million.

110 New leadership in Europe in particular, and in other regions, are putting initiatives in place to  
111 drive improvements in 2024. In addition, we believe the pending Siklu acquisition, will provide  
112 new capabilities to meet customer demands and help fueling growth not only in North America  
113 and Europe where Siklu has established significant presence, but also in other regions,  
114 especially in South America and Asia.

115  
116 We are encouraged by the initial reaction from existing Ceragon customers to this acquisition.  
117 Based on this feedback, we are optimistic that we will have opportunities to integrate Siklu's  
118 products into solutions for some of our existing customers for specific use cases. Additionally,  
119 Siklu's technology broadens our addressable market by opening up the Fixed Wireless Access  
120 portion to an end-to-end solution, particularly for Private Networks and Small Service Providers.  
121 For each of these reasons, we see the pending Siklu acquisition as an important strategic  
122 transaction, providing approximately \$25-29 million in revenue incremental to Ceragon's stand-  
123 alone plan for 2024 which is expected to be another year of organic growth. We also believe  
124 that this pending acquisition will be a catalyst for accelerated revenue and earnings growth  
125 over the next several years and think that it will accelerate our path to achieving and potentially  
126 exceeding our \$500 million revenue target, currently anticipated by 2027. Following the closing  
127 of this and the finalization of our 2024 AOP process, we intend to provide guidance for 2024  
128 and discuss long-term plans.

129  
130 Simultaneously, our existing core business remains solidly profitable. We delivered 4 cents in  
131 GAAP earnings per share and 6 cents on a non-GAAP basis. Importantly, strong collections  
132 enabled us to generate nearly \$11 million in cash flow from operations and investing activities  
133 in the quarter. This reinforces our expectations that we will grow revenue and be profitable for  
134 2023, generating cash and demonstrating that our business is self-sustaining. We have no  
135 current plans to raise money and we do not believe we need additional capital to execute on  
136 our existing opportunities.

137

138 As I mentioned, we have not encountered any significant impacts from supply chain disruption  
139 in the quarter, and while we continue to carefully manage the supply chain, component  
140 availability continues to improve. I do want to call attention to the increase in inventory that we  
141 amassed during the quarter and note that this increase is directly related to current orders that  
142 are in hand and in the process of being fulfilled.

143

144 We continue to advance the productization of our new system-on-chip technology. During the  
145 third quarter, we surpassed approximately 50% of our testing plan with no bugs or issues that  
146 would delay our plans of production of the SoC . To date, our efforts are advancing according to  
147 plan and while there is still much work to be done, we believe we remain on track to launch our  
148 new product line using the new SoC in 2024. In addition, we are in the final stage of  
149 productization of two new products featuring a lower total cost of ownership. These two  
150 products are expected to be available for commercial use during Q1 2024. We believe these  
151 new, additional products will help us further expand our market presence and offer tangible  
152 benefits to our customers. In addition, they are expected to also help us with our long-term  
153 goal of improving gross margins.

154

155 I'd now like to overview our Q3 highlights by region. Noting that on today's call we will focus  
156 primarily on activities in North America and India, the two regions that have, and we expect will  
157 continue to have, the greatest impact on our results in the near term.

158

159 **In North America**, we have continued to receive orders from major carriers, with one customer  
160 driving a significant portion of our volume. Service providers are standardizing on higher  
161 transport capacity and investing in upgrading existing sites in parallel to network expansion and  
162 densification. We expect this upgrade need will continue creating demand for our high-end  
163 solutions, even as buildout of 5G new sites is slowing down. Encouragingly, we are participating  
164 in additional opportunities with smaller carriers and private networks, in line with our strategy.  
165 These also revolve around new use cases that we had not historically been involved with, as the  
166 need for ubiquitous connectivity intensifies and is not fully addressed by fiber. There are

167 multiple Enterprise use cases including autonomous vehicles and IoT, where fiber is either not  
168 an option or cannot be delivered fast enough to support the business. Again, Siklu may help us  
169 penetrate this growing market with a larger set of connectivity solutions. To date, our business  
170 in North America remains weighted toward larger carriers, but this is beginning to shift.

171  
172 As it relates to the multi-year contract with the City of Cincinnati, we have started deployment,  
173 which will include long-term maintenance and support plans. In parallel we are already  
174 identifying various expansion opportunities.

175  
176 The expansion of availability for 5G frequencies, as well as the evolving need for heterogeneous  
177 services profiles, continue to serve as durable catalysts for our business. This is leading to a  
178 growing number of RFP's covering all segments of our addressable market, including Tier 1  
179 operators, rural ISPs and small carriers as well as Private networks. Some of these  
180 opportunities, particularly in the rural broadband and critical infrastructure segments, may take  
181 longer to mature, as they are also supported by Federal and State funding plans. However, rural  
182 broadband and infrastructure projects remain an important opportunity for Ceragon,  
183 contributing to our revenue growth and diversification.

184  
185 Our Digital Twin SW solution is also getting traction with several significant customers in NA.  
186 With some we are about to start proof of concept shortly. This solution is a differentiator in  
187 providing managed services to help customers optimize their multi vendor, multi technology  
188 networks. We won our first managed services engagement in North America earlier this year  
189 and we are building a nice funnel of opportunities for additional engagements in Telcos and  
190 Private Networks.

191  
192 We believe we are increasingly well-positioned to capitalize on all of these opportunities when  
193 they mature.

194

195 We also continue to increase other services business in the region, which often can double the  
196 value of the equipment we sell.

197

198 In **India**, telcos continue to aggressively invest in 4G technology and 5G expansions, depending  
199 on the region, with larger cities adding 5G and 4G being used in more rural areas. We continue  
200 to work with operators in the market for 4G rollout, as 4G continues to be the dominant  
201 subscription type in India as well as delivering our E-band/multiband solution for 5G networks  
202 at an increased pace. Bookings were modest in India during the quarter, but this was a factor of  
203 timing, not demand. In fact, bookings have accelerated in the first few weeks of the fourth  
204 quarter and we expect a strong end to the year in India from a bookings perspective. We have  
205 not seen a reduction in demand, and headwinds described by certain major equipment  
206 manufacturers have not had an impact on our business. Demand has remained robust.

207

208 To summarize, we continue to deliver solid execution, including revenue growth, advancing our  
209 strategy, and driving profitability and cash flow. Conditions continue to improve, both on the  
210 macro and micro levels, especially in regards to the supply chain. Demand for our solutions is  
211 strong and we are participating in RFPs for new opportunities. We believe we can deliver similar  
212 revenue trajectory for the foreseeable future and that we can be profitable, on a non-GAAP  
213 basis, for each quarter this year.

214

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

216 Ronen, over to you.

217

218 **Ronen Stein**

219

220 Thank you Doron, and good morning, everyone.

221

222 As Doron outlined, this was another strong quarter for Ceragon. Though, it's important to keep  
223 in mind that we are a project-driven business and as such there is inherent variability in results



224 from quarter to quarter. Because of this we analyze our bookings, revenue, and gross margin,  
225 as well as other key performance indicators over a 12-month period, a duration which we  
226 believe better reflects the underlying business trends.

227

228 In addition, to help you understand the results, I will be referring primarily to non-GAAP  
229 financials. For more information regarding our use of non-GAAP financial measures, including  
230 reconciliations of these measures, we refer you to today's press release.

231

232 Let me now review the actual results:

233

234 **Revenues** were \$87.3 million, up 10.9% from \$78.6 million in Q3 2022 and 1.3 % compared to  
235 \$86.2 million in Q2 2023. When we take the trailing twelve months' view, our revenue was  
236 \$332.4 million, an increase compared to last quarter's trailing twelve months revenue of \$323.7  
237 million.

238

239 Our strongest regions in terms of revenues for the quarter were **India** and **North America** with  
240 \$29.9 and \$22.5 million, respectively, in line with the continuous strong demand we see in  
241 these regions.

242

243 Our third strongest region in terms of revenues was **Latin America** with \$12.9 million.

244

245 We had two customers in the third quarter that contributed more than 10% of our revenues.

246

247 **Gross profit** for the third quarter on a non-GAAP basis was \$30.4 million, an increase of 8.8%  
248 compared to \$28.0 million in Q3 2022, and essentially unchanged compared to \$30.4 million in  
249 Q2 2023. Our non-GAAP gross margin was 34.9% compared to 35.5% in Q3 2022 and 35.3% in  
250 Q2 2023. We continued to achieve high gross margins mainly as revenues from North America  
251 continued to maintain its high level and product mix continued to be favorable, while we keep  
252 costs under control, although this was offset to some extent by inventory write-offs as we

253 prepare to launch new products. Our gross margins continue to fluctuate from quarter to  
254 quarter, due to changes in product and regional mix.

255

256 When we take the trailing twelve months' view, our non-GAAP gross margin was 34.3%, slightly  
257 lower from last quarter's trailing twelve months gross margin of 34.5%.

258

259 As for our **operating expenses**:

260

261 **Research & Development** expenses for the third quarter on a non-GAAP basis were \$7.3  
262 million, up from \$7.2 million in Q3 2022, and slightly lower from the \$7.6 million in Q2 2023. As  
263 a percentage of revenue, our R&D expenses were 8.3% in the third quarter compared to 9.1%  
264 in the third quarter last year.

265

266 **Sales & Marketing expenses** for the third quarter on a non-GAAP basis were \$9.7 million, up  
267 from \$8.3 million in Q3 2022 and also up from \$9.4 million in Q2 2023. As a percent of revenue,  
268 sales and marketing expenses were 11.1% in the third quarter compared to 10.5% in the third  
269 quarter last year.

270

271 **General and Administrative expenses** for the third quarter on a non-GAAP basis were \$5.5  
272 million, down from \$6.1 million in Q3 2022 and down from \$6.1 million in Q2 2023. As a  
273 percent of revenues, G&A expenses were 6.2% in the third quarter compared to 7.8% in the  
274 third quarter last year.

275

276 We intend to continue being disciplined in our operating expenses while leveraging our strong  
277 results to further invest in certain areas to support continuous growth. Primarily, it is our  
278 intention to increase our sales and marketing expenses to support acceleration in our  
279 penetration to private networks and small service providers. Therefore, we expect our  
280 operating expenses in the fourth quarter to slightly exceed \$23.0 million. We believe that such  
281 investments can better position us to see further growth in these segments in 2024.

282

283 **Operating profit** for the third quarter on a non-GAAP basis was \$8.0 million, up from the \$6.4  
284 million reported in last year's third quarter and also up from \$7.4 million reported in Q2 2022.

285

286 **Financial and Other Expenses** for the third quarter on a non-GAAP basis were \$2.1 million, in  
287 line with expectations and prior periods.

288

289 **Our tax expenses** for the third quarter on a non-GAAP basis were just under \$1 million.

290

291 **Net income** on a non-GAAP basis for the quarter was \$5.0 million, or \$0.06 per diluted share,  
292 compared to net income of \$4.1 million, or \$0.05 per share in the third quarter last year. The  
293 third quarter GAAP net income was \$3.4 million, or \$0.04 per diluted share, compared to a net  
294 loss of \$0.9 million, or a loss of \$0.01 per share, for the third quarter last year.

295

296 As for our **balance sheet**:

297

298 Our **cash position** at the end of the third quarter was \$34.0 million, compared to \$22.9 million  
299 at the end of 2022. Short-term loans were \$38.2 million compared to \$37.5 million as of  
300 December 31, 2022. We believe we have cash and facilities that are sufficient for our  
301 operations and working capital needs.

302

303 Our **inventory** at the end of Q3 2023 was \$70.1 million, down from the \$72.0 million at the end  
304 of December 2022. We continue to monitor inventory levels, taking into consideration the  
305 improvements in availability of components and expected changes in demand. As Doron  
306 mentioned, inventory levels increased slightly compared sequentially to the second quarter,  
307 reflecting firm orders we are scheduled to deliver in the fourth quarter and the first quarter. As  
308 such, we expect inventory levels to normalize in the near term.

309

310 Our **trade receivables** are at \$104.6 million, as compared to \$100.0 million at the end of  
311 December 2022.

312

313 Our DSO now stands at 115 days.

314

315 As for our **cashflow**:

316

317 Net cash flow generated **by operations and investing activities** in Q3 2023 was \$10.8 million.

318 We expect to generate positive cash from operations for the full year.

319

320 As Doron indicated at the top of this call, demand in our business continues to be strong and  
321 we are encouraged by our backlog, which give us good visibility into the fourth quarter. Based  
322 on our results and as our visibility improves, we are updating and raising the midpoint of our  
323 full year revenue outlook from \$334 - \$348 million to \$338 - \$346 million and reaffirming  
324 expectations for full-year profitability. The outlook we are providing today is based on our  
325 current visibility.

326

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

328

### 329 **Doron's Closing Remarks**

330

331 To close, we are encouraged by our year-to-date results, and we believe that we are well  
332 positioned to achieve self-sustaining cash flows as we execute our growth strategy. We are  
333 excited about the opportunities in front of Ceragon. We have commenced our strategic  
334 planning and budgeting process for 2024 and we anticipate achieving organic growth business  
335 next year. We announced a pending closing strategic acquisition that we believe will accelerate  
336 Ceragon's strategy execution and can provide incremental growth opportunities and extend our  
337 margin expansion efforts. We expect to communicate our guidance for 2024 when we  
338 announce Q4 2023 results.

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

340

341 Have a good day everyone.