

## Ceragon Networks Q4 & FY 2022 Earnings Call Script

February 8, 2023 – FINAL

### **Operator**

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

[OPERATOR INSTRUCTIONS]

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

### **Maya Lustig**

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

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

Ceragon intends forward-looking terminology, such as believes, expects, may, will, should, anticipates, plans or similar expressions to identify forward-looking statements. Such statements reflect only current beliefs, expectations, and assumptions of Ceragon's management, but actual results, performance, or achievements of Ceragon may differ materially, as they are subject to certain risks and uncertainties, which could cause Ceragon's actual results to differ materially from those projected in such forward-looking statements. Such risks and uncertainties include, but are not limited to, those that are described in Ceragon's most recent Annual Report on Form 20-F and as may be supplemented from time to time in Ceragon's other filings with the SEC, including today's earlier filing of the earnings PR, all of which are expressly incorporated herein by reference. Forward-looking statements relate to the date initially made, do not purport to be predictions of future events or results, and there can be no assurance that they will prove to be accurate, and Ceragon undertakes no obligation to update them.

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

**Doron Arazi**

Thank you, Maya, and good morning, everyone.

We had a very good 2022 in terms of the strength of our business, as reflected in our annual bookings. Our bookings-to-revenue ratio was well above 1. We ended the year with a strong backlog. Fourth quarter bookings were softer than prior quarters, but this is similar to fourth quarter 2021, largely reflecting seasonality factors in doing business in the last quarter of the calendar year. At the inception of 2023, we are seeing again strong demand for our products and services.

Financially, the fourth quarter of 2022, despite being at the lower end of our revenue projection, was a good quarter for us in many aspects. We ended the quarter with 33.1% gross margin and a \$3.2 million in operating profit, which reflects a growth of 113% over the fourth quarter of 2021. When we look at the second half of 2022, we see significant improvement in our revenue levels and profitability. This, we believe, is mainly thanks to a combination of two factors. First is our relentless execution of our Growth Strategy, and the second is the changing market dynamics, especially in supply chain, which continues to head in a good direction.

Our fourth quarter 2022 revenues would have been even higher by a few million dollars, were it not for a policy change by one of our leading customers regarding equipment receipt prior to year-end. The gap was also impacted, to a lesser extent, by a delay in a specific component that pushed certain equipment delivery out of fourth quarter 2022, into the first quarter 2023. As of today, we are mostly caught up with these deliveries. Without these two factors, our fourth quarter revenue and profit would be stronger.

Throughout 2022, we made significant headway in the productization of our new system-on-chip technology, and we are on track and expect to finish productization in 2023 and launch our new product line in 2024. We strongly believe this SoC will drive strong demand and have a

transformative impact on the industry and on our market share and performance, mainly due to 2 to 3 years' time-to-market advantage we expect to have over our competitors.

Assuming supply chain dynamics continue to head in the right direction, together with strong business traction, diverse and growing use cases for Ceragon's solutions, and the new products in development we expect to launch, we are excited about the growth opportunities we anticipate for 2023 and beyond.

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

**In North America** in the fourth quarter of 2022, 5G build continues to be strong. We received first orders for the DISH 2023 deployment. We also saw significant traction in the critical infrastructure sector in certain states with multiple RFPs. We continued to invest and intensify our sales efforts and services infrastructure in the region, and we intend to continue with this investment in 2023.

Our bookings were softer than our expectations, as some of the orders were not received on time in Q4 2022 and were shifted to Q1 2023. Our revenues were also lower than our expectations due to the year-end policy change by one of our clients. I'm happy to report that we already caught up on a major part of the slippages. We expect a strong first quarter in this region.

**India** is a saturated market in terms of end-customer demand, which means operators are increasingly turning to up-selling and cross-selling to improve customer experience and drive engagement. Indian telcos continue to invest in 4G technology while they start deploying 5G in different regions. They augment their network capacity with additional fiber and wireless E-band & multiband to meet the demand for high-speed. Coupled with the growing affordability and availability of 5G smartphones, we expect these developments to fuel consumer adoption of 5G in 2023 and beyond.

In Q4 2022, we continued to deliver our products for 4G networks as well as started delivering our E-band/multiband solution for 5G networks. We expect this trend to continue in 2023.

**In Europe**, we had a good quarter despite macroeconomic challenges seen in this region. We signed an agreement for a new turnkey project in Italy worth \$4 million, through which we replaced competition. We won a first project in partnership with a leading OpenRAN vendor composed of the full IP-50 family, including IP-50FX. In general, our Open Network architecture solution continues to get traction as we are invited to more labs of Tier 1 operators, continue field trials with others, and participate in RFQs.

In **APAC**, 5G deployment is still unfolding though at a different pace in different parts of the region. Australia, Japan and Korea are well advanced in 5G roll-out and those are increasing the focus into the rural regions. Indonesia, Vietnam and several others are behind. We are well positioned primarily in Australia where we are providing turnkey services, as well as in South Korea, and Japan. We continue to see traction and interest in our IP-50 product series especially for wide-band and open network use cases. In Q4 2022, we received the first significant order from one of the largest operators in APAC which includes our IP-50FX. We also delivered the 1<sup>st</sup> phase of a private network in Taiwan, which is an emerging and promising use case for us.

In **LATAM**, the continued instability of economies and governments may delay 5G rollout, government projects, and the overall expected telco business. We continue to see competition, primarily driven by Chinese vendors and we continue to focus on offering our managed services, getting very strong traction. We also continue to focus on private networks.

In **Africa**, business was slow in 2022 as many projects and POs were moved to 2023. We enjoyed recurring business in managed services in Nigeria and Congo.

To summarize, while 2022 was a good year overall, it could have been better were it not for supply chain challenges, especially in the first half of the year. While these challenges are less intense today than they were months ago, they still exist and impact our operations.

Despite the said challenges, we reached new milestones in 2022, achieved successes in key areas of our business, advanced the productization of our new chipset, and gained traction on our managed services offering. We did all that while improving our gross margins and profitability.

When we look into the future, we expect a strong 2023!

Given the positive business traction and our operational momentum, we expect to continue our growth in the leading regions we operate in. We anticipate a substantial growth coming from our E-band sales, especially with the new coming cost-effective product that enables covering a broader market base. We also expect that our cell-site routing and managed services businesses to increase in 2023 and beyond.

Before I turn the call over to Ronen to review the financials, allow me to acknowledge our new Chief Revenue Officer, Alon Klomek. In this newly created position, Alon will oversee the entire

revenue materialization from prospect to order delivery and collection. We believe that with this addition to our team, we will be better able to fulfill our strategic goals.

I'd also like to welcome aboard Dima Friedman who is joining us as Chief Operating Officer. Dima will work on further streamlining our operations. With these changes in place, our goal is to optimize our organizational structure and implement our Growth Strategy with further success.

Ronen, over to you?

### **Ronen Stein**

Thank you Doron, and good morning, everyone. I will now share a detailed review of our fourth quarter and full year 2022 financial results.

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

Let me now review the actual numbers with you.

**Revenues** were \$75.5 million, a decrease of 3.0% compared to \$77.8 million in Q4 2021 and 4.1% compared to \$78.6 million in Q3 2022. The decrease is mainly attributed to a policy change by one of our customers regarding equipment receipt prior to year-end.

Our strongest regions in terms of revenues for the quarter were **India** and **North America** with \$21.6 million and \$17.2 million, respectively, in line with the continuous strong demand we see in these regions.

Our third strongest region in terms of revenues was **Latin America** with \$13.2 million, followed by **EUROPE** with \$10.1 million.

We had 2 above 10% customers in the fourth quarter.

**Gross profit** for the fourth quarter on a non-GAAP basis was \$25.0 million, an increase of 10.6% compared to \$22.6 million in Q4 2021 and a decrease of 10.7% as compared to \$28.0 million in Q3 2022. Our non-GAAP gross margin was 33.1% compared to 29.0% in Q4 2021 and 35.5% in Q3 2022.

When we take the trailing twelve months' view, our non-GAAP gross margin was 31.8%, an increase compared to last quarter's trailing twelve months gross margin of 30.8%.

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

As for our **operating expenses**:

**Research & Development** expenses for the fourth quarter on a non-GAAP basis were \$7.9 million, up from \$7.7 million in Q4 2021, and up from \$7.2 million in Q3 2022.

**Sales & Marketing expenses** for the fourth quarter on a non-GAAP basis were \$8.6 million, down from \$8.7 million in Q4 2021, and up from \$8.3 million in Q3 2022.

**General and Administrative expenses** for the fourth quarter on a non-GAAP basis were \$5.4 million, up from \$4.6 million in Q4 2021, and down from \$6.1 million in Q3 2022.

**Operating profit** for the fourth quarter was \$3.2 million, up 113.3% compared to \$1.5 million in Q4 2021, and down 50.0% compared to \$6.4 million in Q3 2022.

When we take the trailing twelve-month view, our non-GAAP operating profit was \$9.3 million, a 20.8% increase compared to last quarter's trailing twelve months operating profit of \$7.7 million.

**Financial and Other Expenses** for the fourth quarter on a non-GAAP basis were \$2.9 million, impacted by an increase in interest rates and fluctuations in certain currencies.

**Our tax expenses** for the fourth quarter on a non-GAAP basis were \$0.5 million.

**Net loss** on a non-GAAP basis for the quarter was \$0.2 million, or \$(0.00) per diluted share compared to \$2.0 million, or \$(0.02) per diluted share in Q4 2021 and compared to \$4.1 million of net income, or \$0.05 earnings per diluted share in the previous quarter.

As for our **balance sheet**:

Our **cash position** at the end of 2022 was \$22.9 million, and our short-term loans stands at \$37.5 million, leaving us with additional \$12.5 million available unused facility.

Our **inventory** at the end of Q4 2022 was \$72.0 million, up from \$64.2 million at the end of Q3 2022. The increase is expected to reduce risks in fulfilling the demand we are witnessing mainly for our new products including the E-band products.

Our **trade receivables** are at \$112.3 million, down from \$115.9 million at the end of Q3 2022. Approximately 11% reflects a debt from a single customer for which we have recently initiated legal proceedings. While we believe we are taking effective measures in collecting this debt, we continue to closely monitor this situation.

Our DSO now stands at 139 days.

As for our **cashflow**:

**Net cash flow used for operations and investing activities** in Q4 2022 was \$10.6 million, mainly related to the investment in inventory and the one-time expense related to Aviat's hostile attempt recorded in Q3 2022.

In 2022, revenues came in shy of the lower end of our guidance. As Doron explained, specific factors were critical including a policy change by one of our customers regarding equipment purchase prior to the year-end, and to a lesser extent, a particular delay related to one specific component, which pushed deliveries from Q4 2022 to Q1 2023.

Our 2023 revenue guidance of \$325 - \$345 million remains unchanged. As we see improvement in the supply chain and component shortages challenges and anticipate this trend to continue, we are more confident in our ability to navigate these challenges and expect to maintain our profitable growth trajectory.

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

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

To close, I'd like to underline the excellent execution of our Growth Strategy, which has led us to achieve strong traction across different regions with different solutions. The improvement in our annual gross margin and operating profit are testaments to the effectiveness of this strategy. We expect an even better 2023, barring unforeseen developments.

Lastly, we will be at the **Mobile World Congress** in Barcelona on February 27<sup>th</sup> through March 2<sup>nd</sup>. We will be showcasing our solutions at our booth, such as AI Network Insights, Open Transport, Longest Haul, and flexible network services. Come and visit us at Hall 5, BOOTH number G61.

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

Have a good day everyone.