**Operator**

Good day, everyone.  Welcome to the Ceragon Networks Limited Fourth Quarter and Full Year 2019 Results conference call.

Today’s call is being recorded and will be hosted by Mr. Ira Palti, President and CEO of Ceragon Networks.

Today’s call will include statements concerning Ceragon's future prospects that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs, expectations and assumptions of Ceragon's management. For examples of forward-looking statements, please refer to the forward-looking statements paragraph in our press release that was published earlier today. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including the risks relating to the concentration of a significant portion of Ceragon's expected business in certain geographic regions and particularly in India, where a small number of customers are expected to represent a significant portion of our revenues, including the risks of deviations from our expectations of timing and size of orders from these customers; the risk that the current slowdown in revenue from India could extend for a longer period than anticipated; the risk of delays in converting design wins into revenue; the risk of a disruption to our and our customers’ business related to the outbreak and potential spread of the novel coronavirus; risks associated with any failure to effectively compete with other wireless equipment providers; the risk that the rollout of 5G services could take longer than anticipated; and other risks and uncertainties detailed from time to time in Ceragon's Annual Report on Form 20-F and Ceragon's other filings with the Securities and Exchange Commission, that 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. We do not assume any obligation to update any forward-looking statements.

Ceragon’s public filings are available from the Securities and Exchange Commission’s website at www.sec.gov or may 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

Thank you for joining us today. With me on the call is Ran Vered, Chief Financial Officer. I would like to introduce you also to our new Head of Investor Relations Ms. Osi Sessler.

Since the topic of the 4G to 5G transition and the timing around it seems to be on everyone's mind, I'll begin my remarks with an overview from our perspective.

The transition to 5G has begun in 2019 in a few countries around the world. In general, operators are taking small steps toward implementation by creating coverage in certain spots, focusing on broadband mobile services, and experimenting with additional 5G use cases. Meanwhile, there is still significant investment in 4G necessary to expand coverage and capacity in areas where it is lacking while preparing for the transition to 5G. Once the 5G rollout intensifies, we are likely to witness investments in two main areas: to ensure adequate 5G coverage is available, and to ensure that the service experience is greatly enhanced with network densification mainly in urban areas.

In 2019, we continued to deploy many 4G projects worldwide such as:

continued network expansion in Latin America as well as network densification in cities in preparation for 5G;

a 4G network expansion project in Mexico with a returning Tier 1 operator, which will help the operator prepare for the transition to 5G;

in Southeast Asia, we are working on a large project to increase coverage and capacity for one of the region's largest mobile operators, as well as providing them with head-room network capacity for 5G as the country prepares for spectrum auctions . . .

and we had a few 4G densification projects with operators in Western Europe who were focusing on preparing for an initial 5G rollout.

The fact that we are being successful in securing new 5G design wins supports our optimistic long-term view of our future market-share, as 5G continues to unfold . . . although possibly at a slower pace than many people have been expecting.

It's also important to remember that we have very long sales and network design cycles in our business. Vendor selection decisions made now, may not produce orders for several quarters and revenue will probably not begin to be recognized until a quarter or two after that. So, it can easily be a year from vendor selection to first revenue. This is an important point to keep in mind when assessing the pace of the market and Ceragon's progress.

Turning to our recent business and financial performance,

I'll just note that our fourth quarter results were in line with our update on January 13th.

India continued to be weak compared to last year, as expected . . . but it looks like business from this region may be stabilizing at around the Q4 level.

Outside of India, revenue grew sequentially in most regions. Ran will discuss the quarter and the near term outlook in more detail . . .

but to set the stage for a more detailed discussion of what's happening in each region, I'll just note that, outside of India,

revenue in 2019 grew almost 11%, while our served markets in those regions of the world did not experience anything close to double-digit growth in 2019.

This means we are gaining market share, which is a key component of our strategy – in addition to capitalizing on the growth in the market from the transition to 5G.

Turning to a discussion of the regions, we'll begin with India.

In case some of you haven't kept up with the developments we've been discussing for the past year, what we have seen in India throughout 2019 was operators slowing down 4G network investments in anticipation of spending a lot of money in the 5G spectrum auctions as well as the associated network investments.

The lack of profitability and heavy debt burdens among most of the large operators in India, even after consolidation and restructuring, became an even more serious issue when a decision by the Supreme Court in India resulted in two of the three largest operators owing enormous fees to the government which would make their participation in 5G spectrum auctions problematic. Currently, they are appealing to the government for some sort of relief from the financial burden, but nothing has been settled.

On the positive side, despite the relative slowdown, operators must continue to expand 4G networks.

In the US, we have seen a slowdown as the merger between T-Mobile and Sprint, both very strong customers of ours, was further delayed as the companies await final approvals; a merger which the companies view as essential for 5G deployment. As both companies continue to deploy 4G and launch 5G in additional markets, we will continue to be a significant player in that rollout. In the shorter term, however, and throughout most of 2019 the delayed decision on the merger negatively affected the companies' ordering patterns.

Turning to Latin America, during the year we began deployment of a multi-year large new digital divide project with Orocom in Peru. This project has been moving well, but a little bit slower than expected.  Elsewhere in the region, we continued significant 4G expansions with a long-time customer across countries in the Southern Cone, as well as began network densification in cities in preparation for 5G.

In Mexico we began a 4G expansion project with a returning Tier 1 operator in the country, which will help this operator prepare the transition to 5G as well.

In Southeast Asia, we further increased our presence in the 4G market. Here we took additional market share with our proven capabilities in fast network deployment, with our all-outdoor products and our network design and rollout services. Our ability to increase coverage and capacity quickly enables a fast pace of subscriber acquisition for one of the region's largest mobile operators.

In Europe we had a few 4G densification projects with several operators in Western Europe who had been focusing on enhancing subscribers' experience in cities with initial 5G rollout, and for that purpose deploy our new mmW products to generate significantly higher network capacity.

Demand for our technology and solutions resides not only within the global telco sector. We see significant opportunities serving mission-critical private networks such as public safety and first responder agencies, defense, utilities, oil & gas industry, mining and more.

You are already familiar with the Orocom project in Peru where we are bridging the digital divide.

In Western Europe we executed a project with a national government where we upgraded their network, providing high-speed connectivity between branches nationwide. We see additional opportunities in these vertical markets driven by our technology solutions and comprehensive services portfolio from network design to implementation.

Both carrier and vertical markets are extremely competitive and the company with the best products doesn’t automatically win, but we believe our technology leadership is an important factor in making sure we are consistently on the “short list” for final vendor selection:

We were the first to introduce multicore technologies which provide new ways to deploy wireless backhaul more cost effectively and faster.

We were the first to introduce compact multi-carrier all-outdoor solutions which eliminate the complexity operators struggle with when attempting to acquire new sites as they strive to expand and densify networks.

We are developing the next generation of chipsets, which will enable far broader, flexible ways to utilize spectrum across all microwave and millimeter-wave bands. This will allow us to take a significant role in 5G deployments globally and, when coupled with our unique approach to network disaggregation, will enable our customers to roll out 5G even faster.

The IP-50 platform, which we announced in 2019, is part of our approach to network disaggregation and is designed to support any 5G network. We are already receiving excellent reactions from our customers, some are already deploying these products and others are awarding us new 5G design wins based on this new product platform, because:

It provides flexible ways to deploy wireless backhaul and fronthaul, which we call in short ‘hauling’, in support of all 5G use cases across existing and novel 5G network architectures.

It provides the broadest choice of spectrum options to deliver unlimited network growth.  Our chipset investments will deliver spectrum choices up to 200GHz, with capacities reaching 100Gbps over the air, which cater for every 5G scenario.

It provides (the industry's first) open wireless hauling solution by disaggregating network software from hardware, to enable better network economics, operational efficiencies and accelerate network development. In short: take full advantage of what 5G can offer.

Our technological leadership was validated during the year when we announced the 5G-related joint development agreement with NEC, one of the other large players in this market. This is a testament to the superiority of our technology in the market. This joint work is built on the R&D work we've done so far on next generation technologies and will be embedded in our new 5G future chipset and products. In order to maintain this leadership, we plan to continue to invest in chipsets and technologies which provide our customers with first-to-market advantages and give us a unique design-to-cost advantage.

To summarize,

we have a unique value proposition that enables our customers to unlock their 5G potential with flexible wireless hauling at their pace.

5G has opened a world of new business opportunities as well as network challenges for our customers.

It is our role to supply them with a smooth and fast transition to 5G while keeping costs down.

We do this by offering flexible, innovative 5G hauling solutions with open network capabilities that enable our customers to realize the full potential of 5G by giving them the ability to do more with less.

5G won’t automatically make us grow and succeed, but it affords us the opportunity to help customers succeed in ways they’ve never had to consider before . . . and to be rewarded with a higher share of the available business.

Now I’d like to turn the call over to Ran to discuss the financial side in more detail. Ran?

**Ran Vered**

**Chief Financial Officer**

Thank you, Ira.

Since you have all seen the press release, I'll just highlight some of the significant aspects of the results.

First, I'd like to put 2019 into some context from a financial perspective. At the beginning of 2019, we expected some softening in business from India for the simple reason that it had been so strong for so long that a pause would be consistent with general patterns we have seen in carrier deployments.

Also, it was time for the operators in India to begin to look toward upcoming 5G spectrum auctions. As Ira summarized a moment ago, the biggest factor that caused our actual revenue for 2019 to be below our target was the dramatic slowdown in India, causing revenue from India to decline over 60% year over year – a much larger drop than we had expected.

Meanwhile, some offsetting momentum we might have enjoyed from the U.S. was stalled along with the T-mobile - Sprint merger decision. After being generally flat for 3 years, we thought 2019 would see an uptrend, which turned out to be very small.

Nevertheless, the improvement we had seen in 2017 and 2018 in some other regions such as Latin America and Asia Pacific continued in 2019 so that, excluding India, we grew almost 11% in the rest of the world. So, if you are looking for a simple explanation for what happened in 2019, the answer is that “the slowdown in India” significantly offset the growth in other regions.

Adjusting for the lower-than-expected volume, our gross margin for 2019 was in line with expectations. We were able to maintain our gross margin above 34%, excluding the impact of the one-time inventory write-off in Q4. This was achieved mainly due to our continuous focus on managing our costs and not compromising on deals’ margin.

With respect to operating expenses, we were able to maintain our 5G investment at an aggressive level in 2019 by shifting resources to our next generation chip. Variable compensation and commissions were lower, in line with the revenue decline, so sales and marketing was below the level of 2018.

General and administrative expenses included a one-time receivable write-off in Q4 . . . but even excluding the one-time item, G&A was higher in 2019 mainly due to spending on strategic initiatives earlier in the year. Altogether, operating expenses were about $1 million lower in 2019 versus 2018. With our strong focus on stringent control of operating expenses, we are determined to keep our overall opex for 2020 at about the same level as 2019, or slightly higher. However, you should think about it in the context of higher R&D spending to support our 5G leadership, with slightly higher sales and marketing, offset by significantly lower general and administrative expenses.

Before getting into more details about the outlook for this year, I'd like to go over a few points regarding Q4 results.

Revenue in the fourth quarter was $71.3 million, towards the low end of our quarterly revenue run rate of $70-75 million.

Regionally, Latin America improved sequentially mainly due to a catch-up on our project in Peru, which had experienced a delay during Q3.

After an unusually strong quarter in Q3, the APAC region returned to a revenue level more typical of recent quarters. The U.S. and Europe remained stable and weakness in revenue from India offset the improvements elsewhere. To illustrate the point, India accounted for only 16% of total revenue in Q4. By contrast, India accounted for well over 40% of total revenue in the first half of 2018.

What we find encouraging, as Ira mentioned, is that India appears to be stabilizing at around the level of Q4 . . . and, while we don't currently see a major improvement in 2020, we don't expect a further substantial decline either.

We are assuming we will stay at a quarterly run rate in the vicinity of $12 million on average, but we must continue to remind you that India has a tendency to have very lumpy order patterns.

We had only one above 10% customer in the fourth quarter, which was one of the operators in India.

GAAP gross margin in the fourth quarter was 31.7% which included a one-time inventory write-off of $2 million. Non-GAAP gross margin in Q4 was 31.3%, including the inventory write off. Excluding the one-time item, non-GAAP gross margin was 34.1%, reflecting the more favorable geographic mix of revenue.

Our GAAP operating expenses for the fourth quarter were $24.8 million, higher than expected mainly due to the impact of the one-time provision related to a long-time customer experiencing financial difficulties. Non-GAAP opex in Q4 was $24.4 million and, excluding the one-time item, non-GAAP opex was $23.1, still slightly higher than our previous range.

Looking ahead, in the first half of 2020, we will probably see opex in the range of $21-$22 million, with it continuing to rise in the second half to above $22 million per quarter. As mentioned a moment ago, we believe we can avoid having a large increase in opex in 2020, a transition year from the revenue side, but we also believe we must continue to invest aggressively in our next generation technology. So, we will be doing our best to offset the increase in R&D with reductions in other expenses to the maximum extent possible.

Financial expenses and others for the quarter were higher than previous quarters during 2019. We expect that Q1 financial expenses will return to its regular level.

Non-GAAP Tax expenses in Q4 are higher than Q3, as expected, mainly due to taxes from previous years in a few countries, offset by a decrease of current taxes.

Our GAAP Loss Per Share in the fourth quarter of 2019 was $(0.05) per diluted share versus net income per diluted share of $0.14 in the fourth quarter of 2018. This very large swing relates to the fact that in Q4 2018, we recorded income on the tax line, primarily due to the need to record a tax asset of $7.2 million on our balance sheet that reflects tax benefits we anticipate as a result of utilizing our NOLs against taxable income in the future.

As you know, net income in Q4 of 2019 includes $3.3 million of one-time items, which exaggerates the difference even more.

Our non-GAAP loss per share in the fourth quarter was $(0.06) per diluted share including the one-time items. Excluding one-time items, our non-GAAP loss per share in the fourth quarter was $(0.02) per share.

Turning to the balance sheet receivables decreased to $118.5 million with DSOs of 151 days. This is an improvement compared to Q3 mainly because of strong collection.

Inventories decreased from Q3 by approximately $5.6 million to $62.1 million. This is a continued effort to reduce our inventory levels that were unusually high due to our preparations for the fast delivery to certain customers.

We are continuing to focus on bringing down inventories as quickly as possible and on aggressive working capital management, including collection efforts.

Cash increase by $3.4 to $23.9 million at the end of Q4. We reduced our borrowing under the revolving credit agreement by $2.8 million to $14.6. We also improved collections, but not as much as we expected mainly because of delays in 2 customers in Africa and APAC. Since year end we have been successful in collecting some of these amounts so the achievement of this goal will become apparent on the Q1 financial statements.

In Q4, we generated positive cash flow from operations of $8.6 million, as expected. With our strong collections since year-end, we expect to generate strong positive cash flow in Q1 and we are aiming to continue the repayment of our outstanding balance under our revolving credit agreement.

Turning to the near-term outlook, our bookings in the fourth quarter were lower than expected, since the fourth quarter is usually a strong booking quarter.  With lower short-term demand from a customer in Africa and no end in sight to the slowdown in India, our book-to-bill ratio was below 1. This means that 2020 is off to a slow start. In addition, Q1 is typically a seasonally slower quarter for us.

Therefore, we expect to be well below the low end of our recent average quarterly revenue run rate of $70-$75 million. For the remaining quarters of 2020, we continue to expect an average quarterly revenue run rate of $70-$75 million, and we expect growth for 2020 as a whole, compared to 2019.  We also expect a more favorable geographic mix in 2020, leading to higher gross margin compared to 2019. Therefore, based on our assumptions for quarterly revenue run rate, product mix and operating expenses, we continue to expect 2020 to be a profitable year.

As many companies in our space, our outlook for the coming months is clouded by the effects of the outbreak of the novel coronavirus in Asia and particularly in China. Our supply chain could be significantly impacted and our customers could be negatively affected. However, as the impact is too early to determine, we have not addressed it in our forward-looking statements.

To summarize, and as Ira said, despite recent developments, we are taking the long view and continuing to invest in major programs because our future roadmap is an important aspect of adding new design wins that will turn to revenue next year and beyond. We are the strongest company in wireless backhaul and we expect to maintain that position throughout the transition to 5G and beyond.

Now, I would like to open the call for questions, operator?