

Ceragon Networks Q4 & FY 2021 Earnings Conference Call Script

February 7th, 2022 – FINAL

Welcome - Operator

Welcome to Ceragon Networks Fourth Quarter and Full Year 2021 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 conference is being recorded. It is now my pleasure to introduce your host, Maya Lustig, Head of Investor Relations of Ceragon. Thank you, you may begin.

Safe Harbor - Maya

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

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, 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.

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, such 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 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 they will prove to be accurate. Ceragon may elect to update these

forward-looking statements at some point in the future, but it specifically disclaims any obligation to do so.

Ceragon's public filings are available on 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 Doron. Please go ahead.

Overview commentary by Doron Arazi

Thank you, Maya and good morning, everyone.

We had a relatively good end to a highly challenging year. I'm pleased to share with you that we delivered at the high end of our projected annual revenue range – at \$291 million.

But our best efforts and success in delivering revenues were overshadowed by the many challenges the business world experienced in 2021. As I mentioned in our previous calls, the global component shortage, supply chain disruptions, and shipping bottlenecks have rattled many industries, including ours. They led to increased prices. As such, our financials have been materially impacted throughout 2021.

Our Gross Margin for the fourth quarter was 29%. It's our belief that if it weren't for such strong turbulence in these industries, our Gross Margin would have been around 3% higher. We maintained our strong position in the market, but it came at a cost.

Looking ahead, we have an optimistic view. We believe the crises will eventually calm down, and we will see improvements in the second half of 2022.

Until then, we are looking to overcome component shortages and looking into new ways to improve the cost competitiveness of our products without compromising on quality and performance. We are also working on optimizing our shipping costs. This is all part of our delivery through margin expansion strategy.

Looking at our overall financial results for Q4, I'm pleased to report that we have been on track with our expectations all the way down to the operating income, on a non-GAAP basis. In fact,

we would have been at a breakeven point for the second half of 2021 if it weren't for higher-than-expected financial expenses. Ran will elaborate on this further.

In 2021, the majority of our business came from 4G. That said, 5G is growing fast, especially in North America, Europe, and to a certain degree in APAC. I am very pleased with the fact that in these regions, our 5G bookings made up of over one third of all bookings. In 2 to 3 years, we expect our business to mostly come from 5G.

This past year we continued to win in our domain by focusing on best-in-class all-outdoor MW and mmW market segments. Our recent products such as the IP-50E and IP-50C with our SDN suite made strides in the market. We engaged in new POC's, trials, and orders with an increasing number of prominent market players and other tier 1's. We ended this year selling quite significant quantities of IP-50E and IP-50C equipment. This is a great achievement, especially given the relatively short time passed since their launch, and given the fact that we don't have all frequencies available yet.

Beyond our core domain, I'm pleased to share with you that the 5G era provides us with many opportunities. From OpenRan to Disaggregated Cell Site Routers and to Disaggregated Wireless Transport, the trend towards opening the network is strong. Our product strategy for Disaggregated Wireless Transport with the RAON SW and layer 3 routing capabilities position us ahead of the curve.

In Q4, we partnered with IP Infusion. Through this partnership we are delivering the industry's first radio-aware disaggregated cell site router. In parallel we just launched our IP-50FX Disaggregated Cell Site Gateway (DCSG) solution. It is now generally available for sale and deployment.

Disaggregated routing is an open wireless transport architecture that decouples the hardware and software elements of routers. The IP-50FX uses best-of-breed software as well as best-in-class hardware. Beyond that it also integrates two essential cell site elements into a single scalable product: a cell site router and a radio indoor unit. It provides mobile service providers and private networks a faster, more cost-effective way to deploy and upgrade 4G and 5G cell sites

I am also proud to share with you that our new IP-50FX has been awarded the prestigious Telecom Infra Project (TIP) Requirements Compliant Ribbon and is listed on TIP Exchange. TIP is a diverse global community of communication solutions and service providers whose goal is to advance high-quality connectivity worldwide. They do so by accelerating the deployment of open, disaggregated, and standards-based solutions. The IP50FX is the only wireless transport equipment that has received this award so far.

The market timelines of IP-50FX and its TIP ribbon is a testament to our technological leadership, our passion for innovation as well as our understanding of the industry's direction and the adjustments we need to make to maintain our technological edge. IP-50FX gives us the first mover advantage, helping us to grow market share in the \$4 billion wireless transport and the \$2 billion cell-site routing markets.

As 5G brings more network complexity, more and more companies are turning to us to manage their wireless transport with our Managed Services offering. While smaller carriers and private networks benefit the most from this, large companies turn to us as well to provide them with either partial or full services for operating their transport network. One example is our recent engagement with Globacom on which I will elaborate later.

We have a presence in 140+ countries, 50 of them strongly so. We have served more than 2,000 customers throughout the years. So, you see, on top of our technological capabilities and software tools, we have the resources and the experience to become a one-stop-shop for our existing customers as well as new ones.

Our decision to focus and strengthen our managed services offering, leveraging our software tools, will strengthen our relationships with our customers, increase our recurring revenue, giving us more visibility, reduce the lumpiness of our business results, and improve our gross margins

We have just ratified our mid- and long-term strategy with our board of directors. This strategy, which is comprised of increasing our traditional business and expanding into managed services business as well as new markets such as the cell site routing market, is designed to guide us to a new phase of growth through margin expansion. With our now more optimistic view about the main challenges we faced in 2021, we expect our revenue for 2022 to range between \$305-\$320 million.

Let me now give you an overview per region.

In North America although our bookings in Q4 were a bit lower than in previous ones, overall 2021 was a record year for us. Our 5G design win customers generated more than 50% of the bookings for this region.

In Q4, I'm pleased to report that our lab tests with our Tier-1 operator customers continued and have been successful so far. We expect the testing process to continue during the first half of the year.

Looking ahead, in North America, we see significant federal investments to expand networks to rural North America. We see the region's critical infrastructure market grow. Our goal is to leverage these developments. To that end, we are restructuring our organization in this region.

In India, Q4 was a healthy quarter for us. On an annual basis, we had a very strong year, surpassing our record since 2018. The industry performed strongly, as post-Covid recovery continued. We saw sustained demand for network upgrades and expansion. We believe the future of 5G in India is bright. As 5G corridors are developed in the region, we will be there to participate in RFPs.

In Europe, we had another strong quarter. We won two tenders with Rai Way, Italy's national TV and radio network provider, to renew and maintain their wireless transport network infrastructure.

We successfully finished IP50FX PoC with a leading Tier-1 operator. We will be undertaking SDN trials with another operator, and IP50FX trials with a third operator. The future of 5G in Europe is strong and we feel confident about all these trials.

When we look at our activity in the European continent on an annual basis, 2021 was a record year, surpassing the last eight years in terms of bookings. Our 5G design win customers generated more than 30% of the annual bookings for this region.

In **APAC**, while there have been signs of a new momentum, 2021 was a difficult year. Many business decisions were pushed to 2022. That said, we continued building a solid pipeline for potential future partnerships.

In **LATAM**, the macro environment remained challenging. The South Cone was adversely impacted by the economic crisis. The rest of LATAM too experienced a variety of different challenges including Covid.

All that said, we have a new customer in Mexico who is expected to evaluate our IP50FX in Q1 2022. We also built a solid pipeline of government funded projects in Mexico and Peru. There are initiatives to close the digital divide between different communities. We are doing our best to take part in such projects.

In **Africa**, we had a very strong second half. We received bookings from a Tier 1 operator worth \$5M. We signed and received POs for a multimillion-dollar deal with Globacom, a Tier-1 Nigerian telecom operator. We will be providing Globacom with a customized solution that

covers long-haul rural areas, high-capacity metro, as well as the access network. We will help them to not only enhance their existing subscribers' quality of experience but also to expand their reach to further grow their market share. We will also be providing them with deployment services and managed services for monitoring the health of their network as well as first tier support.

With that, let me now turn the call over to Ran to discuss the financials for the quarter. Ran?

Financials - Ran Vered

Thank you, Doron and good morning, everyone.

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.

Like Doron mentioned, during Q4 2021 we saw strong bookings coming from India and Europe. When we look at the trailing twelve months we see a strong book-to-bill ratio, above 1.

Let me now review the actual numbers with you.

Revenues for the fourth quarter were 77.8 million, up by 5.1% compared with \$74 million in Q4 last year. This was achieved despite the highly challenging environment we found ourselves in. We are proud of this achievement and the fact that most of our customers' demands were fulfilled.

Our strongest region in terms of revenues for the quarter was **India**, reflecting ongoing deliveries for our main customers in the region and in line with the strong demand we are seeing in this region.

Our second strongest region in terms of revenues for the quarter was **LATAM** mainly thanks to the progress we made with the deliveries and deployments for our Colombian tier 1 operator customer, whose agreement we announced back in March 2021.

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

For the year, our revenues were almost \$291 million, up almost 11% from 2020. This reflects our ability to keep up with the strong industry demand we are experiencing, even during such a challenging time.

Gross profit for the fourth quarter on a non-GAAP basis was \$22.6 million, giving us a non-GAAP gross margin of 29%, similar to the fourth quarter of 2020. As Doron mentioned, if it wasn't for the component shortages and surging shipping costs, our Gross Margin would have been around 3% higher.

For the full year, the non-GAAP gross margin was 30.3%, compared to 28.7% in 2020. We are pleased with this achievement especially given the challenging macro environment we are in.

Operating expenses on a non-GAAP basis for the fourth quarter were \$21 million, in line with our expectations.

Research & Development expenses for the fourth quarter on a non-GAAP basis were \$7.7 million, similar to Q4 2020.

Sales & Marketing expenses for the fourth quarter on a non-GAAP basis were \$8.7 million, compared to \$8.5 million in Q4 2020, still reflecting the reduced travel and variable compensation that have come with COVID.

General and Administrative expenses for the fourth quarter on a non-GAAP basis were \$4.6 million, slightly lower than our expectations.

Financial and Other Expenses for the fourth quarter on a non-GAAP basis were \$2.7 million.

In the fourth quarter, we incurred \$600K in financial repatriation expenses as we repatriated a significant amount of cash collected earlier than expected, from a large customer in a developing country to Israel. In addition, the exchange rate was not in our favor in Q4, which is something we can't control or forecast.

Our tax expenses for the fourth quarter on a non-GAAP basis were \$0.9 million. This is in line with our yearly expectations.

I would now like to spend a couple of minutes on our tax line in our GAAP numbers, as this caused a big drop in our net income and EPS for Q4 and for the full year on a GAAP basis. In Q4, we wrote off a tax asset of \$8.5 million. Let me explain why.

If you recall, back in 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 reflected tax benefits we anticipated as a result of utilizing our NOLs against taxable income in Israel in the following years. This also meant that we were expected to record higher tax expenses on a GAAP basis in the following years. This was an indication of our strong performance back in the day as well as our expectations for continued strength. However, since in the past 3 years we recorded net losses on a GAAP basis, according to the accounting guidelines, we now had to write-off the tax asset.

Net loss on a non-GAAP basis for the quarter was \$2 million, or \$0.02 per diluted share.

As for our balance sheet, our **inventory** at the end of 2021 was \$61.4 million, up from \$50.6 million at the end of 2020. The increase reflects our need to stock long lead-time and strategic items as a result of increased customer orders as well as the ongoing component shortages. We strive to keep our inventory levels at a lower level but given the current environment, sometimes the need to stock key and long-lead items arises.

Our **trade receivables** are now at \$118.3 million, up from \$107.4 million at the end of 2020. Our DSOs now stand at 149 days, same as in Q4 2020.

Net cash used in operating and investing activities for the fourth quarter was \$13.1 million.

Net cash provided in financing activities for the fourth quarter was \$2.9 million.

Looking forward, we continue to expect strong operator demand – alongside continued uncertainty. Although the situation remains volatile, we believe that we are maintaining good control, and are well positioned to take full advantage of long-term opportunities.

We are targeting revenue growth in 2022. Assuming the global component shortage, supply chain disruptions and shipping issues will calm down, we expect yearly revenue to be between \$305-\$320 million, with improvement in our gross margin. Our long-term non-GAAP gross margin remains in the range of 33%-34%.

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

Doron's Closing Remarks

Thank you.

In closing, allow me to reiterate that in 2021 we enjoyed strong bookings and healthy revenues. We were able to contain the impact of the crises around us. I sincerely thank our employees for the enormous endurance and creativity they showed in these extraordinary times.

While in the short run we expect to be dealing with the same issues, continued strong demand by our customers brings us optimism. We expect market share growth and margin expansion in the mid and long term.

Our goal is to create equal digital opportunities for all people around the world, whether they are in an urban setting or in a rural area. We work to bring reliable communication capabilities everywhere.

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

Have a good day everyone.