

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

Intro

Peter Schuman, Vice President, Investor & Industry Analyst Relations

Thank you [Erik]. Welcome and thank you for joining us today for Cambium Networks third quarter 2023 financial results conference call and welcome to all those joining by webcast.

Morgan Kurk, our President & CEO, and Andrew Bronstein, our CFO, are here for today's call. The financial results press release and CFO commentary referenced on this call are accessible on the investor page of our website and the press release has been submitted on a Form 8-K with the SEC. Certain revisions were made within operating expenses in prior periods to conform to the classifications in the current period. These revisions had no impact to operating results.

A copy of today's prepared remarks will also be available on our investor page at the conclusion of this call.

As a reminder, today's remarks, including those made during Q&A, will contain forward-looking statements about the company's outlook and forecasted performance. These statements are based on current conditions, forecasts, and assumptions. Risks and uncertainties could cause actual results to differ materially.

Except as required by law, Cambium Networks does not undertake any obligation to update or revise any forward-looking statements for any reason after the date of this presentation, whether as a result of new information, future developments, to conform these statements to actual results or to make changes in Cambium's expectations or otherwise. It is Cambium Networks' policy not to reiterate our financial outlook. We encourage listeners to review the full list of risk factors included in the safe harbor statement in today's financial results press release and our most recent SEC filings, including our most recent Form 10-K and Form 10-Qs.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

We will also reference both GAAP and non-GAAP financial measures and specifically note that all sequential and year-over-year comparisons reference non-GAAP numbers except where otherwise noted. A reconciliation of non-GAAP measures to GAAP is included in the appendix to today's financial results press release which can be found on the investor page of our website and in today's press release announcing our results.

Turning to the agenda...

Morgan Kurk will provide the key operational highlights for the third quarter 2023 and Andrew Bronstein will provide a recap of the financial results for the third quarter 2023 and will discuss certain elements of our financial outlook for the fourth quarter 2023. Our prepared remarks will be followed by a Q&A session.

I'd now like to turn the call over to Morgan...

Morgan Kurk-President & CEO

Thank you, Peter.

I'll begin by outlining some of the observations I've had and the initiatives I've started during my three-month tenure as CEO, and why despite our challenges and economic headwinds I am excited by Cambium's future.

After a comprehensive review of Cambium Networks' product portfolio I am impressed by the technology I have seen both in depth and breadth. Furthermore, I'm encouraged by the technical talent throughout the organization and believe that with additional direction there is wealth of opportunity to be exploited. I see possibilities in our future roadmaps by combining technologies from different areas of the business to solve networking problems more effectively.

I have three immediate priorities.

My first focus is in execution. This is in all aspects of the business and is about keeping our promises. A promise to deliver our innovations, when we say, what we say. A promise to deliver

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

greater value than the rest of the market. A promise to use capital wisely whether in cash or human capital. This say/do is the foundation of trust within the company and between us and our customers and suppliers and is what I will use to build a solid organization.

Second, after an initial strategy session and discussion with customers I've concluded we often try to do too much, spreading ourselves too thin, so I am implementing a "focus and simplify" strategy where we build core platforms that can be used to create multiple solutions. This strategy improves efficiency in engineering, reduces time to market, and lowers product and support costs. Focus is the key to success and requires the strength to decide what to do and what not to do.

My third priority is to improve our go-to-market in specific areas where we can grow. We will place additional emphasis on those sectors that can be differentiated, through products or services.

I look forward to growing Cambium's topline revenues and returning the business back to higher levels of profitability.

Recapping the underperformance of Q3'23 revenues

We had three items contributing to the shortfall in revenues during Q3'23.

Our Point-to-Point (PTP) revenues decreased 37% sequentially and grew 3% year-over-year due to temporary U.S. Federal budgetary issues, resulting in a gap of more than 8 million dollars in defense orders compared to our initial Q3'23 outlook. We expect a significant portion of these delays to ship during Q4'23.

Our Point-to-Multi-Point (PMP) revenues decreased 12% sequentially and was lower by 10% year-over-year as inventories in channel reduced while waiting for the FCC's approval of 6 GHz spectrum, expected during late Q4'23. The approval is anticipated to drive sales of Cambium's new 6 GHz ePMP 4600 and PMP 450v product lines. On a positive note, our 28 GHz Fixed products reported record revenues, increasing 144% sequentially during Q3'23.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

Our Enterprise revenues decreased 61% sequentially and decreased 93% year-over-year. Orders for our Enterprise business continued to experience headwinds, particularly in North America and EMEA due to high channel inventories. Enterprise revenues were negatively impacted by stock rotations of approximately \$9 million, of which approximately half were exchanged for other Enterprise products.

Sales of Cambium's products out of the distribution channel as reported by Cambium's distributors were significantly higher for Q3'23 than Cambium's reported revenues, and we saw a correspondingly large decrease in channel inventories for both Enterprise and PMP products.

While we are making good progress in clearing out inventory in the channel, this effort is not complete yet. We expect the channel inventories for Cambium's Enterprise products to return to pre-COVID levels during the first half of 2024.

Looking at some customer wins that are key to our future success

In the city of Huntington Park California, Cambium won the first phase of an American Rescue Plan Act "ARPA" funded city-wide initiative to provide internet to bridge the digital divide by equipping streetlights with Cambium's 60 GHz cnWave and outdoor Wi-Fi access points, highlighting Cambium's unique product set.

In the Europe, Middle East, and Africa region – we had a multi-year win with a managed service provider to provide Enterprise Wi-Fi for AB InBev, the largest brewer in the world, providing internet access to thousands of taverns across sub-Saharan Africa as a testimony to Cambium's central cloud architecture.

In the Middle East, the Gulf of Suez Petroleum Company and in the Asia Pacific region, Oil and Natural Gas Corporation Limited, both selected Cambium's suite of PTP, PMP, and cnMaestro™ cloud management solutions to connect large harsh environments which exemplifies our products' reliability.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

And in the Caribbean and Latin America region, we had important wins with the largest hotel chain in the world with managed service provider Single Digits. The Fairfield Luquillo Beach in Puerto Rico is implementing our Wi-Fi 6 and switching solution, and Cambium was recently selected for the AC Santiago in the Dominican Republic, which demonstrates continued acceptance of our products in the hospitality market.

Turning to upcoming product introductions since our previous quarterly update.

In the PTP business for defense communications, Cambium introduced a new smart antenna — the PTP 700 Beam Steering outdoor unit — which enables antenna alignment automatically, rather than manually, and high-level interference mitigation to provide secure communications in hostile environments. This product solves one of the biggest challenges in deploying wireless networks which is antenna alignment, and substantially reduces the cost and weight of the radios.

Cambium is also introducing a Wi-Fi 6 home mesh gateway solution. The Wi-Fi mesh gateway works seamlessly with our fiber and wireless backhaul products, and features auto-frequency coordination, content filtering, device bedtimes, a guest network, and a CAF2 compliant speed test. The hardware and customer app can be customized and branded, with the ability to do self-install and self-help.

Looking at our cnMaestro™ Cloud software — total devices under cloud management in Q3'23 surpassed 1 million for the first time in Cambium's history, increasing approximately 4% from Q2'23, and up over 17% year-over-year.

On the human-interest front

Cambium donated outdoor Wi-Fi equipment to the Information Technology Disaster Resource Center to help those displaced by the fires on Maui. Within hours of installation, one hotel reported the number of connected clients increased by 3x from around 50 to more than 150 connected devices.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

I will now turn the call over to Andrew for a review of our Q3'23 financial results and Q4'23 financial outlook.

Andrew Bronstein-CFO

Thanks Morgan.

While Cambium is presently impacted by lower revenue levels, we are seeing the benefits of our cost reduction plan designed to align our cost structure to our revenues and to improve cash flow. In 2024, we expect to realize annualized cash savings of \$24 million comprised of OPEX savings of approximately \$17 million, additional capex savings of approximately \$5 million, as well as COGS savings of \$2 million. These savings include actions taken in August 2023 as well as cost reductions planned during Q4 2023. Once revenues return to more normalized levels, we expect to see higher profitability flow through to our bottom line.

As a reminder, our 2023 results do not include the full costs for our variable compensation plans due to the underperformance of our operating results. Therefore, for 2024, these variable compensation programs are expected to add approximately \$10 million of costs when compared to 2023.

Turning to the quarter

Cambium reported revenues of \$43.0 million for Q3'23. Revenues decreased by 28% quarter-over-quarter and decreased by 47% year-over-year.

On a sequential basis for Q3'23, revenues were lower by \$16.5 million. The lower revenues were the result of the previously mentioned U.S. Federal budgetary delays impacting our PTP defense revenues, continued lower order volume from our Enterprise business due to high channel inventories, stock rotations, and slowing economies; and slower PMP orders ahead of the approval of 6 GHz spectrum. We have seen PMP and Enterprise channel inventories decline during Q3'23.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

Revenues of \$43.0 million decreased by \$38.2 million year-over-year primarily due to lower Enterprise revenues as a result of high channel inventories, stock rotations, and slowing economies. PMP revenues decreased due to anticipation of the 6 GHz FCC approval, partially offset by higher demand from service providers for 28 GHz fixed 5G. PTP revenues rose slightly year-over-year as a result of increased demand for defense products. We expect stronger PTP revenues for Q4'23 due to our expanding defense business.

By region, North America, CALA and APAC weakened sequentially, while EMEA recovered, growing 111% quarter-over-quarter, driven by demand from a large 28 GHz customer.

Moving to our gross margin. Our non-GAAP gross margin of 27.7% compares to 51.3% in Q3'22. The year-over-year decrease in our non-GAAP gross margin was primarily due to higher inventory reserves of approximately \$5 million dollars, and lower freight capitalization, as well as weaker product mix as a result of lower Enterprise revenues.

On a sequential basis, Q3'23 non-GAAP gross margin was 27.7% compared to 50.3%. The lower quarter-over-quarter non-GAAP gross margin was primarily the result of higher inventory reserves of approximately \$5 million dollars, lower freight capitalization, and lower defense and Enterprise revenues.

In Q3'23 our non-GAAP gross profit dollars of \$11.9 million decreased by \$29.7 million compared to the prior year and decreased by \$18.0 million sequentially due to lower revenues.

Non-GAAP total operating expenses, including amortization in Q3'23 decreased by approximately 400 hundred thousand dollars when compared to Q3'22, and stood at \$27.4 million, or 63.7% of revenues. The decrease in operating expenses compared to the prior year period was primarily the result of lower sales commissions as a result of lower revenues, and lower marketing spend, partially offset by increased wages due to inflationary salary increases effective January 1, 2023.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

When compared to Q2'23, non-GAAP operating expenses decreased by approximately 900 thousand dollars during Q3'23. The quarter-over-quarter decrease in operating expenses is due to lower headcount and lower sales commissions due to lower revenues, partially offset by higher G&A costs due to professional services.

Non-GAAP net loss for Q3'23 was \$12.1 million, or a loss of \$0.44 per diluted share, below our outlook for the quarter; and compared to non-GAAP net income of \$11.3 million, or earnings of \$0.40 per diluted share for Q3'22, and non-GAAP net income of 900 thousand dollars, or \$0.03 per diluted share during Q2'23.

The lower non-GAAP net income compared to the prior year was primarily due to lower Enterprise revenues and a lower gross margin, while the lower net income compared to the prior quarter's results was primarily the result of lower PTP and Enterprise revenues and a lower gross margin, partially offset by lower operating expenses due to a reduction in headcount and lower sales commissions.

Adjusted EBITDA for Q3'23 was a loss of \$14.4 million or negative 33.5% of revenues, compared to \$14.7 million or 18.2% of revenues for Q3'22, and \$2.8 million or 4.7% of revenues for Q2'23.

Moving to cash flow

Cash used in operating activities was 200 thousand dollars for Q3'23 and compares to cash provided by operating activities of \$2.2 million for Q3'22, and cash used in operating activities of \$4.5 million for Q2'23. During Q3'23 we did a great job converting receivables into cash. Inventories were reduced modestly due to additional inventory reserves. While we expect that our inventory balances will decline as we return to pre-COVID levels, we will face some headwinds until inventories at our third-party manufacturers normalize.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

In addition, inventories will reduce as sales orders and revenues increase, driven by Enterprise channel inventories returning to pre-COVID levels, PMP revenues increasing from the introduction of our 6 GHz products, and PTP growth driven by our defense products.

Turning to the Balance Sheet

Cash totaled \$27.5 million as of September 30, 2023, a decrease of \$4.4 million from Q2'23. The sequential decrease in cash primarily reflects lower revenues and net income, CAPEX and income taxes.

Net inventories of \$79.8 million in Q3'23 decreased by \$2.6 million from Q2'23 and higher by \$29.1 million year-over-year. Net inventories were lower sequentially as a result of higher inventory reserves. Channel inventories continued to go down sequentially for both Enterprise and PMP products and we continue to take aggressive actions to work with our distributors and return channel inventories to pre-COVID levels.

In Summary

Cambium's third quarter results were impacted by lower sales orders, and higher stock rotations in our Enterprise business, delays in the timing of defense shipments in our PTP business, and sluggish order volume in our PMP business as our distributors await the FCC approval of the 6 GHz spectrum.

We continue to manage costs prudently. We have taken significant actions to reduce our cost structure, along with aggressive sales actions to move Enterprise inventories through the channel. We continue to expect positive momentum from our PMP products driven by the expected FCC approval of our 6 GHz products, and, although lumpy, the continued ramp of our 28 GHz fixed 5G revenues as more service providers move to commercial deployments.

Moving to the Fourth Quarter 2023 Financial Outlook

Cambium Networks' financial outlook does not include the potential impact of any possible future financial transactions, acquisitions, pending legal matters, or other transactions.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

Considering our current visibility as of today, our Q4'23 financial outlook is expected to be as follows:

- Revenues between \$45.0 to \$50.0 million, representing a sequential increase of approximately 10.5% at the mid-point of our outlook.
- non-GAAP gross margin between 38.0%-45.0%
- non-GAAP operating expenses between \$25.7-\$26.7 million
- non-GAAP net loss between \$4.0 and \$7.5 million or a net loss per diluted share of between \$0.14 and \$0.27.

Further, due to the impact of lower revenues and cash requirements, we will evaluate whether or not to draw a portion (likely less than one-half) of our 45 million revolver as we prepare to enter 2024.

I will now turn the call back to Morgan for some closing remarks.

Morgan Kurk-President & CEO

We still have a way to go before returning to normalized revenues in our Enterprise business, but we are making good progress with our channel partners to digest the current level of channel inventory and sell-out remains significantly stronger than sell-in.

While our PMP business has not yet turned the corner. We expect it will accelerate with the FCC's approval of Cambium's affordable 6 GHz solutions.

Bookings in our PTP business remain strong. We expect a record year of defense revenues in 2023, and we continue to expand the number of programs and countries in which we participate.

Cambium continues to manage our costs, and we are taking additional actions to reduce them, which will serve us well in the future. We are investing in innovative new products but realize that we can't be all things to all customers, which requires focusing on those areas that provide the most compelling value to our customers and a solid financial return for shareholders.

Q3'23 Financial Results Conference Call Prepared Remarks 11/2/23

Finally, I'd like to show my appreciation for our employees, partners, and customers, as we reposition the company for continued success in the long run.

This concludes our prepared remarks.

With that, I'd like to turn the call over to [Erik] and begin the Q&A session.

Operator: We will now open the call for your questions.

Peter Schuman-Vice President, Investor & Industry Analyst Relations – Closing Statement

Thank you [Operator]. During Q4'23 Cambium Networks will be meeting with investors virtually on November 14th at the Needham Virtual Security, Networking and Communications Conference; and on November 15th at the ROTH Capital Technology Conference held in New York, and on December 11th at the Oppenheimer Virtual 5G Summit. In the meantime, you are always welcome to contact our Investor Relations Department at (847) 264-2188 with any questions that arise.

Thank you for joining us and this concludes today's call.