

Q2'19 Financial Results Conference Call Prepared Remarks 8/8/19

Intro

Peter Schuman, Sr. Director, Investor Relations

Thank you Michelle. Welcome and thank you for joining us today for Cambium Networks' second quarter 2019 financial results conference call and welcome to all those joining by webcast.

Atul Bhatnagar, our President and CEO, and Stephen Cumming, our CFO, are here for today's call. The earnings release referenced on this call is accessible on the investor page of our website and has been submitted on a current report on Form 8-K with the SEC. 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 expected performance. These statements are based on current expectations, 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 to not reiterate our financial outlook. I encourage listeners to review the full list of risk factors included in the safe harbor statement in today's financial results press release.

We will also reference both GAAP and non-GAAP financial measures and specifically note that all sequential and year-over-year comparisons reference 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.

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Our intent is to keep our prepared remarks to approximately 30 minutes in order to provide ample time to answer your questions.

Now, on to the agenda...

Cambium Networks President & CEO, Atul Bhatnagar, will share his vision for company, the opportunities for Cambium Networks, and our growth initiatives to capitalize on the opportunities, and key investment highlights for the quarter. Stephen Cumming, Cambium Networks CFO, will provide a recap of the financial results for the 2nd quarter, which we reference as Q2'19, and reference past quarters as Q1'19 for the first quarter 2019 and Q2'18 for the 2nd quarter 2018, and we will provide our financial outlook for the 3rd quarter 2019, which we reference as Q3'19, and fiscal year 2019, which we reference as FY'19. Our prepared remarks will be followed by a Q&A session.

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

Atul Bhatnagar, President & CEO

Thank you, Peter.

Before we dive into the quarterly results, I'd like to say a few words about Cambium Networks. After 8 years as a private company, we are pleased to reach a major milestone of becoming a public company. We are one of the few networking companies to IPO over the past six years, and the first in five-years based in Chicago, Illinois.

For those new to Cambium Networks, we are a global leader in next-generation wireless fabric infrastructure. Our vision is to connect the unconnected, people, places, and things. Our wireless technology enables the creation of purpose-built networks for mid-sized service providers and mid-market enterprises worldwide. Cambium Networks is differentiated by our RF algorithms and cloud-based software, which drive our scalability, attractive economics, and quality.

Cambium Networks is focused on mid-sized service providers and mid-market enterprises that are traditionally underserved in a large expanding Total Assessable Market (TAM).

We have built a strong company over the past eight years, with a higher than industry growth-rate across all product lines and geographies. We believe we can create significant value for our shareholders with

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our extensive wireless fabric solutions as the world moves towards higher-speed broadband wireless, and high-performance enterprise Wi-Fi.

Cambium Networks on average has delivered mid-teens organic revenue growth, year-over-year over the last four years, and our Q2'19 record revenues continued that trend.

Given our strong product pipeline and ongoing innovations, Cambium Networks expects continued revenue growth, somewhere in the mid-teens, and our gross margin should continue to expand as we gain volume efficiencies from existing products and ramp our higher margin newer products. We also stand to benefit financially in the future as we monetize our industry-leading cloud and on-premise management platform, called cnMaestro. cnMaestro provides advanced differentiated services across our broad product portfolio with emerging wireless technologies that creates stickiness with our service providers and enterprise customers, allowing Cambium Networks to generate additional revenue and margin potential.

Now turning to the results of our second quarter 2019

We achieved record revenues of \$69.2 million increased 13% year-over-year and increased 2% from Q1'19. The growth year-over-year was driven by both our Point-to-Multi-Point (PMP) products, with revenues increasing 19%, and our Wi-Fi products, which grew 24% year-over-year. On a sequential basis, the growth in Q2'19 was driven primarily by record revenues in our enterprise Wi-Fi product lines, which grew by an impressive 51% from Q1'19. Company revenues would have been stronger had it not been for some delayed spending in the government sector in our Asia region.

Taking a look at some notable customer wins and new product developments

During Q2'19, I'm pleased to report Cambium Networks continued to have several high-profile customer wins in the mid-market enterprise vertical, including a significant number from hotels, food and beverage franchises, as well as educational institutions. The industrial verticals also experienced strength in the rail, and oil & gas markets.

In North America, an Incumbent Local Exchange Carrier (ILEC), continues to deploy our flagship product PMP 450m (cnMedusa) to increase network capacity. The incremental capacity is resulting in net

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new subscribers and increased average revenue per user (ARPU). We expect continued growth from this customer in the second half of 2019.

On the industrial IoT front, a major oil and gas enterprise has begun a complete technology refresh for a wide area high-speed broadband network across the Permian and Delaware Basins. They will be using multiple elements of our wireless fabric to replace a competitive platform. The network will be used to connect remote facilities; oil pad control, connectivity, and measurement; and real time low latency drilling-rig communications. This project is expected to continue through 2020 and beyond.

We also engaged with a Managed Service Provider (MSP) providing Wi-Fi access networks in assisted living facilities across North America. The MSP has standardized on cnPilot, and in addition to its use in greenfield deployments, this will be rip and replace of legacy Wi-Fi equipment. There are significant deployments scheduled for the second half of 2019 that will drive revenue growth in the enterprise sector.

In North America, the FCC has started to disburse Phase II Connect America Funds (CAF) to award winners. One such recipient has standardized on Cambium Networks' ePMP 3000 platform to provide high-performance broadband access services to meet their CAF obligations, and our PTP 820 for high capacity backhaul of the network. Initial orders were received in Q2'19, and we expect to receive additional orders in the quarters to follow.

In the Europe, Middle East, and Africa region (EMEA) for our enterprise business, we received our largest single award in the retail segment from an entity that has approximately 1,800 retail stores under various fashion brands, and we received and fulfilled the first orders against that award in Q2'19. The entity is replacing competitive equipment with cnPilot Wi-Fi access points and cnMatrix wireless aware switches to support distribution and store operations.

A significant trend benefiting Cambium Networks EMEA business is the European WiFi4EU initiative which aims to provide high-quality Internet access across the EU to citizens and visitors. The initiative places Wi-Fi hotspots in public spaces such as parks, squares, administrations, and libraries. We are also benefiting from similar government programs in other geographic regions such as Caribbean and Latin

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America (CALA). An important aspect of these public Wi-Fi initiatives is the popularity is creating additional demand for Cambium Networks products with customers beyond the public targets.

Why Cambium wins in these public hotspot initiatives is the robustness of our outdoor Wi-Fi. While outdoor Wi-Fi is an afterthought for many of our competitors, Cambium Networks has about 40% of our cnPilot revenue mix represented by outdoor deployments - a key Cambium differentiation. The WiFi4EU initiative combined, with Cambium's robust products for outdoor wireless networks, and the move to Wi-Fi 6 (also known as 802.11ax standard) and our new wireless-aware cnMatrix family of switches, are a few reasons why we remain enthusiastic on higher growth rates for our enterprise Wi-Fi business over the foreseeable future.

Regarding today's announcement of our acquisition of Xirrus product lines

Prior to today's financial results being issued, Cambium Networks announced the asset purchase of Xirrus from Riverbed Technology. This transaction is a tuck-in acquisition for Cambium Networks of a very talented team with a history of innovation and deep experience in high-performance Wi-Fi product designs and cloud software enabling subscription services.

Xirrus's deep multi-radio development expertise will substantially contribute to the development of advanced Wi-Fi 6 solutions as enterprises and service providers globally transition from 802.11ac to 802.11ax.

Xirrus's subscription services platform comprised of EasyPass Access, Application Control, Xirrus Positioning Systems, and Command Center will enhance and accelerate Cambium Networks existing capabilities and bring a rich set of new services and experiences to our customers.

Xirrus fortifies and helps accelerate our Cloud Network Service Application capabilities to address key use cases for distributed mid-tier enterprises, educational institutions, hospitality, high-density public venue verticals, and Managed Service Providers.

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A comprehensive integration plan has been developed and is already underway. As you can see from our Wi-Fi results, Cambium Networks wireless fabric is accelerating for indoor and outdoor enterprises and we expect Xirrus will augment that acceleration.

Looking at new products launched during the second quarter.

In May we announced the global availability of the cnHeat subscription service. cnHeat uses highly accurate LiDAR data, enabling network operators to quickly evaluate the location of prospective subscribers to predict service coverage, allowing network operators to optimize subscriber site selection and return on investment. The cnHeat network planning subscription service provides a heat map coverage model to accurately display locations that are available for fixed wireless broadband connectivity. cnHeat is just one part of Cambium Networks' strategy to monetize our software assets.

I am pleased to report that we achieved strong growth in unique company accounts utilizing cnMaestro® Cloud with the total devices under management in Q2'19 totaling approximately 299,000, an increase of approximately 17% from Q1'19 and an increase of approximately 60% from Q2'18. Today, we have devices under management in over 130 countries.

We are one of the few networking companies that offer an end-to-end cloud-based software solution to manage the entire network, integrating a broad portfolio of wireless technologies. Cambium Networks is in the early stages of monetizing our software technology.

Other new products launched in Q2'19 were additions to the ePMP™ product portfolio including the ePMP 3000L, ePMP Force 300 Connectorized Subscriber Module(CSM), and the ePMP Force 130. These new additions to the ePMP portfolio extend wireless connectivity options for service providers, enterprises, and industrial IoT network operators. Our ePMP products offer an elegant migration path with backwards compatibility to earlier generations of the ePMP platform, allowing network operators to protect their capital investment while enhancing the performance of their network with advanced technologies like 4×4 MU-MIMO.

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Turning to the Channel

Cambium Networks delivers approximately 95% of its revenue through the channel and the health of Connected Partner® channel program is critical to our ongoing success. In Q2'19, we expanded our channel presence by adding over 580 new channel partners sequentially, and over 2,000 new channel partners year-over-year, which represents an increase of approximately 11% sequentially and 51% year-over-year.

In addition, during the second quarter we announced the addition of Jenne, a sizeable value-added distributor and master agent, as a distribution partner. Jenne is distributing the full line of Cambium Networks' wireless fabric solutions throughout the United States. Cambium Networks' solutions enable Jenne's value-added resellers and service providers to offer highly reliable, best in class solutions to their enterprise end customers.

Over the past year we have added account coverage for new geographies and built an inside sales function that complements our direct sales organization with excellent leverage. In the regions of the world where we have leveraged the most inside sales focus, we are seeing very significant growth rates in terms of new partners, a metric that should lead to sizeable growth in revenue as those new partners start to win and ramp more of their focus with Cambium Networks. Our investments in sales and marketing, coupled with innovative products, and the strengthening of our channel program, are yielding net new customers and recurring revenue in these new geographies.

As we look to the second half of 2019 and beyond, Cambium Networks is very well positioned from both a product and technology standpoint, enabling us to open up new TAM. We now have an improved capital structure with a stronger balance sheet, allowing Cambium Networks to reduce our debt, adding flexibility with a public equity component to our capital structure, and providing us multiple avenues to help fuel and accelerate our future growth. We also have one of the strongest management teams in our industry in place to enable us to execute as we position Cambium for its next phase of our growth – both organic and in-organic.

I will now turn the call over to Stephen for a review of our Q2'19 financial results.

Stephen Cumming-CFO

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Thanks Atul.

As Atul mentioned, we had record revenues for Q2'19 which increased by 13% year-over-year to \$69.2 million compared to \$61.0 million in Q2'18. Q2'19 revenues were the highest since our inception and reflect continued market acceptance of our product portfolio and a growing and diversified global customer base. Q2'19 marks our third consecutive quarter of sequential revenue growth, with revenues increasing 2%.

Looking at revenues by geographies

We had growth across North America, EMEA, and CALA year-over-year. We had an exceptionally strong quarter in EMEA which had record revenues of \$23 million during Q2'19, an increase of 33% year-over-year, and up 5% sequentially and represented 33% of total company revenues. North America grew 10% year-over-year during Q2'19 and decreased 13% sequentially from a very strong Q1'19. North America represented 44% of company revenues during Q2'19. APAC declined 8% year-over-year during Q2'19, although growing by 64% sequentially. We remain very optimistic about the APAC region, as government digital broadband initiatives reach every sector of their economies. APAC represented 11% of revenues during the second quarter 2019. CALA grew 5% year-over-year and increased 19% sequentially and represented 12% of Cambium Networks' revenues.

Looking at our gross margin. We are particularly pleased with the progress we made during this past quarter. GAAP gross margin was 49.6%, while non-GAAP gross margin of 50.1% improved 190 basis points compared to Q2'18, and was 330 basis points higher than Q1'19. Approximately 70 basis points of this sequential improvement was a result of our annual licensing agreement with a customer. Gross margin also benefitted from a full quarter of price increases which took effect towards the end of Q1'19, and our discipline on pricing and lower inventory reserves. GAAP gross profit dollars were \$34.3 million during Q2'19. In Q2'19 our Non-GAAP gross profit dollars increased by \$5.3 million to \$34.7 million compared to the prior year and increased by \$2.8 million sequentially.

Cambium's strong gross margin during Q2'19 was a result of our key gross margin expansion initiatives put in place for cost reductions, price management, and supply chain initiatives. And as mentioned by

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Atul, as we look to the future, we expect to monetize our software and subscription solutions which is now strengthened by the addition of the Xirrus platform.

GAAP operating expenses in Q2'19 were \$43.7 million which included \$16.1 million share based compensation.

Non-GAAP operating expenses in Q2'19 increased by \$2.3 million when compared to Q2'18, and stood at \$27.5 million, or 39.8% of revenues. When compared to Q1'19, non-GAAP OPEX increased by approximately \$700 thousand dollars. The sequential increase in non-GAAP OPEX was primarily the result of higher G&A expenses for legal fees and debt refinancing costs.

GAAP R&D expense in Q2'19 was \$15.2 million. Non-GAAP R&D expense for Q2'19 was \$10.3 million or 14.9% of revenues, as compared to 15.9% of revenues in Q2'18, and 15.4% of revenues in Q1'19. During Q2'19 we continued our investment in product development while maintaining good discipline around discretionary spending.

GAAP Sales & Marketing was \$14.2 million. Non-GAAP Sales & Marketing expenses for Q2'19 were \$10.6 million or 15.4% of revenues, compared to 16.5% of revenues in Q2'18, and 15.0% in Q1'19. We are benefiting from the investments we made in our inside sales organization during the past year and are gaining scale as we acquire new customers more efficiently.

GAAP G&A was \$13.1 million. As previously mentioned, non-GAAP G&A expenses increased in Q2'19 as we prepared to become a public company. For Q2'19, non-GAAP G&A was \$5.6 million or 8.2% of revenues compared to 7.1% of revenues in Q2'18, and 7.5% in the prior quarter.

GAAP depreciation and amortization was \$1.2 million. Non-GAAP depreciation and amortization was approximately \$900 thousand dollars for Q2'19, \$1.1 million in Q2'18, and \$1 million in Q1'19.

GAAP operating margin for Q2'19 included \$16.1 million of share-based compensation expenses, and was negative 13.6%. Non-GAAP operating margin was 10.3%, increased from 6.9% for Q2'18, and up from 7.4% of revenues in Q1'19.

Adjusted EBITDA strengthened for the third consecutive quarter during Q2'19, at \$8.1 million or 11.8% of revenues, compared to \$5.3 million or 8.8% of revenues for Q2'18, and \$6.0 million or 8.9% of

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revenues for Q1'19. We saw increased adjusted EBITDA margin expansion as we leveraged the investments we made sales and marketing in FY'18 coupled with our enhanced focus on pricing discipline and strong cost controls.

We had an excellent quarter of cash generation. Cash provided by operating activities was \$6.0 million or approximately 8.6% of revenues for Q2'19, due primarily to improved collections and higher non-GAAP net income, and compared to \$3.3 million in Q1'19, and net cash used by operating activities of \$500 thousand for Q2'18.

GAAP provision for income taxes was \$8.6 million reflecting a valuation allowance on deferred tax assets, the tax impact of shares vesting as a result of our new capital structure, and one-time discrete items. Our non-GAAP provision for taxes was \$900 thousand dollars or an effective tax rate of 18.2% in Q2'19. We estimate our annual effective tax rate to be approximately 18% for FY'19.

GAAP net loss for the current quarter was \$20.4 million, primarily a result of a non-cash charge of \$16.1 million for share based compensation expense and the \$8.6 million tax provision. Non-GAAP net income for the Q2'19 was \$3.9 million, or \$0.15 per diluted share, compared to \$2.2 million, or \$0.16 per diluted share for Q1'19, and non-GAAP net income of \$1.7 million, or \$0.12 per diluted share, for Q2'18. The increase in non-GAAP net income compared to prior periods was primarily attributable to revenue growth, improved gross margin from increased prices, and good discipline controlling discretionary spending.

Note that our non-GAAP fully diluted shares outstanding increased to 25.6 million during Q2'19 from 13.6 million during the prior periods due to the IPO and our new capital structure.

Turning to the Balance Sheet

Our Q2'19 cash position was \$71.2 million compared to \$3.8 million in Q1'19 as a result of \$66 million net proceeds from the IPO. We generated an additional \$5 million in free cash flow defined as cash provided by operating activities less capital expenditures. Q2'19 net receivables of \$62.6 million decreased by \$900 thousand sequentially and increased by \$7.7 million from Q2'18 as a result of higher sales. Days Sales Outstanding for Q2'19 was 76 days, down by 3 days compared to 79 days in Q1'19 and up by 1 day from Q2'18. Days Payable Outstanding stood at 59 days, up one day from Q1'19 and an increase of 10 days from Q2'18. Net inventories of \$37.0 million in Q2'19 increased by \$4.5 million

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from Q1'19 as we stocked certain products to support larger government and service provider opportunities during the second half of fiscal 2019. Days Inventory Outstanding increased in Q2'19 to 92 days compared to 79 days Q1'19 and 76 days in Q1'18, with inventory turns decreasing to 4.0 turns from 4.6 in Q1'19 and 4.8 turns at Q2'18. Our intent is to operate Day Inventory Outstanding between 80 and 90 days.

Moving to the Third Quarter 2019 Financial Outlook

Please note that Cambium Networks financial outlook incorporates the acquisition of Xirrus (excluding any one-time charges affecting the acquisition) but does not include the potential impact of any possible future financial transactions, pending legal matters, restructuring, or other transactions. Accordingly, Cambium Networks only includes such items in the company's financial outlook to the extent they are reasonably certain; however, actual results may differ materially from the outlook.

As to the financial implications from the Xirrus asset purchase

As we increase our R&D investments with the acquisition of Xirrus, we expect Xirrus in the short-term to be dilutive to our EBITDA for the remainder of FY'19 by approximately \$1-\$2 million per quarter for the next two quarters. We believe Xirrus will begin to further accelerate our topline Wi-Fi revenues and to become accretive to our financial results during FY'20.

The outlook for the third quarter 2019:

Taking into account the company's current visibility, and incorporating the acquisition of Xirrus is expected to be as follows:

- GAAP revenues between \$67-\$71 million
- GAAP gross margin between 47.8-49.0%; and non-GAAP gross margin between 47.9-49.1%
- GAAP operating income between \$3.5-\$5 million; and non-GAAP operating income between \$5.0-\$6.5 million
- GAAP net income between \$1.7-\$2.8 million; and non-GAAP net income between \$2.8-\$3.9 million
- Adjusted EBITDA between \$6.0-\$7.3 million;
- GAAP taxes between 19-21%; and a non-GAAP effective tax rate of approximately 17-19%

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- Approximately 25.6 million weighted average diluted shares outstanding

Turning to our cash requirements:

As planned and mentioned in our registration statement, we will reduce our long-term debt outstanding by approximately \$30.7 million and our term loan commitment will now stand at \$70 million. Given our strong free cash flow generation, Cambium Networks is now in a better position to further reduce our debt in the future. Cambium Networks will pay \$5.6 million to Vector Capital for past management fees and the management agreement is now terminated as we are a public company. We have approximately \$6.0 million in payments for remaining offering related expenses and D&O insurance. The remaining cash requirements for the third quarter are:

- Interest Expense: Approximately \$1.5 million
- Capital Expenditures: \$1.2-\$1.3 million

In Conclusion

We have significant levers in our business to drive operating leverage going forward. First, given our expanded product pipeline and ongoing innovation, we expect to continue to grow revenue in the mid-teens year-over-year, although some quarters growth rates may fluctuate due to the timing and variability of larger orders. Second, our gross margin will continue to improve as we gain volume efficiencies from existing products and ramp our higher margin new products and we expect to benefit from the monetization of our cloud-based cnMaestro platform and our newly acquired enterprise-focused Wi-Fi products in FY'20. Third, we intend to maintain our technological leadership by continuing to efficiently invest in new emerging technologies such as Wi-Fi 6, and 5G-focused products.

Finally, our OPEX will decline as percentage of revenues as we maintain strong cost controls and leverage the investments we have made in our inside sales organization during FY'18.

We saw improving operating leverage in Q2'19 and expect that to continue as we execute and scale over the coming years. As a result of all of this, we believe we can achieve approximately 200 basis points improvement in our operating model each year over the next few years.

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That concludes our prepared remarks.

So, with that, I'd like to turn the call over to Michelle and begin the Q&A session.

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

Peter Schuman-Sr. Director, Investor Relations – Closing Statement

Thank you Michelle. During Q3'19 Cambium Networks will be meeting with investors at the Raymond James SMID Cap One-on-One Growth Conference in Chicago on August 21st and the Deutsche Bank TMT Conference in Las Vegas on September 11th. 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.