

Q3'22 Financial Results Conference Call Prepared Remarks 11/3/22

Intro

Peter Schuman, Vice President, Investor & Industry Analyst Relations

Thank you [Operator]. Welcome and thank you for joining us today for Cambium Networks third quarter 2022 financial results conference call and welcome to all those joining by webcast.

Atul Bhatnagar, our President and 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. 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. We 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 non-GAAP numbers except where otherwise noted. A reconciliation of non-GAAP measures to GAAP is included in the appendix

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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...

Cambium Networks President & CEO, Atul Bhatnagar, will provide the key investment highlights for the third quarter 2022 and Andrew Bronstein, Cambium Networks CFO, will provide a recap of the financial results for the third quarter 2022 and present our financial outlook for the fourth quarter 2022. 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.

Cambium continued growth in our third quarter with revenues of \$81.2 million, increasing 17% sequentially, ahead of the high-end of our outlook of between \$72 to \$76 million announced during the Q2'22 quarter call. Profitability improved significantly, with strong gross margin and EPS of \$0.40, ahead of the high-end of our outlook of between \$0.16 to \$0.20. We saw improved supply of components for enterprise products including record revenues for Wi-Fi, switching, and SaaS solutions. Cambium had better product mix and spending was lower than anticipated due to our tight cost controls.

We anticipate improving demand for fixed wireless Point-to-Multi-Point (PMP) solutions driven by new technologies and stronger demand for Point-to-Point (PTP) for Defense applications. Our enterprise solutions also remained strong, and we expect further improvements in the supply chain.

We had an exceptional quarter for our enterprise solutions, with record demand, growing 60% sequentially and increasing 257% year-over-year, including record Wi-Fi 6, Wi-Fi 6E, and switching revenues. Our switching business had strong backlog which we were able to fulfil

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during Q3'22. We continue to gain market share and now expect our enterprise business to grow by more than 50% for calendar year '22.

During Q3'22 we shipped our 13 millionth radio as a stand-alone company. Cambium's ONE Network solution is a compelling choice for wireless infrastructure projects around the world featuring our attractive total cost of ownership, cloud-managed wireless fabric of solutions integrating multiple communications standards, and emerging broadband technologies, with network management from a single pane of glass.

Turning to the results of the third quarter 2022

Looking at revenues across our product lines. Our PMP business revenues decreased 8% sequentially and decreased 48% year-over-year, due to lower demand as service providers move from our legacy PMP 450 products ahead of the ramp of new gigabit technologies including both 28 GHz cnWave 5G Fixed technology and the introduction of 6 GHz products expected during Q4'22.

The PTP business decreased by 2% sequentially during Q3'22, while year-over-year revenues improved 11% due to higher shipments for our federal defense business using Cambium's PTP 700 technology for fixed wireless broadband communications. We had our largest quarter of defense bookings in the company's history during Q3'22, although Hurricane Ian in Florida caused delays in shipments at the end of Q3'22. We expect higher defense shipments during Q4'22.

Our enterprise business had record revenues of \$38.3 million during Q3'22, increasing by \$14.4 million or 60% sequentially, and higher by \$27.6 million or 257% year-over-year, due to record demand for our Wi-Fi 6 and 6E solutions, record switching revenues, and increased growth in SaaS solutions. We have established a strong reputation for our enterprise feature set and product quality, and are being well received by the hospitality, education, healthcare, and other verticals.

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Looking at some notable customer wins and new product developments.

In North America, a large wireless service provider in Texas, Community Internet Providers (CIP) selected Cambium's PMP 450 platform, cnHeat, and 60 GHz cnWave, for greenfield sites. Cambium was selected for its superior performance and attractive total cost of ownership, planning capabilities including FCC mandated Broadband Data Collection (BDC) reporting, and scalability. The customer was previously with one of our largest competitors and has signed a long-term agreement to deploy Cambium products.

In Kentucky, Midway University selected Cambium's enterprise Wi-Fi, switching, and 60 GHz cnWave fixed wireless backhaul to upgrade their network. Cambium was selected due to our portfolio breadth and superior performance in both indoor and outdoor applications. Cambium's 60 GHz cnWave was selected to deliver high-speed access to remote locations that would have otherwise required expensive fiber to reach.

In the Europe, Middle East, and Africa region (EMEA) we continued to have healthy demand for our enterprise business and continued to win larger projects.

We received a substantial commitment from a service provider in Northern Africa for our new 28 GHz cnWave™ 5G Fixed platform. We won this deal as a result of Cambium's quality, reliability, scalability, and our technology roadmap.

We had two large Managed Service Provider (MSP) wins in France for initial deployments in the hospitality vertical. These wins included Cambium's Wi-Fi 6 access points, and cnMaestro™ X cloud management solutions. Cambium's ONE Network makes it easy to plan, deploy, and manage affordable gigabit speeds for the home and enterprise.

In the Asia Pacific (APAC) region, we had a strong quarter in the hospitality vertical, with a sizeable enterprise win at a large chain of luxury hotels in India for over 16 locations. Cambium was selected through a leading hospitality MSP partner for better overall Wi-Fi performance, total cost of ownership, easy management with cnMaestro, and strong support.

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And in the Caribbean and Latin America (CALA) region, we had a smart city win for the city of Rio De Janeiro for our enterprise business including both our Wi-Fi 6 access points and cnMaestro X™ software to provide 5,100 Wi-Fi hotspots across the city.

Turning to new product introductions since our previous quarterly update.

The industry is eagerly awaiting the availability of new 6 GHz spectrum to enable the delivery of Gigabit data rates to the edge of the network. Cambium will have an industry leading position when our next- generation multi-gigabit ePMP 4600 product is released before year-end.

Approximately 10 customers are doing proof of concept of our technology, and we have already received our first significant order. One customer utilizing an experimental license achieved actual throughput of 1.8 Gbps at 1.5 miles, with 1.2 Gbps download and 640 Mbps upload, to each subscriber module. Cambium's 6 GHz ePMP 4600 leverages the significant technology advantages of 802.11ax standards technology and provides higher performance than our competition at a significantly more affordable cost.

Use of 6 GHz for fixed wireless point-to-multipoint operation is available in the U.S. today on a limited and controlled basis; however, broad access will require use of Automated Frequency Coordination (AFC). AFC is similar to Citizens Broadband Radio Service's (CBRS) Spectrum Access Service (SAS) in that it facilitates sharing of spectrum with incumbent users. We expect the FCC to approve use of AFC in early 2023, and as with CBRS SAS, we intend to provide a complete solution including hardware and AFC services under cnMaestro.

In the enterprise market, we are launching new outdoor access points in Q4, including a Wi-Fi 6 product for high-volume outdoor markets such as public Wi-Fi, hospitality, education, municipality, transportation, and logistics applications, and a connectorized Wi-Fi 6 and 6E software defined radio targeted for outdoor use for higher education, stadiums, and campuses.

In 60 GHz, we recently introduced the new cnWave V2000, which fills out our 60 GHz cnWave portfolio for the service provider market. The new product features longer range than our V1000 product and fills the mid-range customer needs. This technology is targeted for the CCTV,

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Wireless Internet Service Provider (WISP), warehouse and logistics, and smart city markets. The product offers point-to-point connectivity with up to 3.6 Gbps and a range of up to 1 kilometer.

Also, within our 60 GHz cnWave product line-up, we are introducing a 1 Gb and 2 Gb “Bridge-in-a-Box” solutions, which provide a pair of cnWave radios pre-configured for out-of-box operation for connectivity for up to 1 kilometer away. The deployment-friendly solution can be used for high-bandwidth internet connectivity, including remote cameras or CCTV video feeds, for activities such as concerts, athletic events, farmers’ markets, or to connect cabins, lodges, machine shops, barns, or garages.

Within Cambium’s 28 GHz cnWave™ 5G Fixed, our 4X4 Multi-user MIMO and software defined radio architecture delivering 400 Mbps speeds was released in late Q3 and is now available. Our next version of 28 GHz cnWave™ 5G Fixed featuring even higher performance including 8X8 Multi-user MIMO and speeds of 2 Gbps will become available within a few quarters with a software update. Network operators are now able to support scaled deployments for business and residential subscribers in urban, suburban and rural locations at scale.

After our Q3'22 quarter end, Cambium landed one of our largest PMP contracts in our company’s history, a multi-million-dollar per year, multi-year deal, for 28 GHz cnWave™ 5G Fixed, from a customer in the CALA region.

We are very excited that customers have validated our technology, and we are now moving into the commercial phase of deployment with larger size deals.

Looking at our cnMaestro™ Cloud software, our end-to-end cloud-powered connectivity solution to manage the network from a single pane of glass. The cnMaestro Cloud software continued to experience strong user growth. Total devices under cloud management in Q3'22 was over 866,000, an increase of over 3% from Q2'22, and up approximately 21% year-over-year. For our premium cnMaestro X offering, we booked a major deal with a large service provider in Asia for 20,000 seats for fixed wireless broadband during the third quarter and are continuing to see healthy growth in revenue for this product. Revenue for cnMaestro X, which

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includes both enterprise and fixed wireless solutions, grew 227% sequentially during the third quarter.

Turning to our Channel

In Q3'22, we expanded our channel presence by adding over 285 net new channel partners sequentially, and over 1,400 net new channel partners year-over-year, which represents an increase of over 2% sequentially and 13% year-over-year. We continue to expand our reach into new mid-market customers around the world.

Also in the channel, in early October Cambium participated at a well-attended WISPAPALOOZA trade show, which is focused on service providers and channel partners within the industry and featured several new product introductions from Cambium including 6 GHz, 60 GHz, 28 GHz, home gateways and routers. Cambium's cnHeat RF mapping tool received the 2022 WISPA Association service of the year award. cnHeat makes it easy for all fixed wireless broadband service providers to plan their fixed wireless access networks, assess the effective coverage of their networks, market their services to served addresses, and meet their FCC-mandated Broadband Data Collection (BDC) reporting requirements. Software is becoming an increasingly important part of Cambium's growth story and is now showing up in a more meaningful way in our financial results.

I will now turn the call over to Andrew for a review of our Q3'22 financial results and Q4'22 outlook.

Andrew Bronstein-CFO

Thanks Atul.

Cambium reported revenues of \$81.2 million for Q3'22. Revenues increased by 17% quarter-over-quarter and increased by 7% year-over-year.

During the third quarter, our global supply constraints continued to ease, leading to increased production and shipment of our high-demand enterprise products.

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On a sequential basis for Q3'22, revenues were higher by \$11.9 million. The higher revenues were primarily the result of increased enterprise solutions, while PMP revenues were lower for legacy PMP 450 products ahead of customers anticipating a technology transition, partly offset by improved supply benefitting ePMP shipments, while PTP revenues were down slightly.

Moving to our gross margin. Our non-GAAP gross margin of 51.3% was significantly better than anticipated, increasing by 350 basis points compared to Q3'21. The year-over-year increase in our non-GAAP gross margin was the result of higher volumes and a greater mix of higher margin enterprise and PTP products.

On a sequential basis, non-GAAP gross margin improved by 240 basis points compared to Q2'22. The higher quarter-over-quarter non-GAAP gross margin was the result of higher volumes, an increased mix of enterprise solutions, tight cost controls, lower freight costs and increased pricing, offset in part by higher component costs due to inflation and supply chain challenges.

In Q3'22 our non-GAAP gross profit dollars of \$41.6 million increased by \$5.4 million compared to the prior year due to higher volumes and improved mix of enterprise products, and increased by \$7.8 million dollars sequentially, due to higher volumes, improved pricing and a higher product mix of enterprise products and lower freight costs; offset in part by higher component costs due to inflation and supply chain challenges.

While we achieved our target gross margin on a quarterly basis, our longer-term goal remains a consistent non-GAAP gross margin target of 51-52% on an annual basis.

Non-GAAP operating expenses, including amortization, in Q3'22 increased by approximately 300 thousand dollars when compared to Q3'21, and stood at \$27.9 million, or 34.3% of revenues.

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The increase in operating expenses compared to the prior year period was primarily due to higher travel costs related to sales & marketing, increases in G&A for professional services & IT, offset by lower variable compensation and tight controls around headcount.

When compared to Q2'22, non-GAAP operating expenses increased by approximately 300 thousand dollars. Quarter-over-quarter sales and marketing increased slightly primarily because of higher promotional materials, R&D increased related to the timing of expenditures for materials, while G&A was lower due to less professional services due to tight cost controls.

Non-GAAP operating margin for Q3'22 was 17.0%, up from 11.4% during Q3'21, and up from 9.1% of revenues in Q2'22.

Non-GAAP net income for Q3'22 was \$11.3 million, or \$0.40 per diluted share, above the previous outlook of between \$0.16 to \$0.20 per diluted share, and compared to \$6.7 million, or \$0.23 per diluted share for Q3'21, and non-GAAP net income of \$5.0 million, or \$0.18 per diluted share for Q2'22.

The higher non-GAAP net income compared to the prior year period was primary due to higher gross profit dollars, while higher net income compared to the prior quarter's results was primarily a result of higher revenues and gross profit dollars.

Adjusted EBITDA for Q3'22 was \$14.7 million or 18.2% of revenues, compared to \$9.6 million or 12.6% of revenues for Q3'21, and compared to \$7.8 million or 11.3% of revenues for Q2'22.

Our operating model remains solid. We are beginning to re-gain some operating leverage in our business as Cambium increased revenues to more than \$80.0 million. We remain committed to consistently driving our Adjusted EBITDA to our long-term target of 18-19% of revenues.

Moving to cash flow

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Cash provided by operating activities was \$2.2 million for Q3'22, and compares to \$11.8 million for Q3'21, and \$10.0 million for Q2'22. Cash flow was impacted as we increased accounts receivables as a result of higher revenues and certain product inventories increased to support the anticipated growth of our business.

Turning to the Balance Sheet

Cash totaled \$44.9 million as of September 30, 2022, a decrease of \$1.1 million from Q2'22. The sequential decrease in cash primarily reflects higher accounts receivable due to growth in revenues, and increased inventories to support the faster growth of the business.

Net inventories of \$50.6 million in Q3'22 increased by approximately \$21.9 million year-over-year, while increasing by \$3.2 million from Q2'22. Inventories were higher sequentially because of an increase in component and finished goods inventories as we continue to grow our business. While the supply chain remains an ongoing challenge, we are working to selectively increase our inventory position for the remainder of the year.

In addition, we recently announced that we are selectively increasing prices by an average of about 5% for a wide range of products due to inflation and supply chain costs resulting in higher manufacturing costs, including the cost of chips. This price increase will take effect for all orders placed on or after November 26; however, we will not increase prices for backlog, as long as the customer requests a ship date that is within our published lead-times and on or before March 31, 2023. We expect that the full impact of the price increases will be realized by Q3'23.

In Summary

The third quarter was much better than anticipated due to strong demand for our Enterprise products, a full quarter of uninterrupted operations in China, and a continued improvement in our supply chain environment. Our backlog remains strong, and we are at the start of new product cycles.

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We expect to continue to re-gain scale, improve operational efficiency, and make significant progress toward achieving our long-term target operating model.

Moving to the Fourth Quarter 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.

Considering our current visibility as of today, our Q4'22 financial outlook is expected to be as follows:

- Revenues between \$80.0 to \$84.0 million, representing approximately 1% sequential growth at the midpoint. We remain supply constrained in certain components.
- non-GAAP gross margin between 48.7% to 49.7%
- non-GAAP operating expenses between \$30.6 million to \$31.6 million
- and non-GAAP operating income between \$8.4 to \$10.2 million
- Interest expense, net of approximately \$500 thousand dollars, and
- non-GAAP net income between \$6.6 million to \$7.8 million dollars or net income between \$0.23 to \$0.27 per diluted share
- Adjusted EBITDA between \$9.5 to \$11.3 million dollars; and adjusted EBITDA margin between 11.9% to 13.4%
- A non-GAAP effective tax rate of approximately 17.0% to 20.0%
- Approximately 28.5 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows:

- Paydown of debt: \$700 thousand dollars,
- Cash interest: approximately \$400 thousand dollars, and
- Capital expenditures: \$2.0 to \$2.2 million

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

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Atul Bhatnagar, President & CEO

We delivered a solid quarter of results and are expecting a strong finish to the year, ending on a high-note with increased revenues, strong profitability, significant new product introductions, increasing chip supplies, and a return to growth for our PMP business driven by 60 GHz cnWave, 28 GHz cnWave™ 5G Fixed, and the imminent launch of affordable 6 GHz fixed wireless solutions. Our enterprise business remains strong, led by Wi-Fi 6 and 6E, wireless savvy switching products, and solid growth in our software-as-a-service solutions. The Cambium ONE Network integrated wireless fabric is resonating with customers and brings together ease of deployment, scalability of networks, and lower total cost of ownership as the world deploys next-generation high-performance wireless broadband.

We remain focused on judiciously managing our costs, improving our operations, continuing to invest in innovative products to maintain our technology edge, and expect increased scale will benefit our future operating results.

I'd like to show my appreciation for our employees, partners, and customers during these unprecedented times.

This concludes our prepared remarks.

So, with that, I'd like to turn the call over to [Operator] 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 Q4'22 Cambium Networks will be presenting and meeting with investors on November 15th at the Needham Virtual Security, Networking and Communications Conference; and on November 16th at the ROTH Capital Technology Conference held in New York, and December 13th at the Oppenheimer 5G Summit. In the meantime, you are always



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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.