

# Q1'20 Financial Results Conference Call Prepared Remarks

## 5/12/20

### Intro

#### Peter Schuman, Sr. Director, Investor Relations

Thank you [Quanisha]. Welcome and thank you for joining us today for Cambium Networks first quarter 2020 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 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 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...**

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Cambium Networks President & CEO, Atul Bhatnagar, will provide the key investment highlights for the quarter and Stephen Cumming, Cambium Networks CFO, will provide a recap of the financial results for the first quarter 2020 and he will provide our financial outlook for the second quarter 2020. 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. I hope all our listeners and their families are safe. Health and wellbeing are a core value at Cambium Networks. While most of our employees worked remotely during the last month of the quarter, our employees showed perseverance and fortitude and delivered outstanding results during the first quarter 2020. We are fortunate to have a significant part of our manufacturing located in Mexico and a smaller portion located in the coastal region of China, which was minimally affected, and an even smaller amount of manufacturing located in China's interior. We also entered the first quarter with healthy inventories, which allowed us to serve our partners and customers in a timely manner with minimal disruption, during a period where fixed wireless broadband is vital and essential infrastructure for people around the world. Broadband infrastructure is now a lifeline for most communities.

Fixed Wireless Broadband is a critically important networking fabric to connect our local communities. I am proud of our employees around the world whose teamwork enabled us to meet customer commitments, and serve our communities in what has been a difficult period in recent world history. Our customers, especially the majority that are in developing communities, are working to keep up with increased demand on their networks. Virtually every wireless service provider and telecom operator around the world is seeing the following five dynamics:

- Overall network traffic increases of approximately 30-70%, driving the need to build out network capacity,
- Peak network traffic has shifted from typical evening peaks due to video streaming, to all-day traffic due to e-learning and working from home initiatives,
- Significant calls for service package upgrades are driving increased capacity requirements,
- Calls for new residential service and/or an opportunity to enable new public indoor and outdoor Wi-Fi locations, and

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- Broadband communications and infrastructure projects are now a priority in a significant number of countries around the world.

### Turning to the results of our first quarter 2020

We achieved revenues of \$60.4 million, above the high-end of our outlook of between \$56-\$60 million. Non-GAAP EPS of \$0.05 also exceeded the high-end of our outlook of \$0.02 per diluted share. I am particularly pleased with the strong execution by our entire Cambium team during a period of unprecedented global uncertainty due to the COVID-19 pandemic. These results reflect the strength of our company, the need for our products, and the improved bookings linearity of our business during the first calendar quarter.

Revenues for the company decreased 11% year-over-year and 6% from Q4'19.

The year-over-year decrease in revenues was driven by lower demand for Point-to-Multi-Point (PMP) products which decreased by 18% as a result of a technology transition with larger European customers to Cambium's next generation technologies, and softer demand for defense-related products which impacted Point-to-Point (PTP) revenues, which decreased by 33% year-over-year. This was offset by increased demand for enterprise Wi-Fi solutions, which had near-record revenues, growing an outstanding 106% year-over-year, and now represent 19% of total company revenues.

On a sequential basis for Q1'20, PMP revenues grew 5% due to strength in North America offset by a softer EMEA, which was impacted by a technology transition and COVID-19 which started in February in parts of EMEA. PTP revenues decreased by 28% sequentially in Q1'20, as a result of weaker U.S. government defense programs. For Q1'20, we delivered near-record revenues for our enterprise Wi-Fi solutions, which were flat from Q4'19 due to better than anticipated demand for products ahead of the transition to new Wi-Fi 6 solutions, which will be delivered during the second calendar quarter.

### Looking at some notable customer wins and new product developments.

During Q1'20, I'm pleased to report Cambium Networks continued to have several high-profile customer engagements.

In North America, in the Service Provider space, Watch Communications, a rapidly growing operator in Ohio specializing in Cable TV and Wireless Internet, selected Cambium's PMP 450m and Wi-Fi for

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deployment of a residential broadband network as part of a Connect America Fund Phase II (CAF2) award.

Another large service provider selected our PTP 820C for multi-gigabit backhaul. This will result in multi-hundreds of devices delivered in 2020 with multiples of those volumes during the lifetime of the project. They selected PTP 820C for reliability, performance, and support.

On past calls we have spoken about the Federal Communications Commission's newly released 3 GHz Citizens Broadband Radio Service (CBRS) spectrum. As a first mover with this technology, CBRS provides additional product differentiation and stickiness for our workhorse PMP 450 products which are backwards compatible. CBRS is driving new sales of our PMP 450 products in North America. I am pleased to report as of the end of the first quarter we had over 7,800 devices managed by Cambium Networks' CBRS SaaS Service. As of today's earnings call, we have over 19,000 devices managed by our service.

A tier-one oil & gas company selected Cambium's PMP 450m for deployment in CBRS. This has started in the Permian Basin and will continue throughout North American oil fields. The PMP platform was selected due to its superior spectral efficiency, and uplink MU-MIMO capabilities. Oil and gas will continue to spend on automation and OPEX efficiency, even in these tougher economic conditions.

In the Europe, Middle East, and Africa region (EMEA), we are seeing ongoing demand from our service provider customers as they increase capacity to their networks and add new subscribers. We had a significant number of wins including service providers, healthcare institutions from both the public and private sector, educational institutions, and government agencies.

Across the service provider market in EMEA, Cambium sees steady demand for its technology as new service providers switch to Cambium's broadband solutions and existing service providers expand and fortify their networks.

A few strategic wins from Q1 include:

Cambium's flagship PMP 450m technology was selected by Skytelecom, a service provider in Greece, to deliver enterprise and consumer services nationwide.

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In enterprise Wi-Fi, during February, Vodafone needed fast and reliable coverage at Italy's Palazzo Reale convention center as it hosted the head of state meeting between Prime Minister Conte and French President Macron. Cambium Networks was selected to get the job done.

The EMEA team closed numerous strategic opportunities supporting the healthcare and education vertical markets during this challenging time. These projects span both the public and private sectors and include:

- The UK's National Health Services chose Cambium's wireless to support temporary field hospitals being deployed in Glasgow and Birmingham.
- The Ministry of Health of one of the largest countries in the European Union has selected Cambium's wireless technology to upgrade the wireless networks in 230 hospitals across the country.
- In Egypt, the National Health Ministry selected Cambium to deploy into its clinics and hospitals.
- A major healthcare group in Abu Dhabi, VPS Healthcare, also selected Cambium to outfit multiple healthcare facilities.
- And, the Ministry of Education of the United Arab Emirates selected Cambium's wireless technology to cover numerous rural schools across the Emirates.

In the APAC region, we won a major deal for both indoor and outdoor enterprise Wi-Fi at a 5-star hotel in South Korea. This win was a new customer using our Xirrus Wi-Fi technology. We displaced one of our larger competitors due to Cambium's quality, reliability, and advanced care and support.

We also closed a deal from India's Common Services Centre to enable outdoor Wi-Fi services to nearly 20,000 rural villages. We have already deployed Wi-Fi to nearly 5,000 villages with the balance commencing after the COVID-19 lockdown is lifted in India.

In Caribbean and Latin America (CALA), a major service provider in the region is migrating a country wide network of business customers to our wireless backhaul and wide area network connectivity using our PMP 450.

We also won the second stage of HughesNet's buildout of a Wi-Fi based access network. To date, we have deployed over 1,500 Wi-Fi access points in rural areas of Mexico, Brazil, Perú and Ecuador as part of that program. HughesNet's network also utilizes Facebook's Express Wi-Fi service, and Cambium

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Networks is now one of the largest Wi-Fi equipment providers for network operators utilizing Facebook's Express Wi-Fi service.”

### **Looking at new products launched since our previous quarterly update.**

Cambium Networks will release the first of our new high-performance enterprise Wi-Fi 6 products in June.

Our first new access point offers 8x8 Massive MIMO technology which offers four times the data rates and lower latency than the prior technology, and leverages our cloud-managed approach which increases ease of use and operation for system maintenance and software upgrades.

We also released four new enterprise switching products targeted for the edge of networks. These switches offer cloud-based management, zero touch provisioning, and policy-based automation. Our new 802.3bz compliant switch supports Wi-Fi 6 access point deployments.

In Q3'20, Cambium Networks expects to release our gigabit wireless solutions for the enterprise and the residential access market, which utilizes 60 GHz millimeter wave technology coupled with advanced meshing technology. Initial sales engagements for the solution have been well received including selection by multiple service providers, for which we expect to receive firm orders in Q2. The solution enables service providers to reliably provide gigabit per second bandwidth to the home and business – equivalent to the speed of fiber—and economically. The technology and capability will be increasingly relevant for urban use cases for many years to come.

Weaving together our networking solutions, we continue to experience strong growth in accounts utilizing cnMaestro™ Cloud, our end-to-end cloud-powered connectivity solution to manage the entire network from a single pane of glass. Total devices under cloud management in Q1'20 totaled over 411,000, an increase of approximately 10% from Q4'19, and up 61% year-over-year.

### **Turning to the Channel**

In Q1'20, we expanded our channel presence by adding over 600 new channel partners sequentially, and over 1,550 new channel partners year-over-year, which represents an increase of approximately 9% sequentially and 26% year-over-year.

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We added Arrow as a distributor in North America for our Xirrus enterprise Wi-Fi solutions, and in EMEA, we added Nuvias Group as a distributor for our Xirrus enterprise Wi-Fi solutions and cloud-managed services. In Central America, we signed Solution Box as a new master distributor. With local offices in Costa Rica and Guatemala, Solution Box has already purchased and allocated significant inventory in the countries.

I will now turn the call over to Stephen for a review of our Q1'20 financial results and outlook.

### **Stephen Cumming-CFO**

Thanks Atul.

Revenues of \$60.4 million for Q1'20 came in above the high-end of our outlook of \$60 million and decreased by 11% year-over-year from \$68.1 million. As Atul mentioned, Q1'20 revenues reflect anticipated softness sequentially and year-over-year for our PTP solutions, which were impacted by softer demand for U.S. defense related programs, although our PMP products performed better than expectations due to strength in the service provider space, our largest end market, with North America strong ahead of a technology transition to our next generation millimeter wave technology featuring higher-speed broadband solutions. Enterprise Wi-Fi solutions grew an outstanding 106% year-over-year and continued to maintain near record levels, flat from Q4'19. We remain enthusiastic about our next generation enterprise Wi-Fi 6 products being released during the end of the second quarter.

### **Looking at revenues by geographies**

North America, our largest region, represented 51% of company revenues, compared to 50% in the prior year period, and 45% during Q4'19. North America declined 10% year-over-year, although growing by 7% compared to Q4'19 due to the strength in our PMP business. EMEA, our second largest region, decreased 15% year-over-year and 2% sequentially and represented 31% of revenues during Q1'20, decreasing from 32% of revenues on a year-over-year basis, and increased from 30% of revenues during Q4'19, as a result of larger customers' technology transition and the impact of the COVID-19 which started in February in parts of EMEA. CALA represented 9% of revenues during Q1'20, decreasing 26% year-over-year and 37% sequentially. And APAC represented 9% of revenues during Q1'20, improving by 16% year-over-year, and declining by 28% from Q4'19.

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Looking at our gross margin. Non-GAAP gross margin of 51.0% improved by 420 basis points compared to Q1'19. The year-over-year improvement in non-GAAP gross margin was the result of a richer-mix of our enterprise Wi-Fi products, lower inventory reserves, and key initiatives put in place focused on cost reductions, price management, and supply chain efficiency.

Non-GAAP gross margin in Q1'20 was 140 basis points lower than Q4'19. The lower sequential non-GAAP gross margin is mostly the result of lower revenues, including less mix of higher margin PTP products, higher rebates, offset by lower product cost and supply chain efficiencies. In Q1'20 our non-GAAP gross profit dollars decreased by \$1.1 million to \$30.8 million compared to the prior year and was lower by \$2.8 million sequentially.

We continue to make progress towards our longer-term goal of achieving an annual non-GAAP gross margin target of 51-52%.

Non-GAAP operating expenses (Research and development, sales, and marketing, general and administrative, and depreciation and amortization) in Q1'20 increased by \$1.0 million when compared to Q1'19, and stood at \$27.8 million, or 46.1% of revenues. When compared to Q4'19, non-GAAP operating expenses decreased by approximately \$1.5 million dollars. The majority of the sequential decrease in non-GAAP operating expenses was primarily driven by lower headcount as result our restructuring activities announced on last quarter's conference call as well as lower sales and marketing expenses due to less travel and trade show expenses in March associated with COVID-19.

Non-GAAP operating margin was 5.0%, down from 7.4% for Q1'19, and 6.6% of revenues in Q4'19.

Adjusted EBITDA for Q1'20 stood at \$4.4 million or 7.3% of revenues, down from \$6.0 million or 8.9% of revenues for Q1'19 and compares to \$5.3 million or 8.2% of revenues for Q4'19.

We remain committed to continuing to drive our Adjusted EBITDA expansion to our target model of 18-19% of revenues over the next few years.

### **Moving to cash flow**



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Cash flow used in operating activities was \$800 thousand dollars for the first quarter 2020, due primarily to a reduction of inventories offset by a decrease in accounts payables principally due to the timing of inventory payments and lower inventory purchases, and slower collections, and compares to cash provided by operating activities of \$3.3 million for the first quarter 2019, and \$6.1 million cash provided by operating activities for the fourth quarter 2019.

Non-GAAP net income for Q1'20 was \$1.4 million, or \$0.05 per diluted share, compared to \$2.2 million, or \$0.16 per diluted share for Q1'19, and non-GAAP net income of \$2.3 million, or \$0.09 per diluted share for Q4'19. The lower non-GAAP net income compared to the prior year period was due to lower revenues offset by improved gross margin as a result of the initiatives previously mentioned, and lower interest expense due to a reduction in long-term debt. The decrease in non-GAAP net income compared to Q4'19 was primarily attributable to lower revenues resulting in fewer gross margin dollars, offset by lower operating expenses due to our cost containment efforts.

### Turning to the Balance Sheet

Cash totaled \$24.5 million as of Q1'20, \$20.7 million higher than the first quarter 2019, and an increase of \$5.1 million dollars from Q4'19. The sequential increase in cash balance during Q1'20 was primarily the result of drawing down on our \$10 million revolving credit facility to preserve liquidity in a period of macroeconomic uncertainty, an \$8.7 million reduction in inventories, offset by an \$8.5 million decrease in accounts payables principally due to the timing of inventory payments, a \$2.2 million increase in accounts receivable, a \$2.5 million scheduled principal paydown of debt, and \$1.2 million in restructuring payments.

In Q1'20, days payable outstanding stood at 53 days, a decrease of 5 days from the first quarter of the prior year, and down by 7 days from the fourth quarter 2019.

Q1'20 net receivables totaled \$61.6 million, an increase of \$1.9 million from Q1'19 and increased by \$3.0 million sequentially. Days Sales Outstanding for the first quarter stood at 86 days, an increase of 7 days from the prior year and an increase 8 days from the fourth quarter 2019 as a result of slower collections due to timing issues of COVID-19 delaying the ability to release bank transfers and timing of several customers which were collected in the first week of April.

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Net inventories of \$32.5 million in Q1'20 was flat year-over-year and decreased by \$9.2 million from Q4'19, as we aggressively work to reduce inventories driven by our technology transitions. Inventory Days stood at 112 days, compared to 79 days during Q1'19 and 129 at the end of December.

While we remain on track during calendar 2020 for the anticipated release of new gigabit wireless products as the year unfolds, such as enterprise Wi-Fi 6, 60 GHz and 28 GHz millimeter wave solutions, there is some uncertainty as to the ability of customers to deploy these new solutions until there is more clarity surrounding the COVID-19 situation.

We remain focused on our objective of achieving our long-term target operating model by accelerating growth and improving our cost structure and operational efficiency. In addition, Cambium is taking further measures to align our cost structure in response to the COVID-19 pandemic, and in conjunction with the timing of the anticipated revenue ramp from our new product introductions that we expect to happen during the second half of 2020.

### **Moving to the Second Quarter 2020 Financial Outlook**

Please note that Cambium Networks financial outlook does not include the potential impact of any possible future financial transactions, pending legal matters, or other transactions. Accordingly, Cambium Networks only includes such items in our financial outlook to the extent they are reasonable; however, actual results may differ materially from the outlook.

**Considering our current visibility, as of May 12, 2020, our Q2'20 financial outlook is expected to be as follows:**

- GAAP revenues between \$51.0-\$56.0 million
- non-GAAP gross margin between 48.5%-49.5%
- non-GAAP operating income between \$1.1 million and \$3.0 million
- non-GAAP net loss between one-hundred thousand dollars to net income of \$1.3 million or between break-even per diluted share and net income of \$0.05 per diluted share
- Adjusted EBITDA between \$2.1-\$4.0 million; and adjusted EBITDA margin between 4.2%-7.2%
- And non-GAAP effective tax rate of approximately 17.0%-19.0%

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- Approximately 25.7 million weighted average diluted shares outstanding

### Turning to our cash requirements:

- Paydown of debt: \$2.5 million
- Interest expense: Approximately \$1.1 million
- Capital expenditures: \$700 to \$900 thousand, and
- Pre-tax restructuring charges: \$200 to \$300 thousand

In Q2 2020 we expect to recognize approximately \$200 thousand to \$300 thousand of pre-tax charges under our restructuring plan. We have implemented several initiatives to conserve cash and optimize profitability, including limiting discretionary spending, reducing personnel costs, eliminating non-essential travel, delaying or reducing hiring activities, deferring certain discretionary capital expenditures, and negotiating with landlords for reductions or deferrals of future lease payments. In addition, we recently implemented a temporary companywide salary reduction of approximately 20% for all employees which will help mitigate the short-term uncertainty. We appreciate our employees support and perseverance during this time.

Although we enter Q2'20 with strong backlog, we estimate that we are impacted by COVID-19 by approximately \$10 to \$12 million during the second quarter. We are most impacted in the enterprise Wi-Fi for hospitality and retail markets, although other vertical markets may be affected. Certain customers are challenged by lockdowns and in rare instances marshal law which impacts their ability to deploy projects. Once the COVID-19 restrictions are lifted, we can resume a more normal growth trajectory.

### Full Year 2020 Financial Outlook:

Due to the rapidly evolving uncertainty surrounding the effects of COVID-19, the company has withdrawn its previously announced full year 2020 financial outlook although we do expect to generate positive cash flow during 2020. Once there is more clarity to the outcome of the COVID-19 situation, we will provide an update to our full year outlook at the appropriate time.

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

### **Atul Bhatnagar, President & CEO**

Cambium Networks has always managed our business for the goal of growth and profitability. We have a solid balance sheet to weather the current global economic uncertainty. We have a loyal and diverse customer base with a strong global distribution network. Our dedicated employees remain committed to serving our customers and partners and we are well positioned to win business based on the superior value Cambium Networks provides with our end-to-end wireless connectivity. And, the market is transitioning to gigabit wireless solutions managed by our cloud-based cnMaestro solution.

The key drivers for our growth over the next few years remain the upcoming introductions of 60 GHz and 28 GHz millimeter wave solutions for fixed wireless 5G, the adoption of CBRS compatible solutions, and global tier-two and tier-three service providers deploying fixed-wireless broadband enabled by the adoption of millimeter wave. We continue to expect faster than the market growth for our enterprise Wi-Fi solutions, based on the Wi-Fi 6 adoption. We are now beginning to leverage our cloud software-as-a-service business model to generate recurring revenues.

Broadband is a critically important wireless fabric to connect our local communities, and I am proud of our employees around the world whose teamwork has enabled us to meet customer commitments and serve our communities in what has been a difficult period for the world.

We remain confident about our future. Our inventory and supply chain are healthy and well-managed. We are being diligent in working closely with all global supply chain partners. Cambium continues to innovate through our current and new products lineup. Our 2020 product introductions will position us very well as a “Gigabit Wireless Leader” for global markets and as an affordable competitor, offering superb reliability and scalability.

We have one of the best teams in our industry, handling various frequencies and terrains - from kilobits to multiple gigabits - indoor and outdoor with highly differentiated products.

We listen to our customers and partners and always strive to improve and redefine ourselves. Cambium will survive and thrive through these challenging times.

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Finally, profitability remains a core value at Cambium Networks. I am pleased that we have taken steps to address our cost structure prior to the COVID-19 outbreak, and we are continuing to take measures until there is more visibility to the outcome of the COVID pandemic.

This concludes our prepared remarks.

So, with that, I'd like to turn the call over to [Quanisha] 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 [Chris]. During Q2'20 Cambium Networks will be presenting and meeting with investors at the J.P. Morgan Technology, Media, and Communications Conference which will be held virtually tomorrow, May 13th. 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.