

Q2'23 Financial Results Conference Call Prepared Remarks 8/1/23

Intro

Peter Schuman, Vice President, Investor & Industry Analyst Relations

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

Atul Bhatnagar and Andrew Bronstein, 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 income.

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 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.

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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...

Atul Bhatnagar, will provide the key operational highlights for the second quarter 2023 and Andrew Bronstein will provide a recap of the financial results for the second quarter 2023 and present our financial outlook for the third quarter and full year 2023. Our prepared remarks will be followed by a Q&A session.

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

Atul Bhatnagar

Thank you, Peter.

Cambium's overall revenue performance in Q2'23 was poor. The performance was a result of a severe slowdown in revenues from Cambium's Enterprise products. I will spend the next several minutes explaining what happened, as well as describing how we will get Cambium's Enterprise business back on track.

First, what happened.

During the second quarter, revenue from Cambium's Enterprise products was significantly below expectations, while PMP and PTP products performed at or ahead of expectations. The cause of the decline in revenues from Enterprise products in the second quarter were all a symptom of a severe slowdown of sales through the Enterprise channel to end customers. This slowdown in the Enterprise channel was caused by several factors. First, component supply, including chips, became readily available to our competitors during the quarter, and the advantage Cambium had in supply and order fulfillment was dramatically reduced. As we have discussed in the past,

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Covid caused major shifts in the global supply chain throughout the past three years, and these shifts had a significant impact on component availability and revenue performance.

Second, competitors now with plenty of supply, became very aggressive with pricing in an attempt to regain market share. We saw the impact of these factors especially in the last month of the quarter, given product shipments are heavily weighted to the last few weeks of the quarter based on distributor orders and requested delivery dates.

Third, a decline in the global economy resulted in cancellations and delays in end customer projects in several regions and in distributor ordering decisions.

All of these items resulted in a bottleneck in Enterprise channel inventory. This further exacerbated our reported Enterprise revenues due to a higher-than-normal volume of Enterprise stock rotations.

How will we get the Enterprise business back on track?

As a result of the poor revenue performance we have taken several actions. First, we have initiated an individualized strategy with each of our largest distributors and partners to move Enterprise products through the channel faster, removing the bottleneck, while also providing aggressive incentives to gain share of wallet with new customers, new markets, and new geographies.

Second, we have executed a \$14 million annualized cost reduction program which will protect our profitability and strong balance sheet while we work through the challenges in the Enterprise business. Andrew will provide more details on the cost reduction later in our call.

Outside of the disappointing revenue performance of the Enterprise products, we had some very positive events, including a record quarter for our Point-to-Point (PTP) business, fueled by execution of large defense deals discussed during our last earnings call. Our defense funnel remains very strong, and we expect to have a record year in our PTP business.

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Further, our Point-to-Multi-Point (PMP) business performed better than expected, with sequential quarter growth fueled by demand for 28 GHz fixed 5G, and strong interest from our newly released Cambium Fiber products. We anticipate PMP revenues will continue to grow both sequentially and year-over-year during the second half of 2023, and we expect that the final approval by the FCC for 6 GHz spectrum will benefit our new ePMP 4600 and PMP 450v product lines.

Summarizing the results of the second quarter 2023

Revenues decreased 14% year-over-year and 23% quarter-over-quarter, primarily as a result of slowing revenues from Enterprise products in the EMEA and North American regions, while our other products and regions performed consistent with or above our expectations. Our gross margin, EBITDA, and profitability were lower than expected due to lower shipments of our Enterprise products.

Cambium's second quarter 2023 revenues of \$59.5 million were below the bottom of our outlook, while our gross margin of 50.3% came in at the lower end of our outlook. Overall profitability of \$0.03 per share was lower than our outlook due to the loss of scale as a result of the performance of the Enterprise business.

Looking at revenues across our product lines.

Our Enterprise revenues declined 82% sequentially and 73% year-over-year. As previously mentioned, we have begun taking aggressive steps to decrease Enterprise channel inventories. We expect a return to sequential growth in Enterprise products during Q3'23, and a return to a more normal run rate during the first half of 2024.

Our PTP revenues increased 39% sequentially and 60% year-over-year. We continue to expect strong year-over-year defense shipments during the remainder of 2023 as we are engaged in an increasing number of global defense programs of record (POR).

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Our PMP revenues increased 20% sequentially, although lower by 5% year-over-year, as service providers are moving from our current generation of PMP 450 products to the new gigabit technologies. This will include Cambium's 6 GHz products, which are expected to help drive PMP revenue growth during the second half of the year upon the FCC's approval. In addition, our 28 GHz fixed 5G product had a record quarter and we had earlier than expected stocking orders for our new PMP fiber product.

Looking at some notable customer wins and new product developments.

In North America, Cambium reached a significant milestone as we received official approval from the world's largest global hotel chain as a vendor for our Enterprise solutions. The chain has over 8,600 properties in 133 countries and territories with approximately 1.6 million rooms. We are also working to get our 60 GHz cnWave qualified with this customer. Cambium has particular strength in the hospitality vertical, and approvals such as this give us confidence in our ability to grow the Enterprise business in the future. Cambium is now working with partners serving 4 of the top 5 global hospitality brands – including deployments with Cambium's cloud managed Wi-Fi and switching products.

In the Europe, Middle East, and Africa region (EMEA) – we had wins with managed service providers (MSPs) in the hospitality, multi-family and student housing sectors in EMEA including with Nevaya, Nonius, and Freshwave. One of our recent Enterprise wins in EMEA included the Hilton Heathrow Airport, a major hotel at one of the busiest airports in the world.

In Spain, a regional operator, Globe Telecom, activated the first deployment of fixed wireless 5G technology in the 26 GHz band. The new network uses frequencies acquired by Globe Telecom in the Spanish government's recent 26 GHz band tender, the last remaining priority tier for 5G services, in combination with Cambium Networks' cnWave 5G NR-based platform.

And in Cape Town, South Africa, a service provider, Wilbernet, is using Cambium's cnWave 5G Fixed in the licensed 26 to 28 GHz frequency bands to increase service levels for

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broadband customers by offering packages of up to 200 Mbps, resulting in increased service levels in a matter of days.

We are now seeing the early 28 GHz product PoCs turning into multi-million-dollar commercial deals.

In the Asia Pacific (APAC) region, in Malaysia, we had an Enterprise win with a government agency for our Wi-Fi 6 access points for a high-speed express train. The train provides non-stop express train service from the main transportation hub in Kuala Lumpur to the airport.

And in the Caribbean and Latin America (CALA) region, Universidad La Sabana, one of the most important private universities in Colombia, decided to upgrade their networks with our Wi-Fi 6 and 6E solutions – providing Wi-Fi access to more than 12,000 students in an expansive campus with 14 buildings. Cambium was selected over a larger competitor since we gave them superior Wi-Fi coverage at a lower total cost of ownership.

Turning to upcoming product introductions and developments since our previous quarterly update.

In the enterprise portfolio, in Q3'23 we recently introduced two new layer 2 and 3 cnMatrix EX3K switches which feature high-power over ethernet and support Wi-Fi 6 and 6E, video surveillance, and other devices for mission-critical networks. The advanced switches support our Cambium One Network architecture and feature dual removeable redundant power supplies and high-power and high-density capabilities.

Within our fixed wireless portfolio, we are eagerly awaiting final approval from the FCC for 6 GHz spectrum during the second half of calendar year '23. Cambium currently has approximately 25 ongoing trials for our 6 GHz ePMP 4600 product with broadband service providers which will help drive our future PMP revenues with our first to market advantage.

Looking at our cnMaestro™ Cloud software - total devices under cloud management in Q2'23 was over 980,000, an increase of approximately 6% from Q1'23, and up 17% year-over-year.

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Turning to our Channel

In Q2'23, we expanded our channel presence by adding approximately 390 net new channel partners sequentially, and approximately 1,600 net new channel partners year-over-year, which represents an increase of approximately 3% sequentially and over 13% year-over-year. During Q2'23, Cambium shared our strategy and vision at Cambium Connections, our bi-annual online webinars for end customers and the partner community throughout various geos. We also held numerous customer and industry analyst briefings on our new Cambium Fiber solutions which are generating lots of excitement, particularly with North American service providers.

I will now turn the call over to Andrew for a review of our Q2'23 financial results and outlook for Q3'23 and full year 2023.

Andrew Bronstein-CFO

Thanks Atul.

As Atul mentioned, we have executed a significant cost reduction plan designed to align our cost structure with our current and expected near-term revenue run rate in order to maintain profitability, improve cash flow, and to maintain our strong balance sheet. We expect to realize annualized cost savings of approximately \$14 million, of which we expect about \$6 million to be realized during the second half of calendar '23.

In connection with our cost reduction, Cambium expects to incur approximately \$2.0 million in one-time restructuring charges during the second half of '23, mainly consisting of cash severance costs.

Financial strength and resilience are a core value, and we will continue to manage costs prudently.

Turning to the quarter

Cambium reported revenues of \$59.5 million for Q2'23. Revenues decreased by 23% quarter-over-quarter and by 14% year-over-year.

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On a sequential basis for Q2'23, revenues were lower by \$17.9 million. The lower revenues were primarily the result of decreased Enterprise revenues, partially offset by record growth in PTP revenues and as expected, a return to quarter-over-quarter growth in the PMP business. We have seen PMP channel inventories decline in the second quarter, which reflects the channel anticipating our new 6 GHz products.

Revenues of \$59.5 million decreased by \$9.8 million year-over-year primarily due to lower Enterprise revenues as a result of higher channel inventories and slowing economies, especially in EMEA, and decreased PMP revenues due to less demand from service providers ahead of the ramp of the product transitions to new gigabit technologies, including our 6 GHz products, partially offset by record PTP revenues due to excellent performance of Cambium's defense products. We continue to expect strong PTP revenues for the remainder of the year due to our expanding defense business.

Moving to our gross margin. Our non-GAAP gross margin of 50.3% was higher by approximately 140 basis points compared to Q2'22. The year-over-year increase in our non-GAAP gross margin was the result of a greater mix of higher margin PTP defense products and the impact of price increases completed in November of 2022, partially offset by the impact of lower Enterprise revenues.

On a sequential basis, our non-GAAP gross margin decreased by approximately 180 basis points compared to Q1'23. The lower quarter-over-quarter non-GAAP gross margin in Q2'23 was the result of lower Enterprise revenues, partially offset by higher margin PTP defense revenues, along with improved efficiencies and the impact from our November 2022 price increases.

In Q2'23 our non-GAAP gross profit dollars of \$29.9 million decreased by \$3.9 million compared to the prior year and by \$10.4 million sequentially due to lower Enterprise revenues.

Non-GAAP total operating expenses, including amortization in Q2'23 increased by approximately \$800 thousand dollars when compared to Q2'22, and stood at \$28.3 million, or 47.5% of revenues. The increase in operating expenses compared to the prior year period is

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primarily due to higher headcount in R&D and sales and marketing, as well as increasing wages due to inflation, offset in part by lower variable compensation costs.

When compared to Q1'23, non-GAAP operating expenses decreased by approximately \$2.6 million during Q2'23. The quarter-over-quarter decrease in operating expenses is due to lower variable compensation costs from lower Enterprise revenues.

Our non-GAAP operating margin for Q2'23 was 2.8%, down from 9.1% during Q2'22, and 12.2% of revenues in Q1'23.

Non-GAAP net income for Q2'23 was 900 thousand dollars, or \$0.03 per diluted share, well below our outlook for the quarter; and compared to \$5.0 million, or \$0.18 per diluted share for Q2'22 and non-GAAP net income of \$6.8 million, or \$0.24 per diluted share during Q1'23.

The lower non-GAAP net income compared to the prior year was primarily due to lower Enterprise revenues and gross profit dollars, and higher operating expenses due to inflation, while the lower net income compared to the prior quarter's results was primarily the result of lower Enterprise revenues and lower gross margin dollars, partially offset by lower operating expenses due to lower variable compensation and tight cost controls.

Adjusted EBITDA for Q2'23 was \$2.8 million or 4.7% of revenues, compared to \$7.8 million or 11.3% of revenues for Q2'22, and compared to \$10.4 million or 13.4% of revenues for Q1'23.

Moving to cash flow

Cash used in operating activities was \$4.5 million for Q2'23 and compares to cash provided by operating activities of \$10.0 million for Q2'22, and cash used in operating activities of \$6.0 million for Q1'23. During Q2'23 cash was used to increase inventories for anticipated higher Enterprise shipments, materials to support new products, and to allow for greater product availability and lower lead times for our customers. We do expect inventories to begin to

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decrease in Q3'23 as we expect increased revenues and new products introduced in our fixed wireless business. We expect positive cash generation during the second half of 2023.

Turning to the Balance Sheet

Cash totaled \$32.0 million as of June 30, 2023, a decrease of \$6.7 million from Q1'23. The sequential decrease in cash primarily reflects changes in working capital driven by higher inventories.

Net inventories of \$82.3 million in Q2'23 increased by \$14.0 million from Q1'23 and by \$34.9 million year-over-year. Inventories were higher sequentially because of lower than anticipated enterprise shipments and the expected ramp of new product introductions.

In Summary

Cambium's second quarter results were disappointing, driven by low Enterprise revenues and high Enterprise channel inventory, further compounded by global economic uncertainty. We are taking significant and aggressive actions to address the issues we have experienced in Q2, including a significant cost reduction along with more aggressive sales actions. We are also leveraging the positive performance in our PTP defense products, and continuing the positive momentum from our PMP products which we expect will be fueled by FCC approval of our 6 GHz products. Product delivery lead times are now shorter, causing changes in the channel's purchasing patterns. We are well positioned for new product introductions and expect to generate cash from operations in the second half of 2023.

Moving to the Third Quarter and Full Year 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.

Considering our current visibility as of today, our Q3'23 financial outlook is expected to be as follows:

- Revenues between \$62.0 to \$70.0 million, representing an increase of approximately 4% to 18% from Q2'23 from the continued strong year-over-year growth in PTP defense

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products, and as we benefit from the ramp of 28 GHz and new PMP products; as well as higher sequential Enterprise revenues, although Enterprise revenues are expected to decline year-over-year.

- non-GAAP gross margin of between 49.8-51.3%
- non-GAAP operating expenses between \$25.6 million to \$26.6 million
- non-GAAP operating income between \$5.2 to \$9.2 million
- Interest expense, net of approximately \$700 thousand dollars
- non-GAAP net income between \$3.7 million to \$6.9 million dollars or net income per diluted share between \$0.13 to \$0.25
- Adjusted EBITDA between \$6.3 to \$10.3 million dollars; and adjusted EBITDA margin between 10.2% to 14.8%, and
- A non-GAAP effective income tax rate of approximately 17-21%.
- We expect about 28.0 million weighted average diluted shares outstanding.

Cash requirements are expected to be as follows:

- Paydown of debt: \$700 thousand dollars,
- Cash interest: approximately \$500 thousand dollars, and
- Capital expenditures: \$4.0 to \$4.5 million,

Full Year 2023 Financial Outlook is expected to be as follows:

- Revenues between \$265.0 to \$275.0 million, representing a decline of 7% to 11%.
- non-GAAP gross margin approximately 50.2% to 51.6%
- non-GAAP net income between \$16.7 to \$21.9 million dollars or net income per diluted share of between \$0.59 and \$0.78
- Adjusted EBITDA margin between 10.5% to 12.6%

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For the year, capital expenditures are expected to be approximately \$12-\$14 million dollars, mainly driven by costs associated with new research and development projects.

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

Atul Bhatnagar

While the exact timing of a return to a more normalized revenue pattern in our Enterprise business is difficult to predict, we currently expect to see higher sequential Enterprise revenues in Q3 and Q4 2023, and a return to a more normalized quarterly revenue pattern in the first half of 2024, while we work aggressively with our channel partners to digest the current level of channel inventory.

Our PTP business, fueled by the defense products, is strong and we expect a record year of revenue in 2023 as we continue to expand the number of programs and countries in which we participate.

Our PMP business has turned the corner with sequential growth in Q2 2023 – and we expect it will continue to accelerate with the FCC approval of Cambium's affordable 6 GHz products with clear first mover advantage. Further, we continue to see growth in our 28 GHz cnWave™ 5G Fixed, while our new fiber products are off to a good start. We also expect increased government funding will help accelerate the growth of our PMP business over many years.

We continue to judiciously manage our costs and have taken actions to improve our operations and to protect our profitability, while also continuing to invest in innovative new products in order to provide quality products at a compelling value.

As mentioned in today's press release, although I have stepped down as the company's president & CEO effective today, I will continue to serve as a member of the company's board of directors. I am proud to be handing the leadership role at Cambium to Morgan Kurk, an industry veteran, whose previous industry experience includes more than 11 years at CommScope, most recently as executive vice president broadband market segment leader and

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chief technology officer. I will be working closely with Morgan to ensure a very smooth transition. We are very lucky to have Morgan with his rich broadband and wireless background to lead Cambium in its next phase of growth and innovation.

Finally, I'd like to show my appreciation for our employees, partners, and customers.

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 Q3'23 Cambium Networks will be meeting with investors virtually on August 9th at the Oppenheimer Annual Technology, Internet & Communications Conference, and will present and meet investors in person on August 29th at the Jefferies Semiconductor, IT Hardware & Communications Technology Summit in Chicago, and on September 19th at the Northland Capital Markets Institutional Investor Conference in Minneapolis. 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.