

Ceragon Networks – Q1 2021 Conference Call Script

May 3rd, 2021 – FINAL

Welcome - Operator

Greetings and welcome to Ceragon Networks Limited First Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

[OPERATOR INSTRUCTIONS]

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Maya Lustig, Head of Investor Relations of Ceragon. Thank you, you may begin.

Safe Harbor - Maya

Thank you, operator, and good morning everyone. I am joined by Ira Palti, Ceragon's President & Chief Executive Officer, Ran Vered, Ceragon's Chief Financial Officer and our incoming Chief Executive Officer, Doron Arazi.

Before we start, I would like to note that this call includes information that constitutes "forward-looking statements" within the meaning of the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended, and the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations therefrom will not be material. Such statements involve risks and uncertainties that may cause future results to differ materially from those anticipated. These risks and uncertainties include, but are not limited to, such risks, uncertainties and other factors that could affect our results as detailed in our press release that was published earlier today and as further detailed in Ceragon's most recent Annual Report on Form 20-F and in Ceragon's other filings with the Securities and Exchange Commission.

Such forward-looking statements represent our views only as of the date they are made and should not be relied upon as representing our views as of any subsequent date. Such forward-looking statements do not purport to be

predictions of future events or results, and there can be no assurance that they will prove to be accurate. Ceragon may elect to update these forward-looking statements at some point in the future, but it specifically disclaims any obligation to do so.

Ceragon's public filings are available on the Securities and Exchange Commission's website at www.sec.gov, and may also be obtained from Ceragon's website at www.ceragon.com.

Also, today's call will include certain non-GAAP numbers. For a reconciliation between GAAP and non-GAAP results, please see the table attached to the press release that was issued earlier today.

I will now turn the call over to Ira. Please go ahead.

Overview Commentary - Ira

Thank you Maya, and good morning everyone.

It's my pleasure to share with you that we're hosting this call using 5G technology. Right now, everyone in Team Ceragon is on their 5G smartphone. This is a 5G-enabled video call, proving firsthand that 5G is here to stay. It's here to grow. It's here to lead. We are proud to be the ones making this revolution a reality. We're proud to lead the change.

Last quarter, I shared with you my vision for a 5G world. I presented you with the ways Ceragon will be a driver of this new data-driven 5G-powered global culture. Now, this quarter, I'm pleased to share with you the details of our participation in cutting-edge projects, new design wins, and POCs, which all show we've already moved from a vision into a successful tangible reality.

2021 is looking to be a good year for 5G. Despite the overall economic impact of the pandemic, the worldwide telecom market is marching forward with robust activity. We're observing a positive trend in the amount of data flowing through the virtual veins of networks. There has been a massive cultural shift toward the digital, and more and more people have become more willing to, and skilled in using new technologies. To keep up with this new era, operators around the world are rushing forward to upgrade their existing systems or build new networks. This global shift impacts our 4G and 5G offerings positively.

In Q1, we achieved new design wins and saw very strong bookings. In fact, our bookings in Q1 were the highest in two years. Our book-to-bill ratio was way above 1. While this increases our visibility and confidence in market demand for the remainder of the year, it's clouded by global component shortages which will probably affect our delivery capabilities. Ran will elaborate on this further.

In **North America**, we had a very strong quarter, the strongest in terms of bookings since 2016. We see increasing demand from our existing Tier-1 customer to expand its 5G network. We're also providing solutions for a significant capacity increase for Tier-2 operators and WISPs. We see growth in sales to WISPs in the US as well as in Canada, which reflects a regional trend. We see this trend in both direct and indirect channels. In addition, we're increasing our sales efforts to critical infrastructure type of customers such as public safety

and utility providers, as they start looking to upgrade their networks to 5G. We see a lot of potential in this market especially for providing value through complete communications solutions and services.

In **Europe**, driven by 5G demand, we had a very positive quarter in terms of bookings. I am proud to say that more than 20% of the region's bookings came from 5G-related orders. As European operators continue to push 5G from initial trials into the field, we are there to provide them with the technology, expertise, and the services they need. We are participating in numerous 5G Proof of Concepts and initial rollouts, and plans are being finalized for mass rollouts. In Western Europe especially, we foresee a significant opportunity to grow and take market share. After Western Europe, we expect to see 5G momentum build in the rest of Europe.

In **India**, there's massive competition among operators who now invest heavily in strengthening their 4G capabilities and planning their POCs for 5G. Based on our current relationships with them, we believe we'll be part of those POCs. At the same time, there are great efforts to bring the vast 2G and 3G-using populations into the data-driven world. These efforts drive the operators to rapidly expand their current 4G networks in both reach and capacity, which creates significant demand for our products. Both trends play to our favor and in Q1 our operations and revenues were strong and stable. In fact, in India, we believe 2021 will be even stronger than 2020, assuming no material impact on our operations from the latest Covid outbreak.

The **Latin American** market is showing signs of heating up after a coronavirus-induced freeze. Covid-19 continues to hit Latin America severely, yet there's new momentum in the telecom market, especially in new investments toward a stronger 4G and readiness for 5G. Operators are catching up for time lost last year, in implementing their networks. I'm pleased to share that our bookings were more than double vs. Q4 2020 and that 80% of these bookings came from Tier-1 operators, including a multinational Colombian Tier-1 operator whose frame agreement is worth \$26M. Overall, there has been very strong momentum in the Andean and Mexico.

In **APAC**, after a slowdown in the last few quarters, we signed a follow-on frame contract worth \$23M with a Tier-1 Pacific Rim operator – one of our more

advanced 5G implementations with significant traffic on our equipment. In fact, the majority of the bookings in this region came from Tier-1 operators. We're also beginning to sell 5G technologies to China and continuing to make progress with a new Tier-1 OpenRAN customer.

Overall, in every region, we are moving into a new future where I believe there will be an increasing number of opportunities for us across the globe.

I'm pleased to report that we have **12** 5G design wins to date. One was a new addition to our customer base and the rest were existing customers. We are working hard to leverage future opportunities and to continue to be a key enabler of the multi-year 5G evolution.

Allow me to provide you with some statistics regarding the acceleration in the global 5G evolution.

According to The GSMA's latest report 'Wireless Backhaul Evolution' and ABI Research, 5G mobile subscriptions are expected to grow by more than 41% CAGR in the next six years, increasing from 378 million subscribers to 4.2 billion.

Traffic is estimated to increase above 6,000 exabytes annually by 2027, with 5G accounting for more than 80% of total traffic.

Thus, higher capacity backhaul bands millimeter-wave and microwave will be vital in meeting 5G traffic demands. They will account for more than 55% of the links in 2027. Fiber will be next with 42%.

The need to further densify the network to support 5G, will result in additional macro cells, and small cells in particular being deployed in urban areas to handle the traffic. While fiber will be deployed, not all urban cell sites can be supported by fiber. Instead, microwave and millimeter wave backhaul links will be used, which are versatile and can handle significant data rates.

Now 5G comes with diverse use cases and requirements. The growing OpenRAN movement provides new avenues for customization and flexibility that meet such requirements. As it offers interoperability among different radio, digital, and control unit solutions from different providers, I believe it is **the brightest future**

of our industry. OpenRan has picked up steam across the globe, and it's causing a massive disruption and disaggregation in how networks are architected.

Today, it isn't just the greenfields-tech but also major market players that turn towards OpenRan. As the market in general continues to move from monolithic approaches to OpenRAN, our best-of-breed open network hauling solutions become more and more relevant, as can be seen through our joint project in Brazil, plus various design wins we're working on.

Allow me to elaborate on the Brazil project. We're participating in TIP 5G OpenRAN trials which test equipment providers for 5G OpenRAN. It's a joint project TIM Brazil is carrying out with TIP - Telecom Infra-Project, and the National Telecommunication Institute. Our new generation, all-outdoor, ultra-high capacity IP-50E millimeter wave solution – capable of delivering up to 20 Gbps capacity today – is being trialed. This type of solution is a must for OpenRAN, as it provides the connectivity to the radio units. We're proud to be involved in this project, in Brazil's future network deployments, and we see it as an opportunity to prove our technology edge.

To meet future 5G and OpenRAN-related demand, we're developing a new high-capacity low-latency System-on-chip. It's designed to offer the next-stage of Fronthaul linking between digital and radio units. With this solution, we'll be the first ones in the market offering this technology. We're very excited about this prospect.

Ceragon's system-on-chip, whose tape-out is planned for July, will support both microwave and millimeter waves. With high bandwidth and low latency, it will support transition to 5G in addition to supporting all previous wireless generations.

Our existing IP50E and IP50C family of products successfully support 5G deployments. The new System-on-Chip will enhance our offering with an increased capacity as well as improved 5G and OpenRAN compatibility.

We are innovating on a disruptive market trend as we've always done, from 2G all the way to today's 5G. Ceragon has grown so much in the last decade and a half, and it is a global company today. It has been a pleasure serving as the President

and CEO of Ceragon for the past sixteen years, and to lead the incredible progress and the very many accomplishments of the Company.

In the beginning of July, I will be transitioning my responsibilities to Ceragon's former deputy CEO and CFO Doron Arazi. I will continue serving the Company as vice-chairman of the board. Throughout my time at Ceragon, I have truly been honored to work with so many talented leaders and visionaries including our incoming CEO, Doron. With that, allow me to briefly pass the mic to him. Doron?

Doron Arazi

Thank you, Ira, and hello everyone. I feel privileged and excited to come back to Ceragon as the new CEO. Under Ira's leadership, Ceragon has competitively enhanced its 4G and 5G offerings and today, it is a global supplier to many of the world's Tier-1 and Tier-2 operators.

As you may know, I'm neither new to Ceragon nor to the industry in which it operates. During my many years in the telecom and related industries, I got exposed to a wide variety of strategies and business models for scaling up results. I led changes that generated stronger, bigger and more profitable businesses. I also built solid relationships with operators, vendors, banks, and investors. I am now bringing this extensive experience back to Ceragon.

I see a lot of potential and opportunities in leveraging Ceragon's core competencies to build a stronger, bigger and more profitable company. It's my plan to keep our technological leadership which is the foundation of Ceragon's success, and develop more and more innovative ways to fulfill the world's growing 5G needs and beyond.

I look forward to furthering our commitment to our existing customers as they navigate the new 5G realm, and continue to enhance their 4G networks. I also look forward to finding new ways to scale our technology and to open new doors in existing and new verticals.

Back to you, Ira.

Ira Palti

Thank you, Doron. Once again, congrats and good luck in your new position.

I would now like to turn the call over to Ran to discuss our financials in more detail. Ran?

Financials - Ran Vered

Thank you, Ira, and good morning everyone.

To help you understand the results, I will be referring mainly to non-GAAP numbers. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's press release.

Like Ira mentioned, during Q1 2021 we saw very strong bookings coming from Europe, North America, Latin America, and India. In fact, Q1 was the strongest in terms of bookings in the last two years. Our book-to-bill ratio was way above 1.

Our revenues were at a strong level and at the high end of our projections for the quarter.

During the first quarter, we made further progress moving back towards "normal operations," accelerating the positive trend that began in Q3 2020.

Let me now review the actual Q1 numbers with you.

Revenues for the first quarter were \$68.3M, up 22% compared with Q1 last year.

Our revenues varied from region to region in line with the effect that COVID has had on local business operations and network build-out plans.

Our strongest revenues for the quarter were from **India**, reflecting ongoing deliveries for Bharti.

Europe had a strong quarter, continuing its positive momentum from 2020. In fact it is the strongest first quarter since 2015, reflecting some initial revenues from 5G projects.

Revenues in **North America** were strong, reflecting continued positive momentum with our Tier-1 customer, other ISPs, and smaller carriers.

Latin America had a slightly lower quarterly revenue than its normal run-rate, driven by the low bookings in the second half of 2020. However, we are starting to see a new momentum in the telecom market there, and we started the year with very strong bookings.

Revenues in **Africa** reflect the completion of the Orange Niger project we announced in August 2020 as well as another customer we won in Q4 2020.

Revenues in **APAC** were at a low level in conjunction with low bookings in the last two quarters.

We had 1 above 10% customer in the first quarter.

The booking to revenue ratio for the first quarter was way above 1. The strong bookings give us confidence for the remainder of the year, though clouded by the global component shortage crisis which might affect our deliveries. I will elaborate on this more shortly.

Gross profit for the quarter on a non-GAAP basis was \$20.2 million, giving us a non-GAAP gross margin of approximately 30%, compared with 25% for the first quarter of 2020.

Our relatively low gross margin reflects the continued high supply chain costs that we have had to deal with in the COVID environment, with a major increase in air freight costs, higher material costs, and more. This is likely to continue to fluctuate over the next few quarters until there is a full recovery.

Operating expenses on a Non-GAAP basis for the first quarter were \$19.5 million, lower than our expectations.

Research & Development expenses for the first quarter on a Non-GAAP basis were \$7.4 million, a slight increase from Q1 2020, mainly due to our progress with chip development. As planned, these expenses will continue to stay high until we reach tape-out in July 2021.

Sales & Marketing expenses for the first quarter on a Non-GAAP basis were \$8.2 million, same as in Q1 2020, reflecting the reduced travel and variable compensation that have come with COVID. We expect to gradually increase our sales and marketing expenses throughout the year as markets open post-COVID.

General and Administrative expenses for the first quarter on a Non-GAAP basis were \$3.9 million, lower than our expectations and down from \$4.2 million in Q1 2020. Going forward, we expect to return to our 2020 run-rate.

Financial and Other Expenses for the first quarter on a Non-GAAP basis were \$1.2 million, in line with our expectations, and have returned to their regular levels in Q1 2021.

Our tax expenses for the first quarter on a Non-GAAP basis were \$0.3 million, lower than in Q1 2020 and in line with our expectations.

Net loss on a non-GAAP basis for the quarter was \$0.9 million, or \$0.01 per diluted share. On a GAAP basis, net loss was \$1.2 million, or \$0.01 per diluted share.

We reduced our **inventory** to \$48.5 million, down from \$59.7 million in Q1 2020.

Our **receivables** are now at \$106.7 million, up from \$104.2 million in Q1 2020. Our DSOs now stand at 141 days, which is almost the same as in Q1 2020.

Net cash used in operating activities for the first quarter was \$1.7 million. Net cash used this quarter for investing activities was \$2.0 million.

Looking ahead - our strong bookings in Q1 which are significantly better than expected, along with a very healthy funnel and positive bookings forecast for Q2, reflect increasing business activity in most regions. Now all that said, the growing component shortage in different industries all across the globe, has started to

have an effect on the supply of our components as well as operators' 5G rollout plans. Compounding the problem is panic buying of chips in certain industries, leading to further bottlenecks.

In Q1, we were able to manage this situation without material impact on our deliveries and in turn, our revenues. We've been working with our suppliers, looking for additional ones and taking other measures to increase our supply chain capabilities, efficiency and resilience.

We continue to target revenue growth in 2021. Although we still expect a slow start for the first half of the year, we continue to expect yearly revenue to be between \$275-\$295 million. Now all that said, the growing component shortage may have a negative impact on the timeliness of our Q2 and rest-of-the-year deliveries and may lead to a probable push of revenues between quarters until the shortage is resolved. We remain confident in our mid and long-term prospects and deliveries.

With that, I now open the call for your questions. Operator?

Ira's closing remarks:

Thank you for joining us today. We believe that we have made great strides towards being a key enabler of the 5G evolution and OpenRan deployments, but we think the real story is how Ceragon, once more, is enabling and leveraging a wireless generation transition.

We appreciate your time today and we look forward to speaking to you again next quarter.

Have a good day everyone.