

# Ceragon Networks Q2 2021 Earnings Conference Call Script

August 2<sup>nd</sup>, 2021 – FINAL

## **Welcome - Operator**

Greetings and welcome to Ceragon Networks Second 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 Doron Arazi, Ceragon's Chief Executive Officer, and Ran Vered, Ceragon's Chief Financial Officer.

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](http://www.sec.gov), and may also be obtained from Ceragon's website at [www.ceragon.com](http://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 Doron. Please go ahead.

## Overview commentary by Doron Arazi

Thank you Maya, and good morning everyone.

Let me start by sharing how proud and delighted I am to be back as Ceragon's CEO. I feel highly energized, and I've already put a lot of things in motion, some of them I will share with you shortly.

Ceragon boasts repeated success in introducing disruptive technologies at the cusp of wireless transitions. It was the case with the transition from 2G to 3G, 3G to 4G, and now from 4G to 5G. I believe it's our tradition of innovation and our passion for technology that allows us to be ahead of the curve. We continue to invest our time, energy, and resources to transform networks across the globe, accommodating for the surge in hunger for more capacity and lower latency.

In Q2 2021, given operators' 5G network development plans, our 5G orders and installations have achieved a strong momentum. Like in Q1, we achieved a number of new 5G design wins and saw very strong bookings. Our Q2 bookings were the highest in three years, especially in North America, Europe, and India. Our book-to-bill ratio was way above 1.

**In North America**, we've been selected and already received initial orders by three leading operators to deploy and improve 5G connectivity. These new orders and renewed partnerships focus on expanding 5G network reach in dense areas, as well as keeping rural areas connected and up-to-speed. These material orders, among others, have resulted in strong Q2 bookings in North America – the highest ever!

I am thrilled by the progress we're making in this region. Additional two leading Tier 1 operators may become new customers for us. They are evaluating our most recent IP50 products for different network scenarios including front haul. They seem intrigued by how well our products fit into the new 5G networks architecture.

What's happening in North America is that operators are in fierce competition to push 5G from initial trials into the field. Because fiber optic is either not possible or economically not viable in all use cases, more and more operators are turning to us for wireless multi-gigabit transport, powered by our IP50 series. IP50 provides a fiber-like alternative in terms of speed, reliability, and efficiency. We are participating in several trials and initial rollouts. In fact, 52% of our year-to-date bookings in North America are 5G related and we are encouraged by the significant opportunities in this region to grow and capture market share.

**In India**, our strongest region in terms of bookings, multiple Tier-1 operators placed follow-on orders through which we will support multiple network expansion projects to help providing nationwide coverage and prepare operator networks for 5G.

With over 620 million internet users, India has the world's second-largest user base. Its data consumption is expected to grow over 3-fold to 40 gigabyte per smartphone and the number of users to 900 million by 2025. There's a move towards rolling out 5G by developing 5G corridors. Trials are planned for the second half of 2021. 5G spectrum auction is expected in the first half of 2022 and commercial launch by the second half of 2022.

Today, in India, Ceragon boasts around 50% market share. We are the indisputable market leader. And as 5G rollout will further expand digital adoption, there will be a demand for higher capacity in all corners of the country, and we will be there to meet it. Indian operators are testing different e-band solutions and ours are getting a lot of traction. I believe the combination of our market leadership position, our strong brand name, plus what's unfolding in the country, will translate to more business for us.

**In Europe**, also driven by 5G demand, we had a very positive quarter in terms of bookings. Our European 5G related bookings accounted for 31% of all European bookings year-to-date.

In **Latin America**, Covid-19 continues to have a greater impact than other regions, yet we also see new signs of recovery in South Cone and Andean, except for Argentina. We've been awarded several contracts by operators in Mexico, Brazil, Colombia and Peru, to provide a wide range of technologies. I believe these awards will generate a funnel of opportunities and translate to new orders in the upcoming quarters. Overall, we expect to continue at the same pace in the second half of the year.

In **APAC and Africa**, we feel the impact of Covid-19 on most of our countries, and it seems that activity in these two regions will be slow for a while.

To summarize, I'm very pleased to report that in the present moment we have **sixteen 5G design wins**. Five were new additions to our customer base and the rest were existing customers.

Our global 5G bookings increase our visibility and confidence in the market demand for the second half of the year. That said, global components shortages and delays in shipments may have an impact on our ability to deliver. Not only that, but also our gross margin has been adversely impacted by the increase in components and supply chain prices due to the Covid-19 environment. We are taking the necessary measures to remedy both situations. In fact, one of our focus areas is to bring our gross margin back to 33-34% and even above.

Ceragon is on an upward trajectory. For me, it proved to be a fantastic time to rejoin the Company and witness many years of efforts come into fruition. I'm proud to say that we are highly diligent, proactive, and market-responsive in our efforts. Our principal objectives are to expand our **Total Addressable Market** and reinforce our solutions as the go-to for wireless transport. This is a good time for Ceragon to achieve these objectives, for three key reasons:

**First**, 5G is much more complex than previous generations. To grow traffic will demand densification of the network. This will mean backhaul expansions and upgrades, to support higher capacity and lower latency. A full-scale 5G rollout is expected to be costly for operators yet it's also inevitable. According to a GSMA estimate, operators' **Total Cost of Ownership** for backhaul will increase, on average, by a range of 16-42% annually. Also, based on ABI research, from February 2021 the wireless portion of the hauling market is not expected to change significantly in the upcoming years, still comprising around 60% of the backhaul market.

**Second**, in parallel to 5G, the **OpenRAN** architecture is going global. In fact, according to GSMA, to date, 73 operators from 38 markets have either already deployed or committed to OpenRAN deployments.

Briefly, OpenRAN establishes disaggregation of hardware and software, leading to vendor-neutral component selection. This plays to our advantage as more operators may shift from single end-to-end vendor strategy to best-of-breed, increasing opportunities for specialists like us. In addition, as 5G densification continues, more and more operators will deploy millimeter wave solutions for fronthaul such as our IP50E. This front-haul opportunity is not only supported by Heavy Reading Survey from July 2020, but also reflected in the interest in our IP-50E. Therefore, **we believe OpenRAN will boost opportunities for us, as a market leading specialist.**

**Third**, I'm very excited about the strides we've made in closing new **Managed Services deals**. As announced at the beginning of July, we are awarded a multi-year managed services agreement by a leading network service provider in the US.

This service provider is using our radio units as well as a competitor's. The fact that this provider is using Ceragon to manage and improve the performance of their entire wireless transport is a testament to our differentiated service capabilities and market strength.

Our Managed Services provide network monitoring and optimization, troubleshooting, and upgrades, to simplify and enhance the customer journey on the wireless transport network. These services represent an organic and *natural evolution of the work we've done* with numerous operators and the strong software tools we have developed.

**It is my intention to strengthen and turn Managed Services into a significant recurring revenue source for Ceragon in the coming years, as I believe the demand for such services will grow as networks become more and more complex.**

For these three main reasons, we expect our Total Addressable Market to grow. For us, this is the first time in many years where a market growth is expected.

Our readiness to monetize on the growing 5G opportunities is not enough. As I said earlier, innovation, technology passion, and long-term thinking is our DNA. Our flagship product, the multicore all-outdoor Radio, has been a market-changing technological breakthrough since its

launch in 2013. Our new System-on-Chip, whose tape-out is rescheduled towards later this year, will be the next big breakthrough.

This new chip is built to provide reliable fiber-like support for the new era. It represents a new approach in our industry as it is a System on A Chip. We believe it will be the most robust chip in our space, and we take our time to ensure it will function flawlessly. It handles all microwave as well as millimeter wave bands, including the D-band. It will be the very first in the market to achieve this. It will have impressively high capacity, offering 5G Octa core with 16X more capacity for  $\frac{1}{4}$  spectrum, and  $\frac{1}{8}$  energy. Not only that, but also since we have incorporated certain system elements into it, it is planned to be significantly more cost efficient, to reduce our yield, and our inventory, and to improve our delivery lead times.

5G is expected to be with us for a long time, longer than previous wireless generations. And over time, data consumption will only increase. Our chipset has been designed with these changes in mind, offering a capacity evolution that will meet the connectivity requirements of the future.

I would now like to turn the call over to Ran to discuss our financials for the quarter. Ran?

## Financials - Ran Vered

Thank you, Doron, 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 Doron mentioned, during Q2 2021 we saw very strong bookings coming from North America, India, and Europe. In fact, Q2 was the strongest in terms of bookings in the last three years. Our book-to-bill ratio was way above 1.

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

During the second quarter, we continued to make further progress towards "normal operations," accelerating the positive trend that began at the end of 2020.

Let me now review the actual Q2 numbers with you.

**Revenues** for the second quarter were \$68.6 million, up by 10% compared with Q2 last year. The increase is mainly attributed to stronger sales in North America and India.

Our strongest region in terms of revenues for the quarter was **India**, reflecting ongoing deliveries for our main customers in the region.

Our second strongest region in terms of revenues for the quarter was **North America**, reflecting continued strong momentum with our Tier-1 customer, other leading ISPs, and smaller carriers.

**Europe** also had a strong quarter, continuing its positive momentum and reflecting more initial revenues from 5G projects.

**Latin America** had a slightly higher quarterly revenue than in the previous quarter, but still lower than its normal run-rate.

Revenues in **Africa** and **APAC** were slightly lower than in the previous quarter, reflecting the still challenging situation in both regions.

We had 2 above 10% customer in the second quarter.

**Gross profit** for the second quarter on a non-GAAP basis was \$21.6 million, giving us a non-GAAP gross margin of approximately 32%, compared with 26% for the second quarter of 2020. The relatively high gross profit is thanks to a favorable customer mix, positively affecting the gross margin this quarter. It's a great development for us. That said, there are still challenges

associated with component shortages and high supply chain costs. These challenges plus the overall Covid-19 environment may continue to have an impact on our gross margin.

As Doron mentioned, gross margin and gross profit are key metrics for us. We are looking closely on how to improve gross margin for the long term and bring it to the level of 33-34% and above. We see a few elements that can contribute to that:

- Reduced level of component shortages
- Release bottlenecks in shipments via sea, as well as air freight surging costs, created by Covid-19
- Better delivery timeline alignments with our customers
- Operational excellence and discipline in all aspects
- Increased revenue volume

**Operating expenses** on a non-GAAP basis for the second quarter were \$21.0 million, slightly higher than our expectations.

**Research & Development** expenses for the second quarter on a Non-GAAP basis were \$7.5 million, an increase from \$6.8 million in Q2 2020, mainly due to a continued effort with our chip development. These expenses will continue to stay high until we reach tape-out towards the second half of 2021.

**Sales & Marketing expenses** for the second quarter on a non-GAAP basis were \$8.3 million, a slight increase from \$8.0 million in Q2 2020, but still reflecting the reduced travel that has come with Covid-19. We expect to gradually increase our sales and marketing expenses towards the end of the year as markets open post-pandemic.

**General and Administrative expenses** for the second quarter on a non-GAAP basis were \$5.2 million, an increase from \$4.8 million in Q2 2020. In Q2 2021 we had a write-off related to two of our customers experiencing financial difficulties.

**Financial and Other Expenses** for the second quarter on a non-GAAP basis were \$1.4 million, in line with our expectations.

**Our tax expenses** for the second quarter on a non-GAAP basis were \$0.4 million, lower than in Q2 2020 and in line with our expectations.

**Net loss** on a non-GAAP basis for the quarter was \$1.2 million, or \$0.01 per diluted share. On a GAAP basis, net loss was \$1.7 million, or \$0.02 per diluted share. During this quarter, we had several one-time events impacting the reconciliation between GAAP and non-GAAP. The major ones were a Paycheck protection program loan forgiveness and the retirement compensation package of our former CEO.

Our **inventory** for the quarter was \$52.3 million, down from \$53.6 million in Q2 2020.



Our **trade receivables** are now at \$107.4 million, up from \$97.5 million in Q2 2020. Our DSOs now stand at 139 days.

**Net cash used in operating activities** for the second quarter was \$3.0 million.

Net cash used this quarter for **investing activities** was \$1.7 million.

Looking ahead, our strong bookings in Q2, which were significantly better than expected, along with a very healthy backlog and Q3 funnel, reflect increasing business activity mainly in North America, India, and Europe.

I am happy to report today that we are more confident about our revenue growth in 2021 and expect it to be on the higher end of our annual revenue guidance, which is between \$275-\$295 million. More than that, we see a bright light ahead of us to return to profitability in the second half of the year.

While the current component shortage may still create fluctuations in our quarterly revenues and have an impact on the timelines of our deliveries, we remain confident in our mid and long-term business opportunities and deliveries.

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

## **Doron's Closing Remarks**

Ceragon has successfully innovated on past wireless generation transitions. We take pride in this tradition and remain committed to it. We are prepared to meet the new 5G era with state-of-the-art technology, excellent services, and confidence.

I'm also pleased to share with you that Ran and I are traveling to the US next week to enjoy face-to-face interactions with our investors and analysts – finally! We look forward to seeing you there.

Have a good day everyone.