

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

Intro

Peter Schuman, Sr. Director, Investor Relations

Thank you Bridgette. Welcome and thank you for joining us today for Cambium Networks' third quarter 2019 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 earnings release referenced on this call is accessible on the investor page of our website and has been submitted on a current report on 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. I 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 GAAP numbers except where otherwise noted. A reconciliation of non-GAAP measures to GAAP is included in the appendix to today's

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

financial results press release which can be found on the investor page of our website and in today's press release announcing our results.

Now, on to the agenda...

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 third quarter 2019, which we reference as Q3'19, and reference past quarters as Q2'19 for the second quarter 2019 and Q3'18 for the third quarter 2018, and we will provide our financial outlook for the fourth quarter 2019, which we reference as Q4'19, and fiscal year 2019 and fiscal year 2020 which we will reference as FY'19 and FY'20. 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.

Looking at the results of our third quarter 2019

We achieved revenues of \$65.7 million which increased 11% year-over-year and decreased 5% from Q2'19. This was our 22nd consecutive quarter of year-over-year growth. This growth was driven by both our Point-to-Multi-Point (PMP) products, with revenues increasing 18%, and our Wi-Fi products, which grew an outstanding 132% year-over-year. As mentioned in our earnings release, we had lower than anticipated government spending for Point-to-Point products during Q3'19 with PTP down 22% year-over-year.

On a sequential basis, we continued to deliver record revenues in our enterprise Wi-Fi solutions, which grew by a solid 20% from Q2'19 and now represent over 15% of total company revenues. PTP revenues decreased 10% sequentially in Q3'19, primarily the result of a slowdown in the U.S. Federal business due to delays in specific government programs and PMP revenues were lower by 7% sequentially after two stronger quarters in North America.

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

Taking a look at some notable customer wins and new product developments

During Q3'19, I'm pleased to report Cambium Networks continued to have several high-profile customer wins.

In North America, we continue to believe the Connect America Funds or (CAF) funds Phase II will be a key driver for our growth in 2020. \$1.5 billion in funds will be disbursed over the next 10 years. We won a CAF II funded deal for point-to-multipoint access and licensed backhaul solutions from a Midwestern wireless communications company serving both residential and business customers.

In North America, in the Service Provider space, a tier-one Service Provider executed a supply agreement for small cell Point-to-Point transport using our PTP 670.

Cambium Networks' PTP 670 provides carrier-grade reliability, operates in near and non-line-of-site deployments, and support of both IEEE 1588v2 and Synchronous Ethernet required by mobile service providers to support network timing. We see this win as proof point that fixed wireless broadband is relevant for the major service providers.

In the Europe, Middle East, and Africa region (EMEA), we had a significant number of wins including service providers, hotel chains, educational institutions, a sizeable agricultural, and many oil & gas customers, and government agencies.

A major service provider in EMEA, with operating companies in multiple Middle Eastern and African countries, has executed a master supply agreement with Cambium Networks to provide fixed wireless broadband solutions to serve their enterprise broadband access market. Three of

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

the service providers' operating companies have already placed initial orders on Cambium Networks to support the deployment of fixed access networks.

In our enterprise business in EMEA, Cambium Networks has active engagements with over 800 municipalities across Europe following our successful WiFi4EU engagement activities. Many of those municipalities have already purchased or committed to purchase Cambium solutions through the WiFi4EU initiatives.

The WiFi4EU initiative, combined with Cambium's robust products for outdoor wireless networks, and the move to Wi-Fi 6 (also known as 802.11ax standard), along with our cloud powered cnMaestro network management solution, and our new wireless-aware cnMatrix family of switches, are a few reasons why we remain enthusiastic on higher growth rates for our enterprise Wi-Fi business over the foreseeable future.

In CALA, we have shipped cnPilot Wi-Fi equipment to help aid and recovery teams in the Bahamas after Hurricane Dorian. Cambium also partnered with Orocom, an emerging telecommunications service provider in Peru, to provide Cambium Networks PMP 450 fixed wireless broadband solution and cnPilot™ enterprise Wi-Fi solutions to the Peruvian government for broadband Wi-Fi access to more than 1,000 towns and rural communities in four different states in Peru.

Regarding our acquisition of the Xirrus product lines

Integration activities are moving along smoothly. We onboarded approximately 35 new employees with a history of innovation and deep multi-radio experience in high-performance Wi-Fi, which will substantially contribute to the development of advanced Wi-Fi 6 solutions for mid-tier enterprises, educational institutions, hospitality, high-density public venue verticals, and Managed Service Providers. We are making excellent progress aligning our future product

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

roadmap with the Xirrus team with expected convergence around our Wi-Fi 6 products in the first half of 2020.

We are also very pleased to be included for the first time in both the 2019 Gartner Magic Quadrant for Wired and Wireless LAN Access Infrastructure and Forrester's 2019 New Wave report for wireless solutions. These inclusions are an important step as Cambium Networks continues to increase our exposure to the world-wide enterprise Wi-Fi market which now represents over 15% of our revenues, up from 7% of company revenues a year ago.

Looking at new products launched since our previous quarterly update.

In August, Cambium Networks announced the availability of the PMP 450 Platform in the Citizens Band Radio Service (CBRS) spectrum. We are one of the first companies to implement and now ready to deploy CBRS solutions in America. CBRS unlocks a large block of spectrum for broad commercial use by service providers. The PMP 450 fixed wireless platform is currently the only purpose-built fixed point-to-multipoint broadband technology approved for use in the CBRS band and another alternative to deploying LTE technology. All of our 450 PMP platform products are able to upgrade firmware to take advantage of the new 3GHz CBRS spectrum. CBRS capability expands Cambium Networks Wireless Fabric portfolio of connectivity solutions for service providers; as well as industrial, utility and local government private network operators, and provides affordable spectrum to rural areas and will further enable the Internet of Things.

In early October we announced the launch of three new cnPilot Wi-Fi access points products to the cnPilot product line of connectivity solutions for 802.11ac Wave 2. These products include the cnPilot e505, a small form factor outdoor Wi-Fi access point designed for city-wide and high-density deployments, the cnPilot e510 for high performance rugged outdoor industrial applications with extended temperature operations, rail certified for shock & vibration, LTE co-

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

existence and IP67 rating, and the cnPilot e425H wall plate access point designed for high density installations such as hospitals, apartments, dormitories, educational institutions, and hospitality with one access point per room.

We continue to experience strong growth in unique company accounts utilizing cnMaestro® Cloud with the total devices under management in Q3'19 totaling over 332,000, an increase of approximately 11% from Q2'19.

As we have previously mentioned, Cambium Networks is one of the few networking companies that offer an end-to-end cloud-powered connectivity solution to manage the entire network, integrating a broad portfolio of complex wireless technologies.

Turning to the Channel

In Q3'19, we expanded our channel presence by adding over 500 new channel partners sequentially, and over 1,450 new channel partners year-over-year, which represents an increase of approximately 9% sequentially and 29% year-over-year.

In other channel developments, Cambium Networks had a very successful WISPAPALOOZA conference in mid-October. WISPA, the trade association for North America Fixed Wireless Internet Service Providers, held its annual conference. Customers could see Cambium Networks is very well positioned from both a product and technology standpoint for our next phase growth, especially with the growth enabled by \$1.5 billion of CAF II funding. Cambium received the 2019 manufacturer of the year award from WISPA at the conference, an award voted by the members of WISPA.

We are also proud that Cambium Networks was named the winner in the telecommunications category for the Chicago Innovation Awards for our PMP 450m with cnMedusa Massive MU-MIMO technology. The judges selected Cambium Networks out of 450 nominees.

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

While Q3'19 certain pockets were softer than anticipated, we have created a strong foundation for our 2020 and 2021 growth. The key drivers for our business growth are--the introduction of 60GHz and 28GHz millimeter wave solutions, global tier-two and tier-three service providers deploying fix-wireless broadband enabled by the adoption of fixed 5G, and Wi-Fi 6 acceleration from the Xirrus acquisition. These drivers give us confidence into our future growth.

I will now turn the call over to Stephen for a review of our Q3'19 financial results.

Stephen Cumming-CFO

Thanks Atul.

Revenues for Q3'19 increased by 11% year-over-year to \$65.7 million compared to \$59.0 million in Q3'18. As Atul mentioned, Q3'19 revenues reflected lower than anticipated U.S. Federal government spending, primarily for Point-to-Point products. We believe this is a temporary slowdown in the PTP market mostly related to delays in specific government programs.

Looking at revenues by geographies

North America, our largest region, represented 44% of company revenues during Q3'19. North America was flat year-over-year and decreased 3% sequentially. We had another strong quarter in EMEA, our second largest region, which had revenues of \$21.7 million during Q3'19, an increase of 27% year-over-year driven by strong enterprise business, and down 5% sequentially from a very strong Q2'19. EMEA represented 33% of total company revenues. APAC revenues grew 12% year-over-year during Q3'19, although decreasing by 10% sequentially. The government digital broadband initiatives in Asia, which reach every sector of their economies, are expected to remain slow until calendar 2020. APAC represented 11% of revenues during the third quarter 2019. CALA grew 21% year-over-year as we won some larger enterprise deals in Brazil and Mexico and decreased 5% sequentially. CALA represented 12% of Cambium Networks' revenues during Q3'19.

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

Looking at our gross margin. GAAP gross margin was 48.4%, while non-GAAP gross margin of 48.7% improved 190 basis points compared to Q3'18. The year-over-year improvement in gross margin expansion are a result of key initiatives which we put in place focused on cost reductions, price management, and supply chain efficiency.

Non-GAAP gross margin was 140 basis points lower than Q2'19 which included approximately a 70 basis points benefit as a result of an annual licensing agreement with a customer and lower inventory reserves. GAAP gross profit dollars were \$31.8 million during Q3'19. In Q3'19 our non-GAAP gross profit dollars increased by \$4.4 million to \$32.0 million compared to the prior year and decreased by \$2.7 million sequentially.

GAAP operating expenses were \$27.7 million in Q3'19 compared to \$28.6 million in Q3'18, and \$43.7 million in Q2'19, which included \$16.1 million of share-based compensation.

Non-GAAP operating expenses in Q3'19 decreased by \$1.2 million when compared to Q3'18, and stood at \$26.2 million, or 39.8% of revenues. When compared to Q2'19, non-GAAP operating expenses decreased by approximately \$1.4 million dollars. The sequential decrease in non-GAAP operating expenses was primarily driven by lower R&D and Sales & Marketing expenses as result of controlled discretionary spending and lower variable compensation.

GAAP R&D expense in Q3'19 was \$9.9 million. Non-GAAP R&D expense for Q3'19 was \$9.6 million or 14.5% of revenues, as compared to 16.6% of revenues in Q3'18, and 14.9% of revenues in Q2'19. During Q3'19 we added approximately 23 new R&D employees from our Xirrus acquisition while maintaining strong discipline around discretionary spending.

GAAP Sales & Marketing was \$10.4 million. Non-GAAP Sales & Marketing expenses for Q3'19 were \$10.0 million or 15.2% of revenues, compared to 18.3% of revenues in Q3'18, and 15.4% of revenues in Q2'19. We are benefiting from the investments we made in our inside sales organization during the past year allowing us to acquire new customers more efficiently.

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

For Q3'19 GAAP G&A expense was \$6.0 million, non-GAAP G&A expense was \$5.6 million or 8.5% of revenues compared to 9.4% of revenues in Q3'18, and 8.2% in Q2'19. Non-GAAP G&A dollars were flat sequentially while up slightly year-over-year.

GAAP depreciation and amortization was \$1.4 million. Non-GAAP depreciation and amortization was approximately \$1.0 million dollars for Q3'19, \$1.2 million in Q3'18, and \$900 thousand in Q2'19.

GAAP operating margin for Q3'19 was 6.3%. Non-GAAP operating margin was 8.8%, up from 0.4% for Q3'18, and down from 10.3% of revenues in Q2'19.

Adjusted EBITDA for Q3'19 stood at \$6.8 million or 10.3% of revenues, compared to \$1.5 million or 2.5% of revenues for Q3'18, and \$8.1 million or 11.8% of revenues for Q2'19.

As we mentioned during our Q2'19 earnings call, adjusted EBITDA margin for the third and fourth quarters of 2019 would be impacted by approximately \$1 million to \$2 million per quarter as a result of the Xirrus acquisition.

Cash used in operating activities was \$11.8 million for Q3'19 due primarily to the timing of Initial Public Offering (IPO) related payments. If we exclude the one-time IPO expenses of \$8.6 million, which include the \$5.6 million payable to Vector Capital and \$3 million in D&O insurance, our operating cash flow would have been down \$3.2 million in Q3'19.

We expect improved cash generation during Q4'19 as we reduce internal inventories and don't have outsized payments relating to the IPO.

GAAP provision for income taxes was \$3 thousand dollars. Our non-GAAP provision for income taxes was \$428 thousand dollars or a non-GAAP effective tax rate of 10.3% in Q3'19, this lower effective tax rate was impacted by changes in our projected income across our key tax jurisdictions.

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

GAAP net income for Q3'19 was \$2.0 million or \$0.08 per diluted share. Non-GAAP net income for Q3'19 was \$3.7 million, or \$0.15 per diluted share, compared to non-GAAP net loss of \$1.5 million, or a loss of (\$0.11) per diluted share for Q3'18, and non-GAAP net income of \$3.9 million, or \$0.15 per diluted share for Q2'19. The higher non-GAAP net income compared to the prior year period was due to higher revenues, improved gross margin, and lower operating expenses due to good discipline controlling discretionary spending. The decrease in non-GAAP net income compared to Q2'19 was primarily attributable to lower revenues and a lower gross margin.

Turning to the Balance Sheet

Our Q3'19 cash position was \$19.0 million compared to \$71.2 million in Q2'19 primarily as a result of the paydown of \$33.2 million of long-term and revolving debt, with our term loan commitment now standing at \$65.9 million. Also contributing to the sequential change were a \$5.6 million past management fee paid to Vector Capital, IPO offering expenses and D&O insurance of approximately \$6.0 million, and a payment to acquire the Xirrus Wi-Fi business. Capital expenditures in Q3'19 were approximately \$1 million.

Q3'19 net receivables of \$59.8 million increased by \$3.5 million from Q3'18 as a result of higher sales, and decreased by \$2.8 million sequentially. Days Sales Outstanding for Q3'19 was 74 days, our best performance in 2 years, down by 6 days from Q3'18, and down by 2 days compared to Q2'19. Days Payable Outstanding stood at 40 days, a decrease of 22 days from Q3'18, and down 19 days from Q2'19. The sequential decrease reflects payments related to the IPO activities.

Net inventories of \$41.9 million in Q3'19 increased by \$11.4 million year-over-year, and went up by \$5.0 million from Q2'19, as we stocked certain products to support Federal and government sponsored opportunities that have been delayed during Q3'19. Days Inventory Outstanding increased in Q3'19 to 110 days compared to 83 days in Q3'18 and 92 days in

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

Q2'19. Our intent is to reduce inventories back to our target range of between 80 and 90 days within the next few quarters.

In conjunction with today's earnings announcement, Cambium Networks initiated a company-wide restructuring program to better align our cost structure with the general economic conditions and uncertainty created by delayed government spending. By right sizing our business, the objective is to achieve our long-term target operating model by improving our cost structure and operational efficiency. Cambium Networks continues to focus on revenue growth, but in the interim our restructuring initiatives will allow us to remain financially strong and resilient. Cambium Networks expects to incur between \$0.8 to \$1.1 million in restructuring charges during Q4'19 mainly consisting of cash severance costs. We expect to realize cost savings between \$500 thousand and \$600 thousand in Q4'19 and beginning in FY'20, we anticipate savings of approximately \$1.25 million to \$1.5 million per quarter or approximately \$5.0 million to \$6.0 million in savings for FY'20.

Moving to the Fourth Quarter 2019 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 the company's financial outlook to the extent they are reasonably certain; however, actual results may differ materially from the outlook.

Taking into account the company's current visibility, Q4'19 is expected to be as follows:

- GAAP revenues between \$63.0 to \$66.0 million
- GAAP gross margin between 48.0% to 49.4%; and non-GAAP gross margin between 48.2% to 49.5%
- GAAP operating income between \$1.2 to \$2.4 million; and non-GAAP operating income between \$2.4 to \$3.6 million

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

- GAAP net loss between \$(1.0) million to break-even or between a loss of (\$0.04) and break-even per diluted share; and non-GAAP net income between \$0.8 to \$1.7 million or between \$0.03 and \$0.07 per diluted share
- Adjusted EBITDA between \$3.4 to \$4.5 million, or Adjusted EBITDA margin of between 5.3% to 6.9%
- GAAP taxes between 19.0% to 21.0%; and a non-GAAP effective tax rate of approximately 17.0% to 19.0%, and
- Approximately 25.6 million weighted average diluted shares outstanding

Turning to our cash requirements:

- Paydown of debt: \$2.4 million
- Interest Expense: Approximately \$1.4 million
- Capital Expenditures: \$1.0-\$1.1 million

In Conclusion

Growth and profitability remain our number one core value. Cambium Networks is well positioned for growth and the wireless space offers a tremendous opportunity for Cambium to innovate and deliver this core value. We have the right team and technologies to do this and we remain committed to delivering on our double-digit Adjusted EBITDA target.

That concludes our prepared remarks.

So, with that, I'd like to turn the call over to Bridgette 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 Bridgette. During Q4'19 Cambium Networks will be presenting and meeting with investors in New York on November 12th at the Needham Networking & Security Conference. In

Q3'19 Financial Results Conference Call Prepared Remarks 11/07/19

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.