

Q2'24 Financial Results Conference Call Prepared Remarks 8/8/24

Intro

Peter Schuman, Vice President, Investor, Industry Analyst & Public Relations

Thank you [Operator]. Welcome and thank you for joining us today for Cambium Networks second quarter 2024 financial results conference call and welcome to all those joining by webcast.

Morgan Kurk, our President & CEO, and Jacob Sayer, our CFO, are here for today's call. The financial results press release and 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 forecasted performance. These statements are based on current conditions, 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 and Form 10-Qs.

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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...

Morgan will provide the key operational highlights for the second quarter 2024 and Jacob will provide a recap of the financial results for the second quarter 2024 and will discuss our financial outlook for the third quarter and full year 2024. Our prepared remarks will be followed by a Q&A session.

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

Morgan Kurk-President & CEO

Thank you, Peter.

Summarizing the performance of Q2'24

Revenues for Q2'24 were \$45.9 million. We are pleased revenues were just above the mid-point of the outlook we provided during our Q1'24 financial results call, with revenues up sequentially by 9% due to continued growth in our Enterprise business with higher revenues in all geographies, and growth in our Point-to-Multipoint (PMP) business.

Adjusted gross margin improved again quarter-over-quarter, muted by higher-than-expected reserves taken for excess finished goods and raw materials. Excluding the unexpected E&O charges, adjusted gross margin would have been 44.4%, above our guidance for the quarter. Operating margins improved sequentially, as we continued to control expenses to lower our break-even point. Free cash flow was negative \$1.8 million during Q2'24, and our cash balance stood at \$42.6 million as of June 30th. Cash flow from operations was positive \$2.4 million. This is the first time it was positive in six quarters.

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We believe the business is moving in the right direction financially, operationally, and strategically.

Sales of Cambium's products out of the distribution channel as reported by Cambium's distributors were again higher for Q2'24 than Cambium's reported revenues, and we saw corresponding declines in channel inventories.

We continued to make progress in clearing channel inventories and some of our channel partners are at appropriate levels of inventory while other partners still have work to do. Sales-in and sales-out are expected to be at equilibrium by the end of the year, which is slightly longer than we had previously thought, as shorter lead times and higher interest rates are driving distributors to a greater level of efficiency than in the past. Looking forward, lower channel inventories will result in end user demand more directly driving increased revenues.

Looking at some customer wins that are key to our future success

In the U.S., Cal.Net, a provider of high-speed wireless broadband and digital services in the Central Valley and rural Northern California, has deployed ePMP 4600 to serve residential and commercial users with improved service levels of 400 Mbps downlink and 200 Mbps uplink. They are providing high speed internet services to agricultural operations, local businesses, and residential customers; enabling increased productivity, improved video experience, and a whole host of other broadband services. They selected Cambium as their supplier due to our value proposition; reliable, high-performance service at an affordable cost. This in turn allows Cal.Net to provide faster broadband speeds at a lower cost to their customers than the incumbent service provider.

In England, Voneus, a rural broadband provider, is leveraging Cambium Networks' cnWave™ 60 GHz mesh technology to bring improved connectivity to Walney Island. Voneus is deploying Cambium's technology to make gigabit broadband available to more than 10,000 island residents. This collaboration aims to support the community's economic development and enhance educational opportunities for local students. Cambium was selected due to the speed at

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which the system can be deployed. This is enabled by leveraging existing physical infrastructure and combining it with Cambium's mesh technology, which also reduces the total cost of ownership.

In addition, in the Enterprise space, the Indian Institute of Technology a premier public technical university located in Dhanbad, India, selected Cambium's Enterprise solutions to connect multiple academic and housing blocks across the university's campus.

Now let's turn to upcoming product introductions since our previous quarterly update.

In June we announced the release of a new PTP product for our commercial customers in the 80 GHz E-Band - the PTP 850EX. The product delivers 10 Gbps capacity and features a smaller form factor than prior product versions at a very compelling price. The E-Band is ideal for building-to-building and other point-to-point connectivity, as an alternative to fiber or as a back-up to fiber and is used for applications such as backhauling outdoor Wi-Fi and video surveillance.

For channel partners, we have introduced a new concierge program, called Elite. Managed Wi-Fi Service Providers, Value Added Resellers, and System Integrators are eligible for this select program. The enhanced program introduces a new partner level, offering a host of benefits designed to accelerate growth, reduce risk, and increase sales velocity.

The program includes personalized support in the deployment of Cambium ONE solutions from a senior technical staff member assigned to the account as a consultant, and expertise from specialized technical staff for onboarding and customer engagement.

Finally, total devices under cnMaestro Cloud management in Q2'24 increased approximately 6% from Q1'24 and was up 15% year-over-year.

I will now turn the call over to Jacob for a review of our Q2'24 financial results, and Q3'24 and full year 2024 financial outlook.

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Jacob Sayer -CFO

Thank you, Morgan.

Q2'24 topline results of \$45.9 million increased 9% from Q1 due to growth in our Enterprise and PMP businesses.

Q2'24 results included additional inventory charges and supplier commitment reserves which impacted gross margin by approximately \$7.0 million, which was \$5 million more than expected. Had E&O been in line with expectations, non-GAAP gross margin would have been approximately 44.4%, slightly better than expectations on stronger Enterprise sales.

We continue to work hard to manage our operating costs, focusing resources on those products and projects that are most critical for Cambium's future success.

Turning to revenue in the quarter

The increase in revenue was mostly due to growth in the Enterprise business, which grew 58% quarter-over-quarter, as demand improved in all geographies and channel inventories continued to decline. Our PMP business grew slightly, up 1% sequentially, thanks to strength in our ePMP product lines in the EMEA and APAC regions. Our North American PMP business remained slow as service providers are still working to understand the nuances of 6 GHz PMP solutions before moving to volume deployments. The Point-to-Point (PTP) business declined by 5% sequentially due to the completion of a large North American licensed microwave installation in Q1, partially offset by increased defense orders in Europe. While we typically expect defense to grow with historical trends during the second half of the year, this year we are seeing a delay in projects due to budget prioritization both for domestic and international defense projects.

By region, EMEA increased 78% sequentially as a result of recovery in the PTP business for defense, and higher PMP and Enterprise revenues. North America was lower by 18% on lower PTP and PMP revenues, partially offset by higher Enterprise revenues. APAC increased by 25%

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sequentially on higher Enterprise and PTP revenues, and CALA improved by 8% quarter-over-quarter.

Moving on to our gross margin.

Our non-GAAP gross margin for Q2'24 continued to move in the right direction and was 33.5% compared to 22.7% in Q1'24. The higher quarter-over-quarter non-GAAP gross margin was primarily the result of lower material costs, fewer rebates, and an improved mix of higher margin Enterprise revenues. Non-GAAP total operating expenses, including depreciation and amortization in Q2'24 stood at \$23.3 million, lower by \$3.0 million sequentially as we managed expenses lower and due to certain one-time benefits.

Our non-GAAP net loss for Q2'24 was \$7.1 million, or a loss of \$0.25 per diluted share, and compared to a non-GAAP net loss of \$12.7 million, or a loss of \$0.46 per diluted share during Q1'24.

Adjusted EBITDA for Q2'24 was a loss of \$6.7 million, compared to a loss of \$15.5 million for Q1'24.

Moving to cash flow and the balance sheet

Cash provided by operating activities was \$2.4 million dollars for Q2'24 compared to cash used in operating activities of \$15.4 million dollars for Q1'24. We are focused on improving the order to cash cycle, reducing inventories, and managing working capital closely.

Cash totaled \$42.6 million as of June 30, 2024, and free cash flow for the quarter was negative \$1.8 million.

We continue to manage our cost base and have reduced our breakeven point to an approximately \$55 million quarterly revenue run-rate.

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Net inventories of \$50.0 million in Q2'24 decreased by \$5.6 million from Q1'24, driven by both consumption and increased inventory reserves. E&O reserves are primarily driven by estimated long-term demand for our products. These estimates change over time, and are dependent on the market, future technology development, and anticipated lifecycle migrations. Our goal for 2024 is to reduce our inventories to approximately 90 days outstanding.

Moving to the Third Quarter and Full Year 2024 Financial Outlook

Considering our current visibility, our Q3'24 financial outlook is as follows:

- Revenues between \$43.0 to \$48.0 million,
- Non-GAAP gross margin between 41.5% and 43.5%,
- Non-GAAP net loss of between \$5.4 million to \$3.8 million or net loss per diluted share between \$0.19 to \$0.14, and
- Adjusted EBITDA is expected to be between negative \$4.4 to negative \$2.4 million dollars; and adjusted EBITDA margin between negative 10.2% to negative 4.9%

Our Full Year 2024 Financial Outlook is expected to be as follows:

- Revenues between \$180 to \$190 million.
- non-GAAP gross margin of approximately 37.0%.
- non-GAAP net loss between \$29.4 million to a net loss of \$24.6 million, or a loss of between \$1.04 to \$.87 per diluted share.
- Adjusted EBITDA margin between negative 16.2% to negative 12.0%.

In summary, excluding the E&O charge, we delivered on what we promised for the second quarter. Looking forward, while the incremental steps may not be as large as we would like, the Company is moving in the right direction and we expect to continue to improve financially from here. I will now turn the call back to Morgan for closing remarks.

Morgan Kurk-President & CEO

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My first year with Cambium has been challenging, but as I assess our progress, I believe we have passed the most difficult point. For the past year I have outlined three focus areas; improving operational excellence, platforming, and optimizing our go-to-market for Enterprise. We have significantly improved our operational performance with increased focus and new processes. We are streamlining our supply chain and reducing channel inventories, which positions us better for the future. Our platforming work is underway and will bear fruit in faster product development, reduced lead times, improved efficiency in operations and sales, and lower overall costs. Our Enterprise business is growing and as we change the way we interact with our partners I expect this to accelerate.

Our PMP business is positioned to grow with the approval of both our ePMP and PMP product lines at 6 GHz, offering faster speeds, improved reliability, and increased bandwidth. We expect to see the benefit as our products ramp in North America as well as with the future opening of 6 GHz spectrum for PMP use in other countries around the world.

Our Enterprise business is at the start of a new product cycle with Wi-Fi 7, channel inventories have been reduced, and our switching and software businesses offer competitive product line-ups.

Finally, I'd like to share my continued appreciation to all involved in our transformation. The effort and loyalty are appreciated, and I believe will be rewarded in the long run.

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 & Public Relations – Closing Statement

Thank you [Operator]. During Q3'24 Cambium Networks will be meeting with investors in Chicago on Tuesday, August 27th at the Jefferies Technology, Media, & Consumer Conference.

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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.