

## **Q4'19 Financial Results Conference Call Prepared Remarks 2/10/20**

### **Intro**

#### **Peter Schuman, Sr. Director, Investor Relations**

Thank you [Chris]. Welcome and thank you for joining us today for Cambium Networks fourth quarter and full year 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 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. 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 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...**

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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 both the fourth quarter and full year 2019 and he will provide our financial outlook for both the first quarter 2020 and calendar year 2020. 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 fourth quarter 2019**

We achieved revenues of \$64.1 million which increased 1% year-over-year and decreased 2% from Q3'19. This was our 23<sup>rd</sup> consecutive quarter of year-over-year growth. This growth was driven by our enterprise Wi-Fi solutions, which grew an outstanding 186% year-over-year, and recovery in Point-to-Point (PTP) products which improved 4% year-over-year, while Point-to-Multi-Point (PMP) products decreased 19% year-over-year due to a larger customer's technology transition and year-end inventory rebalancing with some European customers.

On a sequential basis, we continued to deliver record revenues for our enterprise Wi-Fi solutions which grew by a solid 14% from Q3'19 and now represent 18% of total company revenues. PTP revenues increased 14% sequentially in Q4'19, as a result of improvement in non-U.S. government programs, while PMP revenues were lower by 14% sequentially after the past four quarters of strong growth in EMEA.

For the full year 2019, revenues of \$267.0 million increased 10% from 2018. The 2019 growth was primarily driven by our Wi-Fi solutions, which grew well beyond the high-end of our expectations, increasing 82% over the previous year. For the full year 2019, our Point-to-Multi-Point products grew 7% from FY'18, while the Point-to-Point products were flat.

#### **Looking at some notable customer wins and new product developments**

During Q4'19, I'm pleased to report Cambium Networks continued to have several high-profile customer engagements.

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In North America, in the Service Provider space, a tier-two operator selected Cambium PMP 450m for deployment of a residential broadband network in Idaho. They selected Cambium Networks based on our superior performance enabled by our ability to transmit more data in the given frequency band than other competing products.

A tier-three wireline service provider in Wyoming selected Cambium Networks for a residential access network. The service provider will use the PMP 450m in conjunction with the Federal Communications Commission (FCC's) newly released 3 GHz CBRS spectrum for the access network, and the PTP 820 for the backhaul network. We are an early adopter and first mover in the CBRS arena. We are excited about the possibilities here for many years to come.

In North America, Cambium's enterprise team provided full-scale Wi-Fi connectivity for the Microsoft Ignite show in Orlando, Florida. It's one of the largest users-group gathering in the high-tech world with about 30,000 attendees. Our team provided outstanding Wi-Fi performance and customer support with over 22,000 concurrent devices supported by approximately 1,200 Cambium Wi-Fi access points.

In the hospitality vertical, a large resort owner and operator out of Toronto selected Cambium's Wi-Fi solutions for two new large resort properties. Cambium's superior performance and price, coupled with our cloud-based management software, and exceptional 24X7 support were main drivers for this customer win.

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

A UK-based wireless managed services provider selected Cambium Networks to supply end-to-end wireless infrastructure for connectivity within major vacation parks in the UK. This customer valued our ability to deliver wireless gigabit networking, under demanding outdoor wireless conditions.

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This multi-year, multi-million-dollar project, will outfit vacation parks with Cambium Networks' latest wireless technology, bringing ultra-broadband gigabit connectivity and delivering value added services to park guests. This project represents a significant milestone for Cambium's fixed wireless broadband penetration in EMEA.

In the oil and gas sector, a large state-owned company in the Persian Gulf selected Cambium for backhaul to interconnect its onshore and offshore platforms, displacing an incumbent supplier.

In the APAC region, a leading telco in India is using Cambium Networks backhaul to provide gigabit backhaul links in lieu of fiber. Over 100 locations are now powered using our PTP550, providing best-in-class price-performance.

In Caribbean and Latin America (CALA), we have a partnership with Facebook to implement Express Wi-Fi, a cloud-based division within Facebook Connectivity, which partners with local service providers to deploy Wi-Fi hotspots that are fast, affordable, and reliable, giving Facebook access to new customers in Latin America. To date, we have delivered Wi-Fi solutions in the countries of Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, and Peru. We look forward to continuing this partnership in additional countries.

During the fourth quarter, Cambium Networks received several high-profile awards and recognitions. IDC, a leading market research firm, included Cambium in its "Major Players" category for its IDC MarketScape: Worldwide Enterprise WLAN 2019 Vendor Assessment. This research is a quantitative and qualitative assessment of the characteristics that explain a vendor's chances for present and future success worldwide.

Cambium Networks increasing brand recognition is the result of rapid growth and continued exposure to the world-wide enterprise Wi-Fi market which now represents 18% of our revenues, up from 6% of company revenues in the fourth quarter a year ago.

**Looking at new products launched since our previous quarterly update.**

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Cambium Networks released cnVision™, a new secure video surveillance solution. cnVision is a new line of purpose-built wireless backhaul solutions using our proven point-to-multipoint wireless technology to serve the video surveillance market. This line of products was created with the intention of being cost-effective, scalable, and providing predictable performance and security under adverse conditions with the right blend of features that integrate smoothly into the CCTV space.

Our technology leverages a cloud-managed approach which increases ease of use and operation for system maintenance and software upgrades. cnVision brings reliable connections to video networks to standard video applications and specialized applications like disaster recovery, public safety and asset monitoring.

In the Point-to-Multi-Point market, in the next few months we will release our new 5 GHz 450 MicroPoP™ solution. The solution offers a lower-cost and lower density alternative with the reliability, performance and stability customers have come to expect from 450 line of products. The 450 MicroPop enables service providers to round out their coverage areas for locations which previously could not be covered in an economic manner within their service networks.

We are also excited about our future high-capacity gigabit wireless solutions for PMP backhaul for enterprises and the residential market, called cnWave™, utilizing 60 GHz millimeter wave, an unlicensed or lightly licensed spectrum, and allows for smaller Internet Service Providers to stay competitive amidst larger providers. 60 GHz will be increasingly relevant for urban use cases and should be available in the third quarter calendar year 2020. This will be the first wireless technology to bring 1 gigabit per second to the home, cost effectively---equivalent to speed of fiber. We call this wireless fiber.

Weaving together our networking solutions, we continue to experience strong growth in unique company accounts utilizing cnMaestro™ Cloud with the total devices under management in Q4'19 totaling over 374,000, an increase of approximately 13% from Q3'19, and up 62% year-over-year.

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 from a single pane of glass, integrating a broad portfolio of complex wireless technologies.

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### **Turning to the Channel**

In Q4'19, we expanded our channel presence by adding over 400 new channel partners sequentially, and almost 1,500 new channel partners year-over-year, which represents an increase of approximately 6% sequentially and 28% year-over-year.

We continue to believe the technology investments we have made over the past few years have built a strong foundation for accelerated growth during the second half of 2020 and beyond as next generation gigabit wireless networking deployments worldwide accelerate for many years. The key drivers for our business growth over the next few years are the introduction of 60 GHz and 28 GHz millimeter wave solutions for fixed wireless 5G, the adoption of CBRS compatible solutions, and global tier-two and tier-three service providers deploying fixed-wireless broadband enabled by the adoption of millimeter wave and continuing faster than the market growth from enterprise Wi-Fi solutions based on Wi-Fi 6 adoption.

In addition, Cambium Networks is increasingly optimistic about our longer-term outlook based on the next round of Connect America Funding, called the Rural Digital Opportunity Fund or "RDOF," which is currently being evaluated by the FCC for committing \$20.4 billion in funding over the next ten years to bring highspeed broadband service to millions of unserved Americans. This represents almost 10X the value of the present Connect America Fund Phase II funding which was dominated by WISPs. Expert consensus is that the auction application, registration, and rules would be set by the end of 2020 and the auction would begin in early 2021. This brings a substantial opportunity for Cambium Networks in 2021 and beyond. We are well positioned to win business based on end-to-end wireless connectivity as the market transitions to gigabit solutions and managed by our cloud-based solution, cnMaestro, which offers easy deployment and operation.

### **Moving to our organizational structure**

I'm pleased to announce in December we appointed Mary Peterson to the newly created position of senior vice president and chief marketing officer. Mary was most recently vice president of global marketing for Ruckus Networks, a CommScope business, where she led the marketing digital transformation and

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development of a demand generation engine as well as managed field and partner marketing, event marketing and social and influencer communications.

Mary is chartered with building an integrated marketing strategy that advances Cambium Networks' global strategy of strengthening its market recognition and accelerating growth.

I'm excited to have Mary join our leadership team.

I will now turn the call over to Stephen for a review of our Q4'19 financial results and outlook.

### **Stephen Cumming-CFO**

Thanks Atul.

Revenues for Q4'19 increased by 1% year-over-year to \$64.1 million compared to \$63.3 million in Q4'18. As Atul mentioned, Q4'19 revenues reflect sequential and year-over-year increases in our enterprise Wi-Fi solutions, which continued to reach record revenues. As anticipated, spending for Point-to-Point products partially recovered, improving by 14% sequentially, although the portion related to specific U.S. government defense programs remained slow. Point-to-Multi-Point products decreased 19% year-over-year and 14% sequentially due to softness in EMEA from year-end inventory rebalancing, and a result of some of our larger customers transitioning to our next generation higher-speed broadband solutions using our Wi-Fi 6 and next generation 60 and 28GHz products.

### **Looking at revenues by geographies**

North America, our largest region, represented 45% of company revenues, compared to 45% in the prior year period, and 44% during Q3'19. North America grew 3% year-over-year and was flat compared to Q3'19. EMEA, our second largest region, decreased 11% year-over-year and 12% sequentially and represented 30% of revenues during Q4'19, decreasing from 34% of revenues on a year-over-year basis due to softness after four consecutive quarters of strong year-over-year growth, and decreased from 33% of revenues during Q3'19 as a result of a larger customer's technology transition and year-end inventory rebalancing at some of our European customers. CALA represented 13% of revenues during Q4'19, growing 32% year-over-year and increasing by 3% sequentially. And APAC represented 12% of revenues during Q4'19, increasing by 2% year-over-year, and improving by 8% from Q3'19.

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Looking at our gross margin. Non-GAAP gross margin of 52.4% improved by 410 basis points compared to Q4'18 and was our highest non-GAAP gross margin in two and a half years. The year-over-year improvement in non-GAAP gross margin is the result of a mix of higher margin enterprise Wi-Fi and PTP products, lower inventory reserves, and key initiatives put in place focused on cost reductions, price management, and supply chain efficiency.

Non-GAAP gross margin in Q4'19 was 370 basis points higher than Q3'19. The sequential non-GAAP gross margin improvement is mostly the result of mix of higher margin products and our cost and supply chain efficiencies. In Q4'19 our non-GAAP gross profit dollars increased by \$3.0 million to \$33.6 million compared to the prior year and improved by \$1.6 million sequentially.

I'm particularly pleased with the improvement we have made with our gross margin initiatives and progress towards our longer-term goal of achieving an annual non-GAAP gross margin target of 51-52%. For the full year 2019, non-GAAP gross margin improved to 49.5%, compared to 47.9% for 2018.

Non-GAAP operating expenses (Research and development, sales and marketing, general and administrative, depreciation and amortization) in Q4'19 increased by \$2.3 million when compared to Q4'18, and stood at \$29.3 million, or 45.8% of revenues. When compared to Q3'19, non-GAAP operating expenses increased by approximately \$3.2 million dollars. The majority of the sequential increase in non-GAAP operating expenses was primarily driven by higher R&D headcount as result of a full quarter of the Xirrus acquisition partially offset by savings from our restructuring activities announced on last quarter's conference call. For the full year 2019, non-GAAP operating expenses were \$109.8 million compared to \$104.9 million for 2018.

Non-GAAP operating margin was 6.6%, up from 5.5% for Q4'18, and down from 8.8% of revenues in Q3'19.

Adjusted EBITDA for Q4'19 stood at \$5.3 million or 8.2% of revenues, up from \$4.5 million or 7.2% of revenues for Q4'18 and compares to \$6.8 million or 10.3% of revenues for Q3'19.



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Full year 2019 Adjusted EBITDA was \$26.2 million or 9.8% of revenues, compared to \$15.3 million or 6.3% of revenues for the full year 2018. This represents a 71% increase in Adjusted EBITDA from 2018. We are committed to continuing to drive our Adjusted EBITDA expansion to our target model of 18-19% of revenues over the next few years.

Turning to cash flows:

Cash provided by operating activities was \$6.1 million for the fourth quarter 2019, due primarily to stronger working capital management, and compared to cash used in operating activities of \$5.7 million for the fourth quarter 2018, and \$11.8 million cash used in operating activities for the third quarter 2019. For the full year 2019, cash provided by operating activities was \$3.6 million. If we exclude the one-time IPO expenses of \$8.6 million for 2019, operating cash for the full year 2019 would be approximately \$12.2 million, compared to cash used in operating activities of \$10.4 million during calendar 2018.

Non-GAAP net income for Q4'19 was \$2.3 million, or \$0.09 per diluted share, compared to \$1.0 million, or \$0.07 per diluted share for the fourth quarter 2018, and non-GAAP net income of \$3.7 million, or \$0.15 per diluted share for Q3'19. The higher non-GAAP net income compared to the prior year period was due to revenue growth and improved gross margin as a result of the initiatives previously mentioned and lower interest expense due to a reduction in long-term debt. The decrease in non-GAAP net income compared to Q3'19 was primarily attributable to higher R&D expenses from our Xirrus acquisition and higher sales and marketing expenses from trade shows and partners events.

For the full year 2019, non-GAAP net income was \$12.1 million or \$0.47 per diluted share compared to \$1.9 million or \$0.14 per diluted share in 2018.

### **Turning to the Balance Sheet**

Cash totaled \$19.3 million as of Q4'19, \$14.9 million higher than the fourth quarter 2018, and an increase of \$400 thousand dollars from the third quarter 2019. The sequential increase in cash balance during the fourth quarter 2019 was primarily the result of a \$3.8 million increase in payables, lower inventories,

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offset by a \$2.7 million performance payment for the Xirrus Wi-Fi assets, and a \$2.4 million paydown of debt.

In Q4'19, days payable stood at 59 days, an increase of 6 days from the fourth quarter of the prior year, and up 19 days from the third quarter 2019.

Q4'19 net receivables of \$58.6 million improved by \$1.8 million from Q4'18 as a result of better collections and decreased by \$1.2 million sequentially. Days Sales Outstanding for the fourth quarter stood at 78 days, a decrease of 1 day from the prior year and an increase of 4 days from the third quarter 2019.

Net inventories of \$41.7 million in Q4'19 increased by \$11.0 million year-over-year and decreased by \$0.3 million from Q3'19, as we work to reduce inventories driven by our technology transitions.

In addition to our restructuring activities announced during our third quarter results, we are taking new measures to align our cost structure with the timing of the anticipated revenue ramp from our new product introductions which Atul mentioned earlier in the call and we expect to happen during the second half of 2020. We expect to see sequential improvement in revenues after Q1'20 with customer adoption of new gigabit wireless products such as Wi-Fi 6, 60 GHz & 28 GHz solutions as the year unfolds.

We continue to pursue our objective of achieving our long-term target operating model by improving our cost structure and operational efficiency. We remain focused on delivering a double digit Adjusted EBITDA margin.

Cambium Networks continues to focus on revenue growth, but while this new product platform transition is occurring during the first half of 2020, new restructuring activities will allow us to remain financially strong and resilient.

In our last quarterly earnings call we announced a restructuring plan to align our cost structure to achieve our longer-term target operating model. In conjunction with today's earnings announcement we

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are now taking additional steps to align our cost structure. We expect to incur between \$1.2-\$1.4 million dollars of additional restructuring charges over the first three quarters of 2020, mainly consisting of severance costs. In Q1 2020 we expect to recognize approximately \$700 thousand to \$800 thousand of pre-tax charges under this plan. In Q1 2020 we expect to recognize approximately \$800 thousand savings with additional savings realized throughout the remainder of the year. When completed, we expect to realize total cost savings from these combined restructuring initiatives of approximately \$13 million annually.

### **Moving to the First Quarter 2020 and Full Year 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 our financial outlook to the extent they are reasonably certain; however, actual results may differ materially from the outlook.

### **Considering our current visibility, Q1'20 is expected to be as follows:**

- GAAP revenues between \$56.0-\$60.0 million
- GAAP gross margin between 48.6%-50.2%; and non-GAAP gross margin between 49.0%-50.5%
- GAAP operating loss between \$1.5 million and operating income of \$0.5 million; and non-GAAP operating income between break-even and \$2.0 million
- GAAP net loss between \$3.0 million and a loss of \$1.4 million or a loss between \$0.12 and \$0.05 per diluted share; and non-GAAP net loss between \$1.2 million to net income of \$0.4 million or between a loss of \$0.05 per diluted share and net income of \$0.02 per diluted share
- Adjusted EBITDA between \$1.1-\$3.1 million; and adjusted EBITDA margin between 2.0%-5.2%
- GAAP taxes between 19.0%-21.0%; and a non-GAAP effective tax rate of approximately 17.0%-19.0%
- Approximately 25.6 million weighted average diluted shares outstanding

### **Turning to our cash requirements:**

- Paydown of debt: \$2.5 million

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- Interest expense: Approximately \$1.1 million
- Capital expenditures: \$1.0-\$1.3 million
- Pre-tax restructuring charges: \$0.8-\$0.9 million

### **Full Year 2020 Financial Outlook is expected to be as follows:**

- GAAP revenues between \$262.0-\$272.0 million
- Adjusted EBITDA of between 10.0% and 12.0% of revenues.

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

### **Atul Bhatnagar, President & CEO**

Growth and profitability remain our number one core value. Cambium Networks is well positioned for growth during the second half of 2020 and we will continue our focus on growing our fixed wireless broadband business by delivering new products by enabling gigabit wireless connectivity, opening new sales territories and adding new applications like cnVision. We are emerging as a significant enterprise Wi-Fi player with new channels and in the coming months Wi-Fi 6 leadership, which will continue making Cambium one of the fastest growing Enterprise Wi-Fi business in the world. It will be the year we expand into wireless gigabit connectivity to the home and office worldwide, with innovative and highly differentiated 60 GHz and 28 GHz millimeter wave solutions, with the industry's best in class price performance and ease of deployment.

We will begin to leverage our cloud software-as-a-service business model to generate recurring revenues through new sales and subscription renewal models with the launch of cnMaestro Pro™, CBRS, and cnHeat™. Recurring revenue is a key element to Cambium's expansion and consistent revenue.

While the first half of 2020 revenues will remain slow due to product and technology transitions, and the U.S. Federal program which utilizes our PTP kits for the defense market will remain softer until calendar 2021, we are excited for strong growth during second half of 2020 marked by significant strength and acceleration in new products within our technology portfolio. Finally, we remain committed to our goal of delivering double digit Adjusted EBITDA margin during 2020.

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That concludes our prepared remarks.

So, with that, I'd like to turn the call over to [Chris] 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 [Chris]. During Q1'20 Cambium Networks will be meeting with investors in San Francisco at the Goldman Sachs Technology & Internet Conference on February 12th and presenting at the JMP Securities Technology Conference on February 24th. We will also present at the Raymond James Institutional Investor Conference in Orlando, Florida on March 4th and the ROTH Conference in Dana Point, California on March 17th. 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.