

Q3'21 Financial Results Conference Call Prepared Remarks 11/4/21

Intro

Peter Schuman, Sr. Director, Investor & Industry Analyst Relations

Thank you [Judith]. Welcome and thank you for joining us today for Cambium Networks third quarter 2021 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. We 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

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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...

Cambium Networks President & CEO, Atul Bhatnagar, will provide the key investment highlights for the third quarter 2021 and Stephen Cumming, Cambium Networks CFO, will provide a recap of the financial results for the quarter and our financial outlook for the fourth quarter 2021. 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.

Overall demand and backlog remained strong due to the continued need for expansion of broadband wireless communications networks while supply chain challenges impacted Cambium's shipments during Q3'21. The supply chain challenges facing our industry are unprecedented, including shortages and rising costs for semiconductors, mechanical components, increased expedite fees due to extended lead times and many supplier decommits, as well as increased freight expenses. By late August Cambium had de-commits from some of our larger suppliers for key components which caused us to re-design some of our higher-volume products with alternative parts from new suppliers.

We remain cautious about supply for the next few quarters and are monitoring the situation and working with our key suppliers and manufacturing partners on a weekly basis until visibility and commits for CY'22 improve. As mentioned in our preliminary results, we now believe global supply and logistics constraints may last into calendar 2022 based on several factors affecting the entire industry, including chip foundries getting additional fab capacity in place. We are not immune from future unforeseen events which could impact supply in future quarters.

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Cambium is taking very specific steps to address the supply constraints. We are pushing for supplier commits for calendar year 2022. We are providing 21-month forecasts to our key suppliers. And where necessary, we are redesigning products with more widely available parts to meet customer demand.

Demand remained strong. We entered the fourth quarter 2021 with backlog up 57% year-over-year. Without the supply constraints, Cambium Networks would have met or exceeded the high-end of the previous third quarter 2021 revenue outlook range provided on August 9, 2021.

Looking at our market position.

This October, Cambium celebrated our 10th anniversary as a standalone company. We have built an innovative, sustainable, and prosperous business over the past decade and remain excited about the next wave of high-performance wireless broadband technology about to be unleashed in the upcoming months and years. Cambium has a promising future, and our best years remain in front of us.

Millimeter wave technology is taking hold with our 60 GHz products and our new 28 GHz 5G multi-gigabit fixed wireless products expected to be released during the fourth quarter for proof of concept (POCs) installations. During Q3'21 Cambium sold over 115 - 60 GHz starter kits in 30 different countries, and we presently have POCs for our 28 GHz cnWave going on in 4 different continents. We have shipped tens of thousands of these new 60 GHz cnWave products cumulatively. These products are changing the way fixed wireless is viewed by customers old and new, and expands our serviceable available market bringing a standards based multi-gigabit fixed wireless solutions using licensed and unlicensed spectrum to network operators serving residential, urban and enterprise markets.

Cambium's attractive cost of ownership makes our fixed wireless solutions a compelling choice for wireless infrastructure projects around the world. We continue to expect increased

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government spending on infrastructure products accelerating over the next few years as broadband is a lifeline to connect local communities and distributed enterprises around the globe.

Turning to the results of the third quarter 2021

Revenues of \$75.9 million came in above the \$75 million provided in the preliminary results announced on October 21st and fell below the outlook of \$88 to \$92 million announced during the Q2'21 earnings call. Non-GAAP diluted EPS of \$0.23 was below the outlook announced during the Q2'21 earnings call of between \$0.30 and \$0.34 per diluted share. The inability to ship products due to the greater than anticipated supply constrained environment negatively impacted our financial results.

Looking at revenues across our different product lines. Our Point-to-Multi-Point (PMP) business revenues decreased 16% sequentially and increased by 16% year-over-year, as we continued to see strong momentum in network traffic, increased demand for CBRS solutions, and broadening interest in our new product introductions, although obtaining components was a more difficult challenge than anticipated at the start of the quarter.

The Point-to-Point (PTP) business was lower by 1% sequentially during Q3'21, with component shortages affecting shipments, although we had higher shipments for Federal products, while year-over-year decreased 23% due to delayed shipments for backhaul products.

Our enterprise Wi-Fi business was the most impacted product line, decreasing 41% sequentially due to a paucity of semiconductor chips, although Wi-Fi increased 8% year-over-year during Q3'21. Demand remains very healthy for our enterprise business, but it remains a challenging environment to ship products.

Looking at some notable customer wins and new product developments.

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In North America, the cities of Aurora, Colorado, and San Jose, California, both the third largest cities in their respective states, have completed deployments of 60 GHz cnWave to provide gigabit speed backhaul for their cities aging wireless infrastructures. Aurora was given Coronavirus Aid, Relief, and Economic Security (CARES) Act funding which was allocated to improve IT infrastructure to benefit public safety, voice and data, LAN extension, video applications and credit card processing. Aurora replaced an aging 50 Mbps microwave network with a 60 GHz cnWave gigabit capacity fixed wireless broadband network.

The city of San Jose deployed outdoor public access Wi-Fi networks in strategic corridors throughout the downtown area. Cambium Networks' 60 GHz cnWave distributed network infrastructure covers approximately 60 city blocks to transport the free Wi-Fi connectivity for residents, visitors, workers, and businesses throughout strategic downtown corridors to the internet point of presence. The downtown Wi-Fi project is the latest step in improving the city's digital infrastructure to support San José's Smart City vision and Digital Inclusion and Broadband Strategy.

Within our industrial customer base, a North American railroad operator selected our PTP820 for its range, throughput performance, small footprint, and superior reliability. We displaced a competitor and will be working with this customer for additional field deployment opportunities moving forward.

The enterprise hospitality market continued to recover. We had a win at a resort in Hawaii, the Maui Villas Resort, for our new outdoor Wi-Fi 6 product for coverage across the resort. Cambium's outdoor Wi-Fi 6 performance is significantly better than our competitors resulting in a massively lower cost of ownership. For example, the Maui Villas Resort required 50% fewer access points than our competitors. Less equipment means less labor, maintenance, power, and simpler management of the network.

Cambium's first mover status for the FCC's 3.5 GHz CBRS spectrum continued to benefit our PMP 450 products and our CBRS SAS service in both the U.S. and its territories. As of today's

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call, we now have over 115,500 devices managed by our CBRS SAS service, an increase of approximately 12% since we reported last quarter.

In the Europe, Middle East, and Africa region (EMEA), recent strategic wins since our last call include:

We had a major enterprise win in the education vertical in Morocco against larger competitors to provide a national carrier 20,000 Wi-Fi 6 APs for deployment and cnMaestro X software at major public universities to connect 12 campuses comprised of 278 buildings. Cambium was selected for our superior technology and value proposition.

In northern Holland, the Dunamare Education Group, a school district comprised of 22 secondary schools with over 13,000 students, selected Cambium's Wi-Fi 6 access points to upgrade their network and move from an on-premises implementation to the cloud. The education group selected Cambium for our better performance and lower total cost of ownership than the competition.

Cambium Networks had a key managed service provider win in the UK with WiFinity to deploy Cambium's cnMatrix switching solution for a significant multi-dwelling unit opportunity with the UK government. This adds cnMatrix switches to the portfolio of Cambium's Wireless Fabric products already selected by Wifinity, including PMP 450m, and 60 GHz cnWave.

In the APAC region, we had a great quarter with several significant wins. The Australian Turf Club, a premiere owner and operator of thoroughbred racing, events, and hospitality venues across Sydney, selected our indoor and new outdoor Wi-Fi 6 products, switching, and XMS-cloud to support stadium seating, hospitality suites, and general use areas requiring high-density deployments.

A large Internet search engine provider in India selected Cambium's PTP 550 to extend connectivity. The initial deployment is 20 locations. This is the start of a recurring deployment expected to go to 400 locations over the coming year.

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In Malaysia, in the State of Selangor, Cambium won a new CCTV Project with Smart Selangor, a state government program with the vision to make Selangor a Smart State through the optimization of digital technologies. This project featured Cambium's PTP 670, ePMP 3000, and ePMP Force 300 products. Cambium beat out a number of fixed wireless competitors to win this project.

In the Caribbean and Latin America (CALA) region, Cambium continued the long chain of success in Perú with a sizeable win at a new government sponsored agency for program "Proyecto Selva" to provide indoor and outdoor enterprise solutions for 1,300 public institutions. We won this project due to Cambium's advanced technology, ability to deliver and total cost of ownership, and Cambium's outstanding customer support.

We had a win with our 60 GHz cnWave technology at a large Internet Service Provider in Puerto Rico which moved from a trial to the deployment phase for business customers.

Turning to new product introductions since our previous quarterly update.

Before our next earnings call, our first Wi-Fi 6E product will bring even more performance benefits, including utilization of up to 1.2 GHz of new clean spectrum in the 6 GHz band. Cambium's expertise and history with multi-radio access point designs enables us to deliver differentiated Wi-Fi 6E products. Our three radio 4X4 technology, the XE3-4, will offer up to seven 160 MHz channels. Wi-Fi 6E enables improved performance, increased capacity, and lower latency that enables a new set of high density use cases. We are also working on a new set of high-performance 6 GHz products for fixed wireless access which are on the product roadmap for introduction during calendar 2022.

We began extensive field trials and proof-of-concept deployments for our 28 GHz cnWave 5G NR fixed wireless product with revenues ramping during calendar 2022. 28 GHz cnWave will further expand our serviceable available market (SAM) as both new and existing customers demand higher broadband performance at the edge of their networks. Our 28 GHz product is expected to be price disruptive compared to the existing equipment providers and feature lower

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operating cost and complexity compared to existing mobile centric solutions. The 5G fixed solution from Cambium is simple. No complex infrastructure. Fiber rollout can take months or years. Future generations of this product will feature wider channels, including increased capacity from the use of our MU-MIMO technology, carrier aggregation, and channel bonding.

The capital and operating expense of Cambium's 5G fixed solution is much less than that of a 5G mobile solution or even fiber, especially when the subscriber density becomes less than that of dense urban areas.

An increasing number of countries are opening up the 28 GHz band in the EMEA region, including Slovenia, Croatia, and Spain. Many service providers are interested in using millimeter wave for fixed wireless access in areas where it's not possible to use either fiber or traditional mobile technologies like 4G or 5G which require a high density of customers to justify the business case.

Turning to our cnMaestro™ Cloud software, our end-to-end cloud-powered connectivity solution to manage the network from a single pane of glass. The cnMaestro™ Cloud software continued to experience strong user growth. Total devices under cloud management in Q3'21 totaled over 718,300, an increase of 16% from Q2'21, and up 47% year-over-year.

Looking at our Channel

In Q3'21, we expanded our channel presence by adding 475 net new channel partners sequentially, and over 2,270 net new channel partners year-over-year, which represents an increase of approximately 5% sequentially and 27% year-over-year.

This September we had a very successful set of Cambium Connections online webinars for our end customers and partner community. We had over 4,200 registered attendees which represented an increase of approximately 50% from our prior Cambium Connections events in February.

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We also returned to in-person events with a significant presence at the largest WISP trade show of the year, WISPAPALOOZA 2021, held in mid-October in Las Vegas, at which Cambium was recognized as the manufacturer of the year.

I will now turn the call over to Stephen for a review of our Q3'21 financial results and Q4'21 outlook.

Stephen Cumming-CFO

Thanks Atul.

Cambium had revenues of \$75.9 million for Q3'21, compared to the original outlook of \$88 to \$92 million provided at the time of our second quarter earnings call on August 9th and ahead of our preliminary outlook of approximately \$75 million announced on October 21st. As we mentioned in our preliminary results press release, the change in outlook primarily reflects increased global supply constraints impacting the shipments of products, while our backlog and end demand remained strong, with backlog increasing by 8% quarter-over-quarter and 57% year-over-year. Revenues decreased by 18% quarter-over-quarter and were up 4% year-over-year.

On a sequential basis for Q3'21, revenues were lower by \$16.8 million. The lower revenues were primarily the result of fewer shipments of our PMP and Enterprise Wi-Fi solutions which remained supply constrained. PTP products declined 1% sequentially, due to backhaul products remaining supply constrained, although we did have increased shipments of federal products due to seasonality.

Moving to our gross margin. Non-GAAP gross margin of 47.8% decreased by 190 basis points compared to Q3'20. The year-over-year decrease in non-GAAP gross margin was the result of increased component costs, as well as higher freight and distribution costs caused by expedited shipping.

On a sequential basis, non-GAAP gross margin in Q3'21 of 47.8% was 220 basis points lower than Q2'21. The lower quarter-over-quarter non-GAAP gross margin was the result of higher component costs and increased freight and distribution costs, less mix of higher margin Wi-Fi

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products, and lower revenues. Our previously announced pricing increases should begin to help offset some gross margin degradation during the latter part of Q4'21. We are also implementing surcharges to offset the effects of the supply chain disruption. We are doing everything in our power to support customers and deliver next generation products but recognize we are temporarily impacted by escalating costs. We believe the impact to gross margin is transitory as we navigate the global supply challenges.

In Q3'21 our non-GAAP gross profit dollars of \$36.3 million were approximately flat compared to the prior year and decreased by \$10.0 million dollars sequentially.

Non-GAAP operating expenses (Research and development, sales and marketing, general and administrative, and depreciation and amortization) in Q3'21 increased by \$2.0 million dollars when compared to Q3'20, and stood at \$27.6 million, or 36.4% of revenues.

The majority of the year-over-year increase in non-GAAP operating expenses was a result of higher R&D resulting from increased spending on upcoming technologies and higher sales and marketing due to increased headcount and to support more marketing activities.

When compared to Q2'21, non-GAAP operating expenses decreased by \$1.2 million during Q3'21. Quarter-over-quarter our R&D spend decreased due to slower hiring while G&A spend was lower due to lower variable compensation and improved operating efficiencies.

Non-GAAP operating margin was 11.4%, down from 14.6% during Q3'20, and 18.9% of revenues in Q2'21.

Adjusted EBITDA for Q3'21 was \$9.6 million or 12.6% of revenues, compared to \$11.4 million or 15.6% of revenues for Q3'20, and compared to \$18.4 million or 19.9% of revenues for Q2'21.

With lower revenues due to the supply constraints, we temporarily lost some operating leverage in our business, although we remain committed to driving our Adjusted EBITDA to our target model of 18-19% of revenues.

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Moving to cash flow

Cash provided by operating activities was \$11.8 million for the third quarter 2021. The quarter-over-quarter increase in cash was primarily the result of the positive impact from net income and improved working capital management. We had a good quarter of working capital management with a \$10.1 million reduction in accounts receivable, offset by an increase in accounts payable, and only a slight increase in inventories.

This compares to \$16.4 million of net cash flow provided by operating activities for the third quarter 2020, and \$20.1 million for the second quarter 2021.

Non-GAAP net income for Q3'21 was \$6.7 million, or \$0.23 per diluted share, compared to \$7.8 million, or \$0.29 per diluted share for Q3'20, and non-GAAP net income of \$12.9 million, or \$0.45 per diluted share for Q2'21. The lower non-GAAP net income compared to both the prior year period and prior quarter's results was primarily due to the lower revenues impacting gross margin dollars, and higher costs until the supply chain normalizes. We were able to reduce operating expenses during the quarter and plan to manage our operating expenses accordingly until the supply constraints improve.

Turning to the Balance Sheet

Cash totaled \$58.6 million as of Q3'21, an increase of \$7.2 million dollars from Q2'21. The sequential increase in cash primarily reflects positive net income and strong working capital management, and includes a \$2.5 million reduction in debt.

Net inventories of \$28.8 million in Q3'21 decreased by \$300 thousand dollars year-over-year and were higher by \$400 thousand dollars from Q2'21. While the supply chain remains an ongoing challenge, we are working to increase our inventory position over the next few quarters to help support the growth of our business.

In Summary

The third quarter was tougher than anticipated due to the scarcity and higher component costs as well as de-commits from some of our supply-chain partners which impacted shipments. Our

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order book remained strong, we are at the start of new product cycles, and we expect to benefit from increased government funding in our wireless broadband business as we exit calendar 2021. Our federal business is also developing very well, and we expect the federal business to accelerate during 2022.

Once the supply issues are resolved, we expect to re-gain scale, improve operational efficiency, and make excellent progress on achieving our long-term target operating model.

Moving to the Fourth Quarter 2021 Financial Outlook

Please note that Cambium Networks financial outlook does not include the potential impact of any possible future financial transactions, acquisitions, pending legal matters, or other transactions. Accordingly, Cambium Networks only includes such items in our financial outlook to the extent they are reasonably foreseeable; however, actual results may differ materially from the outlook.

Considering our current visibility as of November 4, 2021, our Q4'21 financial outlook is expected to be as follows:

- Revenues between \$73.5 million to \$77.5 million
- non-GAAP gross margin between 45.5% to 47.0%
- non-GAAP operating expenses between \$28.5 million to \$29.5 million
- and non-GAAP operating income between \$4.9 and \$6.9 million dollars
- Interest expense, net of approximately \$900 thousand dollars, and
- non-GAAP net income between \$3.3 to \$4.8 million dollars or net income between \$0.11 to \$0.17 per diluted share
- Adjusted EBITDA between \$5.8 to \$7.8 million dollars; and adjusted EBITDA margin between 7.9% to 10.1%
- A non-GAAP effective tax rate of approximately 19.0% to 21.0%

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- Approximately 28.8 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows:

- Cash flow interest expense: approximately \$400 thousand dollars
- Capital expenditures: \$2.0 to \$2.3 million

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

Atul Bhatnagar, President & CEO

While we are clearly disappointed with our Q3'21 results, multiple growth drivers remain intact for Cambium's future success including our multi-gigabit wireless products such as enterprise Wi-Fi 6 and 6E, new wireless savvy switching products, 60 GHz cnWave, and our 28 GHz millimeter wave solutions for Fixed 5G wireless, as well as our software-as-a-service cnMaestro X solution. We expect increased scale should benefit our future operating results, and we remain focused on judiciously managing our costs, while continuing to invest in innovative products to maintain our technology edge.

Our vision to help bridge the digital divide using our advanced wireless fabric solutions remains constant. Cambium continues to work diligently with different governments, enterprises, and agencies to deploy our wireless solutions. If it can be a wireless solution, it will be a wireless solution.

Finally, I'd like to show my appreciation for our employees, partners, and customers for their perseverance during these unprecedented times.

This concludes our prepared remarks.

So, with that, I'd like to turn the call over to [Judith] and begin the Q&A session.

Operator: We will now open the call for your questions.

Peter Schuman-Sr. Director, Investor Relations – Closing Statement

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Thank you [Judith]. During Q4'21 Cambium Networks will be presenting and meeting virtually with investors on November 16th at the Needham Virtual Security, Networking and Communications Conference; November 17th at the ROTH Capital Virtual Technology Conference, on December 6th at the Raymond James Virtual Technology Investors Conference; and on December 14th at the Oppenheimer Technology 5G Summit. 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.