

Q1'22 Financial Results Conference Call Prepared Remarks **5/5/22**

Intro

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

Thank you [Charlotte]. Welcome and thank you for joining us today for Cambium Networks first quarter 2022 financial results conference call and welcome to all those joining by webcast.

Atul Bhatnagar, our President and CEO, and Andrew Bronstein, 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 first quarter 2022 and Andrew Bronstein, Cambium Networks CFO, will provide a recap of the financial results for the first quarter 2022 and present our financial outlook for the second quarter and full year 2022. 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.

We faced supply chain challenges within our industry which impacted our first quarter results because of two unexpected events. First, a Chinese government Covid lockdown in Shenzhen impacted manufacturing during the middle of March, and second during the last two weeks of the quarter, a lockdown in Shanghai closed our distribution and warehousing facility. Although our contract manufacturers have a global footprint, certain products and components are manufactured in China and cannot rapidly be relocated to facilities in different geos.

Despite this setback, we are confident that once the supply chain recovers, we expect improved financial performance. We anticipate some recovery in revenues during the second quarter 2022, given our strong backlog and increased pricing actions now fully in place. We exited the first quarter 2022 with backlog up 7% quarter-over-quarter and higher by 10% year-over-year.

Cambium's cost-effective multi-gigabit Wi-Fi and ePMP product lines were most affected by the lockdowns in China. Despite the lockdowns, we saw strong demand for our enterprise solutions and exited Q1'22 with record backlog for Wi-Fi. During late Q1'22 we began taking orders for our new Quality of Experience (QoE) subscription service which provides visibility and network

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traffic optimization in real-time to mitigate congestion and control network traffic. One customer, an Italian service provider, noticed immediate improvements including a clear reduction in support center calls and actual reports of improved broadband performance.

We are at the forefront of the next wave of high-performance wireless broadband technology including our millimeter wave solutions. Our new 28 GHz 5G multi-gigabit fixed wireless products shipped for revenue in limited quantities during the first quarter. We presently have 8 POCs for our 28 GHz cnWave going on in four continents with three additional customers planning POCs pending receipt of equipment shipped in March. As we previously mentioned during our last earnings call, we expect larger deal sizes with 28 GHz cnWave.

Cambium's attractive cost of ownership and cloud-managed wireless fabric solutions make our fixed wireless solutions a compelling choice for wireless infrastructure projects around the world.

Turning to the results of the first quarter 2022

Revenues of \$61.9 million came in below the outlook of \$77.5 million to \$81.5 million announced during the Q4'21 earnings call. The supply constrained environment affected shipments of both fixed wireless and Wi-Fi products during Q1'22. The Wi-Fi market and ePMP product lines were more affected by the Chinese government lockdowns in Shenzhen and Shanghai, although demand remains very strong for our Wi-Fi, wireless savvy switching, and ePMP products.

Looking at revenues across our different product lines. Our Point-to-Multi-Point (PMP) business revenues decreased 16% sequentially and decreased 46% year-over-year, due to global supply and distribution constraints negatively impacting shipments of ePMP products and slower demand from North American service providers. We are seeing the component shortages continue to improve, although gradually, and expect the lockdowns in China to loosen during Q2'22.

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The Point-to-Point (PTP) business decreased by 4% sequentially during Q1'22, with component shortages limiting shipments of certain products, while year-over-year revenues decreased 16% due to lower shipments for backhaul products compared to a very strong prior-year period.

Our enterprise Wi-Fi business had revenues of \$15.5 million with revenues decreasing 40% sequentially due to supply and distribution disruptions, although higher by 28% year-over-year during Q1'22. Demand remains very healthy for our enterprise Wi-Fi and wireless savvy switching solutions and we continue to win larger and more diverse customers in this end market across the world as customers adopt our next-generation leading-edge Wi-Fi 6 and 6E solutions.

Looking at some notable customer wins and new product developments.

In North America, in Scottsdale, Arizona, a leading broadband service provider, Desert iNet, is extending fiber networks with Cambium's 60 GHz cnWave fixed wireless broadband solution, to deliver multi-gigabit access to residential subscribers with faster time to service than trenching fiber, at a very attractive cost of ownership. Cambium's wireless fabric makes it easy to plan, deploy, and manage affordable gigabit speeds to the home and enterprise.

An assisted living facility in New Jersey selected Cambium's Wi-Fi 6 access points, cnMatrix wireless savvy switches, and cnMaestro X cloud management to enable further efficiencies from digital transformation initiatives while minimizing total cost of ownership for the assisted living facility. Residents wanted the ability to connect with friends and family, and assisted living care operations managers needed reliable Wi-Fi at reasonable costs.

In our defense business, we landed the first portion of a five-year contract from the U.S. Federal Government for Cambium's PTP 700 technology to upgrade global military base security with high-capacity fixed wireless broadband communications infrastructure. The first phase of this program is mid-single digit millions for Cambium with a potential to be tens of millions of dollars.

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In the Europe, Middle East, and Africa region (EMEA) we continue to have healthy demand for our enterprise business and continue to win more and larger projects, although revenues were down due to COVID supply constraints from China.

Recent strategic wins since our last call include, in Northern Italy we displaced a tier-one enterprise networking supplier to deploy over 1,000 Wi-Fi 6 access points, wireless savvy switching, and cnMaestro X cloud management across 20 schools in the region. We won because of our wireless fabric end-to-end solution and Cambium's superior customer support.

In South Africa, we had a fixed wireless win with Ikeja Wireless for our ePMP 3000 for residential broadband access across the country. We won as a result of strong performance vs. the incumbent supplier.

In the APAC region, we received orders from two different service providers on both sides of the Australian continent for our first generation 28 GHz cnWave.

In Korea, we had a Wi-Fi 6E win with our newly released high-density four radio access point, the XE3-4, for Sang Ji University.

And in the Caribbean and Latin America (CALA) region, we had a win with a government Service Provider in Brazil, PRODEPA, in the State of Pará. They selected our PMP 450 to provide Internet access and communications to government buildings and schools. Cambium was selected for our superior performance and lower total cost of ownership for the customer.

Turning to new product introductions since our previous quarterly update.

Before our next earnings call, we expect to announce the next expansion of our Wi-Fi 6 portfolio, including models specifically designed for the hospitality market and value-conscious buyers with availability during the second half of calendar 2022.

At the higher end of the market, Cambium's new five-radio high-density Wi-Fi 6E access point announced in January, will begin shipping this quarter. This solution targets high-density indoor applications such as auditoriums, meeting rooms, classrooms, libraries, and public venues.

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Cambium has the industry's first five-radio Wi-Fi 6E solution which is much more efficient and cost-effective for high-density use cases. Our expertise and history with high-density Wi-Fi enable us to deliver a highly differentiated Wi-Fi 6E solution at a lower total cost of ownership than the competition.

Cambium continues to build a strong foundation for our software and subscription services business, which delivers customer stickiness, recurring revenue, and accretive margin. Cambium has been trialing in North America a new Network-as-a-Service (NaaS) solution. We are offering a package of cnMaestro X and Cambium Care combined with our Wi-Fi hardware made available as a subscription service. The subscription packages are billed monthly and are available in 3- and 5-year terms. Our initial POCs, are performing well, and we are seeing strong interest in our commercial offering in Q2'22.

Looking at 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 Q1'22 were over 791,000, an increase of 6% from Q4'21, and up 37% year-over-year.

Turning to our Channel

In Q1'22, we expanded our channel presence by adding 70 net new channel partners sequentially, and approximately 1,670 net new channel partners year-over-year, which represents an increase of approximately 1% sequentially and 17% year-over-year.

During the first quarter Cambium showcased our “Wireless Fabric” at the WISPAMERICA trade show in New Orleans. We received excellent customer feedback on our 60 GHz cnWave, 28 GHz cnWave, enterprise Wi-Fi 6 portfolio and wireless savvy switching. Our upcoming 6 GHz ePMP solution is also generating lots of excitement for gigabit connectivity particularly with North American service providers. Our technology and platforms, including the new software capabilities like QoE and cnHeat, were also well received by customers.

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I will now turn the call over to Andrew for a review of our Q1'22 financial results and Q2'22 outlook.

Andrew Bronstein-CFO

Thanks Atul.

Cambium had revenues of \$61.9 million for Q1'22. Revenues decreased by 21% quarter-over-quarter and by 30% year-over-year.

The global supply constraints combined with the Chinese lockdowns impacted shipments of our products, which continue to have significant pent-up demand.

Our backlog and end demand remained strong, with backlog increasing by 7% quarter-over-quarter and 10% year-over-year.

On a sequential basis for Q1'22, revenues were lower by \$16.8 million. The weaker revenues were primarily the result of lower enterprise Wi-Fi solutions and Point-to-Multi-Point revenues, due to global supply constraints negatively impacting the manufacture and shipments of products.

Moving to our gross margin. Non-GAAP gross margin of 47.8% decreased by 230 basis points compared to Q1'21. The year-over-year decline in non-GAAP gross margin was the result of lower revenues and increased component costs, as well as higher freight and distribution costs caused by expedited shipping.

On a positive note, on a sequential basis, non-GAAP gross margin improved by 360 basis points compared to Q4'21. The higher quarter-over-quarter non-GAAP gross margin was the result of previously announced price increases and mix as we shipped a higher proportion of Wi-Fi and switching relative to fixed wireless products. We believe we will continue to see sequential improvements to gross margin during 2022 from both the benefits of the actions we have already taken and increased scale in our business as we progress through the full year. The full impact of the price increases will be realized during the second half of 2022.

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In Q1'22 our non-GAAP gross profit dollars of \$29.6 million decreased by \$14.7 million compared to the prior year, and were lower by \$5.3 million dollars sequentially, both due to lower volumes.

Our longer-term goal remains an annual non-GAAP gross margin target of 51-52%.

Non-GAAP operating expenses (Research and development, sales and marketing, general and administrative, and depreciation and amortization) in Q1'22 decreased by approximately \$200 thousand dollars when compared to Q1'21, and stood at \$28.6 million, or 46.2% of revenues.

Given the lower revenues, non-GAAP operating expenses were relatively flat compared to the prior year period.

When compared to Q4'21, non-GAAP operating expenses decreased by approximately \$500 thousand dollars during Q1'22. Quarter-over-quarter sales and marketing decreased primarily because of lower variable compensation for salespeople due to the lower revenues, while R&D and G&A had modest increases due to higher wages and professional services.

Non-GAAP operating margin for Q1'22 was 1.6%, down from 17.5% during Q1'21, and 7.3% of revenues in Q4'21.

Non-GAAP net income for Q1'22 was \$300 thousand dollars, or \$0.01 per diluted share, compared to \$11.7 million, or \$0.41 per diluted share for Q1'21, and non-GAAP net income of \$4.4 million, or \$0.16 per diluted share for Q4'21.

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 profit dollars.

Adjusted EBITDA for Q1'22 was \$1.9 million or 3.1% of revenues, compared to \$16.5 million or 18.6% of revenues for Q1'21, and compared to \$6.7 million or 8.6% of revenues for Q4'21.

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With the current supply constraints combined with the China lockdowns impacting shipments, 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.

Moving to cash flow

Cash used in operating activities was \$19.2 million for Q1'22. The cash used in operating activities included a \$12.1 million decrease in accounts payable principally due to the timing of inventory payments, and annual variable compensation of approximately \$10.2 million for incentive compensation earned during calendar '21 and distributed in Q1'22.

Q1'22 cash used in operations compares to \$7.6 million of net cash used in operating activities for the first quarter 2021, and \$5.6 million net cash provided by operating activities for Q4'21.

Turning to the Balance Sheet

Cash totaled \$38.4 million as of Q1'22, a decrease of \$20.9 million from Q4'21. As previously mentioned, the sequential decrease in cash primarily reflects a \$12.1 million decrease in accounts payable principally due to the timing of inventory payments, and a payment for annual variable compensation of \$10.2 million.

Net inventories of \$40.2 million in Q1'22 increased by approximately \$8.8 million year-over-year while increasing by \$6.4 million from Q4'21. Inventories were higher sequentially because of an increase in finished goods due to the inability to ship products from the Shanghai warehouse and distribution center during the last two weeks of Q1'22. While the supply chain remains an ongoing challenge, we are working to selectively increase our inventory position during 2022.

As of right now the manufacturing facilities in Shenzhen are open and operating. Factories are now open for 95% of our products. Components are in decent supply, and we expect improvement during the balance of the year. We are moving some products from our manufacturing and distribution centers in China to our other distribution centers in North

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America and Europe until Shanghai is fully operational. In terms of logistics –we are shipping by air freight as much as we have to compensate for the Shanghai COVID lockdown. Once Shanghai is fully operational, we expect it could take an additional 1-2 weeks to completely normalize distribution activities.

In Summary

The first quarter did not play out as expected given COVID lockdowns in China on top of an already challenging supply chain environment. We strive to become more predictable. Our price increases are now layering in with the full benefit expected to happen by the second half 2022. Our backlog remained strong, and we are at the start of new product cycles.

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

Moving to the Second Quarter and Full Year 2022 Financial Outlook

Considering our current visibility as of today, our Q2'22 financial outlook is expected to be as follows:

- Revenues between \$65.0 to \$73.0 million
- non-GAAP gross margin between 47.5% to 48.5%
- non-GAAP operating expenses between \$29.7 million to \$30.7 million
- and non-GAAP operating income between \$1.2 to \$4.7 million dollars
- Interest expense, net of approximately \$700 thousand dollars, and
- non-GAAP net income between \$400 thousand dollars to \$3.2 million dollars or net income between \$0.01 to \$0.11 per diluted share
- Adjusted EBITDA between \$2.2 to \$5.8 million dollars; and adjusted EBITDA margin between 3.4% to 7.9%

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- A non-GAAP effective tax rate of approximately 18.0% to 20.0%
- Approximately 28.7 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows:

- Paydown of debt: \$1.3 million
- Cash flow interest expense: approximately \$300 thousand dollars,
- Capital expenditures: \$1.4-\$1.6 million

Turning to the Full Year 2022 Financial Outlook, we expect

Revenues between \$280 to \$300 million, decreasing between approximately 10.7% to 16.6%

- We expect non-GAAP net income to be \$8.1 to \$20.1 million dollars, or \$0.28 to \$0.70 per diluted share, and an
- Adjusted EBITDA margin of 6.0% to 10.8%

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

Atul Bhatnagar, President & CEO

Cambium's growth drivers remain intact. As we said on last quarter's earnings call, we reiterate increasing chip supply during the second half of this year, and our growth strategy remains solid. We expect to see above market returns from our investments in multi-gigabit wireless products such as enterprise Wi-Fi 6 and 6E, wireless savvy switching products, 60 GHz cnWave, our new 28 GHz millimeter wave solutions for Fixed 5G, the new 6 GHz fixed wireless solutions arriving later in 2022, a reinvigorated federal business, as well as our software-as-a-service solutions. The integrated wireless fabric brings together ease of deployment, scalability of networks, and lower total cost of ownership as the world deploys next-generation high-performance wireless broadband.

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We remain focused on judiciously managing our costs, continuing to invest in innovative products to maintain our technology edge, and expect increased scale should benefit our future operating results.

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

This concludes our prepared remarks.

So, with that, I'd like to turn the call over to [Charlotte] 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 [Charlotte]. During Q2'22 Cambium Networks will be presenting and meeting with investors on May 19th at the Barrington Research Virtual Spring Conference; and on Wednesday May 25th at the J.P. Morgan Global TMT Conference in Boston, Mass. 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.