Q4’23 Financial Results Conference Call Prepared Remarks Updated 2/15/24

Intro

Peter Schuman, Vice President, Investor & Industry Analyst Relations

Thank you [Operator]. Welcome and thank you for joining us today for Cambium Networks fourth quarter and full year 2023 financial results conference call and welcome to all those joining by webcast.

Morgan Kurk, our President & CEO, and John Becerril, our interim 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 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 Kurk will provide the key operational highlights for the fourth quarter and full year 2023 and John Becerril will provide a recap of the financial results for the fourth quarter and full year 2023 and will discuss our financial outlook for the first 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 Q4’23

As mentioned in our preliminary Q4’23 results on January 18th, while the company shipped $51 million in product revenues during the quarter, this was offset in part by an $11 million reduction to revenues as the result of incentives provided to distributors during the fourth quarter of 2023 that provides aggressive Enterprise product discounts to clear excess channel inventories. The gross margin was also depressed during Q4’23 due to the aforementioned incentives and higher inventory reserves.

Operationally, our team executed to expectations during my first full quarter as CEO, including in the Point-to-Point (PTP) business which had strong growth, and in the Point-to-Multi-Point (PMP) business in North America thanks in part to increasing orders of 6 GHz products ahead of the FCC’s formal approval. While revenues came in below our outlook and gross margin decreased during Q4’23 as a result of increased incentives provided to Enterprise distributors and higher inventory reserves, we maintained good cost controls and tightly managed our operating expenses.

As expected, our PTP revenues were strong, increasing 38% sequentially and improving 3% year-over-year as U.S Federal spending for Defense applications recovered.

Our PMP revenues decreased 4% sequentially and were lower by 24% year-over-year. Channel inventories for PMP have been significantly reduced year-over-year while waiting for the FCC’s approval of 6 GHz spectrum, now expected during the first half of CY’24. The FCC’s approval is anticipated to drive sales of Cambium’s new 6 GHz ePMP 4600 and PMP 450v product lines, both of which are available today. During Q4’23 the North American region’s sequential growth for PMP and PTP was offset by a decrease in EMEA’s PMP revenues as a result of the large 28 GHz fixed 5G shipments that occurred during Q3’23.

Our Enterprise revenues decreased $8.0 million sequentially and decreased $37.5 million year-over-year due in part to the $11.0 million channel inventory discount. Orders for our Enterprise business continued to experience headwinds, in both North America and EMEA, due to high channel inventories and competition. Enterprise revenues were negatively impacted by stock rotations of approximately $3 million. We have seen a significant reduction in Enterprise stock rotation, as channel inventories decreased, and expect this to continue to decrease throughout the year.

Sales of Cambium’s products out of the distribution channel as reported by Cambium’s distributors were significantly higher for Q4’23 than Cambium’s reported revenues, and we saw a corresponding decline in channel inventories for Enterprise products while PMP channel inventories remained relatively stable.

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We are making good progress in reducing channel inventories and in aggregate the inventory is approaching pre-pandemic levels. We will continue to be diligent about monitoring and controlling this as shorter lead times and increased cost of capital may drive different behaviors by distributors than in the past.

Looking at the full year 2023, revenues of $220.2 million represent a decrease of 26% from 2022. The 2023 decline was predominantly driven by our Enterprise products, which declined 64% from the prior year, and to a lesser extent lower PMP revenues, which declined 17% from the prior year, partially offset by the growth of our PTP business which had a record year, increasing 20% for the full year 2023, breaking the $80 million threshold for the first time in Cambium's history, largely due to the strength of our defense business.

We continue to expect Enterprise channel inventory to decrease in the first half of CY'24 as supply remains abundant and lead-times short, but also expect incremental improvement of sales into the channel throughout the year.

We foresee modest growth for the PMP business, driven by new product momentum in our 6 GHz products, continued adoption with our 60 GHz solutions and lumpy orderings of our 28 GHz solution. We expect continued strength in the defense portion of the PTP business in North America and abroad, and in Enterprise we expect recovery during the second half of CY'24.

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

In North America, we received sizable orders from Nextlink, a large service provider in the Midwest, for the new ePMP 4600 using 6 GHz spectrum. Nextlink will use ePMP primarily to reach locations in low-density rural areas. The CEO of Nextlink commented that the ePMP 6 GHz platform is an unmatched blend of performance and cost, allowing Nextlink to cost-effectively offer gigabit broadband to their customers. This purchase is testimony to our value strategy. Once the spectrum is approved by the FCC, we expect rapid deployment by many of the over 100 customers who are trialing the product.

In Mexico, a wireless internet service provider, Siglo, is offering internet service subscription packages to customers within Walmart Supermarkets. Cambium's ePMP radios are bundled as part of the service offering. Customers purchase the equipment through Walmart to contract the connectivity service. This is a disruptive model that departs from the usual go-to-market of WISPs and shows industry maturation and Cambium's support of continued expansion.

Turning to upcoming product introductions since our previous quarterly update.
This Spring we will introduce our first fiber aggregation switch within our Enterprise portfolio. The new switch features dual independent redundant power supplies, non-blocking Level 2 and level 3 switching line rates and will be fully managed by Cambium's cnMaestro. This addition completes the high-end of our switch portfolio.

Also in the Spring, we expect to release the PMP 450b6, a single band 2X2 MIMO subscriber module, as a low-cost complement to the recently released PMP 450v, a dual band 4X4 MIMO subscriber module.

Finally, total devices under cnMaestro™ Cloud management in Q4'23 increased approximately 1% from Q3'23 and was up over 14% year-over-year.

I will now turn the call over to John for a review of our Q4'23 financial results and Q1'24 and full year 2024 financial outlook.

John Becerril -Interim CFO

Thanks Morgan.

Q4'23 results include an $11 million reduction in revenues primarily as the result of incentives to significantly discount certain Enterprise inventories in order to move Enterprise inventories in the channel. Further, we recorded additional inventory charges which reflect the current state of the market and product demand. The discounting decision was made with the goal to move excess inventory through the channel in the near term. We expect that channel inventories will decline during the first half of 2024, and by the end of the first half of 2024, we will be at or below pre-pandemic levels.

We are seeing the expected benefits of our cost reduction plans designed to align our cost structure to our 2024 operating plan. We have focused our R&D resources on those products and projects that are most critical for Cambium's future success.

Turning to the quarter

Cambium reported revenues of $40.2 million for Q4'23. Revenues decreased by 7% quarter-over-quarter and were lower by 52% year-over-year.

On a sequential basis for Q4'23, revenues decreased by $2.8 million. The majority of the decline in revenues was the result of the continued low order volume for our Enterprise business as distributors focus on decreasing their channel inventories as product lead times have come down, as well as aggressive competitor discounting, stock rotations, and slowing economies; while PMP revenues decreased 4% quarter-over-quarter due to a large 28 GHz fixed 5G shipment from EMEA during Q3'23, partially offset by the strength in North America from our 6 GHz PMP products. As expected, we had strong shipments of our PTP defense products. We expect some improvement in orders for the PMP business with the anticipated approval of 6 GHz spectrum. We have seen PMP channel inventories remain stable.

Revenues of $40.2 million decreased by $44.3 million year-over-year primarily due to lower Enterprise revenues. PMP revenues decreased 24% year-over-year with the weakness primarily from regions outside of North America. PTP revenues increased 3% year-over-year due to higher revenues for defense products in North America and EMEA.

By region, North America increased sequentially by 52% while all other regions weakened.

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Moving to our gross margin. Our non-GAAP gross margin for Q4'23 of negative 25.1% compared to 49.6% in Q4'22. The year-over-year decrease in our non-GAAP gross margin was primarily due to the $11 million reduction in revenues as the result of price incentives provided to distributors, and inventory charges of approximately $21.2 million related to excess & obsolete inventories, as well as unfavorable product mix as a result of lower Enterprise revenues.

On a sequential basis, Q4'23 non-GAAP gross margin of negative 25.1% compared to 27.7%. The lower quarter-over-quarter non-GAAP gross margin was primarily the result of higher Enterprise inventory reserves, partially offset by higher revenues from our defense products, which have a higher margin than other products in our portfolio.

In Q4'23 our non-GAAP gross profit dollars of negative $10.1 million decreased by $52.0 million compared to the prior year and were lower by $22.0 million sequentially due to the lower revenues, and higher inventory charges.

For the full year 2023, non-GAAP gross margin declined to 32.7%, compared to 49.5% from 2022, due to lower Enterprise revenues, Enterprise price incentives and higher inventory reserves.

Non-GAAP total operating expenses, including depreciation and amortization in Q4'23 decreased by approximately $2.4 million dollars when compared to Q4'22, and stood at $26.3 million, or 65.5% of revenues. The decrease in operating expenses compared to the prior year period was primarily the result of cost reductions during the second half of 2023, which resulted in lower operating costs primarily due to lower variable compensation, partially offset by increased wages due to inflationary salary increases effective January 1, 2023.

When compared to Q3'23, non-GAAP operating expenses decreased by approximately $1.1 million dollars during Q4'23. The quarter-over-quarter decrease in operating expenses was due to lower G&A due to less professional services and lower R&D costs due to lower headcount.

For the full year 2023, non-GAAP operating expenses of $113.0 million were flat, with higher wages due to inflation and higher headcount during the first half of the year offset by cost reductions in the second half of the year. During 2024, we will continue to maintain our strong cost controls.

Non-GAAP net loss for Q4’23 was $28.2 million, or a loss of $1.01 per diluted share, below our outlook for the quarter; and compared to non-GAAP net income of $10.3 million, or earnings of $0.36 per diluted share for Q4’22, and non-GAAP net loss of $12.1 million, or a loss of $0.44 per diluted share during Q3’23.

The lower non-GAAP net income compared to the prior year was primarily due to lower Enterprise and PMP revenues and a lower gross margin, while the lower net income compared to the prior quarter’s results was primarily the result of the Enterprise pricing incentives and higher inventory reserves which have a direct impact on gross margin, partially offset by lower operating expenses.

For the full year 2023, non-GAAP net loss was $32.6 million or $1.17 per diluted share, compared to non-GAAP net income of $26.9 million or earnings of $0.94 per diluted share in 2022.

Adjusted EBITDA for Q4’23 was a loss of $35.2 million, compared to positive $14.3 million for Q4’22, and a loss of $14.4 million for Q3’23.

The full year 2023 adjusted EBITDA was negative $36.5 million, compared to positive $38.8 million for the full year 2022.

Moving to cash flow

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Cash used in operating activities was $6.2 million dollars for Q4'23 and compares to cash provided by operating activities of $4.0 million for Q4'22, and cash used in operating activities of 200 thousand dollars for Q3'23. During Q4'23 we executed on converting receivables into cash and managing payables and working capital. Our goal for 2024 is to reduce our inventories balances to closer to $40 million as we return to pre-pandemic levels.

Turning to the Balance Sheet

Cash totaled $18.7 million as of December 31, 2023, a decrease of $8.8 million from Q3'23. The sequential decrease in cash primarily reflects lower revenues and material purchases to suppliers and capital expenditures. As of December 31, 2023, we have not yet drawn on our $45 million revolver although we may draw on a portion of the revolver during the first half 2024.
Net inventories of $66.9 million in Q4'23 decreased by $12.9 million from Q3'23 and were higher by $9.8 million year-over-year. Net inventories were lower sequentially due to higher inventory reserves and shipments into the channel. Channel inventories continued to decline sequentially for Enterprise while PMP channel inventories were stable. We continue to take aggressive actions to work with our distributors and return Enterprise channel inventories to pre-pandemic levels.

In Summary

The fourth quarter results turned out lower than anticipated as a result of higher discounting of Enterprise products in reaction to the market conditions, as well as higher inventory reserves. As expected, our PTP business grew sequentially. Our gross margin decreased sequentially as a result of the higher inventory reserves as well as a very competitive pricing environment for the Enterprise business. We continued to see improvements in channel inventories, which bodes well for the future. We continue to manage costs prudently and the actions we have taken should improve future operating performance as our non-GAAP break-even operating profitability is now approximately $60 million in revenue.

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During 2024, while we expect to see a slower but an improving start for the Enterprise business during the first half of the year as Enterprise channel inventory continues to decline. We believe that we will re-gain scale while improving operational efficiency during the second half of the year. We are optimistic about the expected near-term approval by the FCC of the 6 GHz spectrum. We are excited about the number of opportunities in our growing and profitable defense business and our ongoing product development initiatives as we consolidate to a small number of platforms over the next few years.

Moving to the First Quarter and Full Year 2024 Financial Outlook

Cambium Networks' financial outlook does not include the potential impact of any possible future financial transactions, acquisitions, pending legal matters, or other transactions.

Considering our current visibility as of today, our Q1'24 financial outlook is expected to be as follows:

- Revenues between $43.0 to $48.0 million, representing growth of approximately 7% to 19% sequentially, due in part to growth in our Enterprise business and PMP business, partially offset by seasonality in our PTP defense business.
- non-GAAP gross margin between 41.0% to 44.0%
- non-GAAP operating expenses between $25.4 million to $26.4 million
- and non-GAAP operating loss between $5.3 to $7.8 million
- Interest expense, net of approximately $800 thousand dollars, and
- non-GAAP net loss between $6.1 million to $8.6 million dollars or net loss per diluted share between $0.22 to $0.31
- Adjusted EBITDA loss between $4.1 to $6.6 million dollars; and adjusted EBITDA margin between negative 8.6% to negative 15.4%
- Our non-GAAP effective income tax rate is immaterial

- Approximately 28.0 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows in Q1:

- Paydown of debt: $700 thousand dollars,
- Cash interest: approximately $600 thousand dollars, and
- Capital expenditures: $2.0 to $3.0 million

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

- Revenues between $215.0 to $245.0 million, representing a decrease of between 2% to an increase of approximately 11%
- non-GAAP gross margin approximately 44.0%
- non-GAAP net loss between $13.6 million to net income of $2.3 million dollars or between a loss of $0.48 per diluted share to net earnings of $0.08 per diluted share
- Adjusted EBITDA margin between negative 2.7% to positive 4.1%
- For the year, capital expenditures are expected to be approximately $9 to $11 million dollars.

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

Morgan Kurk-President & CEO

We have made good progress with our channel partners to bring channel inventories to a more appropriate level in recognition of much shorter product lead times, which has impacted revenues. This is an industry-wide issue which will recover over time, as Enterprise channel inventories are digested. Our sales out of the channel have remained relatively stable and we are working to ensure this continues in the future. Internally we have established new processes for planning and mitigating future inventory levels and improved our visibility into the channel to adjust faster to product lead times, and I believe we have come a long way in a short period of time.

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Our PMP business is primed with multiple new products to address a growth cycle once the FCC approves 6 GHz spectrum.

Over the past 6 months I have been primarily internally focused, working with the team on product development, improving our processes, and developing our overall direction. I have been pleased with the collaboration, willingness to change, and desire to succeed that I have seen from all employees. We have reduced operational costs while supporting a large existing customer and product base and developing future platforms. While this has not been easy, it was necessary and was executed with full support. While I would like to consolidate our products into platforms more quickly, this is being managed in an evolutionary manner. I am now focusing more on our go-to-market strategy, specifically how we address Enterprise beyond our core customers. The critical steps to grow include not just the great products we have and continue to develop, but also improving our engagement with distributors and value-added resellers who can demonstrate Cambium's value proposition to end customers. I have been and will continue to spend more time with our customers and channel partners to ensure we are aligned with their needs.

These are challenging times for Cambium and the industry, and I'd like to share my appreciation for the continued focus and collaboration of our employees, partners, and customers.

This concludes our prepared remarks.
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 Relations – Closing Statement

Thank you [Operator]. During Q1'24 Cambium Networks will be presenting and meeting with investors on March 5th at the JMP Securities Technology Conference, and on March 19th at the

ROTH Annual Conference. 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.

