

Q1'24 Financial Results Conference Call Prepared Remarks

5/9/24

Intro

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

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

Morgan Kurk, our President & CEO, and Jacob Sayer, our CFO, are here for today's call. The financial results press release and 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 will provide the key operational highlights for the first quarter 2024 and Jacob will provide a recap of the financial results for the first quarter 2024 and will discuss our financial outlook for the second 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.

I want to begin by first introducing Jacob Sayer, our new CFO. For those of you who didn't see our press release, Jacob joined Cambium from Sensata Technologies, a global industrial technology company with over \$4 billion in revenue, where he was most recently VP of Finance and headed Investor Relations, and previously held divisional CFO roles for the various segments of Sensata. Jacob has 15 years of experience with technology companies and another 17 years of experience in various investment banking roles. We are pleased to have him on board to help drive operational excellence, strategy, growth, and value creation. I would also like to thank John Becerril for stepping up as interim CFO for the past quarter.

As expected, the FCC finished the process for the long-awaited approval of 6 GHz spectrum in Q1, although later in the quarter than we had hoped, leading to lower than anticipated shipments of our Point-to-Multi-Point (PMP) products. In the last week of the quarter, Cambium received

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final approval for our ePMP 4600 6 GHz access point products and standard power subscriber modules, with high-power subscriber modules expected to be approved in May.

Summarizing the performance of Q1'24

Revenues for Q1'24 were \$43.2 million. The shortfall to guidance was mostly related to delays in defense orders in North America and Europe in the Point-to-Point (PTP) business, which decreased 34% sequentially. We expect sequential increases in this portion of the business throughout 2024.

Our PMP business in North America was slower than anticipated, decreasing 14% due to the aforementioned timing of the 6 GHz product approval process by the FCC late in the first quarter. 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.

On a positive note, Enterprise revenues improved 231% sequentially as demand improved and channel inventory levels declined. Also in April we launched our first Wi-Fi 7 product.

While revenues came in only slightly below our outlook, gross margin did not meet expectations due primarily to an increase in reserves for excess & obsolete inventories of finished goods and components. We did see improved product mix sequentially during Q1'24 as a result of increased Enterprise revenues and we maintained good cost controls and tightly managed our operating expenses.

Sales of Cambium's products out of the distribution channel as reported by Cambium's distributors were higher for Q1'24 than Cambium's reported revenues, and we saw corresponding declines in channel inventories.

We continued to make good progress in clearing channel inventories and in aggregate the inventories are approaching healthy levels. We are diligently monitoring and managing channel inventories as shorter lead times and increased cost of capital may drive different behaviors by distributors than in the past.

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As communicated previously, we expect channel inventories to be back to normal by the end of Q2'24 which will result in sales-in and sales-out approaching equilibrium. This should drive incremental improvement of sales into the channel, and therefore an incremental improvement in revenues.

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

In the U.S., our Enterprise business had a sizeable win with the New Orleans Convention Center, a project which is expected to ship throughout the year. This win includes over \$1 million of Enterprise gear and was the result of Cambium's ability to deliver industry leading performance in a unique, high-density, dynamic deployment. The entire upgraded system will run on our cnMaestro X single pane of glass management system. The flexibility in dynamic reconfiguration is critical for the center and demonstrates the versatility of Cambium's solution.

In Australia, Glencore, one of the largest mining companies in the world, selected Cambium's ONE Network to deploy and manage a Cambium Fiber and Wi-Fi upgrade for a large mining camp. The deployment will consist of a mix of over 350 indoor and outdoor Wi-Fi access points and Cambium Fiber ONTs, all managed by cnMaestro. The combination of indoor and outdoor Wi-Fi and PON based interconnectivity from a single vendor results in a tightly integrated, cost effective and efficient network.

In the PMP space, we had a significant win with a wireless service provider in Kenya, Safaricom, for a 3-year deal to roll out residential and business connectivity using our ePMP product line. Cambium won based on our technical strength, ease of deployment, and the cost-effectiveness of the solution.

Turning to upcoming product introductions since our previous quarterly update.

In March we announced our first Wi-Fi 7 access point, with the launch of our new X7-35X tri-radio, tri-band 2+2+2 unit.

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Wi-Fi 7 is another step forward in wireless connectivity, offering data speeds reaching up to 9.2 Gbps, ensuring lightning-fast downloads, seamless streaming, and lag-free experiences.

While pushing the boundaries of performance, Wi-Fi 7 remains backward compatible with previous Wi-Fi standards. Wi-Fi 7 works with Cambium Networks' cloud-managed or on-premises cnMaestro management system for secure end-to-end network control.

Finally, total devices under cnMaestro Cloud management in Q1'24 increased approximately 4% from Q4'23 and were up 15% year-over-year.

I will now turn the call over to Jacob for a review of our Q1'24 financial results, and Q2'24 and full year 2024 financial outlook.

Jacob Sayer -CFO

Thanks Morgan.

While the Q1'24 results are below expectations, we do see the business beginning to improve and can now look forward to growth. The Q1'24 revenue shortfall was isolated to delays in government orders in the PTP business and the timing of approval for the 6 GHz PMP solutions later in the quarter than expected--the impacts of which we expect to be behind us shortly.

Q1'24 results included additional inventory charges and additional supplier commitments which impacted gross margin by approximately \$7.0 million and reflect the current state of the market and product demand. Without these charges, gross margin would have been approximately 39.2%, which would have been closer to our original forecast at the start of the quarter, but slightly lower due to the impact of mix within defense products in PTP.

We continue to work hard on managing our operating costs to align with our current forecasts for 2024 and are focusing resources on those products and projects that are most critical for Cambium's future success.

Turning to the quarter

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Cambium reported revenues of \$42.3 million for Q1'24. Revenues increased by 5%, or \$2.1 million, sequentially.

The majority of the increase in revenues was the result of the improved order volume for our Enterprise business in both North America and EMEA, albeit from a low base; while PMP revenues decreased 14% quarter-over-quarter due to the delayed timing of approval for 6 GHz products in the United States and its territories. This was partially offset by some recovery for the PMP business in EMEA during Q1'24. PTP defense revenues were lower due to delays for defense orders in Europe and North America after strong year-end results.

By region, EMEA increased 146% sequentially as a result of the recovery in the Enterprise business, while the other regions decreased, with North America lower by 7% due to the timing of defense orders impacting the PTP business, and delays in the approval for 6 GHz products hurting the PMP business, while CALA dropped by 8%, and APAC decreased by 10% sequentially.

Moving on to our gross margin.

Our non-GAAP gross margin for Q1'24 was 22.7% compared to negative 25.1% in Q4'23. The higher quarter-over-quarter non-GAAP gross margin was primarily the result of lower rebates and higher Enterprise revenues, and lower freight costs, although we were once again impacted by the need to increase inventory reserves and had a lower mix of higher margin defense products.

In Q1'24 our non-GAAP gross profit of \$9.6 million was higher by \$19.7 million sequentially due to lower excess inventory charges, higher Enterprise revenues, and lower rebates.

Non-GAAP total operating expenses, including depreciation and amortization in Q1'24 stood at \$26.4 million, or 62.3% of revenues.

When compared to Q4'23, non-GAAP operating expenses were approximately flat during Q1'24. The quarter-over-quarter operating expenses had higher G&A due to increased

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professional services, and higher bad debt expense, offset by lower payroll and less spending on R&D materials.

Our non-GAAP net loss for Q1'24 was \$12.7 million, or a loss of \$0.46 per diluted share, was below our outlook for the quarter; and compared to a non-GAAP net loss of \$28.2 million, or a loss of \$1.01 per diluted share during Q4'23.

Adjusted EBITDA for Q1'24 was a loss of \$15.5 million, compared to a loss of \$35.2 million for Q4'23.

Moving to cash flow

Cash used in operating activities was \$15.6 million dollars for Q1'24 and compares to cash used in operating activities of \$6.2 million dollars for Q4'23. During Q1'24 we continued to execute on converting receivables into cash and managing working capital closely, offset by the net loss.

Turning to the Balance Sheet

Cash totaled \$38.7 million as of March 31, 2024, an increase of \$20.0 million from Q4'23. The sequential increase in cash primarily reflects a draw of \$40 million of the company's \$45 million revolver, partially offset by the net loss, material purchases to suppliers, and capital expenditures.

As we look forward, we are focused on conserving cash by minimizing operating expenses, lowering capital expenditures, and continuing to convert inventory into revenues. We expect to be EBITDA positive during the second half of calendar 2024 and have reduced our breakeven profitability to below a \$60 million quarterly revenue run-rate.

Net inventories of \$55.6 million in Q1'24 decreased by \$11.3 million from Q4'23. Net inventories were lower sequentially, driven by both consumption and due to higher reserves. As a reminder, our goal for 2024 is to reduce our inventories balances to closer to \$40 million.

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In Summary

First quarter revenues turned out slightly lower than anticipated because of delays in the timing of the defense shipments as well as the FCC granting approval of 6 GHz spectrum later in the quarter than we had hoped. Cambium expects to soon receive our final approval for 6 GHz ePMP products. On a positive note, we had higher Enterprise revenues as market conditions are starting to improve. Our gross margin improved sequentially as a result of lower rebates and higher Enterprise revenues in a very competitive business environment. We continued to see improvements in channel inventories and remain vigilant about managing costs which should benefit future operating performance.

During Q1'24 we saw an improving start for the Enterprise business as Enterprise channel inventories continued to decline. As we re-gain scale for Enterprise, we expect to improve our operational efficiency each quarter of this year. For the PMP business we now have approval by the FCC of the 6 GHz spectrum which will help that business. For our PTP business, we are pursuing several large defense opportunities. And we continue to work to consolidate to a smaller number of product platforms for our overall business over the next few years.

Moving to the Second 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, our Q2'24 financial outlook is as follows:

- Revenues between \$43.0 to \$48.0 million, representing growth of approximately 2% to 13% sequentially,
- non-GAAP gross margin between 40.0% to 42.0%
- non-GAAP operating expenses including D&A between \$24.6 million to \$25.6 million;
- leading to a non-GAAP operating loss of between \$5.4 to \$7.4 million.
- Interest expense, net, of approximately \$1.8 million, and

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- non-GAAP net loss of between \$5.4 million to \$6.9 million or net loss per diluted share between \$0.19 to \$0.24.
- Adjusted EBITDA is expected to be a between negative \$4.2 to negative \$6.2 million dollars; and adjusted EBITDA margin between negative 8.8% to negative 14.4%
- We expect a non-GAAP effective tax benefit of approximately 25%, and
- Approximately 28.0 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows in Q2:

- Paydown of debt: \$700 thousand dollars,
- Cash interest: approximately \$1.7 million dollars, and
- Capital expenditures: \$1.5 to \$2.5 million.

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

- Revenues between \$205.0 to \$225.0 million, representing a decrease of 7% to up 2%.
- non-GAAP gross margin of approximately 40.0%
- non-GAAP net loss between \$11.6 million to a net loss of \$18.0 million, or a loss of between \$0.41 to \$0.64 per diluted share.
- Adjusted EBITDA margin between negative 2.2% to negative 6.8%.
- 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 continue to work with our channel and end customers to manage inventory and improve efficiency while maintaining service levels. This has, and continues to impact revenues; however, we believe we started this work earlier than others and expect equilibrium to occur by the end of Q2. We continue to focus on our internal processes to ensure that we don't

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overcorrect and fail to meet our customers' demand, while minimizing inventory throughout the supply chain.

Our PMP business is well positioned to grow with the newly released 6 GHz spectrum as our WISP customers compete with other broadband solutions on speed and reliability.

Our platforming activities continue to progress with both architectural decisions and beginning of development in both hardware and software. While the benefits from these initiatives will be in the future, it is one of the most important actions we can take to impact our long-term prospects, driving faster initial development, decreasing feature implementation time, and lowering cost.

After my initial review of the business last Fall, over the past three months I have been working with our go-to-market teams and our customers to make sure where we are going is aligning with where our customers need to go in our highly competitive markets. I am pleased with the level of access Cambium has to its end customers and the interest our channel has in driving the business forward. I intend to continue to be directly involved with our sales force and customer base to ensure that the direction we are going and the decisions we are making are fully aligned.

While there continue to be challenges both internally and throughout the industry, I am encouraged as to how we meet these challenges, solve problems efficiently and effectively, and help move the industry forward. I'd like to share my continued appreciation for the effort and collaboration of our employees, partners, customers, as well as investor support.

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

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

Peter Schuman-Vice President, Investor, Industry Analyst & Public Relations – Closing Statement

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Thank you [Operator]. During Q2'24 Cambium Networks will be presenting and meeting with investors virtually on Thursday, May 16, 2024, at the Needham Technology, Media, & Consumer Conference, and on Tuesday, June 25th at the Northland Growth 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.