

Q2'22 Financial Results Conference Call Prepared Remarks 8/4/22

Intro

Peter Schuman, Vice President, Investor & Industry Analyst Relations

Thank you [Operator]. Welcome and thank you for joining us today for Cambium Networks second 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 second quarter 2022 and Andrew Bronstein, Cambium Networks CFO, will provide a recap of the financial results for the second quarter 2022 and present our financial outlook for the third 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.

Cambium had recovery in our second quarter results with revenues of \$69.3 million, increasing 12% sequentially, slightly ahead of our midpoint of between \$65 to \$73 million announced during the Q1'22 quarter call. Profitability improved significantly, with EPS of \$0.18, ahead of our outlook of between \$0.01 to \$0.11, as we re-gained some scale, had higher gross margin, and spending was lower than anticipated due to our tight cost controls.

Our technology roadmap and strategy continued to strengthen. Cambium is at the start of a new growth "S-Curve". During evolutionary change, performance starts from a slow initial phase, goes through an accelerated deployment phase, before stabilizing and maturing. This is about a five-year cycle for Cambium and the last time we entered this cycle was 2016. We are now at the cusp of entering the accelerated phase of growth for high-performance broadband networks.

We anticipate continued recovery in revenues during the third quarter 2022, given our record backlog, pricing actions announced late last year are now fully in place, and we expect further improvements in the supply chain and distribution of components and finished products during

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the second half of 2022. We exited the second quarter 2022 with backlog up 5% quarter-over-quarter and higher by 29% year-over-year.

We saw strong demand for our enterprise solutions, which grew 55% sequentially and increased 31% year-over-year, including record Wi-Fi 6 revenues. We now expect our enterprise business to grow over 45% for calendar year '22. While the supply situation remains tight and challenging, we exited Q2'22 with another record quarter of backlog for enterprise products.

Cambium's attractive total cost of ownership and cloud-managed wireless fabric of solutions integrate multiple communications standards and emerging broadband technologies, which we are now calling Cambium ONE Network. Our solutions are a compelling choice for wireless infrastructure projects around the world with network management from a single pane of glass.

Turning to the results of the second quarter 2022

Looking at revenues across our product lines. Our Point-to-Multi-Point (PMP) business revenues decreased 9% sequentially and decreased 53% year-over-year, due to the continued sluggish demand from service providers for legacy PMP 450 products ahead of the ramp of both 28 GHz cnWave 5G Fixed technology and the introduction of 6 GHz products expected during Q4'22. We are seeing the component shortages continue to improve, although gradually, which benefited the ePMP product lines as a result of the re-opening of China during Q2'22.

The Point-to-Point (PTP) business increased by 7% sequentially during Q2'22, while year-over-year revenues improved 12% due to higher shipments for PTP products using unlicensed frequencies.

Our enterprise business had robust revenues of \$24.0 million during Q2'22, increasing 55% sequentially, and higher by 31% year-over-year, due to improved supply and distribution, and strong demand for our Wi-Fi 6 solutions. Cambium has an opportunity to be a significant

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leader in mid-market enterprise networking served by our extensive enterprise channel built over the last few years.

In May, Cambium was named an “Outperformer” in the 2022 GigaOm Radar Report for Wi-Fi 6 and 6E solutions. We are also beginning to see software become a more meaningful contributor to bookings and revenues.

Looking at some notable customer wins and new product developments.

In North America, we are receiving very strong orders in enterprise Wi-Fi. WhiteSky Communications, a Managed Service Provider (MSP) focusing on the Multi-Dwelling Unit (MDU) market, placed a large order for enterprise Wi-Fi including cnMaestro X, our flagship subscription network management solution. Cambium was selected for our price performance and superior value proposition. cnMaestro X is fine-tuned and optimized for MSP and MDU applications.

An NFL city in the southeast placed an order for 60 GHz cnWave connectivity and Wi-Fi as part of a smart city deployment. Cambium was selected for our portfolio breadth and ability to deliver backhaul and access with a single management platform.

In our federal defense business, we have a large funnel of deals as the hostilities in Eastern Europe are leading to multiple nations wanting to upgrade their military communications infrastructure with same equipment as the U.S. defense establishment using Cambium’s PTP 700 technology for fixed wireless broadband communications. This enables total equipment interoperability and rapid deployment in the field.

In the Europe, Middle East, and Africa region (EMEA) we continue to have healthy demand for our enterprise business and continue to win larger projects.

A recent strategic win in Germany, included Cambium partnering with NCR Orderman, a global market leader for mobile ordering, providing high-performance Wi-Fi solutions for the

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hospitality industry, including connectivity for Point-of-Sale systems, as well as handhelds for mobile order taking and billing. More than 80,000 restaurants around the world are equipped with an Orderman system. With this new solution, restaurants and other venues can deliver fast and reliable service with Wi-Fi from Cambium. This win included Cambium's Wi-Fi 6 access points, cnMatrix™ Ethernet switches and cnMaestro™ cloud management solutions. Cambium's wireless fabric makes it easy to plan, deploy, and manage affordable gigabit speeds for the home and enterprise.

In the UK enterprise market, we closed a few large MSP deals specialized in MDUs with a focus on providing services for student housing accommodations. These deals cover multiple quarters and countries across Europe.

In the Asia Pacific (APAC) region, we received a sizeable order in India from Airtel for small cell backhaul using our ePMP product line for unlicensed spectrum covering LTE in less dense locations.

And in the Caribbean and Latin America (CALA) region, we had a significant win landing our first multi-million-dollar agreement for 28 GHz cnWave 5G Fixed technology from a leading telecommunications and IT service provider operating in Puerto Rico and the US Virgin Islands. Cambium was selected for our ability to support gigabit speeds with low-latency and consistently high-performance.

Turning to new product introductions since our previous quarterly update.

The industry is eagerly awaiting the availability of 6 GHz spectrum for wider channels and higher throughputs. Cambium will have an industry leading position when our next generation multi-gigabit ePMP 4600 product is expected to be released before year-end. Approximately a half-dozen customers, including NextLink Internet, are already field testing our product under special FCC licenses. In May, NextLink announced the results of 6 GHz spectrum testing, utilizing an FCC experimental license, and achieved actual throughput of over 1 Gbps download

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and 500 Mbps upload to each subscriber module under full load, utilizing a 160 MHz channel at 2 miles, clearing the way for more gigabit fixed wireless deployments nationwide.

Upon full commercial deployment next year, NextLink will be rolling out gigabit speed plans for their existing fixed wireless service network expansion for the FCC's Rural Digital Opportunity Fund (RDOF) program. Ultimately, Nextlink's expansion of gigabit fixed wireless will cover over four million households and businesses.

The promise of 6 GHz enabling Gigabit speeds over wireless is real – and fixed wireless enables Cambium's customers to roll out gigabit speeds faster than they can with fiber in an economical and timely manner. Fixed wireless broadband takes months as compared to years for fiber to be deployed.

For our federal and national security PTP business, before year-end we plan to roll out a new Smart Antenna. The PTP 700 antenna will facilitate rapid alignment of a remote radio with the primary site in a highly automated manner.

And within our software and subscription services business, this Fall Cambium will launch our Network Service Edge (NSE) solution. NSE bundles a rich set of network services, SD-WAN, and security features, optimizing SaaS applications performance and reliability at the network edge. This complements our cloud managed Wi-Fi and switching products to deliver Cambium "ONE Network" solution, especially for mid-market enterprises which are looking for easy to deploy and operate networks without significant IT help. Instead of building solutions from multiple vendors and spending excessive time dealing with complex install problems, service providers and enterprises can manage one efficient solution utilizing Cambium's expertise in Wi-Fi, fixed wireless broadband, switching, management, and security solutions. Our integrated solution provides better combined insights into the network performance to improve overall quality of experience and security, while reducing complexity and lowering total cost of ownership.

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This Fall, Cambium's newest version of the 28 GHz millimeter wave solutions for 5G Fixed will become available. Network operators will be able to support scaled deployments featuring competitive differentiation with our 4X4 Multi-user MIMO and software defined radio architecture that delivers 400 Mbps speeds for business and residential subscribers in urban, suburban and rural locations at scale. We believe this newest version of cnWave™ 5G Fixed will drive high volumes with large deal sizes. Cambium presently has over 10 POCs in four continents for our 28 GHz equipment and during the second quarter we landed our first multi-million-dollar contract for this technology. We remain excited about the revenue potential for this upcoming PMP product.

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 Q2'22 was over 837,000, an increase of 6% from Q1'22, and up 36% year-over-year. For our premium cnMaestro X offering, we booked a major deal with a sizeable service provider for fixed wireless broadband during the second quarter and are now seeing healthy growth in Annual Recurring Revenue (ARR) for this product. ARR for cnMaestro X, which includes both enterprise and fixed wireless solutions, grew 66% sequentially during the second quarter.

Turning to our Channel

In Q2'22, we expanded our channel presence by adding over 520 net new channel partners sequentially, and approximately 1,600 net new channel partners year-over-year, which represents an increase of approximately 5% sequentially and 15% year-over-year. This is expanding our reach into new mid-market customers around the world.

During the second quarter Cambium shared our strategy and vision at Cambium Connections, our bi-annual online webinars for end customers and the partner community throughout various geos. Our upcoming 6 GHz ePMP solution is generating lots of excitement for gigabit

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connectivity, particularly with North American service providers, and we held separate events surrounding the opening of this important spectrum for future commercial use.

I will now turn the call over to Andrew for a review of our Q2'22 financial results and Q3'22 outlook.

Andrew Bronstein-CFO

Thanks Atul.

Cambium had revenues of \$69.3 million for Q2'22. Revenues increased by 12% quarter-over-quarter and decreased by 25% year-over-year.

While revenue and global supply constraints are beginning to ease, we still had impact to shipments of our products during the first two months of the quarter as a result of the China COVID shutdown, although we continue to have significant pent-up demand, especially in our enterprise products.

Our backlog and end demand remained strong, with backlog increasing by 5% quarter-over-quarter and 29% year-over-year.

On a sequential basis for Q2'22, revenues were higher by \$7.4 million. The higher revenues were primarily the result of increased enterprise and PTP solutions, while PMP revenues were lower due to softer demand for legacy PMP 450 partly offset by improved supply benefitting ePMP shipments.

Moving to our gross margin. Our non-GAAP gross margin of 48.9% was significantly better than anticipated, although decreasing by 110 basis points compared to Q2'21. The year-over-year decline in our non-GAAP gross margin was the result of lower revenues, increased component costs, as well as higher freight and distribution costs due to expedited shipping.

On a positive note, on a sequential basis, non-GAAP gross margin improved by 110 basis points compared to Q1'22. The higher quarter-over-quarter non-GAAP gross margin was the result of a higher mix of enterprise products, tight cost controls, and the benefit from the previously

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announced price increases instituted approximately three quarters ago. The higher gross margin is notable considering we had expedited shipping from the Shenzhen factory to distribution hubs in North America and EMEA in order to balance freight congestion and fuel surcharges as Shanghai unlocked from COVID.

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.

In Q2'22 our non-GAAP gross profit dollars of \$33.9 million decreased by \$12.5 million compared to the prior year due to lower volumes, and increased by \$4.3 million dollars sequentially, due to higher volumes and improved mix of enterprise products.

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

Non-GAAP operating expenses in Q2'22 decreased by approximately \$1.3 million dollars when compared to Q2'21, and stood at \$27.5 million, or 39.7% of revenues.

The decrease in operating expenses compared to the prior year period was related to the timing of R&D expenditures and lower variable compensation.

When compared to Q1'22, non-GAAP operating expenses decreased by approximately \$1.0 million dollars during Q2'22. Quarter-over-quarter sales and marketing increased slightly primarily because of higher travel, while R&D decreased related to the timing of expenditures and lower variable compensation.

Non-GAAP operating margin for Q2'22 was 9.1%, down from 18.9% during Q2'21, and up significantly from 1.6% of revenues in Q1'22.

Non-GAAP net income for Q2'22 was \$5.0 million, or \$0.18 per diluted share, ahead of the previous outlook of between \$0.01 to \$0.11 per diluted share, and compared to \$12.9 million, or

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\$0.45 per diluted share for Q2'21, and non-GAAP net income of \$300 thousand dollars, or \$0.01 per diluted share for Q1'22.

The lower non-GAAP net income compared to the prior year period was primary due to the lower revenues impacting gross profit dollars, while higher net income compared to the prior quarter's results was primarily a result of higher revenues benefitting gross profit dollars, improved mix, and lower operating expenses.

Adjusted EBITDA for Q2'22 was \$7.8 million or 11.3% of revenues, compared to \$18.4 million or 19.9% of revenues for Q2'21, and compared to \$1.9 million or 3.1% of revenues for Q1'22.

Our operating model remains solid. We are beginning to re-gain some operating leverage in our business as Cambium increased revenues and benefits from improved pricing. We remain committed to driving our Adjusted EBITDA to our target model of 18-19% of revenues.

Moving to cash flow

Cash provided by operating activities was \$10.0 million for Q2'22, and compares to \$20.1 million of net cash provided by operating activities for Q2'21, and cash used in operating activities of \$19.2 million for Q1'22. We expect to maintain positive operating cash flow for the remainder of the year.

Turning to the Balance Sheet

Cash totaled \$45.9 million as of June 30, 2022, an increase of \$7.5 million from Q1'22. The sequential increase in cash primarily reflects higher earnings and improved working capital.

Net inventories of \$47.4 million in Q2'22 increased by approximately \$19.0 million year-over-year, while increasing by \$7.2 million from Q1'22. Inventories were higher sequentially because of an increase in component and finished goods inventories as we grow our business. While the

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supply chain remains an ongoing challenge, we are working to selectively increase our inventory position during 2022.

In Summary

The second quarter was better than anticipated due to a recovery in the COVID situation in China and an improving supply chain environment. We are now benefiting from the price increases from 2021. Our backlog remains strong, and we are at the start of new product cycles.

We expect to continue to re-gain scale, improve operational efficiency, and make significant progress toward achieving our long-term target operating model.

Moving to the Third Quarter and Full Year 2022 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 Q3'22 financial outlook is expected to be as follows:

- Revenues between \$72.0 to \$76.0 million, representing approximately 4% to 10% sequential growth. We remain supply constrained, especially in the enterprise product lines.
- non-GAAP gross margin between 48.5% to 49.5%
- non-GAAP operating expenses between \$28.9 million to \$29.9 million
- and non-GAAP operating income between \$6.1 to \$7.8 million
- Interest expense, net of approximately \$500 thousand dollars, and
- non-GAAP net income between \$4.5 million to \$5.8 million dollars or net income between \$0.16 to \$0.20 per diluted share

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- Adjusted EBITDA between \$7.0 to \$8.7 million dollars; and adjusted EBITDA margin between 9.8% to 11.5%
- A non-GAAP effective tax rate of approximately 18.0% to 20.0%
- Approximately 28.2 million weighted average diluted shares outstanding

Cash requirements are expected to be as follows:

- Paydown of debt: \$700 thousand dollars,
- Cash flow interest expense: approximately \$500 thousand dollars, and
- Capital expenditures: \$2.4 to \$2.6 million

Turning to the Full Year 2022 Financial Outlook, we expect

Revenues between \$280 to \$300 million,

We expect non-GAAP net income to be \$13.1 to \$25.1 million dollars, or \$0.46 to \$0.89 per diluted share, and an

- Adjusted EBITDA margin of 7.8% to 12.5%

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

Atul Bhatnagar, President & CEO

Cambium's growth strategy and drivers remain solid. We are now benefitting from increasing chip supplies which will drive our growth during the second half of this year. Our investments in multi-gigabit wireless products such as enterprise Wi-Fi 6 and 6E, wireless savvy switching products, 60 GHz cnWave, 28 GHz millimeter wave solutions for Fixed 5G, and the upcoming launch of 6 GHz fixed wireless solutions arriving later in 2022, will drive future revenue growth. Our federal business is at the start of significant growth, and we are now benefitting from our software-as-a-service solutions. The integrated wireless fabric, which we are now calling Cambium ONE Network, brings together ease of deployment, scalability of networks,

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and lower total cost of ownership as the world deploys next-generation high-performance wireless broadband.

We remain focused on judiciously managing our costs, continuing to invest in innovative products to maintain our technology edge, and expect increased scale, and all of this will 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 [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 Q3'22 Cambium Networks will be presenting and meeting with investors on August 10th at the Oppenheimer Technology, Internet & Communications Conference held virtually; on August 31st at the Jefferies 2022 Semiconductor, IT Hardware and Communications Infrastructure Summit in Chicago. Cambium will host a tour of our Rolling Meadow, IL headquarter facilities on September 1st with Barrington Research, and on September 14th and 15th the company will hold one-on-ones and present at the Goldman Sachs Communacopa + Technology Conference in San Francisco. 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.