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CMBM.OQ - Q3 2024 Cambium Networks Corp Earnings Call

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CORPORATE PARTICIPANTS

Jacob Sayer *CAMBIUM NETWORKS CORPORATION - Chief Financial Officer*

Morgan Kurk *Cambium Networks Corp - President, Chief Executive Officer, Director*

Multi Speakers

CONFERENCE CALL PARTICIPANTS

John Roy *Water Tower Research - Analyst*

PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to the Cambium Networks third quarter, 2024 financial results conference call. At this time, all participants are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session to ask a question during the session. (Operator Instruction)

I would now like to hand the conference over to your first speaker today, Jacob Sayer, Chief Financial Officer. Please go ahead.

Jacob Sayer - *CAMBIUM NETWORKS CORPORATION - Chief Financial Officer*

Welcome everyone and thank you for joining us today for Cambium Networks third quarter, 2024 financial results conference call and welcome to everyone else as well for joining via the webcast.

My name is Jacob Sayer. I am the Chief Financial Officer of Cambium Networks, and I am joined by Morgan Kurk, our President and CEO.

The financial results press release for the third quarter is accessible on the investor page of our website and has been submitted to the SEC on form 8K.

The transcript of today's prepared remarks will also be available on our investor page after the conclusion of the 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 from today's remarks except as required by law. Cambium Networks does not undertake any obligation to update or revise any forward-looking statements for any reason after today's presentations. It's our 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 press release and our most recent SEC filings including the most recent 10-K and 10-Qs.

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 that's otherwise noted, a reconciliation of non-GAAP measures to GAAP is included in the appendix to today's financial results press release.

Now let's turn to the agenda. Morgan will provide key operational highlights for the third quarter and I will provide a recap of the financial results for the third quarter 2024 and discuss our financial outlook for the fourth quarter.

Our prepared remarks will be followed by a Q&A session.

So now I would like to turn the call over to Morgan.

Morgan Kurk - *Cambium Networks Corp - President, Chief Executive Officer, Director*

Thank you, Jacob. Revenues for Q3 2024 were \$43.7 million. Recognizing the market challenges, we are pleased that the revenues were within the outlook range we provided during our Q2 2024 financial results call on August 8th, 2024.

Equally important to note, we grew in all geographies in our enterprise business with revenues up sequentially by 34% to \$15.2 million.

This was offset by lower revenues in our point-to-point TTP business primarily due to lower defense revenues. While we are confident that defense revenues will grow next year, it appears that the defense budgets for communication equipment were constrained due to funding pressures from money's required in active conflict zones.

Non-GAAP gross margin improved again quarter over quarter, growing to 42.3%.

Operating margins also improved sequentially as we continue to lower our breakeven point. Free cash flow was a positive \$5.2 million during Q3 2024 and our cash balance stood at \$46.5 million as of September 30th.

These results support our belief that the business is moving in the right direction financially operationally and strategically. Sales of Cambium's products out of the distribution channel as reported by Cambium's distributors were again higher for Q3 2024 than our reported revenues and we saw continued declines in channel inventories. We continue to expect sales in and sales out to be at equilibrium by the end of the year.

Looking forward, lower channel inventories are expected to result in Cambium's revenue being more directly tied to end user demand.

Looking at some new customer launches. one of the world's largest oil and gas companies and an existing Cambium networks Customer purchased PMP 450V's to upgrade their existing deployment of PMP 450I for faster speeds in the six gigahertz band. The company also selected the cnMatrix TX 2000 series industrial grazed switch that supports extended temperature ranges and power over ethernet capabilities among other attributes required by outdoor environments, we saw a similar adoption of PMP 450V by other industrial customers in the United States during Q3 and expect to maintain that trend.

We continue to drive growth in logistics and retail market segments as one of the world's largest retailers selected our cnWave 60 gigahertz platform to provide wireless connectivity between retail stores and adjacent fueling stations and in their 37 major distribution centers connecting on site primary and remote facilities. The 60 gigahertz cnWave platform will also provide backup paths to existing fiber lines as discussed on our last quarter's call, Linus successfully successful deployment of Cambium's 60 Ghert cnWave solution to provide gigabit access to over 4,700 homes on Walney Island off the west coast of England continues to impress due to both the rapid deploy time to deploy which is less than 12 weeks and the high penetration rate which was greater than 20% only weeks after deployment, one has now been recognized by the United Kingdom's Wireless internet service provider Association Wispa with their best Gigabit wireless project UK Wispa Award in October.

Following multiple deployments at their sites in the Caribbean and Latin America and Europe, Middle East and Africa regions. We completed our first deployment in the Pacific region at a franchise site of a global hospitality company. At the Samoa location, as with other sites, the Cambium Networks, Wi-Fi 6/6-E access points and cnMatrix switches are providing an exceptional guest experience and supporting the hotel's operations.

The network upgrade was part of a hotel wide renovation completed in October with a grand reopening. In Q4 we expect to complete additional development on our cnMatrix switch that is required for broader deployment across the company's many brands in 2025.

Looking now at some new product launches that are key to our future success.

We released a 2x2 version of our PMP 450V subscriber module [SM]. It works in both 5 and 6 gigahertz. This product complements our 4x4 access point AP and our 4x4 [SM]. But at a lower cost, it is capable of more than 500 megabits data rate and it expects to be the workhorse of PMP 450 networks.

The combination of back to back releases on the ePMP 4000 line has significantly boosted performance across many fronts.

Release 5.8 brought beam forming support and with release 5.9 significant scalability enhancements were added to allow operators to deploy higher numbers of SM's per AP these advances combined to enable operators to offer more higher data rate packages and achieve price performance superiority.

Also in Q3, we introduced market apps, a new advanced service hosted from our cnMaestro platform that provides apps for customers and end users that are customized for specific use cases. The first two apps released in market apps are targeted at the multi dwelling unit MDU market which includes multifamily, student housing, assisted living and similar environments. These apps enable property managers, service providers and residents to manage Wi-Fi services with a simple workflow.

The market apps framework will be extended over time with new apps targeted at different verticals and high value use cases.

Finally, total devices under cnMaestro cloud management in Q3 2024 increased approximately 3% from Q2 2024 and increased over 14% on a year over year basis.

I will now turn the call over to Jacob for a review of our Q3 2024 financial results and our Q424 financial outlook.

Jacob Sayer - CAMBIUM NETWORKS CORPORATION - Chief Financial Officer

Thank you, Morgan.

Turning to revenue for the quarter Q3 2024 top line results of \$43.7 million decreased 5% Sequentially as good growth in our enterprise business was offset by declines in our P2P. And to a lesser extent, our PMP businesses. Looking at our revenues More specifically, our enterprise business grew 34% sequentially as demand improved in all geographies and channel inventories continue to decline.

Our PMP business declined slightly down 8% sequentially resulting primarily from slower adoption of 6 gigahertz deployments in North America.

The P2P business declined by 32% sequentially due to weakness in defense orders, especially in Europe.

While we typically expect defense to grow with historic trends in the second half of the year. This year, we are seeing a delay in projects as Morgan mentioned due to current budget prioritization for active conflict zones. By region Europe, Middle East Africa revenues samia decreased 19%. Sequentially reflecting a decline in the P2P business for defense, somewhat offset by higher enterprise revenues.

North America revenue was higher by 3% driven by higher enterprise, Asia Pacific revenue decreased by 14% Sequentially on lower PMP and P2P revenues again partially offset by higher enterprise revenues.

And Central America, Latin America, CALA improved by 11% quarter over quarter.

Now let's move on to gross margin. Our Non-GAAP gross margin for Q3 2024 continued to move higher and was 42.3% compared to 33.5% in Q2.

The higher quarter over quarter, Non-GAAP gross margin primarily reflects lower E&O and losses on supplier commitments.

We continue to work hard to manage our operating costs as we discussed last quarter, focusing resources on those products and projects that are most critical for Cambium's future success.

Based upon our actions, Non-GAAP total operating expenses including depreciation and amortization in Q3 2024, So at \$22.1 million lower by 1.2 million. Sequentially as the steps we have taken to better manage and reduce our expenses continue to have an impact.

We have now reduced our adjusted EBITDA break-even point to an approximately \$50 million quarterly revenue run rate.

We also saw the impact of these actions on our Non-GAAP net loss for Q3 2024 which was \$3.8 million or a loss of 14cents per diluted share. An improvement from the Non-GAAP net loss of \$7.1 million or a loss of 25cents per diluted share during Q2.

We see saw an even larger improvement in our adjusted EBITDA for Q3 2024. which was a loss of \$2.3 million compared to a loss of \$6.7 million for Q2.

Now let's move to cash flow and the balance sheet. Cash provided by operating activities was \$8.9 million in Q3 2024 significantly higher than the cash provided by operating activities of \$2.4 million in Q2. We are focused on improving the order to cash cycle, reducing inventories and managing working capital closely.

Cash totaled \$46.5 million as of September 30, 2024, and free cash flow for the quarter was a positive \$5.2 million.

Net inventories of \$43 million in Q3, 2024 decreased by \$7 million from Q2 2024 driven primarily by consumption.

Our goal is to reduce and then maintain our inventories at approximately 90 days outstanding.

As noted in the press release. As of September 30th, we remained in compliance with our monthly liquidity covenant for our outstanding bank debt at each measurement point during the quarter.

But we were not in compliance with our trailing consolidated EBITDA covenant as of September 30.

The company was also not in compliance with its monthly liquidity covenant as of October 31st, the company is seeking a forbearance from the bank and is working with them to address its non-compliance with these covenants.

Moving to the fourth quarter financial outlook considering our current visibility. Our Q4 2024 financial outlook follows. Revenues between \$40 million and \$45 million non-GAAP gross margin between 42.5% to 44.5% non-GAAP operating loss of between \$3 million to \$5 million and adjusted EBITDA is expected to be between a negative \$1 million to a negative \$3 million an adjusted EBITDA margin between a negative 2% to a negative 7%.

In summary, we delivered on what we promised for the third quarter and continued to take action to improve our financial results looking forward. While the improvements may not be as large as we would like. We are confident that the company is moving in the right direction.

We are controlling the discretionary aspects of the business by lowering expenses. And as a result, we expect our results to continue to improve financially from here.

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

Morgan Kurk - Cambium Networks Corp - President, Chief Executive Officer, Director

I have consistently focused the organization on improving operationally platforming and optimizing our go to market for enterprise. We are starting to see results as an example, our operational costs are lower and we are using less capital in our supply chain.

At this year's Wispaloosa, the wireless service provider show. We announced our new PMP platform, evo, this solution converges two of our major product lines, ePMP and PMP 450 into one unified platform. It offers a migration path and a road map to solutions that provide best in class performance with economic viability by merging traditional off the shelf Wi-Fi chips with customized FPGA components.

Our architecture has been well received and we are currently in full development ensuring that we are able to meet the future needs of our industry. In addition, our recent software releases for both our PMP 450 and ePMP product lines significantly improve both legacy and current shipping products. Creating genuine optimism about our near term opportunities in the important PMP business.

Equally exciting is how our enterprise business is now moving in a positive direction. This reflects our emphasis on this high potential portion of our portfolio. We have made significant changes in go to market by specializing some of our sales force focusing on specific verticals in both sales and product features and implementing a concierge service for our most important customers. I believe the progress we have made has been significant and expect it will produce meaningful results for the company while our defense business results were disappointing in the past quarter, I'm encouraged both by the positive technical feedback we continue to receive on significant future programs and the size and scope of a pipeline both in the US and overseas as leading indicators for our future business.

I would like to close by thanking our Cambium employees for their continued dedication to our mission and strategy. The transformation we were going through requires their continued tenacity and we are grateful for their effort with that. I would like to turn the call over to Ripka and begin the Q&A session.

Operator

Thank you.

QUESTIONS AND ANSWERS

Operator

At this time, we will conduct a question and answer session. (Operator Instruction) Please stand by while we compile the Q&A roster.

Our first question comes from the line of John Roy of Water Tower Research. Your line is now open.

John Roy - Water Tower Research - Analyst

Great. Thank you. So I have a couple of questions. One, You were talking about the market challenges, certainly the defense stuff. What are you expecting expectations for this, you know, getting better? I guess one of the kind of things I'm looking at is gross margin. So do you think your improving gross margin is a sign, an early sign that the market is not quite as challenging in the future?

Jacob Sayer - CAMBIUM NETWORKS CORPORATION - Chief Financial Officer

I think, I mean, gross margins are certainly on an upward trend to meet the big movements over the last couple of quarter and gross margin is really getting our own house in order from an inventory perspective and the resulting excess and obsolete inventory charges dropping away. We're now down to just about a normal level for those, you know, charges and certainly they, and they continue to decrease, but in a smaller pace for next year, the normal operating range for, for Cambium should be in the high 40% to around 50% from a gross margin perspective. And so, you know, certainly with a helping revenue line or increasing revenue line, we would expect to approach those levels as we go through next year.

Morgan Kurk - Cambium Networks Corp - President, Chief Executive Officer, Director

If you look though, I'll just add on to that. If you look at the markets, I think, certainly our, our defense market has better than, average margins on it. And as that increases, margins overall for the company will increase, in the commercial segments, there is still a great deal of price pressure.

And we're dealing with that the best we can, but I don't expect that to be alleviated during most of next year, we continue to see that type of pressure going on in the market.

John Roy - Water Tower Research - Analyst

Great. No, thanks on the defense stuff. I mean, I kind of know the answer to this. But do you feel like it's delayed or pushed out or it's just lost opportunity at this point?

Morgan Kurk - Cambium Networks Corp - President, Chief Executive Officer, Director

So we are very comfortable in saying the business did not go to somebody else.

Okay. However, so, that's sort of a push out comment. What you don't know in this business is whether governments just say I can do without. So the program doesn't go to its entire fruition. So that's the way I would answer this.

John Roy - Water Tower Research - Analyst

Yeah. Yeah. No, I got it. So now on, on the you

Morgan Kurk - Cambium Networks Corp - President, Chief Executive Officer, Director

go ahead

John Roy - Water Tower Research - Analyst

on the bank situation. Can you give us any color on expectations when or resolution of that?

Jacob Sayer - CAMBIUM NETWORKS CORPORATION - Chief Financial Officer

I really can't John, we're, we're in negotiations with the bank. Obviously, a private equity firm is involved in that as well.

You know that, so that there's no real news other than, right, other than the covenant breaches that took place and at the end of September and again, at the end of October, and that we are in negotiation with them. So, there's nothing concrete that we can, that we can signal to folks just yet.

John Roy - Water Tower Research - Analyst

Understood. And may, well, the last question I have is, I mean, obviously enterprise is doing better.

Which is great. Do you feel like enterprise is kind of like the future for Cambium kind of where you're headed?

Morgan Kurk - Cambium Networks Corp - President, Chief Executive Officer, Director

Yeah. So I think for the past year, I have been signaling sort of the following direction. I think that the point to multi point market is being compressed by a variety of forces. And while I think the work that we are doing there will allow us to maintain share, maybe even grow it depending on how we execute things. I don't see this as a growth market in and of itself.

And the defense market is lumpy. So, if you look at Cambium as a whole, this is our growth area.

John Roy - Water Tower Research - Analyst

Got it.

Alright, thanks so much Gentlemen.

Multi Speakers

Thank you.

Operator

I am showing no further questions at this time. So I would like to turn it back to Jacob Sayer for closing remarks.

Jacob Sayer - CAMBIUM NETWORKS CORPORATION - Chief Financial Officer

Thank you very much for joining Cambium's third quarter earnings call and this concludes today's conference call.

Operator

Thank you. Again for your participation in today's conference. This concludes the program. You may now disconnect.

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