



Operator

Greetings. Welcome to the Casa Systems Q4 2021 Earnings Call. Please note, this conference is being recorded. I will now turn the conference over to your host, Jackie Marcus. You may begin.

Jackie Marcus, Investor Relations

Thank you, operator, and good afternoon, everyone. Casa Systems released results for the fourth quarter and full year ended December 31, 2021, this afternoon after the market closed. If you did not receive a copy of our earnings press release, you may obtain it from the Investor Relations section of our website at investors.casasystems.com. With me on today's call are Jerry Guo, our Chief Executive Officer; and Scott Bruckner, our Chief Financial Officer. This call is being webcast and will be archived on the Investor Relations section of our website.

Before I turn the call over to Jerry, I'd like to note that today's discussion will contain forward-looking statements based on the business environment as we currently see it, and as such, it does include certain risks and uncertainties. Please refer to our press release and our SEC filings for more information on the specific risk factors that could cause our actual results to differ materially from the projections described in today's discussion. Any forward-looking statements that we make on this call or in the earnings



release are based upon information we believe as of today and undertake no obligation to update these statements as a result of new information or future events.

In addition to U.S. GAAP reporting, we report certain financial measures that do not conform to generally accepted accounting principles. During the call, we may use non-GAAP measures if we believe it is useful to investors or believe it will be helpful to investors to better understand our performance or business trends.

And with that, I'd like to turn the call over to Jerry. Jerry?

Jerry Guo, Chief Executive Officer of Casa Systems

Good afternoon, everyone. Thank you for joining us today to discuss our fourth quarter and fiscal year 2021 results.

As I noted on our last earnings call, our full year results will likely be impacted by global supply chain issues. Despite this, I'm happy to report that 2021 was another growth year for our company. Our full year revenue came in above the midpoint of our updated guidance range. I'm also extremely pleased with the material advances we made in our wireless business during the fourth quarter and the full year. Wireless is now the largest source of our revenue on an absolute and relative basis.

Before diving into our results, I want to update you on ongoing supply chain situation.

As I noted on our last earnings call, we saw approximately \$11 million of impact from

supply chain issues in the third quarter of last year. And we noted that we'll likely see continued impact in Q4. Including the fourth quarter, the net impact of supply chain delays for the full year was approximately \$29 million. What's important to note is that absent this impact, our full year revenue would have been in line with our initial guidance. We do expect to see the \$29 million impact recognized as revenue in the current fiscal year.

However, I want to caution that there very likely will be additional supply chain delays affecting our hardware products in 2022. While this is reflected in the full year guidance that Scott will give you, I will continue to update you on where we stand on supply chain as the year progresses.

Okay. Now turning to our product lines and starting with the wireless. As I mentioned, we saw extremely strong performance in our wireless business this year. We made a commitment to grow our wireless business, and we delivered with \$56.3 million of wireless revenue in Q4 and \$175.8 million in fiscal year 2021. With these results, wireless became not only the largest source of revenue for the company, contributing 53.5% in the fourth quarter and 43.8% in fiscal 2021, but also our most critical growth driver, increasing on a year-over-year basis by 11.7% in Q4 and by 48.2% for fiscal 2021. Additionally, we grew our wireless customers in the fourth quarter to 47. That's up from 28 at the end of 2020. We achieved these results despite the supply chain issues that we faced in the second half of the year that caused us to push out shipments of certain of our wireless hardware products into 2022.



Turning to cable. We continue to make progress with our next-gen products. As an example, we announced last week that Rogers has selected Casa to power its next generation of broadband services with our virtual CCAP core and distributed access architecture node solutions. We are extremely excited to be partnering with Rogers on this important network upgrade.

However, even with these advances, our fourth quarter and full year cable revenue were impacted by chip shortages, which led to delayed shipments of some new cable products, including Remote PHY and BDM 2 products. Currently, we are seeing supply chain shortages related to our cable products of up to 12 months. So, we do not expect to see growth in our cable revenue during 2022.

Our fixed telco products were similarly impacted by supply chain, which led to a decline in year-over-year revenue for the fourth quarter and full year. However, we did see continued advances with our virtual BNG router software product with 5 new purchase orders. As a result, I feel much better about what we can achieve this year with our fixed telco software products.

Before turning the call over to Scott, I want to say a few words about our outlook for the current fiscal year. As we noted during our Investor Day meeting, 2022 will be a significant transition year for Casa. What this means is that our focus going forward is on 2 things: growing our cloud software revenue and scaling back our lower-margin hardware products. Coupled with continuing supply chain issues, this may mean lower



hardware revenue during our transition year, but it will mean significantly higher margins and greatly improved profitability for our company beginning this fiscal year.

The benefits of this strategic pivot are already evident in the success we are seeing with our wireless and fixed telco software products. Scott will provide details on 2022 guidance in just a moment.

As many of you know, Scott will be leaving Casa before our next earnings call. I regret to see him leave, but I'm very grateful to him for the contributions he has made to our business during his more than 4 years at Casa Systems. I want to thank Scott for his hard work and for his commitment to assist us during the transition to his successor. I speak for the entire Casa team in wishing him the best in his future endeavors. We have already initiated a search for his replacement. We'll keep you posted as the search progresses.

With that said, I'd like to turn the call over to Scott. Scott?

Scott Bruckner, Chief Financial Officer

Thank you, Jerry, and good afternoon, everyone. As Jerry mentioned, even though we faced supply chain headwinds and component shortages in the fourth quarter and full year, we were still able to deliver another year of profitable growth and with strong free

cash flow.

Okay. So turning to our 2021 results and starting with revenue. For the full year, revenue came in at \$401.3 million. That's up 2.1% compared to 2020 and is in the upper end of our revised guidance range. For the fourth quarter, revenue was \$105.1 million. And while that's down 12.8% year-over-year, the negative growth is due exclusively to pushouts from component shortages and resulting shipping delays.

To put this in perspective, as you just heard from Jerry, we saw a \$29 million impact to our full year revenue from supply chain delays across all of our hardware products. And if it weren't for these delays, we would have seen year-over-year growth in the fourth quarter, and our full year revenue would have been in line with our initial guidance.

All right. Looking at our revenue across our product lines, let me start with wireless.

- Full year wireless was \$175.8 million. That's up 48.2% year-over-year and it accounted for 43.8% of total revenue. Wireless revenue in the fourth quarter was \$56.3 million, and that's up 11.7% year-over-year and accounted for 53.5% of total revenue. So, as you can see, we had an exceptionally strong fourth quarter and full year with our wireless products. And these results are net of pushouts from shipment delays due to component shortages.

Now Jerry did highlight the progress that we made during 2021 in our next-gen cable and fixed telco products. But he also noted the significant impact that supply chain had on our revenues in these product areas.

- Fixed telco revenue for the full year was \$71.1 million, and this represents a decline of 28.1% from the prior year. For the fourth quarter, fixed telco revenue came in at \$16.4 million and that's a 25.9% decline from Q4 2020. In cable, full year revenue was \$154.5 million. That's down 12.1% from the prior year.
- And for the fourth quarter, cable revenue was \$32.5 million, and that's down 32.5% from Q4 2020. Now once again, the decline in revenue in both of these product areas is due primarily to supply chain delays.

Moving down the income statement. Q4 GAAP gross profit was \$46 million, with GAAP gross margin coming in at 43.8%. Looking at the full year, GAAP gross profit was \$188.2 million with a gross margin of 46.9%. And I do want to note that our gross margins were affected by a \$2 million E&O inventory reserve increase that we took in the fourth quarter, and that was related to a discontinued product line. So, if we adjust for this, our GAAP gross margin for the fourth quarter and the full year would have been closer to 46% and 47%, respectively.

All right. Looking at our operating expenses. GAAP OpEx for the quarter came in at \$42 million. That's down 6.6% from the fourth quarter of 2020. And full year GAAP OpEx was \$169.9 million, and that's down 3.7% compared to full year 2020. GAAP operating



income for the quarter was \$4 million, while GAAP operating income for the year was \$18.3 million. Non-GAAP operating income was \$9 million for the quarter and \$38.8 million for the year.

Adjusted EBITDA for the quarter was \$11.3 million, and for the full year, it was \$48.8 million. And we generated fully diluted GAAP EPS of \$0.02 in the fourth quarter and \$0.04 for the full year. And if we look at EPS on a non-GAAP basis, Q4 fully diluted EPS was \$0.07, while fiscal 2021 EPS was \$0.14.

Okay. Turning to our balance sheet. Once again, we ended the year in a strong liquidity position with year-over-year working capital growth of 5% and a cash balance of approximately \$158 million, and that includes about \$3.1 million of restricted cash. And we did use \$8.8 million of our cash for share buybacks in the fourth quarter, and we used some of our cash for spot inventory purchases. And if we adjust for these, our year-end cash balance would have been in line with our forecasted year-end cash balance of \$170 million to \$180 million.

At the end of the quarter, our gross debt was \$278.2 million, that's down from \$285.5 million in the third quarter.

Okay. Before moving on to Q&A, I would like to comment on our guidance for fiscal 2022. As Jerry noted, our outlook for 2022 takes into consideration 2 key factors:

- First, we expect a material increase in software revenue during the year in both absolute and revenue terms. And this will have a favorable impact on our expected margins.
- Second, we do continue to expect to see shipment delays due to supply chain issues and component shortages. And our revenue guidance takes this into account with the upper end of the range reflecting some mitigation and recovery from supply chain issues, while the lower and midpoints of the range reflect continued shipment delays. Also because of the uncertain supply chain situation, you'll see that our guidance range is wider than usual.
- And then finally, given the timing of certain contracts and shipment schedules, we do expect revenue in the first quarter to be lighter than usual.

Okay. With that said, let me outline our expectations for 3 key performance metrics in fiscal year 2022.

- First, revenue of \$380 million to \$430 million.
- Second, software as a percent of total revenue in a range of 25% to 30%, this is an increase over what we've estimated on an unaudited basis to be around 19% of total revenue in 2021. And as a reminder, we're targeting a minimum of 50% of total revenue to be from software by 2025.
- And third, adjusted EBITDA of \$58 million to \$78 million. And regarding other financial metrics for 2022, we expect GAAP operating income of \$28 million to \$48 million and GAAP EPS of \$0.10 to \$0.28.

Now there's one other thing that I want to note on our 2022 outlook. Our EPS guidance does not take into consideration a provision in the 2017 Tax Cuts and Jobs Act that will require us to capitalize and amortize R&D expenses over 5 years for research activities. If this provision is maintained, and there are many who believe it won't be, then it would materially increase our U.S. income tax liability for the year and reduce our forecasted EPS range.

Okay. With that said, I would like to leave you with the following. This will be my last earnings call as CFO of Casa. And I want to thank Jerry and the entire team for what have been an amazing 4.5 years at the company. Sincerely, I could not be prouder of what we've accomplished. And I'm confident that the road ahead for Casa will be filled with great success.

So with that, let me turn the call back over to the operator for Q&A. Operator?

Operator

And our first question comes -- so far, there are no questions at the moment.

And we have reached the end of the question-and-answer session due to no questions.

And I'll turn the call back over to Jerry Guo for closing remarks.



Jerry Guo, Chief Executive Officer of Casa Systems

Thank you, everyone, for joining us today. We look forward to updating you on our progress in 2022. Thank you.

Operator

Thank you. This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.

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