

1 **Ceragon Networks Q3 FY 2024 Earnings Call Script**

2

3 November 13, 2024

4

5 **Operator**

6 Welcome to Ceragon Networks Third Quarter 2024 Earnings Conference  
7 Call. At this time, all participants are in a listen-only mode. Following  
8 management's prepared remarks, we will host a question-and-answer  
9 session.

10

11 If you wish to participate and ask a question on today's call you will need  
12 to click on the "raise your hand" icon within the zoom application on your  
13 desktop or mobile device.

14

15 As a reminder, this call is being recorded. It is now my pleasure to  
16 introduce your host, Rob Fink of FNK IR.

17

18 **Rob Fink**

19 Thank you, operator, and good morning, everyone. Hosting today's call  
20 is Doron Arazi, Ceragon's Chief Executive Officer and Ronen Stein, Chief  
21 Financial Officer.

22

23 Before we start, I would like to note that certain statements made on  
24 this call, including projected financial information and other results and  
25 the company's future initiatives, future events, business outlook,  
26 development efforts and their potential outcome, anticipated progress  
27 and plans, results and timelines and other financial and accounting-  
28 related matters, constitute "forward-looking statements" within the  
29 meaning of the Securities Act of 1933, as amended and the Securities  
30 Exchange Act of 1934, as amended, and the safe-harbor provisions of the  
31 Private Securities Litigation Reform Act of 1995.

32  
33 Ceragon intends forward-looking terminology, such as "may", "plans",  
34 "anticipates", "believes", "estimates", "targets", "expects", "intends",  
35 "potential" or the negative of such terms, or other comparable  
36 terminology, although not all forward-looking statements contain these  
37 identifying words.

38  
39 Such statements reflect current expectations, and assumptions of  
40 Ceragon's management-- actual results may differ materially, as they are  
41 subject to certain risks and uncertainties, which could cause actual  
42 results to differ materially from those projected in our forward-looking  
43 statements. These risks and uncertainties include, but are not limited to:  
44 The effects of the evolving nature of the war situation in Israel and the

45 related evolving regional conflicts; the effects of global economic trends,  
46 including recession, rising inflation, rising interest rates, commodity price  
47 increases and fluctuations, commodity shortages and exposure to  
48 economic slowdown; risks associated with delays in the transition to 5G  
49 technologies and in the 5G rollout; risks relating to the concentration of  
50 our business on a limited number of large mobile operators and the fact  
51 that the significant weight of their ordering, compared to the overall  
52 ordering by other customers, coupled with inconsistent ordering  
53 patterns, could negatively affect us; risks resulting from the volatility in  
54 our revenues, margins and working capital needs; disagreements with  
55 tax authorities regarding tax positions that we have taken could result in  
56 increased tax liabilities; the high volatility in the supply needs of our  
57 customers, which from time to time lead to delivery issues and may lead  
58 to us being unable to timely fulfil our customer commitments; and such  
59 other risks, uncertainties and other factors that could affect our results  
60 of operation, as further detailed in Ceragon's most recent Annual Report  
61 on Form 20-F, as published on March 21, 2024, as well as other  
62 documents that may be subsequently filed by Ceragon from time to time  
63 with the Securities and Exchange Commission.

64

65 Forward-looking statements relate to the date initially made, and they  
66 are not predictions of future events or results, and there can be no

67 assurance that they will prove to be accurate, and Ceragon undertakes  
68 no obligation to update them.

69

70 Ceragon's public filings are available on the Securities and Exchange  
71 Commission's website at [www.sec.gov](http://www.sec.gov), and may also be obtained from  
72 Ceragon's website at [www.ceragon.com](http://www.ceragon.com).

73

74 Also, today's call will include certain non-GAAP numbers. For a  
75 reconciliation between GAAP and non-GAAP results, please see the table  
76 attached to the press release that was issued earlier today which is  
77 posted on the Investor Relations section of Ceragon's website.

78

79 With that I will now turn the call over to Doron – Doron the call is yours

80

81 **Doron Arazi**

82

83 Thank you, Rob, and good morning, everyone.

84

85 Ceragon delivered another strong quarter in the third quarter of 2024,  
86 benefitting from continued execution and from robust demand –  
87 especially in India. We achieved our targets for growth and profitability  
88 and narrowed our full-year outlook, maintaining the midpoint but  
89 putting a finer point on the range.

90

91 Increasingly, diversification is playing an important role in our success.  
92 The geographical diversification has already proven itself this quarter,  
93 while we also make progress in diversifying our business into private  
94 network business.

95

96 For example, in this quarter we added four new Private Networks  
97 customers to our customer base. And since the beginning of the year we  
98 have penetrated 16 new Private Networks customers, representing  
99 approximately \$11.5 million in incremental bookings from customers in  
100 the private networks sector.

101

102

103 We are also making good progress in our product roadmap. For example:

- 104 • We have generated meaningful orders from our new IP50EX, and  
105 increased interest in our Upcoming IP-50EX Premium that is about  
106 to be released shortly. This product is intended to use mmW  
107 frequency over a much longer distance, exploiting the high-  
108 capacity advantage of these frequencies and reducing total cost of  
109 ownership.
- 110 • We have started a soft promotion of our first Neptune-based  
111 product, the IP-100E, and have already seen very positive feedback.  
112 The first version of this product is intended to deliver 25Gps  
113 capacity in a single box with a compelling total cost of ownership  
114 profile. We intend to present the first units of this product at the  
115 Mobile World Congress.
- 116 • We have recently started multiple new POCs for our Network  
117 Digital Twin and the initial feedback is very positive.

118

119 I'd now like to provide an overview of our Q3 highlights by region. Noting  
120 that on today's call we will focus primarily on activities in North America  
121 and India, the two regions that have, and we expect will continue to  
122 have, the greatest impact on our results in the near term.

123

124 **In North America**, revenue was \$24.5 million. In the private networks  
125 segment we have built a very strong pipeline and are working to leverage  
126 our completed projects, to build our brand in this domain. In fact, our  
127 success with the City of Cincinnati continues to be a case study  
128 deployment for us and the level of satisfaction is also driving proactive  
129 references from existing customers to new potential customers, adding  
130 to our funnel of opportunities. We are also leveraging Siklu's strong  
131 brand in the Enterprise Security domain for attaining more business.  
132 Our bookings for private networks declined in the quarter compared to  
133 the prior quarter. We believe this was a timing factor, associated with  
134 seasonality and longer sell cycles and not a demand factor, as supported  
135 by the healthy funnel we have built. We anticipate private networks  
136 playing an increased role in our growth going forward.

137

138 In communications service providers segment, Q3 has demonstrated  
139 some slowdown in the ordering pace primarily from Tier1 customers,  
140 similar to the dynamic some of our peers have mentioned. Following  
141 multiple discussions with our main customer, we believe this was a short-  
142 term phenomenon, relating mostly to timing of network build over the  
143 year. We are off to a much stronger start in the fourth quarter related to  
144 bookings, as we have received a substantial value of orders which  
145 supports our current assessment.

146

147 In **India**, revenue was \$50.5 million, an all-time record quarter for  
148 Ceragon. We have been shipping and deploying equipment related to  
149 both, our long standing customer as well as the new customer we won  
150 in Q4 2023. These deployments are supporting both customers in their  
151 expansion of 4G and 5G networks.

152

153 In addition, due to our technological strength and market leader  
154 position, we are further growing our business in India and diversifying to  
155 another customer that recently announced a multi-billion dollar project  
156 for upgrading its network to 4G and 5G. Since Q3, we have received more  
157 than \$18 million dollars in orders from this customer for microwave  
158 products, further increasing substantially our market share. We expect  
159 more orders from this customer in the coming quarters for our  
160 Microwave as well as our E-Band solution.

161

162 Since participating in the India Mobile Congress, we are encouraged by  
163 the increasing level of traction we are receiving in India and see large  
164 opportunities for 2025. We believe that we will see much higher demand  
165 for E-Band products in 2025 and our IP-50EX Advanced provides  
166 capabilities that fit the specific needs of the Indian market, so we are  
167 very well positioned to capitalize on incremental growth opportunities.



168

169 Since there are multiple discussions about the general business  
170 environment, I would like to share with you our observations. Indeed,  
171 we have seen a slowdown in certain public network domains outside of  
172 India. We believe this is primarily driven by the global economy and the  
173 level of demand for 5G by network users. In addition, in Latin America,  
174 Africa and some countries in Asia PAC, Chinese competition is very fierce  
175 in these regions, driving business softness there. In these regions, we are  
176 increasing our focus on the private networks segment where there is  
177 lower Chinese presence.

178

179 We also see an interesting opportunity in the current market conditions  
180 as multiple service providers are now focusing on Fixed subscriber  
181 growth, and using wireless technology with 5G high frequencies. We are  
182 in multiple discussions with large operators exploring opportunities to  
183 leverage Siklu's PtMP technology to address this increasing need in other  
184 frequencies.

185

186 With that, I'll turn the call over to Ronen Stein, our CFO, to discuss the  
187 results in more detail. Ronen, over to you.

188

189 **Ronen Stein**

190

191 Thank you Doron, and good morning, everyone.

192

193 Doron spoke to our revenue diversification, an important strategic point,  
194 and he also mentioned our ability to extract operating leverage from our  
195 business model. I'd like to highlight the operating leverage, as we drove  
196 increased operating income even with modest gross margin  
197 compression.

198

199 To help you understand the results, I will be referring primarily to non-  
200 GAAP financials. For more information regarding our use of non-GAAP  
201 financial measures, including reconciliations of these measures, we refer  
202 you to today's press release.

203

204 Let me now review the actual results:

205

206 **Revenues** were \$102.7 million, up 17.7% from \$87.3 million in Q3 2023.  
207 Our strongest regions in terms of revenues for the quarter were **India**  
208 and **North America** with \$50.5 and \$24.5 million, respectively. Our third  
209 strongest region in terms of revenues was **EMEA** with \$14.9 million.

210

211 We had three customers in the third quarter that contributed more than  
212 10% of our revenues.

213

214 **Gross profit** for the third quarter on a non-GAAP basis was \$35.2 million,  
215 an increase of 15.9% compared to \$30.4 million in Q3 2023. Our non-  
216 GAAP gross margin was 34.3% compared with gross margin of 34.9% in  
217 Q3 2023. We continued to achieve high gross margins despite the change  
218 in regional revenue mix. We achieved this by increasing revenues and  
219 recognizing continued improvement in product costs. We also maintain  
220 control over our fixed costs, all of which had a positive effect. Our gross  
221 margins may continue to fluctuate from quarter to quarter, due to  
222 changes in product and regional mix.

223

224 As for our **operating expenses**:

225

226 In general, operating expenses in 2024 fully include the impact of the  
227 Siklu acquisition at the end of 2023 and thus impact the comparison to  
228 2023 operating expenses.

229

230 **Research & Development** expenses for the third quarter on a non-GAAP  
231 basis were \$8.6 million, up from \$7.3 million in Q3 2023. As a percentage

232 of revenue, our R&D expenses were 8.4% in the third quarter compared  
233 to 8.3% in the third quarter last year.

234

235 **Sales & Marketing expenses** for the third quarter on a non-GAAP basis  
236 were \$10.4 million, up from \$9.7 million in Q3 2023. As a percentage of  
237 revenue, sales and marketing expenses were 10.1% in the third quarter  
238 compared to 11.1% in the third quarter last year.

239

240 **General and Administrative expenses** for the third quarter on a non-  
241 GAAP basis were \$0.4 million, compared to \$5.5 million in Q3 2023. As a  
242 percentage of revenues, G&A expenses were less than 1% in the third  
243 quarter compared to 6.2% in the third quarter last year. The main reason  
244 for the reduction in G&A is the impact of approximately \$5.1 million  
245 benefit related to payments on account of a debt settlement agreement  
246 reached with a South American customer, for which we accounted a  
247 credit-loss at the end of 2022. This payment reduced our G&A expenses  
248 in the quarter.

249

250 I'd note that Siklu has been successfully integrated in the first half of  
251 2024 and therefore we have not recorded any integration costs related  
252 to Siklu in our GAAP operating expenses.

253

254 **Operating income** for the third quarter on a non-GAAP basis was \$15.8  
255 million compared with \$8.0 million for Q3 2023. As a percentage of  
256 revenues, non-GAAP operating income was 15.4% in the third quarter  
257 compared to 9.2% in the third quarter last year.

258

259 Without the approximately \$5.1 million debt collection benefit included  
260 in the G&A, non-GAAP operating income would be \$10.8 million and as  
261 a percentage of revenues 10.5%.

262

263 **Financial and Other Expenses** for the third quarter on a non-GAAP basis  
264 were \$1.2 million, positively impacted from favorable foreign exchange  
265 changes and to a lesser extent reduction in interest expenses, as we  
266 continue to strengthen our balance sheet.

267

268 **Our tax expenses** for the third quarter on a non-GAAP basis were \$0.6  
269 million.

270

271 **Net income** for the third quarter on a non-GAAP basis was \$14.1 million,  
272 or \$0.16 per diluted share, compared to \$5.0 million, or \$0.06 per diluted  
273 share for Q3 2023.

274

275 Without the approximately \$5.1 million benefit related to the debt  
276 collection included in the G&A, non-GAAP net income would be \$9.0  
277 million or \$0.10 per diluted share.

278

279 As for our **balance sheet**:

280

281 Our **cash position** at the end of the third quarter was \$34.0 million,  
282 compared to \$28.2 million at the end of 2023. Short-term loans were  
283 \$25.2 million compared to \$32.6 million as of December 31, 2023.  
284 Therefore, we shifted to net positive cash of \$8.8 million compared to a  
285 negative net cash position of \$4.4 million at December 31, 2023. We  
286 generated significant cash in the quarter, and continue to reduce our  
287 debt as a result. We believe we have cash and facilities that are sufficient  
288 for our operations and working capital needs.

289

290 Our **inventory** at the end of Q3 2024 was \$59.8 million, down from \$68.8  
291 million at the end of December 2023. The reduction is mainly related to  
292 our continued efforts since 2023 to streamline inventory levels following  
293 the improvement in components availability, and substantial shipments  
294 to India. We continue to monitor inventory levels, taking into  
295 consideration the improvements in the availability of components and  
296 expected changes in demand.

297

298 Our **trade receivables** at the end of Q3 2024 are at \$121.6 million, as  
299 compared to \$104.3 million at the end of December 2023.

300

301 Our DSO now stands at 118 days.

302

303 As for our **cashflow**:

304

305 Net cash flow generated **by operations and investing activities** in the  
306 third quarter of 2024 was \$10.7 million.

307

308 We are reiterating the midpoint of our full-year outlook. For 2024, we  
309 expect revenue of \$390 million to \$400 million, representing growth of  
310 12% to 15% compared to 2023. This guidance includes the contribution  
311 from Siklu. You will note that we have narrowed the expected range,  
312 increasing the bottom-end of the range by \$5 million and decreasing the  
313 top-end by a similar amount, leaving the midpoint unchanged. This  
314 reflects our visibility with just two months left in the year. Non-GAAP  
315 operating margins are targeted to be at least 10% at the mid-point of the  
316 revenue guidance. As a result, we expect increased non-GAAP profit,

317 representing another record year, and positive free cash flow for the full  
318 year of 2024.

319

320 With that, I now open the call for your questions. Operator?

321

### 322 **Doron's Closing Remarks**

323

324 Ceragon continues to focus on its growth initiatives, primarily mmW  
325 products, Private Networks and Managed Services and improves its  
326 strategic position in the market. We are adding new customers each  
327 quarter and growing our addressable market. Short-term fluctuations in  
328 buying patterns in the US, likely related to election concerns, have not  
329 diminished our current outlook, and we are making up for these  
330 fluctuations and the headwinds in other regions by our strong business  
331 in India. With our healthy funnel of opportunities, we expect that the  
332 ramp up in our Private Networks business, especially in the regions  
333 suffering from head winds, will help resume growth in the longer run.

334

335 Our new products and solutions as well as Neptune based future product  
336 are gaining meaningful traction and positive feedback respectively.  
337 These market signals, together with our longer-term product roadmap



338 are building our confidence in long-term growth as they are expected to  
339 result in increasing market share in our space.

340

341 I look forward to updating you further on our next quarterly call.

342

343 Have a good day everyone.