



Reimagine Your **EDGE**

Investor Presentation

OTC: DZSI

November 6, 2024



Forward Looking Statements

During the course of this presentation, we will provide projections and other forward-looking statements regarding future events or the future financial performance of DZS Inc., including expectations concerning our business strategy. Such statements are only current expectations and actual events or results may differ materially. We refer you to the DZS filings with the SEC, particularly our most recent Reports on Form 10-K, Form 10-Q, and Form 8-K. These documents identify important risk factors that could cause actual results to differ materially from our projections other forward-looking statements. We will also present financial metrics on a 'non-GAAP' basis. These items, together with the corresponding GAAP numbers and a reconciliation to GAAP, are contained in this presentation and the related earnings press releases on our website at www.dzsi.com.

Note to Recipients

This presentation shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration, qualification, or exemption under the securities laws of any such jurisdiction. This presentation may contain market data and industry statistics and forecasts that are based on independent industry publications and other publicly available information. Although we believe these sources are reliable, we do not guarantee the accuracy or completeness of this information and we have not independently verified this information. In addition, the market and industry data and forecasts that may be included in this presentation may involve estimates, assumptions and other risks and uncertainties and are subject to change based on various factors. Accordingly, investors should not place undue reliance on this information.





Gigabit+
Broadband
Everywhere





DZS at-a-Glance



Founded: **1999**



Headquarters: **Dallas, Texas**



Markets: **Americas | EMEA | ANZ**



Publicly Traded Since: **2003**



Focus: **Networking, Connectivity & Cloud Edge Software Solutions**



Enabling **High-Speed, Intelligent and Secure Broadband Solutions**



Management Team



Charlie Vogt
CEO and President



Adtran

NOKIA



Brian Chesnut
Chief Financial Officer



Philip Bednarz
Chief Product Officer



8x8



Scott St. John
Chief Customer Officer



Raghu Marthi
Chief Operations Officer



MediaKind



Laura Larsen-Misunas
Chief People Officer

NOKIA

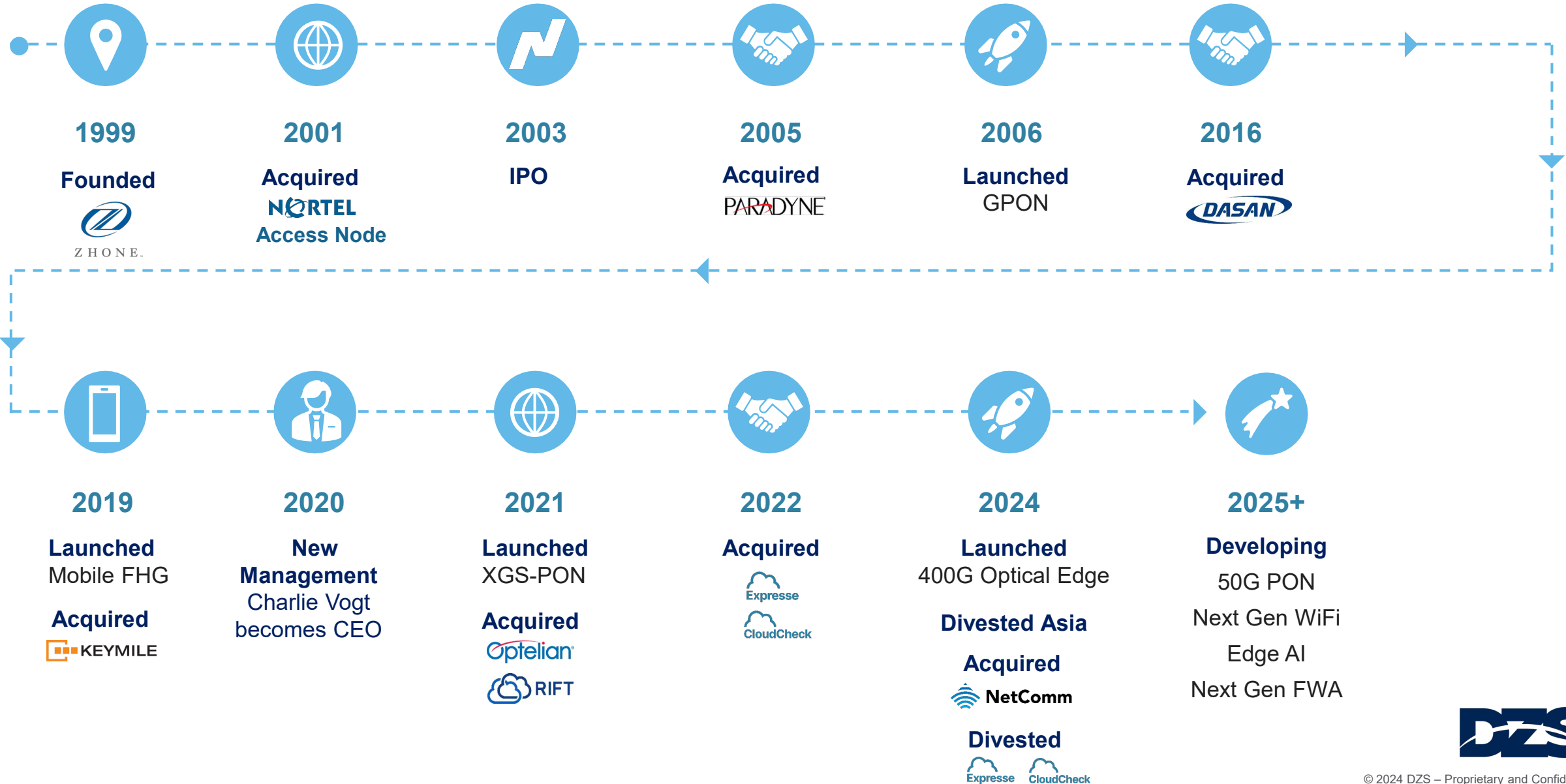


Justin Ferguson
Chief Legal Officer

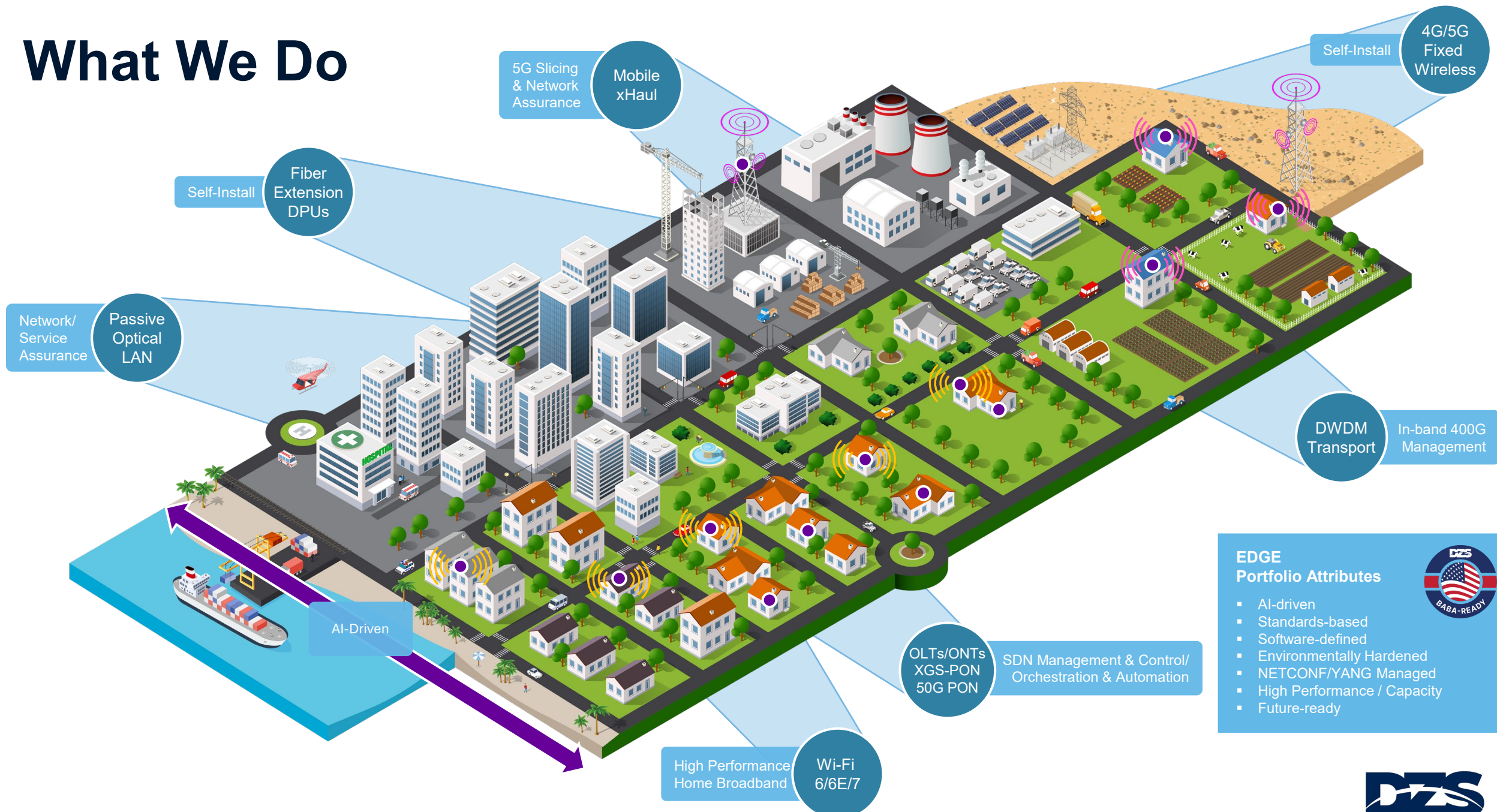


zix®

History of Innovation and Transformation



What We Do

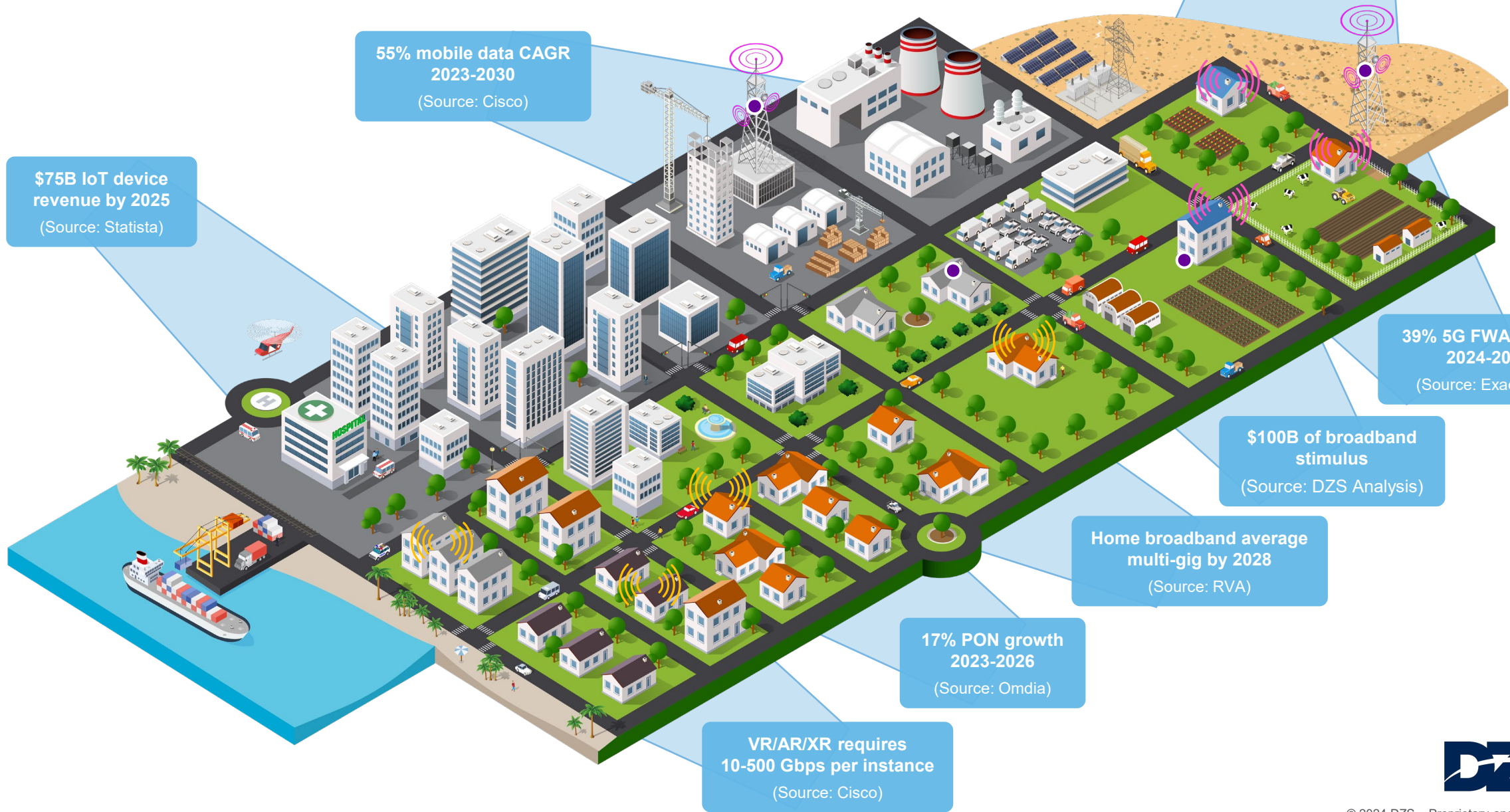


EDGE Portfolio Attributes

- AI-driven
- Standards-based
- Software-defined
- Environmentally Hardened
- NETCONF/YANG Managed
- High Performance / Capacity
- Future-ready



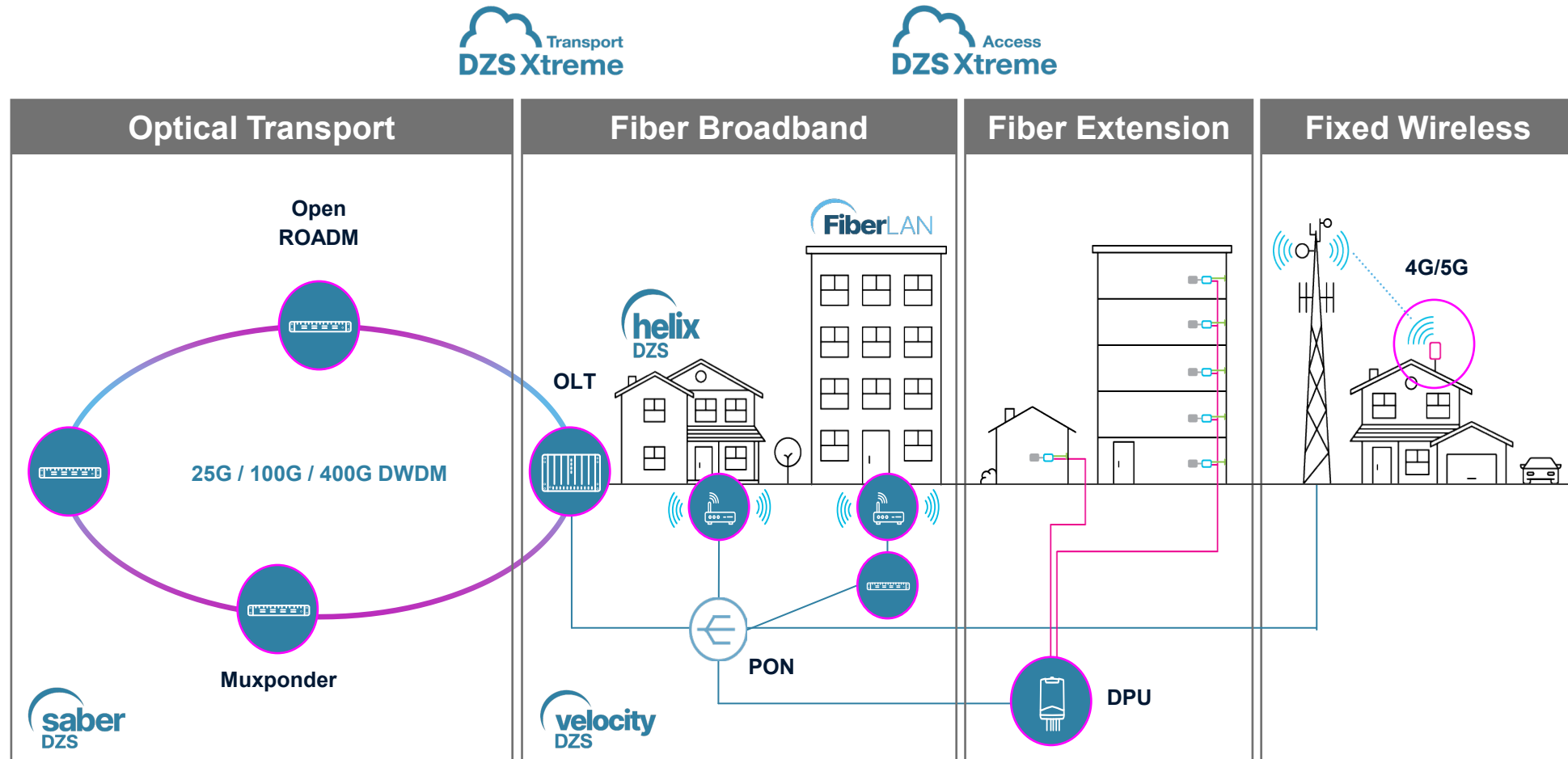

Broadband Everywhere Enablers



Reimagine the Network Edge and Connectivity



Software Defined Network and Cloud Management



Delivering Disruptive Innovation

Network Edge Optical | OLT | ONT



saber
DZS

Optical Transport



velocity
DZS

Fiber Access



helix
DZS

Fiber Termination

Connectivity Wi-Fi | FWA | DPU



helix
DZS

Home Broadband



aurus
DZS

Fixed Wireless



Fiber Extension

Software

Next Gen OS | Orchestration | Automation

sdNOS

Software-Define Operating System

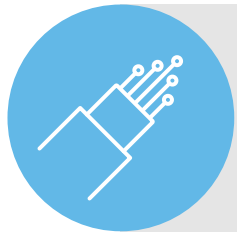


Standards-Based

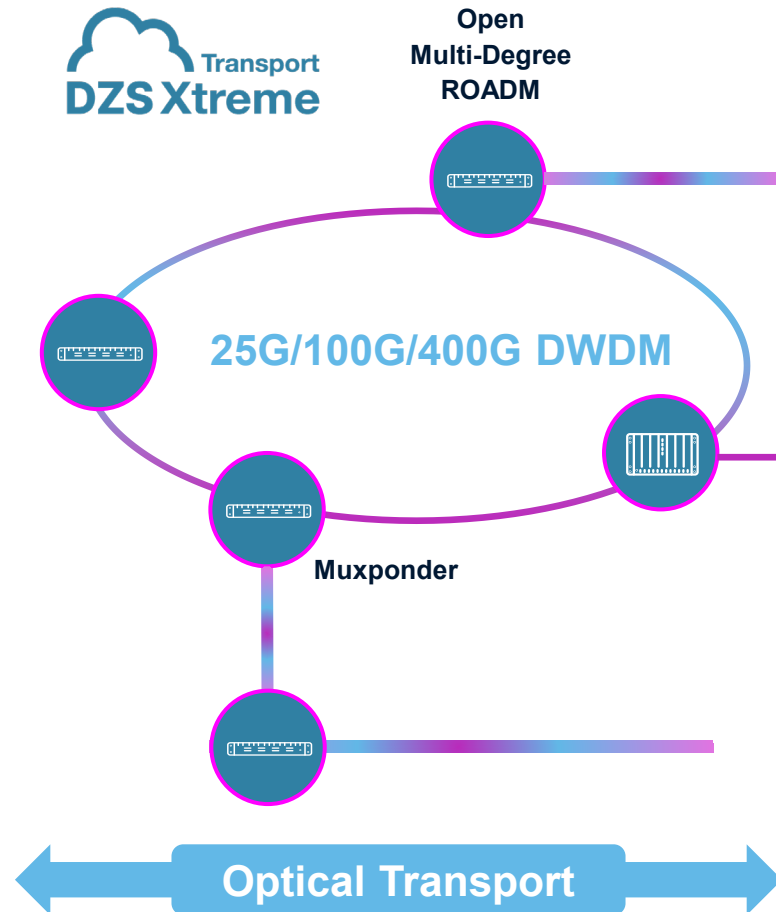
DZS Xtreme

Orchestration & Automation





Networking (Edge Optical)



Use Cases: Edge optical transport for access & mobile xHaul

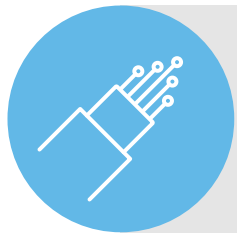
- Compact | Modular | Low Power | Low Latency
- Open & Time Sensitive Networking integrated
- Automated operation and provisioning
- Network Edge single pane of glass

Success Story



- Southern US Mobile/Fiber Internet Provider
- 100-400 Gbps DWDM & ROADM transport – Connects remote fiber locations
- Leverages DZS Saber

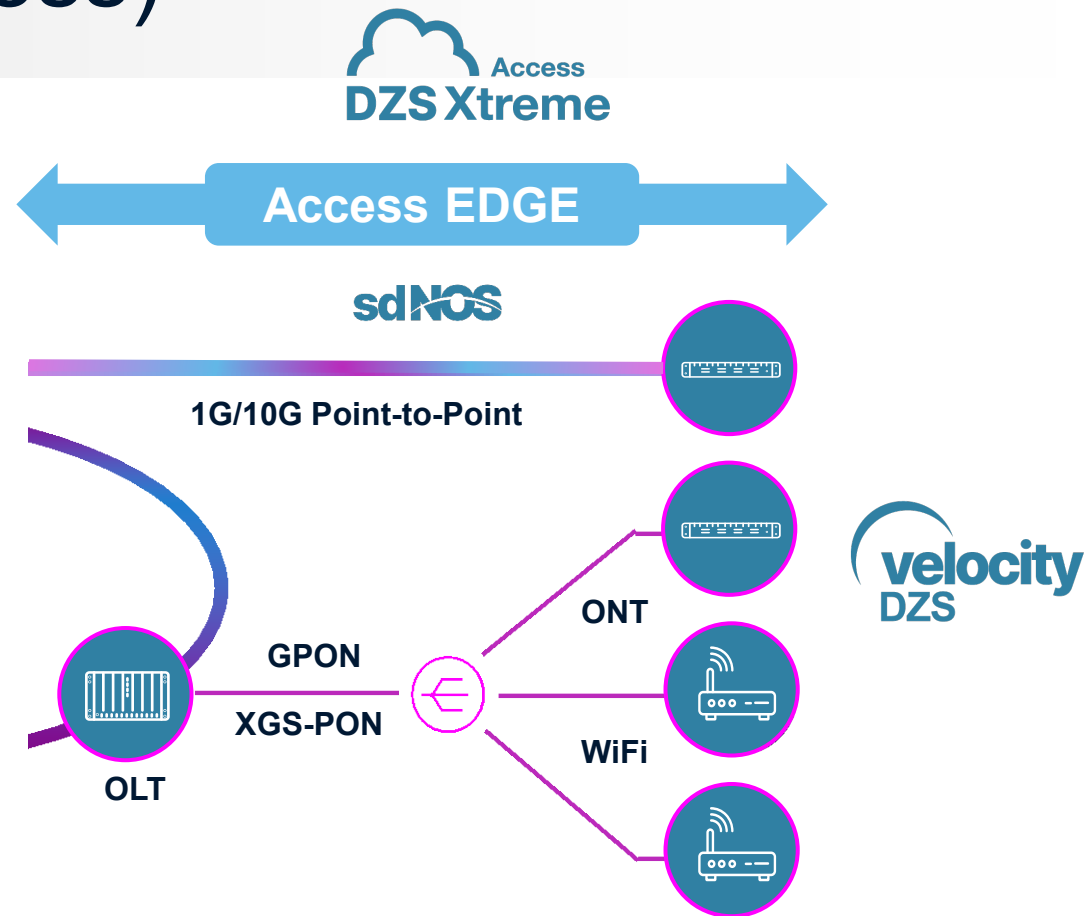




Networking (Edge Access)

Use Cases: Software-defined, multi-gigabit access edge fiber

- Chassis architecture
- 50G PON seamless upgrade
- Future-ready backplane
- Integrated AI at the edge
- 100% BBF compliance
- Open SDN controller interop
- Virtualization / Security
- BEAD BABA-compliant (USA)



Success Story



- Nationwide Canadian CSP – Toronto, Montreal, Vancouver, Ottawa
- 8 Gbps fiber service – fastest broadband in Canada
- Leverages DZS Velocity

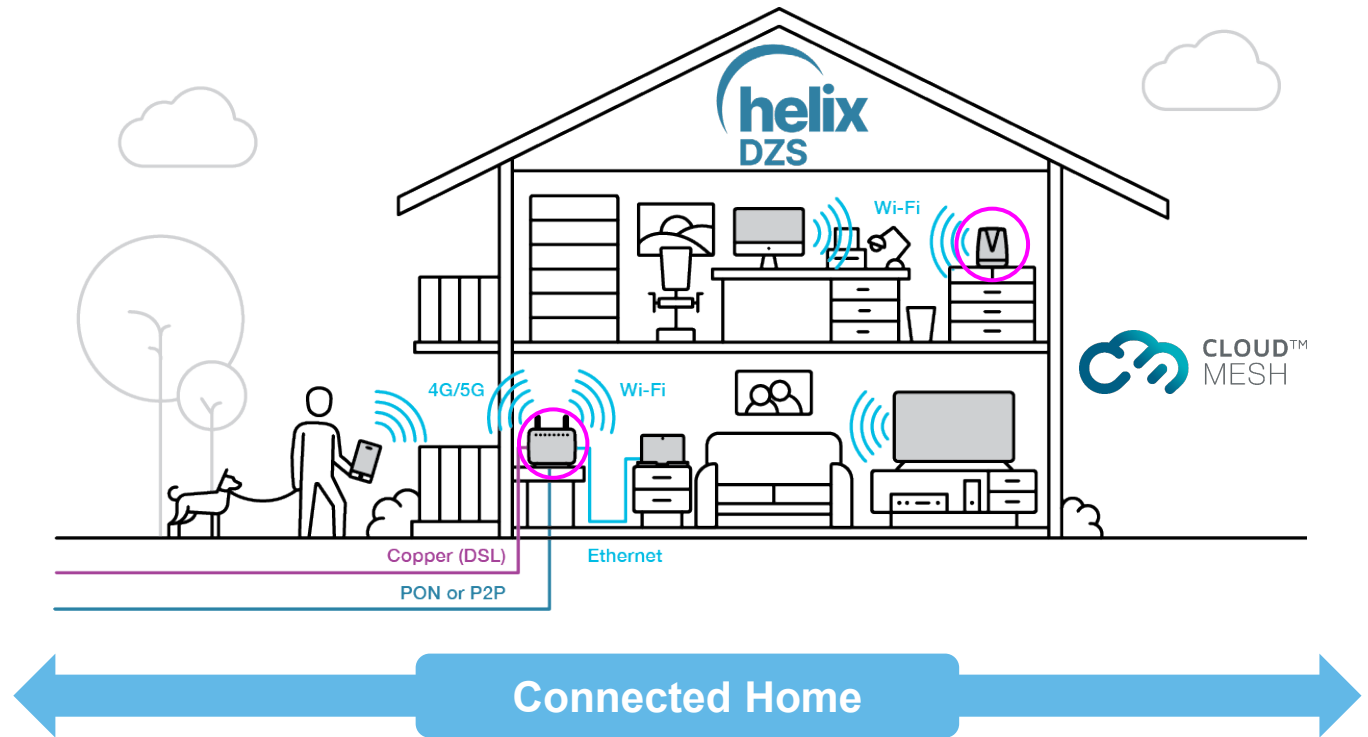




Connectivity (Residential)

Fiber termination and WiFi distribution

- WiFi experience management enabled
- Device and application aware
- Customer support ready
- Open and standards-based
- WiFi 6/6E/7
- Integrated with CloudCheck
- Gateway ONTs BEAD BABA-ready (USA)



Success Story



- Tier 1 Carrier – Australia
- WiFi 6/6E + Mesh whole home coverage for world-class subscriber experience
- Leverages DZS Helix & 3rd party WiFi management software

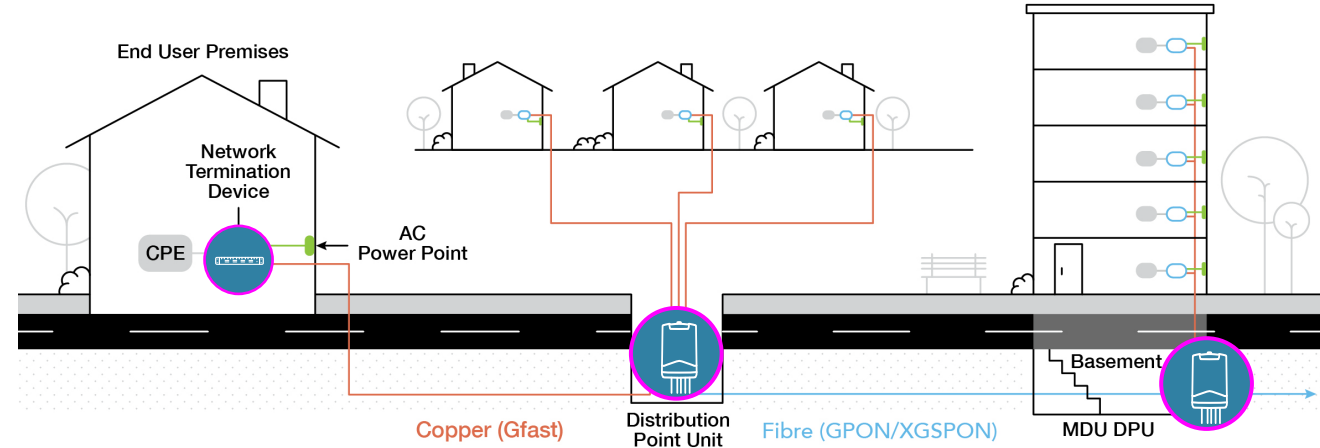
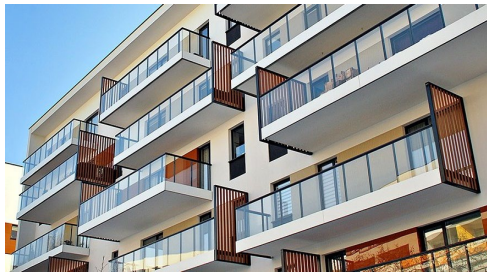




Connectivity (Fiber Extension)

Maximize return on your fiber investment

- **Deliver** gigabit over existing infrastructure
- **Prevent/Recover** disqualified premises
- **Convert** homes-passed to homes-connected



Use Case: Any PON, anywhere

- Multi-vendor OLT interoperability
- XGS-PON or GPON fed
- IP68 outdoor rated
- Reverse-powered freedom to install anywhere
- Leverage your existing PON EMS

Success Story



- Large US Incumbent Telco – 30 States
- Delivers Fiber-like speeds over Gfast to hundreds of MDUs across national footprint
- Leverages DZS NetComm DPUs



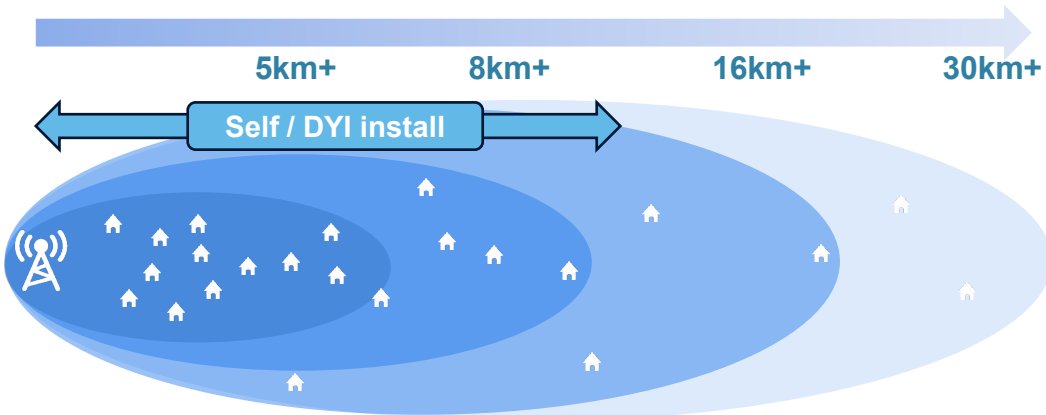


Connectivity (Fixed Wireless Access)

Broadband everywhere with easy 4G/5G/WiFi connectivity

4G/5G cellular Fixed Wireless Access CPE

- Solutions from urban to rural
- Self-install and technician-install options
- Supports all cellular frequencies inc. mmWave



Use Case: Ready for rapid deployment, anywhere

- Designed for harsh environments
- Extra-wide temperature range
- Supports 4G/5G CBRS deployments
- Focus on ease-of-deployment

Success Story



- Top 5 US Wireless Carrier
- Delivers Self-Install 5G broadband to thousands of homes across national footprint
- Leverages DZS Aurus Fixed Wireless Access





Cloud Software Everywhere

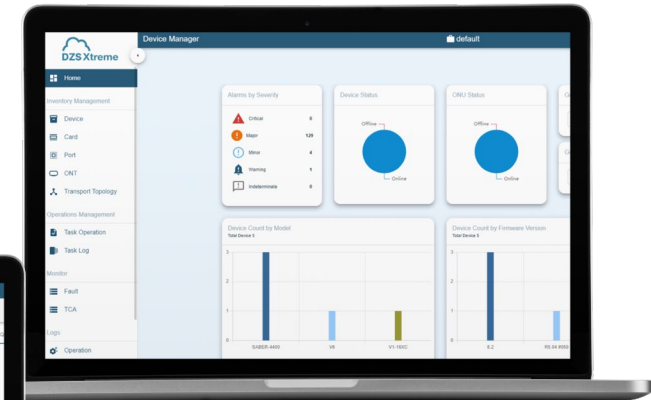
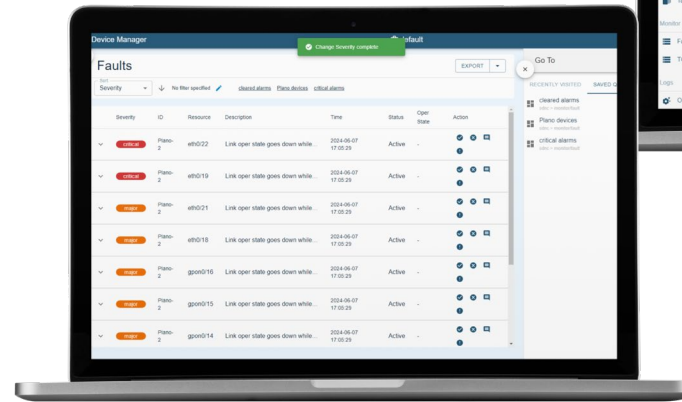
Core Network



Subscriber Devices

Use Case: Network Automation and Control

- Software Defined Network abstraction
- SDN management and control
- Service lifecycle management
- EMS /NMS
- SDN device control
- Open – Standard – Multi-vendor
- Accelerate new service onboarding from months to days



Success Story



- Major Canadian Telecommunications Company
- Uses Automation / NFVO Tools to accelerate new services turn-up from months to days
- Leverages DZS Xtreme



DZS is Now Certified as BABA-ready for BEAD



RELEASE

October 2024



DZS Achieves U.S. BEAD Program “Build America Buy America” Manufacturing Readiness Certification

DZS among five NTIA certified compliant U.S. telecom electronics equipment manufacturers, offers wide range of environmentally hardened solutions, including project-ready OLTs as well as America-made middle mile transport platforms

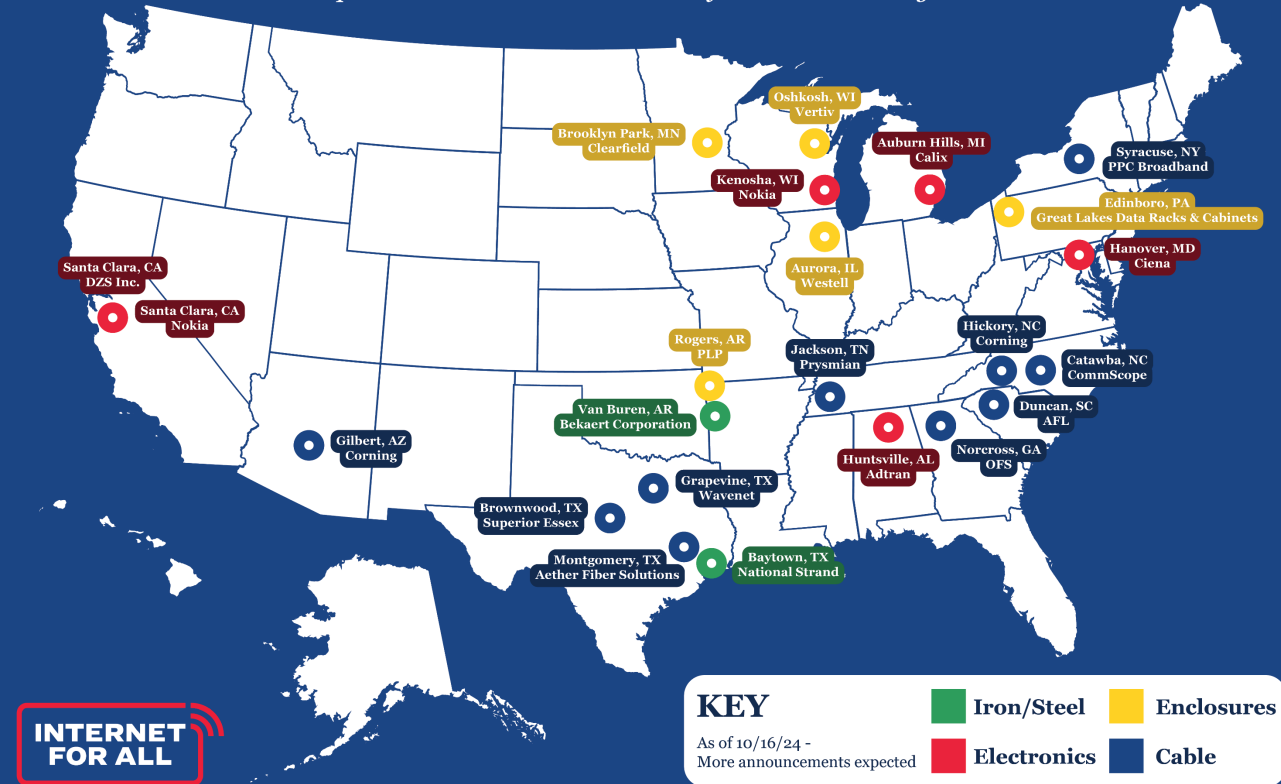
- DZS and Fabrinet are manufacturing BEAD-ready fiber optic equipment in the U.S. today
- DZS has an extensive portfolio of fiber access, optical transport and cloud-software solutions that provide end-to-end support for BEAD deployments
- DZS has decades-long U.S. manufacturing history and has significantly increased investments since BEAD was announced

DALLAS, Texas, USA, October 21, 2024 – DZS (Nasdaq: DZSI), a global leader of access, optical and AI-driven cloud software solutions, today announced that DZS and Fabrinet are currently the only access equipment manufacturers producing cutting-edge U.S. manufactured electronic components required by the “Buy America” provision of the \$42.45 billion Broadband Equity, Access, and Deployment (BEAD) Program. The National Telecommunications and Information Association (NTIA) recently issued its final limited waiver of Build America Buy America (BABA) requirements of the BEAD Program. The waiver includes certain manufactured products such as Optical Line Terminals (OLTs), OLT line cards, Optics pluggables and standalone Optical Network Terminals (ONTs).



MAKING INTERNET FOR ALL IN AMERICA

Manufacturers that have certified that certain company equipment meets the domestic manufacturing requirements in the BABA waiver for the BEAD Program*



INTERNET FOR ALL

KEY

As of 10/16/24 - More announcements expected

■ Iron/Steel	■ Enclosures
■ Electronics	■ Cable

*NTIA does not endorse any company or product listed on this map. The Self Certification List is voluntary and provided as a courtesy.
 *BABA waiver for the BEAD Program: <https://www.commerce.gov/sites/default/files/2024-02/BABA%20Waiver%20Signed.pdf>
 *BABA Self Certification List for the BEAD Program: https://www.commerce.gov/sites/default/files/2024-07/Disclaimer_Final.pdf



The DZS Difference



Innovation

Network Edge, Connectivity & Cloud Software Differentiation

- **Networking:** Edge architected Access / Transport platforms
- **Connectivity:** Solutions that bring broadband to everyone, everywhere
- **Cloud Software:** AI-driven automation & orchestration agility
- Open, standards-based, software-defined architecture
- Future-ready platforms
- Environmentally hardened

Customer-First

Customer Prioritization

- **Value:** Commitment to lowest OPEX and TCO
- **Agile:** Use-case focused engineering, fastest time-to-market
- **Responsive:** Flexible engineering / software
- Champion for self-install
- Innovation Advisory Board
- ESG compliant
- BABA-ready solutions

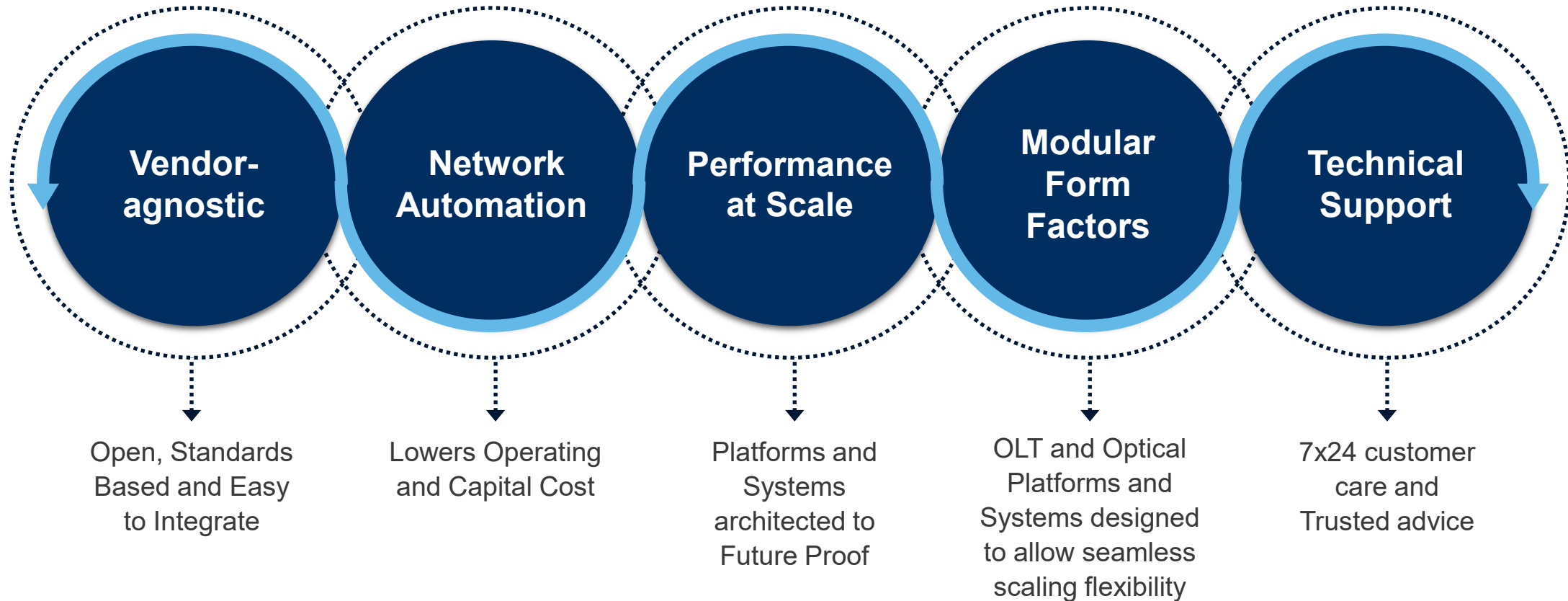
Relationships

Business Alignment & Partnership

- **Geographically focused:** Americas | EMEA | ANZ
- **Flexible:** Recurring software licensing
- **Alignment:** Partner / Customer value-focused solutions
- **Right-sized company:** Executive access & influence
- Relentless pursuit of excellence
- Intimate customer relationships
- World-class support / services



The DZS Advantage



Financial Results



DZS Sells Service Assurance & WiFi Management Software for \$34M



DZS sells Wi-Fi and service assurance business for \$34M

DZS has sold its Wi-Fi management and service assurance business to Axon for \$34 million in cash. Axon is in a better position to establish 'software independence' for those products, DZS CEO Charlie Vogt says.

Jeff Baumgartner, Senior Editor
October 17, 2024

4 Min Read



(SOURCE: VITTAYA SINLAPASART/ALAMY STOCK PHOTO)



DZS has struck a deal to sell its service assurance and Wi-Fi management software portfolio to one of its tech partners, Axon Networks.

The move will enable DZS to apply more focus on other parts of its broadband access, connectivity and edge cloud business and remove some friction that DZS encountered in the market among other companies that make Wi-Fi access points and optical line terminals (OLTs) that integrate Wi-Fi.

DZS said the \$34 million all-cash deal transfers its CloudCheck (Wi-Fi management), Express (data analytics) and TruSpeed (systems that measure and report on regulatory requirements) assets and associated intellectual property to Axon. Operators that use those products include Bouygues Telecom, Deutsche Telekom, Brightspeed, Sky, Liberty Latin America, Lumen, TalkTalk

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Recommended for you



Net Results

- Generated ~\$34M in cash
- Bolsters balance sheet
- Eliminates competitive friction amongst WiFi management software solution providers aligned with DZS connectivity portfolio
- Enhanced Broadband focus: Networking, Connectivity, Cloud Edge Software
- Regional focus: Americas, EMEA and ANZ





\$38M

Revenue up 22.8% QoQ
Sequential increases in revenue last 4 quarters
\$97M YTD

\$14M

Adj. Gross Margin up 30.8% QoQ
+224 bps QoQ


DSOs down 37 days QoQ
Successful ongoing collections efforts
83 Days


Adj. EBITDA declined \$2M QoQ
Operating Expense includes full quarter of NetComm
\$(9.3M)

Q3 Highlights

- ✓ Restatement Completed
- ✓ Financial Statements Current
- ✓ NetComm Integration
- ✓ Revenue Rebound
- ✓ Inventory Reductions



Q3 Financial Report



Q3 24 Revenue

\$38.1 M

+22.8% QoQ

Q3 24 Adj. Gross Profit

36.7%

+224 bps QoQ

Q3 24 Adj. Opex

\$23.3 M

+30% QoQ

Q3 24 Adj. EBITDA

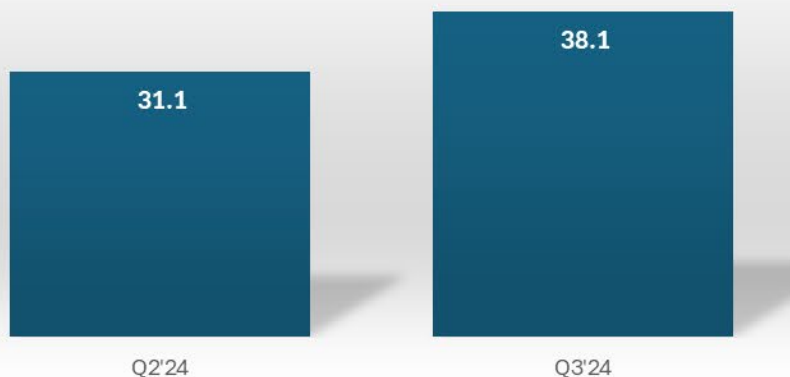
-\$9.3 M

-28% QoQ

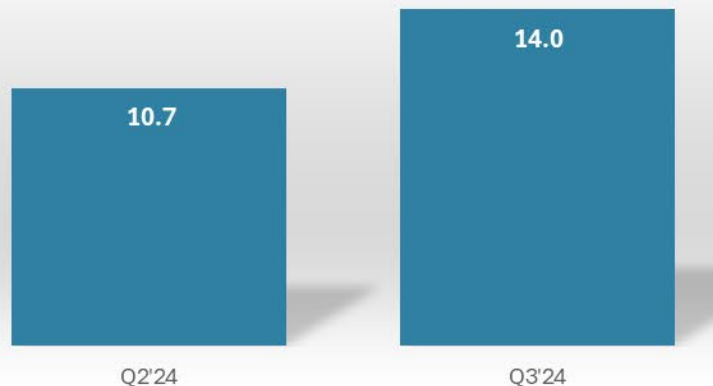
Sep 30 24 RPOs

\$123M

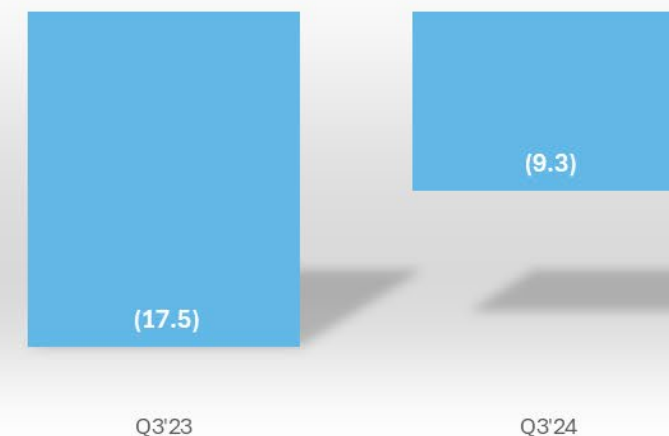
Revenue (millions)



Gross Profit (millions)



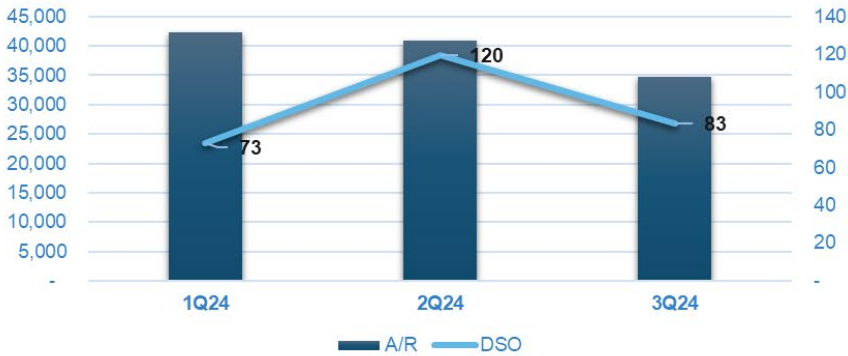
Adjusted EBITDA (millions)



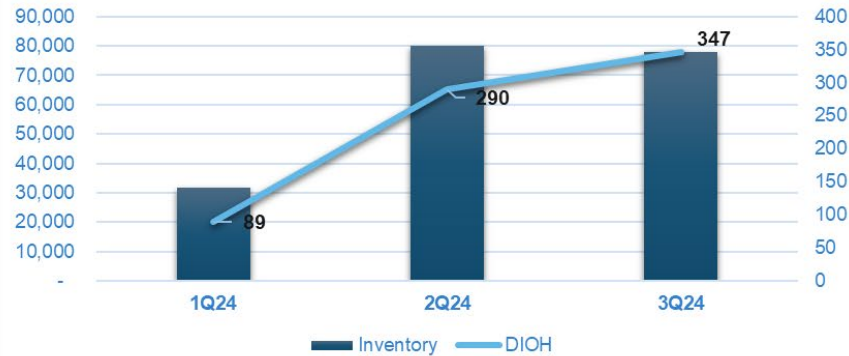
Working Capital



Days Sales Outstanding (DSO)



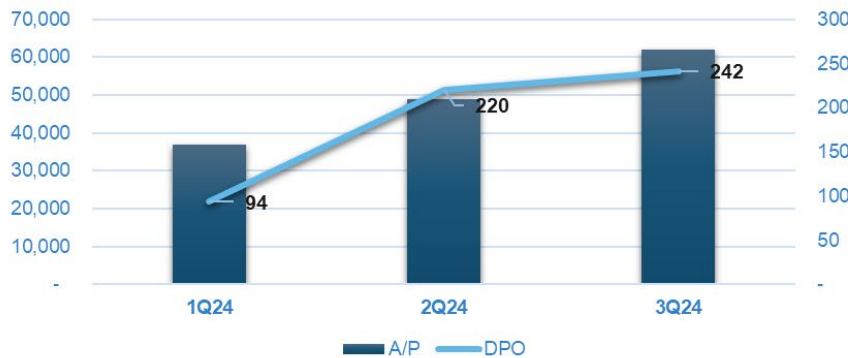
Days Inventory on Hand (DIOH)



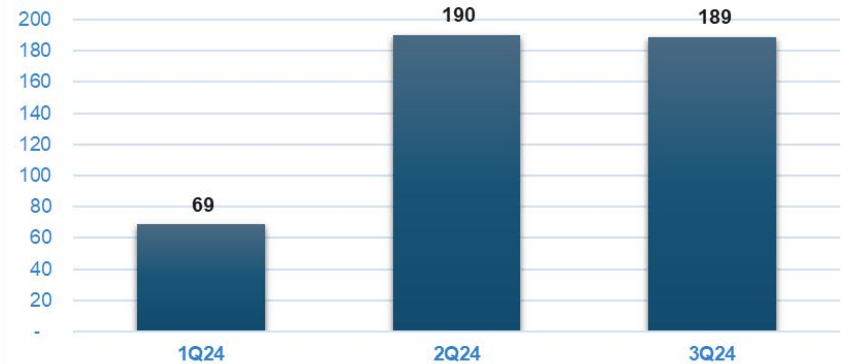
Working Capital Metrics

- Continued improvement in DSO from successful collections efforts
- Accounts Payable increased on final restatement costs and QoQ revenue growth
- Inventory balances declining slightly as aged inventory is consumed

Days Payables Outstanding (DPO)



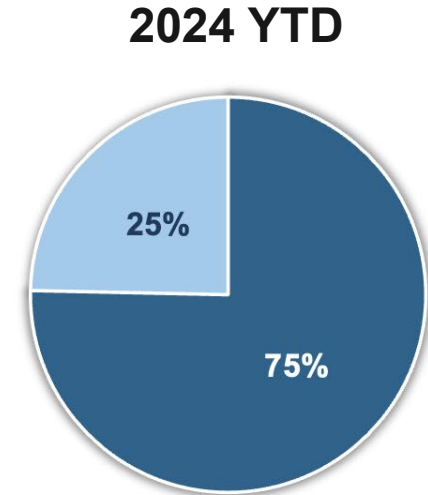
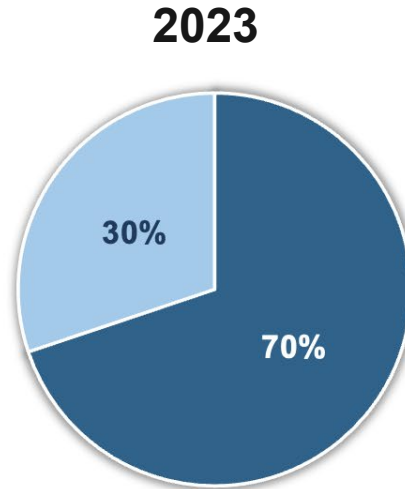
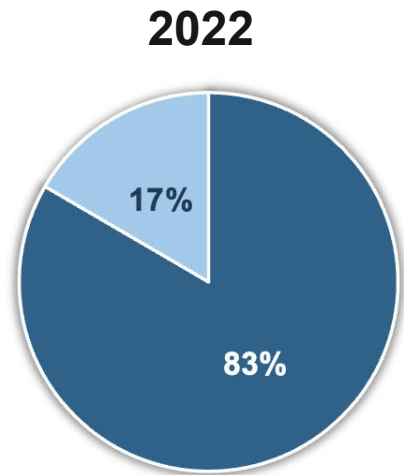
Cash Conversion Cycle



Revenue Trends (adjusted for FY2024 divestitures)

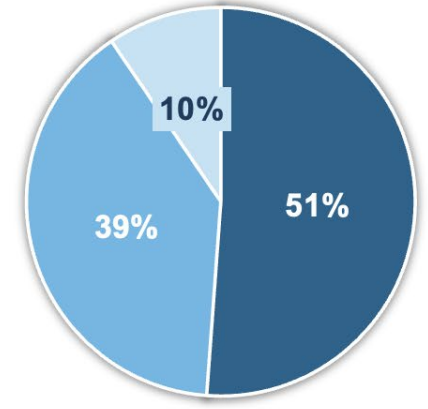
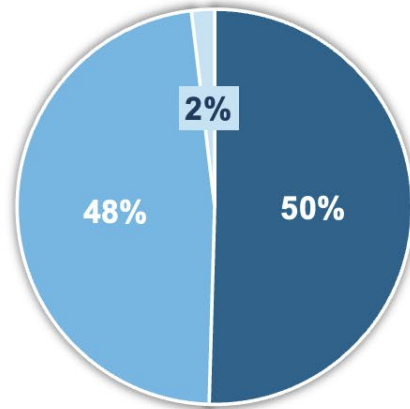
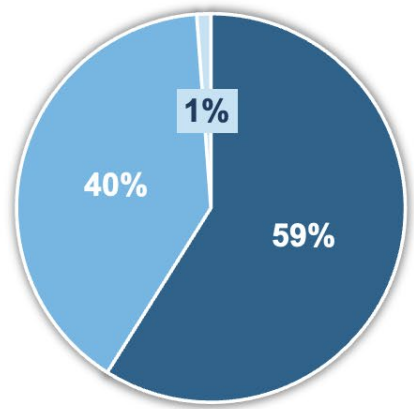
Revenue Mix

- Access Infrastructure
- Software & Services



Regional Revenue

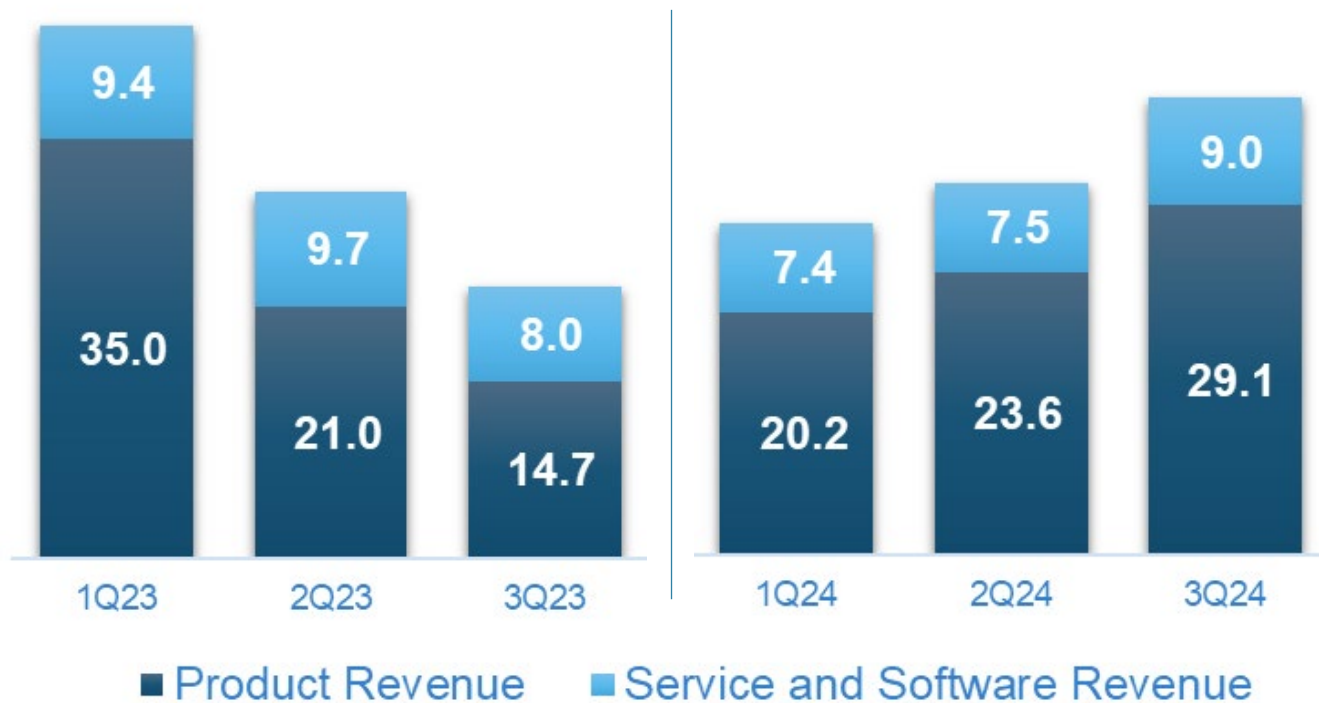
- Americas
- EMEA
- ANZ



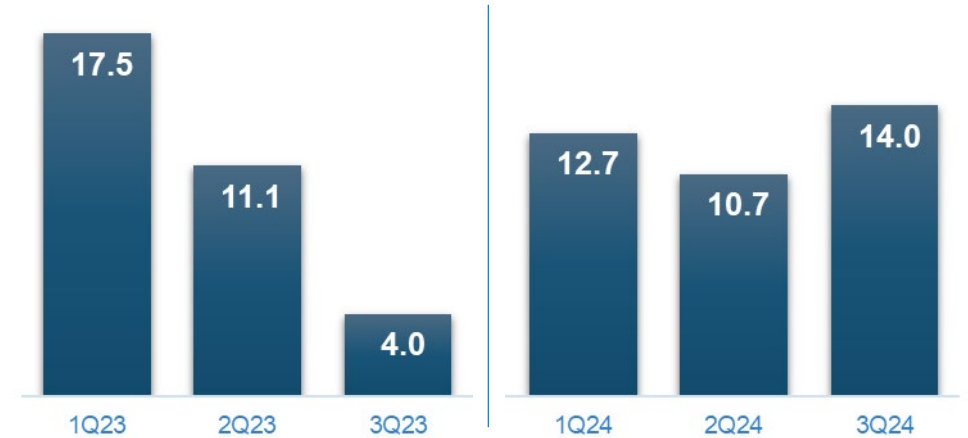
Key Financial Trends (adjusted for FY2024 divestitures)



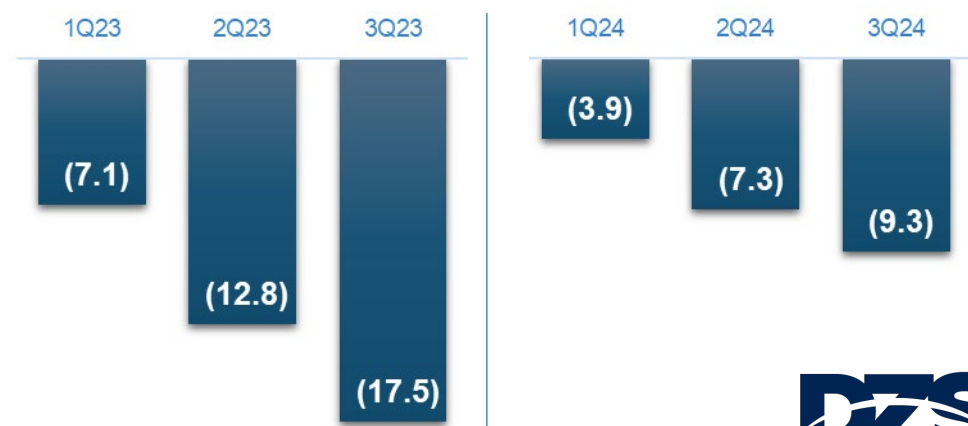
Q3 YoY Comparison (Revenue)



Q3 YoY Comparison (Adj. Gross Margin)



Q3 YoY Comparison (Adj. EBITDA)



Appendix: Financial





Non-GAAP Financial Information

To supplement DZS's consolidated financial statements presented in accordance with GAAP, DZS reports Adjusted Cost of Revenue, Adjusted Gross Margin, Adjusted Operating Expenses, Adjusted Operating Income (Loss), Adjusted Net Income (including on a per share basis), EBITDA, and Adjusted EBITDA, which are non-GAAP measures DZS believes are appropriate to provide meaningful comparison with, and to enhance an overall understanding of, DZS's past financial performance and prospects for the future. DZS believes these non-GAAP financial measures provide useful information to both management and investors by excluding specific items that DZS believes are not indicative of core operating results. These items share one or more of the following characteristics: they are unusual and DZS does not expect them to recur in the ordinary course of its business; they do not involve the expenditure of cash; they are unrelated to the ongoing operation of the business in the ordinary course; or their magnitude and timing is largely outside of the Company's control. Further, each of these non-GAAP measures of operating performance are used by management, as well as industry analysts, to evaluate operations and operating performance and are widely used in the telecommunications and manufacturing industries. Other companies in the telecommunications and manufacturing industries may calculate these metrics differently than DZS. The presentation of this additional information is not meant to be considered in isolation or as a substitute for measures of financial performance prepared in accordance with GAAP.

DZS defines Adjusted Cost of Revenue as GAAP Cost of Revenue less (i) depreciation and amortization, (ii) stock-based compensation, (iii) restructuring charges, including freight charges and other elevated inventory related costs directly related to the transition to a contract manufacturer, and (iv) the impact of material transactions or events that we believe are not indicative of our core product cost and are not expected to be recurring in nature, such as inventory step-up amortization. We believe Adjusted Cost of Revenue provides the investor more accurate information regarding the actual cost of our products and services, excluding the impact of costs of revenue that are not routine components of our core product cost, for better comparability of our costs of revenue between periods and to other companies.

DZS defines Adjusted Gross Margin as GAAP Gross Margin less (i) depreciation and amortization, (ii) stock-based compensation, (iii) restructuring charges, including freight charges and other elevated inventory related costs directly related to the transition to a contract manufacturer, and (iv) the impact of material transactions or events that we believe are not indicative of our core operating performance and are not expected to be recurring in nature, such as inventory step-up amortization. We believe Adjusted Gross Margin provides the investor more accurate information regarding our core profit margin on sales, excluding the impact of cost of revenue that are not routine components of our core product cost, for better comparability of gross margin between periods and to other companies.

DZS defines Adjusted Operating Expenses as GAAP operating expenses plus or minus (as applicable) (i) depreciation and amortization, (ii) stock-based compensation, and (iii) the impact of material transactions or events that we believe are not indicative of our core operating performance, such as acquisition costs, divestiture costs, restructuring and other charges, including termination related benefits, headquarters and facilities relocation, executive transition, restatement related costs, and legal costs related to certain litigation, each of which is not expected to be recurring in nature. We believe Adjusted Operating Expenses provides the investor more accurate information regarding our core operating expenses, which include research and development costs, selling, general and administrative costs, and amortization of intangible assets, excluding the impact of charges that are not routine components of our core operating expenses, for better comparability between periods and to other companies.





Non-GAAP Financial Information

DZS defines EBITDA as Net Income (Loss) plus or minus (as applicable) (i) interest expense, net, (ii) income tax provision (benefit), and (iii) depreciation and amortization expense.

DZS defines Adjusted Operating Income (Loss), or Adjusted EBITDA, as GAAP Operating Income (Loss) plus or minus (as applicable) (i) depreciation and amortization, (ii) stock-based compensation, and (iii) the impact of material transactions or events that we believe are not indicative of our core operating performance, such as inventory step-up amortization, acquisition costs, divestiture costs, restructuring and other charges, including termination related benefits, headquarters and facilities relocation, executive transition, restatement related costs, and legal costs related to certain litigation, each of which is not expected to be recurring in nature. We believe Adjusted Operating Income (Loss) provides the investor more accurate information regarding our core operating Income (Loss), excluding the impact of charges that are not routine components of our core operating expenses, for better comparability between periods and to other companies. The DZS definition of Adjusted Operating Income (Loss) equates to the DZS definition of Adjusted EBITDA.

DZS defines Non-GAAP Net Income (Loss) as GAAP Net Income plus or minus (as applicable) (i) depreciation and amortization, (ii) stock-based compensation, (iii) the impact of material transactions or events that we believe are not indicative of our core operating performance, such as inventory step-up amortization, acquisition costs, divestiture costs, restructuring and other charges, including termination related benefits, freight charges and other elevated inventory related costs directly related to the transition to a contract manufacturer, headquarters and facilities relocation, executive transition, bad debt expense, net of recoveries, primarily related to a customer in Russia, restatement related costs, and legal costs related to certain litigation, each of which is not expected to be recurring in nature, (iv) unrealized foreign exchange gains and losses, (v) a non-GAAP income tax benefit (provision) based on an estimated tax rate applied against forecasted annual non-GAAP income and (vi) the tax effect of non-GAAP adjustments to Adjusted Net Income and Adjusted EPS. DZS determines non-GAAP income taxes by computing an annual rate for the Company and applying that single rate (rather than multiple rates by jurisdiction) to its consolidated quarterly results. For 2024, the non-GAAP income tax rate was (4.2%) and for 2023 the rate was 18.1%. DZS expects that this methodology will provide a consistent rate throughout the year and allow investors to better understand the impact of income taxes on its results. Due to the methodology applied to its estimated annual tax rate, the Company's estimated tax rate on non-GAAP income will differ from its GAAP tax rate and from its actual tax liabilities. DZS believes Non-GAAP Net Income (Loss) provides the investor more accurate information regarding our core income, excluding the impact of charges that are not routine components of our core product cost or core operating expenses, for better comparability between periods and to other companies.



Reconciliation of GAAP to Adjusted (Non-GAAP) Results

DZS INC. AND SUBSIDIARIES Unaudited Reconciliation of GAAP to Non-GAAP Results from Continuing Operations (\$ in thousands, except per share data)

Set forth below are reconciliations of Non-GAAP Cost of Revenue, Non-GAAP Gross Profit, Non-GAAP Operating Expenses, Non-GAAP Operating Income (Loss) (also referred to as Adjusted EBITDA), Non-GAAP Net Income (Loss), and Non-GAAP Net Income (Loss) per Diluted Share to GAAP Cost of Revenue, Gross Profit, Operating Expenses, Operating Income (Loss), Net Income (Loss), and Net Income (Loss) per Diluted Share, respectively, which the Company considers to be the most directly comparable U.S. GAAP financial measures

	Three Months Ended September 30, 2024 - Continuing Operations						
	Cost of Revenue	Gross Profit	Gross Margin Percentage	Operating Expenses	Operating Income (Loss)	Net Income (Loss)	Net Income (Loss) per Diluted Share
GAAP amount	\$ 26,924	\$ 11,225	29.4%	\$ 33,227	\$ (22,002)	\$ (25,646)	\$ (0.67)
Adjustments to GAAP amounts:							
Depreciation and amortization	(74)	74	0.2%	(2,315)	2,389	2,389	0.06
Stock-based compensation	(51)	51	0.1%	(2,174)	2,225	2,225	0.06
Restructuring and other charges	(663)	663	1.7%	(215)	878	878	0.02
Inventory step up amortization	(1,999)	1,999	5.2%	-	1,999	1,999	0.05
Acquisition costs				(23)	23	23	-
Headquarters and facilities relocation				(51)	51	51	-
Litigation and restatement				(3,807)	3,807	3,807	0.10
Amortization of capitalized costs				(697)	697	697	0.02
Divestiture costs				(610)	610	610	0.02
Unrealized foreign exchange (gains) losses						(52)	-
Non-GAAP adjustments to tax rate						376	0.01
Tax effect on Non-GAAP adjustments						917	0.02
Adjusted (Non-GAAP) amount	\$ 24,137	\$ 14,012	36.7%	\$ 23,335	\$ (9,323)	\$ (11,726)	\$ (0.31)

	Three Months Ended September 30, 2023 - Continuing Operations						
	Cost of Revenue	Gross Profit	Gross Margin Percentage	Operating Expenses	Operating Income (Loss)	Net Income (Loss)	Net Income (Loss) per Diluted Share
GAAP amount	\$ 23,774	\$ (1,037)	-4.6%	\$ 29,345	\$ (30,382)	\$ (29,385)	\$ (0.92)
Adjustments to GAAP amounts:							
Depreciation and amortization	(60)	60	0.3%	(1,683)	1,743	1,743	0.05
Stock-based compensation	(268)	268	1.2%	(2,897)	3,165	3,165	0.10
Restructuring and other charges	(4,673)	4,673	20.6%	(135)	4,808	4,808	0.15
Acquisition costs				256	(256)	(256)	-
Litigation and restatement				(3,641)	3,641	3,641	0.11
Amortization of capitalized costs				(303)	303	303	0.01
Loss on debt extinguishment						375	0.01
Unrealized foreign exchange (gains) losses						93	-
Non-GAAP adjustments to tax rate						3,096	0.09
Tax effect on Non-GAAP adjustments						(2,427)	(0.08)
Adjusted (Non-GAAP) amount	\$ 18,773	\$ 3,964	17.4%	\$ 21,415	\$ (17,451)	\$ (15,317)	\$ (0.48)



Reconciliation of EBITDA



DZS INC. AND SUBSIDIARIES
Unaudited Reconciliation of GAAP to Non-GAAP Results
(\$ in thousands, except per share data)

	For the Quarters Ended		
	September 30, 2024	September 30, 2023	June 30, 2024
Reconciliation of Net Income (loss) to Adjusted EBITDA			
Net income (loss)	\$ (25,646)	\$ (29,385)	\$ 23,073
Interest expense, net	2,175	751	1,405
Income tax (benefit) provision	1,551	(2,226)	(330)
Depreciation and amortization	2,389	1,743	1,604
EBITDA	\$ (19,531)	\$ (29,117)	\$ 25,752
Stock-based compensation	2,225	3,165	2,310
Acquisition costs	23	(256)	858
Litigation	3,807	3,641	4,750
Amortization of capitalized costs	697	303	303
Bad debt expense, net of recoveries	-	(473)	-
Restructuring and other charges	878	4,808	74
Inventory step up amortization	1,999	-	-
Headquarters and facilities relocation	51	-	-
Loss on debt extinguishment	-	375	-
Bargain purchase gain	-	-	(41,544)
Divestiture costs	610	-	-
Adjusted (Non-GAAP) Amount, previously reported	\$ (9,241)	\$ (17,554)	\$ (7,497)
Other expense (income), net	(82)	103	230
Adjusted EBITDA	\$ (9,323)	\$ (17,451)	\$ (7,267)



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Thank You