Ceragon Networks Q1 FY 2025 Earnings Call Script

May 7, 2025

Operator

Welcome to Ceragon Networks First Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will host a question-and-answer session.

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

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

Rob Fink

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

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

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

Such statements reflect current expectations, and assumptions of Ceragon's management-- actual results may differ materially, as they are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected in our forward-looking statements. These risks and uncertainties include, but are not limited to: The effects of the evolving nature of the war situation in Israel and the related evolving regional conflicts; the effects of global economic trends, including recession, rising inflation, rising interest rates, commodity price increases and fluctuations, commodity shortages and exposure to economic slowdown; risks associated with integration and deployment of acquired businesses; risks associated with delays in the transition to 5G technologies and in the 5G rollout; risks relating to the concentration of our business on a limited number of large mobile operators and the fact that the significant weight of their ordering, compared to the overall ordering by other customers, coupled with inconsistent ordering patterns, could negatively affect us; risks resulting from the volatility in our revenues, margins and working capital needs; disagreements with tax authorities regarding tax positions that we have taken could result in increased tax liabilities; the high volatility in the supply needs of our customers, which from time to time lead to delivery issues and may lead to us being unable to timely fulfil our customer commitments; and such other risks, uncertainties and other factors that could affect our results of operation, as further detailed in Ceragon’s most recent Annual Report on Form 20-F, as published on March 25, 2025, as well as other documents that may be subsequently filed by Ceragon from time to time with the Securities and Exchange Commission.

Forward-looking statements relate to the date initially made, and they are not predictions of future events or results, and there can be no assurance that they will prove to be accurate, and Ceragon undertakes no obligation to update them.

Ceragon's public filings are available on the Securities and Exchange Commission's website at www.sec.gov, and may also be obtained from Ceragon's website at www.ceragon.com.

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

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

Doron Arazi

Thank you, Rob, and good morning, everyone.

Ceragon delivered a strong financial performance in the first quarter highlighted by the highest booking levels since Q1 2024. Bookings rebounded across India and EMEA while growth in North America remained solid.

We are reiterating our outlook for full-year 2025 and have been encouraged by multiple positive demand signals we observed during the quarter and specifically at Mobile World Congress in Barcelona in early March.

Our conversations with senior decision makers from both existing and prospective customers, further validated that Ceragon is strategically aligned for long-term success in the evolving wireless connectivity landscape. Notably, we had direct discussions with senior executives from major customers in India and other regions. These conversations along with other market insights support our belief that our current offerings are exceedingly well-aligned with customers' needs. Additionally, we heard compelling feedback that supports strong anticipated demand for micro-wave and millimeter-wave products, including fixed wireless Point-to-Multipoint solutions for Tier 1 operators in North America and Europe. We are discussing with at least one tier-1 customer the possible development of a new solution tailored to their needs that has substantial commercial potential.

Another trend that was evident at the Mobile World Congress was the deep interest from CSPs and Private networks in our software-driven services and solutions to support network operation and optimization. As we've discussed on previous calls, managed services are an important strategic priority for Ceragon, and we saw strong interest at MWC from customers who are increasingly evaluating software applications and managed services to enable faster deployment and more efficient network operation.

Finally, we continue to see the emergence of new use cases for our products, both in CSP and private network segments, which have the potential to meaningfully expand our targeted addressable market and drive incremental revenue opportunities.

These market dynamics are consistent with our product and service roadmap, supporting our strategy to maintain technology leadership and address the needs of both Tier 1 and 2 carriers as well as private networks. As we have previously noted, the shift to software-driven services and applications will also enable us to increase our annual recurring revenue and achieve higher margins relative to our traditional hardware business.

In February, we successfully closed the acquisition of E2E Technologies, strengthening our expertise in private networks, particularly in the Energy and Utilities sector in North America. Private networks remain a fast-growing segment of telecom connectivity, and E2E's proven system integration capabilities and software platform are expected to strengthen our portfolio significantly.

E2E's bookings in the first quarter outperformed our expectations, and revenue contribution in the first quarter was in-line with our expectations. We continue to expect E2E to be accretive to non-GAAP earnings by the second half of 2025.

I'd now like to review our first quarter highlights by region.

In **India**, revenue was $42.9 million, an increase of 65% year-over-year. Encouragingly, bookings were also the highest since Q1 2024. Moreover, a minimal amount of these bookings was tied to the previously announced $150 million project award for a major network modernization initiative of a Tier 1 operator, which demonstrates broad-based demand throughout India. The elevated bookings and revenue in Q1, and continued strong customer demand, reinforce our long-term outlook in our largest market.

In **North America**, revenue was $17.6 million, including contributions from E2E. Excluding the contributions from E2E, Q1 bookings and revenue were also higher than in Q4. We are improving our competitive position with existing customers and getting more traction from new prospects.

The tariff dynamics are creating some instability for certain customers, primarily those in private networks. However, we're encouraged by the continued steady activity among carriers. While we're closely monitoring for any shifts in customer ordering patterns, we're also proactively positioning ourselves to navigate these changes effectively.

Simultaneously, we are actively assessing the proposed tariffs – not just to mitigate potential risks but also to identify strategic opportunities to capture market share. Our diverse manufacturing footprint and adaptable supply chain provide us with a distinct advantage in this environment, allowing us to explore alternative sourcing and pricing strategies that could offset potential impact.

While it is still too early to quantify the precise effect on our profitability in 2025, we believe the net impact of tariffs will be minimal. As we remain vigilant in monitoring these developments, we're confident in our ability to adapt swiftly and leverage our strengths to drive continued growth.

Returning to some more general commentary, the acquisitions of Siklu and E2E, we have significantly enhanced our capabilities in the fast-growing segments of wireless connectivity, particularly millimeter-wave and private network markets.

We are continuously evaluating additional strategic M&A opportunities that would further complement our product and service offerings, enabling us to further expand in high-growth areas of wireless connectivity.

I'd now like to turn the call over to Ronen Stein, our CFO, to discuss the financial results in more detail. Ronen, over to you.

Ronen Stein

Thank you Doron, and good morning, everyone.

The first quarter was marked by solid execution amidst volatile market conditions. Our revenue was at the higher end of our expectations, and we maintained solid non-GAAP profitability.

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

Let me now review the first quarter results.

Revenue for the first quarter was $88.7 million, up 0.2% from $88.5M in the first quarter of 2024. **India** was again the strongest region in terms of revenue and contributed $42.9 million. **North America** rebounded from $13.4 million in Q4 2024 to $17.6 million in Q1 2025 and was the second strongest region.

We had 3 customers in the first quarter that contributed at least 10% of our revenue.

Gross profit in the first quarter on a non-GAAP basis was $29.7 million, which was down 8.6% from $32.5 million in Q1 2024. Our non-GAAP gross margin was 33.5%, as compared with gross margin of 36.7% in the prior year period. The decline in gross margin was mainly attributable to the change in revenues mix by region, with India increasing to 48% of revenues and NA declining to 20% of revenues. Over the longer term, our initiatives in private networks and an increase in deployments of software-driven services should enable us to maintain or potentially expand gross margins, offsetting regional revenue mix headwinds.

Moving on to operating expenses…

Research and Development expenses in Q1 2025 on a non-GAAP basis were $8.1 million, down from $8.7M in Q1 2024. As a percentage of revenue, R&D expenses on a non-GAAP basis were 9.1% in the first quarter versus 9.8% in the prior-year period.

Sales & Marketing expenses on a non-GAAP basis in the first quarter were $11.8 million, up from $10.7 million in Q1 2024. As a percentage of revenue, sales and marketing expenses on a non-GAAP basis were 13.3% in the first quarter as compared to 12.1% in the first quarter of 2024.

General and Administrative expenses on a non-GAAP basis for the first quarter were $5.4 million, as compared to $5.5 million in Q1 2024. As a percentage of revenue, G&A expenses on a non-GAAP basis were 6.0% in Q1 2025 versus 6.3% in the year-ago period.

Restructuring and related charges on a GAAP basis in the first quarter were $3.7 million, as compared to $1.4 million in the first quarter of 2024, reflecting our increased efforts to achieve optimal cost discipline. These charges are backed out of our non-GAAP operating expenses.

Acquisition- and integration-related expenses on a GAAP basis in the first quarter were $0.5 million versus $0.5 million in the first quarter of 2024. These charges are backed out of our non-GAAP operating expenses.

Operating income on a non-GAAP basis for the first quarter was $4.5 million versus operating income of $7.6 million in Q1 2024. Lower gross profit was the primary factor for the decline in operating income year-over-year.

Financial and other expenses on a non-GAAP basis in the first quarter were $1.0 million, an improvement from $2.3 million in the prior year period. The change was positively impacted from favorable exchange rate changes and lower interest expenses.

Our **tax expenses** on a non-GAAP basis for the first quarter were $0.9 million.

Non-GAAP Net Income for Q1 2025 was $2.6 million, or $0.03 per diluted share, versus non-GAAP net income of $4.7 million, or $0.05 per diluted share, in Q1 2024.

Moving over to our **balance sheet**:

Our **cash position** at March 31, 2025 was $27.7 million, down from $35.3 million at the end of 2024, primarily due to cash payments made in Q1 in connection with the acquisition of E2E amounting to $6.6 million, net of acquired cash. Short term loans were $25.2 million at the end of the first quarter, as they were at year-end 2024. Thus, our net cash position was approximately $2.5 million, as opposed to $10.1 million at December 31, 2024, again, largely due to the acquisition of E2E. We believe we have cash and facilities that are sufficient for our operations and working capital needs.

Inventory at the end of the first quarter was $62.3 million, up slightly from $59.7 million at the end of 2024, as we are preparing to introduce our new E-band products, expected to be delivered mainly in India, in the second half of the year.

Our **trade receivables** at the end of the first quarter were $145.7 million, versus $149.6 million at the end of December 2024.

Our DSO now stands at 135 days.

Looking at our Statements of **Cash Flow:**

Net cash flow used **by operations and investing activities** in Q1 2025 was $1.6 million, excluding cash payments made in connection with the acquisition of E2E, net of acquired cash.

Turning to our 2025 outlook …

As Doron mentioned earlier, we are reiterating our previous 2025 revenue guidance of $390 million to $430 million. We also reiterate our expectations for non-GAAP operating margins of at least 10% at the low end of our revenue guidance and higher positive free cash flow in 2025 than in 2024.

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

Doron's Closing Remarks

I'd like to thank all of you for participating in today's call and for your interest in Ceragon. Given our improved bookings, product roadmap, and expansion into faster-growing segments of the market, namely private networks and millimeter-wave, I believe we are well positioned to remain the leader in wireless connectivity.

I look forward to sharing our progress on the next quarterly conference call when we report our second quarter results.

Have a good day everyone.