Operator

Good day, everyone. Welcome to the Ceragon Networks Update conference call.

Today's call is being recorded and will be hosted by Mr. Ira Palti, President and CEO of Ceragon Networks.

Today's call will include statements concerning Ceragon's future prospects that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs, expectations and assumptions of Ceragon's management. Examples of forward-looking statements include: projections of demand, revenues, net income, gross margin, competitive pressures, order timing, growth prospects, and other financial matters. You may identify these and other forward-looking statements by the use of words such as "may", "plans", "anticipates", "believes", "estimates", "targets", "expects", "intends", "potential" or the negative of such terms, or other comparable terminology. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially, including the risk that the results of our accounting close for the 2019 second quarter will not be as anticipated; risks relating to the concentration of a significant portion of Ceragon's expected business in certain geographic regions and particularly in India, where a small number of customers are expected to represent a significant portion of our revenues, including the risks of deviations from our expectations of timing and size of orders from these customers; risks associated with any failure to effectively compete with other wireless equipment providers; the risk that we will be unable to extend our competitive strengths in India to other geographic areas because of market differences and other factors; and other risks and uncertainties detailed from time to time in Ceragon's Annual Report on Form 20-F and Ceragon's other filings with the Securities and Exchange Commission, that represent our views only as of the date they are made and should not be relied upon as representing our views as of any subsequent date. We do not assume any obligation to update any forward-looking statements.

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

I will now turn the call over to Mr. Ira Palti, President and CEO of Ceragon. Please go ahead, sir.

Ira Palti
President and CEO

Thank you for joining us today. With me on the call is Ran Vered, our Chief Financial Officer.

As you know from the press release we issued a short time ago, we have experienced a further, unanticipated delay in receiving certain large orders from India. This delay has affected our revenue expectation for Q2. In this call we want to do several things:

- Explain the market in India and what's going on with these orders,
- Describe the impact of this delay on our Q2 results and the likely impact on the remainder of 2019 . . . and
- Put this delay into context by saying a few words about the rest of the business, where we are making excellent progress and where we are excited about recent developments.

In case some of you on the call are learning about the orders in India for the first time, or haven't been paying close attention to the details of our quarterly results, I will provide a brief summary of the situation with our business in India.

We have served most of the large wireless operators in India for nearly a decade. For the past 5 years, we have been supporting India's massive 4G mobile broadband rollout. During this period, the increase in mobile subscribers in India has been the equivalent of more than 80% of the entire population of the United States. The increase in mobile data usage is even more dramatic and is expected to continue to grow at more than 70% CAGR throughout 2022. We recognized the potential of this market early on and we have become the market share leader for wireless backhaul, largely due to the features and capabilities of our compact all-outdoor solution. This solution is particularly well-suited to the challenges of the operators in the region allowing very rapid high capacity rollout to the subscribers.

Throughout this period, total demand was very strong . . . but order patterns and, therefore, revenue recognition related to India has been very lumpy. This is one of the characteristics of the Indian market . . . operators tend to place very large orders for equipment that takes several quarters to deploy . . . and they tend to have very demanding delivery requirements because the rapid growth and the extremely competitive nature of the market create many network planning challenges.

During this 5-year period through 2018, our revenue from India averaged a little over $100 million per year; however, that average includes one year of $80 million in revenue and two years of $130 million. So, the point is: it's extremely difficult to define what constitutes a "normal" level of business from India.

During our Q4:2018 call in February, we indicated that our first quarter results could be affected by the timing of a batch of large orders we were expecting from customers in India. Bookings from India were low in Q4 and we saw several things going on with our Indian customers that could lead to a pause in the order pattern such as internal reorganization, raising additional capital, and all seemed to place a lot of significance on the outcome of the national election which was a long process that ran from mid-April until mid-May. Therefore, it was not a surprise that our bookings and revenue from India were even lower in Q1 compared to Q4.

However, we expected that we would receive the batch of new orders in time to recognize a significant portion of the related revenue in Q2. Therefore, at the end of Q1 we made preparations, such as increasing our inventory, to enable us to manufacture and deliver quickly once we received the orders.

As of today, we have received one of the smaller orders, which is mainly for services . . . and we expect to receive the remaining larger orders in time to begin procuring accessories, manufacturing and shipping in Q3.

Meanwhile, since we did not receive the orders in Q2 as expected, our revenue for Q2 is $20 million lower than it would have been had the timing been what we expected.

Now that the quarter is over, I can tell you from a business perspective, this is the only significant issue we experienced in Q2 and the business in other regions of the world was slightly better than our expectations with significant progress on new projects for next year.

Having said that, business is not the same thing as accounting. We are just beginning the quarterly closing process and there is substantial documentation we still have to verify before we know our revenue for the second quarter. As you saw in the press release, based on the information we have currently, we expect Q2 revenue to be in the range of $71 to $74 million. We didn’t give specific guidance for Q2, but if you adjust this range for approximately $20 million of revenue that was pushed out from Q2 to Q3, the adjusted range is above the analysts’ estimates for Q2, which were $84.4 million and $89.2 million.

Looking at the impact of the delay on the remaining quarters of the year, we currently expect generally the same level of shipments and revenue recognition from these orders in Q3 as we had been expecting for Q2 . . . .

about $20 million.

We don’t expect these customers to deploy any faster because of the delay in placing these orders. Therefore, the amount expected in Q2 was pushed to Q3, but the Q3 shipments and revenue are also pushed into Q4 . . . and also from Q4 into next year. As a result of this delay rolling through the final two quarters of the year, we expect a total impact on 2019 revenue of approximately $20 million. As you recall, we said on our last call that we expected 2019 to be very similar – basically flat – compared to 2018. We reported approximately $344 million in 2018, so everything else being the same, we would be looking for revenue in the neighborhood of $324 million for 2019. However, given our strong bookings in the other regions during the first half, we are aiming to close the gap by at least a few million dollars during the second half.

Looking ahead to next year, we remain very positive on the overall outlook. In India, we expect a continuation of ongoing deployments for further network expansion and densification in India to strengthen the different operators market positions. However, we really don’t know what the order patterns will be in 2020. In the remainder of our markets, we continue to see the positive trends that we discussed on our last call . . . reflecting the fact that we are at the beginning of the first phase of a network Re-volution/Evolution that is expected to last several years, with acceleration in overall demand as the transition from 4G to 5G progresses in various parts of the world.

To summarize some of our long-term strengths, we would highlight the following:

1. The challenges we have solved for operators in India are many of the same challenges facing operators in other geographies as they upgrade and densify their networks in preparation for launching 5G services.

2. The discipline required to be profitable in a hyper-competitive environment in the lowest gross margin region of the world means that, we have design-to-cost capabilities that we believe will help us to gain additional share in other highly competitive, less price sensitive, markets as well.

3. The scale and reach of being a global company with a strong presence in all regions, including India, enables us to capitalize on new opportunities wherever they develop, as various operators around the world prepare to launch 5G networks – each at a different pace.

4. We are in a better position to reinforce our technology leadership through partnerships, such as the one we have with NEC, by accomplishing even more through our investment in research and development.

5. We believe we are able to control our own destiny through our complete vertical integration, from chipsets to full systems, and to innovate faster than many of our competitors.

We think these are 5 good reasons to look past the short-term timing issues, as we believe we can gradually gain market share, widen the technology gap versus our competitors, acquire new significant customers and form new partnerships, as well as pursue strategic initiatives that can accelerate our growth.

These are some of the topics we look forward to discussing in more detail on our Q2 results call on August 12, in addition to the ongoing theme of the progress we are making toward more 5G-driven opportunities.

Now, I’d like to turn the call over to Ran to provide further information on the financial side . . .

Ran?

Ran Vered

Chief Financial Officer

Thank you, Ira**.**

Since you have all seen the press release, there isn't much more that we can say about the Q2 financial results at this point. The quarter has just ended, and we are beginning the quarterly closing process, so there is a lot of work to be done before we have final numbers for the quarter . . . and we don't typically issue a release ahead of our quarterly results announcement. We did so today because of the unanticipated delay in the orders from India in order to communicate the information we have about the business in a timely fashion and give you a chance to ask questions. Please understand, however, that we may have to defer some of your questions until the final results call on August 12th when we have had a chance to complete the closing process. The usual advisory PR with the call-in numbers for the Q2 results call on August 12th will be coming out in about a week's time.

As Ira indicated, given the information we have, we believe that revenue for Q2 will be in the range of $71 to $74 million. Based on the amount of information we have currently, we expect that, on a GAAP basis, net results could be either side of breakeven. However, we expect to report a net profit on a non-GAAP basis. These are only preliminary indications since we are just beginning our closing activities.

Looking at the second half of the year, given that we will receive the remaining orders from India in time to recognize the related revenue in Q3 and Q4, we expect quarterly revenue in both Q3 and Q4 to be significantly above our typical run rate of $80 to $85 million per quarter. However, as Ira noted we expect revenue for the full year to be impacted by approximately $20 million because we assume there will be little to no catch-up in deployments during the second half.

Based on strong bookings outside of India during the first half of the year, we are aiming to decrease the $20 million revenue gap from India by a few million dollars with higher revenue from the other regions during the second half . . . and we are now targeting non-GAAP net income for the full year at a similar level to 2018.

We continue to manage our business with a focus on net income and we are targeting a return to net income growth in 2020, based on an increase in revenue world-wide, including an ongoing high level of deployments in India.

In our view, the major trends are positive, we are making progress on several fronts, and we are pursuing a number of opportunities that might provide further upside to the outlook for next year. We look forward to providing more details on our regular call on August 12. Meanwhile, we will be happy to take your questions regarding this preliminary view of our results for Q2.

Operator?

Q&A session

Ira Palti

To recap the main message: These timing issues with orders from India do not affect our viewpoint regarding our position in the market or our long-term prospects.

We continue to believe we are well-positioned to gradually gain market share, widen the technology gap versus our competitors, acquire significant new customers, form new partnerships and pursue strategic initiatives aimed at accelerating our growth.

Thank you for joining us on short notice and we look forward to speaking with you again on our regular second quarter results call on August 12.