



Airgain, Inc.

Second Quarter 2016 Earnings Call

September 20, 2016

C O R P O R A T E P A R T I C I P A N T S

Charles Myers, *President and Chief Executive Officer*

Leo Johnson, *Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Matt Robison, *Wunderlich*

Tom Sepenzis, *Northland Capital Markets*

Paul Duggan, *Jackson Capital*

P R E S E N T A T I O N

Operator:

Good afternoon. Welcome to Airgain's Second Quarter 2016 Earnings Conference Call. Joining us for today's call is Airgain's President and CEO, Charles Myers, and CFO Leo Johnson. Following their remarks, we open the call up for your questions.

Please note that certain information discussed on the call today is covered under the Safe Harbor provisions of the Private Securities Litigation Reform Act. I caution listeners during this call, Airgain's Management will be making forward-looking statements about future events and Airgain's business strategy and future financials and operating performance including third quarter performance. Actual results could differ materially from those stated or implied by these forward-looking statements due to risk and uncertainties associated with the Company's business. These forward-looking statements should be considered in conjunction with and are qualified by the cautionary statements contained in Airgain's earnings press release and SEC filings including its F1 and quarterly report on Form 10-Q which the Company expects to file tomorrow, September 21, 2016.

This conference call contains time sensitive information that is accurate only as of the date of this live broadcast, September 20, 2016. Airgain undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the dates of this conference call.

This conference call will also include a discussion on non-GAAP financial measures including Adjusted EBITDA. Please see today's earnings release which is posted on Airgain's website, airgain.com, for further details including a reconciliation of the GAAP to non-GAAP results. Any discussion of non-GAAP measures is not intended to detract from the importance of comparable GAAP measures.

Finally, I would like to remind everyone that this call will be recorded and made available for replay via a link available on the Investor Relations section of the Company's website at airgain.com.

Now I would like to turn the conference over to Airgain's President and CEO, Charles Myers. Sir, please proceed.

Charles Myers:

Thank you very much. We'd like to welcome everybody and thank you for joining us today. After the markets closed, we issued a press release announcing our results for the second quarter ended June 30, 2016, a copy of which is available in the Investor Relations section of our website. As you know, Airgain became public on August 12. The IPO helped us raise gross proceeds of \$13.6 million at an \$8 a share price. It goes without saying, we are excited to be a part of the public equity market and we look forward to continuing our history of innovation and success, but now with the support of a much larger and more diverse Shareholder base.

We're very pleased with our growth for the first two quarters of the year and look to build on our progress by executing on some of the key initiatives we identified in the S1 including expanding our Sales Force, our Engineering Teams, as well as our R&D efforts. But before I provide any further commentary, I'd like to turn it over to our CFO, Leo Johnson. He'll walk us through the financial details for our Q2. Leo?

Leo Johnson:

Thank you, Chuck. It's a pleasure to have the opportunity to speak with you today. Our financial results for the second quarter ending June 30, 2016 largely reflect the same numbers many of you have seen in our S1 which we filed on July 15. Sales for the second quarter increased 63% to \$9.9 million from \$6.1 million in Q2 a year ago. The increase was primarily due to an increase in product sales.

Gross profit for the second quarter of 2016 increased 79% to \$4.5 million or 46.1% of sales from \$2.5 million or 42% of sales in the second quarter of last year. The increase in gross profit as a percentage of sales was primarily due to the increase of our board mounted antennas which typically have higher gross margins. Our target gross margin is 40% so therefore we're very satisfied with meeting this objective in Q2.

Our total operating expenses in the second quarter were \$3.6 million, which is an increase of 31% compared to the \$2.7 million same year ago period. The increase was primarily due to higher personnel expenses for our sales and marketing as well as R&D initiatives.

Our net income attributable to common stock holders for the second quarter of 2016 totaled \$700,000 or \$0.15 per diluted share. This is an improvement over the net loss attributable to common shareholders of approximately \$782,000 or \$1.22 on a per diluted share basis in Q2 of last year.

Our Adjusted EBITDA, which we denote as earnings before interest, taxes, depreciation, amortization, and fair market value adjustments of warrants and share based compensation increased to roughly \$1.3 million from \$71,000 in the same period a year ago.

Turning to the balance sheet, cash and cash equivalence at the end of Q2 totaled \$5.3 million which was relatively flat from the amount that we had on hand at December 31, 2015 and it obviously excludes the net proceeds of approximately \$11.3 million from the IPO. This completes my financial summary and I'll turn the call back over to Chuck.

Charles Myers:

All right. Thanks Leo. As we've discussed, our results for the second quarter should come no surprise that they are largely a reflection of our estimated numbers contained in our S1. Having said that though,

I'd like to introduce some of the key performance metrics which we're planning on providing in our future quarterly calls. These metrics are intended to be reviewed in conjunction with our financial results to kind of help you track our performance in the progress of our business.

One of the performance metrics that we use is total customer devices which measures the number of devices in which our antennas are installed. For the second quarter, total customer devices increased by 62% to 12 million devices from 7.4 million devices in the same period a year ago. In addition to the total number of devices win, we like to measure how we can expand our presence in a particular device. For this we use the average numbers of antennas per device which increased by 24% year-over-year to 3.07 antennas per device. Finally, we'll report the average selling price per device which increased by 1% year-over-year to \$0.79 and that's through a broad mix of devices.

Looking ahead to the third quarter, it's not our practice to provide financial guidance. However, we realize we're only a few days away from the end of Q3 and we just wanted to let you know we are optimistic about our results for this period and we look forward to sharing them with you in our next quarterly earnings call to take place in November.

With that, we're ready to open the call to your questions. Operator, would you please provide the appropriate instructions.

Operator:

Yes, sir. Thank you. Ladies and gentlemen, if you wish to ask a question today, please signal by pressing star, one on your telephone keypad. Please also make sure that your mute function is turned off to allow your signal to reach our equipment. Once again, that is star, one, and we will pause for just a moment to allow everyone the opportunity to signal.

We'll go ahead and take our first question from Matt Robison with Wunderlich.

Matt Robison:

Hey, good afternoon and congrats on the results. Can you talk a little bit about 10% customers, if you had any or how many you had and whether you expect the third quarter results to have any sort of customer concentration, and maybe give us a little bit of a sense of how you think it might compare with what you just reported?

Leo Johnson:

Matt, it's Leo. Customer concentration, I'm thinking that we're going to be pretty much the same. Three customers are going to be kind of leading the way and it'll be over 30%. So I don't know if—I don't really, at this point, really want to get into the naming of the customers. We'll have three end customers. It's probably the same as it has been for the first six months of the year.

Matt Robison:

How about applications? What kind of equipment were the principle use cases?

Charles Myers:

Those would be—this is Chuck. Most of those would be smart TVs and connected home set top gateway type devices, for those three customers.

Matt Robison:

Did you say 2.7 antennas per device?

Leo Johnson:

I think we actually correct over 3 antennas per device in the second quarter.

Matt Robison:

I just didn't hear what you said in your prepared remarks.

Leo Johnson:

I believe it's 3.07, Matt.

Matt Robison:

Okay. So how about a little color on what we should expect next quarter and for the rest of the year?

Charles Myers:

I think I gave you, we're optimistic about our third quarter and we're happy to share that with you on the next earnings call.

Matt Robison:

When's that going to be?

Charles Myers:

Sometime after the end of the quarter. The date hasn't been (inaudible).

Leo Johnson:

Sometime before November 5.

Matt Robison:

Got you.

Operator:

We'll go ahead and take our next caller. Welcome. We'll move to Tom Sepenzis with Northland Capital Markets. Please go ahead, sir.

Tom Sepenzis:

Hey guys, congratulations on the quarter. I'm just wondering if you could talk a little bit about where you see the penetration of 802.11ac today and where you think it gets to by the end of '17?

Charles Myers:

I don't think we have—this is Chuck. I don't think we have an exact metric on it. There's not a lot of research in terms of the markets we're in and on anybody tracking what that penetration has been. We tend to think that it's very small and it's in the early stages of penetration and I think we expect to see that to continue on the type of growth that we've seen.

Tom Sepenzis:

Then just in terms of what the potential impact of 60 gigahertz Wi-Fi might be on your business and when you think that might start being incorporated on the set path and access point side. It's already being delivered on the handset side through Qualcomm's 820 chips. I'm just curious as to whether you're already thinking about that becoming an impact next year.

Charles Myers:

We are thinking about it. We do not see that as a significant impact in the next 12 months.

Tom Sepenzis:

Then I was wondering if you could talk about, obviously you've had great success with a couple of your carrier partners, and is there anyone new that you're talking to or should we be expecting new carriers to start driving the adoption of your antennas over your competitors? How is that progressing?

Charles Myers:

Well, we very much like the progression of our business. As you may or may not be aware, our business is dependent on our customers and our carrier rollouts namely, and there are a number of rollouts that are only going to begin in the fourth quarter. We don't see those as any new customer in particular, only customers that we've previously discussed in S1.

Tom Sepenzis:

Great. Thank you and congratulations.

Charles Myers:

Thank you.

Operator:

Ladies and gentlemen, once again, it is star, one to ask a question. We'll next move to Paul Duggan with Jackson Capital.

Paul Duggan:

Good afternoon, gentlemen. Congratulations on the nice quarter. It might be more directed to Leo. In the earnings release, I'm seeing \$0.15 a share on \$700,000 of income. That would yield about 4.6 million shares.

Leo Johnson:

Right. What that is is we—obviously at the end of June, we had not completed the IPO. So we sold roughly, we'll call it 1.7 million between the (inaudible) and the IPO. It also is because of this—formerly we had six series of the preferred shares and because of the accounting treatment of some of those shares, they are not counted because they would be considered anti-diluted. So on a go-forward basis,

you're probably looking at a share count of somewhere around 8.2 million shares. Does that answer your question, Paul?

Paul Duggan:

Well, kind of but it creates another one. The original, the IPO was 1.5 million. Was there an overallotment or was that taken down a bit?

Charles Myers:

Yes. There was another 200,000 shares taken down to overallotment.

Paul Duggan:

Okay. On the S1, I thought there were 5.7 million shares outstanding which would bring me to 7.4 million.

Charles Meyers:

Yes, but then you're going to have...

Leo Johnson:

But we also have approximately a million options out that will now be—basically those options will now be in the money so they're going to have to be counted on a totally diluted basis. I'm including those in the 8.2 I gave you.

Paul Duggan:

Okay. Then the last follow on relates to the whole thing in that I've seen research reports, or I think even by the underwriter, saying that approximately 5 million shares are locked up pursuant to halt the shares that existed prior to the IPO.

Leo Johnson:

Yes. It's 180 day lock up period on all of the shares that came out of a preferred batch.

Paul Duggan:

So is that the same as saying all shares prior to the--other than the 1.7 million—

Leo Johnson:

Yes, that would be basically the same thing. Yes. We had a handful of common shares that would not be subject to the lock up, but it's obviously the lion's share of the outstanding shares came from the preferreds. I'm talking like 95%.

Paul Duggan:

And those are locked up for 180 days?

Leo Johnson:

Yes. They're locked up until, whatever, February 21.

Charles Myers:

(Inaudible) we're not positive. But we are not positive about that date.

Paul Duggan:

I think it's listed (inaudible) but that's fine. Okay. Well, thank you. Congratulations again.

Leo Johnson:

Thank you.

Operator:

Ladies and gentlemen, at this time, this concludes our question-and-answer session. If your question was not taken, you may contact Airgain's Investor Relations Team at airg@liotus.com. I'd now like to turn the call back over to Mr. Myers for his closing remarks.

Charles Myers:

Great. Thank you and thank you all for joining us on today's call. As I mentioned, we're quite excited to now be in the public markets and we want to thank really all of our employees, our partners, our investors who's supporting us through this transition and allowing us to scale the Company much further. We look forward to updating you on our progress on our next call. Operator?

Operator:

Yes, sir. Ladies and gentlemen, that concludes our conference for today. You may now disconnect.