



**Airgain, Inc.**

**Fourth Quarter & Full Year 2016 Earnings Conference Call**

**February 16, 2017**

## 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

**Anil Doradla**, *William Blair & Co.*

**Wayne Loeb**, *Cowen & Co.*

**Tom Sepenzis**, *Northland Capital Markets*

**Matt Robison**, *Wunderlich Securities*

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

### **Operator:**

Welcome to Airgain's Fourth Quarter and Full Year 2016 Earnings Conference Call. Joining us for today's call are Airgain's President and Chief Executive Officer, Charles Myers, and Chief Financial Officer, Leo Johnson. Following their remarks, we will open the call up for questions from Airgain's publishing analysts and major institutional shareholders.

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 that during this call, Airgain Management will be making forward-looking statements about future events and Airgain's business strategy and future financial and operating performance, including performance for the first quarter and remainder of 2017. Actual results could differ materially from those stated or implied by these forward-looking statements due to risks 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 S1 and Form 10-K, which the Company expects to file by March 15, 2017.

Preliminary financial results for the Company's fourth quarter and year-ended December 31, 2016, included in today's earnings release, represents the most current information available to Management. The Company's actual results when disclosed in its Form 10-K may differ from these preliminary results as a result of the completion of the Company's financial closing procedures, final adjustments, completion of the audit by the Company's independent registered accounting firm, and other developments that may arise between now and the disclosure of the final results.

This conference call contains time sensitive information that is accurate only as of the date of this live broadcast, February 16, 2017. Airgain undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this conference call.

This conference call will also include a discussion of non-GAAP financial measures including Adjusted EBITDA. Please see today's earnings release which is posted on Airgain's website for further details including a reconciliation of the GAAP to the 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 in the Investor Relations section of the Company's website at [www.airgain.com](http://www.airgain.com).

Now, I'd like to turn the call over to Airgain's President and Chief Executive Officer, Charles Myers. Sir, please proceed.

**Charles Myers:**

Welcome everyone and thank you for joining us today. After the market closed, we issued a press release announcing our results for the fourth quarter and full year ended December 31, 2016, a copy of which is available in the Investor Relations section of our website.

Twenty sixteen was an exciting year for Airgain. First and foremost, we became publicly traded company listed on the NASDAQ Stock Exchange. Operationally, we experienced continued growth in our core gateway and set-top-box markets while making accelerated progress in some of our key emerging markets, and even expanding into newer markets like automotive and small cell. This led to impressive results with our sales up 56%, gross profit up 66%, and our Adjusted EBITDA more than tripling for the year. On top of that, we generated \$2.2 million of net income attributable to common stockholders for the year, or \$0.40 per share on a fully diluted basis.

Q4 echoed the positive performance throughout the year, especially in terms of our top and bottom line growth. Although, we experienced some normal seasonality during the quarter as a result of Chinese National Day in October, we're very pleased with how we closed out last year. Now before I provide any further details about our operational results as well as our future growth strategies and outlook, I'd like to turn the call over to CFO, Leo Johnson, who'll walk us through the financial results for the fourth quarter and the full year of 2016. Leo?

**Leo Johnson:**

Thank you, Chuck, and good afternoon, everyone. I'd like to start by reiterating that we do experience some seasonality as part of our business, which causes certain fluctuations in our quarter-to-quarter results. Chuck mentioned Chinese National Day, which took place in the first week of October. The Chinese New Year, which is the longest public holiday in China, takes place in our Q1. Consequently, our Q1 revenues are typically down sequentially from Q4. We remind everyone that it's prudent to assess our performance of our business from a long-term perspective to properly judge the real measures of our success.

Now turning to our financial results for the fourth quarter and the full year, ended December 31, 2016. Our sales for the fourth quarter increased 35% to \$12.6 million from \$9.3 million the same period a year ago. For the full year 2016, our sales increased 56% to \$43.4 million from \$27.8 million in 2015. The quarterly and full year increases were driven by an increase in product sales.

Our gross profit for the fourth quarter of 2016 increased 43% to \$5.5 million or 43.4% of sales from \$3.8 million or 41.2% of sales in Q4 of last year. For the full year, gross profit increased 66% to \$19.3 million

or 44.4% of sales from \$11.6 million or 41.9% of sales compared with the same period a year ago. The increase in gross profit as a percentage of sales for both Q4 and the full year was primarily due to the increase in sales of our board-mounted antenna, which have a lower per unit pricing and higher gross margin. Looking ahead, we reiterate our target gross margin of at least 40% and remain confident that we can continue to achieve this target.

Our total operating expenses for the fourth quarter increased 19% to \$4.3 million from \$3.6 million in Q4 of last year. For the full year, our operating expenses increased 32% to \$15.8 million, from \$12 million in the same period a year ago. The increases in both periods were primarily due to higher personnel expenses to support Company's sales and marketing and R&D initiatives. The increase in both periods are also due to higher administrative expenses incurred as a public company including expenses related to the Company's public equity offerings.

Net income attributable to common shareholders for Q4 of '16 totaled \$1.1 million, or \$0.12 per diluted share, an improvement of the net loss attributable to common stockholders of \$660,000, or \$0.99 per diluted share in Q4 of last year. For the full year 2016, net income attributable to common shareholders totaled \$2.2 million, or \$0.40 per diluted share, an improvement from the net loss of \$2.7 million or \$4.30 per diluted share in the same period a year ago.

Our Adjusted EBITDA defined as earnings before interest, taxes, depreciation, amortization, fair market value for adjustment of warrants and share based compensation, increased to \$1.4 million from \$837,000 in the same year ago period. For the full year 2016, Adjusted EBITDA totaled \$4.6 million, a significant improvement from the \$1.2 million in the same period last year.

Now turning to the balance sheet. Cash and cash equivalents at the end of the fourth quarter totaled \$45.2 million, which was up from \$16.8 million at the end of the prior quarter. The increase was primarily due to net proceeds of \$26 million received from our follow-on offering in December. We intend to use these proceeds to support organic growth of our core business. We also look to take advantage of enhanced cash position to acquire technologies or businesses that can scale our growth even further.

This completes my financial summary. I'll now turn the call back over to Chuck. Chuck?

**Charles Myers:**

Thanks, Leo. As can be seen from our numbers, we had a tremendous quarter and year. To further demonstrate, I'll share some of our key performance indicators and operational highlights for both the quarter and the year, then I'll talk about where we are currently in the market and our progress since the start of 2017.

Total customer devices, the number of devices in which our antennas are installed, increased 29% for the quarter to 14.9 million devices. For the year, total customer devices increased 55% to 53.6 million devices. For the fourth quarter, the average number of antennas per device, which measures how we can expand our presence in a single device, increased 11% to 2.96. For the entire year, that number increased 18% to 2.97. The average selling price per device for Q4 increased 7% to \$0.83. For the full year, the average selling price increased 1% to \$0.79.

In terms of quarterly highlights, we continue to gain traction in products targeting cable operators with increasing demand and new design wins in the gateway and set-top-box markets. We saw strong shipments during Q4 for a new 802.11ac HDR wireless set-top-box for a leading North American cable provider. We were also designed into a next generation 4K HDR wireless set-top-box that has already begun production shipments to a leading European operator. In addition, we began shipments for our next generation 802.11ac dual band 4x4 cable gateway. We're also experiencing demand for our products in the enterprise and retail WLAN segments. During the fourth quarter, we saw shipments ramp

for 802.11ac ceiling and wall mount access points with a leading networking vendor. We also witnessed growing shipments to a large consumer networking company showing that our investment to penetrate the retail router market is beginning to pay off.

Earlier this year, we introduced SmartMax, our new class of chipset agnostic embedded antennas for 802.11ac system. Designed for set-top, gateway, and smart TV deployment, SmartMax has been tested to produce significant improvements in the performance of MIMO systems. To supplement some of these product development initiatives, we're working more actively with our key partners and distributors to execute on our go-to-market strategy. We announced in January our new partnership with Celeno Communications to deliver a smart antenna platform that will help deliver high performance networking for the connected home. Together, we're creating the reference design that will enable the development of smart end-to-end solution that could power the next generation of gigabit gateways and set-top-boxes. We're encouraged by our progress through this partnership and strengthened our position in the rapidly growing WLAN device market.

We have developed a custom outdoor antenna for industrial IoT applications and are participating in a field trial with a major carrier in North America. We're committed to expanding our portfolio of outdoor antennas in support of industrial IoT, small cell, and enterprise application. Another adjacent strategic market that we're are starting to enter is the automotive market. We're seeing increased customer demand for GPS antennas to support IoT, tracking security, and mobile applications. We are encouraged by the rapid growth of this segment and are aligning a portion of our R&D, sales, and marketing spend to launch in market fleet antenna, and automotive connectivity solutions.

The well reported proliferation of wireless networking showing no signs of slowing down and is made possible by a more robust and advanced antenna solution, our specialty. Our innovative antenna systems and devices have made one step ahead of the rest providing solutions that enable the optimal amount of throughput for a high-performance connectivity. We're engaged with leading chipset makers to the design evaluation of antenna systems for the next generation 802.11 technology enabling us to create 8x8 reference designs, the latest Wi-Fi standard 802.11ax. The new standard promises significant benefits in terms of throughput, efficient use of frequency spectrum compared to 802.11ac. We've completed the initial designs for the 802.11ax and working with our vendors to deploy a solution that's compatible with this standard, expected to be released publicly in 2019.

While it's not our policy to discuss our customer relationships, we believe it's important to provide some clarification today around LeEco given in recent news coverage. As many of you know, we sell a number of our antenna solutions through our distributors to LeEco smart TV unit, LeTV. Last November, the parent company of LeEco was undergoing considerable financial difficulties that strained its ability to pay its vendors. We continued to ship LeTV related products in December. Approximately a month ago, LeEco announced that it secured a new round of investment that should help the company restore its financial position. We have recently begun to once again receive orders from the LeTV related products from one of those three key vendors. As we move into 2017, we will continue forward with our strategy of growing organically as well as inorganically when it makes strategic and financial sense. There may be opportunities to acquire complementary technologies, assets, or companies, and we feel confident in our ability to pursue these opportunities with our enhanced balance sheet. Our continued focus on R&D initiatives will enable us to not only bring new solutions to market, but also continue expanding into other strategic markets.

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

**Operator:**

Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick-up your handset before pressing the star keys.

Our first question is from Anil Doradla of William Blair. Please go ahead.

**Anil Doradla:**

Hey, Chuck, Leo, congrats on the greater results and congrats on being a public company. Couple of questions, you talked about acquiring gross margins above your target. So, how should we be looking at it in 2017 and beyond? Should we be above this target range through the course of the year or are you planning to revise your targets?

**Charles Myers:**

At this point as we've said from the outlook and without giving guidance, we--we build our models internally at 40% and we continue to follow that model. We view anything above 40% as gravy and all I would say was, you can hark it back to our past performance to make your assumptions on how we see margin going forward. If that continues to--if that changes--we'll update you if we see any dramatic changes.

**Anil Doradla:**

Okay. As a follow-up, I mean, clearly, I mean, if I just calculate the ASP per antenna, it looks like after several quarters, we're seeing an increase on a quarterly basis and year-over-year. Now you talked about the proliferation of antennas, you talked about 802.11ax. Can you talk about the ASP per antenna trends as we get into 2017? Is that something we should see as an increase or--as we see now or would you expect that to continue to be under pressure?

**Leo Johnson:**

I think based on the projects that we see, we see a potential for increase but I don't like to say at the end of the day, I mean if it comes back to what the mix finally ends up being but the problem--the projects that we're seeing, we're seeing an increase in that.

**Charles Myers:**

You tend to see--you'll see, I wouldn't call it pressure. You would just see, we're going to see a comfort level on the AoT side--IoT side. So, if you see a lot more mix of IoT antennas, you won't see a big increase in the ASP of each of those elements. On the connected home side and the data networking side, you should continue to see those to do nicely.

**Anil Doradla:**

Great and one final question guys, on the competitive landscape, you guys are doing very well. Can you share some thoughts on how the competitors are behaving, especially as it gets you to these higher order MIMO antenna systems OEMs, ODMs, whether they're building up teams and your leadership so to speak?

**Charles Myers:**

As we've always stated, we see our primary competitive pressure comes from the ODMs themselves and their internal teams. Our folks that are working with, primarily with the ODMs, have done a fantastic job building those relationships and we continue to see those relationships expand especially as we develop more and more complex systems.

**Anil Doradla:**

Great guys, and congrats.

**Operator:**

Thank you. Our next question is from Wayne Loeb of Cowen. Please go ahead.

**Wayne Loeb:**

Hi. Thanks for taking my question and congratulations on the quarter. Can you talk a little bit about the mix this quarter and the dynamics that drove the GM? Is this gross margin mix a seasonal pattern and could we expect it to be up next quarter?

**Charles Myers:**

I'll touch on it and then if Leo has anything I'll let him talk about. I wouldn't necessarily expect an up-tick and the mix isn't necessarily seasonal.

**Wayne Loeb:**

Okay. The next question is...

**Charles Myers:**

It continues to—if you look at it, we continue to be in a range that we're quite happy with.

**Wayne Loeb:**

Okay. As a follow-up question, so recently Comcast launched a beta program for streaming directly to a Roku device as an alternative to a set-top-box. As Roku is already a customer, do you see this representing an incremental opportunity and how do you see the antenna contents compared between set-top-boxes and dedicated video streaming devices?

**Charles Myers:**

The--this is Chuck again. All of the devices require those antennas. So, we're a bit agnostic of which box delivers it and as you see the content directly to those boxes, we see a normal mix. The devices tend to be additive rather than exclusive. You still primarily are required to have a carrier of some sort. Those operators continue to be the primary carrier and I think while everybody sees that as somewhat of a competitive pressure, we do believe strongly that it's additive for us and we see it as--continue to see it as a positive for our content.

**Wayne Loeb:**

Thank you very much.

**Operator:**



Thank you. The next question is from Tom Sepenzis of Northland. Please go ahead.

**Tom Sepenzis:**

Hi. Thanks for taking my question. You mentioned that you're seeing renewed orders from one of the suppliers to LeEco. So, would that imply that there was some weakness in the order chain quarter and that that might come back in March or did you get everything you think thought you were going to from that end-customer in the December quarter and things are just likely to stay normal?

**Charles Myers:**

In our December quarter, we saw just as we planned and we're not going to give guidance on the first quarter. I think we've addressed it and I think that you'd have to look to the public announcements of, are they or have they addressed their issues or not. We wanted to give some insight into that and that's kind of the insight that we have available to give.

**Tom Sepenzis:**

Great, thanks, and then in terms of 802.11ax, did you say that the first product wasn't going to ramp until (inaudible) or just that particular product?

**Charles Myers:**

No, I think we're referring to the public standard that is scheduled to be released in 2018. As with most of these standards, there's always a number of products that release well ahead of the standard release.

**Tom Sepenzis:**

Great. Thank you very much.

**Operator:**

Thank you. The next question is from Matt Robison of Wunderlich Securities. Please go ahead.

**Matt Robison:**

Hey, guys. Thanks for letting me take--ask a question and congrats on the quarter. Also, Chuck, I appreciate you taking the time to go through things and add your perspective on LeEco, and Leo, good to hear you on the call. I was wondering if I could start with some housekeeping with you Leo and then I've got some follow-on for Chuck. Can you give cash flow from operations, cap ex, and depreciation, and while you're looking that up maybe Chuck, you could comment on what kind of investment you're engaged with to do automotive and to what degree will your existing design and test verification facilities apply to that market?

**Leo Johnson:**

Matt, I assume that you're looking for Q4 cash flow, correct?

**Matt Robison:**

Yes, sure. That's what I asked.



**Leo Johnson:**

Okay. Yes. Because I mean the rest of it's in the announcement. Our Q4 cash flow, our net cash provided by operations is about (inaudible) million, \$1.4 million of that really flows through the EBITDA and then we had a little bit, just timing of some items. Cash collections on the receivables came in about—and increasingly about \$600,000 and our ending cash position as we already alluded to is about \$45 million during the quarter and \$28 million increase in cash transporter, \$26 million of it from the offering, and like I said, the other \$2-, \$2.5-million came from operations.

**Matt Robison:**

What was the cap ex and depreciation?

**Leo Johnson:**

Cap ex for the quarter was zero. I'd say--I told--like I said in the past, cap ex were either--there's a lot of--there will be other quarters probably that we won't spend anything because a lot of it's just around facilities and test centers.

**Matt Robison:**

Okay. It's a good segue for test centers for automotive and if you don't need any...?

**Charles Myers:**

Well, right now, I mean the beauty of our business is the expandability and the scalability of the business. So, the design efforts are not necessarily capital intensive from segment to segment. I mean, there's always equipment and test capabilities that vary a little bit and it tends to be very customer dependent. Specifically, we don't have any hard and fast number on our--any cost that would be assigned to the automotive market outside of resources that we possess internally today that takes away should we decide to look at an acquisition or the acquiring of talent in the specific area. We continue to work on designs that are focused on the automotive area and start to develop some products with some customers specifically to that market.

**Matt Robison:**

Is that sort of like a three-year timeframe before you start to see results from that or can it happen sooner?

**Charles Myers:**

I think it can happen sooner.

**Matt Robison:**

Okay, thanks.

**Operator:**

Thank you. At this time, I'd like to turn the conference back over to Management for closing remarks.

**Charles Myers:**

Great. We want to thank you for joining us on the call today. I want to especially thank our Partners and our Employees and our Investors for the continued support. It was a great year. We look very forward to the upcoming year and we look forward to updating you on our next call. Operator?

**Operator:**

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.