

Company Name: Airgain
Company Ticker: AIRG US
Date: 2018-05-03
Event Description: Q1 2018 Earnings Call

Market Cap: 79.10
Current PX: 8.18
YTD Change(\$): -.81
YTD Change(%): -9.010

Bloomberg Estimates - EPS
Current Quarter: -0.053
Current Year: -0.020
Bloomberg Estimates - Sales
Current Quarter: 14.033
Current Year: 59.600

Q1 2018 Earnings Call

Company Participants

- Alexis Christine Waadt
- James K. Sims
- Anil Doradla

Other Participants

- Karl Ackerman
- Auguste Richard

MANAGEMENT DISCUSSION SECTION

Operator

Welcome to Airgain's First Quarter 2018 Earnings Conference Call. My name is Ariel, and I will be your coordinator for today's call. Joining us on today's call are Airgain's Interim CEO, Jim Sims; CFO, Anil Doradla; and Director of Investor Relations, Alexis Waadt.

I would now like to turn the call over to Ms. Waadt, who will provide the necessary cautions regarding the forward-looking statements made by management during today's call.

Ms. Waadt, your line is live.

Alexis Christine Waadt

Thank you and good afternoon, everyone. 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 fiscal 2018.

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 release and SEC filings including its Form 10-Q, which we expect to file on or before May 10, 2018.

This conference call contains time-sensitive information that is accurate only as of the date of this live broadcast, May 3, 2018. 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 may include a discussion of non-GAAP financial measures including non-GAAP net income, non-GAAP EPS, and adjusted EBITDA. Please see today's earning release which is posted on Airgain's website 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 in the Investors Relations section of the company's website at www.airgain.com.

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Following management's prepared remarks, we will open up the call for questions from Airgain's publishing sell-side analysts.

Now with that, I would like to turn the call over to our Interim CEO, Jim Sims. Jim?

James K. Sims

Thank you, Alexis, and welcome everyone to joining us today. After the market closed, we issued a press release announcing our unaudited results for the first quarter ending March 31, 2018, and our CEO succession process which is available in the Investor Relations section of our website today.

I'd like to start by acknowledging Chuck Myers' contribution to the company. As we highlighted in the press release, Chuck has moved on to the next phase of his career and he wants to pursue other opportunities. As you may know he has been with the company for more than seven years and has played a very key role over those years. And on behalf of the entire organization I'd like to thank Chuck for his contribution and wish him the very best in the future.

Now before we share some of our financial results and operational progress for the quarter, I'd like to briefly introduce myself for those of you who do not know me. I've been Chairman of the board since 2003 and before I got involved with Airgain, I founded several companies, Concurrent Computer Corporation in the 1970s, Cambridge Technology Partners in the 1990s. And in many ways I see similarities with these companies and Airgain. In addition to being Chairman of Airgain, I'm also one of the largest shareholders of the company and I'll be taking a very active role and remain at this position until we select a permanent CEO.

When I first became involved with Airgain more than a decade ago, my vision was for the company to grow into an organization it is today by solving very complex engineering problems and innovative antenna designs. I've always believed that the rise in demand of wireless data and the need for high performance solutions meant that the ever increasing need for complex antenna solutions, I still hold these beliefs even more today. And I'm confident that the best days for Airgain are in front of us.

Turning now to our results. I'm very happy to report that 2018 is off to a very strong start and we are witnessing positive demand trends in our entire operations. First quarter sales of \$13.3 million were 18% over prior year, representing an all-time record for the company.

Underpinning these strong results were continued tailwinds across our connected home, automotive and IoT markets. These are the core markets we've been in since the beginning of the business. We continue to be bullish on our prospects throughout the remainder of this year. Based on the business momentum we've been generating, we are reaffirming our 2018 annual revenue growth of 20% year-over-year from 2017.

In many ways, we view our business as being supported by three pillars of growth. The first is tied to the upgrade cycle for the next generation Wi-Fi technology in the connected home. On that front, we continue to be bullish as programs that were delayed last year are finally ramping up. We believe these trends should be a catalyst for us over the next couple of years

Just in the United States, today it's estimated that there's over 100 million homes have broadband access and will have to be upgraded to 802.11ac and 802.11ax. The second pillar growth is the automotive fleet or IoT and enterprise areas, as you might recall those are predicated on the acquisition we did last year with Antenna Plus.

As many of you know, this has been a high ASP business with very healthy margins. We are seeing positive results on the demand front and believe the fleet market could potentially outpace the rest of our business. The rollout of the nationwide first fleet network combined with the demand to support new frequency bands and the support of SG systems will be a major growth driver for us moving forward.

And finally, the third pillar of growth is our strategy with the automotive OEM. Over the past couple of months, we've been actively engaged with several providers and expect to steadily gain traction in this market as we start to get new designs into the next generation automotive vehicles that require the absolute best and high performance wireless

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connection. As many of you know, this has been a focus of our investment and we expect revenues to begin in 2020.

Balancing these three pillars of growth will be our enhanced focus on achieving greater efficiency, especially on the cost front. With our strategy not change, we'll continue to invest in the business and support growth. We'll be taking a more disciplined approach to how we execute, which should enable us to maintain and expand our historical levels of profitability. This to say, we'll stay focused on growth but profitable growth to be clear.

In a moment, I'll be happy to take any questions, but before I do, I'd like to turn the call over to our Chief Financial Officer Anil, who'll talk to us and walk us through the financial highlights for the quarter.

Anil Doradla

Thank you, Jim, and good afternoon, everyone. Before I turn to our financial results, I would like to mention a couple of noteworthy highlights from the quarter that illustrate the breadth and depth of our customer engagements.

First, we started ramping up volume shipments of a next-generation wireless set-top box to an existing tier 1 U.S. MSO customer. This is a cutting edge 802.11ac device with a very sleek and streamlined form factor. In addition, one of our major European carrier customers started ramping up shipments of a second generation 802.11ac gateway to its customers. This product has seven antennas and can be used in a switchable configuration.

We also had a U.S.-based product company that's focused on asset tracking space start to ship one of our embedded antennas for fleet asset tracking for trailers and light duty vehicles. Our after-market fleet antennas are gaining traction for law enforcement and body camera applications. In fact, our solutions support both body to vehicle communications necessary to capture mission critical video streams.

And finally during the quarter, we also rolled out the first of our new M2Max product line. These external antennas address M2M and fleet applications and are Band 14 compliant, which means they are capable of supporting FirstNet applications as well. We already announced a second antenna in April and expect 13 more to be launched before the end of the year.

Coming to the financial numbers, our sales for the first quarter totaled \$13.3 million which is an 18% increase from the same period a year ago. The growth was driven by strength in our product sales across the board.

Looking at some other financial highlights for the quarter, gross profit increased 17% to \$6.2 million or 46.6% of sales, up from \$5.3 million or 47% of sales in the same period a year ago. Our GAAP net loss totaled \$1.1 million or a loss of \$0.12 per diluted share based on 9.5 million shares compared to a GAAP net income of \$385,000 or \$0.04 per diluted share based on 10.2 million shares in the same period a year ago. On a non-GAAP basis, net loss was \$635,000 or a loss of \$0.07 per diluted share. And finally, our cash and investments totaled \$33 million.

Once again, we were active during the quarter in terms of our share buyback program, which as a reminder our board approved in August of last year. During the first quarter, we bought 86,000 shares at an average price of \$9.06. Since the date of implementation through March 31, 2018, we repurchased a total of 221,158 shares for a sum total of \$2 million.

Looking ahead, we will continue to be opportunistic in our capital allocation strategy. Finally, we are affirming our 2018 sales growth guidance of 20% growth over 2017. Given our current pipeline and how we structured the business for success, we're confident that we'll achieve this target.

This completes my financial summary. Now I'll turn over the call to Jim. Jim?

James K. Sims

Thanks, Anil. And I want to thank everyone for being on the call today. Before we end this call and go into a question period, I'd just like to draw your attention to a couple of very important highlights. First, looking ahead, I see

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tremendous potential for the business as we sharpen our product focus and extract maximum value from innovative technologies.

Look, I've been here for five days working with the team. We have a solid team, a robust product line-up, and a very strong secular multi-year tailwinds with the transitions that are taking place, specifically in [ph] a conjunctive (11:53) market. And the long-term focus remains unchanged as we continue to execute on our strategies and major growth drivers, particularly in the connected home, the automotive, and the IoT market.

And finally, but certainly not the least, we want to continue to invest in the business to support our growth. However, we'll be taking a more disciplined approach with greater emphasis on profitability.

And with that, we're ready to open to any questions you might have. Operator, could you please provide the appropriate instructions now.

Q&A

Operator

Thank you. We will now take questions from Airgain's publishing sell-side analysts. [Operator Instructions] Our first question comes from Karl Ackerman of Cowen & Co.

<Q - Karl Ackerman>: Hi, everyone. Thank you for taking my questions. I must say I'm a bit surprised by Chuck's departure, but really particularly ahead of the strong DOCSIS upgrade ramp that's now just starting to inflect. So, I was hoping you may elaborate if this departure has anything to do with less optimism on your opportunity here in 2018 within broadband or any potential challenges you see with ramping your automotive revenue.

<A - James K. Sims>: Thanks. This is Jim. One, I see no change in the opportunity and the growth potential that we have in the broadband, in the connected home. I've been actively looking at the automotive OEM market. The change there is I think we can have a more effective way, a more cost effective way to enter that market. And it's my plan to focus on that because I think it's a big market and we just have to be more effective on how we enter that particular market.

Look, things change. It was – we are really ready to take the next level of growth in this company. At least it's my opinion that you can grow the business, but you can grow it profitably. And so the emphasis you'll see isn't a lack of opportunity, isn't a lack of growth. The transitions that are taking place today in the connected home are accelerating, the new markets we're well positioned for, but I think we also owe a great return to our shareholders. So I plan to focus on that in addition to focusing on the growth. But don't under any circumstance I think we have less potential, less opportunity and a less dedicated team to make this happen.

<Q - Karl Ackerman>: Understood. I appreciate the color. As my follow up, if I look at your guidance for the year the higher revenue in March and positive outlook from peers within the supply chain and the upgrade cycle would seem to set you up well to achieve your 20% revenue target for the year.

As you target that level of growth, you alluded to this earlier but how should we think about the level of spending in the first half of the year versus the second half of the year to target new program ramps?

<A - James K. Sims>: Yeah, what a great question and I'm glad you separated the first half and the second half. Now, like it or not we're four months and two days into the first half. So the amount of flexibility we have is somewhat limited to make dramatic improvements or changes to the operating side.

Moving into the second half, I think you'll start to see improvements in that area. My focus along with Anil over the next several weeks is to just look at that and see how it's going to happen. I know there's opportunities there, it's not appropriate that I speak to them today because they're not declared or properly put in position, but we think the second half you'll start to see improvements in the operating efficiency of the company. With no – I mean to be real clear, with no change in the growth potential and that includes 2019 and beyond.

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<Q - **Karl Ackerman**>: Understood. Thank you. [ph] I'll see the floor (16:01).

Operator

Our next question comes from Gus Richard of Northland.

<Q - **Auguste Richard**>: Yes, thanks for taking my question. I just wanted to follow up on the cost reductions you're looking at, and I'm assuming you're going to be focusing on driving down R&D or your SG&A. Could you just talk a little bit about your thinking at this point?

<A - **James K. Sims**>: So, why don't we answer it this way, I will give you a kind of a generic response and maybe Anil can be a little more specific if that's warranted. Look, the significant expenditures have been primarily focused around going into the automotive OEM marketplace. That is heavily and if I give it a 2 to 1, it's 2 in marketing, 1 in R&D, okay. You probably won't see a significant change in the R&D, because our investments in what we have to do in 5G is crucial, and not just for the OEM marketplace but for the fleet as well is what we're doing in the aftermarket. Where you could see a steady improvement will be in the marketing side, which I don't think will have an impact at all on our revenue growth in 2019 and 2020. So I'd focus more on that than I would focus on the R&D.

<A - **Anil Doradla**>: Hey, Gus, thanks for your question, this is Anil. Yes, kind of building up on that. I think what – when we look at the strategy, as Jim pointed out, there are three pillars of this growth, and you're pretty familiar. And whoever looked at the Airgain story they like it. There is our connected home business and then we've got the automotive business. And within that, you could further bifurcate that into the fleet side of it and kind of the OEM side of it. I think over the last [ph] six to eight (17:57) months what we have seen is that the fleet part of the business has exceeded our expectations and it's trending very well.

So coming back to Jim's point, the strategy remains unchanged from a big picture point of view. But we're tweaking it a little bit in the sense that we see some very healthy opportunities in the near term from a revenue point of view, thereby us focusing a little bit more on the fleet side. That's to say we're not deemphasizing on the OEM side, but I think we're just taking a second look on how we want to invest into some of the non-R&D programs and initiatives. So coming back to Jim's point, absolutely from a revenue point of view as we look at 2018, 2019, I mean, there are really no impacts, but this is more kind of little bit of a longer term.

<A - **James K. Sims**>: Maybe just to add the last piece and on that Anil, the – in the OEM what we're finding our core organizational structure has been more effective in going after the OEM than we thought we're going to be getting. We thought we'd take complete independence and complete new investments, we're finding that our core sales organization and R&D organization has done a very effective job in bidding out multiple OEM potential contracts.

And that gives me great encouragement that we can fulfill our growth opportunities in the OEM. But at the same time maybe being more effective as we get into the second half, and specifically you'll see I think pretty dramatic improvements in the first quarter of 2019.

<Q - **Auguste Richard**>: And then as a follow-up, could you talk a little bit about your – it sounds like you are not long into your search process for a new CEO, could you just give us a little color on that as well?

<A - **James K. Sims**>: Yeah. Look, it is – I'll try to be as direct and as honest as I can. Look, I've been here since the beginning of the company, okay. The first technology developed here which was the first smart antenna technology, it was my company that developed for Airgain back in 2002 and 2003 before we even formed the company.

So I've been committed to this and I have a good background in radar technology along with computer technology. My goal is – and I've been Chairman of the company since the beginning, so my goal is to stay active. I haven't started the search yet. I intend to spend initially time on the management team, which I think is really stepping up to what we have to do, and to make sure when the search has started that we bring in the talent that meshes with the management team and the direction that I and the rest of us including the board would like to take on this company.

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<A - **Anil Doradla**>: So Gus, I mean, that's a great question, building up on Jim's point, I think when the board and Jim and the management team looked at this whole issue around succession, what we're finding is the health of the business is really good. And coming back to Karl's point, the question was he was – when he talked about slightly being surprised of Chuck moving on. As a matter of fact, we thought when we interacted with Chuck is this is the right time for the transition because Chuck did a great job in bringing the company to where it was and we're on cruise control in many ways.

So Jim coming on board, what he wants to do is that – kind of harvest all these efforts that we're putting in right now for 2018, 2019, 2020. And really I mean some of the design wins, product wins are set in motion. So I think the way we're looking at the business is as we go into the second half, we clearly have certain some work to do on some of the cost efficiencies and we don't – do not want that any kind of disruption.

So I think the whole management team is on unison and we are all thinking alike. And more importantly, it's in a very good state of affairs in terms of the demand, the health of the company. We're not talking about any restructuring so to speak.

<A - **James K. Sims**>: Yeah. Let me just add, I've been through this several times and probably the best example is when I founded Cambridge, we took it public at a \$20-million valuation – a \$20 million in revenue, pretty close to what Airgain was. Right when we hit \$50 million or \$60 million, I had to go in there and change the management team. Bring in the president of the company, promoted the president of the company because the growth phase and it happens at \$50 million, \$80 million, different sizes depending on the complexity of your organization. But to take the company from here to \$500 million is completely different than to take the company from \$5 million to \$50 million.

And so – and I've been through it twice now personally and been chairman of the companies that have gone through it more times than that. And my goal is to make sure this transition happens without a hiccup and we can maximize the growth – this is an extraordinary opportunity. I mean, I remember 10 years ago when we sat down and we said nobody believe that a wireless embedded antennas are going to be the future. It's everywhere. Every car, every home, every person walking down the street is going to have this today and we are the single best in the world at doing that. And our job is to make sure we have the single best management team to execute against this and my goal was to help facilitate that.

<Q - **Auguste Richard**>: Got it. I appreciate the response. I'll move along. Thank you so much.

Operator

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 investors@airgain.com. I'd now like to turn the call back over to Mr. Sims for his closing remarks.

Anil Doradla

Thanks.

James K. Sims

I thank all of you for joining the call today. I especially want to thank our employees, partners and investors for their continued support. We look forward to updating you on our next call and potentially seeing some of you at the upcoming events here in the next several months, including the Cowen 46th Conference, along with the William Blair Conference on June 14. We'll be providing more details of our participation in those conferences as we move closer to the event. But for now thank you again for joining us, and we look forward to sharing our progress with you as soon as we can. Thank you.

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Operator

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