



Airgain, Inc.

Third Quarter 2019 Conference Call

November 7, 2019

CORPORATE PARTICIPANTS

Anil Doradla, *Chief Financial Officer*

Jacob Suen, *President and Chief Executive Officer*

Kevin Thill, *Senior Vice President of Engineering*

CONFERENCE CALL PARTICIPANTS

Carlin, *B Riley*

Karl Ackerman, *Cowen and Company*

Gus Richard, *Northland Capital Markets*

Alessandra Vecchi, *William Blair*

PRESENTATION

Operator:

Good afternoon. Welcome to Airgain's Third Quarter 2019 Earnings Conference Call. My name is Julianne and I will be your Coordinator for today's call. Joining us for today's call are Airgain CEO Jacob Suen, SVP of Engineering Kevin Thill, and CFO Anil Doradla.

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

Anil Doradla:

Thank you and good afternoon everyone. Please note, 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 fourth quarter 2019. 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 10Q which will be filed today, November 7, 2019.

This conference call contains time-sensitive information that is accurate only as of the date of this live broadcast, November 7, 2019. 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 diluted EPS, and 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 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 a replay via a link available in the investor relations section of the Company's website at www.airgain.com.

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 the CEO of Airgain, Jacob Suen. Jacob?

Jacob Suen:

Thank you Anil. Welcome everyone, and thank you for joining us today.

After the market close, we issue a press release announcing our results for the third quarter ended September 30, 2019, which is available in the investor relations section of our website.

I am very pleased with our third quarter 2019 results, with sales of \$13.1 million, down 9% on a sequential basis, and 17% on a year over year basis, and within our guidance range of \$12 million to \$14 million.

Highlights in the third quarter results include a strong performance on the Company-wide gross margin front that was higher than our stated long-term margin goals and a year-over-year improvement of 270 basis points to 46%, largely driven by efficient improvements on the manufacturing front, along with favorable product and pricing mix. Additionally, the automotive market witnessed strong momentum as we continue to benefit on the (inaudible) front from a new product launches in the second half of 2018.

As we close out 2019 and enter into 2020, we remain bullish on this market, as we leverage our Antenna Plus brand that is known across the industry for its innovation and first to market products. Similar to the last several quarters, we continue to secure new design wins across our consumer, enterprise, and automotive markets, and underpinning these wins are the ever-increasing demand for complex antenna designs to support higher bandwidth applications.

Additionally, on the 5G front, we are witnessing increased customers engagement in our five global R&D centers. Over the next several quarters, we expect to benefit from this new engagement, and strongly believe that Airgain will continue to be a leading solution provider for complex antenna designs.

We also reported third quarter 2019 GAAP and non-GAAP diluted earnings per share of loss of \$0.01 and \$0.05 respectively, on the high end of our prior expectations of loss of \$0.09 to flat on a GAAP basis, and on the higher end of loss of \$0.04 to \$0.05 on a non-GAAP basis.

The strength was driven by a combinations of factors that include higher gross margins, driven by operational efficiencies, and favorable product mix along with continued discipline on the expense front.

In many ways, the continuing strength on both of these fronts was largely achieved by the efforts that we put in place over the past several quarters.

Now, I would also like to highlight some notable design wins and key programs, initiatives, in the third quarter across the consumer, enterprise, and automotive markets.

On the consumer front, we started shipping a home gateway to a global tier one OEM supplier. Additionally, we witnessed increased customers engagement activity with the majority of tier one North American MSOs and telcos with their AO to the 11AXAP (phon) developments. We expect many of these products to launch in 2020 with the OEM and ODM selection process to be completed by the end of this year.

On the enterprise front, we have been selected as an approved supplier and are currently engaged in six projects with one of the world's largest enterprise vendors. Most of these designs are centered around enterprise-grade access points, used across small to large enterprise environment. In the enterprise market, focus on end-to-end applications. We started shipping our M2Max antennas to a leading supplier of digital displays.

On the automotive front, the quarter was marked with a large order for sales into one of the country's largest metropolitan transit systems. We believe this relationship validates the strength of our products and expect it to potentially lead to more public transit players being attracted to Airgain.

On the public safety front, we ship our Multimax antenna products to a tier one (inaudible) video system provider for their fleet applications. This is an existing customer to whom we already support video applications.

As you all know, this is my first full quarter since taking over as the CEO from Jim in August. I will like to also use this opportunity to share some strategic insights on the business front.

I have been with the Company for over 13 years. During this time, I have had the opportunity to not only witness the evolutions of Airgain but also shifts in the overall Internet industry. During the last decade, I have witnessed the industry evolving from antennas being simple solutions, contributing marginally to performance, to complex solutions and taking the center stage by becoming a crucial element in performance. We at Airgain have been at the forefront of these evolving changes that have resulted in us being viewed as a leader in the antenna space. While we are happy to be in that position, we do not intend to rest on our laurels, but will continue to strive to enhance our leadership position both within our traditional markets as well as the evolving wireless network landscape.

Since taking over as CEO in August, I have performed a strategic review of different target markets and shortlisted key imperatives that I believe will shape the Company over the next three to five years. These include opportunities within the enterprise market, building enhanced capabilities on the 5G front, and augmenting our capabilities via M&A opportunities. Furthermore, we are position ourselves to mitigate some of the ongoing macro issues, customer-specific issues that have impacted our business in 2019.

On the macro front, the ongoing global trade issues continue to impact our customers and the supply chain. We are witnessing some of our China-based partners increasingly seeking greater diversification from U.S.-based suppliers as they explore alternatives to mitigate their business risks.

In summary, as we exit 2019 and enter 2020, our focus is to continue positioning the Company for both long-term growth and sustainable profitability. This includes making the right investments in personnel and capabilities, diversifying our customer base, and achieving share gains in large markets that we have historically not been in.

On the M&A front, we will be taking a more proactive approach in evaluating opportunities to enable us from being a leader in the passive antenna space to a one-stop platform solution provider of both passive and active elements.

Over the next several years, we believe that the main environment for complex antenna designs will continue to be robust, and we are well positioned to continue to capture market share with our products.

In a moment, I'll be happy to take any questions; but before I do, I would like to turn the call over to our CFO Anil Doradla, who will walk us through the financial highlights for the quarter. Anil.

Anil Doradla:

Thank you Jacob, and good afternoon.

I will provide key financial highlights for the third quarter 2019 and provide some preliminary color around fourth quarter 2019.

Similar to previous quarters, we will continue to provide quarterly guidance, as we believe this will provide more clarity to the investment community, and keep us more focused on the execution front.

That said, I would once again like to remind investors that our business is subject to short lead times, and this may result in short-term quarterly fluctuations and affect our ability to accurately predict our business.

Now coming to the third quarter 2019 highlights.

Sales of \$13.1 million decline 9% on a sequential basis and 17% on an ear-over-year basis, within our guidance range of \$12 million to \$14 million.

Similar to last quarter, we continued to witness strength in our automotive business.

Third quarter gross profit was \$6.1 million or 46% of sales, versus \$6.7 million or 46% of sales in the second quarter and \$6.9 million or 43% of sales in the same period a year ago. Similar to the last couple of quarters, continued to benefit from operational efficiencies, combined with favorable product mix from our automotive business. Once again, I would like to remind investors that we continue to maintain our long-term gross margin outlook of 44% to 45% and would recommend the street to model at these levels.

Our GAAP net income totaled a loss of \$0.1 million or a loss of \$0.01 per diluted share, based on 9.7 million shares, compared to a GAAP net income of \$0.4 million or \$0.04 per diluted share, based on 10.1 million shares, in the same period a year ago. On a non-GAAP basis, our net income was \$0.51 million or \$0.05 per diluted share, based on 10 million shares, compared to \$0.9 million or \$0.09 per diluted share, based on 10.1 million shares, in the same period a year ago. These results are better than our prior outlook of a loss of \$0.09 to flat on a GAAP basis, and are on the high end of our prior outlook of a loss of \$0.04 to \$0.05 on a non-GAAP basis. The better than expected results was largely driven by our continued strength on the gross margin front, combined with continued focus on expense control.

Once again, we were active during the quarter in terms of our share buyback program, which, as a reminder, was approved by our Board in August of 2019 for an amount of \$7 million, expiring in September 2020. During the quarter, we purchased approximately 48 thousand shares for \$0.6 million. Since the share buyback programs were implemented in 2017, we have purchased a total of 420,000 shares for \$4.2 million. Going forward, we will continue to be opportunistic in our repurchase of shares under this program.

Finally, our cash, cash equivalents and short-term investments totaled \$33.9 million, which was slightly down from \$34.2 million last quarter.

Now, I would like to provide preliminary outlook for the fourth quarter 2019.

For the fourth quarter 2019, we expect sales to be in the range of \$13.0 million to \$13.5 million; at the midpoint of \$13.25 million, we expect to increase 1% sequentially and decline 20% year over year.

As Jacob highlighted in his opening remarks, the fourth quarter outlook continues to be tied to macro and customer-specific factors that have resulted in customers' taking longer than expected in their recovery to normalized levels of growth.

On a GAAP basis, we expect fourth quarter diluted earnings per share to be between a loss of \$0.03 to a loss of \$0.02, and on a non-GAAP earnings basis, we expect diluted earnings per share to be in the range of \$0.04 to \$0.05.

This completes my financial summary. I will now turn the call over to Jacob. Jacob?

Jacob Suen:

Thank you Anil, and thanks to everyone for being on the call today.

Before I open the call for your questions, I wanted to share a couple closing thoughts.

Since Jim took over as the CEO of the Company in 2018, Airgain has made significant progress with operational efficiencies, emphasis on fiscal discipline, and greater shareholder focus.

In many ways, while I assume leadership over a Company that is in a much stronger position, I believe there is work to be done.

My vision for the Company is to transform Airgain from being a consumer-centered antenna company to being a one-stop solution provider that addresses the needs for global enterprise and automotive customers. This entails providing solutions that extend beyond our existing portfolio of antennas, with greater content, both on the active and passive front.

We believe the timing is right, as the technological disruptions with 5G, next generation automotive, and technological shifts on the enterprise connectivity front will provide favorable backdrop for companies such as Airgain.

Over the years, Airgain has benefitted significantly from technology disruptions, as its core strength has been around complex antenna design and deployment across tier one global customers.

We believe the next couple of years will be very exciting as we leverage our technological experience for new opportunities.

Over the next several quarters, I will be happy to share with you our progress on these fronts.

Now, we are ready to open the call for your questions. Operator. Please provide appropriate instructions.

Operator:

Thank you. We will now take questions from Airgain's publishing sell-side analysts. To ask a question, please press star followed by the number one on your telephone keypad. To withdraw your question, press the pound key. We will pause for just a moment to compile a Q&A roster.

Your first question comes from Craig Ellis from B. Riley. Your line is open.

Carlin:

This is Carlin (phon) on for Craig. Nice job on the quarter and thanks for taking my question.

Anil, I want to start with you, as we think—actually, Jacob, this goes for you as well. As we think about growth into next year, obviously some of the program pushouts have been a little bit disappointing, but what's going to be the bigger driver for growth? Is it going to be kind of the connected home and the 802.11 transition, or auto growth has been really exceptional, it looks like, and it seems like it could be shaping up for a pretty robust calendar '20. What's going to be the bigger driver, or what percentage split would you expect to see growth in in calendar '20?

Anil Doradla:

Hey Carlin, thanks, so I'll just make couple of comments and pass it on to Jacob.

Look, at the end of the day when you look at the composition of our business, right, as you all know, you know, the vast majority of our business is driven by the consumer centric. But when you look at our three buckets, so to speak, you got the consumer, you got the enterprise, and you got automotive. Obviously the other two are smaller but they're higher-growth, so within the three buckets automotives are skewing the nature of our business, and will continue to do so over the next couple of years.

So as we look into 2020, just because of the composition of our revenue base, consumer will continue to be the biggest, and so the movements of our business will be driven by consumer but, when you compare with 2018 or 2019 or even for that reason 2017, the automotive and the enterprise which is combination M2M IOT and enterprise, they will actually start really influencing that. Jacob, I'm sure you can add some to that.

Jacob Suen:

Yes, I mean I concur with what Anil has stated. I think that the other thing is that we are seeing, for example, the first net initiative in the U.S., we do really feel strongly that we can take advantage of that, with some of the new innovation and new technology we are developing. So, I think that well position for the automotive market as well.

Carlin:

Got it. That's really helpful.

Anil, I know that you had mentioned that you know you want us to continue to model gross margins in the 44% to 45% range, which you know that we will do, but just, you know, now this is the second quarter in a row where we've seen 46% plus, what do we need to see to get more of a structural reset higher in that gross margin profile? Is it continued customer diversification and growth in the automotive business? Is it a 5G business ramp? What confidently gets us over that 45% threshold?

Anil Doradla:

Carlin, that's a great question, that's something I struggle with every day too, right? I mean, you're absolutely right, we're doing better.

So, I mean in a way you answered your own question, which is the product mix. But fundamentally what we are grappling with internally is, we got a mix shift which is favorable to us, but we have an investment angle too: an investment angle in new products, new innovations; Jacob talked in his opening comments around the number of things we're doing on enterprise and 5G; and that takes some effort. As a small company, when you prototype, that has impact on our gross margin.

So, at this stage, I feel a lot more comfortable sticking with the 44% to 45%. But over time, as we scale up to be bigger, as we kind of get through past some of these innovations that we're working on that impacts both the op ex line as well as the CoGS line, I think we're going to get some—a little bit more clarity, but your points that you mention are right.

Carlin:

Is there any, just to clarify, I know when Jim had come aboard he had mentioned some initiatives, some self-help initiatives on the CoGS line that he was working on; are those now completely wrapped, or is there, are we maybe in like the seventh inning on those? Is there any kind of further initiatives that are going to bring that down structurally, or like you said, is it really just mix?

Anil Doradla:

So, in terms of the work that we had to do, and what we said including Jim, there was kind of an operations angle to it, an R&D angle to it, and a sales angle to it, right? All these kind of play into it. Whether you call it the sixth or seventh inning is tough to characterize, but definitely we have progressed well on it. There's still some work to be done. We're working with our CMs, both in terms of the number of CMs as well as gaining more automation at these, and these will also add. But yes, I mean, to say that we've come a long way from where we started about 15 months ago, I think that's a fair thing to say. Over the next two years, I think the shift will basically be the material mover to our gross margins.

Carlin:

Got it. And then if I can just ask one more, then I'll hop back in the queue. You had mentioned M&A obviously getting to the point now where we would expect something soon. What's a bigger priority for the Company right now? Is it diversifying into new end markets with the current technology, or is it adding technology that's going to create a more well-rounded active and passive antenna supplier? Any color there would be great. Thanks.

Jacob Suen:

Yes. That's a great question. I'll take that question.

I think it's a mixtures of both. I think that we are continuing the innovation, not only on the existing market but also into the newer market. And then we're going to look for if there's any parking spots going to really help us, either from a technology front or from a customer's penetration into the newer market front, we'll look into all options.

Anil Doradla:

Yes, so building up on that, Carlin, what Jacob said, if you look in Jacob's opening comments, he talked about certain strategic imperatives that will influence over the next three to five years, and really in a nutshell what he was getting at was the enterprise, the automotive and kind of the 5G. Jacob has done a lot of work with the teams and we've discussed lot of M&As initiatives, and really what we're really focused on is capabilities. Right? We have great customers; our name is like a marquee name across the industry, so we don't have to struggle with that. The tougher problems, in some ways, are solved where we have great relationships with these great tier one customers. What we need to do is diversify our product portfolio, and Jacob is focused on that and finding out those niche areas where we could get high return on our investment and accelerate our development.

Carlin:

Got it. Thanks guys.

Anil Doradla and Jacob Suen:

Thank you.

Operator:

Your next question comes from Karl Ackerman from Cowen; your line is open.

Karl Ackerman:

Hey, good afternoon, gentlemen. Thanks for taking my questions. Two if I may. (Audio interference)

Anil Doradla:

Okay Karl, you've got to speak up. I think your line is—yes, now we can hear you.

Karl?

Karl Ackerman:

(Audio interference) prices today, and do you expect Wifi 6 to be additive, or should we expect this to be more neutral as Wifi 6 generalizes Wifi 5 device applications (inaudible) 2020.

Anil Doradla:

So Karl, what we heard is your question was, unless I missed the first part but you were breaking up, what we heard from you was, is Wifi 6 going to be additive or neutral relative to Wifi 5. Is that it?

Karl Ackerman:

In 2020, correct.

Kevin Thill:

Karl, it's Kevin.

Karl Ackerman:

Yes.

Kevin Thill:

It's going to be additive. They're going to go ahead and eventually add those frequency bands as part of the requirement, and we're currently right now working on multiple designs that are going to go ahead and meet those new requirements that are going to be coming down.

Karl Ackerman:

Got it, helpful. And, I guess as a follow up to that, I mean, how many design wins do we have today on Wifi 6, and do you expect that to be associated with that more (audio interference).

Kevin Thill:

Okay, since the requirement is not in place yet, I mean we are working, preparing for those opportunities that are going to be coming in the pipeline, and stuff so right now, there is no requirement for Wifi 6 in the hardware. What we've been doing diligently over the last six months is coming up with designs that will be able to meet those requirements when the hardware providers start to provide those requirements.

Anil Doradla:

But it's fair to say, Karl, that there a multitude of designs that will come to fruition. It's just that we're just trying to finalize some of the things that Kevin just talked about.

Operator:

Your next question comes from Gus Richards from Northland. Your line is open.

Gus Richard:

Yes, thanks for taking my questions. Just to focus on the Wifi 6 opportunity. Looking into next year, on Wifi 6, do you—what's the mix going to be between triband, 8 by 8, 4 by 4, and use? Is one better for you than another?

Jacob Suen:

Yes. Gus, it's Jacob here. So, I'll try my best to answer your questions, because a lot of them is still unknown. So, as we work with the tier ones, the good news is that it's an extension, it's an addition to what they are building today. So, and we have a strong foothold in that regard, so they are working very closely in their next gen stuff. So, just as Kevin was mentioning, we already working with them, but a lot of the hardware is still not ready. I think a lot of them want to do triband router. The challenge there it's not only on the (inaudible) but it's also the value in return. So look for us, we're going to support them whether it be triband, whether it be Wifi 6, we're there for them. We do have the capability to support all of those. It's more about when are they going to make that kind of decision. It's great for us, because it really opens up new opportunities. We talk about going from 11AC to 11NX, and then moving to the Wifi 6 or the triband router, those are all great news for us because it opens up new opportunities.

Gus Richard:

Okay, got it. And then, you mentioned you're looking at active antennas. I was just wondering if you'd add a little bit of color as to, you know, is that type T, is it Wifi, is it another standard, and sort of when you say active, can you just add a little more colors to exactly what you mean.

Kevin Thill:

Hi Gus, this is Kevin. There's a couple areas where we're working in right now. If you look at the enterprise market, where we've got some opportunities that come in, where we provide more than just a fast antenna, and that's really exciting for us because of the fact that it's an area that we want to go ahead and expand our business opportunities in. So, that's one arena.

The other one is in the automotive side. We are working on some pretty innovative creative designs that I think really will have an opportunity to be a game-changer for us. So, can't get into specifics, but I think as Jacob said, next year, over the next couple quarters, we'll possibly be able to go ahead and roll those things out.

Also, we have from—on a 5G front, we'll be displaying at CES some of our 5G millimeter wave (inaudible) forming technology. So, that's another area that we're actually working in and pursuing. So, that's more than just a passive antenna.

Anil Doradla:

So, this is a finance guy trying to give a shot at technology. So, let's see how it goes. But when we talk about active versus passive, the key thing which I see when I look at Kevin and his R&D team, it's not like we're building semiconductor chips or active components right now. So, I think the way we're looking it is in phases; we have the design capability, the IP, and we're partnering up with these third party providers. So, it's not like we're developing everything internally. So, we're going to take it in phased approaches, the first phase approach kind of from a risk-reward point of view is partner with these guys, create the innovation, own the IP, and then we'll go from there and see how it plays out.

Gus Richard:

Got it. Very helpful. And then, you mentioned in the opening comments, Chinese customers are looking to diversify away from U.S. vendors; could you talk a little bit more about that? Are you seeing some pull away in China, moving forward?

Jacob Suen:

Yes. It's a great question, by the way. I think this is—really what happen is that with the tariff situation that's very well known. Companies in the U.S. who are looking for options. If you only have a Chinese supplier, you're going to look for options. Just like we are even with the CMs, right? We're going to look for factories outside of China to mitigate our risk. The reversal is also true, for the Chinese-based customers, partners, they are also concerned about what if, you know, hey, can I ship (inaudible) as an example. Well, because of that, they are also looking for other options. So either be antenna, whether it be chipset, so that's why we made that particular statement.

Gus Richard:

Got it. How big are those customers as percentage of revenue in the current quarter?

Anil Doradla:

So, we're not breaking it down. Couple of things, Gus. That's a qualitative statement, when Jacob talks about that. See because there's a multitude of factors which we don't even have to go through the call because all you guys know, it's well publicized.

Now, the behavior of particular customer is driven by multiple factors. So for us to say that, yes, it was because of this particular reason they acted upon is very difficult to say. It is fair to say, and as it's reflected in our results, it is not localized, it is across, and it's not limited to us, right? This is something that we're seeing across the whole ecosystem.

So, we've internally tried to identify some of these things, whether we could localize it, but again, at the end of the day, as Jacob pointed out, it is all about risk mitigation, it's all about trying to continue growing, minimizing the risk and company-specific factors really.

Gus Richard:

Got it. Thanks so much.

Anil Doradla:

Thanks Gus.

Operator:

Your next question comes from Alessandra Vecchi from William Blair, your line is open.

Alessandra Vecchi:

Hi guys, congratulations. Jacob especially, congratulations on your first full quarter, and really delivering in a tough environment.

Jacob Suen:

Thank you.

Alessandra Vecchi:

I just wanted to circle back a little bit on some of your comments with regards to automotive and the strength in the quarter and some of the design wins. I believe you guys said last quarter you had 8 to 10 new products sort of shipping in the second half. I was wondering if you could elaborate a little bit more on what those types of products are and what specifically within automotive or fleet aftermarket they're targeted at. And then similarly if you could just expand a bit on the large order you commented on for one of the largest transit systems, if that's I assume for busses, or if you could just maybe clarify that a little bit as well.

Anil Doradla:

Sure, Alex. Hey, I'll take a stab and then Kevin will provide a little bit more color on maybe the technical aspects.

So, what ends up happening is, you design something, our sales force takes it out, goes on the road, shows it to the customers, they do their testing, they do their evaluation, they do their RFI, RFP, so there's a certain time delay. If you go back to what we said call it in the second half of 2018, we had a little bit of an air pocket with our automotive business, so if you go back into what we said, there was a little bit of an air pocket, and what we also said is that because we were focussed on next generation products. These were a dozen or odd, I can't remember exactly, somewhere there. Basically what happened was that it takes 6, 8, 10 months before they translate into revenues.

Now one of the key aspects of our automotive business is, in addition to us being very innovative and having good performance, we typically have found that we're first to market. When we compare with some of our competition we're first to market, and that's a very attractive feature. So, all those new products are finally getting into revenue stage right now, and they do have a multi-quarter multi-year life cycle on that.

On your second part of the question is, it's a very large top 10 metropolitan area within the country. It typically is bus-like applications, vehicular movement applications. It's a marquee win. We believe that sometimes when other cities, other municipalities look at the bigger guys using a certain technology, well that's a validation and test in the real world that these guys are doing something well so we're very excited with that. As you all know, some of those products tend to be high margin, high AFP products. So it gets back to our mix shift as we go into 2020, and it'll help us. So, I'll let Kevin talk a little bit about the nature of the product. Because right away, he's the one who discovered all those products.

Kevin Thill:

I thank you.

What happened was that you think about it in 2018, when you started to go ahead and design some pretty creative innovative antennas, and when I say innovative, we were able to go ahead and combine multiple bands in one housing, and what that's done is translate into customers out there who have specific requirements that they want to have say maybe even two routers going back to one antenna, and stuff, which allows simplification of the installation, and given the same performance. So, they've tested them over the year, and when we can put nine antennas in one housing and get really good performance, it just showed the end user that hey, maybe this is the route we need to go. We don't need to have two antennas on a vehicle, to have maybe four antennas on one, five on another one, we can take the nine antenna configuration and use that and get really good performance. So that's what's happened.

Some of those product designs that we worked on back in early 2018, where now you're seeing, going through the unit testing phase, now into the procurement phase, but we're seeing the benefits of those designs back then.

It's like any other industry, you go ahead and come up with these new ideas, and it takes time for the marketplace to realize the advantage of those new ideas, and then they start to purchase them.

This really should go ahead and be an opportunity for us to roll them to other major cities, which we're going to go ahead and use the same technology. So, that's what we're hoping for. See that you have a big carrier like that, that's working and using your product, it should lead to future business. So, that's exciting from a revenue standpoint.

Alessandra Vecchi:

That's really helpful. Similarly that actually just reminded me that I believe you guys had commented a few quarters ago about being a little bit supply-constrained or being a little constrained on your ability to

sort of meet antenna demand. So you just update on sort of your initiatives to increase supply and how that stands now?

Anil Doradla:

Yes. So Alex, on that front, what we've done is, we used to have one shift, and we've actually moved it to a two shift, so we've got double the capacity that we've worked on. We've also actually augmented with some of our international CMOs, who are helping us with that. So, that is something that we addressed.

The nature of the supply constraints also could be sometimes volatile because you get this large one order from a particular large metropolitan transit authority, and immediately creates a kind of a short-term constraint. But we've actually increased our capacity, and if you look at our opening statements, we've been pretty positive on automotive this quarter and last quarter, so I'll just leave it at that, and say that we've addressed many of those issues.

Alessandra Vecchi:

Perfect. That's it for me.

Anil Doradla:

All right. Thanks Alex.

Kevin Thill:

Thanks Alex.

Alessandra Vecchi:

Thank you.

Operator:

As a reminder, if you would like to ask a question, please press star, followed by the number one on your telephone keypad.

Your next question comes from Karl Ackerman from Cowen; your line is open.

Karl Ackerman:

Hey thanks gentlemen, sorry about dropping off. Just another follow-up if I may.

We understand that one of your larger home gateway and router customers is experiencing some supply chain realignment efforts. But could you just speak to the design wins you have across that customer and more broadly the landscape of not just cable MSOs but some of the connected home OEMs, that would indicate demand for your antennas picks back up, not just in December but as we think about 2020 ramp. And then could you just talk about some of your key design wins that should ramp next year as well as we think about your top line opportunity. Thank you.

Jacob Suen:

Yes. Very good questions, Karl, so it looks like you already know a lot of the landscapes out there, and I'll just highlight some of the up and coming design wins or shipping products. Certainly. One major shipping product we're going to have next year is relating to OTT. It's from one of the top tier telco, not MSO, customers. But we will be expecting high volume, expecting huge growth from that perspective, and certainly as we discuss earlier, a lot of the telcos and MSOs, not only domestically but internationally, are going through this transition, either from the AEC to the X or some new product. I think that's really going to help us, and (inaudible) pretty much we're all in the top three telcos, MSOs, both in domestically internationally. So you should see that here in the U.S., you will see that in Europe as well.

Karl, did we lose you?

Okay.

Operator:

At this time, this concludes our question-and-answer session. If your question was not taken, you may contact Airgain's investor relations at investors@airgain.com.

I'd now like to turn the call back over to Mr. Suen for his closing remarks.

Jacob Suen:

Thank you for joining us on today's call. I especially want to thank our employees, partners, and investors for their continued support. We look forward to updating you on our next call. Operator?

Operator:

Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.