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PRESENTATION

Michael Ashby - *Calix, Inc. - EVP, CFO*

Good morning. So my name is Michael Ashby. I am the CFO of Calix. I will take you through a presentation -- a high-level presentation of what Calix does, and what we are all about.

Starting with our Safe Harbor statement, which I do not intend to read. So let's move on. So Calix is the leader in access innovation. We are the largest telecommunications system vendor solely for access. That is all we do, we only do access products. We don't do any other products. We think that gives us some significant advantage because we concentrate -- and all our research and development goes into only developing access products.

And we have what we call a Unified Access portfolio of products that is a whole suite of products that we will have a look at it in a bit more detail in a few minutes.

We are the leader in advanced broadband access -- the North American leader in broadband access revenue according to Infonetics' recent reports. And we have a record of industry leadership. And we recently announced just a few weeks ago a global partnership with Ericsson, which we will talk a little bit more about in more detail in a few minutes.

We have over 1,000 customers worldwide, the majority in North America. Our international business is as yet relatively small, and 18 of the 20 largest US ILECs are Calix customers.

We have shipped over 75,000 systems. That is important, because in this business our chassis, our systems stay in the network for 15 to 20 years and can be upgraded as time goes on, so footprint is important. And we are financially a strong Company with no debt.

So what is happening in our industry and shaping the technologies that we have? The first is that commerce, as you know, it is going global. Second is that communications are going mobile and personal, obviously led by devices such as the iPhone, iPhone 5 that came out yesterday, and the tablets.

Information is digital. Even though only 10% of the information is actually digitized to date, all new information it is obviously digital, and old information is getting digitized as time goes on.

And, finally, the culture is becoming virtual. So virtual meeting and people are using Skype, obviously, and FaceTime and then other forms of virtual culture such as GoToMeeting, et cetera, that business has become virtual.

And what all of this means to us and to our world is that it is an all video world. So wherever you go video. And video doesn't mean video as on -- as watching a video on TV. It means that there is a video stream available, and video is required for broadband access. So you can't go to a website now where you don't have a video link of some kind. And the whole world is becoming a video world, which obviously drives the need for broadband access.

So let's look at some of the forces that are impacting the service providers themselves; that is our customers. First of all, there are the -- there is a regulatory environment. That is a training indicator. The regulatory environment has changed a lot over the last few years. It is continuing to change. The latest change is the USF reform, which we will talk a little bit about in a few minutes. But regulatory does dominate a large part of our service providers.



IP -- IP has obviously become pervasive, and IP is now all over the place, and that has leveled the playing field. And when I say leveled the playing field it means that the smaller customers can compete with the larger customers because everybody is using IP addresses, so it has made it a much easier playing field for service providers in general.

Competition, however, has intensified and that competition, I am not talking just among service providers, but that competition is coming from both the wireline providers, the wireless providers, the satellite providers and the cable providers. So it is an intensely competitive environment out there.

And, finally, the consumer has become empowered. This is really the most important element of it that the consumer now drives the need for bandwidth, not the other way around. And we will see that as we look at the business model right here.

So in the past the traditional business model, which was obviously voice driven, was network-facing. So the wireline providers put in a voice network and then they told you features -- they sold you features. You could buy different features on their voice network. And you basically bought whatever features they rolled out.

That has now changed. There is a different business model now and a broadband business model. It is a lower-margin model. It is a much leaner business model. And the difference is that the money is now no longer joined predominantly into the plant and engineering side of things and the operation and administration, it is upturned completely with most of the money going into marketing and customer service, less having to be spent -- less money available to be spent on plant and engineering and operations and administration.

And the new business model, the new networks are subscriber-driven. So they're driven by us, by the people who have the smartphones and the tablets and the PCs and the mobile devices. We are demanding services and getting those services, and the service providers have to provide those. We want broadband, and so it is the subscriber who is driving that service now. Completely changed from where it was as a traditional voice network.

So what is the destination? Well, the destination is actually well known. What isn't known is how quickly you get to the destination, but the destination itself is well known. Obviously, everything is moving -- the content is all moving to the cloud. Everything ends up in the cloud. Between the cloud and the access network is a data center. It used to be called a CO in the past, but now it has become data centers. That data center takes the content from the cloud, moves across the access network to the subscriber. The access network is everything between subscriber and the cloud.

The future network will be one network, only one network. It will be all IP. It will be over Ethernet over fiber with wireless at the end. It is quite clear that is the direction everything is going in, but everybody is obviously moving at different speeds towards that direction, towards that end.

That is what we call a transformation. And so we have a series of products which allows service providers to transform their networks. There are some service providers -- we have, in fact, over 300 service providers -- smaller service providers who have gone straight to fiber-to-the-home, but many of them are transforming their network slowly, piece by piece, from device network to an IP Ethernet over fiber network.

Our products range from what we call E7-20, which is an Ethernet services access platform. It is an extremely powerful 2 terabit platform, introduced about a year ago. And then the E7-2, which is a 1 RU stackable small platform with VDSL2 with vectoring and bonding as part of it.

The C7, which is our traditional Multiservice Access Platform, that is the largest selling product in the access world today. And that product which was originally introduced as an ATM SONET platform is now -- that same chassis is upgradable to pure fiber just by changing the blades that go inside that chassis. The B6 Ethernet Service Access Node, which is a product that we acquired from Occam just about 18 months ago.

And then in the lower part of this the ONTs family. The ONTs go on the home, on the premise itself for fiber connections. The E3, E5 and B6 ESAN, those are access nodes. They going to a nodal situation either in the neighborhood or perhaps hanging on a pole or in -- close to the homes. And then all of that is managed by software, our management software.



And then our Compass connect software which analyzes the data that comes from over the network so that they are able to find out who is using what bandwidth and how much bandwidth people might need.

So we have a whole series of products which allow our customers to transform their networks as they are required to transform them. And the beauty of it is that they can add blades and change blades as their subscribers demand change without having to change out the chassis. So we think that we have a perfect alignment between the broadband business model and the Calix model itself.

So what is our advantage? I mentioned that we focused only on access. We have a tight product market fit. We are an innovator. We are known to be very fast adapters of new technologies. Our E7-2 is the highest density VDSL2 product out on the market today. And as I mentioned it, including vectoring and bonding.

And we have the flexibility to deploy in situations anywhere for virtually any deployment scenario. We are architected for long CapEx efficiency. We expect our chassis to stay in the network for 15 to 20 years. And then you can upgrade by replacing different cards and nodes according to whatever new technology comes out. And so it is an evolutionary architecture in that sense. And our business model is aligned -- perfectly aligned with the way our customers are moving their networks forward.

Just a quick summary of our last quarter -- our last quarter which was disappointing from a revenue point of view, at a revenue about \$79 million, flat. But margins have improved over the last few quarters now in the mid-40%, which we are quite pleased with and expect to see those continue to improve. And even at a lower revenue number we are able to be both profitable and cash flow positive.

But we have a number of the expansion opportunities ahead of us. We are probably about a year behind in taking advantage of some of those opportunities than we thought we were going to be. But they are all still ahead of us.

We're making progress in penetrating former Verizon properties at Frontier. We are close to the end of the certification process for our first products in the Qwest properties that were acquired by CenturyLink. We have started to target some of the Tier 1 accounts, both domestically and internationally.

And we have recently announced a global resizing with Ericsson, which we think will help move our international expansion forward. So that agreement with Ericsson is significant for us. We were able to negotiate a deal where we have bought the 1500 GPON OLT from Ericsson; that was one of their products.

We did not buy any of their legacy products from them. They have end-of-life those products and they are responsible for supporting those. But the 1500 GPON OLT is installed in a number of Tier 1s internationally.

And the real interest in us in this arrangement is the global reseller agreement whereby Erikson will -- we are the preferred provider of access equipment to Ericsson on a worldwide basis. So when they go into customers, either selling the 1500, they will also be able to sell the E-Series products internationally.

And that is the part of this deal which was the most interest to us was to try and get into many of the Tier 1 accounts internationally where we are not able to open doors on our own, but with a significant partner such as Ericsson we will be able to get in there. So this is -- it is a big deal for us. It is a significant deal and we think has the potential to be quite successful.

So near-term headwinds. The customer spending slowed unexpectedly in Q2. I think some of you who know the Company and have probably heard us talking about this. This is to do with the USF reform on the Connect America Fund, where our Tier 3 accounts, our regional accounts that represent traditionally between 55% and 60% of our business, have started putting off projects in the second quarter as they have been trying to fight this USF reform and get the FCC to make changes.



Now they have taken the FCC to court on, I think, three occasions. They have lost each one of those. The FCC has said they are not going to change their regulations any longer. And by the end of December the FCC are due to come out with a final set of regulations, and by mid next year the service providers have to provide the FCC with five-year plans as to how they are going to upgrade to broadband in their regions.

So we think that this is slowly going to correct itself over the next few quarters; not all at once. But we expect that spending to slowly start to recover as they begin to realize that there are no further changes to be made. And that they have -- their choice is either to rollout broadband in rural networks or to perhaps put themselves up for sale to somebody else. And we do expect to see some consolidation in the industry.

So I won't go into the details of these CAF programs, but they are split between rate of return companies and price companies. The amount of money that is available for broadband over the next few years is significant. And as you probably know, it is not a tax, it is the amount that everyone pays on their telephone bills, at the bottom of their bill, called USF/ICC that is -- that used to be a pure voice subsidy, which is now moving to a broadband subsidy. And in total it is going to be \$4 billion a year for the next five years.

So the summary of Calix. We have a proliferation of IP devices and cloud expansion devices that fit in the data center. So fully growing demand for increasingly powerful broadband services, and we have the transformational products that allow that to happen.

We have a broad and strategic customer footprint, and particularly with the Ericsson arrangement now and a number of international Tier 1 customers that will be customers of ours once this deal closes.

And we have the ability to expand our addressable market. Today we address only about 15% of the worldwide market. With the Ericsson agreement we will be able to go after a larger part of that market, and a large part of our growth can come from the international marketplace in the future.

We are well-positioned to benefit from the broadband incentive programs -- in the last few years the broadband stimulus funds that came out in 2009, but going forward the broadband initiatives and USF reform in the US and in various different countries in the world where there are broadband incentives in place. So we see ourselves really as the beginning of a secular growth trend and we're right in the middle of it.

So with that, that is really a broad summary of what Calix does, and so with that I will open up for any questions.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Can you talk about any global share shifts (inaudible)?

Michael Ashby - Calix, Inc. - EVP, CFO

Sure. So the question was can we talk about any notable share shifts and how difficult it is to displace some customers.

Well, let me begin with that. Footprint is important in this business. Once you have footprint, you can continue to sell product into that footprint. So having 75,000 chassis out there, as I said, is important for us.

So it is not easy to displace somebody else. Once you gain footprint, and then unless you do something wrong, you stand a good chance of being able to keep that customer, and as long as you continue to upgrade your technology and bring out new products. And the advantage that we have is that you don't have to change the chassis. So the power of incumbency is pretty important in this business.

As for the market share changes in different customers, the Tier 1 accounts, we don't sell it to the Tier 1s in North America. We sell primarily to the Tier 2s and then the Tier 3s. We haven't seen any major changes over the last few years. What is happening is that in the Tier 2s in particular, some



of those have had exclusive access agreements over purchasing exclusively from some of our competitors. We have slowly built up our share in that marketplace. Now 18 of the top 20 ILECs are Calix customers.

And we are seeing, and expect to continue to see, our market share in fact continue to grow. And particularly in two accounts, notably the Qwest portion of CenturyLink and the Verizon properties of Frontier, which were exclusively ADTRAN properties previously and where we are now the second vendor into both of those. And so we have to perform obviously and slowly grow our share, which we expect to be able to do.

Any further questions? Yes.

Unidentified Audience Member

I know you mentioned you are targeting Tier 1 accounts (inaudible). A lot of people have said that the Ericsson reseller agreement, as well as (inaudible) acquisition is being (inaudible) AT&T. And is that -- I guess is that the case, and if not, how is that progressing? How is that (inaudible)?

Michael Ashby - Calix, Inc. - EVP, CFO

All right. So the question is about targeting AT&T and whether the Ericsson agreement helps in that respect. So let's first of all take the Ericsson agreement. We did not do the Ericsson agreement to get into AT&T. We did not do the Ericsson agreement to buy revenue. We did the Ericsson agreement to get an international reseller, and that is the biggest positive to us.

And the fact that the 1500 is in the number of international Tier 1s, so it is a way of us to break into -- to move our international expansion forward much, much faster.

Having said that, they do have one customer in North America, which is AT&T, which 1500 is sold into AT&T, which means that we will be selling through Ericsson into AT&T. We have been calling on AT&T for the last few quarters, and we have always said that is a two- to three-year time frame to break into that account or other Tier 1 accounts, and that remains to be the case.

The Ericsson agreement might help us a little bit. Certainly it means that the door is open so we can go in there with Ericsson. So that could perhaps make it a little bit easier, but that was not the point of the Ericsson agreement.

So we're after -- we are going after the Tier 1s. Again, we have always said we think it is a long-term prospect and we have to find the right niche to be able to be able to break into those customers.

Unidentified Audience Member

I know at quarter end you had mentioned (inaudible) it was a higher quarter. And given your prior quarter-on-quarter guidance, how are things progressing so far this quarter? Can you give any insight (inaudible)?

Michael Ashby - Calix, Inc. - EVP, CFO

You know, business -- we did say that June was slightly stronger -- stronger than May. And I think we have seen business continue in that vein during this quarter, so we have no reason to change our guidance. And as I mentioned, I think that the Tier 3 accounts, which were weak in Q2, we think will slowly start to recover over the next four quarters or so. So not all at once, but will begin to slowly recover. So we do expect to see that business begin to stabilize a little bit.

So to look at it another way, we think that the \$80 million revenue number a quarter is about as low as it should go. We don't believe it will drop any lower than that. And as long as we can run the business profitably and generate some cash at that level -- and we think we're in a pretty good



situation, because the growth engines that we have ahead of us are all still ahead of us and we think that we're going to be able to take advantage of those over the next few quarters.

Any other questions?

Unidentified Audience Member

Touching on the Tier 3 (inaudible) space, I think you mentioned (inaudible) few quarters out (inaudible). What do you see ultimately as the endgame within the Tier 3 space, whether that be consolidation (inaudible)?

Michael Ashby - Calix, Inc. - EVP, CFO

Sure. So the question is on the Tier 3, what insight can we give on the Tier 3 accounts. There are in total approximately 1,400 regional accounts or Tier 3 accounts in North America. We have about 1,000 of them as customers of ours.

When they look at the USF reform and that is analyzes, it breaks down to approximately one-third of those accounts are going to be slightly better off, if not better off, with the broadband subsidies in the future. One-third are going to be not terribly affected and about one-third are going to be worse off.

So most of our decline in Q2 came from the one-third who are going to be worse off, who are putting off projects and trying to decide what they're going to do about their business. And so we expect quite a number of those to decide -- for example, some of them rely on those voice subsidies for a large part of their revenue. So some of those we expect to decide that they are perhaps not going to continue in business, and will see if they can be acquired by somebody else.

So we expect the bottom one-third there to be some consolidation that takes place. We think that will be obviously disruptive in the short term but positive in the long term. And that the most likely acquirers of those lines will be the top one-third or the Tier 2 accounts, who most of whom are Calix customers. So we think it is advantageous for us going forward.

The industry associations are still telling some of the regional accounts that they think they can get further changes from the FCC. We don't believe that is going to happen. The FCC had been quite clear that they do not intend to make any further changes.

And so we think that the majority of the Tier 3s will slowly begin to realize that they're not going to get any further changes and actually start getting back to business and start putting their projects back and start spending the money again. But it is not going to happen overnight, it is going to happen one by one over time.

Unidentified Audience Member

They have the ability to work on multiple projects (inaudible).

Michael Ashby - Calix, Inc. - EVP, CFO

Generally speaking the Tier 3s are between sort of 500 lines and 50,000 lines, so a lot of them are very small, some of them are reasonable size. But most of them don't have the ability to work on multiple projects, they work on one project at a time.

That was one of the problems that we found with the broadband stimulus funds, which was when those were announced most of our customers were only able to work on one project, and so they used broadband stimulus as a means of funding their projects, not as additional projects, and that is still the case. So they can work on one project at a time.



So when they put up a project then they just put that off for a quarter or two, and then they come back to that project once they found the business case to make it work or the funding to make it work. And that funding they get from various sources. They get it from either their own internal cash flow or they get it from going to the markets or they get it from the RUS funding, which is \$600 million to \$700 million a year. And in the future they will get it from the USF reforming the broadband funding.

So they have various means -- they have been able to find the funds available to work on their projects, and that is why we expect this slowdown to be just limited.

I think that is time, so --

Unidentified Participant

We have a breakout right after this session in the (inaudible).

Michael Ashby - *Calix, Inc. - EVP, CFO*

Okay, good. Thank you very much.

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