



**Airgain, Inc.**

**Second Quarter 2019 Earnings Conference Call**

**August 8, 2019**

## CORPORATE PARTICIPANTS

**Anil Doradla**, *Chief Financial Officer*

**James Sims**, *Chairman of the Board*

**Jacob Suen**, *Chief Executive Officer*

**Kevin Thill**, *SVP of Engineering*

## CONFERENCE CALL PARTICIPANTS

**Craig Ellis**, *B. Riley FBR*

**Gus Richard**, *Northland*

**Karl Ackerman**, *Cowen*

**Alessandra Vecchi**, *William Blair*

## PRESENTATION

### Operator:

Good afternoon. Welcome to Airgain's Second Quarter 2019 Earnings Conference Call. My name is Christina, and I will be your Coordinator for today's call.

Joining us for today's call are Airgain's outgoing CEO and current Chairman of the Board, James Sims, newly appointed 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 that certain information discussed on the call today is covered under the Safe Harbor provisions and 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 third 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. This forward-looking statements

should be considered in conjunction with and are qualified by the cautionary statements contained in Airgain's earning release and SEC filings, including its form 10Q, which will be filed today August 8, 2019. This conference call contains time sensitive information that it's accurate only as of the date of this live broadcast, August 8, 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 GAAP to non-GAAP result. Any discussion of non-GAAP measures is not intended to detract from the importance of comparable GAAP measure.

Finally, I would like to remind everyone 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). Following Management's prepared remarks, we will open up the call for questions from Airgain publishing sell-side analysts.

Now with that, I would like to turn the call over to the Chairman of the Board, Jim Sims. Jim.

**James Sims:**

Thank you, Anil. Welcome everyone and thank you for joining us today. After the market closed, we issued a press release announcing our results for the second quarter ended June 30, 2019 along with the appointment of Jacob Suen, as the Chief Executive Officer of the Company, which is available in the Investor Relations section on our website. I am very pleased with our second quarter 2019 results with sales of 14.5 million, down 3% on a year-over-year basis and above our guidance range of 14.2 million 14.4 million.

Key highlights in the second quarter results included a strong sequential improvement in a Company-wide gross margin of 130 basis points to 46% largely driven by the efforts that we put in place over the past several quarters around efficiency improvements on the manufacturing front along with favorable product and pricing mix. Like the last several quarters, we continue to be engaged with 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.

The second quarter also witnessed healthy demands for applications around the automotive market. This was largely driven by strong demand of the new products launched the past couple of quarters. As we enter into the second half of 2019, we remain bullish on the market as we leverage our Antenna Plus brand that is known across the industry for its innovation and first to market products. On the 5G front, we continue to be engaged across multiple programs as we highlighted in the previous quarter. We're excited and looking forward to the industry's transition to 5G over the next several quarters. Our engagement on the 5G front stand gateways, small sells and automotive applications.

We also reported second quarter 2019 GAAP and non-GAAP diluted earnings per share of \$0.07 and \$0.12 respectively. Well, ahead of prior expectations of a loss of \$0.05 to a loss of \$0.03 on a GAAP basis and a loss of \$0.01 to a profit of \$0.01 on a non-GAAP basis. The upside opened a GAAP and non-GAAP bases was driven by a combination of factors that included strength on a gross margin front driven by operational efficiencies and favorable product mix, along with continued discipline on the expense front. In many ways, the continued strength on both these fronts were largely achieved by our efforts that we put in place over the past several quarters.

Before I get into some of the key design wins across our different markets during the quarter, I would like to share some insight into the end market trends and the demand environment. As many of you know, the ongoing tension on a global trade and macro trend are impacting the whole supply chain to varying

degrees. Last quarter, when we provided commentary around the outlook, we highlighted the impact of the macro environment along with a slowdown at a handful of customers. Additionally, we highlighted that these were short-term issues and we're expecting these customers to revert back to growth over the course of the third quarter. While we continue to believe that these customer issues are short-term in nature, the macro uncertainty and customer specific factors are impacting our supply chain and customer base in a more profound fashion. This in turn is impacting our business and this has resulted in the recovery taking longer than our prior expectations. Consequently, the timing issues have carried over into the third quarter resulting in our outlook being down on a sequential basis and a heightened uncertainty being reflected in our guidance for the third quarter, which has a wider than normal range. Once again, I'd like to highlight to investors that the demand environment for complex antenna designs continue to be healthy, and we are confident that Airgain will bounce back strong as we overcome these neutron headwinds.

I would also like to highlight some notable design wins and key programs in the second quarter across the consumer enterprise in automotive market. On a consumer front, we started shipping a fiber gateway that supports Wi-Fi 6 (802.11ax) to a Tier 1 carrier. The gateway supports a four-by-four configuration across three distinct frequency bands. We expect volume shipments to commence in the 2020 timeframe.

On the enterprise front, we'll be shipping antennas to an energy management Company for smart utility applications. Shipments have begun, and we expect shipments to continue in the second half of 2019. On the automotive front, our infotainment design win with a European-based Tier 1 vendor is expected to start shipping in the first half of 2020. We are excited with this opportunity as a timing of shipments is sooner than our prior expectation. That said, we continue to believe the majority of our design wins will ship in a 2022 time frame and beyond.

The Board of Airgain, also announced today the appointment of Jacob Suen as the new CEO and President of the Company. I'd like to take this opportunity to congratulate Jacob on his new role. As many of you know, Jacob has been with the Company for over 13 years in various management roles, the latest being the President of the Company. Jacob has been instrumental in building of strong service provider relationships and has proven to be an effective leader in our Company's success over the years. I am confident that under his leadership, the Company will continue maintaining leadership in a unique position across the industry.

I'd also like to take this opportunity to thank our employees and shareholders for supporting me during 15 months tenure as Interim CEO and CEO. During this short time, I've had the opportunity of meeting a cross-section of customers, partners, and vendors, and have been amazed by the outstanding achievements of our employees in shaping key programs through roll-outs with our global service providers. I'm truly proud of our employees' achievement and eagerly looking forward to continuing to support the Company as a Chairman of the Board. Before we move on to the financials, I'd like to invite Jacob to share a couple of thoughts.

**Jacob Suen:**

Thank you very much for the kind words, Jim, and good afternoon to everyone. As many of you know, I have been with the Company for over 13 years, and during this time, I have seen Airgain steadily becoming one of the market leaders for complex antenna designs across the globe. Over the years, time and again, I have witnessed the Company solving complex customer solutions that have resulted in superior performance across global deployments. I continue to have strong conviction in the Company's future and believe Airgain is poised to become a significantly larger Company over the next several years as it benefits from continued demand for its products across the consumer enterprise, and automotive markets.

Going forward, I hope to build up on that direction that Jim has fit for the Company over the past 15 months, and I'm eagerly looking forward to take on the new challenges and opportunities. While I will have more opportunities to interact in greater detail in the future, I would like to highlight some of the areas of strategic focus including 5G opportunities and gaining greater share across the enterprise. Once again, I would like to thank Jim and the Board of Airgain for the opportunity and look forward to meet many of you on the phone or in-person in the near future.

I would like to turn the call over to our Chief Financial Officer, 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 second quarter 2019 and provide some preliminary color around third 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's 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 in our ability to accurately predict our business.

Now, coming to the second quarter 2019 highlights. Sales of \$14.5 million declined 4% on a sequential basis and 3% on a year-over-year basis above our guidance of 14.2 million to 14.4 million. The strength in the second quarter was largely driven by robust demand in the automotive market. Second quarter gross profit was 6.7 million or 46% of sales versus 6.8 million or 45% in the first quarter and 6.6 million or 44% in the same period a year ago.

The strong sequential improvement of 130 basis points in the second quarter marked the second consecutive quarter of 100 basis points plus gross margin improvement, and was largely driven by the benefits derived from our efforts over the last several quarters around restructuring our operations, combined with streamlining our relationships with existing and new contract manufacturers. Additionally, a favorable product mix driven on the robust demand in our automotive market also contributed to the strong performance.

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 these levels for the remainder of 2019. Our GAAP net income totaled \$0.7 million or \$0.07 per diluted share, based on 10.1 million shares compared to a GAAP net income loss of 3.2 million or a loss of \$0.34 per diluted share, based on 9.4 million shares, the same period a year ago. On a non-GAAP basis, our net income was 1.2 million or \$0.12 per diluted share compared to 0.25 million or \$0.02 per diluted share in the same period a year ago. These results are better than our prior outlook of a loss of \$0.05 to a loss of \$0.03 on a GAAP basis, and a loss of \$0.01 to positive one on a non-GAAP basis. The better than expected results was largely driven by our strong showing on the gross margin front combined with continued focus on expense control.

Finally, our cash, cash equivalents and short-term investments total 34.2 million, which is up from 32.8 million last quarter.

I would also like to provide an update on adoption of the ASC 606 revenue standard. Over the past several quarters, we've been taking a closer look at the standard and the impacts to the Company. We're continuing with our process of adopting ASC 606, and while we continue to evaluate changes that are necessary to the processes and systems, we have come to the conclusion with the adoption of the standard, we do not expect a significant change to the overall pattern and timing to our revenue recognition.

Now, I would like to provide preliminary outlook for the third quarter 2019. For the third quarter 2019, we expect sales to be in the range of \$12 million to \$14 million. At the midpoint of \$13 million, we expected to decline 10% sequentially and 18% year over year. As Jim highlighted, the sequential decline is largely tied to macro and customer-specific factors that have resulted in customers taking longer than expected in their recovery to normalize levels of growth.

Furthermore, this uncertainty is reflected in a wider than normal guidance range for our third-quarter guidance. I would like to reiterate Jim's comments of our belief that this is the near-term pause, and we expect to bounce back to historical growth rates over time. On a GAAP basis, we expect third-quarter diluted earnings per share to be between a loss of \$0.09 to break even, and on a non-GAAP earnings basis, we expect diluted earnings per share to be in the range of a loss of \$0.04 to positive \$0.05.

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

**James Sims:**

Thank you, Anil, and thanks to everyone for being on the call today. Before I open the call up to your questions, I want to share a couple of closing thoughts. When I took over the Company in 2018, we set out some specific goals to position the Company for the long-term success. This involves several changes across our sales, marketing, engineering, and operations organizations. As our results have shown over the course of several quarters, we have made significant progress across each of our business units.

While the macro and customer specific issues are a near term hick-up to the Company, I believe the Company is in a stronger position and is well positioned to leverage growth opportunities over the next several years. The Company's core strength have been around complex antenna design and deployment across large service providers around the world. While the newer term poses some volatility, we believe the Company will be in a stronger position as we enter 2020 and beyond.

A combination of 5G adoption and into the enterprise market, continue scaling of our automotive business and the upgrade cycle to the 802.11ax are just some of the key growth drivers. I am confident that under Jacob's leadership, the Company will achieve new levels of success, and once again, I wish him all the best.

With that, we're open to questions. Operator, please provide the appropriate instructions.

**Operator:**

Thank you. We will now take questions from Airgain's publishing sell-side analysts. If you would like to ask a question at this time, please press star then the number one on your telephone keypad.

Our first question will come from Craig Ellis from B. Riley FBR. Please proceed.

**Craig Ellis:**

Thanks for taking the question, and Jim, congratulations on the strong job in a tough environment and in the report of quarter, especially on margins. I wanted to start with a couple of clarifications. Jim, thanks for all the details, just summarizing the macro-environment, is that fair to say that what we have out there for Airgain is a similar situation to what we had three months ago, but more intensified cross currents, and related to that, how do you feel about market share on programs that had been in progress that may be somewhat impacted by the delays and other issues that are out there?



**James Sims:**

Thanks for the question. What we are experiencing as we enter the third quarter, we indicated before that there were three clients that would be affected by what was going on in China. We're pleased that one of them now has developed in there—they're starting to produce in the third quarter. The other two, we really thought that we would be into production or back into production this quarter, it's just not going to materialize until the beginning of Q4. So, it is what it is, it has nothing to do with our performance and nothing to do with our capabilities, it's just what's going on in China.

I don't believe there is any impact on us losing market share. I just believe that the disruption that our vendors are moving substantial amount of business out of China and that part is delaying our ability to ship new products to them. So, I'm optimistic about the future. I wish several clients would have gone into production this quarter, it just didn't materialize the way we had planned. On the other hand, I'm pleased with what we did do, that look, we went in to all pieces of this operation. Here six, nine months ago, we got to operating expenses in control, we got our R&D up to five centers up and working, our integration between R&D and sales are working on new projects. I think we're world-class. So, we're in a great position to leverage off this foundation of the expense and the margins that we have today.

**Anil Doradla:**

Craig, this is Anil. Just building up on Jims' point. As he rightly pointed out, certain customer specific factors that he highlighted. But also the overarching theme out there is something that we don't even have to get onto the call, there's a bigger thing playing out there. So again, I think I said this last quarter, when we look at the range of our customers, we see different reactions right from people taking a pause versus doubling down in other countries. So, it's a combination of those, plus as James pointed out, certain customers and remember, we're a Company where a handful of customers contribute to a large portion of our business. So, the movements are impacted on both trends.

**James Sims:**

I think one of the things you're going to see as we move forward, our consumer business, which is the business that was impacted with the majority of what we just spoke about, our growth though is really in the enterprise and our growth is any automotive. Those have different characteristics and we're really pleased on our wins on the enterprise, and we're really pleased that even some of the automotive is going to production sooner than we thought. So I think over time, our mix of business will become more positive and less affected by a single client or two clients.

**Craig Ellis:**

Let me just pick up on that point then because I wanted to have some more strategic questions and I'll come back to a few OpEx items later. Jim, one of the things that we've seen from a lot of our companies is an observation that there's been a significant pickup in 5G related engagement in the last three months, and one of the things that you talked about when you talked about things that are happening or the three different types of programs that you have with 5G.

The question is, you mentioned that quoting activity has been good. Can you compare quoting activity or just design win engagement activity in the second quarter of what you've seen in other quarters in the past? The second question would be, with respect to capabilities around some of the new growth initiatives that you have, whether it's the 5G test labs or other things, how do you feel the Company's position for some of these bigger waves that are upon us?

**James Sims:**

Yes. What a great question. I'll start to answer and I'll turn over some of the specifics that Jacob since he's the one that runs all the sales and marketing for our organization. The first thing that happened during the quarter, we did put together a full group, just focused on 5G in the engineering. Major change because we think there was a huge opportunity there. We promoted somebody and that's one of the five centers that we have now to specifically go after 5G.

What we are seeing in the six gigahertz and below, which is the fourth release of 5G in the small sales, in a lot of the new platforms that are coming out. Our win ratio there has been very good. We continue to win there. Now, we're in the process of bidding opportunities around the millimeter wave length and that's what you're going to see. A lot of that really won't go to production until next year. A lot of activity, we're bidding it, but you'll see some production probably close to the second half of next year but I'll turn it over to Jacob. So he's a little closer with the bids we've been doing in that specific area.

**Jacob Suen:**

Yes. Hello, Craig, Jacob here. So in regards to your questions about quotation, we certainly have seen a substantial increase on the quotations in particular for the enterprise and the auto market. That's where we have positioned our Company towards, and we expect this in-trend to continue to grow. So, we're entering into the second half of the year. Then I think that you have also the—what was your second questions again? Remind me again.

**Craig Ellis:**

The second part of the question was, there is some obvious areas where the Company's added capability into quarter, it press released a 5G testing lab. But what are some of the things that the Company has done to prepare for some of the waves that you see coming?

**Jacob Suen:**

Kevin, you want to handle that.

**Kevin Thill:**

Yes, I'll handle it. Yes. We've gone ahead and upgraded every facility around the globe right now, to go ahead and be able to test and measure at the higher frequencies. Like we said earlier, we released a press release on the five millimeter wave on test lab. That's up and running so we can go ahead and make those measurements in house. That capability, it allows us to go ahead and develop the product faster. Prior to us opening up that, we had to go outsource that testing, so now we can do it internally. What that's going to do for us now is not only allow us to do testing, but also allow us to go ahead and track them—more talent to come into our Company to go ahead and work on those projects because we can do all this internally.

**Craig Ellis:**

Great, and then the next question I have is more financial, more for Anil. Anil, clear explanation on the positive gross margin variants that operating expense also came in quite a bit better than I expected. Were there any one-time items like accrual reversals worth all that a lowering of expense to put flow through into the back half of the year?

**Anil Doradla:**



So, let me break the question in two parts. Let me talk about the gross margins and then I'll go into operating expenses. I think what is happening on the gross margins is a couple of things. As Jim pointed out, we put in place a new structure. What happens is it takes some time to realize the benefits. What you saw last quarter and what you saw this quarter is just kind of a continuation of that trend. There's another element to it which is the mix. As Jim talked about in his opening comments, he talked about automotive being strong. So I think that's the two trends.

Now, as I said, I would like to continue maintaining a 44% to 45% gross margin, not because there's fundamentally something wrong with the business, that is reversing the business downwards. But what happens is, as we go into 5G, as we go into new development, it allows us and the team to make some investments on the gross margin front, so that's where I want to keep that.

Now, coming to your operating expenses, I think there's one thing that the Company has done since Jim's taking over is introduced a heightened level of focus on the operating structure. This was very clear and evident over the last four or five quarters that we've actually executed on.

Now, look, I mean, the way I look at operating expenses, there are always key necessary things that you just have to invest. But there's at times some optional things and some things that you time it. As the macro entered into an uncertain period, we had a higher level of scrutiny on the operating expenses, and things perhaps that I would have typically spent in the second quarter, we chose to hold off until these things kind of recover.

As far as the reversals and everything is concerned, one-off to items. No, there was nothing. It's pure blocking and tackling and making sure that every dollar we spend, there's a return. I would also like to say that as we go into the third and fourth quarter, we would start putting some of our spending into use as you model. We can get into the details later on, but I expect to see a little pickup from these levels in Q3 and Q4.

**James Sims:**

Right. I just want to add one note on that. If you look at the income statement, we've held our R&D pretty steady. That's where in my opinion, a year ago, we were not investing into the R&D into this Company the way we should have. So, there's really no reductions that are meaningful at all. It's really been around some of the marketing programs that are not going to come back. Those are one-time market programs that we stopped. They were not adding value to the Company, and the G&A that we brought down, and that's not going to come back. So, I think all the measures and the efforts we put in are paying off in both the margins, and are paying off in the G&A and the marketing expenses.

**Craig Ellis:**

That's very helpful, guys. Before I jump in back into the queue, Jim, congratulations on all you've accomplished as CEO. Look forward to being in touch when you're back as Chairman, and Jacob, I look forward to working with you as new CEO. Thanks, guys.

**Jacob Suen:**

Thank you.

**Operator:**

Our next question comes from Gus Richard from Northland. Please proceed.

**Gus Richard:**

Yes. Thanks for taking the question. In terms of the consumer when I believe you said that that was a Tier 1, is this for a home gateway for a cable Company?

**Jacob Suen:**

Hi, Gus. Jacob here. It's not for a cable Company but a Telco Company.

**Gus Richard:**

Okay. I noticed it was a tri-band four-by-four. In the new designs for Wi-Fi 6 that are going to be coming out, do you see those being four-by-four dual bands, four-by-four tri-bands, or eight-by-eight? What's sort of mix do you expect?

**Jacob Suen:**

Yes. I think based on what we're seeing, I think that you're going to see more four-by-four than the eight-by-eight. You're going to see more dual band than the tri-band. That's what we're seeing from the customer space.

**Gus Richard:**

Okay. That's very helpful. Then on the automotive, what is the application? Is that Telematics, is that vehicle tracking? Can you give a little bit more color on that?

**Jacob Suen:**

Yes. It's more for infotainment, call it infotainment, right. It's the system, the sound system, the display, etc. inside the vehicle.

**Gus Richard:**

Okay. That's interesting.

**Jacob Suen:**

We're actually finding that the infotainment is going to have, I think a higher volume in a closer time to market than other aspects of the automobile because the whole car is becoming an entertainment center.

**Gus Richard:**

Right, and that's a Wi-Fi design I'm assuming, not LCU.

**James Sims:**

Wi-Fi into 5G.

**Jacob Suen:**

Wi-Fi and Bluetooth, Yes.

**Gus Richard:**

In Bluetooth. Okay, got it. Then in terms of the enterprise...

**Anil Doradla:**

Just one point in this one. It's Anil. I think the thing that I would like to highlight, I don't know whether it was missed by some investors. But if you look at our narrative on automotive, especially on the OEM, we've been talking about late 21, 22, and so forth, right. As Jim pointed out in his comments, this is something that's happening much earlier than we expect in 2020. I think that's a very important thing. It's really exciting within the Company because typically, in technology, you see projects, and typically, they move out. This was one of those great things that are moving in, and we're pretty optimistic on this. So, I think this is going to really shape our Company over the next five years.

**Gus Richard:**

Right. This is an automotive OEM, correct? The European automotive OEM?

**Anil Doradla:**

We won't get into the geography, but it's fair to say it's an OEM.

**Gus Richard:**

Okay. I think in the preferred marks you said European. But anyway.

**Jacob Suen:**

Got you.

**Gus Richard:**

In terms of the enterprise, you're putting more effort into that, and I'm assuming this is access points. I was wondering when you might expect those wins to ramp.

**Jacob Suen:**

Yes. Actually, we're doing very well in that league. We're expecting some of these to ramp as early as the end of this year. We are talking about heavily engaging with some of the top five players in the world today.

**Gus Richard:**

Okay. In terms of support required for the customer per dollars of opportunity, how does that compare to the consumer space?

**Jacob Suen:**

It's much higher. You talk about ASPs, you talk about close to \$100 or even more compared to \$2 to \$5 for the consumer. That's what we feel really good about the market we are doing. So, building up on the strength. We have already built up on on the wireless side.

**Gus Richard:**

Okay. So, your content in these enterprise applications are, did I get that right? It could be as much as \$100 per box?

**Jacob Suen:**

Yes. Yes.

**Gus Richard:**

Okay.

**Anil Doradla:**

That's it. As much as 100, that's the key thing. It's not like every design is going to be \$100.

**James Sims:**

But substantially above what we're doing in the consumer.

**Anil Doradla:**

Exactly.

**James Sims:**

An embedded consumer.

**Gus Richard:**

Okay. So again, this is Cellular plus WiFi or am I getting that correct?

**Anil Doradla:**

Well, there are multiple projects we're working on. But, needless to say I think that none of them is below 20.

**Male Speaker:**

I think what he is asking is, is this WiFi, is it...

**James Sims:**

It's frequency bands. Yes, it's the cellular bands, it's the WiFi band that we're covering. Yes, (inaudible) bands also.

**Gus Richard:**

Okay. Got it. All right. That's it for me. Thanks so much for taking the questions.

**James Sims:**

Thank you.

**Operator:**

Our next question comes from Karl Ackerman from Cowen. Please proceed.

**Karl Ackerman:**

Hi, Jacob. Congrats on the employment. Jim, it's great to see you still heavily involved in your new role. A few question for me. But to start, I guess I understand the trade imbalances are influencing global growth. But in reality, this is now the second quarter in a row we have seen sequential and year-over-year revenue deceleration. So I guess I'm trying to just get attentive where you think we are in the cycle for (inaudible) upgrades across carrier networks, and then I have a follow-up.

**Jacob Suen:**

So I think, the (inaudible), I think that it's becoming much more mature. But now, all of the are talking about the AX version as well, and the WiFi 6. Right. So, in the sell-side, 3.1 I think it's getting to be very stable. Now, they're looking into an upgrade into the 11X and then the WiFi 6. So, we expect this to continue for the next two or three years.

**Anil Doradla:**

Now, in terms of—Karl, this is Anil. In terms of your comments about the sequential decline, you're right. This time in the year, typically, we're into a seasonally strong pattern, and it's not been the case. I just want to get back to our business model, right. We tend to be focused or—significant revenues come from our top 10 customers, and we tend to be more exposed to large telcos and service providers. And, all it takes is a handful of these guys going on the positive side or even going on the other side, and that's what shows up in our results here.

So, I think as Jim and Jacob pointed out, one of the things we're doing is to diversifying ourselves from some of these consumer-oriented service provider businesses, and that's why we focus on Antenna Plus, we focus on Automotives, and focus on Enterprise are trends which are going on. So, it's one of those things, the life-cycle of a small Company which is growing exposed to a little bit more concentrated set of customers.

**Karl Ackerman:**

I appreciate that. As a follow up, are you seeing anything in the competitive environment given the weaker demand outlook in the context of pricing both from merchant providers and from in-house OEM engineering departments?

**James Sims:**

Yes. Maybe I should try to address it. I think externally from competitors, I don't think there's been a material change in what we've seen over the past year. It's not unusual as you get maturity in a product life-cycle that some of the customers of ours who have capabilities internally want to compete because they're trying to cut costs and improves their margin. So we are seeing some of that as we go forward. But I'm pleased to see that in majority of the cases, we're able to outperform.

The advantage we have is that we have hundreds of projects that we've done. We have close to that amount in development at any one time and we can quickly move what we've done in one client and that technically move the technology, but the learning that we've had there and move it to another client to show differentiation in performance. So, we continue to focus on performance.

Hence, our reason to make darn sure that we beefed up the R&D organization, we brought in the key people that can help with that, and we worked closely with marketing to understand what we have to do in each vertical. But it is fair to say that we'll always have pressure from internal R&D capabilities, specifically as it relates to the consumer. That does not exist as we move into the enterprise and it does not exist at least what we've seen so far in the automotive, both the OEM and the aftermarket.

**Karl Ackerman:**

That's helpful. Last one for me as a follow up, could you discuss the automotive opportunity you alluded to for the first half of 2020, and how you see the linear area of that business both from an aftermarket and an OEM perspective from now until those design wins gain momentum in late 2021 and 2022? Thank you.

**Jacob Suen:**

Yes. So I mean, the outer OEM that we discussed, they're actually supplied through potentially several other Tier 1, if you want to call them. Right. Then we do expect that—we do expect that these particular opportunity, it's not going to be in the millions initially, but in 100's. But now, I think that the market for infotainment as Jim mentioned earlier, we really see that's going to be a big market as we move forward. It's the big data. People are now watching videos from their cars. So we expect a lot more opportunities in the next several quarters.

On top of that, we are also focusing on the bigger module that's going to help the LTE, the AM/FM, the WiFi, etc., and the (inaudible) as well. That's going to—that's take a little longer life cycle, but overall we do see the market really being a big market blossoming in the next three to five years. So that answers your question, Karl?

**Karl Ackerman:**

Yes, it does. Thank you, Jacob.

**Female Speaker:**

Our next question comes from Alessandra Vecchi from William Blair. Please proceed.

**Alessandra Vecchi:**

Hi, Jacob. Congratulations on the promotion. It seems a little earlier than expected. So, wonderful news for you.

**Jacob Suen:**

Thank you.

**Alessandra Vecchi:**



Anil and Jim, just sort of on the auto opportunity. In the past we've talked about being a little bit capacity constrained on the fleet side of things, is the upside this quarter a fair assessment to say some of that capacity has been alleviated? As well, have you started reaping the benefits of the AX on partnership? I believe you announced either last quarter or in Q1.

**James Sims:**

Clearly, and I'll let both Kevin and Anil maybe address part of this. Look, part of the—we think upside potential now and going forward is in the Antenna Plus business and the Management team there has worked diligently to expand our manufacturing capabilities of that and going forward. So, I'm comfortable that we could start to expand that business on a more predictable basis based on the work that was done. So, that was a lot of the work that was accomplished during the last six months, and I'm really pleased with the results.

**Anil Doradla:**

Alex, this is Anil. You're right. Good observation. Yes, some of the capacity constraints have been relieved. Just to share some insights what we've done, we're adding on people, both permanent staff as well as temporary, part-time. We just are initiating a night shift. So, while we were doing a daytime, now, we want to run two-shifts. So, aspiring to be a 24/7 Company on that front.

What we're also doing is we're expanding our manufacturing. You know, some of the SKUs that we can't build here, we're looking at our existing (inaudible) In China and doing that. Over the next six months, what Jacob and Jim have actually strategized on how to take this brand on a more global basis. So, we're very optimistic. We believe that some of the constraints have been relieved and we're benefiting from it, but there's still a long way to go, and there's significant opportunities.

**Alessandra Vecchi:**

Perfect. That's it for me. Everybody else hit my other questions.

**Anil Doradla:**

All right. Thanks, Alessandra.

**James Sims:**

Thanks.

**Alessandra Vecchi:**

Thank you so much.

**Operator:**

There are no further questions at this time. I would like to turn the call back over to Jim Sims for final remarks.

**James Sims:**

Look, I want to thank all of you for joining us today on the call, and I especially want to thank all of our employees, our partners, our investors for their support and their continued support as we go forward. I'm look forward to updating you, all of you on the next call if Jacob invites me to be part of that call.

**Jacob Suen:**

You are always welcome.

**James Sims:**

I'm now this strategic Chairman and strategic Adviser and trying to get my handicap lowered by one. So Operator?

**Operator:**

Thank you for joining us today for Airgain's Second quarter 2019 Earnings Call. You may now disconnect.