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Airgain, Inc. (AIRG)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. Welcome to Airgain's Second Quarter 2020 Earnings Conference Call. My name is Simon, and I will be your coordinator for today's call. Joining us for today's call are Airgain's CEO, Jacob Suen; CFO, David Lyle; and Senior Vice President of Engineering, Kevin Thill.

As a reminder, this call will be recorded and made available for replay via a link available in the Investor Relations section of Airgain's website at www.airgain.com. Following management's prepared remarks, the call will be opened up for questions and answers from Airgain's publishing sell side analysts.

I would now like you to turn the call over to Mr. Lyle.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

Thank you, and good afternoon to everyone. 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. 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 are qualified by the cautionary statements contained in today's earnings release and Airgain's SEC filings. This conference call contains time-sensitive information that is accurate only as of the date of this live broadcast, August 6, 2020. Airgain undertakes no obligation to revise or update any forward-looking statements to reflect events or circumstances after the date of this conference call.

In addition, this conference call may include a discussion of non-GAAP financial measures, including non-GAAP operating expense, non-GAAP net income, non-GAAP diluted earnings per share and adjusted EBITDA. Please see today's earnings release for further details including a reconciliation of the GAAP to non-GAAP results.

Now, I'd like to turn the call over to our CEO, Jacob Suen. Jacob?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

Thank you, Dave. Welcome, everyone, and thank you for joining us on the call today. I'll start with an update on the second quarter and a brief review of our strategy, and then discuss progress we've made on key programs. Dave will then provide financial details as well as a quick update on the impact of COVID-19 on our business following my remarks.

Let's begin with AirgainConnect. In our May earnings call, we discussed our innovation around the migration to integrated wireless solutions with our new patented AirgainConnect platform launch, how it could be a game changer for Airgain in automotive markets and our next-generation Wi-Fi and 5G offerings. We also announced the first AirgainConnect product which targets public safety in fleet vehicles. We have begun field trials and have inquiries from potential customers being processed.

Earlier this week we announced that we have received AirgainConnect device certification on AT&T's LTE network. You can now find our AirgainConnect product on the FirstNet website. We expect to see revenue begin to ramp in Q4 of this year. In addition to progress made on the product front, we are really pleased to announce that we have successfully engaged an additional contract manufacturer outside of China in Southeast Asia.

Our new contract manufacturer services many companies globally, and is experienced in antenna manufacturing. They have already been qualified and began volume shipments as of this month. This allows us to mitigate potential China tariff impacts and diversify risk away from China, where our two existing contract manufacturers are located. We will continue doing business with our China-based contract manufacturers as they have been great partners to Airgain.

Now, let's move on to our strategy where I'll briefly revisit our strategy for the markets we currently serve. Specific to the consumer market, our strategy entails winning new designs with our lineup of Wi-Fi 6 embedded antenna solutions which includes support for Wi-Fi 6E as well as CBRS. Wi-Fi 6E is an area, where more complex antenna technology is required and where we believe we are innovation leaders.

On the enterprise market front, we are targeting new 5G device programs, primarily sub-6 gigahertz CBRS and Wi-Fi 6 opportunities for integrated smart antenna systems. This allows us to leverage our core competencies in advanced antenna designs in a market that offers significantly higher selling prices in the tens of dollars to hundreds of dollars range. The automotive market continues to be our largest growth opportunity in the current year, but also has significant long-term growth potential.

Our strategy is to leverage our Antenna Plus brand in the North American fleet in public safety, outdoor aftermarket segments, to generate near-term revenue. For longer-term revenue growth opportunities, we are pursuing the European and North American outdoor OEM market as well as the fleet aftermarket in Europe. Most importantly, we have now launched our game-changing AirgainConnect platform that will be leveraged into several products to serve multiple markets around the globe.

Moving to an update on some key programs we highlighted during our May earnings call. We are continuing engagement with a major gateway program for a Tier 1 carrier in North America. We have now received volume orders for Q3 delivery, signifying the ramp has begun. We are also continuing engagement with significant Wi-Fi 6

gateway programs started in Q4 of 2019, with a North American Tier 1 operator. We expect this to launch in Q4 of this year.

Now, I would like to highlight some notable design wins and key program initiatives that occurred specifically in the second quarter across our market. On the consumer front, we continue to see momentum for our Wi-Fi 6 embedded antenna solutions. We were selected to provide a new Wi-Fi 6 router design for a fixed wireless broadband Internet service provider in North America. Initial orders were placed in Q2 and are expected to continue to ramp through the end of 2020.

We also won a design with a new Wi-Fi 6 DSL gateway shipping into North America. Product orders have been placed, and we expect to see revenue through the end of 2021. During the quarter, we were selected to provide an 802.11ac router design shipping into one of the largest service providers in Japan. We expect production orders to commence in Q4 of this year. We are also seeing increased demand for mobile hotspots due to work-from-home trends related to the COVID-19 pandemic.

As an example, we recently won a new design with a mobile hotspot for one of the largest telco operators in the world for target markets in Europe. We received sample orders in Q2 and expect it to ramp in Q3 of this year. In the enterprise market, during the quarter we secured a design for a wireless industrial automation program. We received sample orders in Q2 and expect it to ramp in Q3 of this year.

Additionally, we started shipping to a large utility company in the US for a machine-to-machine, smart utility application, and expect shipments to ramp in Q3 of this year. We were also selected by one of the top metropolitan transit systems in the US with a machine-to-machine connectivity application. We expect shipments to commence in Q3 of this year.

In line with our strategy to generate longer-term revenue opportunities with higher margins, we have engaged in a new in-flight Wi-Fi 6 access point design for the two largest commercial aircraft manufacturers in the world. This is a substantial program with anticipated five-year longevity that shows diversity in enterprise wireless LAN applications, with a significantly higher selling price in the \$100 range.

In automotive, we have been selected by a police agency in Canada's largest province for a public safety fleet trucking application. Initial orders have been placed in Q2, and shipments are expected to continue through 2021. In the European automotive leisure market, we have engaged formally on a new program with specialized combination antenna supporting TV, FM and 5G MIMO cellular connectivity for a leading motorhome [ph] outfitter (00:11:18).

The UK is experiencing a boom in motorhomes during the COVID-19 pandemic, with 2020 vehicle registrations up over 20%. This is a new territory opportunity that allows us to leverage our core competencies in complex 5G antenna design, with significantly higher selling prices in the hundreds of dollars range. We are very proud of the progress we've made over the past quarter and excited about the prospect for second half revenue growth.

Now, I'd like to turn the call over to our Chief Financial Officer, Dave Lyle, who will walk us through the financial highlights for the quarter. Dave?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

Thank you, Jacob. I'll begin by providing key financial highlights for the second quarter 2020 as well as our outlook for the third quarter, qualitative commentary around how Q4 could play out, and then a COVID-19 update.

Second quarter 2020 revenue of \$11.4 million was above the midpoint of our previous guidance range of \$11.25 million.

Revenue grew about \$230,000 sequentially from Q1 to Q2 due to strength out of our consumer market revenue, as our large service provider and customers began ordering more aggressively following a pause from COVID-19 impacts, while both enterprise and automotive market revenue remained relatively flat from the prior quarter.

Q2 gross margin of 47.1% was again above our long-term gross margin target range of 44% to 45%, as we benefited primarily from a favorable product mix shift. Non-GAAP operating expense in Q2 was \$5.2 million, significantly better than the midpoint of our previous guidance range of \$6 million. We benefited from lower travel and entertainment and cancelation of shows and exhibits during the quarter, both due to COVID-19 continuing to keep us home.

We also saw material improvements over guidance, as we implemented discretionary cost saving measures that are already positively impacting our operating expense. Excluded from non-GAAP operating expense was \$654,000 in stock-based compensation expense and \$124,000 in amortization of intangible assets. Adjusted EBITDA was \$323,000 in Q2, well ahead of our expectations mainly due to much improved operating expenses and higher gross margins.

Non-GAAP net income in Q2 was \$214,000 and Q2 GAAP net loss was about \$736,000, both better than the midpoint of guidance. Moving to earnings per share. Our Q2 non-GAAP earnings per share was positive \$0.02 based on a fully diluted share count of 9.9 million, and GAAP loss per share was negative \$0.08 based on a basic share count of 9.7 million. This was better than the midpoint of our previous guidance of negative \$0.08 on a non-GAAP basis and negative \$0.16 on a GAAP basis.

Finally, our Q2 cash, cash equivalents and short-term investments was \$35.1 million, up almost \$1.6 million from Q1 due to positive working capital changes, as well as cash generated from operations. Cash used for share repurchases during the quarter totaled about \$418,000 for 45,500 shares or an average of \$9.17 per share.

Now, I'd like to provide a preliminary outlook for the third quarter of 2020. In Q3, we expect revenue to be in the range of \$12 million to \$13.5 million or 11.4% sequential growth at the midpoint of our guidance range of \$12.75 million. We expect consumer market revenue to grow sequentially, primarily due to three product ramps and initial inventory builds from two of our large North American service provider end customers.

We expect enterprise market revenue strength as a result of new product ramps at several customers, and we expect our automotive market revenue to be in line with last quarter. Our Q3 2020 billings plus backlog are again well ahead of the last several quarters at this point in the quarter. We expect gross margin in the third quarter to be above our long-term model, again in the range of 46% to 47%. We believe Q3 non-GAAP operating expense will be about \$5.4 million plus or minus \$100,000.

In Q3, we expect to see increased payroll and benefits expense associated with recent talent acquisition and our annual merit increase process, which took effect July 1. Excluded from our non-GAAP operating expense estimate was \$650,000 in stock-based compensation expense and \$124,000 in amortization of intangible assets. At the midpoint of guidance, adjusted EBITDA in Q3 would be approximately \$680,000. At the midpoint of our guidance, we expect Q3 non-GAAP earnings per share to be about \$0.06 based on a fully diluted share count of 9.9 million; and on a GAAP basis, we expect a loss per share of \$0.03.

Although we are not providing specific annual financial guidance, I would like to revisit how we expect revenue to play out for the remainder of the year. First and foremost, we cannot predict how COVID-19 will ultimately impact our revenues this year. However, based on our current view, we continue to expect revenue growth in the second half of the year over the first half as a result of new design win ramps. We also still believe that the work-from-home policies and the resulting increased bandwidth requirements will ultimately have a positive impact on connected home-related businesses, an ecosystem in which we play a significant part.

As we indicated in the last earnings call, we expect our consumer market revenue to continue to be the bulk of our total revenue in 2020. Going into 2021, we expect our newly launched AirgainConnect platform's first product to generate material and growing revenue for Airgain throughout 2021. In terms of inorganic growth and technology expansion potential, we continue to evaluate opportunities that either expedite our time to market for new innovative products or that help us gain the benefits of scale in our markets. However, we currently have nothing imminent nor anything we believe has merit to move forward with. We have prioritized our cash preservation, given the current environment so we will approach any transaction with caution and conservatism if they were to arise.

Summing up where we are today, we believe we are in a solid position to sustain through a challenging environment and are very excited about the prospects for growth in the second half of this year, but more importantly in 2021, especially as it pertains to AirgainConnect. Our sustainability and durability continues, as we have a very solid balance sheet with a strong cash position and no debt. Before I turn it back over to Jacob, I wanted to give a quick update on the impact of COVID-19 on our business.

To date, we have had no reports of employees contracting COVID-19. We are prepared for if or when that happens. We have aligned our policies and procedures using a conservative viewpoint to the standards set by federal and state recommendations. We have had little to no supply chain disruptions and only a few customer delays, as I've detailed in prior comments.

Now, I'll turn it back over to Jacob. Jacob?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

Thanks, Dave. We continue to have robust demand for our products, and we are very excited about the prospects for us to growth in the second half of this year, even in this very challenging environment. We also deliver on reducing manufacturing risks away from China by expanding our contract manufacturing to Southeast Asia with a very solid and experienced antenna manufacturer. Our progress on our game-changing new platform, AirgainConnect, has already begun drawing attention from potential customers, and our field testing shows that our first product is performing to our expectation. We also successfully deliver on obtaining device certification on the AT&T network.

Finally, I also stated in our last call that 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 a favorable backdrop for companies such as Airgain. Progress with design wins and innovation in the past quarter continue to bolster my confidence in delivering long-term value to our shareholders. We appreciate those investors who have supported Airgain's progress during our strategic transition to a company with broader market diversification, delivering higher levels of innovative wireless solutions, and especially during a very challenging environment.

And with that, we are ready to open the call for your questions. Operator, please provide the appropriate instructions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now take questions from Airgain's publishing sell side analysts. [Operator Instructions] Your first question comes from the line of Craig Ellis with B. Riley FBR. Your line is open.

Craig A. Ellis

Analyst, B. Riley FBR, Inc.

Q

Yes. Thanks for taking the question. And Jacob and Dave, congratulations on the good execution. Dave, I wanted to start just understanding what you're seeing in the connected home business as you look at the third quarter and then into the fourth quarter. So in the third quarter I think I heard you say that you've got three product ramps going and two others, but I think the latter two were associated with some inventory build.

So, what does that mean for the segment's ability to continue to grow in the fourth quarter? And then, any color on the duration of those programs as we think about calendar 2021 would be helpful?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. The quick answer is that the service providers, as you know, drive a significant portion of our revenue. The main North American service providers are really what I'm talking about. As we said historically over the past couple of quarters that there was a product cycle transitioning going on, where some of the products we've been shipping for a while are starting to ramp down as some of the new ones are ramping up, and we're kind of right in the middle of that happening.

Q3 is the first quarter where we saw a multiple of those starting to ramp. And in fact, I'd even talked historically about the fact that some of those were supposed to ramp in Q2 until COVID hit. So this is just kind of happening a little bit later than we originally expected, which is okay in this environment because it's not happening.

That being said, the ramp should continue through the end of this year, and then we'll probably see some seasonal softness from providers in Q1, Q2, which is pretty typical. But we'll have to see how the environment around COVID impacts those types of businesses. So far, it's been pretty good.

Craig A. Ellis

Analyst, B. Riley FBR, Inc.

Q

Got it. And then, there was also an explicit mention in the press release and I think in your prepared comments that you're seeing an enterprise recovery in the third quarter. Can you talk a little bit more about that? And what can happen from here as we flip to year-end and into early calendar 2021?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. Good question. We have been kind of talking to the potential improvement for revenue growth out of enterprise for the past couple of quarters here. And we're finally getting multiple product ramps happening kind of at the same time. And that's really what's driving the revenue growth going into the second half and even into 2021. It's interesting, however, because one of our larger programs, as you know, was related to enterprise in venues like stadiums and arenas that we had talked about historically.

Because COVID has impacted, of course, stadium attendance and arena attendance, a lot of those products that we are working on got pushed out. So the growth we're seeing is happening despite the delay in those revenues. So we think on top of what we're seeing here, should in 2021, hopefully if things start to – people get back to more normal life in the year that we'll start seeing those revenues start to ramp up.

Craig A. Ellis

Analyst, B. Riley FBR, Inc.

Q

Got it. And if I could, just one more before flipping to Jacob. There was a mention that we could see AirgainConnect revenues in the calendar fourth quarter. Can you just help us with some of the visibility that you have, either with the customer inquiries that have already come in, what I believe is an established channel network that you could use in helping end customers with the products that you sell, et cetera, so we have a sense for what revenue could look like in the first few quarters as AirgainConnect gets going?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. Maybe I'll start and Jacob, if you have comments after, you can fill in. In terms of the ramp, we've said historically we expect to start to see the first material dollars, revenue dollars in Q4 for AirgainConnect – our first AirgainConnect product. We still expect that to be the case. That implies that the AT&T network will be ready to go and just by virtue of the fact that we expect those revenues to come in at that point in time.

We can't talk specifically to AT&T's plans there; they'll have to articulate. But we have confidence based on our continued discussions with them and all of our channel partners that that's going to happen. Assuming that happens, we think we'll start to see starting Q1 to get some pretty decent growth out of AirgainConnect and ramping through the entire year.

Craig A. Ellis

Analyst, B. Riley FBR, Inc.

Q

Got it. And then, Jacob, if I could just turn it over to you. We've been very attentive to the list of design wins that the company has been getting for the last year and it seems an increasingly long list. And I think the point with these design wins or these are the higher value, higher margin design wins that the company has been working on for the last couple years.

So as we look at the list you provided today which seems by far the most extensive that I've heard in at least four quarters, how do we think about the percent of product sales that's being driven by these new products and how does that evolve over the next four quarters or so? Is it, I'd say, 20% in the fourth quarter and can it double? Or how do we think about the trajectory of this new product momentum that you seem to have?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

A

Really good questions. And without diving into the certain percentage, I'll just kind of let you know about the overall company trend. So at this point 2020, as Dave indicated, the bulk of the revenue still resides on the core consumer market. However, as you indicated in the last year to two, we are making a significant effort going after the enterprise and the automotive markets.

And the design wins you're seeing, the design opportunities, we also described, we're already seeing that it's paying dividends. So I think that 2021, you're going to see a much bigger percentage of the revenue growth comes from the automotive and the enterprise as well. And I will not be able to elaborate about the exact

percentage. But ideally, we see a major uptick in those two newer markets and we do feel strongly about the potential, given the design wins we already started to win this year.

Craig A. Ellis

Analyst, B. Riley FBR, Inc.

Got it. Thanks, guys, and congrats on the AirgainConnect certification.

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

Thank you.

Operator: Your next question comes from the line of Alessandra Vecchi with William Blair. Your line is open.

Alessandra Vecchi

Analyst, William Blair & Co. LLC

Hi, guys. Congratulations on the good quarter and strong execution as well. Just on the operating expense side, you guys have really done a tremendous job there. As we look forward thinking about sort of more revenue coming from enterprise and automotive, how do we think about the potential investments there and how operating expenses might track from Q3 levels?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

Sure. I'll take that one. Alex, thanks. My guess is that we're going to see OpEx increment up, kind of like what it's doing between Q2 and Q3. Part of the reason is that we are after certain talent that we'd like to go after out there. We're also kind of making room for a lot of that by discretionary belt tightening and just trying to operate in a little bit more efficient way, which we've had success as you can see in our OpEx in Q2. We're going to continue to see that.

So, when it comes down to what OpEx is going to look like although we're not guiding beyond Q3, it does look like we should remain kind of back where we were from a non-GAAP standpoint in the \$6 million a quarter range next year somewhere in that kind of ZIP code. I think it's going to depend also – kind of a high-class problem is if AirgainConnect platform, the first product, really takes off and we have the opportunity to very quickly invest in other versions of it, for instance, 5G or something like that. We really think that we'll put a little more investment in there which will impact our OpEx, but it would be for, obviously, pretty good ROI reasons.

Alessandra Vecchi

Analyst, William Blair & Co. LLC

Great. And then similarly, an extension of that going into the gross margin. Obviously, that target model of 44% to 45%, you guys have done a great job beating over the last numerous quarters. And again, as we look towards more enterprise, more connect, how do we think about that range and are you sticking to that?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

Yeah. I think, as I said in the past, we're probably going to maintain that long-term model until we figure out what the AirgainConnect model will look like. And I think the business is changing in a pretty significant way from kind

of below the line. If you look at AirgainConnect launching, if we have success there, but also kind of the shift away from consumer and more towards enterprise as well as auto, but on the enterprise side.

If in certain parts of enterprise, for instance, you have to go get the big global players in traditional Wi-Fi, for instance. Those types of gross margins are going to put more pressure on our corporate gross margin. So if that enterprise revenue goes up and we win some of the big players out there then more pressure. That being said, with AirgainConnect where it's at and with some of the other opportunities that we're seeing out there, we're still getting pretty good gross margins today.

So as it stands today, looking out into 2021 I think we're going to continue until 2021 to be in kind of the range we're at. We may be able to even maintain that for a couple of quarters into 2021, and then we'll have to see how things play out between the mix of all the things that I just discussed.

Alessandra Vecchi

Analyst, William Blair & Co. LLC

Q

Perfect. That's incredibly helpful and that's it for me for the time being.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

All right. Thanks, Alex.

Operator: Your next question comes from the line of Gus Richard with Northland Capital Management. Your line is open.

Gus Richard

Managing Director, Northland Capital Markets

Q

Yes. Thanks for taking the questions. Just real quick, Jason (sic) [Jacob] (00:34:18), what is the delta in your content as you move from Wi-Fi 6 to Wi-Fi 6E and CBRS?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

A

Okay. Yeah, it really varies and I can talk a little bit and turn over to Kevin. He would be able to provide more detail. So certainly, overall, we don't anticipate changes because from Wi-Fi 6 to Wi-Fi 6E I think that adds more complexity. And it really depends on the carrier or the device application as far as how many antennas are going to go into a specific box.

But overall, we don't anticipate the number to go down as far as – relating to a specific application, let's say, from Wi-Fi 6 to Wi-Fi 6E. We don't anticipate a decrease in content. But the complexity and the expectation of a particular device would make a difference there.

So, I can ask Kevin to put some more color into it.

Kevin Thill

Senior Vice President-Engineering, Airgain, Inc.

A

Hey Gus, this is Kevin. Just to give you an indication, if you look at the trend that we're seeing now with the new product projects that we're working on. It's estimated about, I think, 75% of the newer designs that we're working on that we'll be introducing in the future [indiscernible] (00:35:40) are having a – 75% of them are Wi-Fi 6E.

So, it's really good because we position ourselves well with our upgrades of our facilities around the globe. We knew this is happening and now each location is heavily in designing the Wi-Fi 6E antenna themselves and so we see that trend to grow. I think next year we're going to see more than 75% of the new projects that are coming in are going to be used in that new technology.

Gus Richard

Managing Director, Northland Capital Markets

Q

Got it. And then, when do you expect those designs to start to go into manufacturing 2022, or will you start to see some of in the second half of 2021?

Kevin Thill

Senior Vice President-Engineering, Airgain, Inc.

A

Yes. This year – at the end of this year and actually going into 2021. Most of the designs that we're working on right now are requiring the Wi-Fi 6E in them and stuff. So, that'll ramp up production in the fourth quarter and going into the first quarter of next year.

Gus Richard

Managing Director, Northland Capital Markets

Q

Got it. And then, just thinking about seasonality going forward, you're going to have an increasing mix of automotive which is a little bit different than your consumer revenue. Can you talk about what your expectations are for seasonality going into 2021 and 2022.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. I can take a shot at that. I think we're not going to see on top line revenue the typical seasonality just because of the – we expect the shift or the transition to these new products happening over the next kind of 18 months' timeframe.

The transition – do you want to take this, Jacob?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

A

Yeah. So, we do anticipate that we're going to see the automotive revenue to start increasing, specifically in the aftermarket segments, right? And then the AirgainConnect, we're going to see how well the AT&T network – there's some reliance also on the AT&T side as well in the FirstNet.

I think that right now we feel very promising about the mixture. I think starting next year, especially the second half, we're going to see a substantial amount of that coming from the automotive, the AirgainConnect platform. And the enterprise would also come into play as well. But at this point, I don't think that we can tell you exactly how is it going to play out from a percentage wise.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. And let me just finish up my thought there. I thought Jacob wanted to chime in, so I let him go. On the consumer side, with the service providers specifically, we're going to see seasonality in Q1 and Q2, like I said before, which we typically expect. And because they drive a material portion of our revenue, you're going to see some pressure there.

That being said, with the ramp and growth out of enterprise that we talked about as well as AirgainConnect, we think that we have the potential to outgrow that seasonal softness during that timeframe. And that's kind of what I mean by there's a lot of things happening below the top line that are changing pretty significantly for them in terms of just mix between those kind of submarkets. Does that make sense?

Gus Richard

Managing Director, Northland Capital Markets

Q

It does. I guess, just to be really blunt about it, do you think you can be flat sequential in the first quarter? Will the uplift to the new product ramps be enough to offset the seasonality of the normal consumer market?

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. I don't want to get into the position of guiding revenue that far out. However, just qualitatively, if you kind of look at the potential impact of something like an AirgainConnect product revenue, even if we're shipping a small amount, it can produce a pretty material size of revenue for us. So, I think that's kind of the big lever for us which will ultimately answer your question.

Gus Richard

Managing Director, Northland Capital Markets

Q

Fair enough. Thanks so much.

Operator: [Operator Instructions] Your next question comes from the line of Karl Ackerman with Cowen. Your line is open.

Karl Ackerman

Analyst, Cowen & Co. LLC

Q

Hey, good afternoon, Dave and Jacob. Few questions if I may. Regarding AirgainConnect, I think you have the opportunity to broaden out that product to other carriers utilizing Band 14. Have you locked in firm orders yet across the channel, across multiple partners that is driving your enthusiasm for the fourth quarter and next year?

I guess, if you could just quantify the number of channel partners embedded within your outlook for AirConnect (sic) [AirgainConnect] (00:40:51) as you think about the linearity of that growing in 2021, that would be very helpful.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. I think I'll take a quick shot, and then Jacob, maybe you can follow-up. The bottom line, unfortunately, we can't get into that kind of detail on this call. We're getting quite a few inquiries about – from potential customers, but it's a little early. We just got the product certified [ph] and we've done our (00:41:16) field trials internally and

things look excellent. And we know the interest in the market is there. Outside of that, I think getting into some of the customer details is probably not an appropriate time at this point. Jacob, what do you think?

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

A

Yeah. I mean, but just to reiterate Dave's point. We are getting a lot of interest. And even talking to AT&T, FirstNet, they are [indiscernible] (00:41:46) and want to put a really good focus on this product launch.

Karl Ackerman

Analyst, Cowen & Co. LLC

Q

Got it. That's helpful. Just on the – well, it sounds like you certainly have several new programs across consumer gateways and routers ramping over the next few quarters. I'm curious how many of these programs are new business to you versus replacing a previous program. I guess, that would indicate greater top line leverage for you going into 2021.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. Some of the new products that we're talking about ramping now are the product cycle transition products I was talking about on the service provider side. So, call those replacement products. But if you kind of look down the line of enterprise and even auto, those are all kind of more new.

Karl Ackerman

Analyst, Cowen & Co. LLC

Q

Okay.

Jacob Suen

President, Chief Executive Officer & Director, Airgain, Inc.

A

Even couple of the programs I mentioned earlier, the design win we are now getting in Japan, that's new. And the thing that got me really excited as well is, we talk about the European leisure market. That's a brand new opportunity that's presenting to us, so the pandemic actually creating that particular opportunity. We had mentioned about the 20% increase with the registration certification, and that presents a really good opportunity for us and it's in line with what we try to grow with the aftermarket as well.

Karl Ackerman

Analyst, Cowen & Co. LLC

Q

Got it. That's helpful. Last question if I may. You indicated that enterprise should hold up well into the second half of the year. I was hoping you could provide a bit more commentary on what you're seeing in that market, because one of your larger customers noted some challenges in campus networking and outdoor wireless though indoor wireless is holding up well. So if you could just speak to the puts and takes you see in enterprise over the second half relative to your Wi-Fi 6 portfolio that'd be helpful. Thank you.

David B. Lyle

Chief Financial Officer, Airgain, Inc.

A

Yeah. I think it's a little bit trickier because the revenue historically out of enterprise was really almost immaterial. It was very small. So we're growing off a very small base. Now that we've won some new designs with some of

the big traditional Wi-Fi enterprise players, those are just launching. So, it might not exactly match with what's happening in the general market.

Karl Ackerman

Analyst, Cowen & Co. LLC



It does. Thank you.

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

President, Chief Executive Officer & Director, Airgain, Inc.

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 for joining us today for Airgain's second quarter 2020 earnings call. You may now disconnect.

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