S&P Global
Market Intelligence

Airgain, Inc. NasdaqCM:AIRG

FQ2 2021 Earnings Call Transcripts

Tuesday, August 10, 2021 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-		-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	GUIDANCE	CONSENSUS	CONSENSUS
EPS Normalized	0.04	0.05	▲25.00	0.09	(0.05)	0.28	0.71
Revenue (mm)	18.31	17.30	▼(5.52 %)	19.92	-	77.00	93.25

Currency: USD
Consensus as of Aug-05-2021 12:21 PM GMT

- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	0.06	0.06	1 0.00 %
FQ4 2020	0.03	0.02	2 (33.33 %)
FQ1 2021	0.03	0.03	3 0.00 %
FQ2 2021	0.04	0.05	4 25.00 %

Table of Contents

Call Participants

EXECUTIVES

David B. Lyle
CFO & Secretary

Jacob Suen
President, CEO & Director

Morad Sbahi
Senior Vice President of Global Product & Marketing

ANALYSTS

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

Karl Ackerman
Cowen and Company, LLC, Research Division

Scott Wallace Searle
ROTH Capital Partners, LLC, Research Division

Timothy Paul Savageaux
Northland Capital Markets, Research Division

Presentation

Operator

Good afternoon. Welcome to Airgain's Second Quarter 2021 Earnings Conference Call. My name is Sheena, and I'll 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 Product and Marketing, Morad Sbahi. As a reminder, this call will be recorded and made available for replay via link available in the Investor Relations section of Airgain's website at www.airgain.com. Following management's prepared remarks, the call will be open up for questions from Airgain's publishing sell-side analysts.

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

David B. Lyle
CFO & Secretary

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 10, 2021. 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. 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, CEO & Director

Thank you, Dave. Welcome, everyone, and thank you for joining us on the call today. I'll start with some commentary about Q2 financial results and then an update on the progress we've made towards executing our strategy. Dave will then provide Q2 financial details as well as our Q3 2021 outlook and color around how we expect the year to play out.

Let's start by addressing our Q2 financial results. Our Q2 revenue came in at the low end of our previous guidance range, but improved gross margins and prudent operating expense controls allow us to beat the midpoint of our guidance range on EBITDA and non-GAAP earnings per share.

Let's address revenues more specifically. First, it's important to note that our strategy to grow our integrated wireless systems revenue is beginning to play out with our industrial IoT and traditional enterprise Wi-Fi systems revenue growing in the first half of 2021 and is continuing to grow in Q3, while our AirgainConnect revenue is poised for growth in the coming quarters. Our Q2 revenue was affected by lower than previously expected AirgainConnect revenue and to a lesser extent, the global supply shortage.

So let's look more closely at where we are with AirgainConnect. Based on discussions with our channel partners, we believe this is primarily a timing issue. Current sell-through has been slower than anticipated, which is not uncommon for new products launching in new markets. But being said, we are very excited about the prospects for growth out of AirgainConnect in the future, so we wanted to provide you with some additional data points. We already have about 500 customers leads. We have more than 120 demos going on as we speak. We have almost 50 different customers indicating interest for future purchases. We have very positive feedback by those customers already using our product.

In addition, we are excited about the new promotion that we just launched with our channel partners. Recognizing the importance of AirgainConnect success to FirstNet, AT&T just introduced a new customer service credit of $800 per device for purchases of AirgainConnect in 21 targeted states for a limited time. In the spirit of good partnerships, together with our distributors and value-added resellers, we committed to $400 in price reductions to customers for purchases of AirgainConnect. That amounts to $1,200 in total savings per AirgainConnect device to the customer. This speaks to the commitment by AT&T, not only to FirstNet, but specifically to our product as well as a commitment by our distributors and value-added resellers to energize sales.

All in all, we are very pleased with the performance of our underlying business in light of the difficult global supply chain shortages in slower ramp of AirgainConnect. We are especially encouraged by the momentum in our integrated wireless system score as we transition from a component antenna supplier to a system solution provider. Our embedded classic antenna component's revenue is still contributing materially to our overall revenue despite our customers being impacted by the transitory global supply chain shortages.

Let's now move on to the progress we are making with our recent acquisitions of NimbeLink, which closed on January 7 of this year. As you know, the acquisitions of NimbeLink played an important role in our overall growth strategy to broaden market diversification, especially within the industrial IoT space. NimbeLink has significantly advanced our strategic mission to deliver higher levels of integrated wireless system solutions globally. We are very excited about how well the NimbeLink products have performed, bringing solid revenue growth to our overall business. This growth is being achieved despite pressure from the global chip and other products shortage issue, and we believe we will see continued positive results throughout this year and through 2022. We've made excellent progress with NimbeLink's integration.

In summary, with the additions of NimbeLink and the launch of AirgainConnect, together with growth opportunities across our addressable markets, we believe Airgain is well positioned for future growth.

Before I turn it back over to Dave, I wanted to point you to our recent announcements of the new Board member, Kiva Allgood. Kiva brings extensive technology industry, executive management and board experience to Airgain as well as diversity to our Board of Directors. Kiva has knowledge and insight into markets that are essential to Airgain's growth, particularly in 5G and industrial IoT. She most recently served as the Global Head of IoT and Automotive for Ericsson. Prior to Ericsson, she served as Chief Commercial Development Officer for GE Business Innovations and as Managing Director of GE Ventures. Kiva also served as President of Qualcomm Intelligent Solutions and Vice President of New Business Development for Qualcomm. We welcome her to Airgain and look forward to working with her to help guide our strategic long-term goals.

Now I would like to turn the call back over to Dave, who will walk us through financial highlights. Dave?

David B. Lyle
CFO & Secretary

Thank you, Jacob. Second quarter 2021 revenue of $17.3 million was relatively flat with Q1 and at the bottom end of our previous guidance range. Let's dig a little deeper into each of our 3 targeted markets to better understand the quarter's revenue. This is primarily due to lower AirgainConnect revenue than previously expected, as Jacob discussed. Beginning with our consumer revenue. Q2 finished at $8.9 million, down from $10.3 million in Q1, primarily due to weakness from the chip shortage at one large North American service provider end customer as well as weakness from our international service provider end customers, also due to the global chip shortage.

Enterprise revenue was up materially from $4.4 million in Q1 to $6.2 million in Q2 due to revenue growth from both industrial IoT products, primarily through NimbeLink products as well as traditional enterprise Wi-Fi products. Automotive revenue was $2.2 million in Q2, down from $2.7 million in Q1 due mainly to revenue pressure from AirgainConnect, but somewhat offset by growth out of our aftermarket fleet market revenue, which we grew sequentially in Q2. Q2 non-GAAP gross margin of 42.8% was on the high end of our previous guidance range and an increase over Q1, primarily due to better gross margin from our NimbeLink products than previously expected.

Excluded from non-GAAP gross margin was $101,000 for amortization of purchased intangibles. Non-GAAP operating expense in Q2 of $6.8 million was much better than our previous guidance range of $7.2 million, plus or minus $150,000. Excluded for non-GAAP operating expense was $1 million in stock-based compensation expense, $666,000 in amortization of intangible assets, mostly related to the NimbeLink acquisition and about $1.6 million for fair value adjustment, equaling the present value of contingent consideration related to the NimbeLink revenue earnout, which we now believe will be fully paid out in Q1 2022 based on the outstanding revenue growth we are seeing from its products. Adjusted EBITDA was $716,000 in Q2, about $100,000 above the midpoint of our previous guidance range as lower revenue was offset by better gross margin and lower operating expenses.

Moving on to net income. Non-GAAP net income in Q2 was $589,000, above our previous guidance range. Q2 GAAP net loss was $2.6 million. Moving to earnings per share. Our Q2 non-GAAP earnings per share was $0.05. GAAP loss per share was $0.26. Finally, our Q2 cash, cash equivalents and restricted cash totaled approximately $20.4 million, about $1.2 million lower than in Q1. The decline in cash was mostly related to nonlinearity of revenue towards the back half of the quarter and an increase in inventory to support customer demand during the global supply shortage. We did not repurchase any shares during the quarter.

Now I'd like to provide the preliminary outlook for the third quarter of 2021. In Q3, we expect revenue to decline sequentially and be in the range of $15 million and $17 million or $16 million at the midpoint of the range. We expect both our enterprise and automotive markets to grow sequentially in Q3, primarily from NimbeLink product revenue growth and traditional enterprise Wi-Fi revenue growth, both in our enterprise market as well as growth from AirgainConnect and aftermarket fleet in our automotive market. We expect product revenue from our consumer market customers, however, to see pressure in Q3 as a result of the global chip shortage.

We believe the impact of the supply shortage on our consumer revenue alone will be approximately $3 million in Q3, which is already reflected in our guidance range. We expect non-GAAP gross margin in the third quarter to be 40%, plus or minus 100 basis points, as we see growth out of lower gross margin in product revenue with higher gross margin in consumer revenue expected to be considerably lower. Excluded from non-GAAP gross margin was $102,000 in acquisition-related amortization of purchased intangibles. We expect Q3 non-GAAP operating expense will be about $6.9 million, plus or minus $100,000 as we continue to aggressively focus on minimizing operating expenses until chip shortage pressure on our revenue begins to ease.

Excluded from our non-GAAP operating estimate, it was about $1.1 million of stock-based compensation expense and about $670,000 in acquisition-related amortization of purchased intangibles and $300,000 of additional fair value adjustment related to the NimbeLink revenue earnout. At the midpoint of guidance, adjusted EBITDA in Q3 would be about negative $350,000. At the midpoint of guidance, we expect Q3 non-GAAP loss per share to be about $0.05. And on a GAAP basis, we expect a loss per share of $0.27.

In addition to providing you with the Q3 guidance, we also thought it would be valuable to share some color commentary about Q4 of this year as well as 2022. We believe that we will see revenue growth in Q4 across all 3 of our markets. We believe that our consumer revenue will grow sequentially in Q4, and our enterprise and automotive revenue will continue to grow sequentially, particularly with integrated system product revenue through our industrial IoT revenue and traditional enterprise Wi-Fi, as well as through the beginning ramp of AirgainConnect. We believe this will continue in 2022.

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

Jacob Suen
President, CEO & Director

Thanks, Dave. I wanted to reiterate our confidence in our long-term strategy and our ability to manage through our near-term transitory supply chain issues. We are seeing our integrated wireless systems products begin to ramp and are very excited about the next leg of growth, particularly from our newer products with industrial IoT, traditional enterprise Wi-Fi and AirgainConnect leading the way. We are confident that our foundational consumer revenue will continue to provide foundational cash flow for Airgain while we transition the business. With new and innovative products being developed for our targeted enterprise submarkets and multiple new products out of our AirgainConnect platform, we believe we have positioned for long-term profitable growth.

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

Question and Answer

Operator

[Operator Instructions] First question comes from the line of Karl Ackerman from Cowen & Company.

Karl Ackerman
Cowen and Company, LLC, Research Division

I first wanted to begin with just a comment on gross margins. How much of the 300 basis point decline in gross margins that you are forecasting for the third quarter relates to the rebates you're announcing for AirConnect? I also thought that consumer tended to have less favorable mix. And so if that's lower, I would have thought there wouldn't be as substantial as the margin is. So if you could talk about those dynamics, that would be helpful.

David B. Lyle
CFO & Secretary

Yes. Sure. I'll take that. On the AirgainConnect piece, the promo that we just announced, which is a fantastic promo, if you haven't seen it, you should check our website. That will be a pretty de minimis amount of pressure on our gross margins. That being said, your comment about consumer being potentially lower gross margin is actually the opposite. The gross margins on the consumer side are actually pretty high right now. They're above our corporate gross margins.

So as we start to ramp some of these new products, we'll see a little pressure. We talked about that historically on gross margins. But just in Q3 alone having, like I said, $3 million kind of -- that should have shipped in Q3 out a consumer but didn't, that's going to put pressure on our gross margin.

Karl Ackerman
Cowen and Company, LLC, Research Division

Got it. I appreciate that. How much of a decline in consumer was due to supply chain constraints that impacted your gateway OEMs customer ability to procure the entire kit versus perhaps your customers' own specific challenges? And then secondarily, you indicated -- I appreciate the further outlook beyond Q3. It sounds like that revenue will snap back. I was hoping you could just touch on why you see that snapping back, whether you have firm orders in hand? And if you could just talk about the order visibility you have extending beyond Q3, that would be very helpful.

Jacob Suen
President, CEO & Director

Thanks, Karl. So this is Jacob here. So based on indications from our customers, the indication is that the shortage issue as well as the supply chain issue -- some of that is due to shutdown of the pandemic, right? They were shutting down factories as a result of the pandemic. And right now, they're predicting that thing is going to be stability turnaround latter part of this quarter. And by Q4, things should look a lot better. Again, this is based on the latest information as well as how much of that impact is. Certainly, the demand is high. So when I look into the demand, all of them have very strong demand. So it's about the shortage issue with -- not only on the chipset, but more about the capacity, how much they can build out of their factory. Okay. So does that help you?

Karl Ackerman
Cowen and Company, LLC, Research Division

Yes, it does.

Operator

Next question comes from the line of Scott Searle from ROTH Capital Partners.

Scott Wallace Searle
ROTH Capital Partners, LLC, Research Division

Just to dive in quickly on AirgainConnect. It sounds like that was part of the problem initially in terms of sell-through in the second quarter. Was it down sequentially in terms of absolute dollars? I think the target number you had talked about was $1.5 million. Could you just calibrate us where that is? And then you provided some detail in terms of what that pipeline is looking like. It sounds like it will be up as we get into the back half of this year. What gives you the comfort there? Are you seeing the sales cycle materialize a little bit better, so you know how long that distillation period is?

And as you start to think about that opportunity in 2022, how should we be thinking about that in terms of units and maybe those pilots that you've got ongoing, what do they represent, those customers that are near term, lower end of the funnel, what do they represent in terms of potential units in '22?

David B. Lyle
CFO & Secretary

So why don't I take the first part of the question, and then Jacob can take the second part of the question. Just in terms of the revenue impact was pretty big going from Q1 to Q2, it was a decline. So it did have a big impact. Most of the midpoint to the low end of our guidance range where we landed was related to that AirgainConnect revenue. And then -- and Jacob, why don't you kind of address the -- how comfortable we are there in AirgainConnect ramping in Q4 and beyond?

Jacob Suen
President, CEO & Director

Yes. Sure. I have to say, I personally have been talking and meeting with the executive team of AT&T and FirstNet in the last several weeks, and I have to say the feedback and the confidence they demonstrate is phenomenal. All of them is pointing to a timing issue. All of us was really hoping that this thing can be taking off a lot quicker, a lot faster, given the value that it provide to the customers. But as one executive of AT&T pointed out to me, what we didn't hear is really try to get this cruise ship going. And it just takes little bit longer than it would with a speedboat as an example.

So I think that the feedback from the customers, I have to tell you, with some of the guys out there, we actually have one deputy chief, it was in Oregon of a -- managing wildfire. And the feedback from him was that, look, he was having problem in many area previously. And now with AirgainConnect, he's able to not only do [patch], he's able to actually do the capture video. It just makes a huge difference on how he's able to communicate and be able to managing the wildfire much more effectively, while other people don't have the AirgainConnect, they don't even have the signal. So that speaks volume.

And more and more, you're going to see -- and that's one of the reason why they feel strongly about giving a promo doing with us. And the commitment that they show make me feel strongly about Q4 and beyond. I really feel like this is a product that brings tremendous value. And it's not just for the extended coverage. It's also for urban area, where this is -- it's going to be needed during the crisis. And I really feel strongly that this product by next -- by the beginning of next year, I think it's really going to take off, if not sooner.

Scott Wallace Searle
ROTH Capital Partners, LLC, Research Division

Okay. Very helpful. Is there -- Jacob, is there any way to quantify what that sales funnel looks like? I think you talked about 500 customers. I think it was 120 pilots. What do those kind of customers represent in terms of potential annualized units as we get onto '22, '23?

Jacob Suen
President, CEO & Director

Okay. I'll share as much I could. Some of that, it's -- I mean, all of the customers have several units, right? So we looking through the -- going back to the TAM and the SAM that we mentioned. We told you about they have 500,000 plus vehicles out there. That is the TAM and also the SAM. And that's why we feel strongly that even a small portions of that transforms into a quite a big dollar amount for us, given the fact that it's about $1,000 per device.

So as far as how many units, I think that we don't know the precise time line, but I'm just sharing with you the TAM and SAM. And we feel strongly that once it really start taking off, once that cruise ship start rolling, I think that you're going to see really great results. And I don't think I can give you a straight answer.

David B. Lyle
CFO & Secretary

Yes. Just to give you a little more flavor, Scott. Generally speaking, we're seeing customers interested in single-digit units all the way to the hundreds of units. I would say, and Morad, if you got any color you can kind of follow-up here, but I believe kind of just the -- most of those are in the kind of low 10s in units per customer that we're talking about?

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes, absolutely. So if you look at the funnel, just to add a little bit more details to what Jacob and Dave mentioned, we're talking thousands of leads, right, if you want to get your hands around a number. And if we're talking about customers that have committed, that are saying, we will proceed with an AirgainConnect purchase, we're talking hundreds.

And so again, when that materializes, like Jacob said, this is just like with any -- a new product that you introduce with a new initiative. There are many testimonials out on FirstNet, and we had Airgain's promotional activity that show the folks that have tried -- the agencies that have tried and installed AirgainConnect and what they say about that. And so really just a matter of timing for us before this thing starts to become significant for Airgain.

Scott Wallace Searle
ROTH Capital Partners, LLC, Research Division

Okay. Great. Very helpful. And if I could, 2 quick follow-ups. Dave, could you remind us the earnout on NimbeLink, what kind of sales number that was tied to? Because it sounds like that's progressing, you expect to hit that. So it gives us some idea of the growth in the second half.

And also, it sounds like there you've got a lot of comfort in terms of consumer Wi-Fi bouncing back in the fourth quarter. Could you quantify that a little bit more in terms of what you're seeing? Maybe to follow-up on the earlier question, how quickly do we see that snap back? If snap back a term you would actually use, given it's down $3 million sequentially, does it come back that quickly? Does it take several quarters? What's the early thought process there?

David B. Lyle
CFO & Secretary

Sure. In terms of the earnout for NimbeLink, we never publicly disclosed what the target revenue was. That being said, we have said that it's materially better than where they were last year at $12.5 million in revenue they finished last year. So it's a pretty large growth number, which we're pretty excited about. And just based on what we're seeing today, we're seeing even more growth than expected, and that's why we're adjusting the accounting of that earnout in this quarter upwards. In terms of the consumer coming back in Q4, this really is kind of pure and simple related to the supply chain shortage globally.

And assuming we start to see that come back, our customers, like Jacob said, are really much more positive on this. But you never know, we got to wait and see what happens. I think we're going to see some decent size growth back to levels we should have been probably at before. Jacob and Morad, if you have any other color, commentary?

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. Yes. I was just going to say, Scott, that again in net space, it's really a cycle, right? And so we had the first wave of people going through the dual band, and now you've got the Wi-Fi 6 and Wi-Fi 6E right after that. And so the opportunities are there, right? The complexity is increasing and when the complexity increases in these devices, that brings room for Airgain to play. And so we will execute on those opportunities. And again, what gates, what translates to revenue is really -- depends on how the chipset shortage issues resolves itself and then constraints that are in the supply chain.

Operator

Next question comes from the line of Craig Ellis from B. Riley Securities.

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

And I apologize if you've already addressed some of these items. I was very late getting on the call. So I just wanted to start better understanding the press release that came out with what looks like joint marketing of AirgainConnect with AT&T. So it looks like they're providing an incentive on the subscription and then there's an incentive on the price of the AirgainConnect device. So one, what does that do to the way we think about AirgainConnect margins near term? And how long could that be something that could potentially impact AirgainConnect margins if that program is taking place?

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. Thanks for the question. I'll take that. So we -- as we've started this effort with AirgainConnect into the market, we noticed that there's a lot of interest, right? There's also customers that have showed interest and really having moved forward with the purchase. And with this partnership with AT&T, the way it plays out is that it's $1,200 in total savings, $800 of which is covered by AT&T and then the rest is by Airgain and partners. And so we feel that this will enable folks that really wanted to go ahead and then move forward with AirgainConnect. I think this is an enabler. And hopefully, it could help us to accelerate the customer adoption and then get that sell-through to faster forward.

In terms of the pressure on margins, I'll let Dave speak to that, but this is really something that we expect to play out nicely in future for Airgain. But Dave, you want to maybe just add some color to that?

David B. Lyle
CFO & Secretary

Yes, sure. Yes, this will have a little bit of pressure on the AirgainConnect revenue, but really, it's kind of a de minimis amount. The borrowers and distis have really stepped up big on the $400 that, as a group, we're contributing too. So it's less of an impact for us, which we really appreciate for our distis and borrowers.

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

And then a more strategic question in terms of the approach you're taking with AT&T on the program. So I can see why for some entities, the price incentive would work, but there are many incentives where -- or there are many agencies, where I wouldn't think pricing would be the primary consideration just given what's on the line if communication isn't working out in the field. And so I'm wondering if you can help us with any further insight on the discussions that you've had with AT&T about other mechanisms to incentivize demand and what may or may not be under consideration or possible beyond just pricing incentives.

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. Absolutely. So it's a very good question because with the price initiative that we have with this promotional activity, it helps us to address those folks that we're talking to that really want to make that move, right? To your point, absolutely, there are some agencies where this really is not going to make a difference for them. And the ones that we're talking about are those that are held by the cycle. As you understand, in this first responders business, you have agencies that have the budget, others that don't, and you have to wait for that budget. The one that we're targeting that we look at specifically for Airgain are those that really trickle from those thousands of leads that I talked about earlier and those hundreds of customers that said they want to move forward with Airgain. We feel like that provides us with a short-term opportunity to really get these products in the hands of those that need the product.

And so in terms of additional promotional activities, we are talking to AT&T. This is the first wave. I don't expect it to be the last one. It should be a series of partnerships that we plan to have with AT&T to help us to get more first responders to go on with the FirstNet initiative and with AirgainConnect as well.

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

That's helpful. And then my next question is more of a longer-term question. It may be one for Jacob and Dave. And I'll preface it with the following comment. Oftentimes, it's harder to forecast the very near-term than it is the intermediate term, and all our checks have shown a very enthusiastic response to the capabilities that AirgainConnect offers the first responder community. And we've seen quarter after quarter over the last 1.5 years, very steady growth in the number of agencies and the number of subscribers that are part of that community. So we know that it's a growing population.

But the question is this guys, if we just look beyond the back half of this year and look to calendar '22, and I'm not asking for guidance. I know you're not ready to give that today. But can you help characterize what you think the opportunity is in really a couple of key areas of the business?

One, what's a realistic way to think about some of the gives and takes with AirgainConnect? Two, given the momentum you have in NimbeLink and with the absence of some of the component constraint issues, assuming they get solved, what's a good way to think about '22 potential, even if qualitatively?

And then as we look at other businesses, maybe juxtaposed to, on the enterprise side, we've seen almost 2 years of good design wins with the products that you have there. What can happen there? And on the flip side of that, consumer scenario where I think all of us are aware of some of the secular pressures, is that a business that can be flat next year? Or what are the gives and takes as we look at consumer next year?

Jacob Suen
President, CEO & Director

Great questions, Craig. I'll try to address as much as I could, and I can let Dave or Morad chime in. So first of all, let's go back to how are we executing from a overall company strategy perspective. And I have to say, I could not be more pleased with the team's effort on how we're executing towards our long-term strategic growth, which is, as I mentioned, we're transitioning from a component antenna company, now becoming an integrated system provider. And the type of projects and the type of momentum we are building is phenomenal.

AirgainConnect is one of them, and you're already seeing the kind of traction that we're able to obtain with AT&T. And it's a platform that we're going to come up with future products for a much broader market. In addition, what we already described, what we're doing with the industrial IoT, with the enterprise [AT&T] wireless systems, all of that is really trending upward and position the company very well for 2022. In addition, we are also working 5G system products. That's going to also support our future growth beyond this next year. And with the -- as I mentioned to you, with the additions of Mr. Sadri Ali from a -- who is the 5G expert, all of that is building strongly for the Airgain's future growth.

Now going back to AirgainConnect, I think that with the promotion that we're having, with what we're working closely with AT&T, really, we're working with AT&T on 3 separate fronts. First is the sell side. So we are now interfacing with the senior executive at AT&T, and we're going to be able to do co-selling together with their regional sales team. And that's huge. They got 3,500 people out there promoting the product.

Additionally, we're working with their marketing team and more area team is interfacing with them very closely. And so you're going to see more and more marketing campaigns that we're going to be launching together. Third, it's on the operation side. And that's the promo. Those are the stuff that how can we make it easier for people to sign up for, right? So that way, they don't get a sticker shock. So -- and that's what we're doing on all 3 fronts.

And as I mentioned earlier, the type of commitment we're seeing from AT&T is phenomenal because they do see the value. The feedback they're getting from their customers is reinforcing their commitment to AirgainConnect. So hopefully that help ensure some of the -- what I see the futures of Airgain from a strategic perspective. Dave and Morad, please chime in.

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes, I just wanted to add just one note, Jacob, in terms of AirgainConnect. I just wanted to clarify that AirgainConnect is a product initiative. The only -- the product that we have today is an HPUE. It's just the first release that target AT&T. And so -- and we've learned a ton from that, and we expect a significant opportunity out of that with AT&T alone.

That being said, there are a number of products that we are looking at that will address other markets and other first responders that are not on AT&T's network, which allows us to really augment the market and provide a better opportunity, not only with first responders here in North America but also worldwide.

David B. Lyle
CFO & Secretary

Yes. And I'll just add -- give a little more color on 2022 and how we expect -- what we expect to grow in our kind of the major products in terms of contribution. On the AirgainConnect side and the NimbeLink product side, there's -- it's clear that we believe those are the biggest growth drivers into 2022. I think they've got the largest immediate markets to address, and it's really going to be just a tiny thing on the AirgainConnect side. So the expectations in AirgainConnect in 2022 really haven't changed all that much on our side, unless we see continued slow sell-through through the end of the year, which with this new promo, we can't really guess, but it's looking pretty good.

After that, we have the traditional enterprise Wi-Fi business, which I believe you are citing. We believe we can grow from a small number, revenue number in this year into 2022. We still have high hopes there. And on the consumer side, we're seeing a lot of changes out of the major service providers there. But we think this Wi-Fi 6 and 6E type of gateway product, for instance, is going to continue to really drive revenue growth for us into next year. So can consumer grow next year? I think it has the potential to grow. I think it's just going to be how the timing of these products roll out in terms of design wins that are back.

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

Yes. And then the thing that we had have to watch on that, Dave, is just the response of the first responder agencies to some of the early promotions that you have and the duration with which those might stay in place. So if they were to stay in place, say, through the first half of next year, we'd have to think about that with our ASPs and the margins on those ASPs. And if you get a stronger early response, then maybe those are just something that are in place for the back half of the year. Is that reasonable?

David B. Lyle
CFO & Secretary

Yes. I think if you look historically at the promos that AT&T puts out there, they typically do it quarterly. This is an unusual one, and I think it was more of a response to, hey, we're not just not seeing the sell-through that we need. So the supply -- the entire supply chain, including AT&T, really got together to figure out how we kind of stimulate the sell-through to get that ramp going. So in terms of how long it's going to last, we'll have to kind of play that quarter-to-quarter. That's typically how they do that. It's late in the quarter already to introduce it. So we're hoping this lasts for a while.

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

Got it. And then just lastly for me, and I'll jump back in the queue. As we've been in touch with companies over the last 9 months, one of the things that we've seen is that as companies have to make decisions about how to allocate components and how they're prioritizing different things that there's been an opportunity to increase the margin mix of the business. I know that there was -- or it looked like from the release, there was about $1 million more in component constraint headwinds in the business than what we expected 3 months ago.

But are you able to do things that are improving the quality of the -- and the gross margin of the future revenue stream just amidst all the things that are happening? Or is that a lever that's so far not been available there again?

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. So I think there is -- there are a lot of opportunities that we have in front of us to look on product initiatives that we want to consider in the future that gives the company a balance in terms of product and also balances out the gross margins as well. And so we have this opportunity right now with AT&T, where we plan to -- we're fully committed to that. And then what comes out of that will give us a direction of how we want to execute on that profit. So...

David B. Lyle
CFO & Secretary

Yes. And I'll chime in on gross margin -- yes, go ahead, Jacob.

Jacob Suen
President, CEO & Director

Go ahead, Dave. Yes. I was saying, on the consumer side, I think that, yes, typically, we have pretty good margins there. And we're working closely to also include operational margins and gross margins on the -- NimbeLink product and also the AirgainConnect products among others.

David B. Lyle
CFO & Secretary

That answer your question, Craig?

Craig Andrew Ellis
B. Riley Securities, Inc., Research Division

Yes.

Operator

[Operator Instructions] Next question comes from the line of Tim Savageaux from Northland Capital Markets.

Timothy Paul Savageaux
Northland Capital Markets, Research Division

I will try to keep this brief. On the consumer side, given the impact you've seen to date, I mean, certainly what we've seen amongst the kind of customer base and service provider and customer premise equipment, there's been a lot of supply issues, but very strong bookings and backlog by and large. So I guess the overall question is, could that consumer business have grown this year, absent the supply issues? And given what may be a push of demand into next year, do you think there's a decent chance for growth in the consumer business?

Jacob Suen
President, CEO & Director

I'll go ahead and answer that one. And then Dave and Morad can chime in. So you are absolutely correct in the absence of the pandemic issues and the chipset issues, shortage issues, we will have seen a growth. The demand, I think that you can see that the broadband demand overall by the service providers are very strong and that should translate into a much bigger revenue for us, if not for the macro issues we're dealing with. Now with that being said, I think that we're still doing fairly decently -- for the first half, I think that this quarter is the quarter -- third quarter is the quarter that we feel like we're going to get more -- a lot more headwind before it goes back to a recovery mode in Q4.

Next year, we do feel strongly that the macro issue should be behind us, and you should see back to our traditional growth on the consumer side. I have to say that from a business perspective, we have not lost any business to our competitor, right? So what we're seeing right now is all relating to macro issues.

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. And what I would say is that we are in that cycle of new design wins in the consumer space, right? I mean, we see the opportunities. We see the activity in that business. We see the complexity increasing with these gateways. As you know, a lot of the functionality that used to sit on the set-top box has been moved into the gateway and a lot of the functionality that used to sit in other devices inside of the home is also being moved to the gateway. And what it does is that it just increases the complexity of that box and adds more RF chains. And the more the complex design, the more RF chains, the more the opportunities are for Airgain. And we see that across the board here in North America and in EMEA and other markets as well.

So the opportunities are there. The cycle is here. It's just a matter of how we get beyond the pandemic. How do we get beyond the chip shortage issue, so that the guys that make the boxes can ship the boxes. They need the chipsets. And hopefully, that could give us the opportunities to bring more help into this consumer business.

Timothy Paul Savageaux
Northland Capital Markets, Research Division

Great. And then over on the enterprise side, you had a pretty big step function higher there. But I think you characterized as maybe equally driven by traditional enterprise and industrial IoT. But any color there? And then look to be guiding to a pretty decent step-up even from that elevated level. I mean is this a run rate that you think the company can build on heading into next year? I know you may be addressed that to some degree, feeling like that's a growth area for you. But just given the magnitude of the step-up you saw in Q2, just wanted to get a little more color on that.

Morad Sbahi
Senior Vice President of Global Product & Marketing

Yes. So let me talk about the industrial IoT first, and that's mostly the NimbeLink. So there is a lot of growth, both in the asset tracking and also in the modem business. As you can see that cellular connectivity, cellular IoT is really growing. 120-plus operators around the world are all adopting the Narrowband initiative and then driving it forward, and that gives us opportunities. Many customers are coming to Airgain because they want that complete one-stop shop solution that we are able to provide. The design wins that we have seen in Q2, 20-plus design wins in the tens of thousands that we have been able to lock in. Spend, again, and we're talking scooters, train, rail, digital, electric cars, charging stations. It's really almost in every area that we want to see in that business. And so we feel very, very good about where we're heading with the industrial IoT through the NimbeLink folks.

In the traditional enterprise Wi-Fi space, again, lots of complexity going into those designs. And -- but we see that the first few opportunities that are providing the spike in the business that you saw in the report, we expect that momentum to continue to increase. And remember, that product line is, in terms of the dynamics is different than our consumer business. You look at our consumer business, we're talking about ones of dollars. When we're talking about the enterprise space, we're talking hundreds of dollars in terms of ASP. So truly going in the direction of where Airgain is heading in terms of becoming more of a systems company, and the growth is there. So we're really excited about it.

Operator

And there are no further questions at this time. I will now turn the call over back to Jacob for closing remarks.

Jacob Suen
President, CEO & Director

Thank you for joining us on today's call. We look forward to updating you on our next call. Operator?

Operator
This concludes today's conference call. Thank you for participating. You may now disconnect.