

Company Name: Airgain
Company Ticker: AIRG US
Date: 2018-02-15
Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
Current PX: 9.38
YTD Change(\$): +.39
YTD Change(%): +4.338

Bloomberg Estimates - EPS
Current Quarter: 0.007
Current Year: 0.160
Bloomberg Estimates - Sales
Current Quarter: 12.133
Current Year: 59.733

Q4 2017 Earnings Call

Company Participants

- Alexis Christine Waadt
- Charles Myers
- Anil Doradla
- Leo Johnson

Other Participants

- Karl Ackerman

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon and welcome to Airgain's Fourth Quarter and Full Year 2017 Earnings Conference Call. My name is Devin and I will be your coordinator for today's call.

Joining us on today's call is Airgain's President and CEO, Charles Myers; CFO, Anil Doradla, Principal Accounting Officer; Leo Johnson; and Director of Investor Relations, Alexis Waadt.

I'd now like to turn the call over to Ms. Waadt to provide the necessary cautions regarding the forward-looking statements made by management during today's call.

Alexis Christine Waadt

Thank you and good afternoon, everyone. Please note that certain information discussed on the call today is covered under the Safe Harbor provisions of the Private Securities Litigation Reform Act. I caution listeners that during this call, Airgain management will be making forward-looking statements about future events and Airgain's business strategy and future financial and operating performance including performance for fiscal 2018.

Actual results could differ materially from those stated or implied by these forward-looking statements due to risks and uncertainties associated with the company's business. These forward-looking statements should be considered in conjunction with and are qualified by the cautionary statements contained in Airgain's earnings release and SEC filings including its Form 10-K which we expect to file on or before March 30, 2018.

This conference call contains time-sensitive information that is accurate only as of the date of this live broadcast, February 15, 2018. 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 EPS, and adjusted EBITDA. Please see today's earning release which is posted on Airgain's website for further details, including a reconciliation of the GAAP to non-GAAP results.

Any discussion of non-GAAP measures is not intended to detract from the importance of comparable GAAP measures. Finally, I would like to remind everyone that this call will be recorded and made available for replay via a link available in the Investor Relations section of the company's website at www.airgain.com.

Company Name: Airgain
Company Ticker: AIRG US
Date: 2018-02-15
Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
Current PX: 9.38
YTD Change(\$): +.39
YTD Change(%): +4.338

Bloomberg Estimates - EPS
Current Quarter: 0.007
Current Year: 0.160
Bloomberg Estimates - Sales
Current Quarter: 12.133
Current Year: 59.733

Following management's prepared remarks, we will open up the call for questions from Airgain's publishing sell-side analysts.

Now with that, I would like to turn the call over to our President and CEO, Chuck Myers. Chuck?

Charles Myers

Thanks, Alexis. Welcome, everyone, and thank you for joining us today. After the market close, we issued a press release announcing our results for the fourth quarter and the full year ended December 31, 2017, which is available in the Investor Relations section of our website.

I'd like to start today's call by welcoming Anil Doradla, who was appointed Airgain's new Chief Financial Officer last week and who will be available to answer questions during our Q&A. I'd also like to thank Leo Johnson for his service and contributions to Airgain. Leo will remain at Airgain as our Principal Accounting Officer through the filing of our 10-K and will continue in advisory role working with Anil to ensure a seamless transition.

As most of you know, Anil was previously an analyst at William Blair, where he covered the technology space including semiconductor and wireless companies. Anil has spent more than a decade in Wall Street, but also has several years of engineering background and expertise. We believe that his intimate knowledge of our business, capital markets experience and general business acumen will be a tremendous addition to Airgain.

Ending 2017 on a high note, Q4 was another strong quarter for us, establishing positive momentum entering the New Year. We are seeing upward trends in our customer deployments driven by 802.11ac and DOCSIS upgrades, as well as great additions to our automotive business.

We grew sales in 2017 by 14% which is at the higher end of our 2017 guidance. Based on what we saw in the previous quarter and what we are currently seeing in Q1, we are confident about our 2018 objective of achieving 20% sales growth.

Looking back, 2017 was a positive, important year for us. Our connected home market continues to grow nicely. We increased our presence in the carrier and service provider market. We continue to position ourselves to expand further in both North America and the EMEA. We began shipping into a new major cable MSO in the fourth quarter, this is a great customer addition for us and it continues to validate our strength and leadership and high performance for the connected home. Ultimately, the need for better wireless performance, which has been facilitated by our technologies, should continue to drive upgrades to carrier gateways, access points and set-top boxes. Altogether, these positive trends should benefit us significantly.

In 2017, we entered the automotive market with the acquisition of the Antenna Plus assets. There are a number of product and customer synergies we plan to invest in and leverage for continued growth. We believe our success in 2017, demonstrates that our business is not only becoming more diversified but that we are also agile enough to continue to make inroads and other high growth markets, such as IoT enterprise and automotive.

Looking ahead, we're focused on investing in the future and scaling our business to the next level. We're going to be investing in our brand, people, marketing, technical knowhow and infrastructure to elevate our business to the next stage of growth. In a moment, I'll dive deeper into our strategy to expand our business and market position. Before I do though, I'd like to turn the call over to our new Chief Financial Officer, Anil Doradla, who'll walk us through the financial highlights. Anil?

Anil Doradla

Thank you, Chuck, and good afternoon, everyone. I'm excited to be part of the Airgain team, and I strongly believe there are significant opportunities ahead of us.

Company Name: Airgain
 Company Ticker: AIRG US
 Date: 2018-02-15
 Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
 Current PX: 9.38
 YTD Change(\$): +.39
 YTD Change(%): +4.338

Bloomberg Estimates - EPS
 Current Quarter: 0.007
 Current Year: 0.160
 Bloomberg Estimates - Sales
 Current Quarter: 12.133
 Current Year: 59.733

Let's turn to our financial results and highlights for the fourth quarter and full year ended December 31, 2017. Our sales for the fourth quarter totaled \$12.8 million, which is a slight increase from the same period a year ago. To give a better reflection of our progress since last sales, sales for 2017 increased 14% to \$49.5 million, up from \$43.4 million in the same year ago period. The growth was driven by increased product sales, as well as revenue contribution associated with the automotive market.

Looking at some of our other financial highlights for the quarter, gross profit increased 8% to \$5.9 million or 46% of sales up from \$5.5 million or 43.4% of sales in the same period a year ago. Our net income attributable to common shareholders totaled \$592,000 or \$0.06 per diluted share based on 9.7 million shares compared to \$1.1 million or \$0.12 per diluted share based on 8.9 million shares. And finally, our cash and investments totaled \$36.3 million, which was consistent with the prior quarter. Once again, we were active during the quarter in terms of our share buyback program, which as a reminder our board approved in August. For the date of implementation to the last trading day of the year, we repurchased a total of 135,000 shares for a sum of \$1.3 million.

Looking ahead, we will continue to be opportunistic in our capital allocation strategy. Finally, we are reiterating our 2018 sales growth guidance of 20% growth over 2017. As Chuck will elaborate later, given our current pipeline and how we are structured the business for success, we're confident that we'll achieve this target.

This completes my financial summary. I will now turn the call back to Chuck. Chuck?

Charles Myers

Thanks, Anil. I spent the first part of my remarks talking about our continued success in the connected home where we continue to expand our market breadth and presence. The connected home presents us with significant growth opportunities as accelerating broadband speed multiple devices and the rising influence of over the top OTT continue to drive the technology from wired to wireless.

This is illustrated by new programs with two Tier 1 North American carriers where shipments began in the fourth quarter. For an existing customer, we'll supply embedded antennas for their cutting edge 802.11ac OTT set-top-box offering. And in addition, we've renewed relationship with another carrier to supply antennas for their new mesh network offering.

During the fourth quarter, we started shipping our M2M max product line, increasing our penetration in the M2M and IoT markets. M2Max is our first product line designed specifically for wireless M2M applications. These include kiosks, digital signage, wireless ATMs, vending machines and more.

The need to simplify connectivity challenges is accelerating in the automotive market. As a result, it's increasingly apparent that our expertise will become even more critical. We are seeing success in the fleet connectivity space where mobile fleets require rugged external solutions for data, telematics and asset tracking. We currently have products that are LTE band 14 compliant, which is the current public safety standard

This compliance puts us in a strong as the FirstNet initiative starts to rollout across the entire U.S. As a remainder, FirstNet is the country's independent authority taxed with establishing operating and maintaining in the interoperable public safety network. All 50 states have already opted in, stating their intent to join the network. Our current line of fleet products is optimized for the LTE band 14 support, making it fully FirstNet ready and the ideal choice for public safety, other wireless M2M and IoT applications.

For 2018, we're increasing our focus in the automotive market, as connected cars require internal and external antennas for a complete solution. These applications can be an infotainment, vehicle-to-vehicle communications and driver assistance.

A few weeks ago, we announced one of our first major steps, a penetration into the automotive OEM market. Our partnership with McLaren Technology Group. The purpose of this partnership is quite simple. We're exploring together the creation of wireless connectivity solutions to help drive advancement within the automotive sector.

Company Name: Airgain
Company Ticker: AIRG US
Date: 2018-02-15
Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
Current PX: 9.38
YTD Change(\$): +.39
YTD Change(%): +4.338

Bloomberg Estimates - EPS
Current Quarter: 0.007
Current Year: 0.160
Bloomberg Estimates - Sales
Current Quarter: 12.133
Current Year: 59.733

This relationship brings together two world-class engineering teams and extends the McLaren's broader business of applying advanced technologies across multiple sectors. McLaren is widely [ph] respective (00:11:16) as a technology thought leader, and the platforms we're exploring will be invaluable to addressing critical applications across the transportation industry.

This will include joint research for 5G automotive applications, it will also help support our business development initiatives and give us access to a talented group of engineers to complement our own. The key takeaways that we believe this partnership will help accelerate our position in the automotive market, which is an important part of our growth and expansion strategy.

Going forward we will continue investing in our people, technology, and brand to accelerate our business to the next level. In addition to growing organically we will continue to opportunistically look at strategic acquisitions that can scale our business, this can be either through smaller tuck-ins for technology or people or larger deals which can add complementary technologies or software to our business.

In closing 2017, has been a vital year in paving our path towards higher growth in the future. Our mission, is not to just be an antenna systems expert for the connected home or car, but really the connected world which is how we view the overall market.

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

Q&A

Operator

Thank you. We will now take questions from Airgain's publishing sell-side analysts and major institutional shareholders. [Operator Instructions] Our first question is with Karl Ackerman with Cowen & Co. Please proceed with your question.

<Q - Karl Ackerman>: Leo, best to you in your future endeavors and Anil, I wanted to extend my congrats to you in your new role and opportunity at Airgain. For my first question, Chuck or Anil, on the cable side, it appears the challenges that you've seen early this year on the pace of roll out for the next generation home gateways should be in the rear view mirror as you progress through 2018. However, how do we think about the near-term set-up for you, given others in the supply chain have spoken of some elevated inventory that still needs to be absorbed. I'm curious if you share that view and whether or not you are seeing a proliferation of design wins that dwarf some of that near-term gestation needed across the supply chain and I have a follow-up, please?

<A - Charles Myers>: Okay. Thanks, Karl. I appreciate that. I think what we're seeing is, we cautioned back in September I think. We were one of the first to really recognize and make it public that we saw a slowdown in that – in that MSO buying cycle. We now see that trend as continuing upward in a very nice trajectory and we see that setting up nicely in the first quarter. So what – any of the – the delays we saw before, we've really started to see those turnaround. And I'll leave that open for your follow-up, Karl?

<Q - Karl Ackerman>: Sure. I guess more broadly going back to your 2018 revenue outlook for 20% year-over-year growth, obviously year-to-date you introduced a new line of outdoor antennas. You highlighted some opportunity in automotive, 5G fixed wireless access, Low Power WAN, how do we think about those opportunities in the context of your 20% revenue growth target for 2018?

<A - Charles Myers>: I'll let Anil take a crack at that.

<A - Anil Doradla>: Karl, thanks a lot and good afternoon. Before I jump into that, one of the things Karl that we have to understand is the nature of our business when it comes to lead times. And – as you know, Airgain has shorter lead times in comparison to some of these semiconductor guys and some of these other OEMs. So, we tend to see some of these trends sooner. So, as Chuck alluded to, we were first to see sometime last year. And as we go into this earlier, we

Company Name: Airgain
 Company Ticker: AIRG US
 Date: 2018-02-15
 Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
 Current PX: 9.38
 YTD Change(\$): +.39
 YTD Change(%): +4.338

Bloomberg Estimates - EPS
 Current Quarter: 0.007
 Current Year: 0.160
 Bloomberg Estimates - Sales
 Current Quarter: 12.133
 Current Year: 59.733

are kind of seeing some of the trends on the other side. So that's what basically I wanted to add to Chuck's answer. Chuck, do you want to answer?

<A - Charles Myers>: As it sets up, I don't think we haven't really segmented nor do we probably have a thought process at this point to segment how we're looking at the growth in those areas. When we run our models, we really run it across the board. We're starting to see our growth in automotive business, where last year – prior to mid-year 2017, we had no automotive business. So we really kind of look at how they go across the business as a whole. And the beauty of our business is the interplay between the technology development, as it applies to all of these applications. So we don't segment it out. I hope that answers your question Karl.

<Q - Karl Ackerman>: It does, thank you. I'll cede the floor and jump back in Q&A. Thank you.

Operator

[Operator Instructions] Our next question is with Craig Ellis with B. Riley & Company. Please proceed with your question.

<Q>: Hi, guys. This is actually [indiscernible] (00:17:14) calling in for Craig. Thanks for taking my questions. My first question relates to your first quarter. I know you typically don't provide any guidance. But are there – is there any color that you could provide with respect to factors that might be offsetting some of the seasonal declines that you typically see in the first quarter related to specifically the Asia supply chain?

<A - Anil Doradla>: Yeah, hi. This is Anil Doradla. Thanks for your question. I think as Chuck alluded to, right, I mean we are reiterating our 20% full-year guidance and he also made some comments on the trends that he's seeing in the near-term. I think without getting into details as we don't give guidance on a quarterly basis. What we are seeing here at Airgain is the trends are positive as Chuck alluded to certain delays that were taking place last year have finally come to kind of fruition in terms of some of the ramps. So, where we sit right now, we feel good about the near-terms trends. I'll leave it at that. Chuck, do you want to add anything?

<A - Charles Myers>: Yeah. I would just say, we think its setting up nicely. So, we're comfortable with the set-up as we see it now and we definitely have a positive outlook.

<Q>: Great. Thanks for that. And then my second question relates to your kind of your OpEx trajectory as we go about 2018, clearly OpEx was much better than expected for the fourth quarter. How should we look at that progression in the context of your auto initiatives and your other growth initiatives?

<A - Anil Doradla>: Yeah, again this is Anil. Thanks for that question too. As Chuck highlighted in his opening comments, 2018 will be a year of investments. There are several initiatives, as we talked about McLaren, you'll see a little bit more stuff coming into Barcelona, several new things going on. And as you know, I've been here only for 10 days, but let me tell you a couple of things and I'll kind of put that answer in the context of your question, which is what I have felt in these 10 days is, what Airgain has is many projects across many customers, and what I was very impressed with is the level of opportunities that are there. And based on what we're seeing right now, we feel that in 2018, we'll just focus on investing in some of these new areas.

So, as you could see in our press release that we talked about, we should be looking at investment levels similar to what we've seen over the last couple of years. So I think that's how should look at it. Again, 2018 as Chuck pointed out, is going to be a near focus of market expansion, getting into some global players and that would set us up well for the next phase of call it three to five years of growth as we get beyond our existing markets.

<Q>: Great. Thank you.

Operator

Our next question is with Karl Ackerman with Cowen and Company. Please proceed with your question.

Company Name: Airgain
 Company Ticker: AIRG US
 Date: 2018-02-15
 Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
 Current PX: 9.38
 YTD Change(\$): +.39
 YTD Change(%): +4.338

Bloomberg Estimates - EPS
 Current Quarter: 0.007
 Current Year: 0.160
 Bloomberg Estimates - Sales
 Current Quarter: 12.133
 Current Year: 59.733

<Q - Karl Ackerman>: HI. Yeah. I just had a follow-up on gross margins actually. Despite revenue growth, I think while you did grow over your 2017 outlook, it has been at least challenged this year by the pause in rollouts for next gen home gateways, you know despite that gross margins have continue to hold up I think very well relative to the mid 40% level you've laid out at the beginning of last year. So do you think it's time for a new margin model today or I guess maybe asked a different way, how should we think about the trajectory of your margins from here, if those programs ramps at MSOs do you come to fruition this calendar year? Thank you.

<A - Charles Myers>: Anil, you want to take [indiscernible] (00:21:09)

<A - Anil Doradla>: Yeah. So, hi, this is Anil. Hi, Karl. I think you know again in these 10 days you know looking at the product lines what I've seen is that there's a lot of diversity and a lot of diversity across products, across service providers and across skews. And there's several puts and takes. And as you know when a service provider order can come in that could – you could have a big solid ramp in a very short time. So I think the way we have to look at the gross margin outlook in 2018 is, we are not going to revise it today. We constantly look at it, we evaluate it, but I think the way we have to look at it is, we will be at these levels, there's several puts and takes, so I think we'll just keep it there. I don't know Leo, do you want to add something to that.

<A - Leo Johnson>: I think we've always said in the past that, where we target and we've been targeting everything here recently, right around 45% level and we kind of see that at least for the short-term it remaining there.

<Q - Karl Ackerman>: Perfect. I guess one quick follow up from me then. You know from a capital allocation standpoint, how should we think about the share buyback program being used given where your stock is today and could you talk about your priorities for organic and inorganic developments as you contemplate making investments to aggressively grow the top line both in you know 2018 and over the next few years? Thank you.

<A - Charles Myers>: Thanks, Karl, this is Chuck. I'll touch on the second question first and I will turn the other one over to Anil and Leo on the buyback. I think from an organic and an inorganic perspective, we – you know we look at these opportunistically. I will tell you, you know we're aggressive in what we're looking at. We do think there's some opportunities out there, some of these take some time and some relationship building and other things to get over the top of the hill and we're going to continue to pursue those. I think what you see in our model today is generally all organic growth. So anything that we take in over the top of that is going to be, will be icing on the cake.

<A - Anil Doradla>: And Karl coming back to your buyback, that's as we said in the press release, we're opportunistic about it. So, yes absolutely, we've got a two-year window and it is something that is an important thing for us as our board has committed to and we committed to. So as times goes by, we will make these moves opportunistically.

<Q - Karl Ackerman>: 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 Team at investors@airgain.com. I would now like to turn the call back over to Mr. Myers for his closing remarks.

Charles Myers

Great. Hey, thanks, Devin. Again, I want to thank everybody for joining us on the call today. It was – we pulled through a nice year and we're really looking forward to 2018. I can't thank Leo enough for the spectacular job he's done and it's nice that he's going to hang around for a while and help us. And welcome Anil, especially he's under – he's had a great understanding of our markets both technically and financially. He's a great addition to the team. And I really want to thank all the rest of our employees, partners, and investors for their continued support and we look forward to speaking on the next call.

Company Name: Airgain
Company Ticker: AIRG US
Date: 2018-02-15
Event Description: Q4 2017 Earnings Call

Market Cap: 89.85
Current PX: 9.38
YTD Change(\$): +.39
YTD Change(%): +4.338

Bloomberg Estimates - EPS
Current Quarter: 0.007
Current Year: 0.160
Bloomberg Estimates - Sales
Current Quarter: 12.133
Current Year: 59.733

Operator

Thank you for joining us today for Airgain's fourth quarter and full-year 2017 earnings call. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP.

© COPYRIGHT 2018, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.