

Operator

Hello, and welcome to the Casa Systems first quarter 2023 earnings call and webcast. If anyone should require operator assistance, please press * 0 on your telephone keypad. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

It's now my pleasure to turn the call over to your host, Dennis Daly, Investor Relations. Please go ahead.

Dennis Daly, Director of Investor Relations

Thank you, operator. And good afternoon, everyone. Casa Systems released results for the first quarter of fiscal year 2023, ended March 31, 2023, this afternoon, after the market closed. If you did not receive a copy of our earnings press release, you may obtain it from the investor relations section of our website at investors.casa-systems.com.

With me on today's call is Ed Durkin, our Chief Financial Officer and Interim CEO. This call is being webcast and will be archived on the investor relations section of our website. Before I turn the call over to Ed, I'd like to note that today's discussion will contain forward-looking statements, based on the business environment as we currently see it, and as such, it does include certain risks and uncertainties. Please refer to our press release and our SEC filings for more information on the specific risk factors that could cause our actual results to differ materially from the projections described in today's discussion.

Any forward-looking statements that we make on this call or any earnings release are based upon information we believe as of today, and undertake no obligation to update these statements as a result of new information or future events. In addition to U.S. GAAP reporting, we report certain financial measures that do not conform to generally accepted accounting principles. During the call, we may use non-GAAP measures, as we believe it is useful to investors, or believe it will be helpful to investors better understand our performance or business trends. And with that, I'd like to turn the call over to Ed. Ed?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Thank you, Dennis. And good afternoon, everyone. Thank you for joining us on our call today. We issued three press releases and filed an 8-K this afternoon, including our first quarter 2023 financial results, which I will cover in more detail momentarily. Since reporting on our fourth quarter results in mid-March, the entire team at Casa Systems has made great progress in streamlining our organization, executing on our 2023 business plan by delivering market-leading solutions to market, closing new sales deals, and positioning ourselves to improve future profitability.

And I'm pleased with the considerable changes we have made. But before I speak to our financial performance in the quarter, I'm also very pleased to say that in one of our other press release today, we announced the execution of our strategic term loan B transaction support agreement, TSA, with a majority of our lender group, which when formally completed, will extend our debt maturity to December 2027, all as detailed in the 8-K we filed on this TSA matter today, as well.

When the financing completed by TSA is finalized, we'll have significantly extended the maturity date of this facility, from December 2023 to December 2027, which gives us the time and flexibility to continue with our efforts to significantly enhance shareholder value by executing on our previously announced cash and capital efficient growth plan, and our plan to further aggressively de-lever. This is a significant milestone for Casa and we believe the support of the large majority of the lenders for the TSA demonstrates their confidence in our operating plan and the resiliency of our business.

As you can imagine, in a comprehensive process, like the one we just went through, there are third parties involved, looking at all aspects of our business. I'm very pleased with the feedback, particularly on the competitive differentiation of our cloud and cable product offerings and our ability to capitalize on the core market segments we are focused on. Our market leading product portfolios for cable, access, and cloud are complete, with no

major product portfolio gaps, and with strong customer demand across all market segments.

I would finally like to thank the whole Casa team and the talented teams at J.P. Morgan and Sidley Austin for all their hard work, to allow us to announce this important TSA today. And I would finally like to thank our term-loan B debt holders for their steadfast support and considerable efforts in getting this TSA agreement done. The other press release we issued this afternoon was a new, virtual CCAP and RPD note customer win with Claro Colombia.

This deal, which we originally thought would close in Q1 2023, but then was delayed for a few weeks, as we dealt with some untruths being circulated by some of our fact-challenged competitors, was great validation of the capabilities of our virtual CCAP core and RPD note offerings, which we have invested heavily in over the past few years. And we hope to announce other like virtual CCAP core and RPD note customer wins in the very near future.

This string of good news builds off the great momentum we had last month, when we announced that our innovative DA2200 Distributed Access node, the only FPGA-based, DOCSIS 4.0-ready, Remote PHY node in the industry, was successfully deployed with tier-1 cable MSOs in North and South America. This solution has set industry benchmarks for performance and flexibility, as our DA2200 Distributed Access nodes provide the cable operators with a flexible foundation that enables a smooth, cost-effective, future transition to distributed, cloud-native environments.

Switching gears, in mid-April, we also announced that LG U+, a leading, South Korean mobile network operator, is working with Casa, and our partner, E-Tech Systems, to deploy our eNoteB Gateway and security gateway solutions, which will enable LG U to simplify its network, improve their 4G service coverage and service quality, and more easily capitalize on their growing market opportunity. We are continuing to work with

multiple operators, like LG U+, in the region, and we expect this deployment to be first of many engagements for Casa.

Turning to our strategic partnership with Verizon -- we remain on track and have achieved all delivery milestones, to date. Verizon's confidence in our offering is an important validation of our 5G core and MEC solution and our security gateway software solution, as well. And it's a good validation of our go-forward strategy and leadership position and cloud-native 5G core and mobile edge compute solutions.

We expect increased GAAP revenues from our Verizon partnership in our second quarter and second half of 2023, given the progress we are making and the positive status of this very important and large partnership. And finally, before I go into the Q1 financial results, I would like to note that the search for a permanent CEO remains active and ongoing and the board is interviewing candidates now for this role. We look forward to announcing more on this in the coming few months.

Let's now move to our financial results for the first quarter. Revenue for the quarter came in at \$45.3 million, which was down 30% from a year ago. While our revenue performance came in slightly below our expectations, due to the slipped (ph) timing of some cable orders, due to the uncertainty regarding our term loan B status, including Claro, which we have now closed, as well as timing of acceptance of a software delivery for one large, cloud software contract, we believe we will see revenue contributions from both items in Q2 2023.

And this was solely a timing matter and not any type of competitive loss. We continue to believe that revenue for the year will be within our guided range of \$300 to \$325 million, and weighted for the second half of the year, given the timing of backlog shipments, shipments of our new 4G/5G, small-cell radio offerings in the second half, later-stage pipeline deals we expect to convert to revenue in 2H (ph) 2023, and revenue recognition related to deferred revenues now on our balance sheet.

To provide investors with a clearer view of our performance, we have modified how we are disclosing, by three product lines, which have similar attributes -- the revenue contribution by product offerings are easier to follow. Breaking down revenue across our three product lines -- our Q1 cloud revenue, which consists of our 5G core and MEC software, our security gateway, software product and a virtual B&G routing software, was \$4.2 million, which was up 86%, from \$2.3 million in the prior year.

Q1 cable revenue, consisting of all products customarily associated with our cable line of business, was \$15.3 million, which was down 46% from \$28.6 million in the prior year. The decline in cable was largely due to lower software license revenue during the quarter. And finally, Q1 access revenue, which includes our access device products from our 2019 Netcom acquisition, plus our 4G/5G enterprise, small-cell radio products, was \$25.8 million, which was down 23%, from \$33.5 million from the prior year.

Turning now to backlog -- we currently have approximately \$140 million in backlogged product and service orders, including scheduled, 2023 Verizon 5G MEC contract billings, bringing our total backlog, deferred revenue, and the remaining \$92 million of future billings under the Verizon contract to be billed in 2024 and beyond, to approximately \$270 million. As we noted last quarter, we also have approximately \$57 million of closed, multi-year, contracted business for our 4G/5G enterprise, small-cell radios, with a major, North American M&O, where we get POs on an annual, as-ordered basis.

I want to note that this is not included in the backlog and deferred revenue numbers I just mentioned and that the small-cell radios will begin shipping in the second half of 2023, pursuant to closed contracts we have. As we noted in our fourth quarter call in March, we are continuing to see good improvements in supply chain and believe a significant majority of our backlog will ship in 2023, assuming there is no unanticipated deterioration in our supply chain in the future.

Moving to gross profit -- GAAP gross profit for Q1 came in at \$18.2 million, or 40% of revenue. GAAP operating expenses for the quarter came in at \$45.3 million, including

\$3.9 million in non-recurrent charges, related to Jerry's departure as President and CEO in March 2023. And while outside of the first quarter, it's also important to note that in April 2023, we made the difficult decision to reduce our head count by approximately 13%, across all functions and GOs, and to reduce non-head-count costs, as well.

This was a necessary step to right-size our cost structure to our revenue levels and was done surgically, so we could continue to innovate in cable and cloud, retain our product lead and excellence, and capitalize on future growth opportunities. This realignment of resources will help Casa towards our goal of returning to annual, net-adjusted, EBITDA-positive results in 2023, and beyond. Our GAAP operating loss for the quarter was \$27.1 million. This was primarily driven by our softer than expected Q1 revenue results and the non-recurrent, \$3.9 million charge taken during Q1.

As mentioned, the largest cable deal that did slip outside of Q1 is now closed. We also expect to receive formal acceptance and the software order that slipped outside of Q1 soon. And we have taken action to reduce our cost structure in April 2023, as just announced. Further, it should be noted our operating cash burn was very modest in Q1, at only \$8.4 million. And this is important to recognize and reflects a high level of non-cash charges flowing through our GAAP P&L.

Finally, related to our Q1 P&L, our net loss for the quarter was \$31.7 million, or \$0.33 loss per diluted share versus a net loss of \$32.6 million in Q1 2022. On the non-GAAP basis, we had a loss of \$24.5 million, or \$0.26 loss per share, and reported adjusted EBITDA loss of \$16.2 million, as reflected in the schedule show in our press release. Turning to our balance sheet -- we ended the quarter with cash, cash equivalents, and restricted cash of \$115.6 million.

Our cash balance at March 31, 2023 was down approximately \$14 million, compared to December 31, due primarily to an approximately \$2 million reduction in our term loan B debt, another \$2.9 million use of cash for financing activities, some modest, six asset purchases, and the modest operating cash burn during the quarter, as I just mentioned.



We ended the quarter with high-quality accounts receivables of approximately \$47.5 million, which excludes major billings we are in the process of issuing in Q2, related to our Verizon contract.

Further, I'm pleased to say that our long-term debt, which was \$274 million, as of 3/31/22, is now down to \$223 million, reflecting great progress on our delevering plan. Finally, we are reiterating our annual, 2023 revenue guidance, of \$300 million to \$325 million in positive, net adjusted EBITDA results for the year. As noted earlier, we expect 2023 to be back-end weighted, and our guidance, based on visibility into our backlog, deferred revenue, and later-stage pipeline deals, including large expansion deals at major customers, which we expect to convert into revenue later this year.

So to wrap up, the team and I are incredibly excited about the recent developments at Casa -- from our recent customer wins to new, successful customer deployments, to the progress we're making in our important partnership for Verizon -- we're on the right path to drive growth and return to net-adjusted EBITDA profitability. And we will soon have the December '23 maturity overhang formally resolved, with the support of the majority of term loan B lenders, pursuant to the TSA we announced today.

I want to thank the entire team at Casa for the dedication to serving our customers and staying focused on our long-term goals during this time of transition. I will now turn the call over to the operator to open the line for any questions. Operator?

Operator

Thank you. We will now be conducting a question-and-answer session. If you'd like to be placed in the question queue, please press * 1 on your telephone keypad. If you would like to remove your question, please press * 2.

One moment, please, while we poll for questions. Our first question is coming from Simon Leopold from Raymond James. Your line is now live.

Simon Leopold, Raymond James

Thanks for taking the question. A handful of things -- one, more on the housekeeping front -- is -- with the redefined segments, will you be posting, essentially, a pro forma so that we could see what the trending has been with the new segmentation over the last eight quarters, just to help with kind of forecasting and identification of trends? Is that something you plan to do, or can do?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yes, Simon. We'll do that.

Simon Leopold, Raymond James

Great. That was an easy one. They'll get a little harder. What do you expect for your interest expenses, going forward with the new term B -- and congratulations for getting that done?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, thank you. I -- so I think the interest rate structure is in the 8-K. As we close it later in Q2, it should be kind of SOFR-plus 6.5, somewhere around 10%, so slightly higher, but still a very good market rate.

Simon Leopold, Raymond James

Okay. And what is sort of the normalized expense run rate now? Because, I get the recent cuts were done during the current quarter, so really I'm trying to get a better sense of where you do think operating expenses settle in the second -- let's call it 3Q/4Q opex budget -- what are you thinking?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so, we did do the right-sizing, Simon. It was surgical in nature and it preserved our ability to grow in our core market segments, including cable and cloud and RAM. In total, we took out about, on an annualized basis, excluding severance charges, we took out about \$28 million of expense, with the April action. That said, we are continuing to invest in certain areas, like cable and cloud and elsewhere. But the annualized savings from that April event was roughly \$28 million.

Simon Leopold, Raymond James

Right. And then, in terms of an update on the Verizon progress, I think at the end of the last quarter, there was I believe \$120 million left in the project. You had only recognized a fraction of revenue last year. What are your expectations for how much of that Verizon project was baked into the 2023 forecast?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so very good question. We did recognize only a fraction last year. I think we billed them \$20 million and got paid from Verizon \$20 million in non-refundable payment in 2022 and only took about \$7 million -- \$6.5 or \$7 million. We actually recognized no revenue from Verizon in Q1 2023. So we're just waiting on the formal acceptance. But the project itself is going great. And I would expect more meaningful revenue contributions from Verizon in Q2 and in the second half of 2023.

Simon Leopold, Raymond James

Great. I'll cede the floor at this point. Thanks for taking the questions.

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Good questions, Simon. Thank you.

Operator

Thank you. Next question today is coming from Tim Savageaux from North Capital Markets. Your line is now live.

Tim Savageaux, Northland Capital Markets

Good afternoon. Can you hear me okay?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah. Hey, Tim.

Tim Savageaux, Northland Capital Markets

Okay, great. So, I'm just kind of working through this debt agreement. And does this leave you with -- still with some maturities at the end of the year, over the old agreement?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so the belief is that we will get substantially all of the term loan B lenders to sign on to this. This first phase was to get the 60% we have signed up today. But there are mechanisms that can be put in place now, with this majority, to incent the remaining lenders to join, in the sense of us and J.P. Morgan is that substantially all will sign on and any type of step will be very minimal, if any, and the end of the year.

Tim Savageaux, Northland Capital Markets

Okay. But as it stands now, you've got 60% of it going out to '27, a \$40 million pay-down, and about 50 kind of remaining, that you hope to convert to the same '27 status. Is that accurate?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, that's correct, Tim. But again, this was part of the strategy. And again, we expect substantially all to sign onto this new deal.

Tim Savageaux, Northland Capital Markets

Got it. Have a question about the Claro win. Can you give us any metrics on kind of the size and importance of that opportunity to you guys, and how significant a customer that could be, say, relative to big customers you have had in the past, or any kind of metrics that you want to toss out there?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so we -- it was a great validation of our virtual CCAP Core and RPD Node, Tim. In terms of size, it was mid- to high-single digit millions. It was particularly gratifying to win that, in that we had a deal with some fear, uncertainty, and doubt that some of our truth-challenged competitors were sewing after our March announcement, but they have confidence in us and we're very pleased to announce that win. And we do think they're a substantial land and expend, inside of Claro, as well.

Tim Savageaux, Northland Capital Markets

Got it. And given the push-outs into Q2, were -- I'm assuming you might have a fair bit of visibility there. I know you reiterated annual guide. But, given I think you have a lot of -- potentially a lot of parts moving in the right direction in Q2, which is revenue is up and expense is down, hoping you might --

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Correct.

Tim Savageaux, Northland Capital Markets

-- be able to give us a little more color on what your expectations are here, short term.

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so, that is part of the success plan -- revenue up, expenses down. I think, in mid-March, when we gave guidance for the year, we did guide that it was going to be second-half, weighted plan. But we've got good visibility, given the high backlog we have, entering the year; the big growth in deferred revenues on our balance sheet, which ultimately will flow into our top-line revenues; actually, a very strong sales pipeline across all four market segments -- cable, CAD, cloud, and RAN; the fact that we're going to start shipping our 4G/5G, small-cell radios in the second half, pursuant to that closed contract; we also got some great expansion opportunities inside some of our largest customers.

Again, we're having success with our land and expand cohort sales model that you're familiar with. So, I mean, all those factors are going to combine to allow us, in our opinion, to attain that revenue guidance we've provided. And, candidly, we just got a very high, single-digit million cable order from a major customer in North America this past week, that will ship for revenue in the second half. So it's the combination of all of those factors that allow us to have confidence in our annual, top-line and bottom-line guidance.

Tim Savageaux, Northland Capital Markets

Okay, great. And one last question from me -- you mentioned no Verizon revenue recognized. And I realize that's probably separate from cash. But despite that, you put up pretty good margins, in the 40% range in the quarter. I guess, I don't know what a normalized quarterly Verizon contribution is, or software contribution. But I guess my question is, if there is such a thing, what should that add to gross -- what should gross margins look like, with a more normalized -- either Verizon, or if you want to say tier-1, cloud software contribution?

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

Yeah, so, in terms of the margin, it would probably be in the low 90s, as a gross margin as a percent of revenue. From a GAAP 606, rev rec point of view, it's a little complex. But the margins, on the cloud side, are going to be very, very high.

Tim Savageaux, Northland Capital Markets

All right. Thanks very much.

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

You're welcome.

Operator

Thank you. We have reached the end of our question-and-answer session. I would like to turn the floor back over for any further or closing comment.

Ed Durkin, Interim Chief Executive Officer, and Chief Financial Officer of Casa Systems

No, I guess, to close up -- first, thank you, everyone for joining us today. Look, it's been a really busy few months at Casa. And the whole team is working truly tirelessly to address the issues that were facing us. And we believe great progress has been made. As we enter Q2, we're bringing strong business momentum into the quarter. We're really pleased, after a lot of late nights and hard work on the TSA announcement today.

And with this term loan B cloud now moving away, we've also engaged Pipe Sandler to assist us in assessing the potential for select, non-core product line divestitures while we double down on cloud, cable, and select access device offerings. And we'll continue to update everyone on our progress during the coming months, with more press releases around customer wins and additions to the team that'll be forth coming soon. So, please



stay tuned. And thank you for your continuing support and interest in Casa. Thank you, operator.

Operator

Thank you. That does conclude today's teleconference and webcast. You may disconnect your line at this time and have a wonderful day. We thank you for your participation to