

Operator

Hello and welcome to Casa Systems Q4 2022 Earnings Conference Call and Webcast. If anyone should require operator assistance, please press star, zero 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 Dennis Dailey, Director of Investor Relations. Please go ahead Dennis.

Dennis Dailey, Director of Investor Relations

Thank you, operator, and good afternoon, everyone. Casa Systems released results for the fourth quarter of fiscal year 2022 ended December 31, 2022 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 are Jerry Guo, our Chief Executive Officer, and Ed Durkin, our Chief Financial Officer. This call is being webcast and will be archived on the Investor Relations section of our website.

Before I turn the call over to Jerry, 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 in the 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 if we believe it is useful to investors or believe it will be helpful to investors to better understand our performance or business trends.

And with that, I'd like to turn the call over to Jerry. Jerry?

Jerry Guo, Chief Executive Officer of Casa Systems

Thank you, Dennis, and good afternoon, everyone. Thank you for joining us today on our call. As Dennis mentioned, we issued a press release announcing our fourth quarter and year-end 2022 financial results, which Ed will cover in more detail later. It was a good quarter for Casa with substantial sequential growth and a return to a GAAP net income and a positive net adjusted EBITDA results, as Ed will cover in more detail, and I am very pleased with these results and our renewed momentum.

With the 2022 now behind us, there is much work to be done to accelerate our growth and return to profitability, and we believe 2023 will be a critical year for Casa as we bring our innovative solutions to the market in a cash and a capital efficient manner. We are continuing to make tremendous progress on our transformation towards software and the cloud.

Our backlog entering the year is strong. Our balance sheet deferred revenue is up, and we have a solid sales pipeline across our Cable, CAD, Cloud and our RAN product lines with the many new Tier 1 CSP late stage sales discussions and negotiations.

We are also seeing growing demand for our fixed wireless access and the fiber extension deployment across multiple geographies. Furthermore, we expect to deliver shipments of our latest Apex 4G/5G enterprise small cell later this year as part of a multiyear contract with a Tier 1 CSP.

With respect to our cloud native 5G Core and Edge portfolio, Casa's technology powered YTL's win of the Ookla Speed Test Award for ES (sp) 5G network in Malaysia,

representing a significant validation of our capabilities. Casa was also part of several recent customer announcements, including Telenor's recent 5G deployment and Orange's unveiling of Europe's first experimental end-to-end 5G SA network PKO.

Adding to this news, our multiyear \$140 million TCV partnership with Verizon, that was announced in April 2022 to provide our 5G Cloud native software to power Verizon's public Mobile Edge computing service offering remains on track, with Casa meeting all the key 2022 core deliveries and milestones called for in our contract with Verizon.

Our team was delighted to spend time with our customers and showcase our technology at the recent Mobile World Congress in Barcelona a few weeks ago, where our innovative 5G Core technology was on full display. Several of our key partners made significant announcements regarding their work with Casa, including Google's simplified cloud native network function deployment with a native Kubernetes networking and network function optimizer, and IBM's work with Casa & Enea to build a complete private 5G solution that's more scalable, dynamically adjustable, reliable and secure.

I'd also like to highlight Intel's virtual BNG one terabyte per second Throughput Success, which was also announced at Mobile World Congress. This remarkable achievement demonstrates Casa's ability to deliver one terabyte per second on one server, resulting in better performance that requires less power and less space. With this technology, providers will be able to offer services at Edge that meet their performance standards and to more cost effectively expand into markets with a new fiber to the home services.

Adding to our momentum, our technology was featured in several demonstrations from our key partners, including AWS with Totogi's Monetizable NPEN solution, Orange's PKO 5G Core that I mentioned earlier, and the rep has continued to work on NPEN solutions. This was an incredible showing for Casa, and we're honored to work with such important partners around the world to drive the next level of innovation.

Finally, we also announced today that Scott Bruckner, Casa's former Chief Financial Officer, will be joining the Board of Directors to help guide the company through its next chapter. Scott has made important contributions to Casa in the past as the former CFO, and he brings a deep understanding of the company's business, strategy and major customers. We look forward to the experience and expertise that Scott will bring to the Board.

With that, I would now like to turn the call over to Casa's Chief Financial Officer, Ed Durkin, for his comments on the company's performance in the fourth quarter and full year and our 2023 outlook. Ed?

Ed Durkin, Chief Financial Officer

Yes, thank you, Jerry, and good afternoon, everyone. As you know, we shared our preliminary revenue results publicly in late January, and we're very pleased that we've modestly exceeded the high end of our revenue guidance based on a strong quarter for cable revenues and the continuing improvement in the supply chain and demand for our fixed wireless and fiber extension products. And the headlines for the quarter are that our fourth quarter revenues came in at \$84.4 million, we have positive GAAP net income of \$1.2 million for the quarter, and we had positive net adjusted EBITDA of \$5.2 million during Q4.

Before I cover our Q4 financial results and our December 22 successful resolution of a customer warranty dispute and provide an update on the status of our Term Loan B efforts in more detail, I first wanted to address the challenges we've faced over the past few quarters and address 2023 high level guidance. And as most of you know, we suspended our full year guidance early in 2022, as there were too many uncertainties around supply chain and business dynamics in general.

I am pleased to say that in our press release today, we reinstated full year guidance for 2023, and it calls for top line growth and a return to positive net adjusted EBITDA results.

We've set our annual 2023 revenue guidance at a range of \$300 million to \$325 million in positive net adjusted EBITDA for the full year.

We do believe revenue for the year will be somewhat back end weighted due to several factors, including the timing of our backlog shipments, supply chain considerations, anticipated timing of closing of deals in our sales pipeline, revenue recognition related to deferred revenue on the balance sheet, as well as the shipment of our 4G, 5G enterprise small cell radios in the second half of 2023 pursuant to closed supply contracts we now have.

As also mentioned in our earnings release, we have recently been made aware of the decision by a major North American cable customer that they will not be proceeding with Casa in their initial rollout for the cable infrastructure upgrade project. Although we will continue to receive maintenance revenue associated with that customer for 2023, we assume no future product revenues from their cable broadband infrastructure upgrade project in our 2023 guidance, which I just covered. And although we were surprised and disappointed by this news, this was not attributable to any Casa cable product issues. As disclosed in our January 31 release, we have several successful virtual CCAP RPD solutions in production deployments today, and during Q4 we were also awarded a large virtual CCAP deal with a major European cable MSO with initial delivery expected later in 2023, and we are focused on providing -- continuing to provide best in class solutions to cable MSOs globally, just like we've done for the past 20 years.

So with those preferencing (sp) comments, let's now turn to our fourth quarter financial performance in more detail. And given the depth of discussions we've provided on prior calls in 2022 regarding the 2021 end-of-life decision for one access device product by one North American CSP tied to an E-91 regulatory change, not a Casa product issue, which was the major reason for the revenue decline in 2022 versus 2021, I'll primarily be comparing our Q4 2022 results to those of Q3 2022.



So getting into the quarter, and as noted earlier, revenue came in at \$84.4 million, which is above the high end of our preliminary range of \$83 million to \$84 million that we provided on January 31. We also achieved positive quarterly GAAP net income and net adjusted EBITDA results of \$5.2 million.

Breaking down revenues across product lines, Q4 wireless revenue was \$24.3 million, which was up approximately 14% from 21.4% in Q3. Q4 cable revenues were \$43.9 million, up 45% from \$30.2 million in Q3 due to strong end of year expansion purchases from our existing customer base in Europe and APAC. And Q4 telco revenue, which includes our virtual BNG router and fixed wireless access products, was \$16.2 million, up 6% from \$15.3 million in Q3.

Finally, we entered 2023 with approximately \$153 million in backlog product and service orders, including 2023 scheduled Verizon 5G MEC contract billings, bringing our total backlog, on balance sheet deferred revenue and the remaining \$96 million of future billings under the Verizon contract in 2024 and beyond to approximately \$286 million.

Further, we have approximately \$55 million of closed contracted business for our 4G, 5G enterprise small cell radios with a major North American mobile network operator, where we get POs on an annual as ordered basis, which is not included in the backlog and deferred revenue numbers I just mentioned.

And finally, and as Jerry mentioned, our Verizon partnership continues to progress very well. We've achieved all milestones in the fourth quarter that we're required to achieve, and this important partnership goes very, very well.

Given the improvements we're seeing in the supply chain, we believe a significant majority of our backlog entering 2023 will ship in 2023, assuming there's no unanticipated deteriorations in supply chain commitments in the future.

Moving to gross profit, GAAP gross profit in the quarter came in at \$36 million or 42.6% of revenue. This includes an additional inventory obsolescent charge of \$10.4 million in the quarter related to older cable inventory and some access device inventory with these Q4 additional reserves based on a prudent consideration of all factors related to inventory at year end. And excluding the Q4 inventory obsolescence charges, gross profit would have been approximately \$46.4 million or 55% of revenue.

Turning now to operating expenses, GAAP operating expenses for the quarter came in at \$37.9 million, down 15% from the prior quarter. The savings are related to various year-end adjustments, including adjustments to our cost structure implemented during 2022 and reductions in the company's variable compensation program given 2022 annual performance net of some other Q4 charges which impacted operating expense.

Our GAAP operating loss for the quarter was \$1.9 million. This is obviously influenced and impacted by the \$10.4 million inventory obsolescence charges in the quarter. Finally, related to our Q4 P&L, our net income in the quarter was \$1.2 million or \$0.01 per diluted share versus a net loss of \$31.2 million in Q3 2022. On a non-GAAP basis, we earned \$5.3 million in net income or \$0.05 per share and reported net adjusted EBITDA of \$5.2 million. All was reflected in the schedules to the press release.

Switching now to the customer warranty settlement matter, as you may recall from Q3, our net loss for Q3 increased due to a \$12.8 million charge related to a warranty matter - related to a failed replacement units from one of our products. This failure was attributed to an unauthorized part substitution by a supplier. We're very happy to announce that this customer dispute has been amicably resolved and settled with the customer in December 2022 with no material changes to the warranty settlement charge of \$12.8 million recorded in Q3. We made our first cash payment under the settlement just prior to year end, and the remaining \$9.5 million due will be paid in equal installments over the next three years.

Given the initial potential exposure was approximately \$56 million, as disclosed in our Q2 2022 10-Q, we're very pleased with this final amicable outcome with this important

customer. And related to this, we also implemented a new QA control procedures with the supplier and will be receiving increased future product discounts from the supplier based on the settlement we consummated with the supplier in March 2023, which will further improve the net economics to Casa for this now resolved matter.

Turning briefly to our balance sheet, we ended the year with cash, cash equivalents and a small amount of restricted cash of \$129.4 million. I would also like to note that none of the cash was held on deposit with SVB Signature Bank or any of the smaller regional banks as we've used the Bank of America as a primary bank for years.

Our cash balance at December 31 was down \$67 million compared to September 30, but this was primarily due to a \$50 million reduction in our Term Loan B debt, which we retired in Q4 at a discount, giving rise to a \$2.8 million gain on debt extinguishment in the quarter. And this cash level also included the cash payment under the warranty matter I just mentioned and operating cash burn for the quarter given we had relatively low levels of receivables entering Q4 of approximately \$49 million, which was not the case as we finished 2022. And we ended 2022 on the receivable side with a strong accounts receivable balance of approximately \$75 million, which is up more than 50% from the prior quarter and which bodes well for Q1 cash flow as we entered 2023.

Looking down the balance sheet, you'll see our Term Loan B debt, which is due in December of 2023, has moved from long term on our balance sheet to covered as we had yet to complete an extension of this maturity year end. And turning to this topic of Term Loan B, I'm very pleased to say we engaged JPMorgan as our banker, and we are actively working with the talented JPM team to explore options to address and extend the Term Loan B well before the late December 2023 maturity date.

I also want to acknowledge that, given this current maturity is about nine months away, it does bring into question going concern considerations, but again we're working hard on this with JPMorgan and plan to quickly address it well before Q4 2023.

And as also mentioned in the press release, we are prioritizing return to growth in profitability in 2023 and beyond, and we are actively reviewing our cost structure like any well-run company focused on profitability and cash and capital efficient operating results to ensure that we meet or exceed our 2023 financial goals and complete the transformation the Jerry has started over the past many quarters.

So with that, I will now turn the call back over to Jerry for some closing remarks before questions. Jerry?

Jerry Guo, Chief Executive Officer of Casa Systems

Thank you, Ed. As you read in our earnings release today, I announced my retirement as Casa Systems Chairman, President and the CEO effective March 17. I'm very excited about the future of Casa, but I've been working for over two decades, and now is a good time to make a transition and for me to step away from my daily operational role. I will be involved as a Board Member and a major shareholder going forward.

I would like to thank my co-founders, current and past co-workers, customers and partners and all other Casa stakeholders for a truly amazing 20 years. I'm very proud of what we have accomplished over the past two decades. The search for my successor is under way. In the meantime, I will assist Ed Durkin, our Interim CEO and fantastic CFO, to drive the transformation of Casa and achieve our 2023 goals.

I would now like to turn the call back to Ed for his final thoughts.

Ed Durkin, Chief Financial Officer

Thank you, Jerry. Before we conclude, I would like to profoundly thank Jerry for his truly tireless 20 years of dedicated service to Casa. He founded the company over 20 years ago, grew it from a small startup to a public company with 1,000 global employees and install base of marquee customers, and it's truly impressive what he's been able to build.

It's been an honor and pleasure working with him for the past year. I do hope he gets some richly deserved downtime with Lucy, his family and beautiful granddaughters. And in my role as new Interim CEO, I'm looking forward to working closely with Jerry and the Board as we execute on our 2023 business plans and deliver on renewed growth and profitability. And we also appreciate the continued support of and interest in Casa by all on this call, and we look forward to sharing additional progress on our transformation in 2023.

With that quick note of sincere thanks and well wishes to my friend Jerry, I will now turn it over to the operator to open the line for questions. Operator?

Operator

Thank you. We'll now be conducting a question and answer session. If you'd like to be placed in the question queue, please press star, one at this time. You may press star, two if you'd like to remove your question from the queue. One moment please while we poll for questions.

Our first question today is coming from the Simon Leopold from Raymond James. Your line is now live.

Simon Leopold, Raymond James

Thank you for taking the question. Couple of things I wanted to check on - the operating expenses were quite a bit lower in the fourth quarter, and I know you mentioned in the prepared remarks the adjustment of variable comp, but I just wanted to confirm whether or not there were any headcount cuts. And really what I'm getting at is how should we think about operating expenses as we go through 2023?

Ed Durkin, Chief Financial Officer

Good question, Simon. Look, during Q3 and Q4, we did make some modest cost reductions to the business. We also had some Q4 charges that increased operating

expenses. I think the majority of the savings were driven by changes to the variable bonus program, which is an annual event based on annual performance. So that was the main driver, but we can certainly provide more guidance on this on our next call as to normalized operating expenses going forward after we get through some planning that Jerry and I and the board are doing now.

Simon Leopold, Raymond James

Okay. And then you sort of gave us a lot of qualitative comments around some of the business trends, and it sounds to me you're most constructive on the wireless business still. And looking for some sense of how you envision the business mix within that full year revenue forecast, what's sort of strongest and what's maybe that the weakest part of the business? I'm guessing cable is the weakest, and wireless the strongest, but I just want to get a better understanding of how you see it.

Ed Durkin, Chief Financial Officer

Yeah, so another good question, Simon. Thank you. The business has really good fundamentals across all of our product lines, to include cable, CAD, cloud and RAM with each contributing to top line results into 2023. Cloud, which includes our 5G core and mobile edge computing software, our virtual BNG routing software and our security gateway software, will have the fastest growth rate over 2022 as compared to the others. But Cable, CAD and 4G/5G small cell radios also will deliver in 2023, as well. So -- but cloud will be the fastest growing segment.

Simon Leopold, Raymond James

Okay. And then in regards to the cable customer you called out, is this a customer that had in the past reached significance of being a 10% reportable customer? Just trying to get sense of the significance of that comment regarding the North American cable customer.

Ed Durkin, Chief Financial Officer

Yes, this is a significant cable customer from the past, and we received news we're not being deployed in their initial rollout in 2023, but we will continue to work this major account, and we'll see what transpires. We did get a virtual CCAP award from a major European MSO because one of our competitors failed to deliver, so we'll see what happens. But this was a larger cable -- North American cable customer to your question.

Simon Leopold, Raymond James

Thanks. And just to clarify, the fourth quarter strength in cable, was that in any way related to this customer? I know you mentioned Europe and Asia Pacific contributing to cable, but I also know, often when a customer is winding down a relationship, they may do sort of last time buys. Wondering if that contributed to that strength of cable in the fourth quarter?

Ed Durkin, Chief Financial Officer

That did not contribute, Simon, to the strength in Q4. This was balanced strong growth across all the GOs, and this North American customer had nothing to do with those strong results.

Simon Leopold, Raymond James

Thank you very much. Appreciate you taking all those questions.

Ed Durkin, Chief Financial Officer

My pleasure.

Operator

Thank you. The next question is coming from Tim Savageaux from Northland Capital Markets. Your line is now live.



Tim Savageaux, Northland Capital Markets

Hi. Good afternoon. Can you hear me?

Ed Durkin, Chief Financial Officer

Yes. Yeah.

Tim Savageaux, Northland Capital Markets

Okay, having some problems here. Can you guys hear me?

Ed Durkin, Chief Financial Officer

Yes, yep.

Tim Savageaux, Northland Capital Markets

Okay, great, sorry about that. Following on the cable discussion, I mean, it looks like I have chartered 13% of revenues year-to-date. I mean, assuming they're somewhere in the mid-teens for the year, given your guidance for next year, do you expect the cable segment to be able to grow based on other or run rate business, or are you making any particular assumption about declines at that major North American customer that may be will restrain growth in cable? I have a couple follow-ups.

Ed Durkin, Chief Financial Officer

Yeah, so again, we have a global installed base of top cable MSOs. All of them are satisfied customers with high CSAT. As it relates to this North American customer we mentioned, we are contracted for a set amount of annual maintenance support revenue, which is in our plan. It's contracted and guaranteed. We did not include any product revenues from this major North American customer in our 2023 plan. So to the extent we have success there later in the year, that would be upside.

I think our cable business in 2023 versus 2022 can grow modestly on the strength of the many other cable MSO customers we have globally as well as our new and expanded virtual CCAP RPD cable next gen (inaudible) offering. So I think cable will be a modest growth line of business for us with no dependency on this major North American customer.

Tim Savageaux, Northland Capital Markets

Okay, great. And -- oh, and I just missed a backlog. I wonder if you might mind repeating that exiting year deferred revenue numbers.

Ed Durkin, Chief Financial Officer

Sure thing. So we entered 2023 with \$153 million in backlog product and service orders, including the contracted 2023 billings under the Verizon 5G Mobile Edge computing contract, and that brings our total backlog deferred revenue and the remaining \$96 million of future billings under the Verizon MEC contract for 2024 and beyond to roughly \$286 million.

In addition, we have approximately \$55 million of closed contracted business for our 4G, 5G enterprise small cell radios with a major North America network operator which we closed in Q3, and under that new contract would get POs on an annual as ordered basis. So -- and as such we don't include it in the backlog and deferred revenue numbers I just mentioned, so that is incremental.

So entering 2023 I think the punch line is we're in much better shape as compared to 2022 relative to backlog that can ship and supply chain and contracted deals with major Tier 1 CSPs, and we're going to continue to focus on that and again drive renewed growth and net adjusted EBITDA positive results in 2023.

Tim Savageaux, Northland Capital Markets

Got it. And back on the cable side, I mean, I assume what you're referring to in terms of the possible or second half expectations is kind of the next gen kind of virtualized remote

PHY oriented aspect of that operator's upgrade plan. Just wondering if you can confirm that. And I know this is a tough one to answer, but I'll ask it anyway. I mean, is there -- had that come through as expected, what would your guidance look like for this year?

Ed Durkin, Chief Financial Officer

So we originally had anticipated second half core and RPD Remote PHY business from this. We were surprised when we learned they had decided to go in a different direction. Obviously, our guidance would have been meaningfully higher. We are not giving up on the customer or the customer relationship, but that's the status of it as we stand today, and we wanted to be transparent and -- transparent on the matter.

Jerry, I don't know if you have any other -- anything else you would add, but I think that's where we stand today.

Jerry Guo, Chief Executive Officer of Casa Systems

Yes, Eddie covered it well. We did have a much higher guidance in our original plan. We revised it to basically reflect a conservative approach at this point.

Tim Savageaux, Northland Capital Markets

Understood. And last question for me - pretty impressive gross margin performance, even with the charge, but I assume that's heavily influenced by the cable strength and capacity licenses and whatnot in terms of driving that, and so -- and that would be a high point for the year. Given your comments on cable, I mean, do you continue to expect sort of an upward direction in gross margins as we head into '23, given you've been in a pretty wide range in '22?

Ed Durkin, Chief Financial Officer

Yeah (crosstalk). Sorry, go ahead, Jerry.

Jerry Guo, Chief Executive Officer

Sorry. When you look at the growth drivers for Casa in 2023, the wireless core, the packet core is one of the significant growth drivers, and that's pure software, and of course, it's going to help with the margin. And we also have small cell radio as another growth driver in 2023. It's a mid-margin business, and our cable is going to be a combination of virtual CCAP core and chassis and the license sales as well as RPD sales. And they tend to come in at a very good margin, historically very good, and we don't see a significant difference in the gross margin of cable this year.

Tim Savageaux, Northland Capital Markets

Okay, great. Thanks very much.

Operator

Thank you. As a reminder, that's star, one to be placed in the question queue. One moment please while we poll for further questions.

We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any further or closing comments.

Jerry Guo, Chief Executive Officer of Casa Systems

Well, again, I'd like to thank everybody for attending this call, and we look forward to reporting to you the transformations of the company and the management team under Ed -- the performance of the management team under Ed going forward for you.

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 today.