



Operator

Greetings and welcome to Casa Systems Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. If anyone should require operator assistance during the conference, please press “*”, “0” on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Michael Picariello, Director of Investor Relations. Thank you. You may begin your presentation.

Michael Picariello, Investor Relations

Thank you, Operator, and good afternoon, everyone. Casa Systems released results for the second quarter of fiscal year 2022 ended June 30, 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 IR section of our website.

With me on today's call are Jerry Guo, our CEO, and Ed Durkin, our CFO. This call is being webcast and will be archived on the IR 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



financial 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.

I'd like to turn the call over to Jerry. Jerry.

Jerry Guo, Chief Executive Officer of Casa Systems

Thanks, Michael. Good afternoon and thank you to all for joining Casa's Second Quarter Fiscal Year 2022 Earnings Call.

On today's call, in addition to covering our second quarter results, I'll provide some insights into our progress on our mature product lines, cable and Casa access devices, or CAD, as well as update our new cloud software and 4G, 5G redo offerings, dealing on some comments made on the last earnings call in May. I will also provide some updates on new customer wins and major opportunities ahead for us in the second half of 2022, and beyond.

As you saw in our press release, we were able to, successfully, continue our positive trajectory for Casa's cloud native software solutions, during the quarter.

However, as expected, supply chain constraints continue to weigh on our second quarter financial performance. While we have some sequential revenue improvement in the second quarter, relative to the first quarter of this year, results for the second quarter and six months ended June 30, 2022, were below results from the same period in the prior year and with an operating loss incurred again in Q2, 2022.

While Ed will cover the financial results and drivers in more detail in his financial comments, suffice it to say, we are working hard to address all matters, within our control, that impacted operating results for Q2 and the first half of 2022. We also remain steadfast in our conviction that our revamped strategy for accelerating profitable growth in 2023 and beyond is the right path. And our early actions have us on course to achieving our long-term objectives.



Despite the near-term financial results, there were many positive developments in the quarter. First, Q2 was a very eventful quarter for Casa, strategically, highlighted by the Verizon deal announcement on April 18. For those who may not have been on earlier calls, the Verizon announcement encompassed two things. First, it results in a \$40 million minority equity investment for Verizon for a 9.9% stake in Casa shares. In addition, it includes a major license deal for up to \$140 million of total contract value for Casa's cloud native 5G core software for public or consumer mobile edge computing deployment. Importantly, this comes after Verizon evaluated all other alternatives in the market today for this solution.

This very strategic Verizon transaction is an important milestone for our 5G core and security data technology, as well as great validation of our go forward strategy and leadership position in cloud native 5G core and mobile edge computing solutions. We are now several months into our strategic partnership with Verizon, and I am pleased to say that everything is going well and on track. I'm very excited about this transformative Verizon partnership and its impact on our business in 2023, and beyond.

Second, there was some very encouraging progress on several important underlying business metrics, during the quarter, specifically, strong bookings of nearly \$93 million for the quarter. These bookings reflect \$20 million from Verizon's 5G public MEC purchase orders in Q2, as well as many other booking awards, across all geos, during the quarter, including a quarter end order for \$11.5 million from an increasingly active U.S.-based CSP customer for one of our access device products. We also have strong billings for the quarter of \$91 million. This includes the \$20 million billed to Verizon in Q2 for which we have already been paid \$10 million, as of late July, and expect the remaining \$10 million to be paid, later in Q3.

Finally, total GAAP revenue for Q2 was \$70.8 million, up 10% sequentially, over Q1, 2022, despite continuous supply chain challenges. It is important to note that, while we did bill \$20 million in Q2 for 5G core software already delivered to Verizon, that Q2



results only include \$5 million of 606 recognized revenue from the new Verizon 5G core contract in Q2. Again, Ed will cover this in greater detail, shortly.

Now, I'd like to add some additional color and highlights on both our new product lines, cloud software and 4G, 5G radios and our more mature product lines, cable and CAD. I'm pleased to report the following.

Starting with the 4G, 5G small cell radios, further to my comments during the May earnings call, when I mentioned we would have news on our radio access networks business, we can now share that we signed and closed a contract with a large Tier 1 CSP. We'll be providing Sub-6 small cell 4G-5 radios to this CSP with expected orders of approximately \$7.5 million in Q3 for delivery in 2023. This is a good validation our RAN technology and product excellence. We are also pursuing other major opportunities with other Tier 1 CSPs and hope to be able to share even more RAN success in the coming quarters.

Turning to our cloud software offerings. In addition to order progress we're making with Verizon, I also wanted to highlight other customer engagements that demonstrate our growing success for our cloud native software solutions. In May, we announced that Casa entered a memorandum of understanding, or MOU, with a Vietnam posts and telecommunications group, VNPT. VNPT is a leading provider of digital and telecommunication services in Vietnam. The MOU was signed to memorialize the planned next-generation network services in Vietnam with VNPT selecting Casa as their strategic software provider. We also announced in June, Malaysia service provider, YTO Communications, has deployed Casa's industry leading native Axyom 5G core to power its 5G network accelerating its digital transformation, across Malaysia.

Our sales pipeline for cloud native 5G core and MEC opportunities, as well as our cloud BNG router product line is promising. We are currently working on many other cloud native 5G core deals, as well as other deals that include our cloud BNG router product. Like our cloud native 5G core, our cloud BNG can replace traditional chassis-based



edge routers for BNG applications to provide the same benefits to wire land networks, as our cloud native 5G core to wireless networks.

As a reminder, our cloud BNG router offers separation of control and data plans and is designed for network edge deployment, geographic redundancy and multidimensional scaling, so that service providers have low latency, high throughput, service assurance and agility and a faster time to market. These deals are with the Tier 1 CSPs on a global basis, and some are in partnership with some of the leading public cloud hyper-scalers in the large system integrators.

Including coordinated joint sales act initiatives with these partners, we expect to announce new cloud native software wins with Tier 1 CSPs, later this year for both, 5G core and MEC and cloud BNG solutions. And we also expect to be able to announce a new go to market partnership with a new distribution partner, later in Q3, 2022, as well.

Now, turning to our more mature cable product line, as noted in May, we are continuing our deployment of our cloud native CCAP core, together with our remote PHY nodes with multiple Tier 1 operators. In addition, we are also in customer trials for our end-to-end remote MACPHY solutions. We are seeing more interest from our leading cable customers to go to remote PHY and remote MACPHY, in the last few months. We're hopeful that, with the support of both remote PHY and remote MACPHY, coupled with increased competitive dynamics that cable providers need to react to, we will be in a good position to return our cable broadband business to growth in 2023, and beyond.

Finally, regarding fiber extension and our fixed wireless access devices product line, we are expanding our fiber extension deployment in the United States and Europe, beyond our original customer base in Australia. We received notification, earlier this week, that we will be receiving a \$10 million PO for fiber extension products from a major customer in Europe. We're also working on next generation offerings in this area with enhanced management, higher port counts and XGS-PON support, which should provide us with growth opportunities in 2023, and beyond.



In our fixed wireless business, we are also making progress with both new products and new prospects, and we believe that we will see renewed momentum in fixed wireless in 2023, and beyond.

Lastly, I want to address the continued supply chain issues. Our results for the quarter were, again, impacted by COVID -related supply chain challenges, particularly, with respect to products and components that we source from some of our Asia-based suppliers. It is hard to predict, precisely, when the supply chain issues will be resolved. Based on visibility today, we believe supply chain issues will continue, through Q3. We are hopeful that we will begin to see some relief in late 2022 or early 2023. We also recognize we are now in an inflationary environment and are working with our suppliers to control costs.

In summary, we're working hard to navigate and adjust economic uncertainties and COVID related supply chain issues with us today, while we transform our business into a cloud software focused connected cloud business. I would like to thank all of the stakeholders for their hard work, commitment and support of Casa, as we work through these near-term challenges. Casa has thrived, throughout many economic cycles in the past, and I'm confident we will, similarly, get through this period. We're, undoubtedly, building a solid foundation, through our strategic transformation. We are on a growth trajectory, next year, and beyond.

As we capitalize on large, strategic, rapidly growing market segments, such as cloud native 5G core and cloud native BNG router software for major CSPs, I'm pleased with our pipeline growth and pending new partnerships, and I believe we are setting the stage for delivering sustainable, profitable, long-term growth.

I will now turn the call over to Ed. Ed.

Ed Durkin, Chief Financial Officer



Thank you, Jerry. And good afternoon, everyone, and thanks for joining us on this very hot August afternoon.

Regarding financial details for the quarter, as Jerry mentioned, from an overall perspective, Q2 was actually a positive and very eventful quarter for Casa with the licensed deal for cloud native 5G SA MEC software with Verizon with up to 140 million TCV value, coupled with the \$40 million 9.9% minority equity investment from Verizon, being the major highlight of the quarter, as announced on April 18. And as Jerry mentioned in his comments, the four-month-old Verizon partnership is actually off to a very good and fast start with everything on schedule.

As for some business metrics, which reflect underlying good business fundamentals for Q2, and as Jerry mentioned, we actually had strong bookings, during the quarter of \$92.7 million. That reflects, those bookings reflect \$20 million of non-cancelable, non-refundable POs from Verizon received in Q2, which will be paid in full in Q3. Those bookings also reflect good orders, across all TOs, including a large end of quarter order for approximately \$11.5 million from an increasingly active US-based CSP for one of our access device products, which went into backlog. Similarly, we had strong quarterly billings of \$91 million in Q2, 2022, including \$20 million billed to Verizon. And we had, essentially, booking and billings being approximately 30% higher than GAAP revenue for the quarter.

GAAP revenue, total GAAP revenue was \$70.8 million for the quarter, down compared to Q2, 2021, but up 10%, sequentially, over Q1, 2022. And as Jerry mentioned, while we did get \$20 million in non-cancelable, nonrefundable POs from Verizon in Q2, which will be fully paid in Q3, these Q2 GAAP revenue results only include \$5 million of software revenue for the quarter. And that's due to the complex provisions of the Verizon contract and its many performance obligations or deliverables, over many years, coupled with the revenue recognition rules under ASC-606. And as we go forward, we expect to recognize low single digit revenue for Verizon in each of Q3 and Q4, 2022, as additional code drops occur with the remainder of the revenue recognized in 2023, and beyond, over the remaining term of the Verizon contract.



Breaking down the revenue across our product lines in customary format, which most on this call are familiar with. Second quarter wireless revenues were \$28.5 million, down from Q2, 2021, but up \$6 million, or 27% from Q1, 2022. Cable revenues came in at \$25.2 million, down from Q2, 2021 and also down from \$28.6 million in Q1, 2022. In cable, as Jerry noted, can be lumpy, but we do believe growth is ahead for cable for the factors Jerry mentioned, including competitive dynamics. And finally, fix telco revenue came in at \$17.1 million in Q2, 2022, flat with the same period in 2021 and up 30% from the \$13.2 million recorded in Q1, 2022. And as Jerry mentioned, during Q2, 2022, we continued to have supply chain issues, and we had about \$11.5 million in backlog orders that we had planned to ship in the quarter that we were unable to ship, due to unexpected supply chain delays.

Finally, as for the macro picture backlog and deferred revenue, when you consider all factors from backlog deferred revenue at June 30 remaining Verizon \$120 million unbilled TCV value, which is subject to Verizon's future acceptance, we're in much improved condition with an overall increase of approximately 71% from \$193 million, as of 12/31/21 to approximately \$329 million, as of June 30, 2022.

Moving down from revenue to gross profit, GAAP gross profit dollars for the quarter came in at \$26.6 million where a GAAP gross margin is a percent of revenue at 37.6%.

With the low and unexpected gross margin results in Q2, primarily due to non-cash inventory and warranty related charges of approximately \$4.7 million, as a result of some end of life announcements and changes to future sales estimates for some inventory items, as well as to a lesser extent, revenue mix issues with wireless and cable revenues, along with other factors, on a pro forma basis, if you exclude that \$4.7 million non-cash inventory charge in Q2, gross margins would have been \$31.3 million, or approximately 44% of revenue, within the quarter. And going forward, we look had, we expect improved gross margins, as we see a better mix of higher margin cable RAN and software revenues. And that should allow us to get back to our historical gross margin profile.



Turning now to operating expenses, Q2 GAAP operating expenses increased to \$44.8 million, as compared to \$41.9 million in Q2, 2021. And it was relatively flat with a \$45 million in Q1, 2022. It reflects the fact that we are continuing to invest in our product offerings, across all lines of business, as well as investing in our distribution capacity and go to market functions.

Regarding our operating loss for the quarter, similar to Q1, 2022, the operating loss was \$18.1 million with the beneficial impact of higher Q2 revenue levels, including higher software revenues, offset by a like amount of inventory charges, within the quarter.

Below the operating line, not operating income and expense for Q2 was as expected, relative to income taxes during the quarter, we actually recorded an income tax benefit of \$4 million. This was primarily due to a change in our estimated annual effective tax rate for the year, among other complex factors.

And finally, a quick update. We spoke in Q1 about the R&D tax law change, which resulted in us having a significant tax provision expense in Q1, 2022. That R&D tax law has not yet been repealed with retroactive effect, but we and our tax advisers are hopeful this will, indeed, occur in the second half of 2022, before year end.

And finally, related to P&L comments, our net loss for the quarter was \$16.7 million versus \$32.6 million in Q1, 2022. That Q1, 2022, quarter reflected the tax provision, I just mentioned.

Turning to our balance sheet for a minute, we continue to have a strong liquidity position with working capital balance of approximately \$257 million at quarter and, with \$199 million in cash, including approximately \$3 million restricted cash. And cash is up appreciably, over year end in Q1, 2022, end of quarter balance. That cash it reflects the \$40 million received from the Verizon equity investment in mid-April. It does not reflect the \$20 million in nonrefundable license payments, though, that we're going to get from Verizon, \$10 million which we got at the end of July and the remaining \$10 million in



September. We have high quality Accounts Receivable of about \$68 million, including \$20 million from Verizon, as of June 30. Lower inventory balances, lower payables and accrued expenses and higher deferred revenues, as earlier mentioned.

And to wrap up the quick discussion of the balance sheet, total senior debt was \$275.2 million, down slightly from \$276.1 million in 12/31/21.

As you recall during our May earnings call, we announced that we're suspending our formal guidance for 2022, until we have the visibility to reinstate. And that suspension of guidance continues, given the many inherent uncertainties around supply chain, inflation, taxes and other matters.

My final comments before opening up the call to Q&A, I'd like to reiterate some of the key points Jerry made, as well as add some of my own early observations, namely, that in the four short months I've been here, I've been very impressed with the tech and team and sense of urgency at Casa. And I've also been very impressed with the amazing pedigree of marketing customers we have, like Verizon and many other global Tier 1 CSPs. I've also been very pleased with the volume and high-profile of global Tier 1s we have in our forward-looking sales pipeline and the work in many of these deals with major cloud hyper-scalers.

I actually believe Jerry and team were absolutely prescient in deciding to invest in cloud native software, many years ago, as he then envisioned and anticipated where the market was heading. And we're now leveraging those multiyear investments in cloud native 5G core and MEC software solutions, which are competitively differentiated, as compared to legacy and common offerings. And we are executing on that connected cloud strategy we previewed in November, 2021. That progress and execution has been validated by Verizon and YTL, and we expect to be able to publicly announce further validation, as we close other Tier 1 CSPs, now and later stage of the sales cycle. And I do believe we're going to be able to announce some new and interesting go to market partnerships in the near future, given this differentiated tech platform, which is complimentary to offerings of other major players in this new ecosystem.



So, all of these tangible data points, collectively, give us the conviction and confidence that we are indeed on the right path, transforming Casa from a hardware centered business to a software and cloud centric business, which should enable accelerated growth, enhanced profitability and increased enterprise value in 2023, and beyond.

So with that, I'd like to turn the call back over to the operator to open the line for questions. Operator.

Operator

At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" to remove your question from the queue. For participants using speaker equipment, it may be necessary for you to pick up your handset, before pressing the star keys.

One moment, while we pull for questions.

Our first question comes from the line of Simon Leopold with Raymond James. You may proceed with your question.

Victor Chiu, Raymond James

Hi, guys, this is Victor Chiu in for Simon Leopold. Can you remind us what components for what products are seeing the most impact from supply chain headwinds and whether you've observed any material changes in the dynamics that kind of lead you to anticipate the improvement that you mentioned in the second half?

Jerry Guo, Chief Executive Officer of Casa Systems



Victor, let me answer that. We did see a supply chain impact in actually, all three of our hardware businesses, including cable, radio and access devices.

Victor Chiu, Raymond James

Okay. And are you seeing any changes, are you observing any improvement that leads you to be kind of more optimistic that it improves, going forward?

Jerry Guo, Chief Executive Officer of Casa Systems

Yeah, we see the impact will continue in Q3. We do hope to see things going to turn around in late 2022 and early 2023.

Victor Chiu, Raymond James

Okay. I wanted to clarify the gross margin commentary. Did I hear correctly that there was some one-time expense that drove the margin contraction, or was there some impact from product mix, as well, this quarter?

Ed Durkin, Chief Financial Officer

So, the biggest impact on margins was a non-cash \$4.7 million charge, across the goods sold, related to inventory and warranty reserves. So, when you take that out, the margins are more in our customary range. And that was a primary driver of the margin compression, during the quarter.

Victor Chiu, Raymond James

Okay. Okay, got it. And I just, let me see, I just, more of a general question. A common theme from cable operators and most recent reports is an acknowledgment that fixed wireless access appears to be more a material concern to them now, then it has been in



the past. Can you frame your views on this trend and help us understand what the implications are for Casa?

Jerry Guo, Chief Executive Officer of Casa Systems

Yeah, we actually are asking the same thing. And just like we said in the written remarks, we see the competitive dynamics are going to drive cable operators to start spending more on that CapEx, next year. And that's why we see the trend toward high split, as well as distributed architectural like a remote bio remote MACPHY. And we do see that trend, like you mentioned.

Victor Chiu, Raymond James

But not, you don't expect, anticipate too much of a material impact, this year but more of a next 2023 event.

Jerry Guo, Chief Executive Officer of Casa Systems

Well, we do not see as big an impact in the short term, given the supply chain constraints, any hardware orders would take longer to deliver. And what all the cable operators can do is buy licenses to combat that competitive pressure.

Victor Chiu, Raymond James

Got it. Great, thank you.

Jerry Guo, Chief Executive Officer of Casa Systems

Thank you.



Operator

As a reminder, if you would like to ask a question, please press “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. One moment, while pull for questions.

Ladies and gentlemen, we have reached the end of today’s question and answer session. I would like to turn this call back over to Mr. Jerry Guo for closing remarks.

Jerry Guo, Chief Executive Officer of Casa Systems

Thank you for joining us, today. We remain confident that we are on the right track to accomplish our multiyear transformation into a leading provider of cloud native software and physical infrastructure technology solutions for mobile, cable and fixed networks. Our pipeline is strong. Our business fundamentals are healthy. Our product development remains on track. We’re attracting a class of global go to market partners, which we believe will provide us critical distribution leverage in the future. And our growing backlog is indicative of the profitable revenue growth we believe we can deliver and sustain, well into the future.

I look forward to updating you on our progress.

Operator

This concludes today’s conference. You may disconnect your lines, at this time. Thank you for your participation. Enjoy the rest of your day.

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casa systems

**Casa Systems Q2'22 Earnings Call Transcript
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