

Action Summary – 19 February 2025

Analyst Theodore R. O'Neill **Valuation focus post 4Q24 results – Reiterate our Buy rating and \$10PT.**

- CRNT strategy rests on a three-legged stool, but you might have been fooled by the way the stock reacted post earnings. We believe the valuation is attractive.
- **In-line earnings on higher revenue.** Last week, the company reported 4Q24 revenue and non-GAAP EPS of \$106.9MM and \$0.09, respectively, beating consensus revenue estimates of \$105.2MM and meeting consensus non-GAAP EPS of \$0.09. On a GAAP basis, the company reported EPS of \$0.04 compared to our estimate of \$0.07. The \$0.03 unfavorable variance was primarily due to non-cash revaluation expenses associated with business combinations (\$0.01), other operating expenses (\$0.01) and stock-based comp. (\$0.01), partially offset by higher sales and margins,
- **Three-legged stool strategy.** Management calls it three pillars, but it's a diversification strategy that's working. It is focused on the growing millimeter-wave business, the private network business and recurring revenue from network operations and optimization. The tier-1 business is arguably lumpy, and the outlook is unsure, but the shares appear to be focused on one leg of this business.
- **Adjusting estimates.** We are lowering our 2025 revenue and non-GAAP EPS estimates to \$391MM and \$0.24, respectively, down from revenue and non-GAAP EPS of \$431MM and \$0.39 primarily due to near-term variability.
- **Shares appear to be priced significantly below absolute and comparative metrics.** The shares sell at a discount to both our discounted price target model and below average peer multiples.

2/18 Closing price: \$3.42	Market cap: \$308 million	2025 Market cap/sales: 0.72x	2025 EV/Sales: 0.76X
Shares outstanding: 90 million	Insider ownership: ~20%	Avg. trading volume: >500,000	Dividend/Yield: NA/NA

Revenue and Adjusted EPS estimates (EPS in USD – Revenue in USD millions)

Period	EPS	Revenue	Operating Margin
FY22A	<u>(\$0.15)</u>	<u>\$295.2</u>	<u>(3.7%)</u>
FY23A	<u>\$0.20</u>	<u>\$347.2</u>	<u>6.1%</u>
1Q24A	\$0.05	\$88.5	4.8%
2Q24A	\$0.11	\$96.1	10.8%
3Q24A	\$0.16	\$102.7	14.3%
4Q24A	<u>\$0.09</u>	<u>\$106.9</u>	<u>8.9%</u>
FY24A	<u>\$0.41</u>	<u>\$394.2</u>	<u>9.8%</u>
1Q25E	\$0.02	\$86.0	3.0%
2Q25E	\$0.03	\$92.0	4.5%
3Q25E	\$0.08	\$101.0	8.4%
4Q25E	<u>\$0.11</u>	<u>\$112.0</u>	<u>10.0%</u>
FY25E	<u>\$0.24</u>	<u>\$391.0</u>	<u>6.8%</u>

Note: Numbers may not add due to rounding. See our full model at the back of this report.

Cash balance (USD millions)

• 2022A	• \$22.9
• 2023A	• \$28.2
• 2024A	• \$35.3
• 2025E	• \$42.0

Short term debt (USD millions)

• 2022A	• \$37.5
• 2023A	• \$32.6
• 2024A	• \$25.2
• 2025E	• \$25.0

Risks/Valuation

- Risks include competition, government funding, network growth demands.
- Our \$10.00 target is derived using a discounted future earnings model.

Company description: Ceragon (NASDAQ: CRNT) is a global innovator and leading solutions provider of end-to-end wireless connectivity, specializing in transport, access, and AI-powered managed & professional services. Through its commitment to excellence, it empowers customers to elevate operational efficiency and enrich the quality of experience for their end users.

Figure 1 – Ceragon Networks – One year Trading snapshot



Source: FactSet

Quarterly Analysis

In-line earnings on slightly higher revenue. Last week, the company reported 4Q24 revenue and non-GAAP EPS of \$106.9MM and \$0.09, respectively, beating consensus revenue estimates of \$105.2MM and meeting consensus non-GAAP EPS of \$0.09. On a GAAP basis, as we show in Figure 2, the company reported EPS of \$0.04 compared to our estimate of \$0.07. We believe the \$0.03 unfavorable variance was primarily due to higher sales and margins, offset by non-cash revaluation expenses associated with business combinations (\$0.01), other operating expenses (\$0.01) and stock-based comp. (\$0.01).

Figure 2 – Ceragon Networks – Quarterly Analysis

	<u>4Q24E</u>	<u>4Q24A</u>	Better/(worse) than estimates
Income Statement			
Sales			
Total Revenue	102,750	106,932	\$4,182
Total cost of products sold	<u>68,843</u>	<u>70,550</u>	<u>(1,708)</u>
Total Gross Profit	33,908	36,382	2,475
GP%	33.0%	34.0%	
Operating expenses:			
R&D Net	8,500	8,969	(469)
Sales and Marketing	12,500	11,077	1,423
General and administrative	\$4,500	\$5,374	(874)
Other incl. restructuring, M&A	<u>0</u>	<u>1,443</u>	<u>(1,443)</u>
Total Expenses	<u>25,500</u>	<u>26,863</u>	<u>(1,363)</u>
Earnings (loss) from Operations	8,408	9,519	1,112
Financial costs and other	<u>(2,000)</u>	<u>(4,863)</u>	<u>(2,863)</u>
Earnings before taxes	6,408	4,656	(1,752)
Tax expense/(benefit)	<u>600</u>	<u>1,046</u>	<u>(446)</u>
Net income	<u>\$5,808</u>	<u>\$3,610</u>	<u>(\$2,198)</u>
Total GAAP EPS	\$0.07	\$0.04	(\$0.03)
Adjusted EPS	\$0.09	\$0.09	\$0.00
Diluted common shares	88,500	89,988	

Source: Litchfield Hills Research LLC

Valuation Methodology

We believe CRNT is undervalued, and we support that belief with a series of valuation techniques. We use two different techniques, below. To determine our price target, we use a discounted future earnings model, and we validate that result with a comparison to peers, i.e.:

- 1) The discounted value of all future earnings was used for our price target (see Figure 3)
- 2) Valuation relative to peers (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$10.00 is based on a discounted earnings model. For valuation purposes, we sum up all future GAAP earnings discounted at 10%. We assume no EPS growth in 2025 as we are taking a more conservative view of the unfolding impact of the new US administration, after which growth resumes and steps down to GDP after 5-7 years. Our valuation model is shown in Figure 3 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$10.31, which we round to \$10.00. Were it to trade at that level, the implied 2025 EV/Revenue would be slightly higher than average, and nowhere near the high end of the range.

Figure 3 – Ceragon Networks – Price Target Calculation

Discounted future earnings: \$10.31			
YEAR	EPS	Discounted EPS	
2025	\$0.17	\$0.17	
2026	\$0.35	\$0.32	
2027	\$0.42	\$0.36	
2028	\$0.47	\$0.37	
2029	\$0.50	\$0.36	
Terminal Value		\$8.73	

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

If we compare CRNT to a simple average of its peers (Figure 4), the shares sell at a significant discount on sales measures. Assuming CRNT should trade at an average multiple, and we would argue that due to its growth potential, it should trade above average, these metrics indicate the stock price should be higher than where it is today. Details on each of the peers can be found in Figure 5 near the back of the report. The companies we used in Figure are in similar lines of business although none of them are a perfect match.

Figure 4 – Ceragon Networks – Discount to Peers

	2025 Market Cap / Sales	2025 EV / Sales
Average	1.95	2.06
CRNT	0.72	0.76
Discount to peers	63%	63%

Source: Litchfield Hills Research LLC and FactSet

Guidance and Financial Forecasts

The company provides full year 2025 revenue guidance of between USD\$390MM and USD\$430MM and is targeting a non-GAAP operating margin of at least 10% at the low end of the revenue range.

Figure 5– Ceragon Networks – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples (except book)			
					PE	EV /Sales	Market Cap / Sales	EV / EBITDA
ERIC.A-SE	Telefon AB L.M.Ericsson (Class A)	\$7.94	26,578	25,447	14.92	1.07	1.11	7.05
NOKIA-FI	Nokia Corp. (FI Listing)	\$5.02	28,049	24,222	15.12	1.19	1.38	9.13
6701-JP	NEC Corporation (Ordinary)	\$102.07	27,742	29,605	21.57	1.27	1.19	
000063-CN	ZTE Corporation (Class A)	\$5.63	24,691	18,172	17.80	0.96	1.33	
CIEN-US	Ciena Corp.	\$89.80	12,805	13,489	37.13	3.05	2.89	28.51
002281-CN	Accelink technologies Co Ltd (CN Listing)	\$7.47	5,476	5,603	36.02	3.61	3.82	
002583-CN	Hytera Communications Corp. Ltd. (Class A)	\$1.96	2,517	3,810				
KTOS-US	Kratos Defense & Security Solutions Inc.	\$27.16	4,121	4,173	46.24	3.22	3.18	44.56
600498-CN	Fiberhome Telecom Tech Co (Class A)	\$3.44	4,123	6,100	32.35		0.90	
MRCY-US	Mercury Systems Inc	\$44.45	2,653	3,010	NMF	3.39	2.99	84.89
CALX-US	Calix Inc.	\$39.84	2,642	2,331	56.21	2.69	3.05	36.17
MXL-US	MaxLinear Inc.	\$16.21	1,372	1,385	44.69	3.23	3.20	NMF
DGII-US	Digi International	\$34.50	1,273	1,376	17.43	3.27	3.03	
ADV-DE	Adtran Networks SE	\$21.06	1,094	1,174	NMF		2.22	
GILT-US	Gilat Satellite Networks (US Listing)	\$6.78	387	275				
AVNW-US	Aviat Networks. Inc.	\$22.16	281	309	19.95	0.70	0.64	
CMTL-US	Comtech Telecommunications	\$2.33	68	430	NMF	0.89	0.14	
CMBM-US	Cambium Networks Corporation	\$1.31	37	67		0.31	0.16	11.99
AVERAGE					<u>29.95</u>	<u>2.06</u>	<u>1.95</u>	<u>31.76</u>
CRNT-US	Ceragon Networks (US Listing)	\$3.46	297	312	10.14	0.76	0.72	12.47
CRNT Discount to peers:					-66%	-63%	-63%	-61%

Source: FactSet and Litchfield Hills Research LLC

Figure 6 – Ceragon Networks – Income Statement (USD\$ 000)

December ending year	2022A Year	2023A Year	2024A				2024A Year	2025E				2025E Year
			Q1A	Q2A	Q3A	Q4A		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$295,173	\$347,179	\$88,498	\$96,088	\$102,672	\$106,932	\$394,190	\$86,000	\$92,000	\$101,000	\$112,000	\$391,000
<i>Growth</i>		18%	6%	12%	18%	18%	14%	-3%	-4%	-2%	5%	-1%
Cost of Goods	202,110	227,310	56,430	62,627	67,732	70,550	257,339	58,480	61,640	66,660	73,920	260,700
Gross Profit	93,063	119,869	32,068	33,461	34,940	36,382	136,851	27,520	30,360	34,340	38,080	130,300
Gross Margin	31.5%	34.5%	36.2%	34.8%	34.0%	34.0%	34.7%	32.0%	33.0%	34.0%	34.0%	33.3%
R&D Net	\$29,690	\$32,274	\$8,847	\$8,385	\$8,750	\$8,969	\$34,951	\$8,500	\$8,700	\$8,500	\$8,500	\$34,200
% of total revenue	10.1%	9.3%	10.0%	8.7%	8.5%	8.4%	8.9%	9.9%	9.5%	8.4%	7.6%	8.7%
Sales and Marketing	35,795	40,577	11,261	11,508	10,871	11,077	44,717	11,000	12,000	12,000	13,000	48,000
General and administrative	34,295	23,793	5,863	2,295	688	5,374	14,220	5,400	5,500	5,400	5,400	21,700
Other incl. restructuring, M&A	4,220	2,015	1,878	915	-	1,443	4,236	-	-	-	-	-
Total Operating Expenses	104,000	98,659	27,849	23,103	20,309	26,863	98,124	24,900	26,200	25,900	26,900	103,900
Operating Income	(10,937)	21,210	4,219	10,358	14,631	9,519	38,727	2,620	4,160	8,440	11,180	26,400
Operating Margin	-3.7%	6.1%	4.8%	10.8%	14.3%	8.9%	9.8%	3.0%	4.5%	8.4%	10.0%	6.8%
Total Other Items	(6,306)	(8,468)	(2,861)	(1,916)	(1,834)	(4,863)	(11,474)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)
Pre-Tax Income	(17,243)	12,742	1,358	8,442	12,797	4,656	27,253	620	2,160	6,440	9,180	18,400
Pre-Tax Margin	-5.8%	3.7%	1.5%	8.8%	12.5%	4.4%	6.9%	0.7%	2.3%	6.4%	8.2%	4.7%
Taxes (benefit)	2,446	6,522	955	609	580	1,046	3,190	74	1,000	1,200	1,102	3,376
Tax Rate	-14.2%	51.2%	70.3%	7.2%	4.5%	22.5%	11.7%	12.0%	46.3%	18.6%	12.0%	18.3%
Net income	(19,689)	6,220	403	7,833	12,217	3,610	24,063	546	1,160	5,240	8,078	15,024
Net Margin	-6.7%	1.8%	0.5%	8.2%	11.9%	3.4%	6.1%	0.6%	1.3%	5.2%	7.2%	3.8%
Adjusted EPS	(0.15)	0.20	0.05	0.11	0.16	0.09	0.41	0.02	0.03	0.08	0.11	0.24
Total GAAP EPS	(0.23)	0.07	0.00	0.09	0.14	0.04	0.27	0.01	0.01	0.06	0.09	0.17
Diluted Shares Outstanding	84,133	85,483	87,585	87,922	88,334	89,988	88,457	90,000	90,000	90,000	90,000	90,000

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Ceragon Networks – Balance Sheet (USD\$ 000)

December ending year	FY2025E	FY2024A	FY2023A	FY2022A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$42,032	\$35,311	\$28,237	\$22,948
Accounts receivable	150,000	149,619	104,321	100,034
Inventories	18,000	16,415	16,571	15,756
Other assets	60,000	59,693	68,811	72,009
Total Current Assets	270,032	261,038	217,940	210,747
Net PP&E	36,000	36,764	30,659	29,456
Other non-current assets	26,000	22,654	25,776	40,907
Total Assets	\$357,032	\$344,996	\$298,525	\$289,318
Current Liabilities				
Accounts and other payables	\$80,000	\$91,157	\$67,032	\$67,384
Short term borrowings	\$25,000	\$25,200	\$32,600	\$37,500
Other AP and accrued	\$28,000	\$29,547	\$23,925	\$20,864
Other current liabilities	12,000	5,544	9,396	7,088
Total current liabilities	145,000	151,448	132,953	132,836
Operating lease liabilities	15,000	12,936	13,716	13,187
Other non-current	15,000	14,287	17,837	23,512
Total Liabilities	175,000	178,671	164,506	169,535
Stockholders' Equity				
Preferred stock				
Total stockholders' equity	182,032	166,325	134,019	119,783
Total Liabilities and equity	\$357,032	\$344,996	\$298,525	\$289,318

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – Ceragon Networks – Cash Flow (USD\$ 000)

	2025E	2024A	2023A
Net Income	\$15,024	\$24,063	\$6,220
Accounts receivable	(381)	(45,298)	(4,287)
Other AR and Prepaid	(1,585)	156	(815)
Inventories	(307)	9,118	3,198
Net PP&E	764	(6,105)	(1,203)
Goodwill and intangibles	(460)	(390)	(15,942)
Other non-current	(3,346)	3,122	15,131
Accounts and other payables	(11,157)	24,125	(352)
Short term borrowings	(200)	(7,400)	(4,900)
Other AP and accrued	(1,547)	5,622	3,061
Other current liabilities	6,456	(3,852)	2,308
Operating lease liabilities	2,064	(780)	529
Other non-current	713	(3,550)	(5,675)
Redeemable common stock	0	0	0
Common stock	0	0	0
Additional paid in capital	623	10,216	4,947
Other comprehensive loss	60	(1,973)	3,069
Treasury stock and note	0	0	0
Dividend/Financing/Adj. Other	0	0	0
Total Cash Flow	\$6,721	\$7,074	\$5,289

Source: Litchfield Hills Research LLC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA, and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as a minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv and 11 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC ("LHR") is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report



Ceragon Networks Ltd. CRNT-USA - Buy-USD\$10.00 PT

are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment, and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. The information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analysts own no shares of the subject company. The analysts and their families have no known material conflicts of interest in authoring this report.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation for distribution and investor targeting services from the subject company.

Market Making

Litchfield Hills Research LLC does not make a market in the subject company's securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.