

Action Summary – 6 February 2025

Analyst Theodore R. O'Neill is **Preview for 4Q24 – Reiterate our Buy rating and \$10PT**

- **CRNT to announce 4Q24 results on Monday, February 11 before the NY open.** The Street consensus is for revenue of \$105.2MM and adjusted EPS of \$0.09. Last quarter, the company reported non-GAAP EPS of \$0.16 and we expect it to be lower, primarily due to a \$5.1MM benefit related to collection from a debt settlement which will not repeat.
- **Adjusting estimates.** We are adjusting our 2024 estimates to put our full year operating margins in-line with management guidance. Guidance was for non-GAAP “operating margins to be at least 10% at the mid-point of the revenue guidance.” We had GAAP margins at 10.3%. It means that our adjusted 4Q24E EPS is now \$0.09, down from \$0.11. For 2025, we increased our share count somewhat, but not enough to change Adjusted EPS, which remains \$0.39.
- **Shares appear to be priced significantly below absolute and comparative metrics.** The shares are selling at a discount to both our discounted price target model and its peers.

2/5 Closing price: \$5.37	Market cap: \$483 million	2025 Market cap/sales: 1.11x	2025 EV/Sales: 1.16
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	\$102.6	14.3%
4Q24E	<u>\$0.09</u>	<u>\$102.8</u>	<u>8.2%</u>
FY24E	<u>\$0.41</u>	<u>\$390.0</u>	<u>9.6%</u>
1Q25E	\$0.11	\$102.0	10.0%
2Q25E	\$0.10	\$105.0	9.7%
3Q25E	\$0.09	\$103.0	9.2%
4Q25E	<u>\$0.08</u>	<u>\$100.0</u>	<u>8.5%</u>
FY25E	<u>\$0.39</u>	<u>\$410.0</u>	<u>9.4%</u>

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

Cash balance (USD millions)

• 2022A	• \$22.9
• 2023A	• \$28.2
• 2024E	• \$49.2
• 2025E	• \$84.5

Short term debt (USD millions)

• 2022A	• \$37.5
• 2023A	• \$32.6
• 2024E	• \$28.0
• 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

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 2)
- 2) Valuation relative to peers (see Figure 3)

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 potentially flat 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 2 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 \$10.45, 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 2 – Ceragon Networks – Price Target Calculation

Discounted future earnings: \$10.45			
YEAR	EPS	Discounted	
		EPS	
2025	\$0.31	\$0.31	
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 3), the shares sell at a discount on sales measures ranging from 45% to 46%. 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 4 near the back of the report. The companies we used in Figure 4 are in similar lines of business although none of them are a perfect match.

Figure 3 – Ceragon Networks – Discount to Peers

	2025 Market Cap / Sales	2025 EV / Sales
Average	2.03	2.16
CRNT	1.11	1.16
Discount to peers	45%	46%

Source: Litchfield Hills Research LLC and FactSet

Guidance and Financial Forecasts

The company provides full year 2024 revenue guidance of between USD\$390MM and USD\$400MM and is targeting a non-GAAP operating margin of at least 10% at the mid-point of the revenue range. It is also



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targeting 2026 revenue of USD\$500MM along with non-GAAP gross margins of at least 35%. Our 2025 forecast shows a \$0.02 drop in non-GAAP EPS, but that is largely due to a legal settlement that created a windfall in 3Q24 and our assumption of some slowing of growth, simply to be conservative in our forecast.

Figure 4– 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)	\$7.57	25,401	24,232	14.48	1.03	1.08	6.82
NOKIA-FI	Nokia Corp. (FI Listing)	\$4.69	26,265	22,346	14.30	1.13	1.32	8.67
6701-JP	NEC Corporation (Ordinary)	\$98.65	26,915	28,692	20.81	1.23	1.15	
000063-CN	ZTE Corporation (Class A)	\$5.50	24,783	19,141	19.28	1.04	1.49	
CIEN-US	Ciena Corp.	\$87.50	12,435	13,153	38.17	3.13	2.97	29.28
002281-CN	Accelink technologies Co Ltd (CN Listing)	\$6.66	5,288	4,983	33.05	3.30	3.50	
002583-CN	Hytera Communications Corp. Ltd. (Class A)	\$1.70	2,180	3,329				
KTOS-US	Kratos Defense & Security Solutions Inc.	\$34.38	5,194	5,285	59.10	4.12	4.05	56.99
600498-CN	Fiberhome Telecom Tech Co (Class A)	\$2.60	3,082	5,142	24.76		0.67	
MRCY-US	Mercury Systems Inc	\$42.09	2,510	2,872	NMF	3.82	3.41	92.45
CALX-US	Calix Inc.	\$40.75	2,702	2,391	59.76	2.88	3.25	38.73
MXL-US	MaxLinear Inc.	\$18.50	1,566	1,576	50.06	3.61	3.59	NMF
DGII-US	Digi International	\$30.39	1,120	1,234	16.11	2.91	2.64	
ADV-DE	Adtran Networks SE	\$20.86	1,086	1,164	NMF		2.21	
GILT-US	Gilat Satellite Networks (US Listing)	\$7.30	416	315				
AVNW-US	Aviat Networks. Inc.	\$20.55	261	289	23.74	0.83	0.77	
CMTL-US	Comtech Telecommunications	\$1.97	57	420	NMF	0.88	0.14	
CMBM-US	Cambium Networks Corporation	\$1.15	32	63		0.33	0.18	12.74
AVERAGE					<u>31.13</u>	<u>2.16</u>	<u>2.03</u>	<u>35.10</u>
CRNT-US	Ceragon Networks (US Listing)	\$4.82	414	433	13.77	1.16	1.11	7.61
CRNT Discount to peers:					-56%	-46%	-45%	-78%

Source: FactSet and Litchfield Hills Research LLC

Figure 5 – Ceragon Networks – Income Statement (USD\$ 000)

December ending year	2022A	2023A	2024E				2024E	2025E				2025E
	Year	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$295,173	\$347,179	\$88,498	\$96,088	\$102,672	\$102,750	\$390,008	\$102,000	\$105,000	\$103,000	\$100,000	\$410,000
<i>Growth</i>		18%	6%	12%	18%	14%	12%	15%	9%	0%	-3%	5%
Cost of Goods	202,110	227,310	56,430	62,627	67,732	68,843	255,632	67,320	69,300	67,980	66,000	270,600
Gross Profit	93,063	119,869	32,068	33,461	34,940	33,908	134,377	34,680	35,700	35,020	34,000	139,400
Gross Margin	31.5%	34.5%	36.2%	34.8%	34.0%	33.0%	34.5%	34.0%	34.0%	34.0%	34.0%	34.0%
R&D Net	\$29,690	\$32,274	\$8,847	\$8,385	\$8,750	\$8,500	\$34,482	\$8,500	\$8,500	\$8,500	\$8,500	\$34,000
% of total revenue	10.1%	9.3%	10.0%	8.7%	8.5%	8.3%	8.8%	8.3%	8.1%	8.3%	8.5%	8.3%
Sales and Marketing	35,795	40,577	11,261	11,508	10,871	12,500	46,140	11,000	12,000	12,000	12,000	47,000
General and administrative	34,295	23,793	5,863	2,295	688	4,500	13,346	5,000	5,000	5,000	5,000	20,000
Other incl. restructuring, M&A	4,220	2,015	1,878	915	-	-	2,793	-	-	-	-	-
Total Operating Expenses	104,000	98,659	27,849	23,103	20,309	25,500	96,761	24,500	25,500	25,500	25,500	101,000
Operating Income	(10,937)	21,210	4,219	10,358	14,631	8,407	37,615	10,180	10,200	9,520	8,500	38,400
Operating Margin	-3.7%	6.1%	4.8%	10.8%	14.3%	8.2%	9.6%	10.0%	9.7%	9.2%	8.5%	9.4%
Total Other Items	(6,306)	(8,468)	(2,861)	(1,916)	(1,834)	(2,000)	(8,611)	(1,834)	(2,000)	(2,000)	(2,000)	(7,834)
Pre-Tax Income	(17,243)	12,742	1,358	8,442	12,797	6,407	29,004	8,346	8,200	7,520	6,500	30,566
Pre-Tax Margin	-5.8%	3.7%	1.5%	8.8%	12.5%	6.2%	7.4%	8.2%	7.8%	7.3%	6.5%	7.5%
Taxes (benefit)	2,446	6,522	955	609	580	600	2,744	580	900	1,000	800	3,280
Tax Rate	-14.2%	51.2%	70.3%	7.2%	4.5%	9.4%	9.5%	6.9%	11.0%	13.3%	12.3%	10.7%
Net income	(19,689)	6,220	403	7,833	12,217	5,808	26,261	7,766	7,300	6,520	5,700	27,286
Net Margin	-6.7%	1.8%	0.5%	8.2%	11.9%	5.7%	6.7%	7.6%	7.0%	6.3%	5.7%	6.7%
Adjusted EPS	(0.15)	0.20	0.05	0.11	0.16	0.09	0.41	0.11	0.10	0.09	0.08	0.39
Total GAAP EPS	(0.23)	0.07	0.00	0.09	0.14	0.07	0.30	0.09	0.08	0.07	0.06	0.31
Diluted Shares Outstanding	84,133	85,483	87,585	87,922	88,334	88,500	88,085	88,600	88,700	88,800	88,900	88,750

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Ceragon Networks – Balance Sheet (USD\$ 000)

December ending year	FY2025E	FY2024E	FY2023A	FY2022A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$84,492	\$49,206	\$28,237	\$22,948
Accounts receivable	110,000	110,000	104,321	100,034
Inventories	18,000	17,000	16,571	15,756
Other assets	<u>60,000</u>	<u>60,000</u>	<u>68,811</u>	<u>72,009</u>
Total Current Assets	272,492	236,206	217,940	210,747
Net PP&E	35,000	34,000	30,659	29,456
Other non-current assets	<u>26,000</u>	<u>25,000</u>	<u>25,776</u>	<u>40,907</u>
Total Assets	<u>\$358,492</u>	<u>\$320,206</u>	<u>\$298,525</u>	<u>\$289,318</u>
Current Liabilities				
Accounts and other payables	\$70,000	\$67,000	\$67,032	\$67,384
Short term borrowings	\$25,000	\$28,000	\$32,600	\$37,500
Other AP and accrued	\$28,000	\$25,000	\$23,925	\$20,864
Other current liabilities	<u>\$12,000</u>	<u>\$10,000</u>	<u>\$9,396</u>	<u>\$7,088</u>
Total current liabilities	135,000	130,000	132,953	132,836
Operating lease liabilities	15,000	13,000	13,716	13,187
Other non-current	<u>15,000</u>	<u>14,000</u>	<u>17,837</u>	<u>23,512</u>
Total Liabilities	165,000	157,000	164,506	169,535
Redeemable common stock	0	0	0	0
Stockholders' Equity				
Preferred stock				
Total stockholders' equity	<u>193,492</u>	<u>163,206</u>	<u>134,019</u>	<u>119,783</u>
Total Liabilities and equity	<u>\$358,492</u>	<u>\$320,206</u>	<u>\$298,525</u>	<u>\$289,318</u>

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Ceragon Networks – Cash Flow (USD\$ 000)

	2025E	2024E	2023A
Net Income	\$27,286	\$26,261	\$6,220
Accounts receivable	0	(5,679)	(4,287)
Other AR and Prepaid	(1,000)	(429)	(815)
Inventories	0	8,811	3,198
Net PP&E	(1,000)	(3,341)	(1,203)
Goodwill and intangibles	0	(850)	(15,942)
Other non-current	(1,000)	776	15,131
Accounts and other payables	3,000	(32)	(352)
Short term borrowings	(3,000)	(4,600)	(4,900)
Other AP and accrued	3,000	1,075	3,061
Other current liabilities	2,000	604	2,308
Operating lease liabilities	2,000	(716)	529
Other non-current	1,000	(3,837)	(5,675)
Redeemable common stock	0	0	0
Common stock	0	0	0
Additional paid in capital	3,000	4,839	4,947
Other comprehensive loss	0	(1,913)	3,069
Treasury stock and note	0	0	0
Dividend/Financing/Adj. Other	0	0	0
Total Cash Flow	\$35,286	\$20,969	\$5,289

Source: Litchfield Hills Research LLC

Disclosures:

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