

Redline Communications Group Inc.

Second Quarter 2021 Results Conference Call

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CORPORATE PARTICIPANTS

Ronan McGrath

Redline Communications Group Inc. — Interim Chief Executive Officer

Philip Jones

Redline Communications Group Inc. — Chief Financial Officer

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Redline Communications Group Inc. Second Quarter 2021 Results Conference Call.

This call is being recorded on Thursday, August 12, 2021.

I would now like to turn the conference over to Ronan McGrath, Interim CEO. Please go ahead.

Ronan McGrath — Interim Chief Executive Officer, Redline Communications Group Inc.

Thank you. Good morning, everyone, and welcome to our Q2 2021 Earnings Call. I'm Ronan McGrath, Interim CEO of Redline. With me today is our CFO, Philip Jones, who will discuss our financial results in some detail in a moment.

I'm very pleased to report on some good progress made by the Redline team in the second quarter as we continued towards our goal of profitable, sustainable growth. While Phil will provide more details, I'm happy to share that, in Q2, Redline's revenues and orders were up 15 percent over the same period last year while our backlog of orders also grew 14 percent over the same period. Quarter-over-quarter revenues increased 27 percent and bookings grew 60 percent.

Growth in bookings came from customers across all core vertical markets. Customers who'd previously put projects on hold due to COVID-19 are now releasing backlog orders and starting new projects. This increase is being seen across all core vertical markets, but the strongest in oil and gas.

Customers in the Middle East and South America, both key markets for Redline, were especially active in the quarter. This growth in orders has also resulted in a strong backlog of orders now totaling \$11.7 million.

Customers in core markets in the U.S. were somewhat less active especially in Mining, which continues to be affected by COVID-19, but we saw an increase in the number of orders placed for pilot projects in our LTE product line. These pilot project orders are coming from state and local government departments and utility companies and are often the first step in the larger project.

Revenue growth from core markets also helped us realize gross margins of 61 percent, up from 58 percent a year ago. Customer churn in all markets has been minimal, and we continue to enjoy multiyear relationships with our largest customers.

As noted in the Q1 MD&A, an early order for the Company's newly announced RDL-3200 product was received in the quarter. It has now been fully shipped and installed and is exceeding customer expectations. We plan to make this product generally available in late Q4 and will incorporate feedback and suggestions from this customer.

The Government of Canada approved the use of TV white space spectrum, and on July 28, subsequent to the end of the quarter, we received certification approval from ISED. This approval allows us to sell TVWS products in Canada, and we've built sufficient inventory to remit a rapid response to customer demand.

On March 31 this year, we announced the Canadian Government had approved an investment into Redline via the Strategic Innovation Fund, SIF. This investment brings up to CA\$14 million into the Company, earmarked for the development of innovative industrial 5G network solutions. Under the terms of the agreement, the fund will reimburse just over 40 percent of eligible R&D costs, labor equipment and materials that we incur. The first investment submission of approximately \$460,000 was received in Q2, and going forward, payments from the funds will be made quarterly. This has allowed us to accelerate our R&D efforts with new products expected in 2022.

As are many companies, we've been feeling the impact of the global semiconductor shortage, which has resulted in longer lead time for some components. We've adjusted by ordering in advance, which, to date, has allowed us to largely meet our shipment goals.

As we announced earlier this year, Redline's former CEO Stephen Sorocky left the Company in May when I took over as Interim CEO. Our search for a replacement is in its final stages, and we hope to announce a new appointment in the near future.

Lastly, as COVID restrictions continued to be relaxed, we are gearing up for increased sales and marketing activities including participation in industry conferences, a key part of our go-to market strategy. We're looking forward for the future with a strong sense of confidence.

With that, I'll turn over the meeting to Mr. Jones, who will now bring you through the results in more detail.

Over to you, Philip.

Philip Jones — Chief Financial Officer, Redline Communications Group Inc.

Thank you, Ronan, and welcome, everyone.

The earnings press release for Redline communications was issued yesterday after the close of markets and accompanied our filings on SEDAR last night of the Q2 2021 Unaudited Financial Statements and Management Discussion and Analysis. I remind you that all numbers are in U.S. dollars unless otherwise stated. My comments will focus on key highlights of our financial results, followed by a Q&A at the end of the session.

Revenue in the three months ended June 30, 2021, was \$4.7 million, an increase of \$0.6 million, or 15 percent, over the same period in 2020 and a 27 percent improvement over the \$3.7 million reported in Q1 2021.

Sales of hardware and software products continue to drive the majority of the Company's revenue. In this segment, Q2 2021 revenues increased by 3 percent to \$3.3 million from \$3.2 million in Q2 of 2020. Revenue from professional services and third-party equipment is largely tied to network deployments, as the Company continues to focus on selling overall product solutions versus an equipment-only focus. Here, revenue almost quadrupled, increasing to \$862,000 from \$268,000 in Q2 of 2020.

Order bookings representing all accepted customer order contracts and purchase orders received were \$5.3 million in the quarter, a 15 percent increase over the previous year and up 60 percent from 2021 Q1. Q2 2021 order backlog consisting of all open orders to be fulfilled at future dates, as requested

by our customers, was \$11.8 million, up 14 percent, or \$1.4 million when compared to the same period in 2020 and \$0.5 million, or 4 percent, from Q1 2021. Approximately 65 percent of the backlog is represented by orders from customers in the core vertical markets of oil and gas, mining and utilities, and the majority of our backlog will be recognized as revenue in 2021.

Due to our ongoing and consistent focus towards higher margin recurring revenue streams from support, warranty and professional services activities over the previous 10 quarters, the Company achieved gross margin of 61 percent in the quarter, an increase of three percentage points compared to Q2 2020. Professional services and third-party equipment margins for the three months ended June 30, 2021, increased from 58 percent in Q2 2020 to 81 percent in Q2 2021 as a result of a revenue mix consisting of a greater portion of high margin network design services and technical training compared to lower margins earned on the sale of third-party equipment.

Maintenance and support margins for the three months ended June 30, 2021, were 99 percent unchanged over the prior period and the same period in the prior year. Operating expenses for the three months ended June 30, 2021, were \$3.9 million, up 2 percent from the \$3.8 million reported in the same period in 2021, but down 1 percent compared to Q1 of 2021. The year-over-year increases were driven mainly by costs incurred to develop, test, certify and launch Redline's new products.

Adjusted EBITDA loss, a non-IFRS measure, for the three months ended June 30, 2021, was \$0.7 million as compared to an Adjusted EBITDA loss of \$1.1 million for the same period in 2020. The improved Adjusted EBITDA results are due to both higher revenues and improved gross margins earned

in the current period compared to the prior year. The net loss for Q2 2021 was \$0.7 million, an improvement of \$0.2 million over Q2 of 2020.

Now turning to the balance sheet. Cash balances at the end of Q2 2021 were \$2.7 million, a decrease of \$2.6 million compared to Q4 of 2020 and \$1.6 million compared to Q1 of 2021. The declining cash balances is a result of both operating losses and increases in working capital. Working capital increases are mainly the result of the timing and revenue recognition, as much of the 2021 Q2 revenue was earned in the last month of the quarter, and therefore, balances were not yet due at quarter end.

The increase in accounts receivable was partially offset by a decrease in inventory, which is down \$0.4 million since Q2 2020 as the Company continues to make progress in aligning its production plans, supply chain and inventory management, with the requirements demanded by the order backlog in the sales pipeline. As at August 11, 2021, cash balances have increased since the quarter end and are now in excess of \$3.2 million.

In March 2020, the Canadian Federal Government announced the Canadian Emergency Wage Subsidy, or CEWS, program as a response to the COVID-19 pandemic. In the three months ended June 30, 2021, the Company recognized it benefitted \$0.4 million recorded as other income in the financial statements. This amount received is approximate \$0.1 million more than the prior quarter, with \$0.3 million less than the same period in the prior year. Please note that this benefit has been excluded from our Adjusted EBITDA calculations.

I would now like to turn the call back over to Brittany to conduct the Q&A session of the call.

Thank you.

Q & A

Operator

Ladies and gentlemen, there are no questions at this time you may proceed.

Ronan McGrath — Interim Chief Executive Officer, Redline Communications Group Inc.

Well in the absence of any questions, I think we are complete. Thank you for attending. Have a good day. Take care. Thank you very much. Bye-bye.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.