

Redline Communications Group, Inc.

Third Quarter 2021 Results Conference Call

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CORPORATE PARTICIPANTS

Richard Yoon

Redline Communications Group, Inc. — 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 Incorporated Third Quarter 2021 Results Conference Call.

This call is being recorded on Thursday, November 11, 2021.

I would like to turn the conference over to CEO of Redline Communications, Richard Yoon. Please go ahead.

Richard Yoon — Chief Executive Officer, Redline Communications Group, Inc.

Thank you.

Good morning, everyone, and welcome to our Q3 2021 Earnings Call. I'm Richard Yoon, CEO of Redline Communications, and with me today is our CFO, Philip Jones.

I wish to remind everyone that some statements made on today's call are forward-looking nature, and therefore, subject to certain risks and uncertainties which are all outlined in detail in Redline's regulatory filings which may be found on [sedar.com](https://www.sedar.com).

The Q3 2021 earnings press release for three and nine-months period ended September 30, 2021 was issued this morning before the opening of the markets and accompanied by our filings on SEDAR last night of the Q3 2021 Unaudited Financial Statements and Management Discussion and Analysis.

I'll remind you that all numbers are in U.S. dollars unless otherwise stated.

My comments will focus on key highlights of our results. Philip will then discuss the financial performance in more detail before turning the time back to me for concluding comments and our Q&A session.

I'm very pleased to report on some excellent progress in the third quarter made by the Redline team under the strong and capable leadership of my interim predecessor, Ronan McGrath.

As this is my first quarterly earnings call as the Company's new CEO, perhaps I can take a moment to describe why I joined—why I decided to join Redline, as I think it is pertinent to investors.

Given the opportunities to contribute and revitalize an organization such as Redline with great people and industry-leading products is something that does not happen frequently. When I was approached by the Redline's Board to lead the charge in accelerating the growth and its industry-leading product line at—and optimizing its already highly-established team, it was an opportunity I had to take.

Before joining Redline, I was the CEO of ZTE Canada where I established a very successful track record of growing revenues, establishing new growth markets, and organizing and managing a thoroughly competent team. I am excited and I'm looking forward to replicating that success at Redline.

Now, back to our Q3 results.

We are very proud of the excellent progress we made in the third quarter and the highlights are as follows.

Redline's revenues were up 9.3 percent over Q2 2021, marking the second sequential quarter that our revenues have increased as we anticipate a return to pre-pandemic levels. Seventy percent of our revenues were delivered through our distribution and reseller partners.

Gross margin of 66 percent is the second-highest in the Company's history and a dramatic increase from the 52 percent margin achieved in the same quarter in 2020.

Our Adjusted EBITDA loss of \$195,000 in Q3 2021 is the lowest it has been since Q3 2019.

Bookings increased from the prior quarter by 20 percent to \$6.3 million.

Our backlog of orders has grown to \$12.5 million and it is the highest it has been in six years.

Finally, a COVID restriction continue to abate and we are gearing up to increase sales activities, including visits and face-to-face meetings with both current and potential customers; engaging with our customers and distribution partners in joint product development, workshops, and discussions, as well as increased participation and collaboration in marketing activities and attending industry conferences, a key part of our go-to-market strategy.

We're looking forward to the future with strong sense of confidence.

Now, with that, I'll turn over the meeting to Philip 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, Richard, and welcome, everyone.

Revenue in the three months ended September 30, 2021 was \$5.2 million, essentially flat compared to Q3 2020, but up 9.3 percent from Q2 2021 driven by increased sales of our hardware and software products. Sales of hardware and software products continue to drive the majority of the Company's revenue, accounting for 79 percent of the overall revenue in the quarter compared to 67 percent in the same quarter of 2020. This accounted for a quarter-over-quarter increase of \$0.8 million from Q2 2021 and \$0.6 million increase from the same quarter in 2020.

Revenue from professional services of third-party equipment largely tied to solution-based network deployments decreased by \$0.3 million from Q2 2021 and \$0.5 million from Q3 2020 as customer orders in the current quarter had a much lower mix of third-party equipment compared to Redline's proprietary products. For the nine-month period ended September 30, 2021, the Company earned \$1.8 million in revenues from professional services and third-party equipment compared to \$1.7 million in the prior year.

The Company continues to focus on selling overall product solutions, comprised not only of Redline's proprietary technology products, but also professional services, third-party equipment, along with additional support and warranty services to round out the solution offering.

The Company achieved gross margins of 66 percent in the quarter. As Richard mentioned, this is the second-highest quarterly margin achieved in Company history, trailing only the 69 percent earned

earlier this year in Q1. Q3 2020 margin was only 52 percent due to the prior year's revenue having a much larger mix of lower-margin third-party equipment.

Gross margins earned from maintenance and support activities continued to consistently exceed 90 percent.

Bookings, representing all accepted customer order contracts and purchase orders received, were \$6.3 million in the quarter, a 3 percent decline over the previous year, but an increase of 19 percent from Q2 2021.

Our backlog, consisting of all open orders to be fulfilled at future dates as requested by our customers, was \$12.5 million at Q3 quarter-end, up 14 percent, or \$1.5 million, when compared to the same period in 2020, and up \$0.8 million, or 7 percent, from Q2 2021. Approximately 67 percent of the backlog is represented by orders from customers in the core vertical markets of oil and gas, mining, and utilities.

Overall operating expenses remained consistent in 2021 Q3 compared to the earlier quarters this year. Year-over-year operating expenses are up \$0.4 million, or 12 percent, driven mainly by increases in new product development activities, increased sales activities, and additional investment into the Company's IT infrastructure.

Adjusted EBITDA loss, a non-IFRS measure, for the three months ended September 30, 2021 was \$0.2 million as compared to an Adjusted EBITDA loss of \$0.4 million for the same period in 2020 and

\$0.7 million loss posted in Q2 2021. The improved Adjusted EBITDA results are due to increased revenues and higher gross margins driving a higher level of gross profit.

The net loss for Q3 2021 was \$0.1 million, an improvement of \$0.3 million over Q3 2020 and an improvement of \$0.6 million over Q2 2021.

Overall improved results were not just limited to the income statement, as we continue to make progress in managing our balance sheet and working capital.

Cash balances at the end of Q3 2021 increased to \$3.8 million, an improvement of \$1.1 million from Q2 2021. The increased cash position is both a combination of improved operating results, as well as a reduced level of inventory as we strive to accelerate the conversion of inventory back into cash.

Q3 2021 inventories declined to \$4.7 million, a reduction of \$0.8 million, or 15 percent, since December 31, 2020. The increase in inventories—sorry, the decrease in inventories is a result of continued focus and efforts to align inventory production with the order backlog and the revenue pipeline.

On March 31, 2021, Redline announced the Canadian government had approved an investment into Redline via the Strategic Innovations Fund. This investment brings up to CA\$14 million into the Company earmarked for the development of industrial 5G network solutions. In Q3 2021, the Company received \$361,000 from this fund. Total funds received under the arrangement are \$800,000 to date.

Like many companies, Redline has been feeling the impact of the COVID-19 recovery on electronic component lead times and overall supply chain challenges. Redline has adjusted its operations

in order to accommodate this changing climate in terms of ordering and holding larger levels of components and broadening its supplier base in terms of both additional and new vendors and distribution sources.

In regards to the specific challenges being felt by many industries related to the shortages of semiconductor chips, we have been very proactive in this area, and as of today, we estimate our current inventory of chips is sufficient to meet demand for several years. We hope that this decision proves to be a competitive advantage to fulfill increasing demand for digital transformation in our market segments.

I would now like to turn the call back over to Richard.

Richard Yoon — Chief Executive Officer, Redline Communications Group, Inc.

Thanks, Philip.

I wanted to spend a moment before we take any questions outlining what I see as the key growth drivers that we are focusing on now.

Our primary objective is scaling our existing business through product evolution and professional services. We have received excellent feedback from our customers, and we are introducing new capabilities and features in our new Virtual Fibre and LTE products. Our long-term strategy is to bring 5G capabilities into both these platforms based upon customer request and demand as customers digitally transform their operations.

Secondly, we will look to expand our footprint via newer alliances with spectrum providers and channel partners in the emerging verticals, while concurrently expanding into new regions through distribution partners and resellers where we have had decent success.

Thirdly, we are continuously evaluating opportunities to enter new vertical markets such as the indigenous communities and agriculture, among others. I truly believe that Redline Communications' data infrastructure solutions are capable in many high-value verticals that we have yet to explore.

Finally, we are supporting and enhancing R&D efforts that are required to ensure that our solutions remain at the forefront of this industry and that our innovations can support our growing pipeline of opportunities.

With that, I would now like to return the call back to the Operator and conduct Q&A sessions of the call. Thank you.

Q & A

Operator

Thank you. There are no questions at this time. Please proceed.

Richard Yoon — Chief Executive Officer, Redline Communications Group, Inc.

Since there are no further questions at this time, we'll conclude today's call. Thank you all for attending, and have a wonderful day.

Operator

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