Mobix Earnings Call – May 14, 2024

Operator: "Good afternoon. Thank you for standing by, and welcome to Mobix Labs Inc. Second Fiscal Quarter 2024 Financial Results Conference Call. Please be advised today's conference is being recorded and a replay will be available on Mobix's Investor Relations website. In addition, this call includes non-GAAP financial measures. Reconciliations of these non-GAAP financial measures with the most directly comparable GAAP measures are included in our second quarter earnings release posted on the Investor Relations section of our website.

I would now like to hand the conference over to Lori Barker, Investor Relations."

[Investor Relations, Lori Barker]

Thank you. Good afternoon, everyone. I'm Lori Barker, Investor Relations for Mobix Labs, and I'd like to thank you for joining us today as we report Mobix's second fiscal quarter 2024 financial results for the period ending March 31st.   With me on the call today are Fabian Battaglia , Mobix's Chief Executive Officer; and Keyvan Samini, President and Chief Financial Officer. This call is simultaneously being webcast on the Investor Relations section of our website at mobixlabs.com.

Before we get started, I would like to remind everyone of our safe harbor policy. Comments made during this conference call and webcast contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to risks and uncertainties.

Any statement that refers to expectations, projections, or other characterizations of future events, including financial projections, future market conditions or future product enhancements or development, is a forward-looking statement. Mobix's actual future results could differ materially from those expressed in such forward-looking statements for any reason, including those listed in our SEC filings.

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Mobix assumes no obligation to update any such forward-looking statements except as required by law.

For greater detail about risks and uncertainties, please see our SEC filings, including our Form 10-Q for the quarter ended December 31, 2023 and the section entitled "Risk Factors" in the Form S-1 amendment filed on May 2, 2024.

With that, I will turn the call over to Fabian Battaglia. Fabian, please go ahead.

[CEO, Fabian Battaglia]

Thank you, Lori. Today, we are excited to host our first earnings call as a public company. We've had several exciting developments so far in 2024, and today, I'll review the March quarter and share our overarching strategy with you. Keyvan, our President and CFO, will follow with financial comments.

In the March quarter, we grew revenue sequentially by more than 300% and it was a record quarter for product revenue. This confirms that our acquisition strategy is successfully expanding our portfolio of innovative products and extending our customer base and related SAM. In these first few months as a public company, we have already executed foundational milestones. We signed a committed equity facility that provides for up to $100 million, which we believe positions us well for acquisitions including the recently announced acquisition of RaGE Systems.

RaGE Systems is a provider of joint design and manufacturing services for the development of radio frequency technologies for a variety of customers in the fields of mmWave 5G communications, radar sensors, and imaging sensors. Tremendous synergies exist between our

products and those that RaGE brings to us, and we believe customers from both companies will benefit substantially from our expanded offering. As a past customer of Mobix Labs, we know the team at RaGE well, and we are excited to have Russel Cyr and Geoff Dawe, RaGE's co-founders, and their team join Mobix Labs as we accelerate our comprehensive, industry-leading tech portfolio in next-generation wireless communications.

This RaGe acquisition follows quickly on the heels of the acquisition of EMI in late December. Integration of EMI is completed and we have announced several critical contracts for electromagnetic interference filtering products to defense and aerospace customers serving well-known companies like BAE, General Dynamics, Raytheon and Lockheed Martin. Most recently, we announced the delivery of EMI solutions to the US Military for the Tomahawk Missile System and we were awarded contracts for the M-1 Abrams Tank and the Javelin Missile System.

We are excited about what the EMI and RaGE acquisitions bring to Mobix Labs and, along with the up to $100 million equity facility, we feel confident that we are rapidly and efficiently assembling the foundational elements necessary to execute our strategy. Also, we have announced the addition of Arrow Electronics as our Global distribution partner to support our growing business.

In this first call as a public company, I'll discuss our history, strategy, markets and products.

We were founded to simplify development, reduce costs, and maximize the performance of wireless mmWave 5G products used primarily for infrastructure applications. Innovation is at

our core and we already have over 40 patents issued or pending.   Like past transformations from 1G through 4G, demand continues to expand for both bandwidth and coverage, and infrastructure gets built over many years as it becomes economically viable. With the advancements in the areas of AI, autonomous vehicles, remote surgery and other high bandwidth/data intensive applications, the need for innovative solutions at the component level, like our IP rich solutions, will contribute to the deployment of advanced wireless infrastructure.

But today, while the 5G mmWave market is nascent, we are leveraging these early investments and diversifying into other synergistic applications. We believe that, along with our acquisitions, these synergistic products will fuel our revenue growth and help build deeper customer relationships, which, when combined with our continued innovation, will be instrumental to Mobix Lab's growth as the 5G market emerges. Today, we are proud to be doing business with more than 200 customers. We anticipate this number to grow as we introduce more products like the recently announced high-power RF Switches focused on the Land & Mobile Radio (LMR) market. The LMR market is going through a transition from the current "push to talk" to utilizing a higher frequency spectrum and providing data & video. This allows first responders, firefighters, police, and military personnel to send secure data or still photos over standard wireless radio This development validates our strategy to continue developing state of the art solutions for infrastructure and wireless markets. Our innovative products provide the necessary technology to enhance future devices in the field.

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Since our inception, as part of our commitment to enhancing communication services, our corporate strategy has evolved to encompass the pursuit of synergistic product acquisitions in diverse industry sectors, including aerospace, defense, medical, and automotive. This strategy not only expands our customer base but also extends our current customer footprint, making Mobix Labs a key partner and allowing our customers to reduce their number of suppliers.

Each acquisition must meet strict criteria to help accelerate Mobix Lab's growth and cash generation and RaGE Systems is an excellent example of a company expected to grow revenue by more than 40% in the remainder of our fiscal year. Also, the acquisition is projected to be immediately accretive.

Earlier in my remarks, you heard how both the EMI and the RaGE acquisitions during the last few months continued to add to our scale and accelerate our innovative offerings. This has led to expanding our end markets and diversifying our offerings which in turn added to the stability in our business.

Also, in 2021, we acquired Cosemi, a global supplier of high-speed connectivity solutions, including a broad range of AOCs and optical engines. This acquisition was an earlier validation of our ability to acquire and integrate teams and technology.

Our Leadership has a solid track record in identifying the right assets and integrating the teams and technologies. You might have seen our recent announcement of the appointment of Mike Long, former CEO of Arrow Electronics, to our Board of Directors. Mike is an excellent example

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of the board's impressive track record, including several of us who were instrumental in growing well-known companies such as Microsemi, Skyworks, and Broadcom.

Another unique part of our strategy is how we go to market. We believe our strategy is highly scalable and allows us to quickly integrate acquisitions using manufacturing reps and distributors as extended resources. We believe this model enables us to blanket wide geographies and can support high growth. It is made possible by leveraging strong relationships developed over multiple decades.

Through our acquisitions and go-to-market strategy, we have amassed four product lines.

First Wireless Components. Demand for data has exploded to enable many current and future data-intensive applications, including alternative reality, virtual reality, autonomous vehicles, and the "Internet of Things" - IOT sensors. All of these, and others in development, will impose added strain on existing wireless networks. The next generation of wireless networks, including 5G mmWave and beyond, is expected to revolutionize the way data is transferred worldwide. Due to the complexities of 5G mmWave, substantially more complicated systems will be required, needing multiple antennas and RF front-end devices. RF front ends for wireless-enabled products and infrastructure will be driven by cost, and power efficiency, and they need to be highly integrated and manufactured in high volumes utilizing low-cost and readily available manufacturing, such as CMOS technology, to reduce per-unit cost.

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Our second product line is EM Filters - The Electromagnetic Filtering market is experiencing significant growth due to increasing demand for noise reduction and signal integrity in electronic devices. Our filtering devices are designed to reduce electromagnetic interference. Our high-reliability filters are designed to consistently meet or exceed performance requirements and are vitally important to any industry with a high cost of failure. Currently, our filtering products from the EMI acquisition are widely used in various applications and industries, including aerospace, military, defense, and healthcare.   In the summary of the March quarter, you heard me mention several key wins, particularly in military and defense.

Third product line – Wireless Systems.   This is our exciting new offering mentioned earlier from the acquisition of RaGE Systems. These are specialized products for 5G communications, mmWave imaging, and Software Defined Radios. Our Wireless Systems offerings are targeted at a number of markets, including Physical Security, Defense, Industrial, and Communications. Typical products designed and manufactured include 2/3/4/5G O-RAN systems and subsystems, MMW modules for threat scanning, and highly integrated systems for multiple aerospace and defense applications.

Fourth AOC (Active Optical Connectors) - Connectivity demand for high bandwidth and low latency connections is necessary for both wireless and optical connections for many applications.   For example, Professional audio/video ("Pro A/V") systems, such as video conferencing, are capitalizing on the advantages of AOC connections to provide a high bandwidth and uncompressed high-definition signal with low latency over greater distances.

These four product lines combine to serve diverse end markets: Infrastructure, Automotive, Consumer Premise Equipment, High Reliability/Military/Aerospace, Satellite comms, Medical, and Security. In future calls, I'll tell you more about these markets.

In addition to these diversified markets and products and our strong leadership team focused on acquisitions, I want to tell you more about our other competitive strengths.

Our mmWave 5Gchip designs are based on a CMOS process, which enables higher levels of integration, leading to more cost-effective solutions that accelerate our customers' time to market.

Another competitive strength and customer benefit is that we are a US-based supplier. Many of our customers produce mission-critical applications in the wireless communications, defense and medical markets with domestic manufacturing preferred.

Nearly all our offerings are proprietary in nature. Our customer engagements are directly with their development teams where we work side-by-side to help solve technical challenges. It's this "design-in" centric methodology that leads to technology breakthroughs and creates value for our customers and Mobix Labs. In future calls I will be highlighting key design wins as it is core to our operating strategy.

 In summary, I am excited about the March quarters' execution on foundational milestones and our recent synergistic product acquisition of RaGE Systems. Looking ahead we believe we have set the stage for Mobix Labs' continued best-in-class innovative solutions to capture

opportunities in the wireless, connectivity and electromagnetic filtering industries which we expect will create a versatile company that serves diverse end markets.

Now Keyvan will take you through our financials….Keyvan?

[CFO, Keyvan Samini]

Thanks, Fabian. In my comments today, I will take you through the financial highlights of our recent acquisition of RaGE, review our second fiscal quarter ending March 31st and I'll provide our outlook for the third and fourth fiscal quarters. The numbers I will be discussing represent non-GAAP, unless otherwise stated.

I'm thrilled to report that we've not only met but exceeded our top-line expectations for the second quarter.

Our financial performance for our second fiscal quarter ending March 31, 2024 was exceptionally strong. We saw more than 300% sequential increase in revenue quarter-over-quarter. Our gross margin increased to 33.7% of net revenue up from 8.4% for the immediately preceding quarter.

In the longer term, we are committed to achieving a 60% gross margin and a 30% operating margin. We plan to ramp up our R&D spending and SG&A expenses as we grow. However, we

foresee gross profits increasing more significantly than operating expenses due to the synergies we expect to capture.

Our loss from operations held steady at $4.1 million, mirroring the prior quarter. Our loss from operations has decreased by $1.6 million compared to last year, driven by higher revenue, better gross margins, and improved operating expense leverage.

Recently, we finalized an agreement to acquire Rage Systems. This strategic acquisition, valued at 1.4 times Rage's projected calendar 2024 revenue of $8.5 million, is poised for substantial growth with just north of a 40% increase in revenue expected in both 2024 and 2025.

As we move forward, the integration of Rage Systems is expected to significantly increase our revenue. For the third fiscal quarter of 2024, we are forecasting consolidated revenues between $1.8 million and $2.2 million dollars. To provide a perspective, our **total** revenue for our 2023 fiscal year was $1.2 million. We also forecast robust revenue growth in our fourth fiscal quarter ending September 30, of $ 2.6 million to $3.2 million.

Looking at our balance sheet, we ended the quarter with $3.0 million of cash compared to the $14.8 million at the end of our prior quarter. The change in our cash balance includes repayment of debt, payments for the acquisition of EMI, merger related transaction costs, and cash used in our operations.

Thanks to a $100 million equity line of credit from B. Riley Securities, we have access to substantial liquidity to support our ambitious growth through strategic acquisitions. Each

acquisition is targeted to be quickly accretive as we work diligently to enhance our revenue, gross margins, and operating income over the coming year.

As the operator prepares us for Q&A I'd also like to mention that we look forward to seeing some of you in May at the upcoming B. Riley conference in California and the TD Cowen TMT conference in New York.

Operator, we are now ready to take questions.