

Redline Communications Group Inc.

Fourth Quarter 2021 Earnings 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 Fourth Quarter 2021 Earnings Conference Call. At this time, all lines are in listen-only mode.

If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, March 30, 2022.

I would now like to turn the conference over to Mr. Richard Yoon, President and (sic) Chief Executive Officer. Please go ahead.

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

Thank you. Good morning, everyone, and welcome to our Q4 2021 earnings call. I am 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 in nature and, therefore, subject to certain risk and uncertainties which are all outlined in detail in Redline's regulatory filings, which may be found on SEDAR.com.

The Q4 2021 earnings press release for the 3- and 12-months period ended December 31, 2021, was issued this morning before the opening of the markets and accompanied our filings on SEDAR last night of the Q4 and full year audited 2021 financial statements; Management Discussion & Analysis; along with our Annual Information Form.

I remind you that all numbers are in US dollars unless otherwise stated.

My comments will focus on key highlights of our results. Phil will then discuss the final performance in more detail before turning the time back to me for concluding comments.

The fourth quarter of 2021 was another strong and busy quarter for the Company. We are pleased to report quarter-over-quarter and year-over-year improvements in revenues, gross profit, and backlog, coupled with our highest quarterly bookings in three years.

We also strengthened our balance sheet through a new term loan financing in the fourth quarter, ensuring we have the liquidity to execute on our continued development of new 5G products to bring to market. We are seeing strong evidence in customers ramping up their digital transformation plans, which we expect to be a key driver of product demand in coming quarters.

I would like to note just a few of the highlights in the quarter.

Redline revenues were up \$1.2 million or 25 percent over Q4 2020, marking the third sequential quarter that our revenues have increased as market demand for our products continues to grow.

Quarterly bookings were at the highest level in three years at \$7.5 million, up \$2 million or 36 percent from \$5.5 million in Q4 2020.

Q4 2021 backlog was \$13.6 million compared to Q4 2020 backlog of \$11.8 million, an increase of 15 percent.

With that, I will 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. As Richard just noted, quarterly revenues increased by 13 percent to \$5.9 million, from \$5.2 million in Q3 2021, and 25 percent or \$1.2 million from Q4 2020. Our 2021 annual revenues increased by 6 percent or \$1 million to \$19.5 million from \$18.5 million in 2020.

The revenue increase can be largely attributed to an easing of various COVID-19 impacts in 2021 which had affected both the timing of customer purchase decisions and delivery request dates, as well as limitations on access to customer sites to complete professional services and installations.

Sales of hardware and software products continued to drive the majority of the Company's revenue, accounting for 80 percent of the revenue in the quarter and 75 percent of the total revenue for the year; both measures consistent with the same periods in the prior year.

Overall gross margin for the three months ended December 31, 2021, was 48 percent, a decrease of 4 percentage points from the same period in 2020.

The margin decrease was the result of an inventory provision taken by the Company for \$730,000 for the remaining inventory associated with the TV White Space product line, based upon historical and future demand for the product.

Gross margin for the three-month period ended December 31, 2021, would have been 61 percent if not for the inventory write-down.

Overall gross margin for the year ended December 31, 2021, was 60 percent, an increase of 4 percentage points over the prior year, due to a greater share of our revenue arising from the Company's primary verticals of oil, gas, mining, and utilities, as compared to the prior year. Annual gross margin would have been 61 percent if not for the TV White Space inventory provision.

Order bookings represent the value of all accepted customer contracts and purchase orders for products, services, and support received in the period, regardless of whether or not shipped or delivered in the period.

When compared to the same quarter in 2020, bookings for the three months ended December 31st increased by \$2 million or 36 percent. Bookings for the year ended December 31, 2021, were flat compared to 2020.

Order backlog represents the value of all open purchase orders and contracts not yet shipped or earned at the end of the reporting period, based upon the customer's requested delivery dates. The backlog at December 31, 2021, is \$13.6 million and consists of \$10.4 million of products and service orders, plus \$3.2 million of support and warranty contracts, some of which extend beyond one year in duration.

Overall operating expenses for the three months ended December 31, 2021, were \$4.4 million, an increase of 4 percent compared to \$4.3 million reported for the same period in 2020.

Overall operating expenses for the year ended December 31st were \$16.1 million, an increase of 3 percent compared to the \$15.6 million reported for the same period in 2020. The year-over-year increase was primarily a result of continued increase in personnel costs in research, development, and operations.

Operating expenses also increased as a result of the weakening of the US dollar compared to the Canadian dollar, as the Company incurs approximately 66 percent of its operating expenses in Canadian dollars. Offsetting these increases were a reduction in fees paid to our Board of Directors, severance costs, and also a reduction in bad debt expenses.

Adjusted EBITDA loss for the three months ended December 31, 2021, was \$1.3 million as compared to an adjusted EBITDA loss of \$1.6 million for the same period in 2020, due to improved revenues and gross profit, despite the inventory provision taken by the Company in the quarter.

Adjusted EBITDA loss for the year ended December 31, 2021, was \$3.3 million, as compared to an adjusted EBITDA loss of \$4.1 million for the same period in 2020.

Redline also closed a C\$7 million term facility in the quarter, details of which can be found in the notes to our financial statements. As at December 31, 2021, Redline's cash balance stood at \$10.1 million.

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

Richard Yoon

Thanks, Phil. As many of you already know, I joined Redline about six months ago, and I've spent the time familiarizing myself with the Company's product, customers, and organization. And I've made various strategy and organizational adjustments to further drive revenues and focus product development on meeting the needs of our customers. I, along with the board, believe these changes will help me help the Company grow while increasing profitability and shareholder value.

With that in mind, I just recently returned from the Middle East, where I spent time with our team, our regional partners, and several key customers. From this visit and based on ongoing conversations with other customers and partners elsewhere, it has become even more apparent to me now, compared to when I chose to join Redline, that we are uniquely positioned to capture the demand for digital transformation of oil and gas operations everywhere.

Our customers and partners are feeding back to us that Redline's solutions are renowned for their reliability, ruggedness, and ability to handle data with low latency in any oilfield, regardless of where it is.

Our customers believe that we have few competitors in this space, especially in the Middle East. As a result, we are working to empower and align our sales organizations in the Middle East to increase local presence there and give our sales channel partners the support they need to meet the demand that is readily available.

One of the key challenges we do face in the short term is the ongoing and increasing delays in regards to supply chain, lengthening of lead times, and supply shortages. This is not something unique to Redline or even our industry. These challenges not only impact our products directly, but the suppliers of third-party equipment that are often part of our overall solutions.

We are continuing to work with our suppliers, vendors, and distributors to continually source additional and locate additional vendors without impacting the quality of our products.

We are actively managing these issues, but they are global in nature, and despite all the efforts, we anticipate some production delays in some product lines, and pricing pressure for some components.

The transformation of Redline has only just begun. We are pleased that we are already beginning to see some green shoots of success. Like all change, success will not always be linear, but we believe that all indicators are pointing in the right direction.

Philip Jones

With that, we'd like to turn things back over to the Operator.

Operator

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

Richard Yoon

Thank you.

Philip Jones

Thank you.