NASDAQ:INSG Q2 2025 Earnings Call Transcript

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Hello, and welcome to Insego Corp's second quarter 2025 Financial Results Conference Call. Please note that today's event is being recorded. All participants today will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity for questions and answers. To ask a question, please press star, then one on your telephone keypad. To withdraw your question, please press star, then two. On the call today are Juho Sarvikas, Chief Executive Officer, and Steven Gatoff, Chief Financial Officer. During this call, certain non-GAAP financial measures will be discussed. A reconciliation to the most directly comparable GAAP financial measures is included in the earnings release, which is available on the Investors section of the company's website. An audio replay of this call will also be archived there. Please also be advised that today's discussion will contain forward-looking statements. These forward-looking statements are not historical facts, but rather are based on the company's current expectations and beliefs. For a discussion on factors that could cause actual results to differ materially from the expectations, please refer to the risk factors described in the company's Form 10-K, 10-Q, and other SEC filings, which are available on the company's website. Please also refer to the cautionary note regarding forward-looking statements section contained in today's press release. With that, I'd like to turn the call over to Juho Sarvikas, Chief Executive Officer. Please go ahead, sir.

Juho Sarvikas | Chief Executive Officer:

Good afternoon, everyone, and thank you for joining us today. My first full quarter here at In-SEGO has been both productive and strategically significant as we transformed the company to lead in the next generation of enterprise connectivity through cloud-managed, high-performance wireless solutions. There are a lot of exciting elements to this, and on today's call, I'd like to focus on the two most important ones. First, I'll share my perspective on the key highlights in the business for Q2 and the momentum that we're seeing with our products and customer take-up. And second, I'll update you on our execution of the two key strategic growth vectors that I outlined at the beginning of the year around scaling the core and evolving to a solutions company. With that, let's start with the first topic, Q2 results and highlights. Q2 was a pivotal quarter for Insigo, as we built meaningful momentum with our products and customer traction, and as a result, we see the company now being well-positioned to drive long-term sustainable growth. Financially, we delivered sequential growth in Q2 in both revenue and adjusted EBITDA, exceeding guidance through a combination of strong FWA demand, a favorable product mix, and disciplined expense management. Stephen will walk through the details shortly. Operationally, this was a significant quarter on two fronts. First was the market introduction of our next generation 5G advanced Insego WaveMaker FX4100 FWA solution. It leverages our new Edge Router OS and significantly upgraded Insego Connect SaaS feature set, and the mid-Q2 launch has greatly exceeded our expectations with strong early demand. I'll go into detail in a bit. The second big item for the quarter was that we successfully renewed our stocked MiFi products with our two large Tier 1 carrier customers, while at the same time, we also added a new Tier 1 carrier to stock both our mobile and FWA products starting later this year. These wins not only diversify our customer base, but also underscore the market appeal of our combined mobile and fixed wireless broadband portfolio, purpose-built for enterprise-grade connectivity. Together, these accomplishments mark a quarter where our strategic plan began to translate into tangible commercial wins, strengthening our Tier 1 relationships, and validating the growth opportunity ahead. Let me now turn to my second topic and talk about the solid progress we've made this past quarter on our growth strategy that is anchored by two vectors. One, scaling the core or execution across our mobile and FWA business, and two, evolving to a solutions company by investing in our software, APIs, and platform intelligence to transition Insigo into a solution-oriented provider, enabling greater value creation and sustainable growth. Let's begin with our first growth vector, scaling our mobile and FWA business. And I'll start with mobile broadband, a category in Segoe pioneered in 2009 with the launch of the iconic MiFi brand, a trademark that we proudly own. Since the beginning of the year, we've redefined our mobile product strategy and repositioned our MiFi portfolio to capture greater share with the same enterprise-grade edge router OS and Insigo Connect enhancements as the FWA category that uniquely differentiates us and requires little marginal investment. This is a major benefit of now having a platform strategy across our products that all benefit from the same software efforts. This new approach directly enables us to renew our stock positions with our two large existing US carriers, providing stability, growth, and visibility going forward. In addition, as I mentioned a moment ago, in Q2, we want a new major tier one carrier customer with our next generation mobile solution. This marks an important new carrier relationship for In-Sea Go and diversifies our customer base. When I joined the company, we aligned on a common goal to win and consolidate the MiFi market, and the team is executing on it. These renewals and new customer win reinforce our leadership in mobile broadband, driving scale, and operational leverage across our entire portfolio. Let's now look at the FWA aspect of driving scale. As you might remember, in Q1, our FWA revenue declined from a customer transitioning to the latest FWA generation. The new FX4100 launched midway through Q2, and demand has exceeded the expectations we set with our partner T-Mobile, materially outpacing adoption of our prior two generations. This strong adoption reflects two dynamics. One, the expanding TAM in enterprise FWA market, and two, our capturing of greater market share with our new enterprise-grade solutions. The SX4100's rapid success reflects a unique combination of performance, ease of deployment, enterprise-grade feature set, and excellent go-to-market execution together with our partner that differentiates in SQL and positions us as the partner of choice for carriers and enterprise customers. Building on this success, we also entered a new broad category in Q2 with the introduction of our X700 Wi-Fi mesh node. When paired with the new FX4100, the X700 creates a single unified network with support up to three mesh nodes per router. This eliminates the need for traditional switches and multiple access points, giving enterprises and branch locations a cost-efficient plug-and-play solution that simplifies deployment, reduces hardware complexity, and delivers reliable wall-to-wall coverage. Together, the FX4100 and X700 mesh node solution redefine enterprise connectivity, offering the same plug and play simplicity and performance advantage that make FWA a compelling replacement for wired broadband. Our unique approach and success in enterprise FWA has opened new opportunities with the broader customer base. I'm happy to share that we've won a new stock FWA product with a new tier one carrier customer. This landmark win validates our strategy and strengthens our position as carriers increasingly look for a high-performance, enterprise-ready FWA solution. We are now hard at work in scaling the traction in enterprise FWA across the broader carrier base while accelerating engagement with MSOs, MSPs, WARS, and strategic partners. The FX4100's strong early adoption combined with the X700 mesh launch and new tier one win positions FWA as a key growth driver for Inseego in the second half of 25 and beyond. With the carrier momentum accelerating, we also secured notable wins with enterprise customers and channel partners, demonstrating the scalability of our combined hardware and software solutions. We closed a multimillion-dollar enterprise agreement with an industrial S&P 500 company, facilitated through one of our Inseco Ignite channel partners for a deployment that combines our high-performance hardware with Inseco Connect software, reinforcing our value as a trusted enterprise connectivity partner. We also expanded our outdoor FWA presence through a strategic agreement supporting rural connectivity for one of the nation's leading poultry producers. Powered by Inseego Connect, this deployment delivers centralized device management and enterprise-grade connectivity across distributed farming locations. With that, I'll turn to the second part of our growth strategy, transforming Inseego into a solution-driven company through software, APIs, and platform intelligence. By deepening the software and services layer around our hardware, we're creating reoccurring value for our customers and a stronger competitive mode for the long term. In Seco Connect, our cloud-based device management platform is at the center of this strategy. Our immediate priority has been seamless API integration into carriers, MSOs, and MSPs, existing business systems, to expand our addressable market. With the critical APIs now released, we've also significantly expanded the In Seco Connect feature set based on the valuable feedback from our customers and partners. When paired with our new Edge Router OS, these enhanced capabilities are elevating Insigo from a hardware provider to a high-value connectivity solutions partner, driving reoccurring revenue opportunities, deeper customer engagement, and a strong position in enterprise networking. Along these lines, let me also spend a moment on Insigo Subscribe, our enterprise and government subscriber management SaaS platform. As I mentioned on the last earnings call, I am particularly excited about the future for this offering and we're now investing in expanded functionality, market reach, and scalability. I've been pleased with the reception from the market and I look forward to updating you as we close out the year and head out to 2026. As we enter back half of 2025, our focus remains on bringing new products to market and expanding our customer base, building a sustainable path to long-term growth. Importantly, I am focused to exiting the year with a strong run rate business to support this sustainable growth. We expect sequential revenue growth for each of the next two quarters as we move forward. Stephen will share more details on this in his remarks. One bittersweet data point to share with you that we see as a strong endorsement of our market presence and ability to garner large deals with new customers is a $10 million plus educational mobile deal that we were awarded for the second half of 2025, but that was contingent upon congressional E-rate funding for hotspots. However, Hotspot's inclusion in the E-rate program continues to sit in limbo in the house with no established path forward. Based on this, we have removed the deal from our forecast. At the end of the day, it all comes down to great people executing well, and on that front, I'm really pleased to share the announcement you probably saw earlier in the week. We recently welcomed two accomplished leaders to the Inseco executive team. Lawrence Howe joined as Chief Supply Chain Officer, bringing 20-plus years of experience in global procurement and operational excellence to enhance supply chain resilience and cost structure. Zach Kowalski joined as Senior Vice President of Business Development, leading our expansion into indirect channels, including WARS, MSPs, and strategic partners. These additions reinforce our focus on operational discipline and scalable go-to-market execution consistent with our goal of exiting the year on a strong run rate basis. And with that, I'll turn the call over to Steven.

Steven Gatoff | Chief Financial Officer:

Thank you, Uwe. Hi, everyone. Thank you for joining us. I'd like to cover three topics today. First, I'll take you through the Q2 2025 financial results. Second, I'll provide a brief update on the further strengthening of our capital structure around the convert pay down and our new working capital facility. And third, I'll share some color on the financial profile of the business and provide guidance for Q3 2025 as we head into the second half of the year. As we always do, we'll of course wrap up by opening the call to your questions. Let's start with the Q2 financial results. We delivered sequential growth in both revenue and adjusted EBITDA in Q2 2025. And that performance was paired with strong gross margins and disciplined spend to continue meaningful operating leverage and the favorable results. On the top line, total revenue for Q2 was $40.2 million and was driven by better than expected FWA volumes, a large channel deal, and continued execution in our services offerings. For only the second time in the company's history, Q2 2025 marked a notable dynamic where FWA revenue surpassed mobile hotspot revenue. We see this as an indicator of the execution of our growth strategy and the ongoing shift in our product mix with the tangible data point around the successful ramp of our new FX4100 product that Hugo talked about. As expected, mobile revenue came in lower year over year on the record promotional activity in 2024 and the timing of new program launches that are expected to occur later in 2025. Our strong services revenue remained consistent at $12 million for the quarter, providing stable, high-margin contribution to results. Non-GAAP gross margin was a solid 41.2% in Q2, reflecting a favorable product mix and the strong FWA results. Looking at non-GAAP operating expenses, Q2 2025 was another quarter of disciplined execution. We managed the business to lower dollar spend year over year on both a P&L and cash spend basis. Pulling this all together, Q2 2025 adjusted EBITDA came in at $4.7 million, up 29% sequentially and at an 11.7% margin our second highest in a decade. Finishing this section with the balance sheet, we ended Q2 with $13.2 million in cash and healthy working capital and leverage metrics. This provides us flexibility as we execute our growth initiatives in the back half of the year and is a good segue to my second discussion topic, our meaningfully improved capital structure. Our healthy cash position of $13 million at June 30th reflects the payoff of the $15 million remaining balance on the convertible notes that matured on May 1st. Over the past year, we've materially reduced the company's total debt, and with this payoff, our total debt now stands at $41 million, or a very manageable two times LTM adjusted EBITDA. To provide additional operational flexibility and liquidity, Earlier this week, we set up a $15 million working capital facility with BMO Bank. The terms are attractive, and we don't currently need or plan to draw on the facility. Altogether, these actions further strengthen our balance sheet, provide additional flexibility to invest in product when and where needed to drive growth, and support the value of the common stockholders. With that, let's finish with the third topic today, the financial profile that we're seeing in the business and guidance for Q3 2025. As Juho talked through, 2025 is a foundational year as we invest in and scale new products and our software platforms and bring on new carrier and MSO relationships. We're starting to see the business evolve along the strategic lines that Juho has set out and for Q3 and from those initiatives, we expect to see continued sequential revenue growth. In terms of revenue, FWA is showing nice momentum as we continue through Q3, supported by the ramp of our new FX4100 product. Mobile revenue is also expected to show sequential growth in Q3, with volumes picking up at our carrier customers. And our attractive services revenue should remain consistent at roughly $12 million. Non-GAAP gross margins are expected to remain fairly consistent on a percentage basis in Q3, and total operating expense is expected to increase on a dollar basis as we invest in sales and marketing to drive growth. Importantly, we're also investing in the new products we talked about and that is expected to drive increases in capitalized spend in the second half of 2025. And finally, on OpEx, we're driving more company-wide efficiencies and expect improvement in G&A on a percentage of revenue basis going forward. And so, pulling this all together, we're providing the following guidance for Q3 2025. Total revenue in a range of $40 million to $43 million and adjusted EBITDA in a range of $4 million to $5 million. With that, we appreciate your time and support and are glad to open the call for questions. Operator?

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Thank you. We will now begin the question and answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster. And your first question today will come from Lance Vitonza with TD Cowan. Please go ahead.

Lance Vitonza | Analyst, TD Cowan:

Thanks, guys. Can you hear me? Yeah. Great. Congrats on the quarter. A couple questions, if I could. The first is, could you talk a little bit more about this multimillion-dollar enterprise agreement with the industrial S&P 500 company? it would appear that that validates the channel partner model, but I'm just wondering how, how close or how far does this leave you with the end user, with the client? And then if you could just maybe talk about why you won there, you know, price versus quality versus service versus I made in America versus the breadth of the portfolio and you know, how quickly, slowly do you expect wins like this to sort of unfold going forward?

Juho Sarvikas | Chief Executive Officer:

Hey, Lance, excellent question, and thanks for joining us. I'll take that. So, yeah, you're right. It's a multimillion dollar FWA deal with an industrial S&P 500 company. The way we ended up discovering and closing the deal was through our Ignite, Insego Ignite channel partner program. So we have broad channeling of people in many places. The value proposition that we had was unique in that we were – We partnered very strong together with the partner to make sure that we had sufficient support of the technical validation. And it really came down to both the hardware and the software. The partner was very keen in having manageability and visibility to the entire fleet.

Lance Vitonza | Analyst, TD Cowan:

If I could just on the guidance. I guess, how much of the Q3 revenue, how much Q3 revenue in EBITDA was, if any, was associated with that business that you mentioned you pulled out of the forecast due to the congressional lockdown?

Steven Gatoff | Chief Financial Officer:

Yeah, so to be, thank you for clarifying, our guidance, our forecast has, well, we have no assumptions of that deal coming back. So we are not including any of it in our forecast or guidance.

Lance Vitonza | Analyst, TD Cowan:

My question, though, I guess, was like if that had been in, would that have – presumably the guidance would have been higher.

Steven Gatoff | Chief Financial Officer:

Yeah, so gotcha. So, yes, the deal was north of $10 million. And so, you know, whether the deal closed in, you know, Q3 or Part Q4 or both, but to the point where the back half of the year there would have been, you know, $10 million plus more revenue on the product side of the business.

Lance Vitonza | Analyst, TD Cowan:

Okay, great. And then so then what are the puts and takes, if any, on the $40 to $43 million? Is any of that range related to potential macro factors, or does it all sort of assume a kind of benign macro environment and just, you know, hinges on what the particular customers sell through might be or are there other factors in play? Thanks.

Juho Sarvikas | Chief Executive Officer:

Hey Lance, maybe this is an opportunity to complete my answer to your first question. You were also inquiring on the role of channel for us and what to expect from that go-to-market motion. As I said, our immediate priority is to scale with big carriers, big MSOs, and then continue to invest in as far as S&P or channel program. So the part of Q3 variability, of course, is how much business and opportunity will close each channel.

Steven Gatoff | Chief Financial Officer:

And then to add on to you a good point, Lance, to pick up the rest is, you know, the view for Q3 is really based on basic blocking and tackling in the business. There's no silver bullets or Herculean assumptions. We're seeing some modest volume growth with the mobile side. And as you heard a lot about, we're seeing nice traction on the carrier side with the new FWA product. And so we have pretty good visibility into that for the current quarter for sure. And so it's really based on what we're seeing at the carrier. We're not really getting out over our skis on anything on that front.

Lance Vitonza | Analyst, TD Cowan:

Great, thanks. It's a welcome change from before the current leadership team took over, so thank you for that.

Uwe | Investor Relations:

Your next question today will come from Torrey Svanberg with Stiefel Niklas. Please go ahead.

Jeremy | Analyst, Stiefel Nicolaus (for Torrey Svanberg):

Yes, good afternoon. This is Jeremy calling for Torrey. And let me add our congrats on the solid FDBA results and the new product launch. Maybe a quick follow-up on that enterprise win. Can you provide any details on the mechanics of it? You know, what type of revenue recognition that goes into that? You know, is this kind of, you know, how long the agreement might last? And how, you know, is there anything we can track in terms of new potential customer wins in this enterprise segment?

Moderator | Conference Moderator:

This specific – thanks, Jeremy, for joining.

Juho Sarvikas | Chief Executive Officer:

A great question. This specific deal that we mentioned as a part of the prepared remarks was specific to Q2.

Moderator | Conference Moderator:

And we're, of course, working on a pipeline for Q3 and beyond.

Jeremy | Analyst, Stiefel Nicolaus (for Torrey Svanberg):

Got it. Thank you. And then I guess maybe looking at the cash flows, you know, it looks like accounts receivable is up a lot. You know, I understand it's probably from channel fill, like the new product launch. can we expect some improvement on that cash flow front, you know, as you kind of, as the ramp continues and you, you know, increase the collections? How should we think about cash flows in this respect?

Steven Gatoff | Chief Financial Officer:

Yeah. So the short answer is our goal is consistently to drive cash for sure. And obviously as a profitable business, that's, affords us that ability. What we're also balancing, though, is investing in product and building inventory to supply the demand that we're starting to see tick up little by little. And so, you know, we would rather invest and build a little bit more, particularly as we're launching a pretty robust product portfolio in the second half of the year, more so, candidly, than the company has ever done in probably five or ten years. We're pushing out a whole bunch of new products in the second half. So it's going, as you said, into good investment. The one thing that you called out properly is that on the balance sheet, there's a little bit of an uptick in AR, which is, you know, for all the right reasons, which is there's really big uptake at the end of the quarter in our new FX product or FWA product. And so, you know, we're thrilled with that. Everything else was kind of business as usual.

Jeremy | Analyst, Stiefel Nicolaus (for Torrey Svanberg):

Great. That's very helpful. And maybe one final question on the new, you know, FX4100 launch. You know, are there any potential catalysts that we can look out for? You know, maybe promotions, you know, and maybe even looking out for the 18 months, you know, where do you see FWA in terms of proportional to mobile? Do you expect this 50-50 to continue or maybe FWA kind of more consistently exceeds mobile revenue over time? Thank you.

Juho Sarvikas | Chief Executive Officer:

Thanks, Jeremy. I'll take the first part. If you look at the FX4100, the Our unique formula really is, if I start from the solution side, performance. I would actually add technology leadership there, so 5G advanced, device performance, but then even maybe more importantly, ease of deployment, as well as enterprise-grade feature set. That makes a pretty unique combination if you just look at what the solution stands for and what it enables for our partners to do. The second key catalyst, to your point, less so on promotion, although we do have a great promotional framework, but I'm very pleased with the excellent go-to-market collaboration that we've had together with our partner, marketing, field sales, overall enablement. If I compare this to the engagement and also solution maturity with the previous generation product, which was also very successful, this third generation FWA definitely is driving for a much larger impact in the marketplace.

Steven Gatoff | Chief Financial Officer:

Yeah, and a good question on the revenue mix. You know, the strategy kind of coming to fruition, right, where the FWA market, we're beginning to win more and more share, consolidate that market on the mobile, sorry, on the mobile side. And so that's kind of a nice market that will continue with some modest growth quarter over quarter. But we're pretty bullish, as you can hear and tell and see, and go sanity check in the market, on the FWA trajectory. And so we see that continuing to be a positive dynamic as far as revenue mix and the presence of FWA in the model.

Juho Sarvikas | Chief Executive Officer:

If you look at the overall macro picture, what I would say is that FWA – is only the start of the journey. Like the adaptation curve, we're nowhere near the peak. And maybe even more importantly, if you look at FWA for enterprise end market, that has not advanced as fast as the consumer side. And we're, of course, participating in enterprise.

Moderator | Conference Moderator:

So I view the TAM growth as something that's highly appealing, in addition to our ability to participate.

Jeremy | Analyst, Stiefel Nicolaus (for Torrey Svanberg):

Great. Thank you very much. One last question, I'm sorry. It sounds like your software and services feature set is really expanding and one of the key selling points. Is there maybe a path to maybe directly monetizing that to see potential expansion in the services line of your revenues?

Steven Gatoff | Chief Financial Officer:

Yeah, so it's a good question, and the short answer is yes. The software functionality, both MDM-like and Sego Connect, is really a growing investment and growing uptake from customers on the value prop with the product side of the business, as well as the subscribe. BSS, TEM-like functionality that we provide to carriers and the investments we're making there on everything from subscriber management, order management, contract management, It's something that we look to continue to grow and invest in and yield higher revenue as we move forward, for sure.

Juho Sarvikas | Chief Executive Officer:

And maybe to double-click on the device cloud or Isigo Connect with the MDM functionality, the immediate focus this year has been to enable a broader TAM for our product business by enabling partner integration through API libraries. I'm actually very pleased how fast the team has been able to act and move in doing that enablement. The feedback from our partners who are right now working on the integration has been excellent. Once this work is complete and also in parallel, we've released multiple new hero features. And what you should expect us to see us do is on the device cloud side, continue to develop more value added feature.

Moderator | Conference Moderator:

And of course, with that, we would target a higher value capture as well. Perfect. Thank you very much. Right on.

Uwe | Investor Relations:

Thanks. This will conclude our question and answer session. I would like to turn the call back over to management for any closing remarks.

Moderator | Conference Moderator:

Thank you for the thoughtful questions.

Juho Sarvikas | Chief Executive Officer:

To close, Q2 was an important strategic quarter for Insego. We launched the FX4100 to strong demand. We renewed our key MiFi relationships. and we secured a major new Tier 1 carrier win across both mobile and FWA. These milestones are the data points that validate our strategy as we're building the foundation for sustainable growth and profitability. I want to acknowledge our exceptional engineering team, alongside with the broader Inseego organization, whose dedication and teamwork continue to drive our success. Thank you for joining us today.

Moderator | Conference Moderator:

And we look forward to updating you on our continued progress.

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Conference is now concluded. Thank you for attending today's presentation. You may now disconnect.