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SR TELECOM INC
Form 425
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The following is a transcription of the First Quarter Telephone Conference call held by SR Telecom Inc on April 23, 2003

OPERATOR: Good afternoon,
ladies and gentlemen, thank you for
standing by.

Welcome to the SR Telecom
first quarter results conference
call. At this time all
participants are in a listen-only
mode.

Following the presentation
we will conduct a question and
answer session. Instructions will
be provided at that time for you to
queue up for questions.

If anyone has any
difficulties hearing the conference
please press star zero for operator
assistance at any time.

Before turning the meeting
over to management, please be
advised that this conference call
will contain statements that are forward-
looking and subject to a number of
risks and uncertainties that could
cause actual results to differ

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materially from those anticipated.

I would like to remind everyone that this conference call is being recorded and will now turn the meeting over to Mr. Pierre St-Arnaud; he's the president, and chief executive officer of SR Telecom.

Please go ahead, Mr. St-Arnaud.

MR. ST-ARNAUD: Thank you very much.

Thank you, and good afternoon, ladies and gentlemen. Let me first apologize for being delayed here and thank you for your patience. We had some logistic problems after we issued our press release which has just been released.

Welcome to our conference call for the first quarter ended March 31, 2003. With me is David Adams, Vice President, Finance and CFO. We'll provide you with a brief overview of the release just being issued today. And afterwards David and I will be pleased to answer any question that you may have.

As we have previously

forecast our revenues in the first quarter of 2003 were below the level achieved in the same period last year. Consolidated revenues, which include the result of our CTR subsidiary total 29.6 million compared to 45.4 million in the first quarter of 2002.

Revenues from our core wireless solutions business accounted for 26 million of this total, compared to 40.6 million in the same period last year. Although, we anticipated lower revenues in the first two quarters of this year, the decline in Q1 was measurably impacted by the conflict in Iraq. Because of the Iraq situation the shipment of certain large orders planned at the end of the quarter to the Middle East was delayed. Uncertainty throughout the region has also temporarily stalled other projects.

These factors reduced revenues by approximately \$10 million for Q1. However, we expect the shipment to resume during the second quarter and combined with existing backlog will generate revenue growth Q2 over Q1.

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In addition, we anticipate significant new orders in the coming quarters from our traditional markets.

The new class of products we have introduced should also result in growth and additional revenue streams in the second half of the year. This activity should also significantly improve our order book throughout the rest of fiscal 2003. Overall we continue to expect that our revenues for 2003 will be in line with those achieved in 2002.

In fact, our company also made substantial progress on a number of other fronts in the first quarter. As you know we signed a definitive agreement to acquire Netro Corporation. The deal solidifies our competitive position by adding two high capacity packet data and carrier class voice product to our portfolio. It also significantly strengthens our balance sheet.

At closing, we expect to have consolidated cash of approximately 75 million. I am pleased to report that the U.S.

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Hart-Scott-Rodino waiting period has ended, and we have received approval from the board of directors of both companies.

The transaction is now subject to approval of Netro shareholders, and we expect it to close early in July.

During Q1 we also added CDMA technology to our portfolio by acquiring certain assets of Mergy Inc. We actually closed the deal on March 19th and introduced shift 1xEV-DO standard based broadband access solution that will serve, identified opportunities for fixed application in our existing customer base. We expect orders for these products later in this year.

Additionally, we introduced stride2400 a 2.4 GHz unlicensed (inaudible) access solution that is specifically targeted to the U.S. rural market. We have already begun and completed some customer trials and broad commercial sales of the product are scheduled starting in the second half of this year.

All of these products are the result of successful and

cost-efficient acquisitions. And they have been driven by particularly, we have identified within our existing customer base. In other words, the markets for these products and solutions already exist. So they present us with real and immediate opportunities for revenue.

In making these acquisitions and introducing these products we have taken advantage of the opportunities that the consolidation trend in our industry has presented. And in so doing we have assembled the industry's most comprehensive portfolio of fixed wireless access solutions.

Our goal is to double the revenues of the Company in the coming years. And I am confident the strategic initiatives we have undertaken will allow us to realize this goal.

I will now turn the call to David Adams, who will provide you with more detailed financial information on our first quarter.

David.

MR. ADAMS: Thank you, Pierre, and good afternoon ladies and

gentlemen.

I would like to elaborate on some of the financial data that Pierre has provided, and discuss a few other developments of note.

As Pierre has said, consolidated revenues for the first quarter 2003, which includes CTR, total 29.6 million as compared to 45.4 million during Q1 in the prior year.

The first quarter operating loss was \$7 million, compared to a gain of 746,000 in the same period last year.

Consolidated net loss for the first quarter of was 6.7 versus the net loss of 2.6 million in the prior year.

Filling in the numbers in our wireless solutions core business revenues in the first quarter reached 26 million, a 36 percent decrease from the same period last year.

As Pierre has said, we did anticipate a drop in Q1 revenues, but this drop was exacerbated by the conflict in Iraq. Conflicts in the Middle East caused delays in the receipt of letters of credit,

suspension of contracts, and the disruption of contracts in progress from the repatriation of staff in the region.

The cumulative effect of these factors reduced revenues by approximately \$10 million in the quarter, which will be realized later in this fiscal year.

Our operating loss from continuing operations from the core wireless business with 5.1 million, a direct result of the lower revenues that we had forecasted. However, we fully expect an improvement in operating earnings in the latter half of the year, and we continue to focus on keeping costs in line with expected revenues.

I am pleased to report that our gross margin remained relatively healthy at 46 percent, a drop of only four percentage points despite the decreased revenue. Backlog at the end of the first quarter stood at 65 million, all of which is expected to be deliverable in 2003. This is down from \$82 million at the end of fiscal 2002.

The protracted slow down in the telecommunications industry is clearly having an effect. However, we are confident that we will be receiving significant orders in the second half of the year which will be generated both from increased activity in our traditional markets and from new business resulting from the commercial introduction of our new stride2400 solution.

This activity should result in growth in the second half of the year and allow us to achieve revenues for 2003 commensurate with those that we realized in 2002.

At our CTR subsidiary revenues declined slightly from 4.9 million in the first quarter to 3.6 million in the first quarter of this year. Traffic on the network has decreased due to a weak local economy, and revenue figures have also been effected by a decline in the value of the Chilean peso relative to the Canadian dollar. However, net income from CTR increased to 1.2 million for the quarter compared to a loss of 2.8 million at the same time last year.

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Additionally, operating expenses excluding depreciation shrank (sic) by 12 percent over the same quarter last year, reflecting the focus of our efforts on increasing EBITDA by reducing expenses and maximizing the debt repayment contribution.

The weakness in the global telecommunications industry and financial uncertainty in the South American capital markets makes the sale of CTR unlikely in the short term. We are concentrating on improving its operating performance and capitalizing on the benefits associated with the acquisition of the Gilat network. The integration of the satellite network with our core network operations is complete, and CTR is focused on generating increased revenues in part through its high-speed internet offering.

In terms of SR Telecom's financial position our cash balance at the end of the first quarter was 26.9 million compared to 20.8 million in the same period last year and 41.9 million as of the year end. A good portion of

this decrease in the cash balance is due to the \$5 million repayment of our operating line of credit and a \$3 million debt repayment related to CTR.

As previously reported we expect that our merger transaction with Netro which is scheduled to close in early July, will improve our consolidated liquidity considerably, and provide us with greater access to capital markets.

One of the key benefits of the Netro acquisition is that it will add approximately \$20 million to our cash balances, after taking into consideration transaction expenses, restructuring costs and provisioning for assumed liability. At closing, we expect that our consolidated cash position will be approximately \$75 million.

I would like to conclude my remarks by reiterating that we do not believe that our first quarter results will be indicative of our performance for fiscal 2003.

As I said, we continue to expect that 2003 revenue will be in line with 2002 levels, and I'm confident that our recent

technology acquisitions and product introductions will move us closer to achieving our goal of doubling the company's revenues in the coming few years.

After giving effect to our Netro acquisition, we Anticipate that we will generate positive earnings starting in the first quarter of 2004.

Thank you for your time and attention, and I will now turn the call back to Pierre.

MR. ST-ARNAUD: Thank you, David.

I would like now to open the conference to questions.

OPERATOR: Thank you.

Ladies and gentlemen we will now conduct a question and answer session. If you have a question, please press the star key followed by the one on your touch tone phone. Your questions will be pulled in the order they are received. If you would like to decline from the pulling process please press the pound key. Please ensure you lift the handset if you are using a speakerphone before pressing any keys.

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One moment, please, for the first question.

The first question comes from Mr. Barry Richards from CIBC World Markets.

Please go ahead with your question.

MR. RICHARDS: Good afternoon. First question, I wondered if you could give us the subcount on CTR today?

MR. ADAMS: The subcount on CTR is over 22,500 subscribers.

MR. RICHARDS: And the head count at SR Telecom?

MR. ADAMS: Head count as of March 31st, is 780, excluding staff of CTR which is approximately 220.

MR. RICHARDS: And given the level of revenues you reported in the quarter, can you just quantify for us, maybe split it out by geographical region?

MR. ADAMS: We, just a moment I can sort of give you a bit of a breakdown. In the first quarter the revenues were primarily in, come in several areas. We still have revenues out of the Middle East, but we were picking

up a considerable amount out of Australia, the Philippines and in a couple of areas of Africa.

MR. RICHARDS: Got you. It looks like you recognized a one time gain, is that a foreign exchange gain at CTR?

MR. ADAMS: It's -- effectively it's the effect of the declining value of the U.S. dollar on the debt.

MR. RICHARDS: Okay, thank you.

Last question, again on the revenue side, can you just help us understand now that you have got as many products as you do where the strength is, is it still the core products and what are you getting from some of the newer products?

MR. ST-ARNAUD: Well, Barry, this is Pierre I would say that the key evidence that we got here is we have in our customer base, which is quite extensive as you know, we have identified opportunities for the products we have acquired. So actually we proceeded from needs in the marketplace in deciding which of these products we would go and acquire. And we see a very

significant opportunity for the Angel technology of Netro in the 3.5 GHz in different parts of the world, mostly in Europe, in China, in some of the countries in South America. And obviously the 1xEV-DO technology is for application others than our traditional business because it's clearly a (inaudible) application. It's IP only and we see that as alternative to DSL in large, heavily-dense populations in Asia.

MR. RICHARDS: So I understand, am I right in saying that you're currently recognizing revenues from the SR500, the WL500, the MetroFlex and the MetroPol and you'll rule out stride, shift, Angel and AirStar in 2003.

MR. ST-ARNAUD: Yes.

MR. ADAMS: Yes. Most of our revenues now, Barry, are Swing and SR500.

MR. RICHARDS: Thank you. I forgot the Swing. Thank you, good quarter.

OPERATOR: Ladies and gentlemen if there are any additional questions at this time please press the star key followed

by the one. As a reminder if you are using a speakerphone, please lift the handset before pressing any keys.

Mr. St-Arnaud, there are no further questions at this time, please continue.

MR. ST-ARNAUD: Thank you very much.

While our revenue Q1 were down compared to last year this does not come as a surprise. We have forecast a drop from the first half of the year, though the situation was clearly worsened by the events in Iraq. However, we expect that this is a temporary phenomenon and that certain large orders that had been scheduled to ship in Q1 will resume in Q2.

Additionally, we anticipate increased activity in our traditional customer base in the coming quarters. And we also expect that some of these customers will have a new class of products we are introducing. This should improve on our backlog significantly going forward and allow us to achieve revenues in 2003 that are in line with 2002

levels.

The most significant achievement over the past quarter involved the strategic initiative we have carried out, that improve our competitive positioning and balance sheet substantially. Chief among these is the acquisition of Angel and AirStar technology from Netro, the CDMA technology from Mergy and the introduction of stride2400. All of these technologies answer needs that have been expressed by our customers base.

Going forward and based on the opportunities we have identified with our customers, I am convinced that these new products will contribute significantly to our goal of doubling the company's revenues in the coming years. Our deeper and broader product offering puts us in the excellent position to benefit from an eventual market turnaround.

Thank you for the interest in the conference call and for taking the time to be with us today. Again, I'm sorry for us being late, and as always please feel free to contact us if you

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would like to discuss any of these
developments in more detail.

Thank you very much.

OPERATOR: Ladies and
gentlemen, that concludes our
conference call, Please note that a
replay of this call can be accessed
as of 6:00 p.m. eastern time today at telephone
number 1(877)289-8525 and entering
pass code 249089. Again that's
telephone number 1(877)289-8525 and
entering past code 249089.

This replay will be
available until midnight on
April 28, 2003. Thank you, you may
now disconnect your line.