

Baylin Technologies, Inc.

Fourth Quarter 2020 Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Baylin Technologies Inc. Fourth Quarter 2020 Earnings Call.

At this time all participant lines are on mute. Please be advised that today's conference is being recorded. After the speakers' presentation there will be a question-and-answer session.

I'll now turn the call over to Mr. Daniel Kim, Executive Vice President, Corporate Development of Baylin Technologies. Please go ahead.

Daniel Kim – Executive Vice President, Corporate Development, Baylin Technologies, Inc.

Hello and welcome everyone. Thank you for joining us this morning for the Fourth Quarter and Full Year 2020 Earnings Conference Call for Baylin Technologies. Joining me is our President and CEO Randy Dewey, and our CFO Michael Wolfe. We will all be available for questions at the end of the presentation.

Before we begin, let me make it clear that our comments today will include statements and answers to questions that could imply future events such as our 2021 prospects and financial performance and could include the use of non-GAAP and non-IFRS measures. Though it is obvious, these statements are subject to risks, uncertainties and assumptions. Accordingly, actual performance could differ materially from statements made today, so do not place undue reliance upon them.

We also disclaim any obligation to update forward-looking statements except as required by law. I ask that you read our legal disclaimer and refer you to our risks and assumptions outlined in our corporate disclosures, in particular the section titled Forward-Looking Statements and Risk Factors in our Annual Information Form for the year ended December 31, 2020, and our filings which are available on SEDAR.

Q4 and full year results were released yesterday after market. The press release, financial statements, as well as MD&A and Annual Information Form are available on SEDAR and our website at baylintech.com.

I would now like to turn the call over to Randy.

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Thank you, Daniel. Despite the ongoing challenges we are navigating through, we have started to see some very promising signs: a healthy pick-up in our backlog and positive momentum in the form of projects delays that are now moving forward. We are more optimistic about a more robust return starting in the second quarter. Our order backlog is building in all four business units. Cellular stores are reopening in North America and soon in Europe. Cruise ship activity has picked up and demand for our Satcom products is now increasing. In January, in fact, Satcom had its highest order booking in the past three years. Planning for stadium cellular upgrade programs which were delayed in 2020 have now commenced, and Infrastructure had their best week in bookings since 2019.

In addition to the completion of the C-band auctions in December, which is also a very important step forward for us, we are starting to see a pick-up in capital spending amongst the U.S. wireless carriers with the final piece of the 5G puzzle now put in place.

While all these positive developments are expected to improve financial results starting in the second quarter, the pandemic, of course, continues to impact operations in the fourth quarter of 2020, which resulted in lower than forecasted revenue and profitability. We expect this to continue into the first quarter of 2021, in particular Infrastructure Products and Satcom product revenues have been lower than expectations while the C-band auction was finalizing. A delay in finishing our massive MIMO factory in Vietnam due to travel restrictions continues to stretch out the timing of the start of revenue until the second half of 2021.

Airline and marine travel industries have obviously felt (phon) significantly as an industry which had an impact on our business as well. This had a direct temporary impact on Satcom product revenue. In addition, despite recent cellular store reopening, the fourth quarter COVID-19 lockdowns in Europe impacted cellular sales, resulting in significantly lower sales volumes and delayed the new model launches. We have not lost any customers or orders, but the softer period as affected the business on a short-term basis. Our focus continues to be on securing new orders and long-term contracts while continuing to implement the cost saving initiatives that commenced in the fourth quarter of 2020.

I would now like to turn the call over to Michael to provide you with a little bit more commentary and detail on our financial results. Michael?

Michael Wolfe – Chief Financial Officer, Baylin Technologies, Inc.

Thank you, Randy.

Revenue in the fourth quarter of 2020 was \$25.6 million, a decrease of 14.8 percent compared to the fourth quarter of 2019. Infrastructure products had the largest revenue decline in the quarter followed by Satcom products, due to the reasons that Randy outlined. The decrease in revenue in the fourth quarter of 2020 compared to the third quarter of 2020 was mainly due to a significant decline in Asia Pacific revenue, primarily in the second half of the quarter.

Lower than budgeted revenue combined with a less favourable revenue mix in the fourth quarter compared to the prior year resulted in a lower gross margin, 26.3 percent compared to 35.8 percent. Also contributing to the lower gross margin in the fourth quarter was a manufacturing issue with one of the Asia Pacific platforms. The issue has now been substantially resolved.

Due to a continue focus on cost reductions, operating expenses in the fourth quarter, excluding goodwill impairment, decreased by \$2.6 million compared to the fourth quarter of 2019. A portion of the decrease was due to government stimulus received in Q4 under the Canada Emergency Wage Subsidy, however, the subsidies were offset by additional costs related to personal protection equipment for employees and safety measures implemented in all of our facilities to reduce the risk of employees contracting COVID. In addition, the wage subsidies have allowed us to prevent layoffs and terminations that may have otherwise been required.

The Canadian federal government extended the wage subsidy and rent subsidy programs to June 2021. We expect to continue to receive subsidies under these programs in Q1 and Q2. In addition, the

United States implemented a second draw under the Paycheck Protection Program. We are expecting to receive forgivable loans from this program in March and April.

The financial impact of COVID in 2020 on the Advantech and Alga businesses added to the already prolonged integration path which is nearing completion, but had impacted recent financial performance. We do expect to see improved results going forward.

We performed our annual impairment test to determine the recoverable of the Company's goodwill. Due to lower than forecasted financial performance of Advantech and Alga, we concluded that the recoverable amount of the goodwill is less than the carrying value, resulting in a goodwill impairment charge of \$3 million. Goodwill has been decreased from \$18.9 million to \$15.9 million.

Despite the impairment charge, we remain convinced that the Advantech and Alga acquisitions have significantly enhanced the Company's position in the wireless communication industry, and we remain confident that the financial performance expectations will be achieved.

At December 31, we had a cash balance of \$11.2 million and access to approximately \$22 million of revolving credit facilities from which \$10.1 million was utilized. We had the option to defer the term loan principal repayment on September 30 and we elected to do so. Quarterly principal repayments of US\$750,000 resumed in December.

Capital expenditures in 2020 were \$7.1 million of which approximately \$5.5 million was for the new factory in Vietnam, primarily in the first quarter of 2020 prior to construction delays caused by travel restrictions. The construction delays did allow us to fund the capital expenditures incurred to date

from cash flow, however, in February we drew \$3.1 million from the credit facility established in Vietnam. The funds will be utilized for the remaining capital expenditures and working capital when operations commence.

I'll now turn the call back to Randy.

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

COVID-19 is slowly losing its grip on our end markets, though this continues to be an issue at this time, affecting our fourth quarter financial results and carrying over into the first half of Q1 2021. The signs of recovery are becoming more apparent and momentum in the business has noticeably picked up. The massive MIMO market and our factory completion was stalled due to the pandemic but we expect to get this business started in the second half of 2021.

The opportunities for our company in 5G, LEO, WiFi 6, automotive and military are very exciting and the backlog growth, new projects recently awarded and the opportunities we are negotiating at this time give us excitement about what lies ahead.

Our mid and long term opportunities are growing and the outlook for the balance of 2021 is very positive.

I'd like you to remember three things from this call, which I believe really summarize the current situation. First, we've been very aggressive to cut costs, get the business platform structured for the return of volume, which should produce a lot of gross profit leverage. The second is the C-band auction caught us really on two fronts: our telecom customers couldn't spend on 5G because of their frequency

allocation and success was really unclear until the auction was completed. The other impact was our Satcom customers who were selling their C-band didn't have the revenue from the auction available to invest in their own infrastructure. Two of our four sectors were really held back because of this auction and its delay. Now that's over. Frequencies will move into the hands of the telecom buyers in the second quarter and revenue generated from the auction can now flow into the bank accounts of our Satcom customers. This gridlock has ended.

Third, we are approved in the 5G network buildout plans which are finally about to see acceleration. Additionally, as the new LEO constellation has commenced there space buildout and now the ground infrastructure and the ground network buildout is set to commence this year and our Summit Series II product recently launched at Advantech has well positioned the Company. We are at the starting block with two major industry trends that have an impact on our company.

I appreciate that COVID put the brakes on a lot of this excitement because this is not dissimilar to what we would have said a year ago, but the pandemic had an impact, of course, on the last 12 months and the challenge that presented us was difficult in many respects, however, the signs are there that the recovery is imminent and the technical issues of C-band and other things have finally cleared. So, we are enthusiastic about the road ahead, and for me, that concludes my formal remarks.

Operator, if we can open up the line for questions, that would be great.

Q & A

Operator

Thank you. At this time, we will be conducting our question-and-answer session. We'll pause for a brief moment to compile the Q&A roster.

Your first question comes from the line of Bill Zhang with Raymond James. Bill, your line is open.

Bill Zhang – Analyst, Raymond James Ltd.

Hi guys. For Q4 you had savings of \$3.8 million from operating expenses. With annualized savings of \$20 million going forward, will we see further improvements in Q1 and beyond?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

We've implemented a lot of the cost savings initiatives and a lot of that was done in the fourth quarter of last year, so it carried on into Q1. There might be some additional ones but the level of operating expense in the quarter is a pretty good number, I think, going forward, so I wouldn't expect to see large, large decreases. We will get some benefit from some of the subsidies we will receive but those are short-term in nature.

Bill Zhang – Analyst, Raymond James

Okay, makes sense. On the topic of wage subsidies, what was it in the quarter and can we expect a similar amount in Q1 and Q2 for Fiscal 2021?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

As you know, we use those wage subsidies for the purpose that they're intended which is maintaining and keeping employment up, so we really haven't reported what the wage subsidies are, but as I mentioned, they are used for the additional costs that we incur related to COVID and keeping employment levels at a level that we want to keep and have maintained over the last little while. We aren't reporting separately, though, the amounts that we are receiving under the wage subsidy programs.

Bill Zhang – Analyst, Raymond James

Okay. Okay, that's fair. As the economy recovers this year, how should we think about your selling and marketing expenses?

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

There is, you know, with travel restrictions still being there, there is no doubt there will be a slight uptick coming at the right time. Of course, as the world has now become much more accustomed to virtual meetings, I wouldn't us to go back to sort of pre COVID levels of travel expenses, but that would be the only area that we would certainly see a slight uptick. I wouldn't expect that until the second half of the year, to be quite frank. I think the first half of the year as we continue to keep our expenses down and as we see the business and pent-up demand starting to return, there will be some recovery. Trade shows haven't really rebounded in quite the physical sense; they're certainly on the virtual sense. We're doing lots of trade shows remotely. I would see that continuing for much of this year, though there may be the odd trade show or two that we would attend in the second half of the year, but right now I don't expect a large uptick.

Bill Zhang – Analyst, Raymond James

Okay, great. Thanks for that. That's all for me.

Operator

Your next question comes from the line of Daniel Rosenberg with Paradigm Capital. Daniel, your line is open.

Daniel Rosenberg – Analyst, Paradigm Capital

Thanks for taking my question. I was wondering about the outlook. You guys mentioned Q1 being comparable. Do you start seeing the positive incremental benefits after the impacts of European retail closings, or do you see that retail, European retail sector still playing a role in Q1? What direction should be think of comparably as meaning?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Well, certainly in Q4 and Q1 it would be quite comparable. The uptick that we had seen in the activity level, of course, started right from the turn of the year with our backlog growing and opportunities growing, but those opportunities in that backlog really is second quarter and onward, so the recovery and the promise that is certainly showing with the recovery of the economy, as you say, really begins in, call it that April, May and June sort of timeframe.

The lockdowns, you've seen some easing, of course, in Europe, but not the full—they're really more of a Germany, France and Italy. Really, we're calling for an April and into May full recovery. I think

we'll see a lot—I think the end markets of cellular will start seeing an uptick in there, and then, of course, over the last two quarters here there's been quite a bit of pent-up demand for cell phones. I think we'll see some robustness unleashed in those end markets, but I wouldn't expect that to happen until April, May, June timeframe.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. From a gross margin perspective, does that mean comparable as well?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Yes, comparable in Q1 to Q4, but of course, as things recover in those higher end phones start to deploy much more and sales begins to recover, we would expect a gross margin recovery to take place in second quarter and beyond.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. Could you provide some context on the impairment charge? Was it related to a specific product line or relationships, or manufacturing? What caused you to reassess that opportunity?

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

The goodwill was recorded when we did the two acquisitions, the Advantech and Alga acquisition. It was based on obviously the purchase price, but every year we do an annual impairment test. We do it quarterly but certainly we focus on it annually. We had certain expectations going in on growth and profitability of those two businesses, and as I mentioned on the call earlier, that has been

pushed out a little bit for the various reasons. When you do a discounted cash flow on those two businesses, you come up with a number and then compare it to the low balance on the balance sheet and we determined that we needed to provide for that additional \$3 million.

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

As we see these end markets, as we talked about the marine and the air travel and how it has impacted our Satcom group, that's created obviously—there's no growth; it's been contractionary in the last 18 months as a result of COVID and some other things. As things are shifting from GEO to LEO, that's also created a bit of a macro issue. That softened up revenues for '19 and '20 and that's certainly resulted in a lack of growth, which is then the discount rate is pretty sensitive so that created the goodwill impairment that we see.

But as we see this year, if the tea leaves seem to suggest that the recovery is there in those end markets, and particularly as LEO starts to build out on the ground side, there's the opportunities that we bought into Satcom for are now finally starting to emerge here. The last 12 months was difficult; no one obviously projected a pandemic to have impacted everybody like it has, but now that is clearing up here. We're seeing those end markets now recover. That should put us in a much better position for the next year's impairment charge review when we take a look at it.

Daniel Kim – Executive Vice President, Corporate Development, Baylin Technologies, Inc.

I'll just add there as well, with respect to that, this whole impairment charge is really near-term focus. If you look at what's going on in the sat comm industry, Randy referenced it but to really make a

point here, LEO investment is a massive investment unlike we've ever seen in the sat comm industry. We believe this is going to carry forth some significant revenue opportunities and our Summit II Series is extremely well positioned to capture market share within that. We've never been more bullish on the outlook for our Satcom sector; it's just unfortunate that the timing of this requirement has hit us at this moment.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. Thanks for the colour.

In terms of the covenants, are there some amendments to the covenants in your debt facility? As it stands today, is everything onside? You continue to work with your creditor naturally, but can you provide some context of where you are with the covenant situation and your lenders?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Yes. As you know, we had two credit agreement amendments done last year in June and December and we met the financial covenants for December 31. We are keeping the banks updated and if it looks like there will be an issue we expect to (inaudible) in Q1 or Q2, we expect to work with the banks like they have worked with us last year and don't anticipate any problems.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. You said in terms of access to capital, there's \$10 million. Did I get that number right? Ten million left on the credit facility?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Yes. That's the availability. It's approximately \$20 million of credit facility but we have drawn about \$10.9 million, so the difference is still available to be utilized.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. Then the CAPEX and R&D investment related to the Vietnam facility, is that being redeployed elsewhere? Is that spend being redeployed elsewhere, or are you going to see CAPEX and R&D come down this year?

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

You certainly on a trend basis, R&D will definitely be coming down as well as CAPEX in this year versus prior years, particularly as the lion's share of the investments in the Vietnam factory are behind us. We have funded a lot of the last 12 months, out of the working capital, out of Vietnamese business, so we are not expecting a big slug of capital required to finish off the factory. It's not even a million dollars left to go to finish up things and get the business back on track.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. Then maybe lastly for me, in terms of the division outlook, I mean there's a lot of positive industry tailwinds going on throughout, perhaps not immediate but certainly kind of in the next few years that should be supportive of growth. I wondering if that reprioritized how you guys think about opportunities. You mentioned, GEO, LEO, satellites, has that become a number one focus for you? Has the rebound in mobile become a number one focus for you? How do you think about your priorities?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Well, the opportunities that we're facing in Satcom with where things are going with the newest constellation that's being constructed it certainly is a focus for us, no doubt. There's lots of investments that we've made in the last three years, two and a half to three years here, that are positioning us to be able to enter this new opportunity, and as Daniel referenced earlier, Satcom has been a flat to slightly modest growth industry for the better part of three decades, and here is the single largest investment pivot point in the history of Satcom for recent times. So, we're quite excited about the directional opportunities, and we have made historic investments here that we're expecting to start to see a good return on. So, yes, that will remain a focus for us as well.

As well, the second one which is the 5G and our Infrastructure group, and a lot of the investments that we've made getting ready for C-band, that's all our R&D center was focused on in the last year plus, was making sure that our products were C-band ready, and now that C-band has finally been completed and that final piece of that, call it 5G puzzle, is now put in place, that will be another very important business opportunity and future trend. So yes, that will be important for us.

Of course, massive MIMO plays a role in that because massive MIMO is not even required if you're not going to buildout a 5G network, so 5G and massive MIMO affects both our Infrastructure business as well as our Asian Pacific massive MIMO business.

So, we have three what I feel are very strong business opportunities that are in front of us, for different reasons, and for us, we're excited to see that things are finally clearing up here in the next 12

months as these networks and these investments that have been long awaited are now going to start to be made.

Daniel Rosenberg – Analyst, Paradigm Capital

Maybe I'll sneak one last one in on the 5G topic. Now that we know how the spending resulted for the spectrum auction and we've seen kind of the CAPEX outlook for the North American telcos, what does rollout look like for them? When do these small cell networks get built out specific to that C-band spectrum? I would suppose it's big cities first and et cetera, but what does their rollout look like?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

It obviously differs by carrier, but there's certainly going to be a city focus, no doubt, where the mass amount of people are. There's trial cities, there's different sort of test beds that have been underway for the last 12 months. Those are those networks and sort of their configurations are all but being finalized. The spectrum is now determined, so now they get control of the spectrum, call it starting in the second quarter. That will then really trigger the capital projects that had been waiting for some time here for that resolution.

We're expecting to see starting in Q2 a significant pick-up in deployments and our backlog has suggested that those things like stadiums and other dense areas, dense urban areas, as well as the dense cities, those deployments will begin. This is not a one quarter opportunity; this is a multi-year buildout that is really finally starting to begin.

There's been a lot of talk about 5G, of course. There's been a lot of investment, but a lot of investment is coming at the electronics end, not so much at the end—antenna end, you know, the stuff before the invisible. That's where a lot of that hard infrastructure has to get built out to really be prepared for this network to be able to perform at the specifications that have been talked about. We're really at the beginning of what is a significant investment that is going to be required by all the carriers over the next 5 to 10 years.

Daniel Rosenberg – Analyst, Paradigm Capital

Maybe I'll just add to that, what Randy has suggested in terms of Q2 ramp-up marries very well with what our carrier customers and other customers have been saying in terms of the second year ramp-up, so our deployment one quarter ahead of that would work with that very well.

I'd also suggest to you that one of the things that we had heard in terms of a pushback is after carriers have spent \$81 billion on this spectrum, do they have the capacity to invest in the network? The answer is absolutely yes. They need to monetize that investment more so than ever and this is, like Satcom, another once-in-a-lifetime major, major investment and that carriers will be investing very heavily to refresh their product portfolio, so that is going to be a huge benefit to the industry.

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

If you look back over the last 20 years, every time there was a significant spectrum auction like this and the likes of billions of dollars has been spent on acquiring it, there's an enormous amount of pressure that's put on these carriers to be able to generate the return on an \$81 billion investment. That's unprecedented from a cost per megahertz of frequencies that were auctioned. Every time that

happened in the last 20 years it led to a good five years of major investment in the network to be able to yield that return. So, there's going to be a lot of pressure on these carriers to really build up the 5G network to be able to harness the return. As you know, it's not going to come just in the cell phone bill of the average American or Canadian; it's going to become the business needs that are going to be dictated from 5G that are really going to drive an opportunity that's going to come from other industries to help support that so the customer bases of the AT&Ts and Verizon and T-Mobile and Sprint are going to expand in ways that weren't necessarily contemplated at the beginning.

It's kind of exciting, an exciting time. Lots of folks have been talking about it for lots of years and it finally feels like the curtain here is open.

Daniel Rosenberg – Analyst, Paradigm Capital

Okay. Thanks for taking my questions.

Operator

Your next question comes from the line of Nick Boychuk with Cormark Securities. Nick, your line is open.

Nick Boychuk – Analyst, Cormark Securities

Hey, good morning. Just on the small cell deployment, wondered along there if you could comment or add a little bit more colour on the impact COVID has had. I appreciate the size of the market and the fact that many carriers are going to be spending the same amount, but has COVID kind of acted maybe to expedite some of that? To bring some of those forward? Like, has the timing shifted?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Well, certainly I would say that the impact that COVID had on small cell is more the impact that it had on the delay of the C-band auction, so that, of course, was decided and finalized to some degree in February of 2020, so just before COVID hit. Then, the delay of the auction through to December is really what caused a lot of—because if you can imagine, if you were Verizon or AT&T or T-Mobile and you're bidding on these frequency slices, you're not quite sure which ones and how much you're going to get and what you're going to pay for it, so you're going to be containing some of your CAPEX spend because you know there is a fairly big bill coming down the road here when the auction gets solidified, but you don't know quite what frequencies you're going to get and how that's going to play into your network plans. That's really what caused a lot of sort of slowness.

Then, you couple that with no fans in the stands in stadiums cells and not being filled, so that causes you also slow down on some of that—those venue buildouts, so it really did cause this lull in small cell for all of 2020. Now that you've got that auction finalized and now they're going to get control of the spectrum, call it in Q2, now they're going to be able to finalize their plans and know what frequencies they're getting, and now they're going to be able to start back up and knowing that fans are returning to stands now and more robustly towards summer. Now is your opportunity to start to get back on to your original plan.

Nick Boychuk – Analyst, Cormark Securities

Got it. Thanks. Then just moving to the 5G massive MIMO, (inaudible) the same sort of growth and expectations that you had from the August AGM, like that potential 40 percent plus CAGR, is that kind of still—is that the same expectation?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

The same expectation, maybe a little slightly longer, only because C-band has certainly been resolved in the United States, as we've seen from the auction, but the C-band auctions across the world haven't necessarily been resolved yet. There's certain auctions going on right now in other countries and those are getting resolved right now. I'm sure we'll get the worldwide sort of auctions of C-band done.

So, yes, there will be an uptick in activity as it comes to massive MIMO in the timeline that I've suggested here, starting in Q2 and beyond in the United States, but they haven't used massive MIMO as prolifically as other countries in the world. So, I would say yes, it's coming back and we can see it and we certainly are getting good indications of those volumes, but I would think of it more towards the second half of the second half, more towards like a Q4 and 2022 type of timeline.

The fact that our factory is slightly delayed is unfortunate but it isn't as though we are now missing the market because the market has shifted a little bit further in more the second half of the second half of 2021, if that makes sense.

Nick Boychuk – Analyst, Cormark Securities

Yes, I got you there. Then just a follow-up to that. Are there any other massive or large auctions that are ongoing right now that you think could have a material impact on Baylin?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Well, no. Some things have been finalized in some countries but it's in process and that will slowly unfold over this year. The major ones that would affect this industry and the overall TAM, those ones aren't going to get resolved in the next little bit here. I'm not overly worried that it's going to shift out farther than what I'm suggesting, but yes, we're seeing back logjam now finally clearing up as well.

Nick Boychuk – Analyst, Cormark Securities

Okay, nice. Then just moving to the gross margin, coming back to that. Could you provide a little bit more colour, please, on the disruption that you had last quarter?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Yes. As we indicated, there was a quality issue, a manufacturing issue that we grappled with. Fortunately it's just one situation but the timing of it wasn't necessarily helpful. We have now got that resolved and that has now been fixed up.

We're expecting, of course, just with the mix that we had in the fourth quarter with the industry softness in mobile and some of the other things that we pointed out earlier, that margin certainly took a hit. But we're expecting to see as the backlog—which is your specific question—the backlog is at more historic and traditional margin profile and mix profile than what we historically had. I expect to see, as we suggested earlier, that as that backlog starts to hit in Q2, then you'll start to see the margin recovery happen for the Company in Q2 and onward.

Nick Boychuk – Analyst, Cormark Securities

Okay. That's helpful. Thanks. Last from me, just on the outstanding warrants. I think subsequent to the end of the quarter you made mention there were about 67,000 or so that had been converted. Do you have any other commentary or any other colour that you can provide on those (inaudible)?

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Yes. Well, we were—we had served notice to the warrant holders when we broke through the \$1.40 and it was the same for that 20-trading day period, and so the warrant holders have until the 25th of March to make their declaration on their half (phon) warrant that they have as part of that private placement in December. Yes, we're certainly looking forward to the response from the market on that, and of course there's some time here before that comes to bear.

That's a nice opportunity for the warrant holders that it would be the money at this point.

Nick Boychuk – Analyst, Cormark Securities

Okay. Thanks a lot.

Operator

Your final question comes from the line of Steven Li with Raymond James. Steven, your line is open.

Steven Li – Analyst, Raymond James

Thank you. Hey, guys. Maybe I can ask the cost question in a slightly different way. How much of the savings is permanent? Once the subsidies are gone and a bit of travel comes back, am I adding, like a million dollars per quarter back to my OPEX base in Q4 when the volume comes back?

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

Sorry. You're asking if you should add a million?

Steven Li – Analyst, Raymond James

Yes. When the volume comes back in the second half, I guess I'm trying to figure out how much should my—because I know some of those items would go away, so how much should my OPEX increase?

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

As we said, we're not expecting big increases or material increases in operating expense on a quarterly basis. As you know, it does swing between quarters depending on what's happening. They're not all fixed and evenly spread out throughout the year, but the Q4 numbers that are reported I think are good numbers to utilize and think that way going forward.

Steven Li – Analyst, Raymond James

Oh, okay. Even as the subsidies go away and the travel comes back, you do have offsets—additional offsets within the business to kind of offset those increases.

Michael Wolfe – Chief Financial Officer, Baylin Technologies Inc.

Yes, correct. Absolutely.

Steven Li – Analyst, Raymond James

Yes, okay. Got it. Okay. All right, guys. Thanks.

Operator

I will now turn the call back over to Randy Dewey for closing remarks.

Randy Dewey – President and Chief Executive Officer, Baylin Technologies, Inc.

Thank you, Operator, and thank you, everyone. Obviously this is an interesting time that we find. Of course, light seems to be there at the end of the tunnel so we're quite excited about that, and certainly about all the things that we talked about earlier. Thank you so much for all your patience and interest in the Company and the investments that you've made in us. We're very, very much looking forward to the future and the opportunities and finally being able to harness some of the things that we've been waiting for for so long.

Thank you, Operator, and thank you, everyone.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.