

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CMTL.OQ - Q1 2021 Comtech Telecommunications Corp Earnings Call

EVENT DATE/TIME: DECEMBER 09, 2020 / 9:30PM GMT

CORPORATE PARTICIPANTS

Fred Kornberg *Comtech Telecommunications Corp. - Chairman & CEO*

Jason DiLorenzo *Comtech Telecommunications Corp. - VP of Tax*

Michael A. Bondi *Comtech Telecommunications Corp. - CFO*

Michael D. Porcelain *Comtech Telecommunications Corp. - President & COO*

CONFERENCE CALL PARTICIPANTS

Asiya Merchant *Citigroup Inc., Research Division - VP & Analyst*

Christopher David Quilty *Quilty Analytics, Inc., Research Division - Research Analyst*

Joseph Anthony Gomes *NOBLE Capital Markets, Inc., Research Division - Senior Generalist Analyst*

Kyle P. McNealy *Jefferies LLC, Research Division - Equity Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Comtech Telecommunications Corp. First Quarter Fiscal 2021 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded Wednesday, December 9, 2020. I would now like to turn the conference over to Mr. Jason DiLorenzo of Comtech Telecommunications. Please go ahead, sir.

Jason DiLorenzo - Comtech Telecommunications Corp. - VP of Tax

Thank you, and good afternoon. Welcome to the Comtech Telecommunications Corp. conference call for the first quarter of fiscal year 2021. With us on the call today are Fred Kornberg, Chairman of the Board and Chief Executive Officer of Comtech; Michael D. Porcelain, President and Chief Operating Officer; and Michael Bondi, Chief Financial Officer.

Before we proceed, I need to remind you of the company's safe harbor language. Certain information presented in this call will include, but not be limited to, information relating to the future performance and financial condition of the company; the company's plans, objectives and business outlook and the plans, objectives and business outlook of company's management. The company's assumptions regarding such performance, business outlook and plans are forward-looking in nature and involve significant risks and uncertainties.

Actual results could differ materially from such forward-looking information. Any forward-looking statements are qualified in their entirety by cautionary statements contained in the company's Securities and Exchange Commission filings.

I am pleased now to introduce the Chairman and Chief Executive Officer of Comtech, Fred Kornberg. Fred?

Fred Kornberg - Comtech Telecommunications Corp. - Chairman & CEO

Thank you, Jason, and good afternoon, everyone, and thank you for joining us on this call.

Today, we will be discussing the results for our first quarter of fiscal 2021 and our outlook for the full fiscal year.

As you see from our announcement this afternoon, fiscal 2021 is off to a great start. Our net sales and adjusted EBITDA for the first quarter exceeded our expectations. Our first quarter net sales were \$135.2 million with an adjusted EBITDA of \$14.3 million.

As everyone knows, COVID-19 is still in the front -- forefront of news. And although by no means is it over, we believe that the pandemic's worst impact on our business is largely behind us.

As announced earlier today, with our diversified customer base, product leadership positions and mounting prospects, we are targeting fiscal 2021 net sales to be in the range of approximately \$610 million to \$630 million. And our targeted adjusted EBITDA to now be in the range of \$74 million to \$76 million.

As you can see, our strategic initiatives are paying off, and we are clearly holding our own despite the second wave of the COVID-19 pandemic.

Our pipeline of large order deals remains strong. And if momentum continues, we should achieve a book-to-bill ratio in excess of 1.0 for fiscal 2021.

Now let me turn over the call to Michael Bondi, our CFO, who will provide additional commentary about our financials. After that, Michael Porcelain, our President and COO, will provide an update on our business and pending acquisition.

Then I will come back and -- before opening the line to questions and answers. Thank you. Mike?

Michael A. Bondi - *Comtech Telecommunications Corp. - CFO*

Thank you, Fred, and good afternoon, everyone. As mentioned, net sales for the first quarter of fiscal 2021 were \$135.2 million. This is a decrease from the \$170.3 million reported in Q1 of fiscal 2020.

Net sales in the first quarter to U.S.-based customers were 74.4% of total net sales, with 25.6% to international customers.

Bookings for the first quarter were \$123.2 million, and our consolidated book-to-bill ratio was 0.91.

We finished the quarter with healthy backlog of \$605.5 million. And when you factor in the total unfunded value of certain multi-year contracts that have been awarded to us, but which are not yet in our backlog, we have visibility into approximately \$1 billion of total potential future revenue.

Now let me give you some financial metrics and commentary with respect to the rest of the income statement.

Our gross profit percentage in Q1 of fiscal 2021 was 37.1% as compared to the 37.3% achieved in the first quarter of fiscal 2020. Our gross profit during the first quarter of fiscal 2021 reflects minor increases in costs due to order delays, production delays, minor supply chain disruptions, lower levels of factory utilization and higher logistics and operational costs resulting from the COVID-19 pandemic. These were partially offset by lower travel costs.

Given our expectations for the level and mix of net sales in fiscal 2021 and ongoing higher production logistics and safety-related costs resulting from COVID-19, we are targeting a 35% gross profit margin for fiscal 2021.

However, if product mix shifts favorably, we could reasonably achieve 37% like we just did in Q1.

SG&A for the first quarter of fiscal 2021 was \$27.5 million or 20.3% of consolidated net sales, as compared to \$31.9 million or 18.7% in Q1 of fiscal 2020.

Turning to R&D, we spent \$11.6 million in the first quarter or 8.6% of net sales. Consistent with historical trends, the majority was spent in our Commercial Solutions segment.

Total stock-based compensation for the first quarter was \$0.7 million and amortization of intangibles was \$5.6 million. Looking forward, we continue to expect stock-based compensation to approximate \$11 million to \$13 million, and excluding the impact of the pending UHP acquisition, amortization of intangibles to approximate \$21.1 million.

Now let me address the acquisition plan expenses, which obviously had a big impact on our reported results.

During the first quarter of fiscal 2021, we incurred \$91.2 million of such expenses. Of this amount, approximately \$88.3 million related to the previously announced litigation settlement and merger termination with Gilat, of which \$70 million was paid in cash to Gilat during the quarter.

The remaining cost primarily related to the pending acquisition of UHP and NG-911 acquisition-related litigation. These items are discussed further in more detail in our 10-Q filed with the SEC.

Including these costs, our consolidated GAAP operating loss for the first quarter of fiscal 2021 was \$85.7 million.

Excluding these costs, non-GAAP operating income would have been \$5.5 million or 4.0% of consolidated net sales.

Our adjusted EBITDA was \$14.3 million or 10.6% of consolidated net sales for the first quarter of fiscal 2021.

On a segment basis, adjusted EBITDA in our Commercial Solutions segment was \$14 million or 17.1% of related net sales. And in our Government Solutions segment it was \$4.3 million or 8.1% of related sales.

For fiscal 2021, we anticipate consolidated adjusted EBITDA to approximate 12% when using the \$620 million midpoint of our 2021 targeted range of net sales.

Now let me talk about interest, taxes, EPS, cash flows and our balance sheet.

Interest expense was \$2.3 million in the first quarter and includes \$1.2 million of incremental interest expense for ticking fees related to a now terminated financing commitment letter.

For fiscal 2021, excluding the impact of our pending acquisition of UHP, we now expect total interest expense to approximate \$7.5 million.

Our estimated annual effective tax rate was 13.75% and excludes a net discrete tax expense of \$0.2 million in the first quarter of 2021.

On the bottom line, our GAAP net loss in the first quarter of fiscal 2021 was \$85.8 million or a \$3.39 loss per diluted share.

Excluding acquisition plan expenses, incremental interest expense for ticking fees and a net discrete tax expense in the first quarter, non-GAAP net income was \$3.7 million or \$0.15 per diluted share.

Cash used for operating activities was \$74.2 million for the first quarter. This included the \$70 million payment to Gilat. Excluding the \$70 million payment to Gilat, net cash used in operating activities would have been \$4.2 million. We expect to generate a significant amount of positive operating cash flow during the remainder of fiscal 2021.

Our balance sheet as of October 31, 2020, includes \$32.5 million of cash and cash equivalents, and our total debt outstanding was \$217 million.

Our current secured leverage ratio, as defined in our credit facility, was 3.31x as compared to a maximum ratio allowed of 3.75x.

Before turning it over to Mike for a business update, let me provide some additional color on our expected fiscal 2021 performance.

Based on anticipated product mix and timing assumptions, we expect second quarter net sales to range from approximately \$135 million to \$140 million, with adjusted EBITDA in the range of approximately \$12.5 million to \$14.5 million.

For the remaining quarters in fiscal 2021, we expect sequential growth with our fourth quarter targeted to be the peak.

Now I will hand it over to Mike Porcelain. Mike?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Thanks, Mike.

As Fred mentioned earlier, COVID-19 is still impacting our business. We continue to conduct most of our nonproduction-related operations using remote working arrangements, have curtailed most business travel and have established social distancing safeguards.

These precautions and business practices are expected to remain in effect, so long as government advisories recommend.

Despite this, it was a great quarter. And let me talk about the team's success in terms of business performance, contract wins and the direction of where we think these efforts will lead us.

I will first discuss our Commercial Solutions segment. Here, net sales were \$81.8 million this quarter as compared to \$94.3 million in Q1 of last year, a decrease of about 13%, which is not bad considering the impact of COVID-19 on our international sales.

Bookings in this segment were \$66.3 million for the quarter, resulting in a book-to-bill ratio of 0.81. Bookings were mainly affected by COVID-19, which caused many international bookings to shift to the right.

Period-to-period fluctuation in bookings is normal for this segment.

And although we have seen a recent spike in COVID-19 cases in many of the geographic markets where we sell our Satellite Ground Station Technologies, it was a relatively good quarter, and we believe there is light at the end of the tunnel.

Bookings this past quarter were higher than the bookings achieved in each of our prior 2 quarters.

In fact, we were awarded a number of important orders, including:

A \$1.7 million order from a large government entity in Asia, who selected our equipment to support a significant network upgrade.

A \$1.5 million order for single channel per carrier, or SCPC satellite modems from a Tier 1 defense contractor to upgrade and expand an existing network with our CDM-625A Advanced Satellite Modems.

We received \$1 million in delivery orders from the U.S. Naval Information Warfare Systems Command for our latest generation SLM-5650B satellite modems as well as firmware upgrades.

And we also received \$1 million order for satellite ground station equipment from the largest telecommunication company in Africa, who specified our Heights Networking Platform to enhance and improve its mobile backhaul capabilities.

Now on to our Public Safety and Location Technology product lines.

First quarter of fiscal 2021 net sales were lower as compared to last year. This decline was expected and mostly timing related.

As previously disclosed, we anticipated that AT&T would cease purchasing certain of our 911 wireless call routing solutions as a result of our receipt of a large contract a few years ago from another large U.S. mobile network operator.

Our first quarter of fiscal 2021 reflected the absence of such sales to AT&T, but they were offset in part by increased sales of our 5G virtual mobile location-based technology solutions.

Also during the most recent quarter, we commenced work related to our recently awarded \$54 million contract to design, deploy and operate NG-911 services for the state of South Carolina.

To date, the business impact of COVID-19 on our Public Safety and Location Technology solutions has been relatively muted, and long-term demand for our products appear strong. Although COVID-19 has resulted in the cancellation of several key public safety trade shows and some states and municipalities announced budget constraints, we believe other customers are increasing their funding for Next Generation 911 solutions, recognizing the critical importance of upgrading their 911 systems.

In fact, our second quarter of fiscal '21 has started off with a bang. In November 2020, we announced that we were awarded a statewide contract valued up to \$175.1 million to design, deploy and operate Next Generation 911 services for the Commonwealth of Pennsylvania. The total contract value includes multiyear contract extension options, and the Commonwealth initially funded the contract at \$137.4 million of which we have booked \$111.6 million during our second quarter as bookings.

Based on our anticipated timing of performance, we expect meaningful revenue contribution from this contract to begin in earnest in fiscal 2022.

This was really a great win for us, coming on the heels of the \$54 million contract award with the state of South Carolina, which we announced in July 2020.

And not to be overlooked, we also received a number of other important orders during the first quarter.

We received a contract renewal for location and mapping technologies worth \$4.2 million with a Tier 1 mobile network operator.

We received a contract valued up to \$2.4 million to provide Next Generation 911 services, including our Solacom Guardian Intelligent 911 Workstations to the city of Edmonton, police, fire and rescue service.

We received a large 5-year update contract to provide a Tier 1 mobile operator in Saudi Arabia with both active and passive location services supporting their 2G, 3G and 4G networks.

We received a contract renewal for location-based services with Telefónica Digital, a Madrid-based research and development company, which uses our global location services solution for its M-to-M or machine-to-machine communication requirements and other customer use cases.

And we received contracts with the Indian motorcycle company to expand coverage for a ride command feature in Europe, the Middle East and Africa, which provides maps and points of interest data and supports for doppler radar system for its customers in the U.S. and Canada.

In aggregate, we remain optimistic that 2021 net sales for this segment will be higher than the amount we achieved in fiscal 2020.

Now let me turn to our Government Solutions segment sales, where -- here our net sales were \$53.4 million in Q1 of fiscal 2021.

Bookings in our Government Solutions segment for Q1 of fiscal 2021 came in at \$56.9 million with a book-to-bill ratio in excess of 1.0 at 1.07. Period-to-period fluctuation in bookings is normal for this segment as well.

Net sales of our Mission-Critical Technologies during the first quarter of fiscal 2021 were lower as compared to the first quarter last year, primarily due to the timing of and performance on orders related to our Global Tactical Advanced Communication systems, or GTACs contract; and high reliability, Electrical, Electronic and Electromechanical or commonly known as EEE, satellite-based space components.

Q1 of fiscal '21 does reflect a nominal amount of sales from our January 2020 acquisition of CGC.

Receipt of new orders for our Mission-Critical Technologies during the quarter included the following:

a \$5.9 million of additional funding on our contract to provide the U.S. Army with global field support services for military satellite communication terminals around the world.

It included \$5.4 million of additional orders from the U.S. government for our Joint Cyber Analysis Course, or JCAC, training solutions.

We received \$3 million of additional funding for a 12-month extension on an existing contract to provide Maryland's Department of Human services with statewide IT services.

We also received \$2.7 million of orders to provide ongoing sustainment services to the U.S. Army for SNAP.

And \$2.6 million of orders to supply Manpack Satellite Terminals, networking equipment and other Advanced VSAT products to the U.S. Army.

And finally, it included \$1.9 million of additional funding to continue to provide other critical IT staffing to multiple agencies within the city of Baltimore.

During the first quarter, we continue to make progress to ship initial orders on our 10-year \$211 million IDIQ contract awarded to us by a prime contractor to provide next-generation troposcatter systems in support of the U.S. Marines. We believe this multiyear opportunity validates Comtech's market-leading troposcatter technologies and expertise.

At the same time, we continue to see strong interest from both the U.S. military and foreign governments for our recently introduced Comtech COMET terminals.

With respect to COVID-19 in this segment, as I previously mentioned, we have seen some of our international customers delaying potential order awards, and we are also seeing fielding and order delays from U.S. military customers.

In fact, in December 2020, we temporarily closed our antenna production facility in the U.K. due to a spike in COVID-19 cases in that area. Obviously, this has impacted costs and our ability to deliver certain orders but all of that is reflected in the guidance that Fred and Mike spoke about earlier.

In addition, we believe these issues are temporary and long-term demand for our Government Solution products and technologies remain strong.

As such, looking forward, we believe fiscal 2021 net sales for this segment will be similar or slightly higher than the amount we achieved in fiscal 2020.

Now I have one quick comment before turning it back to Fred.

On the UHP acquisition front, here, we remain focused on the ongoing regulatory review process in Russia. We acknowledge that December 31, 2020, and prior SEC filings was a critical milestone. And if we do not get regulatory approval by that date, either party may terminate the acquisition. But that said, we continue to have discussions with UHP and hopes to finding a solution that works for all parties.

Now let me turn it back to Fred, who will provide some closing remarks. Fred?

Fred Kornberg - *Comtech Telecommunications Corp. - Chairman & CEO*

Thank you, Mike.

As I mentioned before and as you heard from both Mikes here, we're all very pleased with our business and performing -- particularly results performing in the first quarter.

With our diversified customer base, product leadership positions and mounting -- prospects, we are clearly holding our own despite the second wave of the COVID-19 pandemic.

Given our business outlook, our Board of Directors continue to declare a dividend for the first quarter of fiscal 2021 of \$0.10 per common share payable on February 19, 2021, to shareholders of record at the close of business on January 20, 2021.

We continue to believe that our dividend program is a great way to return capital to our shareholders as we look to grow our business.

Now I'd like to proceed to the question-and-answer part of our conference call. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We are going to take our first question from Joe Gomes from Noble Capital.

Joseph Anthony Gomes - *NOBLE Capital Markets, Inc., Research Division - Senior Generalist Analyst*

Congratulations on the quarter. So I just wanted to talk a little bit here first on the Next Generation 911. You guys seem to be having some fantastic success there. Just trying to get a bigger picture of what do you guys really see is driving these wins?

I think in the last call, you said there you were working on 2 large state ones, I would assume one is Pennsylvania. Is the other one still available? What's the competitive environment? Are you pretty -- I guess, kind of like what's the win rate here for you guys in the business at this point in time?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Sure. Well, yes, we're really pleased with the contract win that we got from the Commonwealth of Pennsylvania. And the way I would categorize it is, it's extremely competitive in the marketplace. And we think we're winning more than our fair share. In fact, we're winning most, if not all of the large contracts. And we've done so in the past with Commonwealth of Massachusetts, the state of Washington on the West Coast and South Carolina and now Pennsylvania. So we're taking it state by state.

And yes, there is a really large opportunity that's out there. And we'll probably see some activity on that in calendar year next year, not our fiscal year, but the calendar year 2021, and we'll see how that develops. But we're extremely optimistic that we will be awarded a very significant contract there. And although it is competitive, we like to think it's our prior experience and technology that is winning the states, and we're demonstrating excellence in how we do our products, and we're winning. So technology and our experience, and it's competitive, but we're doing great.

Joseph Anthony Gomes - *NOBLE Capital Markets, Inc., Research Division - Senior Generalist Analyst*

Okay. And on the UHP acquisition, I don't know if you can talk a little bit. I mean, what just seems to be the holdup in getting this thing to the finish line? What are the Russian authorities, I guess, focused on that the deal has not come to fruition yet?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Well, the best way I could describe it is typically the Russian government normally has 4 to 5 meetings a year, where they kind of make these decisions related to the acquisitions. And because of COVID, we only know that they've had one meeting since February. So these are sort of behind

the door meetings that the Russian government has, but we certainly think COVID-19 has impacted the speed of which the Russian government has had to work through the process.

We're not really aware of anything specific that the Russian government has that they would be opposing it. They haven't told us any specific reason or opposing it. We think we're somewhat caught up in the impact of COVID and the lengthy delays of just general bureaucracy, not in the negative way, but that's just what we're dealing with. And both parties understand that. But we're not aware of any specific reason that the Russian government would oppose this transaction. That I can tell you without any question.

Joseph Anthony Gomes - *NOBLE Capital Markets, Inc., Research Division - Senior Generalist Analyst*

Okay. And one last one for me, I'll jump back in queue. So SG&A expenses seem to have been a little elevated here sequentially. And then also if I look quarter-over-quarter, or year-over-year as a percent of sales, anything going on in there? Is that -- the \$27.5 million for the quarter, a good run rate going forward? Or do you think those will be reined in some?

Michael A. Bondi - *Comtech Telecommunications Corp. - CFO*

Joe, this is Mike. In terms of the comparative that you were doing to Q4 to Q1, just keep in mind that in the fourth quarter we had issued our nonequity bonuses in share units. So you get a little bit of a bump there.

Joseph Anthony Gomes - *NOBLE Capital Markets, Inc., Research Division - Senior Generalist Analyst*

Okay. And year-over-year as a percent of sales, they were up, I think, about 200 basis points?

Michael A. Bondi - *Comtech Telecommunications Corp. - CFO*

Yes. And the run rate for -- Yes, the run rate for Q1, I would expect, in terms of our historical percentages, we had done some cost-saving measures back in Q3 of last year. And be mindful of the level of business, we'd expect to try to hold our historical relationship there.

Operator

Our next question comes from Chris Quilty from Quilty Analytics.

Christopher David Quilty - *Quilty Analytics, Inc., Research Division - Research Analyst*

Guys, just wanted to follow-up, I think, in the guidance you provided. It's -- you expect the earth station business to be flat in '21, is that correct? And can you talk about what trends you're seeing there, either by end market demand or trends in your specific product line where you're seeing either uptake or slowdown by product or technology?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Look, the international market, we're seeing, you could call it, sluggishness, if you will. I mean, we've certainly seen and experienced order delays on what I would categorize as the small orders. In terms of the vertical markets that we've participated, I mean, the cruise line market for us is dead in the water, to use that phrase. We're not -- we don't see any activity there.

But on the other hand, and despite our categorization of flat, I could tell you that there are a number of large multimillion-dollar opportunities that we are working in the satellite ground station business that -- I don't want to use the word transformational, but they're multimillion-dollar contracts

that we believe that we have a good shot at winning, either the whole contract or a portion of those contracts. And we don't want to talk too much about that from a competitive perspective, on which ones there are, but there are multiple contracts, multiple opportunities that exist in the marketplace. And so we're seeing extensive activity there and a lot of interest in our products.

Christopher David Quilty - *Quilty Analytics, Inc., Research Division - Research Analyst*

And are some of these LEO broadband-related projects?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Yes.

Christopher David Quilty - *Quilty Analytics, Inc., Research Division - Research Analyst*

And are there -- anything outside of that where you're seeing major customer upgrades due to technology refresh or other issues on the supply side in terms of satellite capacity with new, very high throughput satellites coming online?

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

The short answer is, yes. Although the sales cycle -- we've always talked about it being long and it's probably longer now because of COVID. The Q1 quarter, which I think I mentioned at least \$1 million order we called out, we're seeing good activity on our Heights products still. So it's pretty broad-based. But on the smaller side, we are seeing a slowdown in slow -- smaller orders that we see. But on the other hand, the bigger customers are pretty active, and we'll see how the year plays out. But it's sluggishness. And it's got its fits and stops, if you will, starts and stops. And we haven't really seen consistency yet in order flow to see that it's going to jump up and start to increase in sales like it was about a year ago. Probably a little bit more time needs to work its way through.

Christopher David Quilty - *Quilty Analytics, Inc., Research Division - Research Analyst*

Great. And shifting to the Government outlook. Presumably, your forecast assumes that we get something beyond a short-term budget that gets put in place in the next couple of months, and we're not stuck in another sequester for some period of time or other budget maras? That was a question.

Michael D. Porcelain - *Comtech Telecommunications Corp. - President & COO*

Yes. I mean, look, we've got pretty healthy backlog in our Government segment to kind of hold us through what -- we obviously will see a change in administration. But I think the budget will be the budget, we'll get our fair share, and we'll see how it plays out. But we're not really nervous about it, but I think they just passed something yesterday or the day before in terms of some budget compromise or whatever. And I can't speak specifically because it just happened. I haven't had a chance to digest it, but we're not concerned internally about what happens with the actions of the budget. We have, like I said, good backlog. We know the opportunities that we're working on for the rest of the year, and we feel pretty good about the programs that we're participating on.

Christopher David Quilty - *Quilty Analytics, Inc., Research Division - Research Analyst*

Got you. And I think you did mention you've experienced some delays in fielding equipment. And I've heard sporadic reports from other companies around that same issue. Is it your sense that it's getting better or worse? Have you worked through the COVID-type procedures in order to be more

effective at deploying with government customers? Or is the biggest issue government policy in terms of what they allow to happen in terms of deployments?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

It's a little bit of both. I would characterize it as not getting better, but it's not getting worse. So I think it's something that we've been dealing with for the last few months. And I guess our hope is with the vaccines coming to marketplace, we'll continue to see a rebound in that stuff and the orders that were delayed or not placed will come through the channel.

Christopher David Quilty - Quilty Analytics, Inc., Research Division - Research Analyst

Got you. And final question on the 911 business, congrats on the big win. I think you had implied that there may be more than one of those that you think are a possibility this year?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Well, we had 2 large opportunities that we talked about. And we definitely have one very large opportunity. But yes, you are right. There are other 911 opportunities we haven't really alluded or hinted to them, but they are out there. And I can't say whether or not the second opportunity would come in this fiscal year. But there are other opportunities, other than the ones that we're talking about. And as things progress through the sales channel or opportunity, obviously, we're going to be mindful of the competition. And we're not going to talk too much about them. But when we say we feel pretty comfortable we're going to win, we feel pretty comfortable we're going to win. And that one other opportunity, we feel pretty good about.

Christopher David Quilty - Quilty Analytics, Inc., Research Division - Research Analyst

Great. And the funding environment, the CARES Act I'm sure provided some money, but have you had a chance to see, I can't imagine, what's in the next package that's coming through? And whether that would be supportive of some of these government spending programs? Because, obviously, a lot of the states and municipalities are way down on tax revenue.

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Well, I think as it relates to the U.S. market, no impact to us. On the other hand, Chris, we have seen, in particular, the Canadian government recently launched some funding out there, specifically on the satellite to one of our favorite customers that's based in Canada. So we feel we're going to get some orders from there.

And we think other international governments are going to start funding the infrastructure, and since they use satellite as a form of communication infrastructure, we think we'll benefit from them. But those things need to happen. But we've only seen one instance of a very specific impact to us that we haven't received the orders yet, but we're pretty optimistic based on the funding that we'll get them.

Operator

Our next question comes from Asiya Merchant from Citigroup.

Asiya Merchant - Citigroup Inc., Research Division - VP & Analyst

Congratulations on a good quarter. Just as you guys sound pretty optimistic, there is obviously the macro to consider, but maybe Mike referred to gross margins could be closer to 37%. And EBITDA -- adjusted EBITDA margin's hanging here around 12% at the midpoint, which is lower than -- slightly lower, I should say, relative to where you guys were last year. Can you walk us through some of the puts and takes to that?

And then I also have a follow-up question on cash flow. How should we think about cash flow for the year, knowing that the first quarter was obviously a large payment out to Gilat?

Michael A. Bondi - Comtech Telecommunications Corp. - CFO

Hi Asiya, this is Mike. So in terms of your first question, in terms of the guide for the midpoint for the year. Yes, we're trying to be mindful of what's in the news. And as Mike referred to some delays, and I was referring to some disruptions here and there. We just wanted to be mindful of that when thinking about the full year for EBITDA. But in terms of gross margins themselves, we have some very large, lumpy government orders that we had known were timed for the fiscal 2021 period. So as those clear out, that will obviously affect the gross profit margins in the quarter. But we had thought for Q1, we were going to be around 35%. We ended up doing like 37%. So as we work through these deliveries, it's going to be in that range.

In terms of cash flows from operations for the year, for the remainder of the year, we do expect to see significant positive cash flows. And in terms of free cash flow itself, as Mike mentioned, we had won the Commonwealth of Pennsylvania contract, and we also recently, as a reminder, won the state of South Carolina contracts. And there, when you think about free cash flows, we'll probably see an uptick from our historical levels of CapEx to support the deployments of those very large programs.

Operator

(Operator Instructions) We now have a question from Kyle McNealy from Jefferies.

Kyle P. McNealy - Jefferies LLC, Research Division - Equity Analyst

I wanted to ask if you could tell us the revenue in the quarter for satellite ground station products and what the year-over-year growth was for that product vertical?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Yes, Kyle. We generally -- as you know, we don't break out our product line for our segments, but we have made comments in the past that, that business line as a whole is probably about 50% or so, plus or minus. So that's the way I would tell you to think about it. But obviously, for competitive reasons, we just don't want to put a number on there.

Kyle P. McNealy - Jefferies LLC, Research Division - Equity Analyst

Okay. Can you give us any kind of sense for the growth rate year-over-year, just kind of a yardstick or a range of growth rate? Just trying to get a sense for recovery from last quarter.

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Well, I think for the year, looking at the year and being mindful of the fact that we're not going to have the AT&T 911 routing services in our Commercial segment, you can think about it being similar, relatively flat. It's in aggregate for both the public safety business and our commercial

segment, but it's a plus or minus on each of the segments. A few million dollars could change that relationship. So if you want to talk big picture, that's the way I would tell you to think about it.

Kyle P. McNealy - Jefferies LLC, Research Division - Equity Analyst

Okay. And going forward, do you kind of expect now that you're past the bulk of the COVID impact in the satellite ground station business, do you expect it to be a slow grind recovery? Or is there potential for snapback? I know you previously said that the biggest impact is coming from the fact that you can't do face-to-face meetings and go to trade shows and things like that. Once you can do a little bit more of that or you get the benefit of doing virtual meetings, could there be a snapback? Or do you think it's going to take some time?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Well, we're thinking it's going to be a slow grind for the rest of the year. But these large opportunities that I mentioned earlier in the conference call, and there's more than one, they relate to the LEO market and the MEO market. And in fact, the GEO market as well. So there's -- we do -- I don't want to use the word game changer, but these are really large contracts. And it's possible that we'll we get awarded them this year. They're not really in our revenue guidance or our EBITDA thinking because we're being mindful of how long and binary some of these program awards could be. But those are the ones that were really jettison our business on an upward trajectory, and it would not just be for one quarter, it would be a multiyear type of situation.

But the regular business that we're seeing now, yes, it's sluggish. And that's the way we see it. Let's see how people get the vaccines. Let's see how people get on planes. Let's see where money is being spent. It's -- we don't subscribe to the belief that things are going to turn over night, but maybe we'll be wrong and things will come back faster. But we're thinking it's going to be sluggish.

Kyle P. McNealy - Jefferies LLC, Research Division - Equity Analyst

And in the longer term, do you think the underlying growth rate in that market has changed at all versus pre COVID? Or once -- never minding how long the recovery takes, but once we kind of get the escape velocity, do you think it's the same growth rate versus pre COVID? Or is there any kind of long-term lasting impact from COVID that kind of weighs on the growth rate for satellite earth station?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

There's a possibility and our thinking that it could possibly have increased the long-term demand for the product. And we say that very sincerely because there's not -- what's been happening is, right, people have been using video across the world and using up their capacity and many states and countries have banned the upgrades right now, right? You can't go out to the field. They don't want anybody doing any upgrades on the system. So people are increasing capacity. So if people are going to work from home or from their offices remotely and do less traveling, that's going to result in an increased need to communicate video over satellite, and it's going to result in an increased need to backhaul video and mobile communications on the cellular network.

So you can make a really strong, compelling argument, as I am, that it's going to actually result in an increase in demand in the long term and a faster growth rate than maybe what we would have thought 9 months ago. But we're not there yet at the peak to see it. But time will tell what will happen. But it certainly didn't result in a negative change in our view. And in fact, some of these large, big programs that we're talking about, what the COVID crisis has shown is the bigger the company you are, the -- you're a survivor. And these LEOs and GEOs are being supported by very large companies in the marketplace, and we think those programs are going to happen.

Kyle P. McNealy - Jefferies LLC, Research Division - Equity Analyst

Okay. Great. That's helpful. And one last one on the troposcatter contract with the Marines. Do you have any more visibility into the level of services that you might provide within that contract? I know that previously you had said that it's not certain yet, and it may -- you may deliver 30% to 50% of the total contract value, but it's really dependent on how much the prime contractor either allocates to you or asks you to do. Is there any more visibility now that we're a couple of quarters past when the contract was awarded?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Yes, there's really been no change in our thinking on that program. We need to kind of do the initial deliveries and get them out there. There is opportunities for us to get design changes within the program with the end customer and as well as the -- our prime, but nothing really to talk about yet.

Operator

At this time, there are no further questions. I will now turn back over to our presenters for closing remarks.

Actually, I do have one more question. Someone just queued up. We will take our next question.

Unidentified Analyst

This is Aditya on behalf of Michael Latimore. Could you hear me?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Yes, we can hear you just fine.

Unidentified Analyst

All right. So my question to you is, do you face any supply chain difficulties due to the COVID situation?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

We have seen some minor supply chain issues, nothing that we would categorize as material, but we certainly have seen them, and we know we deal with them. They've caused some order delays and obviously some incremental expenses. But nothing that I would describe as material.

Unidentified Analyst

All right. All right. And do you foresee a lot more hirings in the next few quarters?

Michael D. Porcelain - Comtech Telecommunications Corp. - President & COO

Well, if we win some of these big contracts, yes, sure. But hey, we're always looking for great people to work for Comtech: engineers, software developers, production people, accountants. If you're a good person and you want to come to work for Comtech, give us a ring.

Operator

Now at this time, we do not have any further questions. I will now turn the program back over to our presenters for final closing remarks.

Fred Kornberg - *Comtech Telecommunications Corp. - Chairman & CEO*

Okay. Yes. I guess that's the end of today's call. Thank you again for joining us today, and we look forward to speaking with you again in March. Thank you very much.

Operator

This does conclude today's program. Thank you for your participation. You may disconnect at any time.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.