

## **Operator**

Welcome to the PCTEL first quarter 2022 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. At the conclusion of our prepared remarks, we will conduct a question-and-answer session. As a reminder, this conference is being recorded.

I will now turn the call over to Kevin McGowan, the Company's CFO.

## **Kevin McGowan**

Thank you for joining us on today's conference call to discuss PCTEL's first quarter 2022 financial results. With me today is David Neumann, the Company's CEO.

Before we begin, let me remind you that this call may contain forward-looking statements and projections based upon current circumstances. While these forward-looking statements and projections reflect PCTEL's best current judgment, they are subject to risks and uncertainties, particularly related to the COVID-19 pandemic, the global supply chain and logistics challenges, the expansion of our distribution channels, and the impact of our acquisition of Smarteq Wireless AB, that could cause actual results to differ materially from these forward-looking statements and projections. Risk factors that could cause PCTEL's actual results to materially differ from its projections are discussed in the earnings press release which was issued today and the Company's annual report on Form 10-K. The Company assumes no obligation to update any

forward-looking statements or information, which speak as of their respective dates.

Additionally, our commentary will include reference to the following non-GAAP measures: non-GAAP gross margin percentage, non-GAAP operating expense, non-GAAP earnings per share, and adjusted EBITDA. We believe these non-GAAP measures facilitate comparability of results over different periods. A full reconciliation of these non-GAAP measures to GAAP is included in our quarterly earnings press release that was issued earlier today.

I am now pleased to turn the call over to David Neumann.

**David Neumann**

Thank you, Kevin.

Good afternoon and thank you for joining us. We are pleased to report year-over-year revenue growth for the first quarter of 2022. As you may recall, we had record setting backlog at the end of 2021. About half of that converted to revenue in the first quarter, while we maintained a healthy backlog with additional incoming orders. In the first quarter, demand increased from our larger OEM customers, we secured new design wins, orders from stocking distributors grew, and we added new general market products to our product pipeline for release later this year. Our team continues to do an excellent job in managing supply chain disruptions and increased transportation costs. We have started to see nominal improvements both in transit times and shipping fees although they both

are considerably higher than before the pandemic. In today's call, we will share a summary of the first quarter, discuss our product launches and design wins, and share our view of trends in our market segments, all of which give us optimism for annual and long-term growth.

As you may have seen in our press release issued after the market close, we achieved 27% growth year-over-year in revenue from \$17.7 million in the first quarter 2021 to \$22.5 million in 2022, which includes \$2.6 million in contributions from Smarteq Wireless, an acquisition that closed in April 2021. We remained profitable with non-GAAP earnings per share \$0.02 in the quarter, better by \$0.01 compared to the same period in 2021 despite the product mix being more heavily weighted toward antenna sales and the increased costs for freight, logistics and raw materials. Our lower non-GAAP margin percentage of 41.8% primarily reflects the higher revenue mix of antennas and Industrial IoT devices relative to the higher-margin scanning receivers.

Overall, we believe general market conditions are improving based on the increased demand from our OEMs and major distributors for our antenna products. We were able to resume limited travel in the first quarter to visit our offices, meet with customers, and attend several important trade shows.

Although there are still global challenges that require our attention, including supply chain disruptions, recently expanded Covid shutdowns in China and the war in Europe, I'm pleased with how the team has managed our business to

maintain a high level of service for our customers. Given the information we have today regarding product opportunities and the market conditions, we expect to see quarterly sequential revenue increases for the remainder of the year.

We launched three new antenna programs in the first quarter 2022 to expand penetration of our most popular antenna solutions into existing and new markets. We assigned new resources to work exclusively on these three initiatives and are expecting to see results starting in the second half of 2022 that will drive long term growth. In the shorter term, we were awarded an important design win with a European luxury automobile manufacturer for a Smarteq embedded antenna, we delivered prototypes for a multimode complex antenna for rail applications that we anticipate shipping in larger quantities this year, and we launched two new 5G antennas for rail, enterprise and utility applications in the quarter. EV, or electric vehicle, charging stations continue to be an important market for the company with demand and orders increasing in Europe for our Smarteq antennas. We believe these EV antenna solutions will be popular in the US market as well and they will contribute to revenue this year.

The Smarteq antenna portfolio combined with PCTEL's new platforms create one of the largest antenna portfolios in the industry for vehicular, industrial IoT, and broader 5G and WiFi6e applications. Our broad product portfolio enables us to support a larger number of distributors and efficiently introduce PCTEL products to new clients. With the addition of more than five new strategic distributors over

the past two years, we have increased our reach and sales leverage to provide an important long-term growth driver for our business.

Additional growth drivers for our test and measurement business include 5G deployments and signal intelligence for government applications. Our 5G scanning receiver, the *Gflex*<sup>™</sup>, is designed to test multi-technology cellular networks and more advanced signal intelligence applications for government entities. New 5G network launches continue, albeit at a slower pace over the past two years due to the pandemic. As of February of this year, approximately 40% of the operators deployed a 5G mobile system. Spectrum auction awards have resumed and will continue through the year for many of the remaining global markets planning to deploy 5G on newly available spectrum. Once awarded, deployments will require 5G test and measurement tools like our *Gflex*, with its enhanced scanning performance, to test both public cellular and private 5G wireless networks. Private 5G networks are ideal for businesses that have applications requiring ultra-low latency, high reliability, and security such as automated mobile robotics, self-driving machines and managing collective intelligence across many, sometimes thousands, of devices. We believe our expertise in test and measurement tools along with our antenna systems position the company well to support private 5G deployments and the ongoing maintenance for this expanding market.

In addition to providing testing solutions for the cellular markets, our scanning receivers have become an integral part of testing public safety networks for both in-building and outdoor networks. In March, we announced the availability of our automated uplink testing capabilities as part of a wider initiative to test and monitor both downlink and uplink spectrum for public safety and critical communication infrastructure. This testing capability is important because the uplink signal transmitted power is a small fraction of the downlink power and thus is more susceptible to interference and blocking from building materials. PCTEL's uplink testing solution is an upgrade to our market-leading public safety inbuilding tools, based on our *IBflex*<sup>®</sup>, that test the downlink. This testing solution is used by approximately 140 certified public safety testers in the United States. This is an increase in the number of testing companies of about 40% over the past year.

The uplink and downlink tests are fully supported by our SeeHawk™ Central platform currently used by testing organizations, building owners and jurisdictions responsible for ensuring the safety of first responders. PCTEL has the most comprehensive public safety solution for this important testing application that is critical to keep first responders safe.

A majority of our business is in the US, and we are leaders in providing test and measurement tools and antennas for cellular (4G/5G), GNSS and Wi-Fi technologies across attractive markets, including industrial IoT, fleet, agriculture,

rail, timing, and public safety. In addition to organic growth initiatives, we continue to evaluate strategic acquisitions that complement our product lines and expand our global reach, with a focus on Europe.

With that, I will now turn the call over to Kevin for a closer look at our first quarter and a discussion of our financials.

Kevin

**Kevin McGowan**

Thank you, David.

I will review the financial results in more detail for the first quarter ended March 31, 2022, and I will provide second quarter 2022 guidance.

Our revenues and earnings in the first quarter were higher year-over-year and exceeded our guidance. Total revenues of \$22.5 million were approximately 27% higher in the first quarter 2022 compared to the first quarter 2021 because of higher revenues for antennas and industrial IoT devices. Revenues for antennas and industrial IoT devices were \$17.1 million, an increase of \$5.4 million compared to the first quarter 2021. This increase for the first quarter 2022 is due to both the revenue recognized from Smarteq, which was acquired in the second quarter 2021, and an increase in organic revenues related to antennas

for fleet and public safety applications. Test and measurement revenues were \$5.6 million for the first quarter 2022. Our test and measurement revenues were lower by \$0.6 million compared to the first quarter 2021 with lower revenues in the U.S.

The first quarter 2022 gross profit margin on a non-GAAP basis was 41.8%, which was 5.7% lower than the first quarter 2021. The decrease in the gross profit margin percentage in 2022 compared to the prior year was primarily due to a higher mix of antennas. The non-GAAP gross profit margin percentage for antennas and IoT devices was lower by 1.3% in the first quarter 2022 compared to the first quarter 2021 as less favorable product mix and higher costs for logistics and other components offset favorable operating leverage. We increased prices during the fourth quarter 2021 but a majority of the revenues for antennas in the first quarter 2022 were from backlog that did not reflect the higher prices. The non-GAAP gross profit margin percentage for test and measurement products was higher by 0.7% in the first quarter 2022 compared to the first quarter 2021.

Operating expenses on a non-GAAP basis were \$9.1 million in the first quarter 2022, an increase of \$0.8 million compared to the first quarter 2021. The increase primarily results from inclusion of Smarteq's operating expenses in addition to higher sales and marketing costs related to travel and trade shows.



Adjusted EBITDA was \$1.1 million in the first quarter 2022 compared to \$0.8 million in the first quarter 2021. EBITDA as a percentage of revenue was approximately 5% in the first quarter 2022, the same as the first quarter 2021, and non-GAAP diluted earnings per share was \$0.02 in the first quarter 2022, higher by \$0.01 compared to the first quarter 2021.

Cash and investments were \$27.7 million at the end of the first quarter 2022. Our cash and investments declined by approximately \$3.1 million due to negative free cash flow of \$1.7 million and cash used on financing activities of \$1.4 million. Free cash flow was negative because our EBITDA was offset by cash paid for restructuring expenses related to our transition to contract manufacturing in China and because we used working capital of \$3.7 million to pay down year end accounts payables and accrued liabilities. We completed the China manufacturing transition during the first quarter. The savings from the reduction in fixed costs in Tianjin have helped us offset some of the increases in commodity prices and shipping costs. Financing activities in the first quarter included payment of our quarterly dividend and payment of payroll taxes related to stock compensation programs.

Our revenue guidance for the second quarter is in the range of \$24.0 million to \$25.0 million and our non-GAAP earnings per share guidance for the second quarter is in the range of \$0.05 to \$0.08. The second quarter revenue guidance represents a year-over-year increase compared to \$21.7 million in the second

quarter 2021. We project our non-GAAP gross profit margin percentage to be in the range of 44% to 45%. With that, I will now turn the call back to David.

**David Neumann**

Thank you all for joining us. Before we take questions, I would like to share a few closing thoughts.

We are pleased with our performance in the first quarter and the outlook for the year. Our team is doing an excellent job managing the current challenges and planning for risks that may occur given the pandemic, global financial situation and war in Ukraine, which has had a nominal impact on both of our product lines. We are staying in close contact with our customers to plan production and meet their delivery requirements.

We continue to make investments across the company, including in R&D, product line management, operations and sales. Our new product pipeline supports our mission to broadly distribute wireless connectivity products for critical applications. As our world becomes more dependent on wireless connectivity, the demand for high performance antennas and test tools will grow.

With that, Kevin and I are available to take questions.

Operator?

**David Neumann: Close**

Thank you for joining us this afternoon.

I can't say enough about how important it is to have a talented and dedicated team to support our customers. Thank you to our employees, our suppliers and our customers. I hope everyone has a great afternoon - Thank you.

**Operator:**

Thank you for joining us today for PCTEL's first quarter 2022 Earnings Call. You may now disconnect your lines.