

Operator

Welcome to the PCTEL third quarter 2020 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 third quarter 2020 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, 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 most recently filed periodic report on Form 10-K and subsequent filings, including the report on Form 10-Q for the third quarter 2020. 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 earnings per share and adjusted EBITDA. We believe these non-GAAP measures facilitate comparability of results over different periods. A full reconciliation of these GAAP measures to our non-GAAP measures is included in our quarterly earnings press release that was issued earlier today.

With that, it's now my pleasure to turn the call over to David Neumann.

David Neumann

Thank you, Kevin.

Welcome and thank you for joining us this afternoon. On our call today I will provide a brief update on the status of our facilities and health of our employees as we continue to successfully manage through the pandemic. I will outline our growth strategies that will enable us to emerge stronger from the recession.

Finally, I will share a few examples of significant wins that give us optimism that market conditions are improving for our products.

The significant investments in additional safety measures within our factories and our policy changes made to address the pandemic are keeping our employees safe while allowing us to maintain our high level of service to our customers. I'm proud that our management team has been able to keep all our production facilities open and virus-free. PCTEL's supply chains continue to operate reasonably well, and we have been able to meet customer delivery schedules. Our employees have adjusted well to our modified operating

procedures and work-from-home model. I believe we can continue to operate profitably through the worldwide economic recovery, as gradual as it may be.

For the quarter, our revenue and earnings were within our guidance. Our earnings were driven by improved margins on both product lines and strong demand for our 5G scanning receiver solutions. Our scanning receiver product line produced the highest quarterly revenue since Q4 2019, which was one of our best quarters for scanning receivers. More importantly for the future, we experienced a quarter-over-quarter increase in overall incoming orders; we remain profitable; we are generating cash; and our balance sheet is strong.

As you may have seen in our press release issued after the market close, we achieved \$18.9 million in revenue, \$2.4 million in adjusted EBITDA and non-GAAP earnings per share of \$0.08. We achieved gross margins of 51% for the quarter, up 2.6% over the second quarter.

The recession has resulted in challenges related to our customers' reduced demand for antennas and slower ordering processes. As I mentioned in our last call, we believe we are near the bottom of the recession-induced decline in demand and I'm encouraged to see that our incoming orders increased in the quarter. We expect market conditions to stabilize and gradually recover over time through 2021. We will continue to invest in products and technologies to improve our results in the short-term and accelerate our growth as markets recover. I would like to highlight three areas that will contribute to our growth. First, you may have noticed PCTEL's new website with enhanced user functionality, our increased presence on social media, and our popular

technology focused webinars. These efforts advance our global marketing strategy to increase quality leads and reinforce our message that PCTEL is an industrial IoT solutions provider with unique skill sets to solve complex RF challenges.

Second, a majority of our antenna and scanning receiver revenue is generated through OEMs and selected distribution partners. As we mentioned last quarter, we are working to expand our channel partners and we added a new master distributor in Europe. In the coming weeks, you will hear of new strategic distributor agreements to sell our antennas and scanning receivers, which will further broaden our reach. Our ability to add and leverage distribution channels is a key growth strategy. Along these lines, we believe that as we release new products targeted to government and military applications, we will significantly grow this revenue stream.

Our third growth strategy is to focus our new product initiatives on market-driven antenna, antenna component and scanning receiver product needs. Although demand for some of our antenna products remains low due to temporary slowdowns in customer demand, our product development pipeline is robust and producing design wins. We have several new programs and new customer engagements underway in all three of our vertical market segments. Our new product introduction funnel is particularly strong in Intelligent Transportation and Industrial IoT segments where we are leveraging our multiband and GNSS antenna design capabilities. PCTEL received one of our largest blanket purchase orders of the year for our IoT integrated antenna solution for utility

applications, which has a positive impact on this quarter and for next year. Our industrial IoT access points, interface cards and wireless sensors began shipping last quarter to some of our leading customers in the industrial IoT space for their testing and integration. Several large international companies plan to use these industrial IoT components in their programs. At the beginning of the year, we were optimistic that these programs would contribute to our revenue growth in the second half of this year. We are still confident that these products will contribute to our growth, but we've shifted our expectations for receipt of purchase orders to the first half of next year as our customers recover from this general slowdown.

Citizens Band Radio Systems or CBRS and 5G are important for both our antenna and scanning receiver product lines. CBRS is a shared frequency band in the US that provides another option for private networks and industrial IoT applications. In August, we announced the launch of our low profile 5G antenna for industrial IoT and Smart Cities. With cable and utility companies having emerged among the top winners of the recent CBRS auctions, we have already started to receive interest in our antennas and scanning receiver products. Our 5G scanning receiver business continues to perform well and we expect the product line revenue to be near the level reached in 2019. We recently won one of the largest 5G scanning receiver orders in the company's history with delivery planned through Q4. Sales to network operators through our valued OEM channels continue to be strong in North America and Northeast Asia, including China, Japan, South Korea and Taiwan. We discussed the long-term drivers for

5G deployments during our last call, including the planned rollout of additional releases as defined by the 3GPP standards body. PCTEL is in a strong position to address those new releases and expand our 5G markets given our global installed base of 4G scanning receivers which can be easily upgraded to 5G. It should also be noted that new spectrum auctions (like CBRS in the US, and millimeter wave allocations globally), along with unique 5G applications deployed in private networks, will increase demand for test and measurement equipment and our antenna solutions.

Our antenna expertise complements our 5G scanning receiver capabilities. In addition to designing a 5G omni directional mmWave antenna for the 5G scanners, our antenna engineering team collaborated with our scanning receiver team to develop the only customized, dual-polarized antenna solution available in the market to collect 5G measurements. This led directly to a sale of our 5G scanners and customized antenna solution to a top European network operator.

Although testing of public safety systems within buildings has slowed due to the inability to access buildings, we are on track to match our 2019 public safety revenue and we're confident this business will grow as building access improves. The number of certified companies, who are the primary buyers of PCTEL's public safety equipment increased in the third quarter.

In addition to organic growth strategies, we continue to evaluate and pursue inorganic growth initiatives and take advantage of our solid balance sheet, specifically with respect to complementary product lines for enterprise wireless, intelligent transportation and industrial IoT applications.

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

Kevin

Kevin McGowan

Thank you, David.

I will address the financial results for the third quarter ended September 30, 2020 and I will provide fourth quarter 2020 guidance.

As David mentioned, we continued to feel the effects of the COVID-19 pandemic and global recession in the third quarter, primarily impacting the timing of receipt of customer purchase orders and revenues in the quarter for our antenna product line. However, strong gross margins and lower operating expenses offset some of the impact of lower revenues.

Revenues were \$18.9 million in the third quarter 2020, a decrease of \$0.9 million sequentially and 20% lower compared to the third quarter 2019. Looking at the revenue by product line, revenues for test and measurement products were \$6.8 million, an increase of \$0.7 million sequentially but 6% lower compared with the third quarter last year. The third quarter 2020 was a very strong quarter for products with 5G technologies, but the decline in revenues compared to last year is primarily attributable to lower revenues for products with technologies other than 5G. Antenna product revenues decreased sequentially by \$1.6 million to \$12.3 million and declined 25% compared to the third quarter last year. Antenna revenues for Intelligent Transportation and public safety were lower compared to the third quarter 2019.

As compared to the third quarter last year, the third quarter 2020 gross profit margin on a GAAP basis improved by 5.5% to 50.6% due to a higher mix of higher margin test and measurement products as well as higher gross profit margin percentages for both antenna products and test and measurement products. The gross profit margin percentage for antenna products was 0.5% higher in the third quarter 2020 compared to the prior year due to a more profitable product line mix and cost reductions in our China operations. The gross profit margin percentage for test and measurement products was 8.2% higher in the third quarter 2020 compared to the prior year as a result of more profitable product mix, lower costs related to inventory reserves and lower employee costs, and the absence of amortization expense in cost of sales due to full amortization of intangible assets in the first quarter of this year.

Operating expenses on a non-GAAP basis were \$8.0 million in the third quarter 2020, higher by \$0.6 million compared to the second quarter 2020, but lower by \$0.5 million compared to the third quarter 2019. Effective July 2020, we restored most employee salaries to their 2019 level, however, lower expenses for our variable compensation plans and other discretionary spending areas contributed to the decrease in operating expenses compared to the prior year.

Net other income and expense was negative \$0.1 million in the third quarter 2020 compared to positive \$0.4 million in the third quarter 2019. The net expense was due to lower interest income and foreign exchange losses in the third quarter 2020.

Adjusted EBITDA was \$2.4 million for the third quarter 2020, compared to \$3.1 million in the third quarter 2019. Adjusted EBITDA margin as a percentage of revenue was 12% in the third quarter 2020 compared to 13% for the third quarter 2019. Non-GAAP diluted earnings per share was \$0.08 in the third quarter 2020, compared to \$0.14 in the third quarter 2019.

PCTEL's balance sheet remains very strong with its significant cash and investments and no debt. Cash and investments, including long-term investments increased during the third quarter by \$1.7 million to \$41.3 million. Free cash flow was \$2.6 million as we generated cash from operations of \$3.5 million in the quarter. We generated cash flow from working capital because of reductions in accounts receivable and inventories. On October 22, 2020, we declared our regular quarterly dividend of \$0.055 per share on our common stock. This dividend will be payable on November 16, 2020 to shareholders of record at the close of business on November 9, 2020.

Due to uncertainties as a result of the pandemic and the potential financial impact related to disruptions in our operations, supply chain, and customer demand, it continues to be difficult to forecast financial results. We would, however, like to provide our investors with insight about our expectations for the fourth quarter. We are forecasting revenues between \$19.0 and \$20.0 million for the fourth quarter. We project our GAAP gross profit margin percentage to be in the range of 48% to 49% and the non-GAAP earnings per share to be in the range of \$0.06 to \$0.09. We are making these projections based upon current information and circumstances which could change, possibly significantly. We

will continue to manage our costs and our working capital to protect and strengthen our solid financial position.

Before we take questions, I would like to turn the call over to David to make a few closing remarks.

David Neumann

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

The recession this year has impacted many businesses, including those in the technology sectors. As I mentioned earlier, I'm pleased with how our team responded to the challenges of the pandemic and our ability to maintain a high level of service to our customers while managing to keep our employees safe. We have remained profitable and I'm confident that we will see improvements in our operating results as we finish 2020 and begin the new year.

PCTEL remains in a strong financial position and we serve attractive markets that will grow over the long term. Testing wireless infrastructure, deploying industrial IoT custom hardware and enabling wireless connectivity will continue to be important as the world increasingly relies on industrial remote access and the ability to work from anywhere.

I would also like to note that for those who would like to learn more about PCTEL, Kevin and I will be attending the Southwest IDEAS virtual investor conference on November 19th.

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

Operator?

David Neumann: Close

Thank you for joining us this afternoon.

I would like to thank our employees for their contributions and taking care of our customers. The challenges in 2020 have made the organization stronger and more determined to succeed. We look forward to improving market conditions and to updating you on our next call. Thank you.

Operator:

Thank you for joining us today for PCTEL's third quarter 2020 Earnings Call. This concludes our conference. You may now disconnect your lines.