

Operator

Welcome to the PCTEL fourth quarter 2021 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 fourth quarter 2021 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 revenue growth in 2021 and record-setting incoming orders and backlog as we begin 2022. Although disruptions in the supply chain created significant challenges in 2021, we made progress throughout the year and had a strong finish. This gives us optimism about our company's future and our ability to grow consistently in challenging environments. In today's call, I will share a summary of the fourth quarter and annual financial results and then highlight key growth areas for both our product lines.

The global pandemic created disruptions in both supply and demand, particularly in Asia and Europe. Despite these disruptions, in 2021 we successfully acquired and integrated Smarteq; we continued our investments in new R&D initiatives resulting in eight patents being issued in the US; we launched market-leading products, and most importantly, we met the delivery needs of our customers. As you may have seen in our press release issued after the market close, we achieved 13% growth in annual revenue from \$77.5 million in 2020 to \$87.8 million in 2021. The product mix, which was more heavily weighted towards antenna sales in 2021, together with increased costs for freight, logistics, raw materials, mainly for components, and increased sales commissions reduced non-GAAP earnings per share from \$0.31 in 2020 to \$0.27 in 2021. We remained profitable throughout the year with consistent quarterly increases for revenue, EBITDA, and non-GAAP earnings per share.

I'm pleased to share that fourth quarter revenue and earnings were the strongest of the year and exceeded our guidance. In fact, we set a record for incoming orders and backlog, and we expect most of the backlog to be delivered in the first half of 2022. Orders are strong leading indicators as we enter the year and were driven largely by growth with existing antenna customers, successful expansion of our distribution channels, and the introduction of new products.

As shared in our press release, in the fourth quarter we achieved \$26 million in revenue, \$3.1 million in adjusted EBITDA and \$0.12 in non-GAAP earnings per

share, all sequential improvements over the third quarter. We achieved non-GAAP gross margin of 46.6% for the quarter, a slight decrease from the third quarter and just below the average for the year.

Before I discuss our two product lines and growth initiatives for 2022, I want to mention the successful completion in the first quarter of the transition from our company-owned factory in Tianjin, China to contract manufacturers. This manufacturing transition that started in 2019 and was completed in this quarter eliminated significant fixed costs and has already generated cost savings that helped us offset increases in commodity prices, unfavorable currency exchange rates, and shipping costs. With the final closure of our factory in the first quarter, we expect net cost savings in 2022. It also reduces our operating risks and allows us to quickly expand our capacity given the ability of contract manufacturers to ramp up production when necessary, as was the case when several of our customers placed large orders this past year.

2022 growth initiatives for our two product lines include evaluating and further developing our distribution channels and launching new products, including 5G tools, Industrial IoT radio products and antenna platforms. From a regional perspective, business in the US remains strong, our team in Asia is doing an excellent job winning new customers for our existing antenna products and test and measurement tools, and our presence in Europe is growing.

Smarteq, by all measures, has been a successful acquisition and it has added antenna products for new applications, such as electric vehicle charging stations, cargo tracking and material handling. The Smarteq team exceeded their financial goals for the year and have successfully navigated the supply chain and logistics issues to provide a high level of service to customers. It is a talented team and we are glad they are part of PCTEL. Together, we launched four new antenna platforms and secured key design wins in metering, cargo tracking and rail.

Our large OEMs in the utilities, agriculture, industrial, public safety, and Wi-Fi markets had strong growth in 2021 and we anticipate significant opportunities through OEM channels for our antenna products in 2022. PCTEL has one of the broadest antenna and device portfolios to serve our target markets, including those just mentioned plus smart transportation, metering, and rail. Our extensive product portfolio is attractive for distributors, and we added five strategic channel partners in 2021 to expand our market reach.

On the test and measurement front, we are very excited about the launch of our new *Gflex*[™] scanning receiver for both 5G cellular and broader government applications such as signal intelligence. This product is the most advanced scanning receiver on the market. The *Gflex* has functionality and performance in a compact unit that is equivalent to operating four to six of our competitors' scanning receivers simultaneously. We announced the product at the end of the

third quarter and within the fourth quarter we delivered *Gflex* to the leading 5G operators around the world.

The deployment of 5G networks continues with approximately 25% of the operators launching 5G mobile services by the end of 2021. Approximately 70% of the global operators are in an investing stage for 5G deployments, which may include spectrum auctions, trials, and planning for deployment. Despite pandemic related slowdowns for spectrum auctions and rollouts in Europe and parts of Southeast Asia, 5G deployments continue to grow, driving the demand for high performance scanning receivers like our *Gflex*.

In addition to our strong antenna sales in public safety markets, we have expanded our market for scanning receiver solutions to address critical communication networks including public safety. Our public safety scanning receiver solution, based on the *IBflex* product, ensures the quality of inbuilding wireless communications for first responders. We perform well in the public safety market by selling through distributors and across 140 certified engineering service companies in the US, which can be found on our website. In the second half of 2021, we launched SeeHawk™ Central which is our cloud-based test management, storage, and analytics platform for public safety network applications. This subscription-based service allows stakeholders, including engineering service companies, building owners and government jurisdictions, to

easily manage the collection process and access final reports through an online map-based portal.

In addition to organic growth, we continue to evaluate acquisitions as an important component of our long-term growth strategy for the company. We believe there will be opportunities to grow PCTEL through adding complementary products and markets in new regions.

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

Kevin

Kevin McGowan

Thank you, David.

I will review the financial results in more detail for the fourth quarter ended December 31, 2021, and I will provide first quarter 2022 guidance.

As David mentioned, we reported sequential financial improvement for revenues and earnings in the fourth quarter and the reported revenues and earnings for the quarter were above our guidance. Total revenues of \$26.0 million were

approximately 23.0% higher in the fourth quarter 2021 compared to the fourth quarter 2020. Revenues for antennas and industrial IoT devices were \$19.1 million, an increase of \$6.2 million compared to the fourth quarter 2020. This increase for the fourth quarter 2021 is due to both the revenue recognized from Smarteq, which was acquired on April 30, 2021, and an increase in organic revenues related to antennas for fleet and public safety applications. Test and measurement revenues were \$7.2 million for the fourth quarter 2021, our best revenue quarter for the year. Test and measurement revenues were lower by \$1.4 million compared to the fourth quarter 2020 as last year's fourth quarter was a record revenue quarter for the Company's test and measurement product line.

The fourth quarter 2021 gross profit margin on a non-GAAP basis was 46.6%, which was 3.8% lower than the fourth quarter 2020. The decrease in the gross margin percentage in 2021 compared to the prior year was primarily due to a higher mix of antennas and industrial IoT devices. The non-GAAP gross profit margin percentage for test and measurement products was higher by 5.8% in the fourth quarter 2021 compared to the fourth quarter 2020 due to product and customer mix. The non-GAAP gross profit margin percentage for antennas and IoT devices was lower by 0.2% in the fourth quarter 2021 compared to the fourth quarter 2020 as higher costs for logistics and less favorable product mix offset favorable operating leverage.

Operating expenses on a non-GAAP basis were \$9.8 million in the fourth quarter 2021, an increase of \$1.6 million compared to the fourth quarter 2020. The increase results from inclusion of Smarteq's operating expenses in addition to higher employee costs including incentive compensation programs, higher engineering development costs, and higher T&E costs. Operating expenses for the fourth quarter 2020 were lower as a result of reduced employee incentive compensation and measures the Company took at the beginning of the pandemic to control costs, including temporary reductions in salaries, travel, other discretionary spending.

Adjusted EBITDA was \$3.1 million in the fourth quarter 2021 compared to \$3.2 million in the fourth quarter 2020 and improved sequentially by \$0.8 million. EBITDA as a percentage of revenue was approximately 12% in the fourth quarter 2021 compared to approximately 15% in the fourth quarter 2020, and non-GAAP diluted earnings per share was \$0.12 in the fourth quarter 2021, higher by \$0.04 sequentially and the same as the fourth quarter 2020.

Cash and investments were \$30.8 million at December 31, 2021. Our cash and investments declined by approximately \$1.7 million due to negative free cash flow of \$1.0 million and \$0.7 million of cash used on financing activities. Free cash flow was negative in the fourth quarter due to an increase in working capital as accounts receivable increased in relation to higher revenues, and inventories increased to ease supply chain constraints.

For the full year 2021, revenues increased by approximately 13% to \$87.8 million as revenues for antennas and IIoT devices increased by approximately 25% to \$63.0 million and revenues for test and measurement products decreased by approximately 7% to \$25.7 million. The 2021 gross profit margin on a non-GAAP basis was 47.0% compared to 49.5% in 2020 due to a higher mix of antennas and industrial IoT devices. The adjusted EBITDA for the full year 2021 was \$8.5 million compared to \$9.1 million in 2020.

Our first quarter is historically our lowest revenue quarter of the year. We anticipate that revenues will be lower sequentially in the first quarter 2022 but will be higher compared to the first quarter last year. Our revenue guidance for the first quarter is in the range of \$21.0 million to 21.5 million and our non-GAAP earnings per share guidance is in the range of (\$0.02) to break even. We project our non-GAAP gross profit margin percentage to be in the range of 43% to 44%. 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 in a stronger position entering 2022 than we have been in several years. The investments we made in the past few years to increase our distribution channels, develop a world class scanning receiver, the *Gflex*, expand our

presence and product line in Europe with the acquisition of Smarteq, invest in Industrial IoT devices, and innovate new antenna platforms, all strengthen our position in the market and will continue to contribute meaningful revenue in 2022 and beyond.

During the pandemic, we prioritized taking care of our employees and I'm proud of my team and how we have worked together to support each other and maintain a high level of customer service. I appreciate their dedication, flexibility, and long hours to support our global business. This time last year we believed the second half of 2021 would be back to some type of normal. Although challenges persisted through the second half, we focused on our customers, remained profitable and built a healthy backlog. We need to remain vigilant, evaluate risks and be prepared to act quickly. I have confidence in this team and our ability to grow the business.

We appreciate our loyal customers and the opportunity to serve attractive and growing markets. We will continue our mission to broadly distribute industrial IoT devices, antenna solutions, and test and measurement tools to ensure wireless connectivity in an increasingly wireless world.

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

Operator?

David Neumann: Close

Thank you for joining us this afternoon.

In addition to recognizing our employees I would like to thank our customers, suppliers, and distribution partners. We are excited to leverage the accomplishments we had in 2021 to drive growth in 2022. Thank you.

Operator:

Thank you for joining us today for PCTEL's fourth quarter 2021 Earnings Call.

You may now disconnect your lines.