

1 **Operator**

2 Welcome to the PCTEL first quarter 2023 Earnings Conference Call. At this time,  
3 all participants are in a listen-only mode. At the conclusion of our prepared  
4 remarks, we will conduct a question-and-answer session. As a reminder, this  
5 conference is being recorded.

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

8 **Kevin McGowan**

9 Thank you for joining us on today's conference call to discuss PCTEL's first  
10 quarter 2023 financial results. With me today is David Neumann, the Company's  
11 CEO.

12 Please note that a webcast replay of this call will be available on our website.

13 Before we begin, let me remind you that this call may contain forward-looking  
14 statements and projections based upon current circumstances. While these  
15 forward-looking statements and projections reflect PCTEL's best current  
16 judgment, they are subject to risks and uncertainties, particularly related to global  
17 supply chain and logistics challenges; global, political and economic  
18 circumstances (including inflation and a potential recession); ability to generate  
19 sales of our innovative new products; success of our expansion efforts in Europe;  
20 and ability to leverage our distribution channels, that could cause actual results to  
21 differ materially from these forward-looking statements and projections. Risk

22 factors that could cause PCTEL's actual results to differ materially from its  
23 projections are discussed in the earnings press release which was issued today  
24 and the Company's annual report on Form 10-K. The Company assumes no  
25 obligation to update any forward-looking statements or information, which speak  
26 as of their respective dates.

27

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

34

35 With that, I am now pleased to turn the call over to David Neumann.

36

37 **David Neumann**

38 Thank you, Kevin. I apologize again for the delayed start.

39

40 Good afternoon and thank you for joining us today. On today's call, we will  
41 discuss our first quarter performance and share our outlook for the second  
42 quarter of 2023. We will also speak to our views on the remainder of the year and  
43 highlight key progress we have made towards our three-pronged growth strategy.  
44 I will begin with a few highlights, and then Kevin will discuss our financials in  
45 greater detail.

46

47 We are pleased to have gotten off to a strong start in 2023, as we delivered first  
48 quarter revenues of \$23.0 million, a slight increase year-over-year, and strong  
49 gross margins of 50.2%, up 880 basis points from the prior year period. Our  
50 success in the quarter was driven by the continued execution of our three-prong  
51 growth strategy, which includes launching innovative antenna, device and test  
52 and measurement products, expanding our distribution channels and increasing  
53 our market share by providing more components of the overall customer  
54 systems. These strategies strengthen our global customer relationships and  
55 increase PCTEL's value for all stakeholders.

56

57 I would like to begin by thanking our PCTEL team for their continued  
58 contributions that are integral to our success. It is with their dedication and  
59 commitment that we have continued to mitigate issues in today's challenging  
60 operating environment, including ongoing inflationary pressures and supply chain  
61 disruptions. We continue to see moderation in these macro trends, particularly in  
62 logistics, and we will remain diligent in our commitment to meeting customer  
63 demand and providing the utmost quality in customer service. As we expand our  
64 global reach, we remain in close contact with our shippers and suppliers around  
65 the world. Our operations team is doing an excellent job and we exceeded our  
66 on-time delivery goal for the quarter, achieving our highest on-time delivery rate  
67 to customers since prior to the pandemic.

68

69 Our three core growth strategies continue to be the backbone of our operating  
70 model and success. We continue to make important progress in our innovative  
71 product launches, end market acquisition and penetration, and global customer  
72 and distribution expansion, which I will discuss in greater detail later in today's  
73 call.

74

75 I would now like to turn the call over to Kevin for a review of our first quarter 2023  
76 results. Kevin?

77

78 **Kevin McGowan**

79 Thank you, David.

80

81 As David mentioned, total revenues were \$23.0 million, at the high end of our  
82 guidance range and approximately 2% higher compared to the first quarter of  
83 2022 due to strong revenues for Test & Measurement products. Test &  
84 Measurement revenues were \$7.4 million for the first quarter 2023, \$1.8 million  
85 higher compared to the first quarter 2022 primarily due to U.S. sales of 5G  
86 scanning receivers and sales to global 5G rental market customers. Revenues  
87 for antennas and industrial IoT devices were \$15.6 million in the period, a  
88 decrease of roughly \$1.5 million compared to the first quarter 2022, with lower  
89 antenna revenues for enterprise and public safety applications.

90

91 First quarter 2023 gross profit margin percentage on a non-GAAP basis was  
92 50.4%, above our expectations, and an 860-basis point increase from the year  
93 ago period. The increase in gross profit margin percentage was primarily due to  
94 higher Test and Measurement sales and stronger gross margins within Antennas  
95 and IoT devices. Non-GAAP gross profit margin percentage for antennas and  
96 Industrial IoT devices in the first quarter 2023 improved by 840 basis points  
97 compared to the first quarter 2022, due to a positive product and customer mix  
98 shift, coupled with continued improvements in logistical costs due to the proactive  
99 efforts David mentioned earlier in today's call. The non-GAAP gross profit margin  
100 percentage for Test and Measurement products was lower by 250 basis points in  
101 the first quarter 2023 compared to the first quarter 2022 due to higher component  
102 costs.

103

104 Operating expenses on a non-GAAP basis were \$9.3 million in the first quarter  
105 2023, an increase of \$0.2 million compared to the first quarter 2022. The year-  
106 over-year increase was primarily driven by higher sales and marketing expenses  
107 related to commissions, travel and marketing programs. Within general &  
108 administrative expenses reported on a GAAP basis, we also incurred \$0.6 million  
109 during the first quarter 2023 related to transaction expenses related to exploring  
110 strategic alternatives.

111

112 Other income was \$0.2 million in the first quarter 2023 compared to \$11  
113 thousand in the prior year period. The year-over-year increase was due to higher  
114 average interest rates.

115

116 Adjusted EBITDA increased by 153% to \$2.8 million in the first quarter 2023  
117 compared to \$1.1 million in the year ago period. Adjusted EBITDA as a  
118 percentage of revenue was 12.1% in the first quarter 2023 compared to 4.9% in  
119 the first quarter 2022, and non-GAAP diluted earnings per share was \$0.12 in the  
120 first quarter 2023, higher by \$0.10 compared to the first quarter 2022. The  
121 increase in adjusted EBITDA can be attributed to improved margins for antennas  
122 and strong test and measurement revenue in the quarter.

123

124 Cash and investments were \$30.3 million at the end of the first quarter 2023.  
125 Compared to the end of the fourth quarter 2022, our cash and investments  
126 increased by approximately \$0.3 million because we generated cash from  
127 operations and there were no net cash changes from our balance sheet. We  
128 reduced inventories by approximately \$1.3 million during the first quarter  
129 primarily due to lower antenna inventories, and we will continue to focus on  
130 managing the inventory to lower levels for both product lines. Financing activities  
131 for the first quarter include payment of our quarterly dividend of \$1.0 million. Our  
132 healthy cash and investments on hand and cash flow supports our capital  
133 allocation strategy of paying quarterly dividends and having available funds for  
134 M&A activity.

135

136 Turning to our second quarter outlook, we expect revenues to be in the range of  
137 \$20.0 million to \$21.0 million. The expected decline both on a sequential and  
138 year-over-year basis is due to lower year-over-year revenues in both product  
139 lines. We expect the non-GAAP gross profit margin percentage to be in the range  
140 of 47% to 48%, and we expect our non-GAAP earnings per share to be in the  
141 range of \$0.02 to \$0.04.

142

143 While there is uncertainty around the global operating environment in 2023, we  
144 are confident in our ability to grow our product offerings and ensure we use the  
145 cash generated by the business in accretive and value enhancing ways for our  
146 shareholders.

147

148 With that, I will now turn the call back to David.

149

150 **David Neumann**

151 Thank you, Kevin. I would now like to review our progress on executing our  
152 growth strategies which continue to serve as the foundation for our success. As I  
153 mentioned earlier, these strategies include launching innovative wireless  
154 products; expanding and leveraging distribution channels; and increasing market  
155 share by expanding our reach and providing more components of the overall  
156 systems.

157

158 Starting with our first strategy of launching innovative products. We announced  
159 two exciting product launches in the quarter including our new VerStack antenna,  
160 as well as our automated uplink drive or walk testing system for public safety  
161 radio networks, which is the first of its kind.

162 • The demand for multiband ruggedized 5G antennas increases as rail,  
163 utilities and other industries adopt 5G wireless communications. Our  
164 VerStack antenna is the market's most advanced 5G antenna platform to  
165 date for rail and Industrial IoT applications. VerStack leverages our  
166 broadband element technology to provide top-of-the-line RF performance  
167 for critical applications. These antenna elements are enclosed in a rugged  
168 UV-resistant fiberglass housing, making them ideal for harsh  
169 environmental conditions.

170 • Our Automated Uplink Drive or Walk Testing System for public safety  
171 radio networks is an industry disruptor. The majority of public safety radio  
172 coverage issues occur on the uplink, which is the signal from the handset  
173 to the radio site. Our solution is the first to incorporate synchronized uplink  
174 measurements into a drive or walk testing system. The uplink testing  
175 feature was released last month and is available as a software update for  
176 existing customers using our SeeHawk Touch and SeeHawk Monitor  
177 systems. Trials remain strong driven by customers' desire to ensure  
178 adequate uplink and downlink signal levels that ultimately help keep first  
179 responders safe.

180



181 We are particularly excited to introduce these new product launches, which we  
182 expect to contribute to our success in 2023 and beyond.

183

184 Our business segments each delivered strength in the quarter. As Kevin  
185 previously mentioned, our Test and Measurement revenue grew 33.0% versus  
186 the year-ago period on notably strong backlog. Additionally, we have enjoyed a  
187 significant increase in users on our SeeHawk Central platform and strength from  
188 our Gflex scanning receiver.

- 189 • In the quarter, we completed our first system sale of our SeeHawk  
190 Monitor, with the customer noting they anticipate additional needs in the  
191 near future. We also are seeing growth in SeeHawk Central, as the  
192 platform appeals to the market's interest in cost-effective and easy to use  
193 cloud-based system to manage testing of public safety networks.
- 194 • Gflex has gained great momentum in the period, as it is now approved  
195 with all major U.S. cellular operators. Additionally, it is poised for both  
196 international growth in key markets as well as for US government  
197 applications.
- 198 • Lastly, we have executed several large sales from service and rental  
199 customers for our scanning receiver products to conduct 5G optimization  
200 and benchmarking services as mobile operators continue to expand their  
201 5G rollouts.

202

203 Turning to antennas, although we are making progress in expanding our  
204 customer reach, further penetrating the EV charging, Agriculture, Construction  
205 and Public Safety end markets, revenues declined by 8.7% compared to the year  
206 ago period. As Kevin discussed, the decline in antenna revenue was primarily  
207 attributable to our customers' supply chain headwinds, which they anticipate will  
208 persist throughout 2023, delaying previously planned projects. That said, we  
209 have seen significant upside in our Smarteq product lines. A European EV  
210 automotive customer selected multiple Smarteq antennas for two of its new  
211 vehicle models. We are now manufacturing these antennas and expect to ramp  
212 through the remainder of the year. Additionally, a Global forklift manufacturer has  
213 moved forward with Smarteq antennas for their European markets. We also  
214 secured a new end market for our antenna products in the quarter, as we  
215 outfitted a major cruise ship with Wi-Fi antennas and have an opportunity to  
216 supply antennas for one or two additional ships.

217

218 Now moving to our second growth strategy, we continue to gain momentum in  
219 our global sales channels across each of our businesses. On the Test and  
220 Measurement side, we enjoyed strong revenue from U.S. sales of 5G scanning  
221 receivers and sales to our global 5G rental market customers, particularly in Asia,  
222 as the Asian operators prepare to roll out their 5G networks. On the Antenna  
223 side, as I mentioned earlier, we continue to see growth from European  
224 Automotive manufacturers and anticipate delivering our Smarteq antennas in  
225 European markets for a global forklift manufacturer later this year. We are

226 pleased with the progress we have made and look to build upon this through  
227 furthering relationships and streamlining our European sales efforts. Lastly, we  
228 are refocusing on growing PCTEL's brand awareness through leveraging a  
229 prominent online distributor. The initial results of our efforts are promising, with  
230 strength in our customer count and increasing point-of-sale revenue every  
231 quarter since the relationship with this distributor began. We see significant  
232 growth opportunities within our antenna segment and look forward to continuing  
233 to update you on our progress as we move through the year.

234

235 Concluding with our third core growth strategy of increasing market share with  
236 existing customers by providing integrated solutions, we have made significant  
237 progress with a leading OEM customer in the construction and agriculture  
238 equipment market interested in using our ruggedized access points to improve  
239 wireless communications in remote and harsh environments. We remain  
240 committed to offering turnkey solutions for our customers, that may include  
241 industrial IoT sensors, radios, and antennas designed for critical communication  
242 applications across a variety of end markets.

243

244 Our strategic priority for 2023 remains growth as we continue to address supply  
245 chain issues, increased inflation and potential recession headwinds. We remain  
246 fiscally disciplined, our talent is unmatched and our solutions for Antennas and  
247 Test and Measurement are recognized as best-in-class in the market. With this  
248 strategic priority of growth in mind, we will continue to invest in our products,

249 people, and global reach as we work through the remainder of the year. As Kevin  
250 mentioned, our balance sheet remains strong and provides us with flexibility to  
251 invest in the business and also explore inorganic opportunities, as appropriate.

252

253 With that, I would like to turn it over to the operator for questions.

254 Operator?

255

256 **David Neumann: Close**

257 Apologies again for the delayed start and thank you for sticking with us. Thank  
258 you all for joining us this afternoon. I would again like to thank our PCTEL team  
259 for their dedication to our customers, our business, and our growth. I look forward  
260 to continuing to update you on our progress through 2023. I would like to thank  
261 everyone for your support of PCTEL and your time here today.

262

263 **Operator:**

264 Thank you for joining us today for PCTEL's first quarter 2023 earnings call. You  
265 may now disconnect your lines.

266