

Operator

Welcome to the PCTEL fourth 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 fourth quarter 2020 and full year 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 and global recession, 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 and subsequent filings. 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.

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

David Neumann

Thank you, Kevin.

Welcome and thank you for joining us this afternoon. Although 2020 was a challenging year, we are pleased with how the company managed the coronavirus pandemic. We are optimistic about our company's future and our ability to thrive in a challenging environment. Today I would like to share the progress we made through the second half of 2020 and, more specifically, in the fourth quarter and how we have positioned the company to grow in 2021 and beyond.

Despite the global pandemic, we were able to serve our customers, continue to invest in new R&D initiatives and manage expenses to maintain profitability. As you may have seen in our press release issued after the market close, the coronavirus-induced recession impacted both our non-GAAP earnings per share

and revenue for 2020. Non-GAAP earnings per share decreased from \$0.47 in 2019 to \$0.31 in 2020. Revenue declined from \$90.6 million in 2019 to \$77.5 million in 2020 but increased on a quarterly basis in the fourth quarter.

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 an all-time record for scanning receiver revenue in the quarter. Our earnings were driven by consistent margins on both product lines and strong demand for our 5G scanning receiver solutions. Even more impressive than increased Q4 revenue, incoming orders for both product lines in the fourth quarter were at the highest level since the second quarter of 2019. This a strong leading indicator as we enter 2021.

As shared in our press release, in Q4 we achieved \$21.2 million in revenue, \$3.2 million in adjusted EBITDA and non-GAAP earnings per share of \$0.12, all sequential improvements over the third quarter. We achieved gross margins of 50% for the quarter, in line with the third quarter and 1% above the average for the year.

We are confident in our strategy to focus on 5G and industrial IoT and our ability to grow as the year progresses. Specific growth initiatives include expanding our distribution channels and continued investment in 5G tools and IoT solutions, including our antenna and radio products.

PCTEL's larger size relative to our competitors and broad range of products in enterprise wireless, intelligent transportation and industrial IoT create opportunities to support a broader range of distribution channels. We recently announced two new product distributors, and we're evaluating others for selected antenna products, our industrial IoT devices and our expanding range of scanning receiver solutions. We have also made investments in the past two years to improve our direct support for these channels to form stronger relationships with existing and new distributors alike. PCTEL will continue to focus on growth through developing and supporting our distributor and OEM partners to address the markets they serve.

We will also focus on growth through increased demand for private 5G (and LTE) network deployments to serve businesses and governments as they address security and an influx of data across mobile enterprises. PCTEL is uniquely positioned to service public and private wireless networks and the associated Industrial IoT requirements through providing radio systems, antennas, wireless sensors and test and measurement solutions. In the US, utilities, cable operators and agriculture equipment manufacturers, some of which are our current customers, have secured CBRS (Citizens Broadband Radio Spectrum) in 2020 and will require both antenna and measurement tools to deploy those networks.

Globally, 5G is deployed by less than 10% of the 700 plus operators across 61 countries who currently operate LTE networks. More than 260 operators are

investing in 5G networks in the form of spectrum auctions, tests, trials and pilots. Europe and parts of Asia delayed spectrum auctions and 5G deployments in 2020 due to the pandemic. We expect to benefit from pent-up demand for 5G connectivity in the US and globally as economies improve through the second half of 2021.

We continue to invest in our engineering capabilities to leverage our unique ability to solve complex RF issues for both antennas and scanning receivers. In fact, even in a challenging year we increased our investment in engineering to address our longer-term opportunities. Advancements in antenna technologies now often include active components and require tighter integration with the overall systems. As an example, we integrated active electronics to support network management functions into two of our existing Wi-Fi antennas that were qualified by a large OEM. PCTEL has the expertise to address all major wireless technologies across multiple applications, including Industrial IoT, smart city, enterprise wireless, government, precision positioning and other industry 4.0 applications. PCTEL's expertise in RF, antenna design and radios becomes more valuable as systems become even more integrated and complex.

5G has created opportunities for both our antenna and test and measurement businesses. 5G networks require high performance timing antennas for both commercial and private network deployments. Our sales of these antennas increased throughout 2020 and we expect demand to remain steady through

2021. As I mentioned, Q4 was a record-setting quarter for 4G and 5G test and measurement revenue. Despite network deployment delays in some regions, including Europe and Southeast Asia, revenue was stable throughout 2020. 5G scanning receiver revenue was driven by the need to test both 4G and 5G networks using frequencies from 100 MHz to mmWave bands. Our scanning receivers are complemented by a range of software tools for data collection and our recently launched mmWave transmitter which supports in-building modeling for 5G deployments in larger venues, transportation hubs and retail locations. I believe 2021 will be another strong year for our scanning receiver products.

We recently assisted a leading 5G network equipment manufacturer in measuring dual polarized signals that are unique to their 5G deployments. As a result of having both 5G antenna and scanner measurement expertise, we were the only test and measurement company that could quickly design and build a customized antenna for this application. We believe our dual capability will give us an advantage globally with this network equipment manufacturer.

We are also proud of the success of our P25 scanner solution for public safety applications. These measurement systems ensure the quality of inbuilding wireless communications for first responders. We recently improved our public safety tools by adding uplink measurements to provide users a wholistic view of the RF environment. These measurement tools collect a significant amount of data that needs to be managed and analyzed. We are developing software

applications to help our customers more efficiently collect, store and analyze the data on a cloud-based platform. Our solutions are in a leading position in the US market, but by addressing P25, LMR, DMR and Tetra technologies we will expand our addressable market globally and we believe these products will contribute meaningfully to revenue in 2021.

I would also like to provide an update on our product development and release cycles. We mentioned in our last call that we saw reduced demand for some of our antenna products in mid-2020 due to temporary slowdowns in customer demand. As customers have now adapted to working in this business environment, we are seeing a recovery in demand for antenna and IoT device products. With respect to industrial IoT devices, our wireless sensor platform designed for ruggedized applications in rail and utilities are in trials and our industrial Wi-Fi access points and interface cards are in the final stages of FCC certification. These products began shipping last quarter to customers for trial integration and testing. We expect to receive orders and production to begin once the devices are certified. As we stated previously, we are confident that these products will contribute meaningfully to revenue to support long-term growth.

Our M&A activities are also an important component of long-term growth for the company. As the pandemic continues, we believe there will be opportunities to evaluate and pursue acquisitions 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 for the fourth quarter ended December 31, 2020 and I will provide first quarter 2021 guidance.

As David mentioned, 2020 was a challenging year but we managed to generate solid earnings despite the lower revenues. The fourth quarter was our best quarter in 2020 for revenue and earnings.

Revenues of \$21.2 million in the fourth quarter 2020 were 7.5% lower compared to the fourth quarter 2019 but increased sequentially by \$2.3 million. By product line, revenues for test & measurement products increased sequentially by \$1.7 million to a record \$8.6 million. The fourth quarter 2020 revenues for test & measurement products were 9.5% better than last year because of a very strong

quarter for products with 5G technologies. Antenna product revenues increased sequentially by \$0.5 million to \$12.8 million but were 15% lower compared to the fourth quarter last year due to lower revenues of antennas for intelligent transportation projects and for public safety applications.

The fourth quarter 2020 gross profit margin on a GAAP basis was 50.1%, lower than the fourth quarter 2019 by 0.2%. The higher mix of higher margin test & measurement products offset lower gross profit margin percentages for both product lines compared to last year. The gross profit margin percentage for antenna products was 3.1% lower in the fourth quarter 2020 compared to the prior year due to lower volume and less favorable product mix. The gross profit margin percentage for test and measurement products was 2.6% lower in the fourth quarter 2020 compared to the prior year primarily due to less favorable customer and product mix. While the quarterly gross margin percentages for both product lines were lower in the fourth quarter 2020 compared to the prior year, the year-to-date 2020 gross margin percentages for both product lines were higher compared to the prior year.

Operating expenses on a non-GAAP basis were \$8.2 million in the fourth quarter 2020, higher by approximately \$200,000 compared to the third quarter 2020, but lower by approximately \$500,000 compared to the fourth quarter of 2019.

Expenses were lower in the fourth quarter 2020 compared to the prior year

primarily due to lower travel expenses and lower expenses related to our variable compensation plans.

Net other income and expense was negative \$110,000 in the fourth quarter 2020 compared to positive \$108,000 in the fourth quarter 2019. The net expense was due to lower interest income and foreign exchange losses in the fourth quarter 2020.

Adjusted EBITDA was \$3.2 million for the fourth quarter 2020 compared to \$3.7 million in the fourth quarter 2019 and adjusted EBITDA margin as a percentage of revenue was 15% in the fourth quarter 2020 compared to 16% for the fourth quarter 2019. Non-GAAP diluted earnings per share was \$0.12 in the fourth quarter 2020, compared to \$0.16 in the fourth quarter 2019.

PCTEL's balance sheet remains very strong with our significant cash and investments and no debt. Cash and investments, including long-term investments, were \$41.0 million at December 31, 2020. Cash and investments declined by just under \$300,000 compared to the end of the third quarter because although we generated positive free cash flow, we used cash to repurchase our common stock. We announced a share repurchase program on November 10, 2020 pursuant to which the Company may repurchase up to \$5.0 million of its common stock through the end of 2021. During the fourth quarter 2020, we used \$1.8 million of cash to repurchase approximately 289,000 shares.

Free cash flow was \$2.1 million in the quarter as we generated cash from operations of \$2.8 million.

We continue to be subject to uncertainties with the global recovery from the pandemic. But, as we did throughout the pandemic last year, we would like to provide our investors with insight about our expectations for the first quarter 2021. The first quarter is historically our lowest revenue quarter largely due to the operator budget release schedules. With the seasonality of the first quarter and a slow recovery with antenna revenues, we are forecasting revenues between \$17.5 and \$18.5 million for the first quarter 2021. We project our GAAP gross profit margin percentage to be in the range of 45% to 47% and the non-GAAP earnings per share to be in the range of -\$0.03 to break-even. The sequential decline in gross margin percentage is primarily due to a lower mix of test & measurement revenues in the first quarter 2021. We are making these projections based upon current information and circumstances which could change. As mentioned earlier, we believe the second half of the year will be stronger as the global economy recovers. We will continue to manage our costs and our working capital through the year 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.

I'm pleased that we saw improvements in our operating results as we finished 2020. I'm very proud of our employees and I appreciate their dedication, flexibility and willingness to make changes to address the immediate challenges of the pandemic and more importantly, their focus on improving processes and adopting changes that will benefit the company in the long-term. There are still unknowns with respect to the coronavirus and its potential impact as we progress through 2021, but I have confidence that our business will recover as well or better than the overall economy this year.

PCTEL is in a strong financial position, we have loyal customers, and we serve attractive growing markets. Testing wireless infrastructure, supporting industrial IoT and enabling wireless connectivity will continue to be important as the world increasingly relies on remote access and the ability to work and monitor systems from almost anywhere.

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. The challenges of 2020 are behind us and we look forward to our opportunities in 2021. Thank you.

Operator:

Thank you for joining us today for PCTEL's fourth quarter 2020 Earnings Call.

You may now disconnect your lines.