

Operator

Welcome to the PCTEL first 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 first 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 in this unprecedented COVID-19 era, 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 first 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. I would like to start by saying that I'm pleased with our team's response to the COVID-19 crisis and our ability to continue to address the needs of our customers that provide essential services for critical infrastructure. My highest priorities are to keep our customers and employees safe, protect corporate assets such as cash and production capabilities, and continue to make investments to meet customers' needs for our antennas, radio solutions, and test and measurement equipment.

In our call today, I will cover three topics: our recently reported results for the first quarter 2020; the actions we are taking to mitigate our business risks associated

with COVID-19; and our long-term opportunities based on expanded need for our connectivity products in this new global environment. Kevin will then cover our financials in more detail and share our guidance as we navigate through this sustained period of disruption.

The disruption caused by COVID-19 during the second half of the first quarter 2020 presented unprecedented challenges that continue through today.

Nevertheless, through the efforts and dedication of our test and measurement team, Q1 2020 set a record for scanning receiver sales driven by 5G global deployments. Overall, Q1 2020 revenue and earnings results were lower than planned, but I'm encouraged that we finished the quarter within our revenue and earnings guidance despite the significant disruptions caused by the virus. As you may have seen in our press release issued after the market close, we achieved \$17.5M in revenue and non-GAAP earnings per share of \$0.01. We also achieved gross margin of 47%, up approximately 5% over last year.

The most significant risks to our business in the short term are our ability to ensure a safe workplace for our employees and to deal with potential disruptions to supply chains for both product lines while "stay-at-home" orders are in place. As a supplier to critical infrastructure providers in markets such as 5G, enterprise wireless, public safety, utilities, fleet and rail, we are permitted to remain open as an essential business during these "stay-at-home" periods. On our last call, I reported that our manufacturing facility in Tianjin, China reopened partially on February 26, and then fully in early March. And, it has been operating at full capacity since then. We continue to diversify our manufacturing through the

transition of selected product lines from our Tianjin facility to contract manufacturers in China and Taiwan. This diversification will reduce our costs and diminish the impact on production of any future localized COVID-19 recurrences.

Beginning in mid-March, our global office staff, including corporate, engineering, finance, marketing, customer support, IT and sales have been working productively from home. Our US production facilities remained open through March and were staffed by employees on a voluntary basis. We implemented protective measures at our facilities including restricted access, distancing requirements, closing of meeting areas, increased sanitization, use of gloves and masks and other measures recommended by the CDC. Since then, we have made masks mandatory and we have begun taking temperatures of employees entering the facilities. Since early April our U.S. production facilities have been operating when possible given the circumstances in each location. At this time, we believe we have enough operational capacity to meet our customers' needs in the second quarter, assuming there are no unforeseen future closures.

Our customer support and sales organizations are doing an excellent job maintaining communications with our customers so that we jointly prioritize projects and product manufacturing. However, the COVID-19 related disruptions experienced by some of our customers have negatively impacted their ordering processes and our timely receipt of their purchase orders, which may ultimately delay our revenue recognition. We are managing supply chains in a similar

manner by regularly discussing and prioritizing raw material needs across our facilities with our vendors.

The length and depth of the COVID-19-induced recession will determine the speed of the global recovery, but we believe this crisis has highlighted the importance of reliable connectivity for critical infrastructure and the need for enterprise wireless communications, whether they be Wi-Fi or 4G/5G networks. We believe we are in a stronger position than many of our competitors as a result of our solid balance sheet and our ability to provide engineered products to critical infrastructure markets. The markets for our RF hardware products that enable connectivity and test networks remain strong and provide long-term growth opportunities for our business.

In our intelligent transportation and industrial IoT markets, our R&D investments and customer engagement continue to produce design wins. For example, we continue to see momentum in public utilities for antennas and integrated electronic solutions used for smart grid applications. In the first quarter, we won additional business for intelligent transportation for smart cities and have designed a complex multimode antenna system for rail applications. We are also seeing an increase in orders for our industrial IoT antenna solutions that improve communications and asset tracking in the health care industry.

Public safety and fleet continue to be important markets for PCTEL. We recently announced our new multi-band antenna for police vehicles that is designed specifically to be installed on a “ridged roofline” without compromising

performance. This antenna integrates our precision tracking with support for FirstNet and intelligent transportation systems using 4G/5G cellular networks. PCTEL has a long history of selling our precision antennas to the military for radio communications equipment and for guidance systems for aircraft and missiles. Our high-performance navigation antennas incorporate unique high-rejection capabilities and are used in military communications where interference mitigation is critical.

With respect to the global rollout of 5G, we see uneven demand based upon the impact of COVID-19 in certain areas, with weaker demand in Europe. We believe this is a short-term issue. Given that 5G is still in early deployment stages with limited overall coverage, we expect demand for our scanning products to remain strong over the next 2-3 years of deployment. In the US, the merger of T-Mobile and Sprint should increase the demand for 5G test and measurement tools as this third major operator deploys 5G at both millimeter and legacy sub-6GHz frequency bands. To address networks that use frequencies in both bands, we recently launched a significant upgrade to our HBflex scanning receiver that will allow operators to test both 5G millimeter and sub-6GHz bands simultaneously during one test. This saves operators a considerable amount of time and cost during testing. We are also pleased to announce that our industry-leading public safety scanning receiver solution that tests P-25 and DMR networks now also supports TETRA. TETRA is deployed globally and will increase our ability to provide our world class public safety testing and antenna solutions to a broader market.

Looking forward, we expect test and measurement revenue for 5G testing to remain strong throughout 2020. Enabling connectivity for remote monitoring and controlling critical infrastructure is especially important during these times. Industrial IoT applications will drive antenna and radio revenue growth at a faster rate through the year as these IoT systems are implemented.

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 address the financial results for the first quarter ended March 2020 and I will provide second quarter 2020 guidance. I will also discuss the steps the Company is taking to maintain its strong financial position.

Revenues were \$17.5 million in the first quarter 2020, 15% lower compared to the first quarter 2019. As David mentioned, this was a historically strong first quarter for test & measurement product revenues, driven by an increase in sales of 5G scanning receivers, upgrades to add 5G technology, and an increase in sales of public safety applications. Revenues for test and measurement products

increased 10% compared with first quarter last year, to \$6.1 million. However, antenna product revenues declined 24% compared to the first quarter last year to \$11.5 million. Some of our larger antenna customers delayed taking inventory of run-rate products. In addition, the timing of customer purchase orders and supply chain disruptions due to the COVID-19 pandemic also impacted first quarter revenues.

The first quarter 2020 gross profit margin on a GAAP basis improved by 4.9% to 46.9% due to favorable product line mix of test and measurement products as well as a higher antenna gross profit margin as compared to the first quarter last year. The gross profit margin percentage for antenna products was 2.0% higher in the first quarter 2020 compared to the prior year due to a more profitable product line mix and cost reductions in our China operations.

Adjusted EBITDA was approximately seven hundred thousand (\$700,000) for the first quarter 2020, compared to \$1.4 million in the first quarter 2019. Adjusted EBITDA margin as a percentage of revenue was 4% in the first quarter 2020 compared to 7% for the first quarter 2019. Non-GAAP diluted earnings per share was \$0.01 in the first quarter 2020 compared to \$0.04 in the first quarter 2019. The decline in first quarter 2020 non-GAAP earnings per share was primarily due to the lower gross margin contribution from the antenna product line.

Cash and investments declined \$1.4 million to \$38.3 million at the end of March 2020. In the first quarter of 2020, we generated cash from operations of \$4.3 million, primarily because accounts receivable declined by \$3.4 million. We used cash of \$2.0 million to repurchase approximately 375,000 shares, \$1.1 million for withholding taxes for stock-based compensation, and \$1.0 million for the quarterly dividend.

PCTEL's balance sheet remains very strong with its significant cash and investments and no debt. We also expect sequential growth in revenues and earnings. However, due to uncertainties as a result of the COVID-19 pandemic and the potential financial impact related to disruptions in our operations, supply chain, and customer demand, we are proactively managing our costs and our working capital. At the outset of the second quarter, we took several steps to reduce our expenses and conserve cash. We reduced operating expenses through reductions in salaries, director fees, and discretionary spending and we terminated our share repurchase program to conserve the \$5.0 million remaining in the program. We also reduced non-essential capital expenditures. We believe that being proactive will protect and strengthen our solid financial position.

As David mentioned, COVID-19 has presented unprecedented challenges that continue through today. These challenges make it difficult to accurately forecast financial results. Nevertheless, we want to give our investors some indication of our expectations for the second quarter based upon current information.

Generally, we are forecasting higher revenues and earnings for the quarter. More specifically, we expect our second quarter revenues will be between \$19.5 and \$21.5 million. Further, 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 \$0.05 to \$0.08. The sequential increase in revenue is primarily driven by higher antenna product revenues. Again, we are making these projections based upon current information and circumstances which could change.

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.

Our top three priorities in the short term are driven by the unknown length of the COVID-19 crisis and the potential depth of the crisis-induced recession. First, we have a talented and loyal workforce and we will continue to take measures to protect them from the virus and do our best to maintain full employment.

Second, we are in a strong financial position, we have access to capital, and we have taken additional steps to reduce expenses to alleviate the burden on cash.

Third, we are in very competitive markets and we will continue to make R&D investments, as we have in previous downturns, to ensure we have the products

our customers want and need. Protecting our employees, managing our cash position and prioritizing R&D investments benefits all stakeholders.

The demand for reliable connectivity solutions for critical infrastructure will continue well past this crisis. Our long-term strategy is to position the company to accelerate growth organically and inorganically when conditions stabilize.

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

Operator?

David Neumann: Close

Thank you for joining us this afternoon. Our team is extraordinary and I want to thank them as well for their contributions, flexibility and patience during these sometimes extraordinarily stressful times.

We look forward to updating you on our next call. Thank you.

Operator:

Thank you for joining us today for PCTEL's first quarter 2020 Earnings Call. You may now disconnect your lines.