

**Operator**

Welcome to the PCTEL second 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 second 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 second 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'm pleased with how our team has addressed the challenges of the COVID pandemic while providing excellent service to our customers. We were able to grow revenue sequentially and exceed our earnings guidance for the quarter. All our production facilities remain open while most of the professional staff continue to work productively from home. Supply chains are operating reasonably well and we are able to meet customer delivery requirements. We remain profitable with a strong balance sheet; we are able to make the necessary investments in

R&D and our operations; and I believe that both our antenna and scanning receiver businesses are well-positioned for long-term growth.

Q2 revenue performance was within our guidance and we exceeded our earnings estimates as a result of strong gross margins and a disciplined approach to controlling expenses. As you may have seen in our press release issued after the market close, we achieved \$19.8M in revenue and non-GAAP earnings per share of \$0.11, both sequential improvements over Q1. We also achieved gross margins of 48% for the quarter, up 2.5% over the second quarter last year.

We will continue to prioritize the safety and health of our employees as we work through this pandemic. We have made numerous upgrades in our facilities to keep our employees safe and we continue to invest in engineering, sales and operations, including hiring additional talent and restoring employee wages. We have improved a number of internal processes to streamline operations and how we interact with customers, suppliers, partners and investors. We are optimistic that we can operate effectively and profitably in this COVID-19 environment.

The second quarter was the first full fiscal quarter impacted by the COVID pandemic and the related recession. We felt the impact primarily in the reduced demand for some of our antenna products and the resulting reduction in revenue. In general, the highly-engineered products and the project-oriented nature of our

antenna business create a lengthier sales process than for consumer-oriented products so the impact of COVID on demand for our antenna products may extend through the balance of the year. Despite the delays and temporary weaker demand, we believe that overall we have not lost market share and we have actually gained share in some antenna market segments. We continue to add strategic distribution partners and recently entered into a master distributor agreement with Welotec to expand our reach in Europe, the Middle East and Africa.

I'm pleased, in particular, with the continued strength of our test and measurement revenue and our ability to maintain a high level of performance relative to our strong start in the first quarter. Revenue for our 5G scanning receivers has been consistent through the first half of the year and it has the potential to improve as 5G infrastructure deployments accelerate into 2021.

We are in the early phases of 5G and there is ample room for growth. Ericsson estimates 5G will cover approximately 30% of the global subscriber base by 2025. According to the Global Mobile Suppliers Association or GSA, of the nearly 800 operators that have deployed LTE today, only 84 operators in 36 countries have deployed 5G commercially. In the US and northeast Asia, including China, Japan and Korea, deployments are robust. 5G deployments in Europe will accelerate as the region comes out of lockdown and spectrum is allocated. The number of deployments is expected to grow as spectrum is

auctioned and operators upgrade their networks to support the latest 5G technology standards. The new 5G standards, referred to as releases 16 and 17, are scheduled for end of 2020 and 2022, respectively. These 5G releases support improved feature sets for IoT, vehicular, private networks and eventually satellite deployments.

Although testing of public safety systems within buildings has slowed due to the inability to access properties, we continue to train and certify engineering service companies to use our test and measurement solutions. We have certified over 70 organizations in the use our network testing solutions that help ensure proper operation of emergency communications in buildings. We also see more demand to test both cellular and public safety systems during a single walk test. To support testing cellular LTE/5G and public safety network technologies such as P25, DMR and Tetra, we recently added a popular single-click reporting feature that automatically creates a printable summary of the drive or walk test. These automated reports include key performance indicators and maps, and can save hours or even days of post processing the collected test data. Engineers can now collect, process and report on all wireless technologies from 5G, LTE to public safety during one walk test.

Within our defined intelligent transportation market segment, we continue to win projects in additional cities for our traffic management antenna solution in the US, and we won sizable orders for our mobile multiband antenna products for applications in sanitation and mass transit fleets. Other recent industrial IoT

design wins and significant projects include customized antennas for commercial kitchen applications, an LTE antenna solution with integrated electronics to monitor underground powerlines and several high-potential antenna programs for military applications.

Within our Enterprise Wireless vertical market, we believe Wi-Fi will continue to be one the most prevalent unlicensed broadband technologies for cellular offload, wireless LAN connectivity and industrial IoT applications. We recently delivered our first industrial grade Wi-Fi 802.11ac access points and IoT interface cards to selected OEMs for integration into their products. Our ruggedized access points support custom software applications to support a wide range of IoT applications. Release of these new IoT products is another step towards PCTEL becoming the RF hardware vendor of choice for industrial IoT radio, antennas, sensors and test and measurement.

Note that in addition to making the necessary investments to drive innovation and organic growth, we continue to pursue our inorganic growth initiatives and take advantage of our solid balance sheet, particularly 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 second quarter and a discussion of our financials.

Kevin

## **Kevin McGowan**

Thank you, David.

I will address the financial results for the second quarter ended June 2020 and I will provide third quarter 2020 guidance.

We felt the full effects of the COVID-19 pandemic in the second quarter and it primarily impacted the timing of customer purchase orders and revenues in the quarter for both our antenna and test and measurement product lines. However, the steps we took to reduce our expenses and conserve cash positively impacted the second quarter results. We reduced operating expenses through temporary reductions in salaries, director fees, travel and other discretionary spending. We also reduced or delayed capital expenditures without deferring strategic initiatives.

Revenues were \$19.8 million in the second quarter 2020, an increase of \$2.3 million sequentially but 16% lower compared to the second quarter 2019.

Looking at the revenue by product line, revenues for test and measurement products were approximately the same as the first quarter at \$6.1 million but 19% lower compared with the second quarter last year, primarily attributable to lower revenues for products with other than 5G technologies. Antenna product revenues increased sequentially by \$2.5 million to \$13.9 million but declined 13%

compared to the second quarter last year. Antenna revenues for fleet, public safety and small cells were lower compared to the second quarter 2019.

The second quarter 2020 gross profit margin on a GAAP basis improved by 2.5% to 48.0% due to higher gross profit margin percentages for both antenna products and test and measurement products compared to the second quarter last year. The gross profit margin percentage for antenna products was 1.0% higher in the second 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 7.4% higher in the second quarter 2020 compared to the prior year as a result of more profitable customer and product mix, lower costs related to inventory reserves, and having no intangible amortization expense in cost of sales because all intangible assets were fully amortized in the first quarter of this year.

Operating expenses on a non-GAAP basis were \$7.5 million in the second quarter 2020, lower by \$1.2 million compared to the second quarter 2019. The favorable impact of the temporary cost reductions and lower expenses for our variable compensation plans contributed to the decrease in operating expenses.

The reduction in operating expenses and higher gross margin percentages offset the impact on gross margin from lower revenues. Adjusted EBITDA was \$2.9 million for the second quarter 2020, compared to \$3.0 million in the second



quarter 2019. Adjusted EBITDA margin as a percentage of revenue was 14% in the second quarter 2020 compared to 13% for the second quarter 2019. Non-GAAP diluted earnings per share improved sequentially from \$0.01 to \$0.11 in the second quarter 2020, compared to \$0.13 in the second quarter 2019.

PCTEL's balance sheet remains very strong with its significant cash and investments and no debt. Cash and investments increased during the second quarter by \$1.3 million to \$39.6 million. In the second quarter of 2020, free cash flow was \$1.9 million as we generated cash from operations of \$2.8 million. We also managed to generate cash flow from working capital because we maintained strong accounts receivable collections during the pandemic. On July 23rd we declared our regular quarterly dividend of \$0.055 per share on our common stock. This dividend will be payable on August 17, 2020 to shareholders of record at the close of business on August 7, 2020.

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, it is difficult to forecast financial results. We would, however, like to provide our investors with insight about our expectations for the third quarter. Based upon current information, we are forecasting revenues between \$18.5 and \$20.0 million for the third quarter. We project our GAAP gross profit margin percentage to be in the range of 47% to 48% and the non-GAAP earnings per share to be in the range of \$0.07 to \$0.10. Again, 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.

We are now more than four months into this COVID pandemic that may very well last into 2021. It has reinforced the importance of keeping our employees safe, healthy and productive. We will continue to take measures to protect them from the pandemic and do our best to maintain full employment while serving our customers to the best of our ability. PCTEL remains in a strong financial position, we are profitable, and we will continue to make investments for the long term. As I've said before, protecting our employees, managing our cash position and prioritizing R&D investments benefits all stakeholders.

We believe the demand for our precision engineered solutions will only increase in a world that relies on wireless connectivity. We are confident that we have enough capacity to serve our current customers and we'll be in a position to rapidly expand as conditions improve.

I would also like to note that for those who would like to learn more about PCTEL, Kevin and I will be attending two virtual investor conferences: the IDEAS Midwest Investor conference on August 26<sup>th</sup> and the Sidoti Fall 2020 Investor conference on September 23<sup>rd</sup> or 24<sup>th</sup>.

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

Operator?

**David Neumann: Close**

Thank you for joining us this afternoon.

I know this unusual COVID period has been challenging professionally and personally for all of our employees. I would like to thank them for their dedication, for taking care of our customers, and most importantly, for taking care of each other during these sometimes stressful times.

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

**Operator:**

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

You may now disconnect your lines.