

1 **Operator**

2 Welcome to the PCTEL second quarter 2022 Earnings Release Conference Call.

3 At this time, all participants are in a listen-only mode. At the conclusion of our  
4 prepared remarks, we will conduct a question-and-answer session. As a  
5 reminder, this conference is being recorded.

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

7 **Kevin McGowan**

8 Thank you for joining us on today's conference call to discuss PCTEL's second  
9 quarter 2022 financial results. With me today is David Neumann, the Company's  
10 CEO.

11 Please note that a webcast replay will be available on our website.

12 Before we begin, let me remind you that this call may contain forward-looking  
13 statements and projections based upon current circumstances. While these  
14 forward-looking statements and projections reflect PCTEL's best current  
15 judgment, they are subject to risks and uncertainties, particularly related to the  
16 COVID-19 pandemic, global supply chain and logistics challenges, global  
17 economic circumstances (including recession), geopolitical circumstances, and  
18 opportunities to expand our distribution channels, that could cause actual results  
19 to differ materially from these forward-looking statements and projections. Risk  
20 factors that could cause PCTEL's actual results to differ materially from its  
21 projections are discussed in the earnings press release which was issued today

22 and the Company's annual report on Form 10-K. The Company assumes no  
23 obligation to update any forward-looking statements or information, which speak  
24 as of their respective dates.

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

31 I am now pleased to turn the call over to David Neumann.  
32

33 **David Neumann**

34 Thank you, Kevin.

35 Good afternoon and thank you for joining us. In today's call, we will discuss the  
36 second quarter performance and outlook for the third quarter, followed by our  
37 long-term vision, our growth strategies and the progress we are making in each  
38 of our product lines. To start, I will summarize our performance in the quarter  
39 and Kevin will provide more details later in the call.

40

41 We are pleased to report \$25.0 million in revenue for Q2, a 15% increase year-  
42 over-year and 11% sequentially. The company has grown revenue steadily over  
43 each of the past six consecutive quarters, driven by improved market conditions

44 and new product releases. GAAP net income was \$0.4 million or \$0.02 per  
45 share compared to GAAP net loss of \$(0.2) million or \$(0.01) per share in the  
46 second quarter of 2021. Non-GAAP earnings per share was \$0.10 compared to  
47 \$0.07 in the second quarter of 2021. Non-GAAP gross margin was 46.0% due to  
48 strong scanning receiver sales in the quarter.

49

50 The team has done a great job through the first half of the year executing on our  
51 vision and successfully managing inflationary pressures and supply chain  
52 challenges. We continue to see improvements both in transit times and shipping  
53 fees although they both are still considerably higher than before the pandemic.

54 We also continue to optimize our contract manufacturing approach and are  
55 investigating potential manufacturers in Eastern Europe and Mexico to  
56 strengthen our cost efficiency and ability to mitigate risks.

57

58 Wireless connectivity is expanding rapidly as more systems rely on wireless  
59 networks and automation to drive productivity, particularly in growing wireless  
60 connectivity verticals including 5G carriers, public safety, rail, logistics,  
61 agriculture, vehicles and utilities. We are a global leader in designing and  
62 distributing RF scanning receiver products for wireless carriers and public safety  
63 applications. Our long-term vision is to expand our leadership position to include  
64 antenna and Industrial IoT wireless products that enable connectivity for the most  
65 critical applications. Our long-term vision is supported by three core growth  
66 strategies: launch innovative wireless products; expand and leverage distribution

67 channels; and increase market share by providing more components of the  
68 overall systems, all of which we will discuss in greater detail later in the call.

69

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

72 Kevin?

73

74 **Kevin McGowan**

75 Thank you, David.

76

77 I will begin today with a detailed review of our second quarter's financial results,  
78 followed by our third quarter 2022 outlook.

79

80 Our revenues in the second quarter were at the high end of our expectations and  
81 our earnings exceeded our expectations. Total revenues of \$25.0 million were  
82 approximately 15% higher in the second quarter 2022 compared to the second  
83 quarter 2021 due to higher revenues in both our antennas and industrial IoT  
84 devices product line and in our test & measurement product line. Revenues for  
85 antennas and industrial IoT devices were \$17.6 million in the period, an increase  
86 of \$2.0 million compared to the second quarter 2021. This increase for the  
87 second quarter 2022 is due to both an increase in revenues related to antennas  
88 for fleet applications and a full quarter of revenue recognized from Smarteq,

89 which was acquired at the end of April 2021. Test and measurement revenues  
90 were \$7.4 million for the second quarter 2022. Our test and measurement  
91 revenues were \$1.0 million higher compared to the second quarter 2021 primarily  
92 due to stronger sales for 5G products through OEM customers.

93

94 The second quarter 2022 gross profit margin on a non-GAAP basis was 46.0%,  
95 which was 1.5% lower than the second quarter 2021. The decrease in the gross  
96 profit margin was primarily due to lower gross margin for antennas and Industrial  
97 IoT devices. The non-GAAP gross profit margin percentage for antennas and  
98 Industrial IoT devices improved sequentially but was lower by 3.0% in the second  
99 quarter 2022 compared to the second quarter 2021 primarily because less  
100 favorable product mix offset favorable operating leverage. The non-GAAP gross  
101 profit margin percentage for test and measurement products was higher by 1.4%  
102 in the second quarter 2022 compared to the second quarter 2021.

103

104 Operating expenses on a non-GAAP basis were \$9.7 million in the second  
105 quarter 2022, an increase of \$0.8 million compared to the second quarter 2021  
106 and \$0.1 million higher sequentially. The year-over-year increase primarily  
107 resulted from higher incentive compensation expenses, sales and marketing  
108 costs related to travel and trade shows, and a full quarter of Smarteq's operating  
109 expenses.

110

111 Adjusted EBITDA increased by 18% to \$2.6 million in the second quarter 2022  
112 compared to \$2.2 million in the second quarter 2021. Adjusted EBITDA as a  
113 percentage of revenue was 10% in the second quarter 2022, approximately the  
114 same as the second quarter 2021, and non-GAAP diluted earnings per share  
115 was \$0.10 in the second quarter 2022, higher by \$0.03 compared to the second  
116 quarter 2021.

117

118 Cash and investments were \$28.3 million at the end of the second quarter 2022.  
119 Compared to the end of the first quarter, our cash and investments increased by  
120 approximately \$0.6 million as free cash flow of \$1.6 million offset cash used on  
121 financing and other cash flow activities of \$0.6 million. Financing activities in the  
122 second quarter included payment of our quarterly dividend. Our cash and  
123 investments on hand and cash flow supports our capital allocation strategies of  
124 paying quarterly cash dividends and having available funds for M&A activities.

125

126 Turning to guidance, given our backlog going into the third quarter and continued  
127 demand for our products, we expect to achieve revenues in the third quarter in  
128 the range of \$25.5 million to \$26.5 million. Based on product mix, we expect our  
129 non-GAAP gross profit margin percentage to be in the range of 44% to 45%, and  
130 we expect our non-GAAP earnings per share to be in the range of \$0.09 to  
131 \$0.11. The third quarter 2022 revenue guidance represents a year-over-year  
132 increase compared to \$22.4 million in the third quarter 2021 and at the mid-point

133 of the range is approximately 16% higher than the third quarter 2021. With that, I  
134 will now turn the call back to David.

135

136 **David Neumann**

137

138 Thank you, Kevin. I would now like to dive deeper into our progress against our  
139 three key growth strategies that I spoke to earlier in the call: launching innovative  
140 wireless products; expanding and leveraging distribution channels; and  
141 increasing market share by providing more components of the overall systems.

142

143 In terms of our first core growth strategy of launching innovative products, our  
144 product suite presently includes wireless IoT devices, antennas, and RF test and  
145 measurement equipment used across a variety of wireless technologies,  
146 including 5G, Wi-Fi, P25, LoRA and others. Our wireless IoT devices include  
147 ruggedized access points, IoT wireless interfaces for remote devices, and  
148 wireless sensors. As we look to expand our portfolio, you may have seen that  
149 we recently received European regulatory approval for our IoT Radio Module that  
150 supports any product that accepts standard mini-PCIe cards. This was purpose-  
151 built to support industrial applications targeting a range of markets including  
152 utilities, fleets, manufacturing, automation, mining, and oil and gas. This module's  
153 small form factor makes it ideal for integration into wireless IT platforms and its  
154 high transmit power provides continuous connectivity. The IoT Radio Modules

155 are currently in several trials, and we expect FCC approval soon for sales in the  
156 US.

157

158 With respect to antennas, we successfully launched several products in the  
159 quarter including the new 5G, 10-in-1 combination antenna portfolio for rail, fleet,  
160 and mass transit. These antennas are designed to withstand the extreme  
161 conditions and hazardous environments of critical infrastructure, specifically in  
162 rail, where rugged and reliable solutions are essential. These antennas enable  
163 the connectivity necessary for railroad networks to identify where vehicles are on  
164 the tracks, ensuring that high-rail vehicles always stay within their designated  
165 track. The first orders for these antennas shipped in the second quarter and we  
166 believe this will be an expanding growth market for the company. We also see  
167 continued strength in the agriculture, utilities, logistics, and vehicular markets,  
168 including antennas for EV charging stations in Europe and in the US.

169

170 Our test and measurement products focus on 5G wireless operators, government  
171 agencies and public safety markets. In the second quarter, our test and  
172 measurement team produced multimillion dollar orders from two of our largest  
173 OEMs for our Gflex<sup>®</sup> and HBflex<sup>™</sup> scanning receivers and ancillary products that  
174 will be delivered this year. The Gflex scanning receiver was designed specifically  
175 to meet the complex demands of multi-carrier 5G network testing across multiple  
176 sub-8 GHz and mmWave bands in a single lightweight, portable unit. It is the first  
177 purpose-built walk and drive test scanner to support every 5G band as currently



178 defined in the 3GPP specification. The Gflex is a software defined radio that can  
179 be customized and upgraded to add new capabilities through software releases  
180 as we continue to innovate. In addition to testing wireless carrier networks, the  
181 Gflex has specific capabilities for government signal intelligence applications. On  
182 the public safety front, our scanning receivers are used to test in-building  
183 coverage for first responders. We announced a new product in Q3 of this year,  
184 the SeeHawk™ Monitor, that will continuously monitor public safety RF  
185 performance. Trials are in progress, and we expect initial sales this year.

186

187 Our second core growth strategy is to expand and leverage our sales channels  
188 globally. North America represents approximately 70% of our revenue and  
189 continues to be our largest region currently and for future growth. Our two main  
190 sales channels are large OEMs and strategic distributors. Business with our  
191 OEMs has remained strong, particularly due to continued strength in the  
192 agriculture space in the second quarter, supported by a significant number of  
193 strategic distributor additions over the past 18 months to expand into additional  
194 markets and applications. We expect to see this strategy drive long-term growth  
195 as we leverage our distributors' reach.

196

197 We increased our presence in Europe last year with the acquisition of Smarteq  
198 and we continue to be very pleased with their performance. We continue to make  
199 investments in both the team and the region, including adding a new distributor  
200 and evaluating others to grow our presence internationally. We have also

201 launched the Smarteq products into our US distributors and OEMs to expand our  
202 portfolio and strengthen our product mix offered in the Americas.

203

204 We've historically had strong scanning receiver sales in Asia primarily through  
205 our major OEMs, and we're encouraged to see 5G deployments picking up again  
206 in the region. Although there is more local competition in Asia for our antennas,  
207 there are opportunities that require our high-performance multi-mode antennas  
208 for critical applications. As such, we expect to capture additional market share in  
209 Europe and Asia in the future.

210

211 In addition to regional expansion, our third core growth strategy is to increase  
212 market share with existing customers by providing integrated solutions. Our IoT  
213 radio devices and antenna portfolios address specific markets and can be  
214 integrated into custom solutions to capture a larger portion of the customer's  
215 spend on wireless projects. As an example, our integrated wireless sensor  
216 platform includes a battery powered wireless sensor, communication board, and  
217 built-in antenna with a development kit for customization. We believe integration  
218 of electronics, radios, and sensors with antennas in a ruggedized enclosure  
219 simplifies deployments for customers and provides a competitive advantage for  
220 PCTEL in the market.

221

222 These three core growth strategies of launching innovative wireless products;  
223 expanding and leveraging distribution channels; and increasing market share by

224 providing more components of the solutions have proven to be our foundation for  
225 driving growth within the Company. We strive to continue our growth through  
226 these strategies in the coming quarters.

227

228 Before taking questions, I would like to share a few closing thoughts.

229 We have successfully executed on our 2022 financial and strategic plan through  
230 the first half of the year and have confidence for the remainder of the year. The  
231 team is doing an excellent job evaluating risks and preparing for challenges that  
232 may result from concerns such as the ongoing pandemic, global financial  
233 situation and the ongoing geopolitical conflict. We will continue to stay in close  
234 contact with our customers to meet or exceed their expectations.

235

236 As our world becomes increasingly dependent on wireless connectivity, the  
237 demand and necessity for high performance wireless systems grows. We are  
238 confident that our core strategies of developing innovative and high-quality  
239 products, expanding our distribution channels, and increasing market share by  
240 providing more components of the overall systems will drive long-term growth  
241 and benefit all stakeholders.

242

243 Regarding company governance, I am excited to announce that Jay Sinder is our  
244 new Chairman of the Board for PCTEL, effective July 1st, 2022. Jay has been  
245 on our Board for 8 years and most recently has served as the Chair of the Audit  
246 Committee. Jay is a telecommunications industry veteran with executive and

247 financial experience at both private and public companies. He currently serves as  
248 the CFO of Jellyvision Labs, Inc, an employee benefits guidance SaaS company,  
249 and has served as CEO or CFO for a variety of private companies. I'm looking  
250 forward to working with him in his new role. Cindi Keith will take on additional  
251 responsibility as the Chair of the Audit Committee. She enjoyed a 25-year  
252 career with PricewaterhouseCoopers, the world's largest multinational  
253 professional services firm, where she became a partner in 2000. Throughout her  
254 career, she specialized in audits of and consulting with technology and  
255 communications clients, including global public companies focused on mergers  
256 and acquisitions as well as companies in various stages of growth.

257

258 I would like to thank Steve Levy for serving as the Chairman since January  
259 2017. I appreciate his guidance and support over the past five years, and he will  
260 remain on our Board of Directors.

261

262 We are also pleased to announce that we have chosen Alpha IR as our new  
263 investor relations firm. The Alpha IR Group is an end-to-end investor relations  
264 firm that protects, enhances and builds the investment brands of America's  
265 leading companies. We look forward to working closely with them. Alpha's  
266 contact information is available under Contact Us – Investor Relations on our  
267 website and you can contact them at [PCTI@alpha-ir.com](mailto:PCTI@alpha-ir.com).

268

269 Finally, Kevin and I will be attending Lake Street's 6th annual Best Ideas Growth  
270 Conference in New York on Wednesday, September 14th. We look forward to  
271 meeting with investors at the conference.

272

273

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

275 Operator?

276

277 **David Neumann: Close**

278 Thank you, all for joining us this afternoon.

279

280 Thank you to our employees, our suppliers and, of course, our customers for  
281 their commitment to PCTEL. I wish everyone a great afternoon - Thank you and  
282 stay safe.

283

284 **Operator:**

285 Thank you for joining us today for PCTEL's second quarter 2022 Earnings Call.

286 This does conclude our call. You may now disconnect your lines.