

1 **Kevin McGowan**

2 Thank you for joining us on today's conference call to discuss PCTEL's second
3 quarter 2023 financial results. With me today is David Neumann, the Company's
4 CEO.

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

6 Before we begin, let me remind you that this call may contain forward-looking
7 statements and projections based upon current circumstances. While these
8 forward-looking statements and projections reflect PCTEL's best current
9 judgment, they are subject to risks and uncertainties, particularly related to global
10 supply chain and logistics challenges; global political and economic
11 circumstances (including inflation and a potential recession); ability to generate
12 sales of our innovative new products; success of our expansion efforts in Europe;
13 and ability to leverage our distribution channels, that could cause actual results to
14 differ materially from these forward-looking statements and projections. Risk
15 factors that could cause PCTEL's actual results to differ materially from its
16 projections are discussed in the earnings press release which was issued today
17 and the Company's annual report on Form 10-K. The Company assumes no
18 obligation to update any forward-looking statements or information, which speak
19 as of their respective dates.

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21 Additionally, our commentary will include reference to the following non-GAAP
22 measures: non-GAAP gross margin percentage, non-GAAP operating expense,

23 non-GAAP earnings per share, and adjusted EBITDA. We believe these non-
24 GAAP measures facilitate comparability of results over different periods. A full
25 reconciliation of these non-GAAP measures to GAAP is included in our quarterly
26 earnings press release that was issued earlier today.

27
28 I am now pleased to turn the call over to David Neumann.
29

30 **David Neumann**

31 Thank you, Kevin.

32

33 Good afternoon all, and thank you for joining us today for our second quarter
34 2023 conference call. Today we will discuss market conditions, review our
35 second quarter performance and share our outlook for the third quarter of 2023.
36 Kevin will then review our financial results in greater detail.

37

38 Incoming orders improved in the quarter, driven, in part, by a large OEM
39 customer increasing purchases as their higher than normal inventory levels
40 began to decline. We are pleased to report that customer supply chain issues
41 are improving, which also contributed to the increase in orders.

42

43 At a high level, we delivered second-quarter revenues of \$20.6 million, a
44 decrease of \$4.4 million year-over-year, but we achieved strong non-GAAP gross
45 margins of 49.5%, up 3.5% from the prior year period. Top line performance was
46 in line with our expectations, and the decline both on a sequential and year-over-

47 year basis was due to lower revenues in both product lines. Although revenue
48 decreased in our antenna business, incoming orders increased in the quarter,
49 which will contribute to revenues in the second half of the year and into 2024.
50 Scanning receiver incoming orders also increased and the revenue comparison
51 is to a stronger than expected first quarter, as Kevin will highlight soon.

52

53 As always, I would like to thank our PCTEL team for their continued dedication
54 and contribution to our business and growth. Through their diligence, we have
55 been able to continue to successfully navigate today's challenging operating
56 environment. Our supply chain relationships remain strong, our on-time delivery
57 metrics remain high, and our inventory is in a good position for the remainder of
58 the year.

59

60 Later in today's call I will discuss our three core growth strategies in greater
61 detail. We continue to make important progress with our industry leading product
62 launches, customer and distribution expansion, and work to provide more
63 components of our customers' systems, which continue to serve as the
64 foundation of our operational success.

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66 I would now like to turn the call over to Kevin for a review of our second quarter
67 2023 results. Kevin.

68

69 **Kevin McGowan**

70 Thank you, David.

71

72 Total revenues were \$20.6 million, essentially the mid-point of our guidance
73 range and 17.6% lower compared to the prior year period. Revenues for
74 antennas and Industrial IoT devices were \$14.4 million in the period, a decrease
75 of roughly \$3.2 million compared to the second quarter 2022, with lower antenna
76 revenues for enterprise and public safety applications due to customer inventory
77 levels, as well as customer supply chain challenges with other system
78 components. It is worth noting that these issues are starting to abate but still
79 impacted performance during the quarter. Test & Measurement revenues were
80 \$6.2 million for the second quarter of 2023, \$1.2 million lower compared to the
81 second quarter of 2022 primarily due to lower OEM sales, which declined
82 following a particularly strong first quarter. In addition, performance in the
83 second quarter last year was very strong, impacting the comparison to that
84 period. We expect the rest of the year to follow the typical cyclical pattern.

85

86 Second quarter 2023 gross profit margin percentage on a non-GAAP basis was
87 49.5%, above our expectations, and a 3.5% increase from the year ago period.
88 The increase in gross profit margin percentage was primarily due to a stronger
89 gross profit margin percentage for Antennas and Industrial IoT devices. Non-
90 GAAP gross profit margin percentage for antennas and Industrial IoT devices in
91 the second quarter 2023 improved by 6.5% compared to the second quarter
92 2022, due to continued improvement in logistical and operating costs relative to

93 last year coupled with a favorable shift in product and customer mix. The non-
94 GAAP gross profit margin percentage for Test & Measurement products was
95 lower by 4.2% in the second quarter of 2023 compared to the second quarter of
96 2022 due to higher component costs.

97

98 Operating expenses on a non-GAAP basis were \$9.0 million in the second
99 quarter 2023, a decrease of \$0.7 million compared to the second quarter 2022.
100 The year-over-year decrease was primarily due to lower expenses in sales and
101 marketing related to commissions and marketing programs, as well as lower
102 expense accruals for incentive compensation.

103

104 Other income was \$0.3 million in the second quarter 2023 compared to \$0.1
105 million in the prior year period. The year-over-year increase was primarily due to
106 higher average interest rates.

107

108 Adjusted EBITDA decreased by approximately 33% to \$1.7 million in the second
109 quarter of 2023 compared to \$2.6 million in the year ago period. Adjusted
110 EBITDA as a percentage of revenue was 8.5% in the second quarter of 2023
111 compared to 10.4% in the second quarter of 2022, and non-GAAP diluted
112 earnings per share was \$0.07 in the second quarter 2023, exceeding our
113 expectations of between \$0.02 to \$0.04, but was lower by \$0.03 compared to the
114 second quarter 2022. The decrease in earnings per share and adjusted EBITDA
115 can be attributed to the lower sales volumes.

116

117 Cash and investments were \$33.6 million at the end of the second quarter 2023.

118 Compared to the end of the first quarter 2023, our cash and investments

119 increased by approximately \$3.4 million. With lower sequential revenues, our

120 receivables contracted by \$2.6 million, and we reduced inventories by

121 approximately \$1.2 million during the second quarter. We will continue to focus

122 on managing the inventory to lower levels in both product lines. Financing

123 activities for the second quarter included payment of our quarterly dividend of

124 \$1.0 million. Our healthy cash and investments on hand and cash flow support

125 our capital allocation strategy of paying quarterly cash dividends and having

126 available funds for M&A activity.

127

128 Turning to our third quarter outlook, we expect revenues to be in the range of \$20

129 million to \$21 million. We see positive trends in some areas as we expect

130 continued improvement in the inventory and supply chain headwinds that David

131 mentioned previously. Top line performance is expected to be flat on a sequential

132 basis, with similar performance as in the second quarter for both product lines.

133 We expect the non-GAAP gross profit margin percentage to be in the range of

134 48% to 49%, and we expect our non-GAAP earnings per share to be in the range

135 of \$0.06 to \$0.07.

136

137 While there is ongoing uncertainty around the global operating environment in

138 2023, we are confident in our ability to grow our product offerings and ensure we

139 use the cash generated by the business in accretive and value-enhancing ways
140 for our shareholders.

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

143

144 **David Neumann**

145 Thank you, Kevin. I would now like to discuss our progress towards our three
146 core growth strategies during the quarter and comment more generally on
147 developments in the business. As I mentioned earlier, these include launching
148 innovative wireless products; expanding and leveraging distribution channels;
149 and increasing market share by expanding our reach and providing more
150 components of the overall customer systems.

151

152 Beginning with our innovative product launches. We are pleased to have
153 announced multiple industry leading products in the quarter, including the
154 addition of 4G and 5G Network Monitoring Capabilities to our SeeHawk Monitor
155 product. With this release, SeeHawk Monitor can collect and evaluate downlink
156 signals from 4G and 5G network base stations for mission critical public safety
157 and broadband wireless networks. The system detects and decodes 4G and 5G
158 base station signals in real time and notifies users of changes in conditions,
159 which may indicate interference that impacts network capacity and quality.
160 Ultimately, this monitoring will support the growth of private broadband networks

161 for hospitals, utilities, stadiums and venues, and other mission critical
162 applications such as government emergency services.

163

164 In July we announced a ruggedized integrated IoT sensor and antenna platform:
165 the Edge™ Sensor. This is a solution designed to operate in harsh environments
166 and provide reliable and improved edge connectivity with Industrial IoT sensing.
167 The Edge Sensor is a highly customizable solution that combines two of our top
168 platforms in a single ruggedized housing. Customers have the ability to select
169 from a variety of Industrial IoT onboard and external sensors based on their
170 needs, for applications in smart utilities, agriculture, mining, and industrial
171 process automation. We view the Edge sensor as an exciting next step in
172 PCTEL's evolution and the integration of our antennas with active components,
173 including radios and sensors. These advanced product launches build upon our
174 commitment to innovation and are expected to contribute to driving further growth
175 for years to come.

176

177 We also saw a number of positive developments for our Test & Measurement
178 business,

- 179 • 5G rollouts continue globally with more than 25 countries planning to
180 deploy 5G networks in 2023. Additional test and measurement tools will
181 be required for initial deployment and then to address the need for
182 additional capacity as usage and applications increase.

- 183 • In the second quarter, we secured significant public safety orders for in-
184 building network testing systems that will be delivered over the next year.
185 We also see growth in usage of our SeeHawk Central cloud-based data
186 management and reporting for public safety in-building testing.
- 187 • Finally, trials of SeeHawk Monitor have begun to convert to sales with
188 several other potential customers working on budget and purchase
189 orders. We believe this product has potential to open up new markets in
190 cellular and government beyond the current public safety use cases.

191

192 As I mentioned antenna incoming orders improved as supply chain headwinds
193 began to ease. We are encouraged that we continue to make strides in
194 expanding our customer reach, further penetrating and receiving large orders
195 within electric vehicle, agriculture, construction and public safety markets. To
196 make it easier for our customers to select the appropriate antenna for wireless
197 routers, we launched an online selector tool and expect to have the most
198 comprehensive antenna selector tool in the market by the end of year, which
199 should increase antenna orders. Additionally, we secured significant design wins
200 that are expected to drive revenue in 2024 and beyond and launched two new
201 omnidirectional antenna platforms that support the latest WIFI 7 and 5G
202 technologies, targeting IoT, enterprise and industrial applications.

203

204 I would now like to touch on our momentum in our global sales channels across
205 each of our businesses. Within test and measurement, I mentioned that we see

206 ample opportunity within public safety markets and for 5G rollouts. There are still
207 many markets in Europe, Africa and Asia that have sizable opportunities ahead
208 as they allocate spectrum and plan 5G deployments. With respect to antennas,
209 we continue to see growth in the number of new customers buying through our
210 larger distributors. For our OEM antenna customers, supply chain constraints are
211 beginning to ease, and inventory issues for one of our major public safety OEMs
212 are beginning to improve. We also started to receive orders from a major material
213 handling customer that have been delayed for more than a year. Lastly, we are
214 pleased to share that we received a large order from a European electric vehicle
215 manufacturer, building backlog for the remainder of this year and into 2024.

216

217 Our contract manufacturers in Asia continue to perform well as it relates to on-
218 time delivery, quality and customer satisfaction. We continue to evaluate contract
219 manufacturers outside of China in Southeast Asia and North America and are
220 consistently working to optimize our factory efficiency in the U.S.

221

222 Moving to our third core growth strategy of increasing market share with existing
223 customers by providing integrated solutions, we have enjoyed great success with
224 providing our customers with complementary products that leverage our
225 expertise in antennas. Our Edge Sensor, an integrated sensor/antenna platform,
226 is in trial with utilities and smart meter customers, and we expect a significant
227 order by the end of the year for our ruggedized access point for heavy vehicle
228 applications.

229

230 I'd like to provide some overarching comments on the business. As previously
231 noted, customers continue to work through temporary inventory issues, and there
232 is still work to be done, but as I shared, we are starting to see incremental
233 improvement. Incoming orders are increasing, and the underlying demand
234 environment remains healthy. Our talent is unmatched and our solutions for
235 Antennas and Industrial IoT devices and Test & Measurement solutions are
236 recognized as best-in-class in the market. With the strategic priority of growth in
237 mind, we will continue to invest in our products, people, and global reach as we
238 work through the remainder of the year and into 2024. As Kevin mentioned, our
239 balance sheet remains strong and provides us with flexibility to invest in the
240 business and also explore inorganic growth opportunities, as appropriate.

241

242 Finally, we are looking forward to some upcoming investor conferences in the
243 back half of the year. We will be attending the Lake Street conference in
244 September, as well as the Wolfe conference in December, both in New York, and
245 we look forward to meeting with some of you at these events.

246

247 I would also like to share that after 26 years of service, Giacomo Marini retired
248 from PCTEL's Board of Directors in June. Giacomo's experience and tenure
249 added a great deal of value to PCTEL. I am also pleased to welcome Tony
250 Rossabi to our Board of Directors. Tony's deep experience within the

251 telecommunications and IT industries will be invaluable to PCTEL's future
252 growth, and we are excited to be working alongside him.

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

255 Operator?

256

257 **David Neumann: Close**

258 Thank you, Irene.

259 Thank you for joining us this afternoon. I would like to once again thank our
260 PCTEL team for their continued commitment to our business, our customers, and
261 the growth of our business. Thank you for your support of PCTEL and your time
262 here today.

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