

1 **Operator**

2 Welcome to the PCTEL fourth quarter and full year 2022 Earnings Conference  
3 Call. At this time, all participants are in a listen-only mode. At the conclusion of  
4 our 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 fourth  
9 quarter and fiscal year 2022 financial results. With me today is David Neumann,  
10 the Company's CEO.

11 Please note that a webcast replay of this call 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 global  
16 supply chain and logistics challenges; global, political and economic  
17 circumstances (including a potential recession); ability to generate sales of our  
18 innovative new products; success of our expansion efforts in Europe; and ability  
19 to leverage our distribution channels, that could cause actual results to differ  
20 materially from these forward-looking statements and projections. Risk factors  
21 that could cause PCTEL's actual results to differ materially from its projections

22 are discussed in the earnings press release which was issued today and the  
23 Company's annual report on Form 10-K. The Company assumes no obligation to  
24 update any forward-looking statements or information, which speak as of their  
25 respective dates.

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

32 I am now pleased to turn the call over to David Neumann.  
33

34 **David Neumann**

35 Thank you, Kevin.

36 Good afternoon and thank you for joining us. In today's call, we will provide a  
37 summary of our fourth quarter and fiscal year 2022 performance and share our  
38 outlook for the first quarter 2023. We will also discuss our views on fiscal year  
39 2023 and highlight our key priorities consistent with our three-pronged growth  
40 strategy. I will begin with a few highlights, and then Kevin will discuss our  
41 financials in greater detail.

42

43 Overall, we were pleased with our Company's performance in 2022 as we  
44 delivered \$99.4 million in revenue for the year, which is a 13.2% increase year-  
45 over-year. This success was driven by growth in our European antenna  
46 business and strong customer demand for our Test and Measurement products.  
47 The Company also maintained strong gross margins of 46% for the year,  
48 supported by improving market conditions, continued execution and financial  
49 discipline.

50

51 Throughout the year, PCTEL delivered on our commitments to our customers  
52 while providing a high level of customer service. I am particularly proud of our  
53 team as they continue to successfully navigate today's challenging operating  
54 environment, including inflationary pressures and supply chain disruptions, both  
55 of which have eased from peak levels. We have been extremely diligent in  
56 mitigating these challenges. While there continues to be headwinds in the  
57 broader macroenvironment, we have started to see a rebound in logistics and the  
58 supply chain with availability of parts and transportation timeframes returning to  
59 near pre-pandemic levels. We provide our products to customers throughout the  
60 world and we remain in close contact with our shippers and suppliers to assure  
61 on-time delivery of our products to our customers.

62

63 Throughout the fourth quarter and year, our progress was driven by executing on  
64 our three core growth strategies. As a reminder, these include:

65 1) launching innovative wireless products;

66 2) expanding and leveraging our distribution channels; and  
67 3) increasing market share by providing more components of the overall  
68 systems.

69

70 We have made exciting strides through new product launches, new end market  
71 penetration, and leveraging our global distribution channels, all of which I will  
72 detail later in today's call.

73

74 With that, I will turn the call over to Kevin for a closer look at our fourth quarter  
75 and fiscal 2022 results.

76 Kevin?

77

78 **Kevin McGowan**

79 Thank you, David.

80

81 During 2022, we developed many new products and further diversified our end  
82 market exposure. This led to double-digit top-line growth and significant  
83 improvement in the bottom line. Our teams are executing well, mitigating many  
84 of the headwinds our industry has faced, and we're pleased with the Company's  
85 performance in the quarter and for the year. I would now like to detail our fourth  
86 quarter and fiscal 2022 results:

87

88 For the fourth quarter of 2022, total revenues were \$25.9 million, in-line with our  
89 guidance range, and essentially flat compared to the fourth quarter 2021.  
90 Revenue for antennas and industrial IoT devices was \$16.4 million in the period,  
91 a decrease of roughly 14% or \$2.7 million compared to the fourth quarter 2021,  
92 negatively impacted by higher customer inventory levels. Despite the year-over-  
93 year decline, we expect organic growth in the antenna segment. Test &  
94 Measurement revenue was \$9.9 million for the fourth quarter 2022, 37.7% higher  
95 compared to the fourth quarter 2021, primarily due to stronger sales for 5G  
96 products in the U.S. We delivered an all-time record revenue quarter for our Test  
97 and Measurement business and ended fiscal 2022 with a strong backlog for  
98 2023.

99  
100 Fourth quarter 2022 gross profit margin on a non-GAAP basis was 50.6% which  
101 exceeded our expectations and represents an increase of 400 basis points over  
102 the year-ago period. The increase in the gross profit margin was due to the larger  
103 mix of Test and Measurement products in the quarter compared to the fourth  
104 quarter of fiscal 2021. Non-GAAP gross profit margin for Test and Measurement  
105 products was 73.1%, a decline from 77.7% in the comparable prior year period.  
106 The decline in gross margin percentage was primarily due to a high mix of  
107 revenues from OEM customers and the impact of short-term increases in  
108 component costs. Non-GAAP gross profit margin for antennas and industrial IoT  
109 devices improved by 170 basis points in the fourth quarter 2022 to 36.2%,  
110 primarily because of lower freight costs.

111

112 Operating expenses on a non-GAAP basis were \$10.0 million, an increase of  
113 approximately \$100 thousand compared to the fourth quarter 2021. The year-  
114 over-year increase in non-GAAP operating expenses was the result of higher  
115 expenses for incentive compensation programs and employee severance  
116 expenses offsetting lower product development expenses.

117

118 Adjusted EBITDA increased by 21.7% to \$3.7 million in the fourth quarter 2022  
119 compared to \$3.1 million in the year-ago period. Adjusted EBITDA as a  
120 percentage of revenue was 14.4% in the fourth quarter 2022 compared to 11.8%  
121 in the fourth quarter 2021. The improvement in Adjusted EBITDA is primarily due  
122 to higher gross profits. These results demonstrate the operating leverage built  
123 into our business model as our revenues have outpaced overall operating  
124 expenses despite continued inflationary challenges. Non-GAAP diluted earnings  
125 per share was \$0.16 in the fourth quarter 2022, higher by \$0.04 compared to the  
126 fourth quarter 2021.

127

128 Now, let's turn to our fiscal 2022 results. We're pleased to report that our total  
129 revenues were \$99.4 million, an increase of 13.2% compared to \$87.8 million in  
130 fiscal 2021. Revenue for antennas and industrial IoT devices was \$69.7 million in  
131 the period, an increase of roughly 10.5% compared to fiscal 2021, driven by  
132 persistent strength in the infrastructure, agriculture and automotive market  
133 segments. We achieved record Test and Measurement revenues of \$30.6 million

134 for fiscal 2022, 18.9% higher compared to fiscal 2021, primarily due to stronger  
135 sales for 5G products through OEM customers.

136

137 Fiscal 2022 gross profit margin on a non-GAAP basis was 46.3%, a 70-basis  
138 point decline from fiscal 2021. The decrease in fiscal 2022 non-GAAP gross  
139 profit margin was primarily due to less favorable customer and product mix within  
140 the product lines. Non-GAAP gross profit margin for antennas and industrial IoT  
141 devices in fiscal 2022 was 33.8%, a 60-basis point decrease from fiscal 2021.  
142 Non-GAAP gross profit margin for Test and Measurement was 74.3%, a 250-  
143 basis point decrease compared to fiscal 2021. The decline in gross margin  
144 percentage for the year was also primarily due to a high mix of revenues from  
145 OEM customers and the impact of short-term increases in component costs.

146

147 Non-GAAP operating expenses for fiscal 2022 were \$38.1 million, an increase of  
148 \$2.2 million compared to fiscal 2021. The year-over-year increase was due to a  
149 full year of expenses for Smarteq as well as higher expenses for incentive  
150 compensation programs, employee severance expenses, and travel expenses  
151 offsetting lower product development expenses.

152

153 Adjusted EBITDA increased by 26.8% to \$10.7 million in fiscal 2022 compared to  
154 \$8.5 million in the year-ago period. Adjusted EBITDA as a percentage of revenue  
155 was 10.8% in fiscal 2022 compared to 9.6% in fiscal 2021. Higher operating  
156 income from higher revenues contributed to the improvement in adjusted

157 EBITDA. Non-GAAP diluted earnings per share was \$0.41 in fiscal 2022 vs.  
158 \$0.27 in fiscal 2021.

159

160 Cash and investments were \$30.0 million as of December 31, 2022, a decrease  
161 of approximately \$0.8 million compared to December 31, 2021. While we  
162 generated strong EBITDA in 2022, we used working capital for inventories in  
163 both product lines and we paid our quarterly dividend. We closely monitor our  
164 inventory levels and are taking the necessary actions to ensure that we are not  
165 hampered by supply chain constraints and are well positioned to continue on-  
166 time deliveries for our customers. Although we have decided to make  
167 investments to maintain higher than normal inventory levels, we have been  
168 experiencing a modest normalization in our supply chains, particularly in logistics,  
169 and we expect that normalization to continue in the coming quarters which may  
170 allow us to ease the inventory level.

171

172 Turning to our first quarter 2023 outlook, we expect to achieve revenues in the  
173 range of \$22.0 million to \$23.0 million. Based on our anticipated product mix, we  
174 expect our non-GAAP gross profit margin percentage to be in the range of 47%  
175 to 48%, and we expect our non-GAAP earnings per share to be in the range of  
176 \$0.05 to \$0.07.

177

178 We continue to see significant opportunities for our products in the markets we  
179 serve, and are excited about our progress in growing our European market



180 presence. Although there is uncertainty around the global operating environment  
181 in 2023, we are confident in our ability to grow our product offerings and ensure  
182 we use the cash generated by the business in accretive and value-enhancing  
183 ways for our shareholders.

184

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

186

187 **David Neumann**

188

189 Thank you, Kevin. Now I would like to provide an update on our growth strategies  
190 which have been the cornerstone for PCTEL's success: launching innovative  
191 wireless products; expanding and leveraging distribution channels; and  
192 increasing market share by providing more components of the overall systems.

193

194 I will begin with our first strategy of launching innovative products. Our product  
195 suite presently includes wireless IoT devices, antennas, and RF Test and  
196 Measurement equipment used across a variety of wireless technologies,  
197 including 5G, Wi-Fi 6E, P25, LoRA and others. Over the course of 2022, we  
198 launched many exciting products to further build out our portfolio and diversify  
199 our offerings.

- 200 • Most notably, our Gflex scanning receivers, announced in September  
201 2021, were delivered in quantity beginning in early 2022. The demand for  
202 this product has been strong due to its support for the deployment of 5G

203 wireless networks. In June 2022, we received multimillion dollar orders  
204 from major OEM customers for our best-in-class 5G scanning receivers  
205 required for network rollouts, validation and benchmarking. These  
206 scanning receivers are capable of measuring 4G and 5G networks across  
207 all licensed bands using only one unit to measure low, medium and high  
208 (mmWave) frequency bands. These scanning receivers and future  
209 iterations will be used in cellular, public safety and Federal Government  
210 testing applications that require portability, ability to scale, and advanced  
211 features like base band level data collection.

- 212 • We were also pleased to expand our Test and Measurement product  
213 offerings with the release of the SeeHawk™ Monitor in August 2022. This  
214 product automatically monitors spectrum for P25 public safety radio and  
215 other critical communications networks. Its capabilities include continuous  
216 monitoring of spectrum for noise and interference, detailed spectrum  
217 analysis in real time or in event replay modes, and automatic testing of the  
218 uplink signal during in-building coverage testing.
- 219 • For our antenna portfolio, the CMTA antenna portfolio, launched in June of  
220 2022, is designed for hazardous environments and supports 10-in-1  
221 multiband configurations for rail applications. This antenna portfolio  
222 enables the connectivity necessary for rail networks to identify where rail  
223 support vehicles are on the tracks, ensuring that they stay within their  
224 designated track. We also launched the new Medallion™ low profile 5G  
225 antenna platform for industrial IoT applications and, in September, we

226 launched the MultiFin 7-in-1 antenna, which offers robust RF performance  
227 and flexibility in a low-profile shark fin design.

228 • Also in 2022, we received FCC regulatory certification for our rugged  
229 industrial IoT radio module with industry leading performance to increase  
230 efficiency and reliability.

231

232 In summary, we were very busy in 2022 with new product launches showcasing  
233 our commitment to both innovation and the evolution of our product lines.

234

235 As Kevin previously mentioned, we enjoyed record revenue for our Test and  
236 Measurement product line in the fourth quarter and entered 2023 with our  
237 strongest backlog to date. We've just concluded the first full year of sales of the  
238 Gflex® scanning receiver with great success. The SeeHawk™ Central, which is  
239 our cloud-based data management product, has gained traction as the standard  
240 cloud- based platform to manage, report and store in-building P25 collection data  
241 for entire public safety network. The SeeHawk Monitor previously mentioned,  
242 which is our fixed scanner product, also continues to enjoy notable momentum  
243 with numerous product trials underway and our first order from an operator in  
244 Canada.

245

246 With respect to antennas, we have witnessed continued momentum in the rail,  
247 agriculture, utilities, logistics, and vehicular market segments. We have made  
248 great progress providing our ruggedized IoT devices in offroad applications and

249 for rail antenna networks. . Railways are transitioning to cellular networks and  
250 thus need to support 4G and 5G wireless networks for critical communications.  
251 As such, we will be providing our rail customers with our critical application  
252 antennas and Test and Measurement products to support this upcoming  
253 systemwide upgrade. We have also seen strong traction with antennas for  
254 electric vehicles, EV charging stations, and vehicle-specific applications  
255 worldwide, with a notable presence of PCTEL's EV antennas sold in European  
256 markets. We are well prepared to execute on our exciting antenna opportunities  
257 with the support of our strong distribution channels.

258

259 Moving to our second growth strategy, we continue to see expansion in our  
260 global sales channels. As mentioned earlier, we have a strong foundation in  
261 Europe within the automotive and electric vehicles markets. We are gaining  
262 traction in this industry and view it as an exciting opportunity to supply antennas  
263 for both the charging stations and vehicles themselves. Also, as discussed last  
264 quarter, we have secured our first large European stocking distributor and added  
265 a new distribution sales leader to streamline and drive our European sales  
266 efforts.

267

268 This leads us into our third core growth strategy of increasing market share with  
269 existing customers by providing integrated solutions. We continue to see unique  
270 industrial IoT sensor, radio and antenna opportunities for critical communication  
271 applications across various end markets such as agriculture, heavy machinery

272 and mining. We are supporting multiple trials in these markets to support  
273 ruggedized and reliable wireless connections in harsh environments.

274

275 These three core growth strategies we have reviewed today continue to serve as  
276 PCTEL's foundation for growth and expansion. Before I turn today's call to the  
277 operator for questions, I will make a few closing remarks.

278 Our strategic priority for 2023 is growth. We have one of the strongest antenna,  
279 IoT device and Test and Measurement portfolios in the industry. We will continue  
280 to make investments in new products and leverage our sales reach globally  
281 through selected distributors and resellers to grow organically and capture a  
282 greater share of the market focusing on critical communications. Our strong  
283 balance sheet also supports inorganic growth as we evaluate strategic  
284 acquisitions to expand our presence in the US and Europe.

285

286 We remain confident in our ability to execute on our core three-pronged growth  
287 strategies, deliver best-in-class products and customer service, and drive  
288 shareholder value as we progress into an exciting 2023. We are well prepared to  
289 succeed, even in a challenging economic environment, and look forward to  
290 continuing growth for PCTEL.

291

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

293 Operator?

294

295 **David Neumann: Close**

296 Thank you all for joining us this afternoon.

297

298 We are grateful for the dedicated team we have in place which has been  
299 supporting our customers through today's challenging environment and we look  
300 forward to growing the business through 2023. We'd like to thank you for your  
301 support of PCTEL and your time this afternoon.

302

303 **Operator:**

304 Thank you for joining us today for PCTEL's fourth quarter and fiscal year 2022  
305 earnings call. You may now disconnect your lines.