

1 **Operator**

2 Welcome to the PCTEL third quarter 2022 Earnings Release Conference Call. At  
3 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 third  
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 political and economic circumstances (including a potential recession), 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 all for joining us. In today's call, we will provide  
36 an overview of our third quarter performance and discuss our outlook for the  
37 upcoming fourth quarter. We will also share our high-level views on fiscal 2023,  
38 highlight the progress we're making on our growth strategies, and review  
39 significant accomplishments in both product lines. I will start with a few highlights  
40 for the quarter and then Kevin will walk us through the financials.

41

42 Overall, we were very pleased with our team's performance this past quarter as  
43 we delivered \$26.0 million in revenue for Q3, which was a 16% increase year-

44 over-year and a 4% increase sequentially. The Company has steadily grown  
45 revenue year-over-year over the past seven consecutive quarters, driven by  
46 strong execution, innovative product releases and customer demand. Non-  
47 GAAP earnings per share was \$0.14 compared to \$0.08 in the third quarter of  
48 2021. Non-GAAP gross margin was 46.2% due to strong scanning receiver  
49 sales.

50

51 I'm proud of the entire PCTEL team as we've delivered high service levels to  
52 meet our customer's needs, while simultaneously navigating a challenging  
53 operating environment, highlighted by significant inflationary pressures and  
54 supply chain disruptions throughout 2022. While these supply chain and logistics  
55 challenges remain, we saw an encouraging improvement in transit times and  
56 costs in the period. Our long-term material and logistics planning, conducted in  
57 close coordination with our customers, enabled us to achieve measurable  
58 improvement in our shipping costs which contributed to higher antenna gross  
59 margins in Q3. The company's on-time delivery metrics remain strong, and we  
60 continue to receive excellent supplier ratings from our customers.

61

62 Our focus on three core growth strategies has supported this positive  
63 performance. As a reminder, these include: launching innovative wireless  
64 products; expanding and leveraging our distribution channels; and increasing  
65 market share by providing more components of the overall systems. As we look  
66 towards the future, our talented and experienced antenna and Test and

67 Measurement engineering teams continue to develop innovative products to  
68 meet the ever-evolving demand for wireless solutions. Our recent innovations  
69 include new multi-mode antennas and uplink measurement systems for public  
70 safety wireless networks.

71

72 With that, I will now turn the call over to Kevin for a closer look at our third quarter  
73 performance and a discussion of the financials.

74 Kevin?

75

76 **Kevin McGowan**

77 Thank you, David.

78

79 Total revenues were \$26.0 million, at the mid-point of our guidance range and  
80 were approximately 16% higher in the third quarter 2022 compared to the third  
81 quarter 2021 primarily due to higher volumes in both of our product lines.

82 Revenues for antennas and Industrial IoT devices were \$18.7 million in the  
83 period, an increase of \$2.0 million compared to the third quarter 2021, driven by  
84 strong sales in our agriculture and utilities end markets. Test and Measurement  
85 revenues were \$7.7 million for the third quarter 2022, \$1.8 million higher  
86 compared to the third quarter 2021, primarily due to stronger sales for 5G  
87 products through OEM customers. Of note, this was the highest quarterly  
88 revenue for Test and Measurement products since the pre-pandemic period.

89

90 Third quarter 2022 gross profit margin on a non-GAAP basis was 46.2%, above  
91 our expectations, however it was 50 basis points lower than the year ago period.

92 The decrease in the gross profit margin was primarily due to lower gross margin  
93 performance within our Test and Measurement products. Non-GAAP gross profit  
94 margin for antennas and Industrial IoT devices in the third quarter 2022 improved  
95 by 3.1% sequentially and by 0.6% compared to the third quarter 2021, primarily  
96 due to the favorable impact of lower freight costs resulting from the team's  
97 proactive mitigating actions, as previously mentioned, and operating leverage.

98 The non-GAAP gross profit margin for Test and Measurement products was  
99 lower by 6.4% in the third quarter 2022 compared to the third quarter 2021 due to  
100 product mix and higher component costs.

101

102 Operating expenses on a non-GAAP basis were \$9.4 million in the third quarter  
103 2022, an increase of \$0.5 million compared to the third quarter 2021 and \$0.3  
104 million lower sequentially. The year-over-year increase primarily resulted from  
105 higher incentive compensation expenses and costs related to the return of  
106 business travel.

107

108 Other income was positive \$0.2 million in the third quarter 2022 due to interest  
109 income on investments and foreign exchange gains.

110

111 Adjusted EBITDA increased by 41% to \$3.3 million in the third quarter 2022  
112 compared to \$2.3 million in the year-ago period. Adjusted EBITDA as a  
113 percentage of revenue was 13% in the third quarter 2022 compared to 10% in  
114 the third quarter 2021, and non-GAAP diluted earnings per share was \$0.14 in  
115 the third quarter 2022, higher by \$0.06 compared to the third quarter 2021. The  
116 increase in EBITDA can be attributed to improved margins for antennas and mix  
117 favoring the strong Test and Measurement revenue for the quarter.

118

119 Cash and investments were \$28.0 million at the end of the third quarter 2022.  
120 Compared to the end of the second quarter, our cash and investments  
121 decreased by approximately \$0.3 million. Payment of our quarterly dividend of  
122 \$1.0 million was approximately equal to our free cash flow. Our use of working  
123 capital during the third quarter reflects an increase in inventories. Inventories  
124 were higher because we made some strategic decisions to increase our  
125 inventories to keep PCTEL in front of supply chain constraints and also because  
126 of temporary delays with certain antenna customer orders due to their supply  
127 chain constraints with chipsets. Our cash and investments on hand and free cash  
128 flow supports our capital allocation strategy of paying quarterly cash dividends  
129 and having available funds for M&A activities.

130

131 Turning to our fourth quarter outlook, we expect to achieve revenues in the in the  
132 range of \$25.5 million to \$26.5 million. The fourth quarter 2022 revenue guidance  
133 at the mid-point of the range is approximately the same as the fourth quarter

134 2021 and as the third quarter 2022. Based on our anticipated product mix, we  
135 expect our non-GAAP gross profit margin percentage to be in the range of 47%  
136 to 49%, and we expect our non-GAAP earnings per share to be in the range of  
137 \$0.14 to \$0.16.

138

139 Our teams are executing well, and we're pleased with the Company's  
140 performance year-to-date. We continue to see opportunities for our products in  
141 the markets we serve, although the risk of a global macroeconomic slowdown in  
142 2023 is increasing, caused by the persistent inflationary environment, supply  
143 chain constraints and the conflict in Europe. Although our supply chain team has  
144 done a good job ensuring we can obtain parts to produce our products, there is  
145 still uncertainty for our antennas given the continuing supply chain challenges for  
146 chipsets. Even with the global economic challenges, we are forecasting modest  
147 organic growth in 2023, potentially complemented by M&A activity.

148

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

150

151 **David Neumann**

152

153 Thank you, Kevin. Now I would like to provide an update on how we are  
154 progressing against our three growth strategies, which we mentioned earlier,  
155 including launching innovative wireless products; expanding and leveraging

156 distribution channels; and increasing market share by providing more  
157 components of the overall systems.

158

159 In terms of our first growth strategy of launching innovative products, our product  
160 suite presently includes wireless IoT devices, antennas, and RF Test and  
161 Measurement equipment used across a variety of wireless technologies,  
162 including 5G, Wi-Fi 6E, P25, LoRA and others. Our wireless IoT devices include  
163 ruggedized access points, IoT radio modules for remote devices, and integrated  
164 wireless sensors. I'm pleased to report that we received FCC approval for our  
165 IoT radio modules which are currently in several trials with customers who are  
166 planning to go to market with our solution in 2023. The access point product is  
167 now being promoted through one of our largest online distributors and the radio  
168 module will be available to our distributors in the fourth quarter. Our access  
169 points and radio modules are well suited for precision agriculture, heavy  
170 machinery and other applications.

171

172 With respect to antennas, we see continued strength in the rail, agriculture,  
173 utilities, logistics, and vehicular markets, including antennas for electric vehicles  
174 and EV charging stations. The global market for EV charging stations has the  
175 potential to grow significantly over the next three to five years. Also in the  
176 vehicular space, we announced the availability of our new MultiFin configurable  
177 antenna for public safety, mass transit, telematics, infotainment systems and fleet  
178 management applications. The MultiFin 7-in-1 antenna maintains PCTEL's high

179 RF performance standards in a flexible, discreet, rugged, low-profile shark fin  
180 design. And, this antenna allows the simultaneous operation of customers'  
181 existing radio networks. We expect deliveries of the new MultiFin antenna to  
182 begin by the end of this year.

183

184 On our last call, we discussed our Gflex<sup>®</sup> scanning receiver that is used by 5G  
185 wireless operators and government agencies to test RF performance. The Gflex  
186 scanning receiver was designed specifically to meet the 3GPP specification and  
187 demands of multi-carrier 5G network testing for wireless operators globally. We  
188 believe there will be growth for this platform to support increasing adoption of 5G  
189 in private and government applications in 2023 and beyond.

190

191 Additionally, on August 1, we launched our SeeHawk monitor for automated  
192 critical communication testing of public safety networks. This system provides  
193 automated spectrum monitoring to quickly identify interference and other issues  
194 that impact the reliability of in-building wireless coverage. The uplink path, which  
195 is the link from the handset to the tower, is more vulnerable to interference. The  
196 SeeHawk Monitor collects uplink signal strength to complement downlink data in  
197 order to test the entire communication path. This data helps building owners  
198 identify RF transmission problems and enhances the reliability of in-building  
199 critical communication networks. Trials continue and we expect initial orders  
200 starting in the fourth quarter. Additionally, last week we were pleased to  
201 announce an updated release of our automated cloud-based platform, SeeHawk

202 Central, which streamlines the testing of public safety networks. This product will  
203 become increasingly essential as more states adopt mandatory indoor  
204 communication coverage standards to support first responders.

205

206 Moving to our second growth strategy, we continue to make solid progress in  
207 expanding and leveraging our global sales channels. We also have remained  
208 diligent in making strategic investments to grow our European business. Along  
209 those lines, we hired a senior manager for distribution in Europe and are  
210 onboarding our first large European stocking distributor. Additionally, we recently  
211 completed a two-day customer event in Stockholm to share our European  
212 strategy and learn more about how our products are used. That event was well  
213 received and our customers, value added resellers, and distributors appreciated  
214 learning more about our product lines.

215

216 We identified and are negotiating contracts with three other international  
217 distributors to complement those in the US and Europe. Areas of strength in end  
218 markets include multiple design wins with international electric vehicle  
219 manufacturers that will generate revenue later in 2023. We believe growing EV  
220 markets provide an opportunity for both supplying antennas for the vehicles and  
221 for the charging stations. We also saw strong sales in agriculture and utilities  
222 and new embedded antenna opportunities. We expect that our channel partners  
223 will drive long-term growth in these markets through their wider customer reach.

224

225 Our third core growth strategy is to increase market share with existing  
226 customers by providing integrated solutions. As the Industrial IoT market  
227 expands, there will be a greater need for turnkey integrated solutions and  
228 embedded antennas. We continue to integrate IoT sensors and other active  
229 electronics within our antenna portfolios to address specific markets. We also  
230 see opportunities to provide more integrated embedded antennas for industrial  
231 and utility applications like smart metering. We are supporting multiple trials and  
232 interest from strategic value-added resellers for our embedded antennas,  
233 integrated radios, sensors and electronics to provide turnkey solutions to  
234 increase their customer's productivity and simplify deployments.

235

236 These three core growth strategies of launching innovative wireless products;  
237 expanding and leveraging distribution channels; and increasing market share by  
238 providing more components of the solutions have proven to be our foundation for  
239 driving growth within the Company. We remain focused on executing these  
240 growth strategies to increase value for all our stakeholders.

241

242 Before we take questions, I would like to share a few closing thoughts.

243 While 2023 may pose new risks resulting from the potential of a global recession,  
244 I have confidence that our team will address these risks as they have addressed  
245 challenges presented by the pandemic, geopolitical instability and supply chain  
246 issues, with hard work and dedication.

247

248 We are confident that our core strategies of developing innovative and high-  
249 quality products, expanding our distribution channels, and increasing market  
250 share by providing more components of the overall systems are the right  
251 strategies even in a challenging economic environment.

252

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

254 Operator?

255

256 **David Neumann: Close**

257 Thank you all for joining us this afternoon.

258

259 Our team has done an excellent job supporting our customers and I appreciate  
260 their efforts and I thank you all. We will continue to support our customers and  
261 provide them the products they require. I'd like to wish everyone a good  
262 afternoon - Thank you.

263

264 **Operator:**

265 Thank you for joining us today for PCTEL's third quarter 2022 Earnings Call. You  
266 may now disconnect your lines.