

FINAL TRANSCRIPT

Baylin Technologies Inc.

First Quarter 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

Randy Dewey

Baylin Technologies Inc. — Vice Chairman, President and Chief Executive Officer

Michael Wolfe

Baylin Technologies Inc. — Chief Financial Officer

Jerry Kirshman

Galtronics Corporation Ltd. — Chief Operating Officer & President, Americas/EMEA

John Restivo

Advantech Wireless Inc. — President

CONFERENCE CALL PARTICIPANTS

Steven Li

Raymond James — Analyst

Daniel Kim

Paradigm Capital — Analyst

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PRESENTATION

Operator

[abrupt start] If you'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key.

Thank you. I'll now turn the call over to Mr. Randy Dewey, President and Chief Executive Officer of Baylin Technologies. Please go ahead, sir.

Randy Dewey — Vice Chairman, President and Chief Executive Officer, Baylin Technologies Inc.

Hello and welcome, everyone. And thank you today for joining us this morning for our first quarter 2018 earnings conference call for Baylin Technologies.

Joining me today is our Chief Financial Officer, Mr. Michael Wolfe. He will provide an overview of our financial results and we will also both be available at the end for questions at the conclusion of the presentation. Also joining us today is Mr. Jerry Kirshman, President of Galtronics, as well as Mr. John Restivo, the President of Advantech Wireless.

Mr. Kirshman has led a significant amount of change in our infrastructure team over the past year and has positioned us nicely in the small cell market as well as his new sales team has created excellent momentum in the business moving into 2018. Mr. Kirshman has been with the Company now for a little over a year. I'll give him an opportunity to speak a little bit at the end of the presentation.

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Mr. John Restivo joined us a month ago as President of Advantech. He is leading the strategy in our integration efforts in Montreal. We have these gentlemen with us today for our annual general meeting, which is scheduled later on. Welcome to the family, John, and we look forward to your leadership and breadth of experience in this industry.

I'll give both these gentlemen an opportunity to give some comments at the end.

Before we begin our official report, let me make it clear that our comments today will include statements and answers to questions that could imply future events such as our 2018 prospects and financial performance and could include the use of non-GAAP and non-IFRS measures. So it is obvious these statements are subject to risks, uncertainties, and assumptions. Accordingly, actual performance could differ materially from statements made today. So do not place undue reliance upon them.

We also disclaim any obligation to update forward-looking statements except as required by law.

I ask that you read our legal disclaimers and refer to the risks and assumptions outlined in our public disclosures, in particular, the section entitled forward-looking statements in our MD&A for the interim period ending March 31, 2018 and our filings under the securities commissions of Canada.

Q1 results were released after market yesterday. The press release, unaudited interim financial statements, as well as the MD&A are available on SEDAR and on our website at baylitech.com.

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I'd like to provide a brief overview of our financial results, comment on each of our three product lines, and then discuss our recent acquisition, after which I will ask Michael to cover the details of our financial performance.

We are very pleased to report another quarter of a positive adjusted EBITDA following two consecutive years of positive quarterly adjusted EBITDA.

Revenue grew to 29.4 million in the first quarter of 2018, an increase of 9.6 million or 48.7 percent over the first quarter of 2017. The increase was primarily due to the increase in sales in our wireless infrastructure product line, which grew 155 percent compared to the first quarter of 2017, combined with the addition of revenue from Advantech Wireless, which was acquired on January 17, 2018.

The increase in wireless infrastructure revenue was due to the release and delivery of our first base station antenna to the market in the fourth quarter of 2017, which continued to show strong demand in the first quarter of 2018.

Asia-Pacific revenue in Q1 decreased by 4 percent due to a lower sales of certain products with a major APAC customer. Revenue from our Embedded Antenna products increased by 17 percent compared to the first quarter of 2017, due largely to two major platforms that were launched in November of last year.

On January 17, 2018, we acquired the Radio Frequency, Terrestrial Microwave, and Antenna Equipment divisions of Advantech Wireless Inc.

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During the first few months of owning Advantech Wireless, we have spent considerable time separating the divisions we purchased from the divisions that the vendors continue to own and operate. While the divisions have distinct product lines, manufacturing, sales, IT, and accounting, they were fully integrated.

We have also devoted resources to positioning Advantech Wireless for future growth, including the addition of John Restivo as President, as well as Tony Radford as the Vice President of Global Sales. Both Mr. Restivo and Mr. Radford have amassed 30-year careers in the satellite communications industry and bring a wealth of experience to us. We're very pleased that they have joined us today, confirming our view of the opportunity that Advantech Wireless has going forward.

Following the addition of several new senior executives in 2017 and the recent Advantech Wireless appointments, we have also strengthened the management team in our Embedded Antenna Group with the additions of Simon Yang as the Vice President of Engineering located in our Tempe, Arizona office, and Mr. John Dakas as Vice President of Sales for the Embedded Group.

Dr. Yang is a 30-year veteran in the wireless community and has many contributions to the industry as a whole, and Mr. Dakas brings a deep understanding of the antenna embedded market to the Company and will provide important direction to the group as opportunities in the wireless marketplace continue to expand.

I'd like to turn the call over to Michael to provide you with some commentary and overview of our financial performance.

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Michael Wolfe — Chief Financial Officer, Baylin Technologies Inc.

Thank you, Randy, and good morning. I will start by discussing the key metrics that we believe are helpful in analyzing the Company's financial results.

Revenue for the first quarter of 2018 was \$29.4 million compared to \$19.8 million for the prior-year period, representing a 48.7 percent increase. As Randy mentioned, the increase is primarily due to the increase in sales of the wireless infrastructure product line combined with the addition of revenue from Advantech Wireless.

Gross profit was \$10.6 million in the first quarter of 2018, an increase of \$4.6 million over the first quarter of 2017. Gross margin was 36 percent in the first quarter of 2018, improved by 6 percentage points compared to the first quarter of 2017. The improvement is a result of higher small cell and base station antenna sales, which generate a higher gross margin, combined with revenue from the Advantech product line, which also generates a higher gross margin.

Operating expenses were \$13.6 million. Operating expenses consist of research and development costs, sales and marketing costs, general and administrative costs, and acquisition expenses.

Acquisition expenses related to the Advantech Wireless acquisition were \$1.8 million consisting primarily of advisory fees and legal fees.

Included in general and administrative costs is approximately \$1.1 million, which represents the cost of the shares issued to the vendors of Advantech Wireless at closing relating to a consulting

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agreement signed with the vendors. While the consulting agreement is a two-year agreement, since 50 percent of the total amount payable over the term of the agreement was paid in shares at close, it was required to be expensed when the shares were issued. Cash portion of the consulting fee will be expensed at the time the services are performed.

Also included in general and administrative expenses are other onetime nonrecurring expenses of approximately \$500,000.

The remainder of the increase over the prior year was the expansion of the Galtronics sales team subsequent to the first quarter of 2017 and the addition of Advantech Wireless operating expenses.

Adjusted EBITDA for the first quarter of 2018 was \$1.4 million, a significant increase compared to \$0.2 million in the first quarter of 2017. The improved adjusted EBITDA compared to 2017 was due primarily to higher revenue with higher gross margins.

From a balance sheet perspective, we used cash on hand and entered into a term loan in the amount of \$33 million to finance the acquisition of Advantech Wireless. The term loan bears interest at 9 percent per annum payable monthly with no principal repayments until maturity in January 2023.

March 31, 2018, we had a cash balance of \$9.4 million, which we expect to be sufficient to fund operations. If noncash working capital increases more than expected, we have an undrawn revolving credit facility in the amount of US\$4 million, which can be utilized to fund increases in

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receivables and inventory in North America. In addition, we have a \$3.7 million credit facility with a bank in China with availability of approximately \$3 million, which can also be utilized to fund capital in China if required.

March 31, 2018, the cash conversion cycle was 77 days compared to 15 days at December 31, 2017. The increase was primarily due to including Advantech Wireless with a cash conversion cycle of 226 days. We expect to decrease Advantech Wireless' cash conversion cycle going forward primarily by decreasing inventory levels.

Noncash working capital increased by \$4.3 million, due primarily to the addition of Advantech Wireless receivables and inventory offset by Advantech Wireless payables.

Now I'll turn the call back to Randy.

Randy Dewey

The outlook for 2018 continues to be very positive. We carried the significant momentum created in the second half of 2017 into the first quarter of this year.

With the acquisition of Advantech Wireless and the expected growth in the Infrastructure and Embedded Antenna product lines, the Company's revenue base will continue to diversify and be less reliant upon a major APAC customer. We will continue to invest in our engineering operations to broaden our product offering in each of our product lines and expect some quarter-over-quarter expense increase through 2018.

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As previously reported, we signed a manufacturing services agreement with J.B.O. International, a global manufacturing services company, in order to accommodate our current product back orders and expected demand for our new small cell and base station antennas and to shorten delivery times to our customers in North America. We expect manufacturing of small cell and base station antennas to commence in the J.B.O. factory in Guadalajara, Mexico in the second quarter of 2018.

We are holding our annual general meeting today at 12:00 p.m. and hope to see you there.

Also like to give Mr. Jerry Kirshman, President and COO of Galtronics, and Mr. John Restivo, President of Advantech Wireless, each an opportunity to provide some comments. Kirshman?

Jerry Kirshman — Chief Operating Officer & President, Americas/EMEA, Galtronics Corporation Ltd.

Thanks, Randy. Over the past year, we've worked on aligning and strengthening our teams to be the best possible antenna resource for our customers. We've had five significant hires over the past year to help us engage new customers and expand existing relationships. We've augmented our teams with the skills and tools that they will need to help drive our business forward.

We have also entered into a new master purchase agreement with a major wireless OEM, which will bring us access to markets previously unaddressed.

Thanks again, and I'm looking forward to the opportunities ahead of us.

Randy Dewey

John Restivo.

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John Restivo — President, Advantech Wireless Inc.

Good morning, everyone. Again, this is John Restivo, the new President of Advantech Wireless. I come from the industry with 30 years of experience from companies; 14 years at Scientific Atlanta and another 15 years at Teledyne Paradise Datacomm, where I was the President. At Paradise Datacomm, that's a prime competitor of Advantech Wireless.

I look forward to leading the Company into future growth and working with Baylin. I'm very excited about the opportunity and working with Galtronics as well with the synergies that we have at the microwave level potentially pushing into the 5G market with our amplifier product lines.

Look forward to working with Baylin and excited about the opportunity.

Randy Dewey

Thank you, gentlemen. So that concludes my formal remarks. If we can open up the call for questions, Operator?

Q&A

Operator

Thank you, Mr. Dewey. Your first question comes from the line of Steven Li with Raymond James. Your line is open.

Steven Li — Raymond James

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Thank you. Hi, Randy. I've got a few questions. So on Advantech, you talked about aggressive expansion plans. Advantech has grown in recent years, so any colour on what has changed?

Randy Dewey

Well, certainly, there's needing to be some investment in working capital for us to be able to seed the business with the growth opportunities. This, as we mentioned before, was a carve-out, so now that they're focused on the expansion of the RF product line, we believe, with the opportunities and the market opportunities, that we'll be able to grow the business.

So as the consensus is in the analyst reports, with flat revenue for this year from last year, we're obviously comfortable with that. But over the next 12 months, we'll be certainly seeing the business and investing in the key areas to help us move into other product lines as well as be able to get access to larger contracts and as we expand our footprint in the facilities as well.

Steven Li

Can you maybe talk about which product or vertical that you're seeing strength, Randy?

Randy Dewey

Well, let's save that for a later call. John's just arrived in the last one month here, and we've got some initial obviously areas and ideas of expansion. But we'll provide some feedback to that question in future calls.

Steven Li

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Okay. That's fine. Just shifting gears now. So on Wuxi, so were you closing down your Wuxi manufacturing operations when Jabil reps?

Randy Dewey

No. Wuxi's a very important asset for us because the customers in the embedded group are all located in China. Though we win the designs here in North America through the customers that we're co-engineering solutions with, ultimately, the award is then moved to an ODM in China.

So our factory is nicely positioned to be able to feed into those ODMs that ultimately the customer chooses for their build. So having that factory more focused on the growth with our Embedded team is essential. But we will still be doing iDAS and oDAS products in that factory as well.

The move to Guadalajara is really on the back of small cell and base station growth because those are much larger products. Having them closer to the customer and given—helping sort of manage the working capital across the globe, that was part and parcel of the things that we considered when we decided to move into a CM relationship with Jabil for those larger products.

Steven Li

So it feels like this is not new manufacturing capacity with Jabil. So is it fair to assume there's new sizeable customers ramping for you in the second half?

Randy Dewey

Yeah. Well, it takes some time, right? Jabil has experience in RF. They do RF products, different types of products in Guadalajara, so they have a lot of RF engineers and RF experience.

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But to make the type of products that we made, we amassed many decades of experience doing it. It's going to take them some time to ramp up to the capacities that are required.

With the growth rates that we are facing and the opportunities that we're facing, we are making sure that we have a backup strategy for the growth rates that we have. We only have a certain amount of real estate in Wuxi. We have a growing business in the Embedded Group. The same time, a growing business in the Infrastructure group. We don't want to get landlocked that quickly.

And so moving towards developing the relationship with Jabil and getting them up to speed from a capacity perspective gives us the opportunity to be able to scale the business without limitations and without large CapEx requirements.

Steven Li

Okay. Perfect. And then just a couple questions for Michael. Michael, I missed what you said. How much of the G&A in the quarter is not recurring?

Michael Wolfe

In G&A, there was the \$1.1 million related to a consulting contract and then an additional \$0.5 million. And the other significant nonrecurring item was acquisition expenses. But that was listed as a separate line item on our income statement.

Steven Li

Right. Okay. And then seasonally, is Q3 going to be the peak quarter like last year?

Randy Dewey

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I think that's a fair estimate at this point in time. Yeah. We're expecting growth in Q2. Q3 will hopefully be our strong quarter for the year.

Steven Li

All right. That's great. Thank you.

Operator

Your next question comes from the line of Daniel Kim with Paradigm Capital. Your line is open.

Daniel Kim — Paradigm Capital

Hi. Good morning. Thanks, gentlemen. Just want to go back to the discussion on Wuxi and Jabil. Randy, can you talk about certain capacity? Are you at liberty to disclose how many lines Jabil's perhaps provided to you and what kind of capacity might be available to you in the near term?

Randy Dewey

Well, the capacity that they will come up to speed with will absolutely serve our needs this year. In fact, we can serve our own needs this year with our own capacity.

The move with Jabil is really to provide the runway that we need to get them up to speed. Whether it's one line or ten lines is irrelevant because once they get the scale and capability, that's what a good CM like Jabil is able to do, they can scale with your business. And we certainly know the amount of time it takes to get them up to speed.

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So they have, and I wouldn't say unlimited, but they have a significant amount of scale in their business, and they've got in their facility down there, a large team. They attract the brightest and the best in that region because of the magnitude of their footprint there.

So the scale of people and the scale of manufacturing and CapEx is the strength of CM. And so between the savings on the freight ride from China to North America, and we see this as a really nice fit for us to provide not unlimited capacity, but almost unlimited capacity.

So we have the ability now to really to scale with, as we cited, some of the hyper growth rates that this market presents to us, having a good solid CM relationship in North American soil really was a key step for us, and we're pretty excited about it.

Not without saying that Jabil has a whole world of their own. They actually have been a customer of ours. Some of their other customers, they do builds for us. So it's been a relationship that has been there for years. But now recently with our signing of this sort of support agreement, we have now access to a partner that can really help us scale with the business as we scale it.

Daniel Kim

Okay. Great. That's helpful. With regards to how we should think about Jabil's ramp-up, would it be primarily some of the newer products that you're releasing—

Randy Dewey

Yeah.

Daniel Kim

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—that they would be building for you?

Randy Dewey

Yeah. Absolutely, Daniel. So the types of products that we're moving into now, the part count in them is enormous compared to some of the historical products that we made.

Size as well is a significant component and weight. And that, if you think about the number of those products inside a container on the ocean moving this far away, there's working capital needs there. There's shipping delays. There's issues across the ocean. The base of customers is really here in North America. Having a manufacturing partner with much more complex products being made in North America made perfect sense.

So you have to do that buy-or-build sort of analysis, and we did that work. And we came back to the relationship with Jabil as being an integral partnership for us.

Daniel Kim

Okay. Very good. Can you disclose will there be a material difference in margin between Wuxi manufacturing and Jabil for yourself?

Unknown Speaker

(unintelligible) that.

Daniel Kim

Okay. Moving on then to Advantech. Maybe, Mike, just to confirm my calculations, but based on the disclosure provided about your segmented growth rates, I estimate Advantech's

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revenue contribution at around \$6 million in the quarter. Just want to confirm if that is correct. And if it is so, I would presume that's a bit lower than what the Company has been running at in terms of the last 12 months. Is that correct?

Michael Wolfe

Well, three things. One, we don't segment report. Secondly, we only owned it for 73 days of the quarter. And third is that we came in pretty close. It was a hair under expectations for us.

But as we came into the business, the transition, the two-weeks transition period ends up creating a bit of issues, but we got through all that. The backlog has grown. We've got the business in a nice, healthy position from the transition perspective. And we're looking forward to the building of this business.

Daniel Kim

Okay. Fair enough. Is there any seasonality to Advantech's business?

Michael Wolfe

Slightly, but I would say that the second half of the year is maybe slightly stronger than the first half of the year. But we're talking 45, 55. It's give or take 5 percent on the first and second half, so to speak.

Daniel Kim

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Okay. Great. So with regards to the commentary then in terms of outlook specific to Advantech that growth is expected to accelerate in the second half, what is that commentary predicated on?

Michael Wolfe

Well, one, it's partly the answer to the first question you asked about the seasonality. But secondly, as the consensus has suggested, there's flat revenue for this year, we're fine with that.

There's work to be done. This is a business that we've acquired. We have lots of vision on where we need to go in the business, but there's things to be done. There's expansion areas that we need to be considering.

And so we're comfortable with where consensus is by keeping things flat, and we need the next call it 10 months to get all the things that we need done to position the business for growth.

So this is a business that hadn't grown for three years in an industry that has opportunities. So we see the opportunities that are in front of us, but we have some work to do.

So we'll get that work done. This is what we do. We do this stuff well. And but having 10 months of a runway I think is a good conservative view of things.

Daniel Kim

Okay. Very good. Just a couple more questions if I may. Also, within the outlook commentary, you suggested that you expect to add several new significant customers. Can you talk about that in terms of where you are with these new potential customers? Are there pilots ongoing?

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Are these new carriers? Are they existing customers with new products or just a bit more colour would be helpful? Thank you.

Randy Dewey

Yeah. So there's a couple of points to that. So first of all, as we've launched our small cell 5 line, as we mentioned in previous calls, we've been leading in this area. Others have followed us into this area. This is an area that has been talked about for a long time, but it really—the rubber hasn't hit the road, so to speak.

Now that it has, we are nicely positioned to be in the forefront of that growth. Now that growth obviously hits the carrier level, but there's a whole integrator level underneath it. And us, being in sort of the forefront of approval on certain products for small cell deployment, has helped us get into a position with some other clients.

As we press released in January, we have signed a new master service agreement with a large OEM on the back of the sort of the quality of our products related to small cell.

Has that opened up opportunities beyond small cell? Absolutely. And it's those types of things that we're excited about.

I know everybody talks about 5G. We're super-excited about it because 5G provides an enormous growth opportunity for our Company, but 5G is a few years away still. We have a large LTE densification roadmap in front of us. We have lots of opportunities that are coming on the back of a

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network that's being built today. We're only in the infancy stages of the LTE densification across North America.

So there's a good 10-year roadmap by most carriers for the next evolution here. So that's going to—we're pretty excited about just the baseline bread-and-butter business that we have today and the growth rates just within that.

5G will come. 5G will be another game-changing moment for Baylin, and we're looking forward to that.

So we're in both the development of the network as well as deploying products in the current network, which is I think where we want to be.

Daniel Kim

Okay. Great. And last question; I'll get back in the queue. Just to get a bit of a finer breakdown on the onetime costs.

We had the G&A breakdown, and there is one line item in the P&L, but total was \$3.5 million. Where does the balance of those charges fall?

Michael Wolfe

So the items, the 3.5 are all in general and administrative expense line item or the acquisition expense line item. We did actually—did have one additional cost that we didn't break out separately in cost of sales related to a manufacturing issue with one specific customer. I can't really

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go into the details, but that added an additional approximately \$250,000 of cost in cost of goods sold for the quarter.

Daniel Kim

Okay. Perfect. Thanks so much.

Operator

There are no further questions at this time. I would now like to turn the call back over to Mr. Dewey for closing remarks.

Randy Dewey

Good. Thank you very much. So I'd like to close by stating my excitement about the team and our leadership appointments that we've made in the past year. We've made tremendous strides in all three segments within Galtronics. And the recent appointments within Advantech are very encouraging with early progress.

Our nimble yet high-calibre team has nicely positioned us in the market with conglomerates that cannot change as quickly and adapt to the market as fast as we can. So we are looking forward to being able to race through the growth curve that is coming in front of us.

We have a strong foundation, both as technology as well as in products. And we expect to create value for the shareholders over the years to come.

So thank you very much for your support and interest in Baylin, and we look forward to future reports and the opportunities to meet you and answer any of your questions.

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Thank you.

Operator

This concludes the Baylin Technologies First Quarter Investor Conference Call. We thank you for your participation. You may now disconnect.

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