

August 7, 2019



Westell Reports Fiscal 2020 First Quarter Results

AURORA, Ill., Aug. 07, 2019 (GLOBE NEWSWIRE) -- [Westell Technologies, Inc.](#) (NASDAQ: WSTL), a leading provider of high-performance infrastructure solutions, today announced results for its fiscal 2020 first quarter ended June 30, 2019 (1Q20). Management will host a conference call to discuss financial and business results tomorrow, Thursday, August 8, 2019, at 9:30 AM Eastern Time (details below).

Revenue was \$9.0 million and comprised \$2.9 million from the In-Building Wireless (IBW) segment, \$3.1 million from the Intelligent Site Management (ISM) segment, and \$3.0 million from the Communication Network Solutions (CNS) segment.

“In 1Q20, an increase in sequential-quarter IBW revenue was more than offset by lower ISM and CNS revenue. Within IBW, the sequential growth included increased sales of all products lines, including new public safety repeaters, while ISM and CNS were affected by lower sales of remote units and legacy products, respectively. Within CNS, our power distribution product sales were strong again and we continued to generate revenue from our new fiber access product line. In 1Q20, we also brought our expense levels down significantly compared to the prior quarter,” said Stephen John, Westell’s President and CEO. “We are strategically focused on network densification at the edge, a key enabler for future 5G connectivity, with our product development, sales, and marketing activities concentrated on network edge solutions that solve for the increased capacity, intelligence, and deployment simplification needs of our customers.”

| | 1Q20 3 months ended 6/30/19 | 4Q19 3 months ended 3/31/19 | + increase / - decrease |
|--|-----------------------------------|-----------------------------------|----------------------------|
| Revenue | \$9.0M | \$9.7M | -\$0.7M |
| Gross Margin | 36.1% | 37.6% | -1.5% |
| Operating Expenses ⁽¹⁾ | \$5.6M | \$11.6M | -\$6.0M |
| Net Income (Loss) ⁽¹⁾ | (\$2.2M) | (\$8.0M) | +\$5.8M |
| Earnings (Loss) Per Share ⁽¹⁾ | (\$0.14) | (\$0.52) | +\$0.38 |
| Non-GAAP Operating Expenses ⁽²⁾ | \$5.0M | \$5.9M | -\$0.9M |
| Non-GAAP Net Income (Loss) ⁽²⁾ | (\$1.6M) | (\$2.1M) | +\$0.5M |

| | | | |
|--|----------|----------|---------|
| Non-GAAP Earnings (Loss) Per Share (2) | (\$0.10) | (\$0.13) | +\$0.03 |
| Ending Cash | \$24.1M | \$25.5M | -\$1.4M |
| (1) 4Q19 includes a \$4.7M non-recurring accounting charge for the impairment of IBW intangible assets. | | | |
| (2) Please refer to the schedule at the end of this press release for a complete GAAP to non-GAAP reconciliation and other information related to non-GAAP financial measures. | | | |

In-Building Wireless (IBW) Segment

IBW's revenue increase was driven by higher sales across all product lines - public safety and commercial repeaters, RF system components, and DAS conditioners. IBW's gross margin increase was driven by higher revenue and a more favorable mix, partly offset by higher excess and obsolete inventory costs.

| (\$ in thousands) | 1Q20 3 months ended 6/30/19 | 4Q19 3 months ended 3/31/19 | + increase / - decrease |
|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| IBW Segment Revenue | \$2,923 | \$2,477 | +\$446 |
| IBW Segment Gross Margin | 33.3% | 31.4% | +1.9% |
| IBW Segment R&D Expense | \$399 | \$684 | -\$285 |
| IBW Segment Profit | \$573 | \$95 | +\$478 |

Intelligent Site Management (ISM) Segment

ISM's revenue decrease was due to lower sales of remote units, primarily to our large domestic service provider customer. ISM's gross margin increase was driven by a more favorable mix and lower excess and obsolete inventory costs.

| (\$ in thousands) | 1Q20 3 months ended 6/30/19 | 4Q19 3 months ended 3/31/19 | + increase / - decrease |
|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| ISM Segment Revenue | \$3,095 | \$3,757 | -\$662 |
| ISM Segment Gross Margin | 51.0% | 47.1% | +3.9% |
| ISM Segment R&D Expense | \$701 | \$693 | +\$8 |
| ISM Segment Profit | \$878 | \$1,078 | -\$200 |

Communication Network Solutions (CNS) Segment

CNS's revenue decrease was due to lower sales of network connectivity panels and late-lifecycle product lines such as tower mounted amplifiers and T1 network interface units, partly offset by higher sales of power distribution products and integrated cabinets. CNS's gross margin decrease was due to the lower revenue, a less favorable mix, and higher

excess and obsolete inventory costs.

| (\$ in thousands) | 1Q20 3 months ended 6/30/19 | 4Q19 3 months ended 3/31/19 | + increase / - decrease |
|--------------------------|-----------------------------------|-----------------------------------|----------------------------|
| CNS Segment Revenue | \$2,984 | \$3,471 | -\$487 |
| CNS Segment Gross Margin | 23.3% | 31.6% | -8.3% |
| CNS Segment R&D Expense | \$456 | \$402 | +\$54 |
| CNS Segment Profit | \$239 | \$694 | -\$455 |

Conference Call Information

Management will discuss financial and business results during the quarterly conference call on Thursday, August 8, 2019, at 9:30 AM Eastern Time. Investors may quickly register online in advance of the call at conferenceplus.com/Westell. After registering, participants receive dial-in numbers, a passcode and a registration ID that is used to uniquely identify their presence and automatically join them into the audio conference. A participant may also register by telephone on August 8, 2019, by calling **(888) 206-4065** no later than 8:15 AM Central Time (9:15 AM Eastern Time) and providing the operator confirmation number **48850130**.

This news release and related information that may be discussed on the conference call will be posted on the Investor Relations section of Westell's website: ir.westell.com. A digital recording of the entire conference will be available for replay on Westell's website by approximately 12:00 PM Eastern Time following the conclusion of the conference.

About Westell Technologies

Westell is a leading provider of high-performance network infrastructure solutions focused on innovation and differentiation at the edge of communication networks where end users connect. The Company's portfolio of products and solutions enable service providers and network operators to improve performance and reduce operating expenses. With millions of products successfully deployed worldwide, Westell is a trusted partner for transforming networks into high-quality reliable systems. For more information, please visit www.westell.com.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995

Certain statements contained herein that are not historical facts or that contain the words "believe," "expect," "intend," "anticipate," "estimate," "may," "will," "plan," "should," or derivatives thereof and other words of similar meaning are forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those expressed in or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, product demand and market acceptance risks, customer spending patterns, need for financing and capital, economic weakness in the United States ("U.S.") economy and telecommunications market, the effect of international economic conditions and trade, legal, social and economic risks (such as import, licensing and trade restrictions), the impact of competitive products or technologies, competitive pricing pressures, customer product selection decisions, product cost increases, component supply shortages, new product development, excess and obsolete inventory,

commercialization and technological delays or difficulties (including delays or difficulties in developing, producing, testing and selling new products and technologies), the ability to successfully consolidate and rationalize operations, the ability to successfully identify, acquire and integrate acquisitions, the effect of the Company's accounting policies, retention of key personnel and other risks more fully described in the Company's SEC filings, including the Form 10-K for the fiscal year ended March 31, 2019, under Item 1A - Risk Factors. The Company undertakes no obligation to publicly update these forward-looking statements to reflect current events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events, or otherwise.

Westell Technologies, Inc.
Condensed Consolidated Statement of Operations
(Amounts in thousands, except per share amounts)
(Unaudited)

| | Three months ended | | |
|--|---------------------------|-------------------|------------------|
| | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| Revenue | \$ 9,002 | \$ 9,705 | \$ 13,037 |
| Cost of revenue | <u>5,756</u> | <u>6,059</u> | <u>7,102</u> |
| Gross profit | 3,246 | 3,646 | 5,935 |
| Gross margin | 36.1% | 37.6% | 45.5% |
| Operating expenses: | | | |
| Research & Development | 1,556 | 1,779 | 1,432 |
| Sales and marketing | 2,332 | 2,330 | 2,137 |
| General and administrative | 1,364 | 2,027 | 1,534 |
| Intangible amortization | 308 | 783 | 990 |
| Long-lived assets impairment | — | 4,722 | — |
| Total operating expenses | <u>5,560</u> | <u>11,641</u> | <u>6,093</u> |
| Operating profit (loss) | <u>(2,314)</u> | <u>(7,995)</u> | <u>(158)</u> |
| Other income, net | 164 | 184 | 119 |
| Income (loss) before income taxes | <u>(2,150)</u> | <u>(7,811)</u> | <u>(39)</u> |
| Income tax benefit (expense) | (7) | (28) | — |
| Net income (loss) | <u>(2,157)</u> | <u>(7,839)</u> | <u>(39)</u> |
| Income (loss) from discontinued operations ⁽¹⁾ | — | (207) | — |
| Net income (loss) | <u>\$ (2,157)</u> | <u>\$ (8,046)</u> | <u>\$ (39)</u> |
| <i>Net income (loss) per share:</i> | | | |
| Basic net income (loss) | \$ (0.14) | \$ (0.52) | \$ — |
| Diluted net income (loss) | \$ (0.14) | \$ (0.52) | \$ — |
| <i>Weighted-average number of common shares outstanding:</i> | | | |
| Basic | 15,455 | 15,342 | 15,632 |
| Diluted | 15,455 | 15,342 | 15,632 |

(1) During the quarter ended March 31, 2019, the Company recorded indemnification expense related to probable loss contingencies associated with a major customer contract related to a business which was previously sold and therefore is presented as discontinued operations. On July 24, 2019, the Company signed a settlement agreement related to this matter. The amount to be paid under the settlement agreement is fully covered by the accrual.

Westell Technologies, Inc.
Condensed Consolidated Balance Sheet
(Amounts in thousands)

| | June 30, 2019 (Unaudited) | March 31, 2019 |
|--|--|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 24,077 | \$ 25,457 |
| Accounts receivable, net | 5,806 | 6,865 |
| Inventories | 9,943 | 9,801 |
| Prepaid expenses and other current assets | 1,673 | 1,706 |
| Total current assets | 41,499 | 43,829 |
| Land, property and equipment, net | 1,169 | 1,298 |
| Intangible assets, net | 2,970 | 3,278 |
| Right-of-use assets on operating leases, net | 1,111 | — |
| Other non-current assets | 484 | 492 |
| Total assets | \$ 47,233 | \$ 48,897 |
| Liabilities and Stockholders' Equity | | |
| Accounts payable | \$ 2,250 | \$ 2,313 |
| Accrued expenses | 4,046 | 3,567 |
| Deferred revenue | 950 | 1,217 |
| Total current liabilities | 7,246 | 7,097 |
| Deferred revenue non-current | 393 | 444 |
| Other non-current liabilities | 500 | 176 |
| Total liabilities | 8,139 | 7,717 |
| Total stockholders' equity | 39,094 | 41,180 |
| Total liabilities and stockholders' equity | \$ 47,233 | \$ 48,897 |

Westell Technologies, Inc.
Condensed Consolidated Statement of Cash Flows
(Amounts in thousands)
(Unaudited)

| | Three months ended June 30, | |
|---|--|---------------------------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (2,157) | \$ (39) |
| Reconciliation of net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 451 | 1,142 |
| Stock-based compensation | 244 | 291 |
| Exchange rate loss (gain) | (3) | 10 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,059 | (1,705) |
| Inventory | (142) | (505) |
| Accounts payable and accrued expenses | 740 | 24 |
| Deferred revenue | (318) | (192) |
| Prepaid expenses and other current assets | 33 | (467) |
| Other assets | (1,103) | — |
| Net cash provided by (used in) operating activities | <u>(1,196)</u> | <u>(1,441)</u> |
| Cash flows from investing activities: | | |
| Net maturity (purchase) of short-term investments | — | 1,433 |
| Purchases of property and equipment, net | (14) | (50) |
| Net cash provided by (used in) investing activities | <u>(14)</u> | <u>1,383</u> |
| Cash flows from financing activities: | | |
| Purchase of treasury stock | (173) | (405) |
| Net cash provided by (used in) financing activities | <u>(173)</u> | <u>(405)</u> |
| Gain (loss) of exchange rate changes on cash | <u>3</u> | <u>(3)</u> |
| Net increase (decrease) in cash and cash equivalents | <u>(1,380)</u> | <u>(466)</u> |
| Cash and cash equivalents, beginning of period | <u>25,457</u> | <u>24,963</u> ⁽¹⁾ |
| Cash and cash equivalents, end of period | \$ 24,077 | \$ 24,497 ⁽¹⁾ |

⁽¹⁾ As of March 31, 2018, and June 30, 2018, the Company has \$2.8 million and \$1.3 million, respectively, of short-term investments in addition to cash and cash equivalents.

Westell Technologies, Inc.
Segment Statement of Operations
(Amounts in thousands)
(Unaudited)

Sequential Quarter Comparison

| Three months ended June 30, 2019 | | | | Three months ended March 31, 2019 | | | |
|---|------------|------------|--------------|--|------------|------------|--------------|
| IBW | ISM | CNS | Total | IBW | ISM | CNS | Total |

| | | | | | | | | |
|----------------|----------------|----------------|----------------|----------------|---------|---------|---------|---------|
| Total revenue | \$2,923 | \$3,095 | \$2,984 | \$9,002 | \$2,477 | \$3,757 | \$3,471 | \$9,705 |
| Gross profit | 972 | 1,579 | 695 | 3,246 | 779 | 1,771 | 1,096 | 3,646 |
| Gross margin | 33.3% | 51.0% | 23.3% | 36.1% | 31.4% | 47.1% | 31.6% | 37.6% |
| R&D expenses | 399 | 701 | 456 | 1,556 | 684 | 693 | 402 | 1,779 |
| Segment profit | \$ 573 | \$ 878 | \$ 239 | \$1,690 | \$ 95 | \$1,078 | \$ 694 | \$1,867 |

Year-over-Year Quarter Comparison

| | Three months ended June 30, 2019 | | | | Three months ended June 30, 2018 | | | |
|----------------|----------------------------------|----------------|----------------|----------------|----------------------------------|---------|---------|----------|
| | IBW | ISM | CNS | Total | IBW | ISM | CNS | Total |
| Total revenue | \$2,923 | \$3,095 | \$2,984 | \$9,002 | \$3,557 | \$5,744 | \$3,736 | \$13,037 |
| Gross profit | 972 | 1,579 | 695 | 3,246 | 1,662 | 2,948 | 1,325 | 5,935 |
| Gross margin | 33.3% | 51.0% | 23.3% | 36.1% | 46.7% | 51.3% | 35.5% | 45.5% |
| R&D expenses | 399 | 701 | 456 | 1,556 | 522 | 569 | 341 | 1,432 |
| Segment profit | \$ 573 | \$ 878 | \$ 239 | \$1,690 | \$1,140 | \$2,379 | \$ 984 | \$ 4,503 |

Westell Technologies, Inc.
Reconciliation of GAAP to non-GAAP Financial Measures
(Amounts in thousands, except per share amounts)
(Unaudited)

| | Three months ended | | |
|---|--------------------|----------------|---------------|
| | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| GAAP consolidated operating expenses | \$ 5,560 | \$ 11,641 | \$ 6,093 |
| Adjustments: | | | |
| Stock-based compensation ⁽¹⁾ | (234) | (270) | (279) |
| Intangible assets impairment ⁽²⁾ | — | (4,722) | — |
| Amortization of intangibles ⁽³⁾ | (308) | (783) | (990) |
| Total adjustments | (542) | (5,775) | (1,269) |
| Non-GAAP consolidated operating expenses | \$ 5,018 | \$ 5,866 | \$ 4,824 |

| | Three months ended | | |
|--|---------------------------|-------------------|------------------|
| | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| GAAP consolidated net income (loss) | \$ (2,157) | \$ (8,046) | \$ (39) |
| Less: | | | |
| Income tax benefit (expense) | (7) | (28) | — |
| Other income, net | 164 | 184 | 119 |
| Discontinued operations ⁽⁴⁾ | — | (207) | — |
| GAAP consolidated operating profit (loss) | \$ (2,314) | \$ (7,995) | \$ (158) |
| Adjustments: | | | |
| Stock-based compensation ⁽¹⁾ | 244 | 282 | 291 |
| Intangible assets impairment ⁽²⁾ | — | 4,722 | — |
| Amortization of intangibles ⁽³⁾ | 308 | 783 | 990 |
| Total adjustments | 552 | 5,787 | 1,281 |
| Non-GAAP consolidated operating profit (loss) | \$ (1,762) | \$ (2,208) | \$ 1,123 |
| Depreciation | 143 | 151 | 152 |
| Non-GAAP consolidated Adjusted EBITDA ⁽⁵⁾ | \$ (1,619) | \$ (2,057) | \$ 1,275 |

| | Three months ended | | |
|---|---------------------------|-------------------|------------------|
| | June 30, 2019 | March 31, 2019 | June 30, 2018 |
| GAAP consolidated net income (loss) | \$ (2,157) | \$ (8,046) | \$ (39) |
| Adjustments: | | | |
| Stock-based compensation ⁽¹⁾ | 244 | 282 | 291 |
| Intangible assets impairment ⁽²⁾ | — | 4,722 | — |
| Amortization of intangibles ⁽³⁾ | 308 | 783 | 990 |
| Discontinued operations ⁽⁴⁾ | — | 207 | — |
| Total adjustments | 552 | 5,994 | 1,281 |
| Non-GAAP consolidated net income (loss) | \$ (1,605) | \$ (2,052) | \$ 1,242 |
| GAAP consolidated net income (loss) per common share: | | | |
| Diluted | \$ (0.14) | \$ (0.52) | \$ — |
| Non-GAAP consolidated net income (loss) per common share: | | | |
| Diluted | \$ (0.10) | \$ (0.13) | \$ 0.08 |
| Average number of common shares outstanding: | | | |
| Diluted | 15,455 | 15,342 | 15,748 |

The Company conforms to U.S. Generally Accepted Accounting Principles (GAAP) in the

preparation of its financial statements. The schedules above reconcile the Company's non-GAAP financial measures to the most directly comparable GAAP measure. The adjustments share one or more of the following characteristics: they are unusual and the Company does not expect them to recur in the ordinary course of its business; they do not involve the expenditure of cash; they are unrelated to the ongoing operation of the business in the ordinary course; or their magnitude and timing is largely outside of the Company's control. Management believes that the non-GAAP financial information provides meaningful supplemental information to investors. Management also believes the non-GAAP financial information reflects the Company's core ongoing operating performance and facilitates comparisons across reporting periods. The Company uses these non-GAAP measures when evaluating its financial results. Non-GAAP measures should not be viewed as a substitute for the Company's GAAP results.

Footnotes:

- (1) Stock-based compensation is a non-cash expense incurred in accordance with share-based compensation accounting standards.
- (2) 4Q19 Non-recurring impairment related to intangible assets associated with the IBW reporting unit.
- (3) Amortization of intangibles is a non-cash expense arising from previously acquired intangible assets.
- (4) The Company recorded indemnification expense related to probable loss contingencies associated with a major customer contract related to a business which was previously sold and therefore is presented as discontinued operations. On July 24, 2019, the Company signed a settlement agreement related to this matter. The amount to be paid under the settlement agreement is fully covered by the accrual.
- (5) EBITDA is a non-GAAP measure that represents Earnings Before Interest, Taxes, Depreciation, and Amortization. The Company presents Adjusted EBITDA.

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Source: Westell Technologies, Inc.