Good afternoon. Welcome to Clearfield's fiscal second quarter 2019 earnings conference call. My name is Saveez, and I will be your operator this afternoon.

Joining us for today's presentation are the Company's President and CEO, Cheri Beranek and CFO, Dan Herzog. Following their commentary, we will open the call for questions.

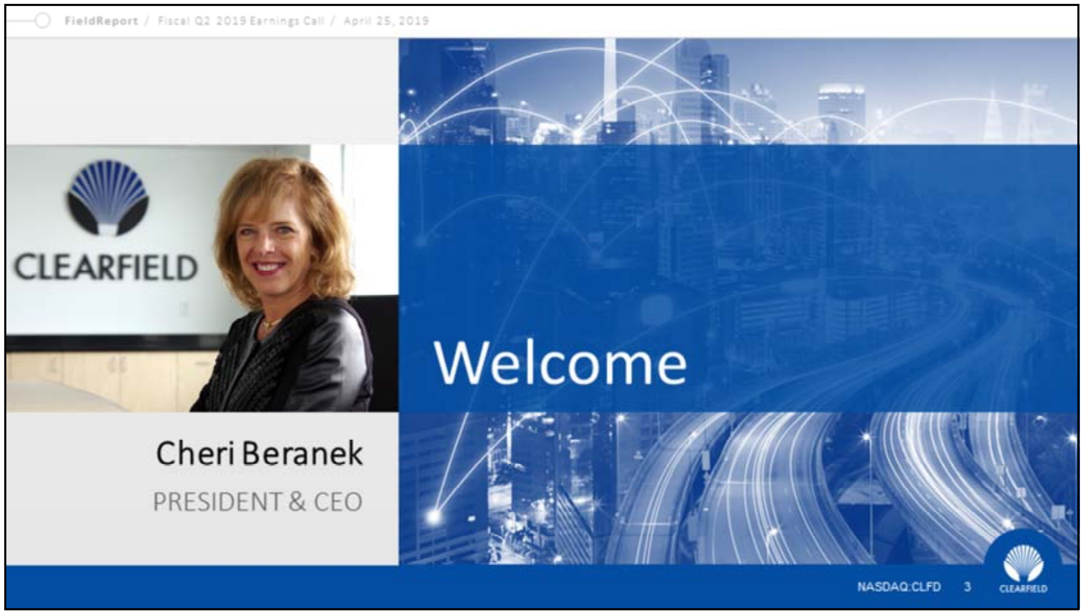
I would now like to remind everyone that this call will be recorded and made available for replay via a link in the investor relations section of the Company's website. This call is also being webcasted and accompanied by a PowerPoint presentation called the FieldReport, which is also available in the investor relations section of the Company's website.

Please note that during the course of this call, management will be making forward-looking statements regarding future events and the future financial performance of the Company. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

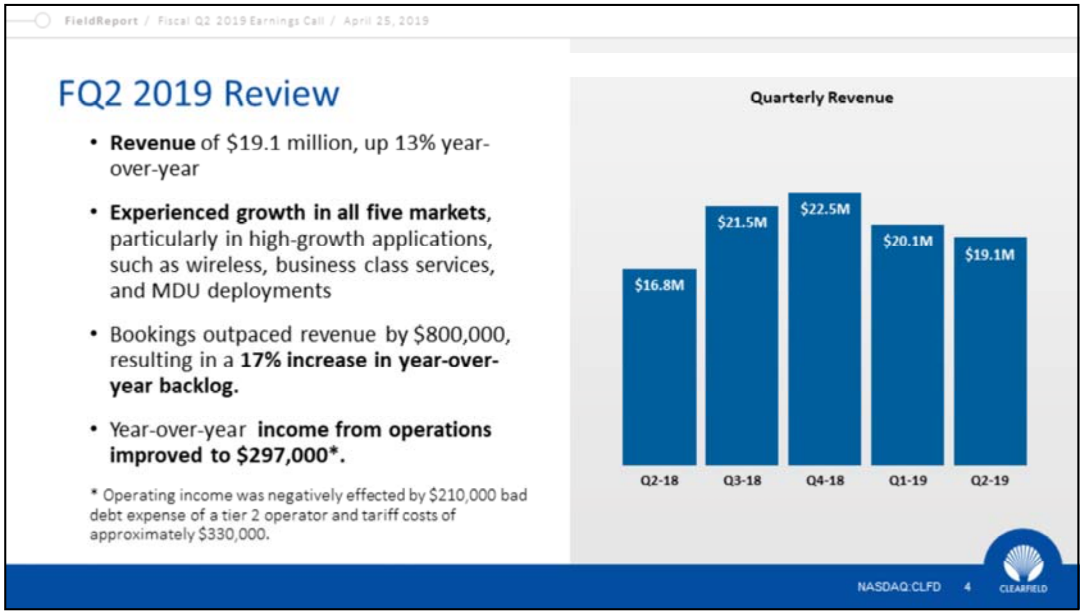
It's important to note also that the Company undertakes no obligation to update such statements except as required by law. The Company cautions you to consider risk factors that could cause actual results to differ materially from those in the forward-looking statements contained in today's press release, FieldReport, and in this conference call. The risk factors section in Clearfield's most recent Form 10-K filing with the Securities and Exchange Commission provides descriptions of those risks. As a reminder, the slides in this presentation are not controlled by the speaker but rather by you, the listener. Please advance forward through the presentation as the speaker presents their remarks.

With that, I would like to turn the call over to Clearfield's CEO, Cheri Beranek.

Please proceed.



Good afternoon, and thank you everyone for joining us today.

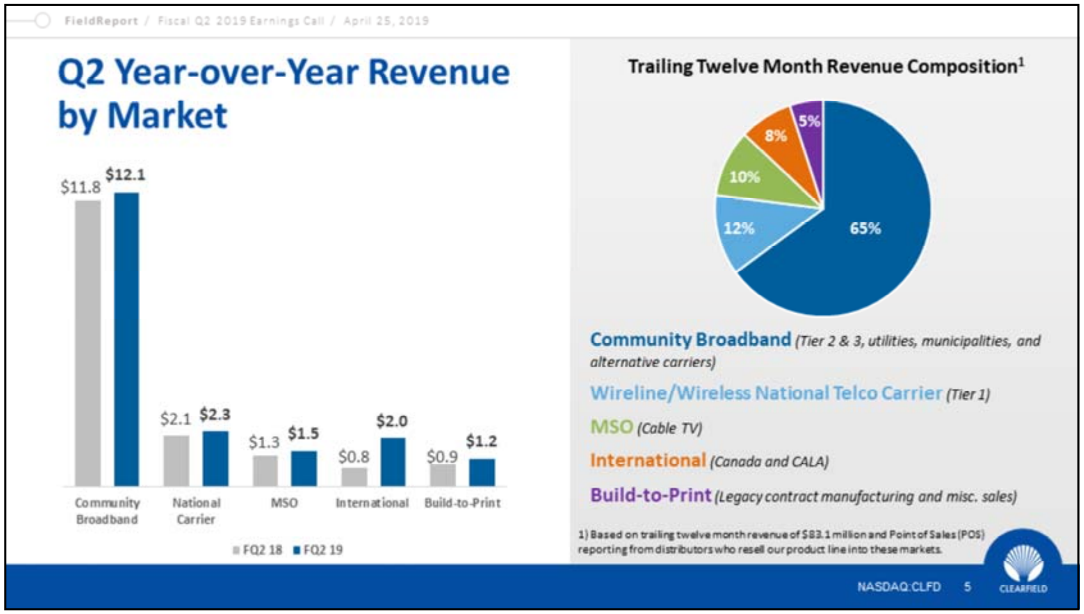


Once again, the growth of our active cabinets and traditional product lines continued to drive another strong quarter for Clearfield, with revenue up 13% year-over-year to $19.1 million. As I'll get into on the next slide, we experienced growth in each of our five key markets, particularly in faster-growing applications such as wireless connectivity, business class services, and multi-dwelling unit (or MDU) deployments. As the quarter progressed, we picked up momentum building up our backlog, with bookings outpacing revenue, resulting in an increase of year-over-year backlog of $800,000, or 17%, creating a strong base upon which to execute for fiscal Q3 2019.

In addition to the healthy demand we've been experiencing with our acquired active cabinet line, we're also receiving strong interest and positive feedback for our new FieldSmart Active Cabinet line, which we launched in February of this year. This new cabinet is based upon the acquired cabinet architecture, but includes a few important enhancements, including increased fiber density required for next generation networks. We didn't recognize revenue from this new product line in fiscal Q2, but just in the first two weeks of this quarter, we received our first orders for these products and have already started shipping this month.

Looking further down the income statement, you'll see that income from operations improved to $297,000 despite being negatively affected by a bad debt expense charge after one of our customers, Windstream, filed a Chapter 11 bankruptcy. In addition, gross profit was negatively impacted by tariff costs of approximately $330,000, representing 170 basis points, or 1.7%, impact on our gross margins. Suppliers who were previously absorbing these extra costs are now passing these tariff costs onto us. We are aggressively qualifying alternative components and re-evaluating elements of our supply chain to attempt to negate the consequences of this government action. While no one knows how long these tariff mandates will continue, we are working aggressively to reduce our costs elsewhere and remain confident at this point in maintaining our gross margin forecast for the year.

Before I dive deeper into the steps we're already taking to execute along our previously announced 'Coming of Age' plan, I'd like to spend a moment going over our recent operational and market progress.



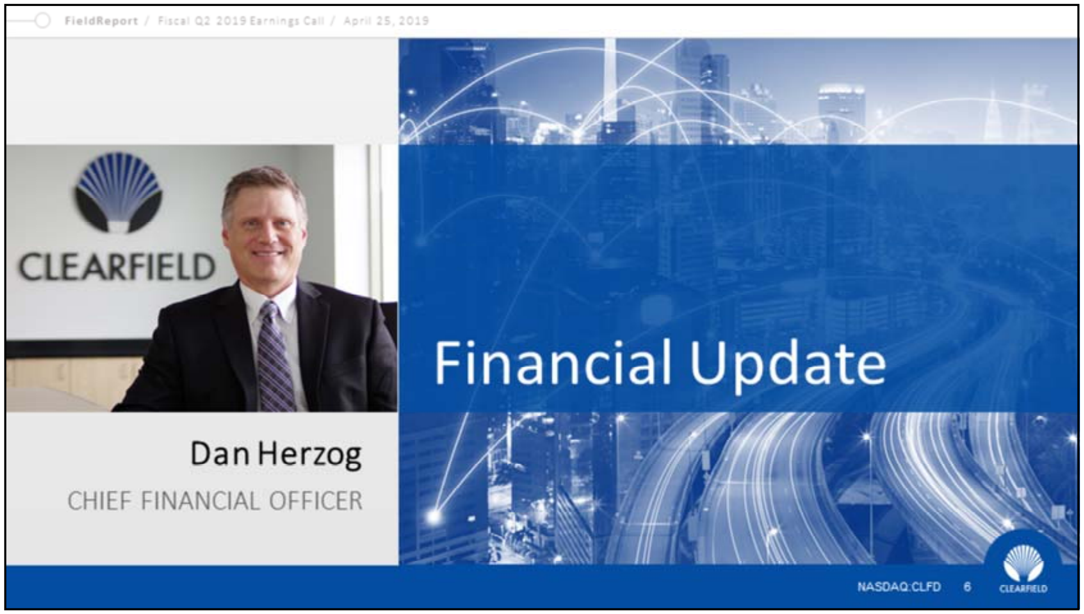
As I mentioned at the onset, we had a fairly balanced quarter in terms of growth, with all five key markets experiencing growth on a year-over-year basis.

Community Broadband was up 3% to $12.1 million from $11.8 million in the same year-ago quarter. While this growth was slightly lower than what Community Broadband has been experiencing recently, it does not capture the fact that we had several orders coming in very late in the quarter, which could not be shipped out and included in our fiscal Q2 results. Recently, this market was slightly impacted with the announced bankruptcy of Windstream in mid-February, which created some distraction and order slowdown within this account. That being said, however, Windstream represents less than a 5% customer, and we don't anticipate this bankruptcy or any associated order slowdowns to materially impact the broader market momentum we're experiencing within Community Broadband.

Turning to our National Carrier business, which was up nearly double-digits year-over-year to $2.3 million, we gained incremental footing in this market, principally through the continued adoption of our active cabinets and FieldShield product lines. During the quarter, new material codes were granted for FieldSmart fiber management solutions, which is now approved to ship to two of the top three Tier 1 carriers. We're already shipping FieldShield to all three of these carriers, giving us increased conviction that there is a heightened appetite in this market for alternative and more cost-effective solutions compared to the incumbent solutions. Later, I will describe how we're not only disrupting existing solutions in this market, but designing solutions for 5G, where we have a significant opportunity to establish ourselves as one of the leading players in this next generation of fiber management and connectivity.

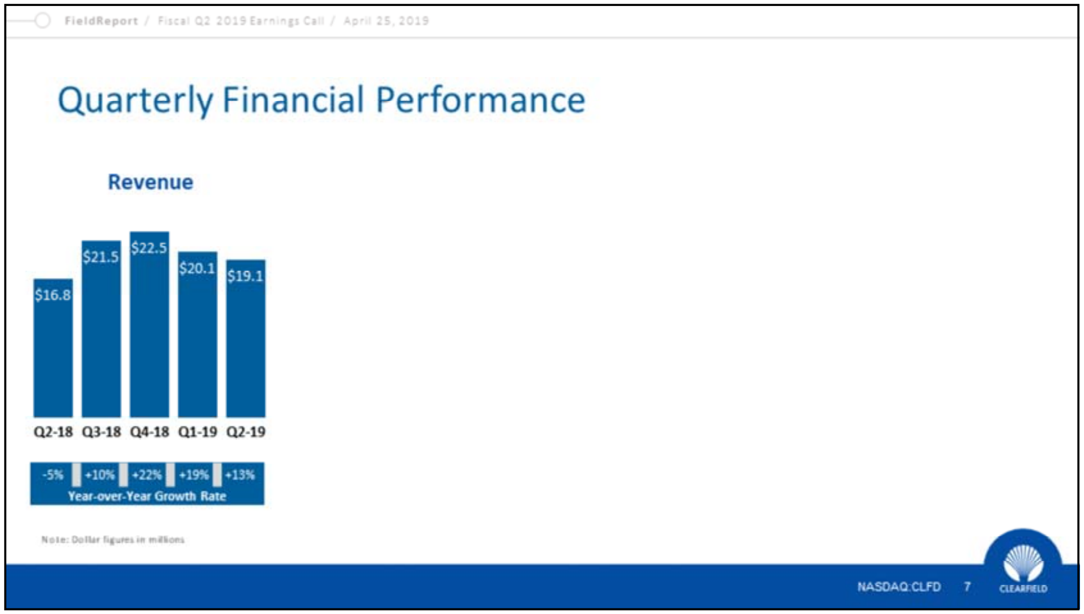
Turning now to our MSO, or Cable TV, business, which grew 15% year-over-year, we continued to see strong demand for our solutions, especially as it relates to business class services. Internationally, we experienced one our strongest quarters, with revenue more than doubling to $2.0 million, as we experienced a healthy rebound in some of our Latin American markets, particularly Mexico. And last, but not least, our legacy Build-to-Print business was up 37% year-over-year to $1.2 million. As a reminder, this growth was primarily driven by one of our customers which has resumed their historical purchasing activity after a one-year lag in their business due to their own internal constraints. As such, we do not foresee a material pick-up in revenue for this market going forward.

With that, I'll now turn the presentation over to our CFO, Dan Herzog, who will walk us through our financial performance for the second quarter of fiscal 2019.

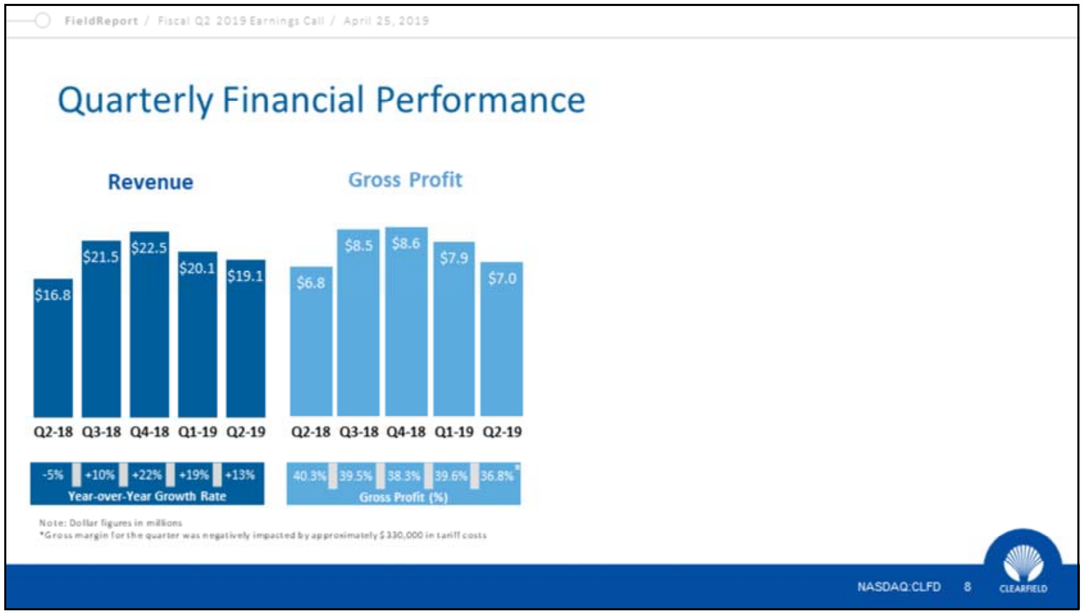


Thank you, Cheri.

Now, looking at our financial results in more detail…

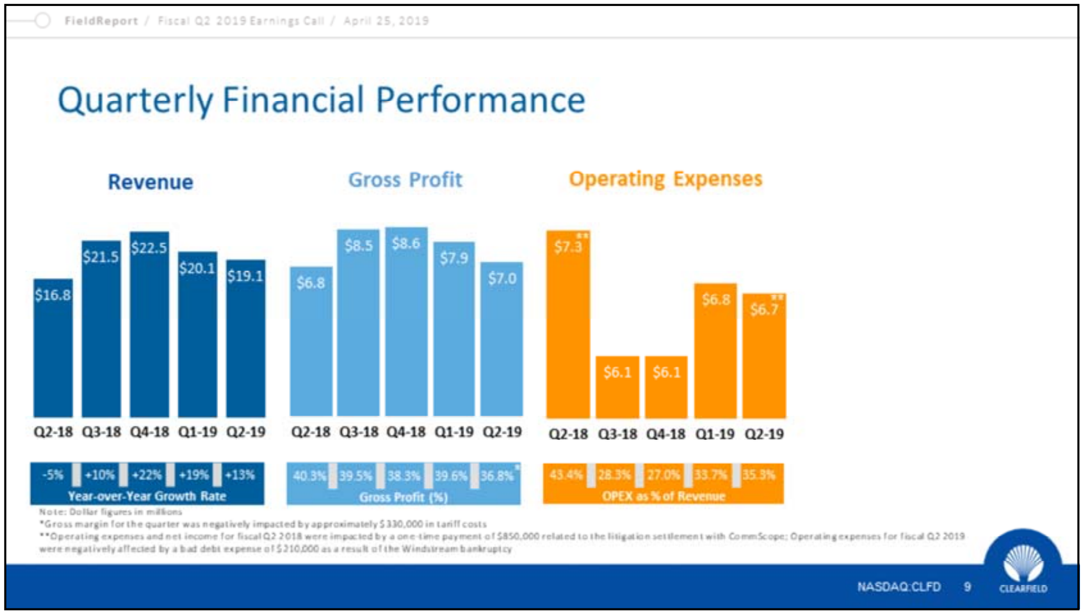


Our revenue in the second quarter of fiscal 2019 increased 13% to $19.1 million from $16.8 million in the same year-ago period. The increase for the quarter was largely driven by the strong sales of our active cabinet line as well as continued sales of our traditional product categories.



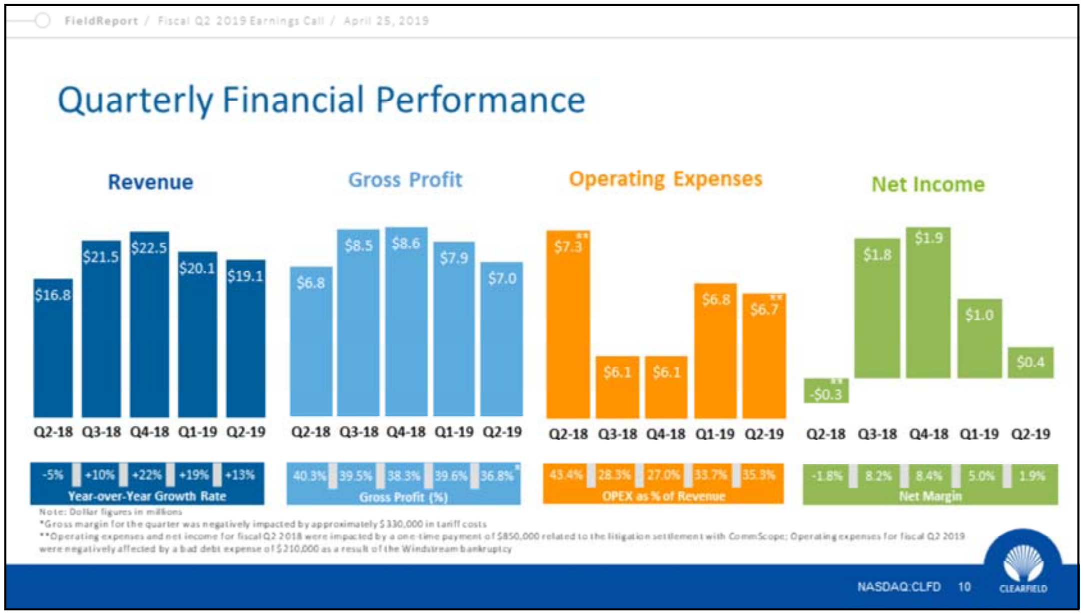
Gross profit for the second quarter of fiscal 2019 increased 4%, as compared to the second quarter of fiscal 2018, to $7 million, or 36.8% of total revenue. Gross profit percentage for the second quarter of fiscal 2019 was down year-over-year due to the continued strong market adoption of the acquired active cabinet solutions, which generally carry lower overall margins. In addition, as Cheri mentioned, gross margin was negatively effected by the absorption of tariff costs that reduced our gross profit by approximately $330,000.

That being said, we are continuing to enhance our supply chain and cost structure to attempt to further minimize any potential or actual tariff-related impact.



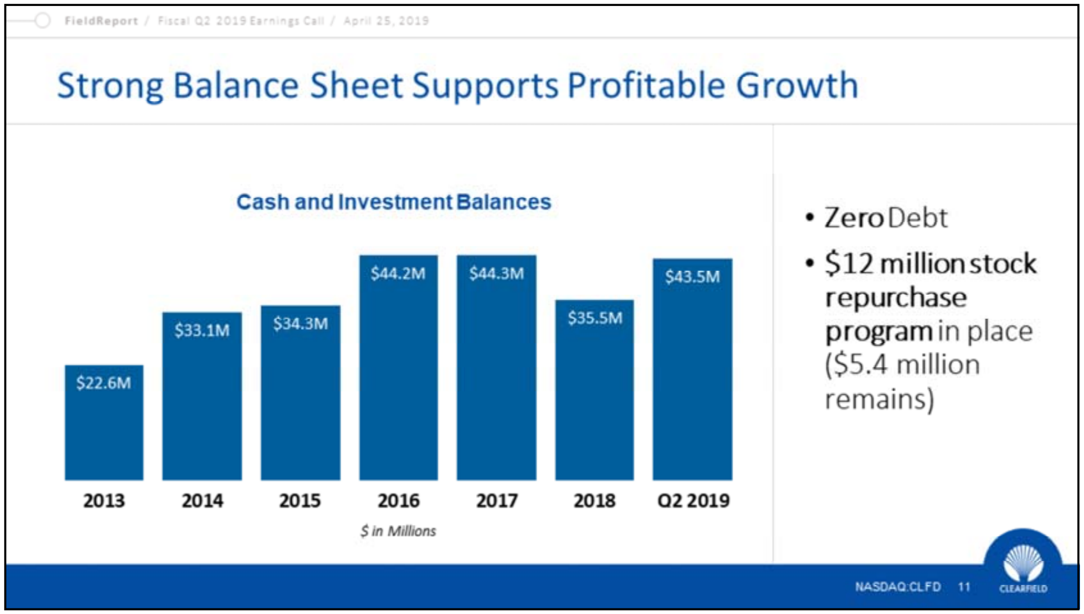
Our operating expenses for fiscal Q2 were $6.7 million, which were down from $7.3 million in the same year-ago quarter. As Cheri alluded to earlier, included in this $6.7 million is a $210,000 bad debt expense charge we took as a result of Windstream's Chapter 11 bankruptcy. It's worth noting that Windstream filed for bankruptcy protection after losing a court battle with one of its bondholders, not necessarily because of any impending liquidity or solvency issues. Regardless, we continue to work closely with Windstream, and there is a possibility that a portion of this amount may be recovered in the future.

With respect to the year-over-year decrease in operating expenses, much of it can be explained by the $1.4 million in expenses incurred for the defense and one-time settlement payment relating to the patent infringement lawsuit, which was settled in fiscal Q2 2018. This reduction in legal expense was partially offset by an increase in compensation expense as a result of additions in headcount to support the Company's growth.



Income from operations improved to $297,000 in the second quarter of fiscal 2019 from a loss of $526,000 in the same year-ago quarter. As I mentioned earlier, the loss from operations in fiscal Q2 of last year included the one-time settlement fee of $850,000. Income tax expense was $99,000 compared to a benefit of $101,000 in the second quarter of fiscal 2018. The resulting net income of $368,000, or $0.02 per diluted share for the second quarter of fiscal 2019 was an improvement from a net loss of $305,000, or a loss of $0.02 per diluted share, in the second quarter of fiscal 2018.

Turning now to our balance sheet…



During the second quarter, our cash, cash equivalents and investments increased to $43.5 million from $42.1 million in the prior quarter ended December 31, 2018 due to our strong cash flow from operations.

During the second quarter of 2019, we did not repurchase any shares as part of our share repurchase program, which, as a reminder, has approximately $5.4 million remaining out of the total $12 million authorized. We remain opportunistic with how we deploy our capital to generate the highest returns for our shareholders, whether that's through share repurchases or continuing to invest in our business to further reduce our cost structure or enhance our revenue opportunities.

Now with that, I would like to turn the call back over to Cheri.

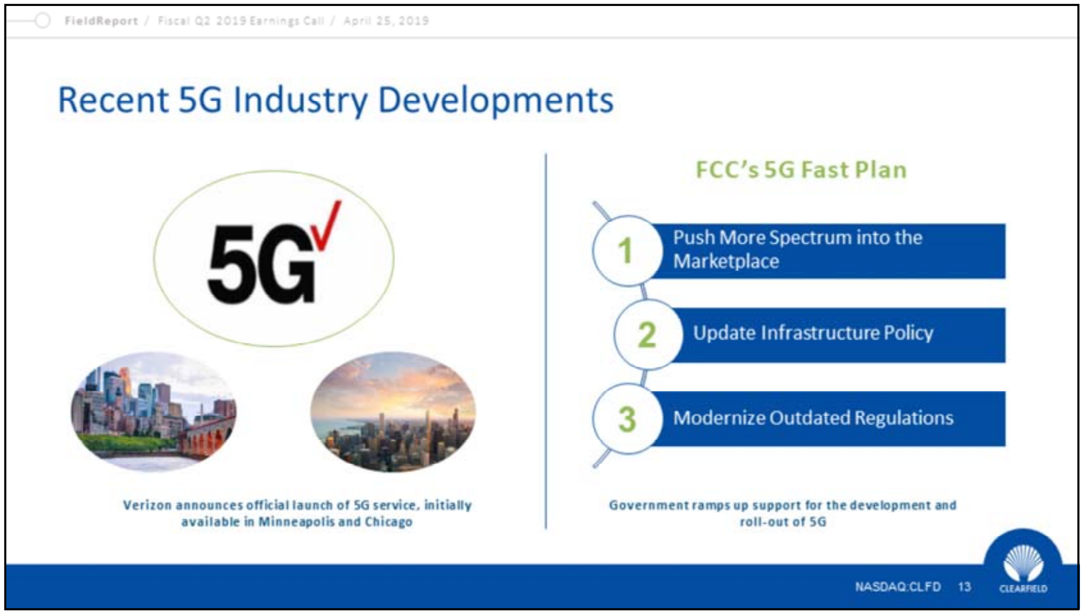
Cheri?

Thanks Dan. Turning now to our 'Coming of Age' plan, I'll now spend a moment going over our progress during the second quarter on each of these three initiatives.

As I mentioned earlier, we're continuing to make headway in our core Community Broadband market. Customers rely on us to help them cost-effectively deploy and manage their fiber infrastructure, therefore transforming that infrastructure into a key competitive advantage. For more than a decade, Clearfield has been helping these carriers reduce their short-term and longer-term expenses, while still supporting future bandwidth and network growth. As utilities, municipalities and cooperatives enter into this market alongside the traditional tier 3 service provider, Clearfield will leverage our newer solutions to expand our core Community Broadband market.

In line with that, and moving onto the second initiative, we are encouraged to see the strong early reception and adoption of our new FieldSmart Active Cabinet line. This new line, along with the acquired active cabinet line, not only gives us an opportunity to enhance revenues in the near-term, but also, longer-term, it allows us to build a roadmap for future configurations to our active cabinets. We're not only adding revenue from these new product additions, but gaining visibility into future product requirements, developing dialogue with the integrators that are building these systems, and positioning ourselves earlier in the 5G sales cycle. Ultimately, we believe this will allow for more disruptive growth over the mid- to long-term.

And this brings us to the third initiative, which is capitalizing on disruptive growth opportunities within the Tier 1 markets. While 5G presents a tremendous opportunity to meaningfully enhance our revenues, we are not taking our eyes off the immediate Tier 1 opportunities already in front of us. I talked earlier about the fact that we are now shipping FieldShield to all three major Tier 1 carriers, and on track to ship FieldSmart to two of these carriers. This is a meaningful step forward for the company, given that just two years ago, we were just starting to be part of the supplier discussion. Through the investments we have made to strengthen our salesforce, acquire the requisite certifications, enhance our products, and successfully complete initial pilots and orders, we are increasingly being seen as a reliable and trusted supplier for the fiber management and connectivity needs of this customer group. While I don't need to remind everyone that the sales cycles in this market are long and that it takes a while to truly displace or challenge an incumbent, I am encouraged by the fact that we are making visible progress and that there is steady growth in this market.

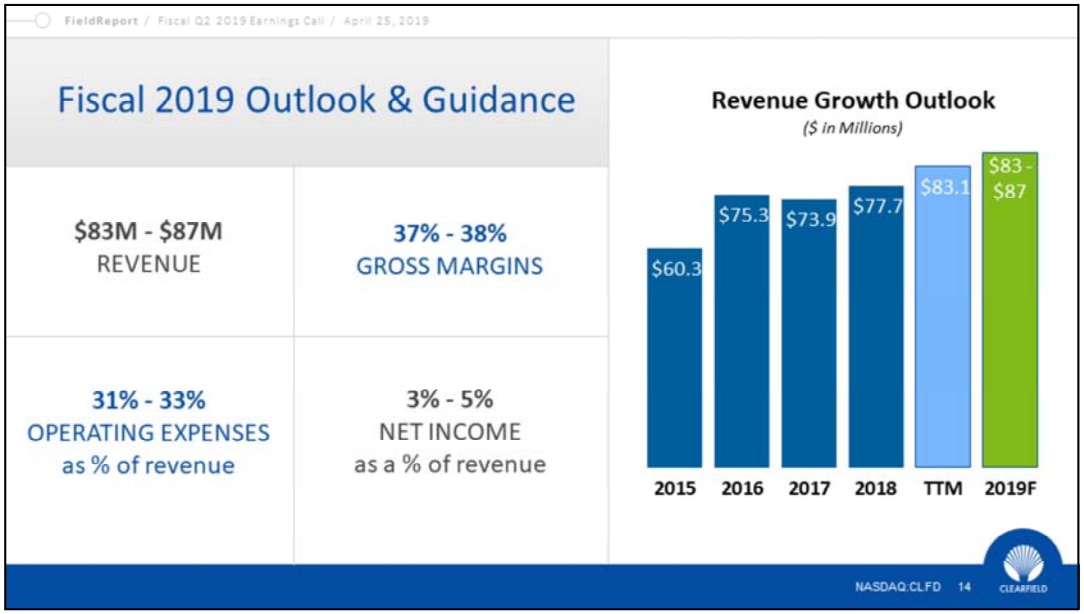


Of course, one of the ways that we'll be looking to enhance our revenues over the mid- to longer-term, as mentioned before, is through the 5G growth opportunities in front of us. As expected, it's still early days in terms of our involvement with 5G, but I wanted to share a couple of recent developments that illustrate where we are in that rollout schedule as an industry.

Just a couple of weeks ago, Verizon announced its official launch of 5G, which was made available throughout select areas of Minneapolis and Chicago. This is the first major launch of 5G-based services in the entire world. Other national carriers, such as AT&T and Sprint, are working quickly to launch their own 5G service, and we believe this arms race will ultimately benefit Clearfield as it brings the technologies and applications closer toward our product suite and value proposition.

In other news, there has been a lot of support recently from the U.S. government for the roll-out of 5G, including the current administration declaring that the race to 5G is "a race America must win." In fact, the FCC is currently pursuing a comprehensive strategy to push more spectrum into the marketplace, update infrastructure policy, and modernize outdated regulations, which are all necessary to support the buildout of 5G networks. This plan, dubbed the "Facilitate America's Superiority in 5G Technology", or 5G Fast Plan, is specifically designed to build up the wired infrastructure supporting 5G networks and to reduce the impediments of deploying small cells, which are a key component of Clearfield's 5G growth opportunity.

These developments are not meant to illustrate that 5G is at our doorstep today, but that we are moving past some of the marketing dialogue that has been associated with this next-generation of wireless access to carriers now actually building out the first wave of 5G networks, beginning with the fiber rings and small cells. Ultimately, it's not a matter of if, but when, which is why we're working to get ahead of this opportunity to position Clearfield for more disruptive growth, as we look to successfully transition our 'Coming of Age' period to enter a new stage and level of growth.

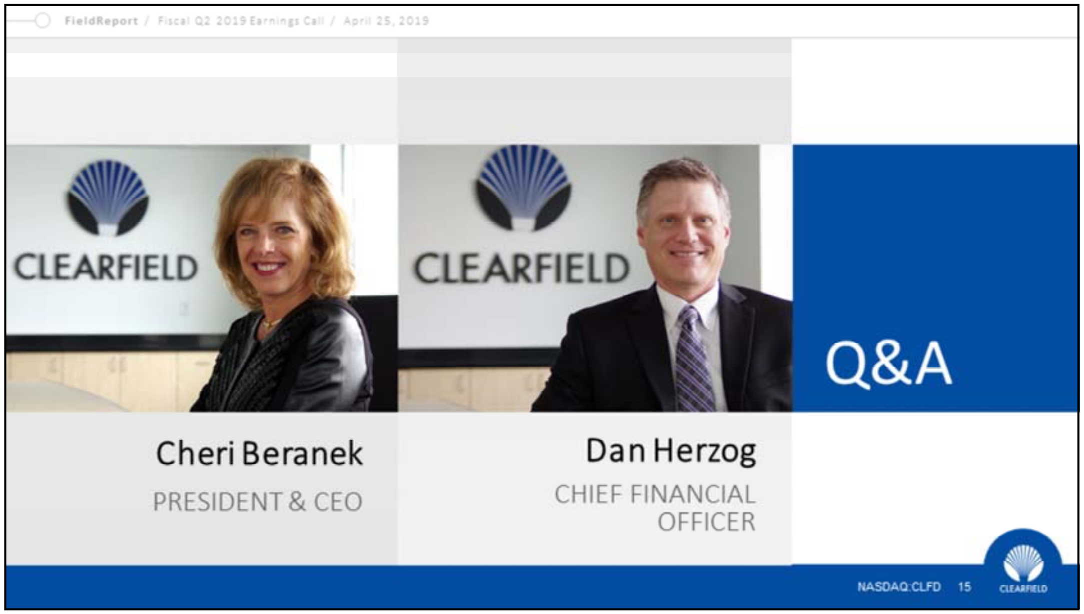


Fiscal Q2 2019 represented another solid step in our ‘Coming of Age’ plan, as we continued to experience growth in our key markets, while positioning Clearfield closer toward the growth opportunities that can serve as a true inflection point in our business. On that note, I wanted to quickly reflect on the one-year anniversary of the active cabinet acquisition, because it’s not only contributing to our growth today, but with our new FieldSmart Active Cabinet line, is actually forming the blueprint for the future active cabinets that will support the proliferation of 5G. From all angles, the acquired active cabinets have met our expectations, and in some instances, such as in our international markets, have even exceeded it.

With our first half financial performance and robust backlog, 2019 is shaping up to become a strong year for Clearfield, consistent with what we expected when we started the year. Given these factors, we are reiterating our full year guidance for $83 million to $87 million of revenue, 37% to 38% in gross margins, 31% to 33% operating expenses as a percentage of revenue, and 3% to 5% net income as a percentage of revenue.

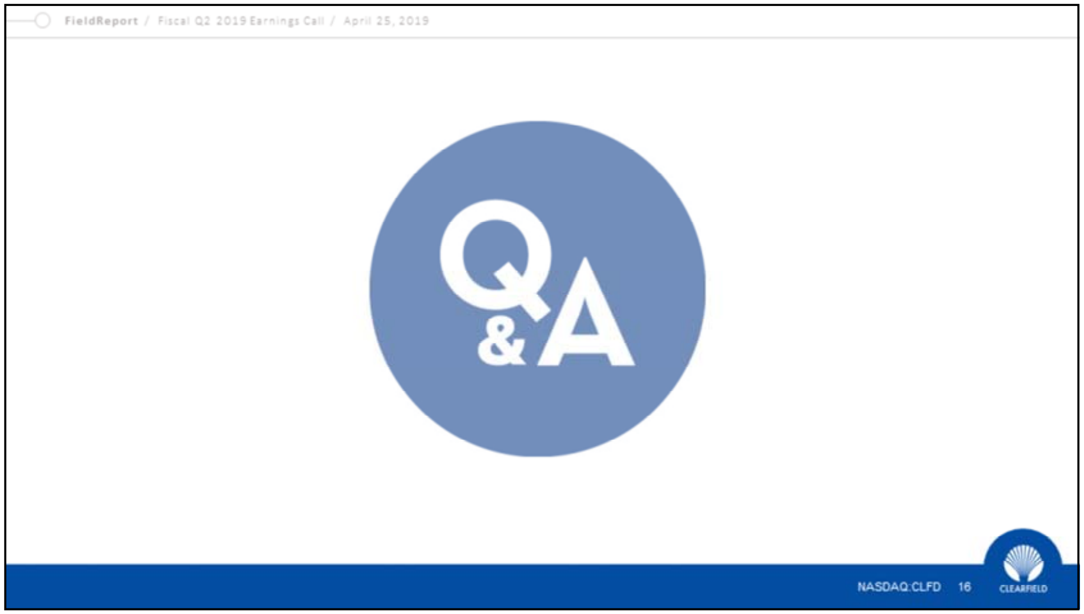
And with that, we’re ready to open the call for your questions.

Operator?



Thank you.

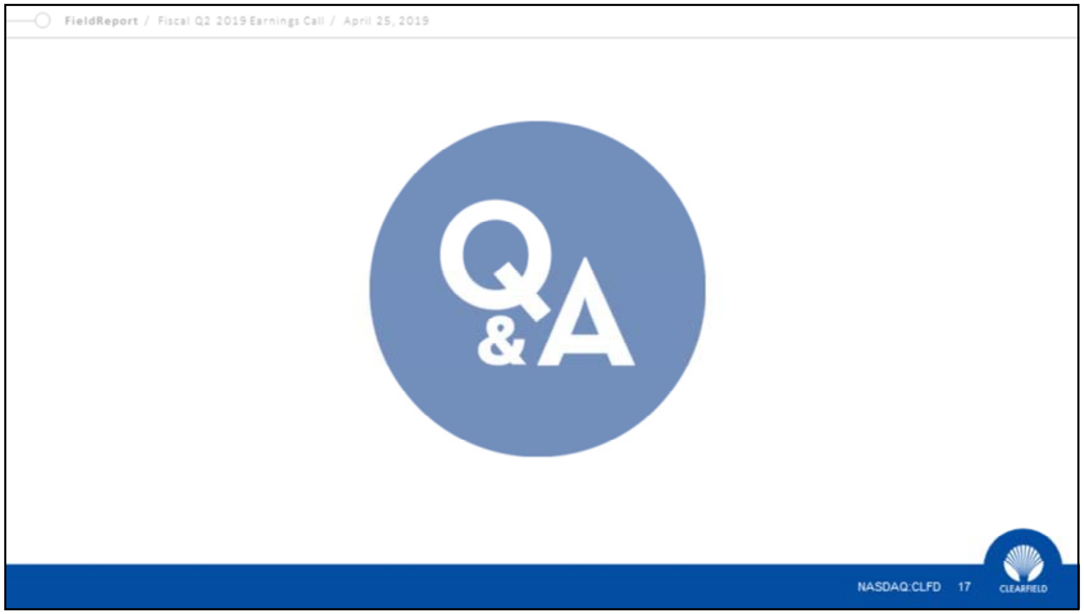
We will now be taking questions.



Operator
Our first question comes from Tim Savageaux with Northland Capital Markets.

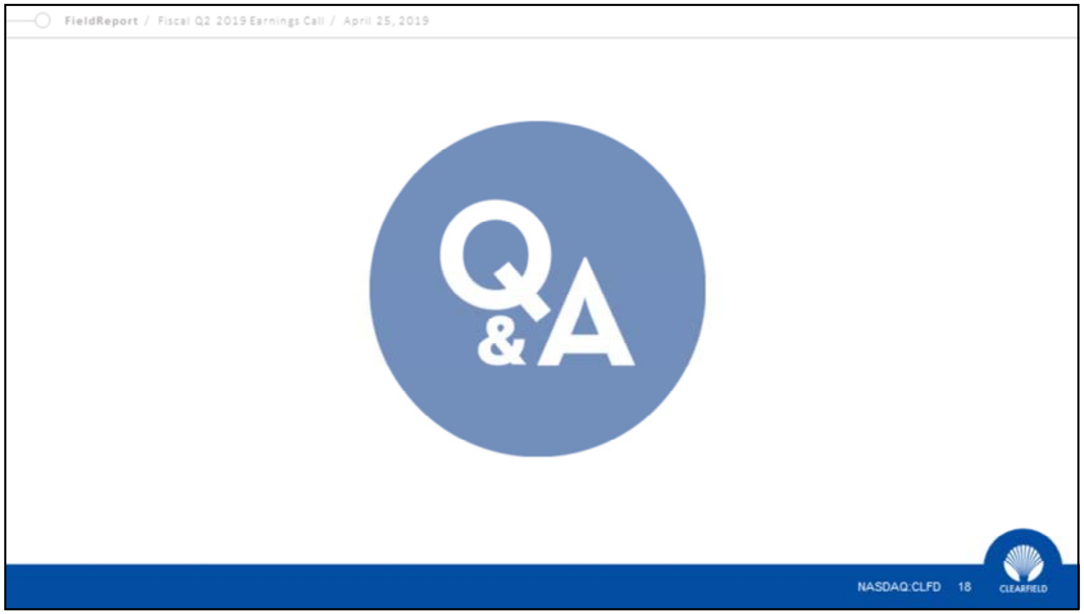
Timothy Paul Savageaux
Northland Capital Markets, Research Division
Congrats on the strong results. I wanted to focus on kind of your comments towards the end there around 5G. And you mentioned it's sort of a when not if. I guess, I want to try and drill down a little bit more on the when at least from Clearfield's perspective. So as you assess this opportunity, I wondered if you could maybe talk with any greater degree of specificity about what sort of deployment scenarios would represent opportunities for Clearfield? What if anything you need to do from a new product perspective? And whether we might expect something in terms of revenue contribution that we could associate with 5G in fiscal '20? And I will follow up from there.

Cheri Beranek
Chief Executive Officer, President & Director
Okay. All right. Thanks, Tim. I was at a 5G event about two weeks ago in New York, and there were about 100 of us there and it was an interesting dialogue because they were executives there from AT&T and Verizon, there were some planners from Comcast and Spectrum, there were contractors and other engineers, and there was a real disagreement across the 100 people that were there as to what to expect and how long this is actually going to take. And interestingly, executive groups were all faster at about two to three years, and then there were the contractors that were laughing and saying it's 10 to 20 years. So it was -- there is certainly no consensus. But I think, if you look at Clearfield from where our most-immediate opportunity is, and I think we'll start to see Clearfield revenues in perhaps very late fourth quarter or earlier into the first quarter of 2020, as we go from the deployment of fiber on the ring to the deployment of fiber to the connection of small cells. Our world is not about the deployment of fiber as much as it is the distribution of fiber and then the connectivity of that distributed fiber to the actual end unit. And so as the antennas are deployed, as radios are -- those radio heads are put onto those poles, our ability to provide the connectivity solutions for that, the different types of assemblies, whether they're hardened or not, which is some of our FieldShield solutions or being able to provide some of the cabinetry and panels, which is part of the FieldSmart solutions that I mentioned earlier in the conversation. So we are -- first stage to that is getting the product material code, which is what we talked about as part of the presentation. The second stage is going to be alongside with organizations as the small cells are put into place. As we look to new product issues within that, some of the first new product challenges are going to be about taking the products we currently have and providing a more dense solution to it in that for wireless connectivity, our anticipation is that it's going to be about density, and it's going to be about not success-based deployment, but deployment based upon a guaranteed level of commitment in that they're going to be looking at not having -- fiber-to-the-home cabinets are going to be success-based which is really good for Clearfield based upon our scalable architecture associated with the cassettes; new technologies associated with the deployment of wireless networks and the cabinet behind it are going to be about high-density and they're going to be about being able to ensure that right away and other kind of permitting issues are less of an issue. So we currently have developments underway to do both of those things, and you will see the marketplace having revenue in 2020, and we are doing the best that we can to make sure that we are part of that.



Timothy Paul Savageaux
Northland Capital Markets, Research Division
Great. If I could follow-up, the anecdote about the 5G event included some pretty big names there, sort of -- most of the Tier 1 universe. And I wonder to what degree your planning and activities in 5G intersect with your current kind of activity around the Tier 1 space? And I gather that we shouldn't be thinking of those as one and the same, but any more color with regard to what sort of opportunities you see driving your Tier 1 business currently? And I imagine, that could be maybe used as a foundation as you kind of move into 5G.

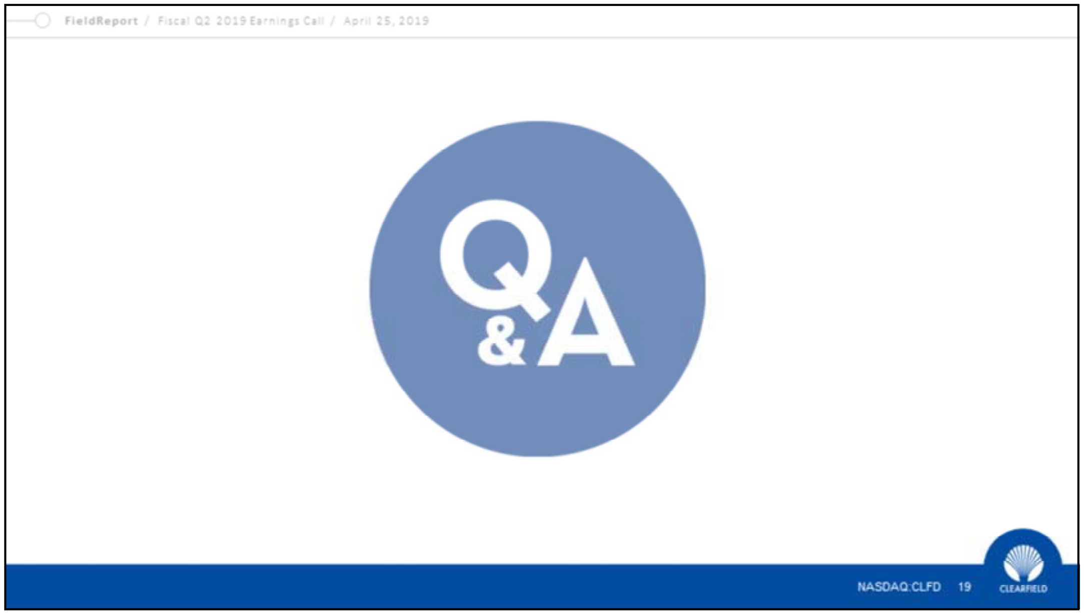
Cheri Beranek
Chief Executive Officer, President & Director
Right. We've been working the large carriers, the top three carriers in Tier 1 for some period of time, and those were associated not only in the wireless space and some 4G initiatives, but in the business class services that all three of those organizations need to do it in their incumbent serving space. And business class services and the ability to have both our FieldShield solutions, which reduce the deployment of labor costs as well as our FieldSmart solutions that have a better density and scalable solutions, especially in a multi-tenant environment where each floor is going to be different. There are going to be different types of solutions that are going to handle slack management and that kind of thing differently, that's where we've really been able to differentiate ourselves. So the revenue you're seeing today in that 12% of our current Q2 revenue was to the Tier 1s. That's going to be more principally associated with MDU and business class service function. As we move forward, and I think that's as pointed out in part of the FieldReport where it talks about that we're not going to turn our backs on some of the more immediate opportunities, which is where we're growing today. We'll be able to take those opportunities in that many of those organizations, at least two of the three of those top-tier customers have both wireline and wireless markets. And as those two serving causes become one market or one network as wireline and wireless are converged, we'll be able to take some of our wireline expertise and bring that to the wireless markets. But even more importantly, because there is no established incumbent for that particular application, our opportunity to bring in a different perspective is really being received well, which is one of the reasons why we were the only connectivity supplier at that 5G event last week because we are really looking at new things and how the marketplace can do things differently. That it’s not about how fiber was deployed 15 years ago, it's about how can we be creative about doing it looking forward. They're really seeing the 5G deployments as being that elephant trunk before the network and are being able to be a consultative, collaborative partner in those efforts. It's helping us get that recognition. You'll see our 5G thought leadership across the industry in that members of my team, my Chief Marketing Officer, my Chief Revenue Officer, my Chief Operating Officer have all spoken at those 5G events. And that's giving us -- we wouldn't be invited if they didn't recognize the competency and expertise that we have.



Timothy Paul Savageaux
Northland Capital Markets, Research Division
Okay. And last question from me. As we look at the gross margin guidance for the year, 37% to 38%. You mentioned, I think a 170 basis point headwind in Q2 in kind of maintaining that guidance. But as we look at it for the year, is it fair to say that's inclusive, that 37% to 38% of 100 or 200 basis points of tariff impact and should we see that mitigated later in the year? Or would that represent a tailwind to gross margins in fiscal '20?

Cheri Beranek
Chief Executive Officer, President & Director
Right. So the 37% to 38%, we believe is inclusive of the tariff cost. When we gave that guidance last quarter, I think, you and I had a conversation where you thought I was being a little conservative. But I think it's in light of the tariff environment and believing that the tariff environment -- we have to assume that they're going to continue as they are, as ludicrous as that is. And we're working to negate the effect on us as much as we can, and we're looking at different countries, different suppliers, and have already qualified different ways by which to work with our suppliers to be able to work through different product mix. So if the -- we're consistent with the gross margins that we forecasted earlier, based -- first quarter, it was less than 100 basis points of effect, so we didn't call it out. But due to the materiality this quarter, we felt that it was necessary. Long term, we're at that 37%, 38% for the year. If we are working in -- should the tariffs reverse themselves, it will come up better than that. We're just planning to assume that everybody in the marketplace always want it cheaper and we're not going to be able to pass it along to anybody without our -- really, working on our own cost of goods first.

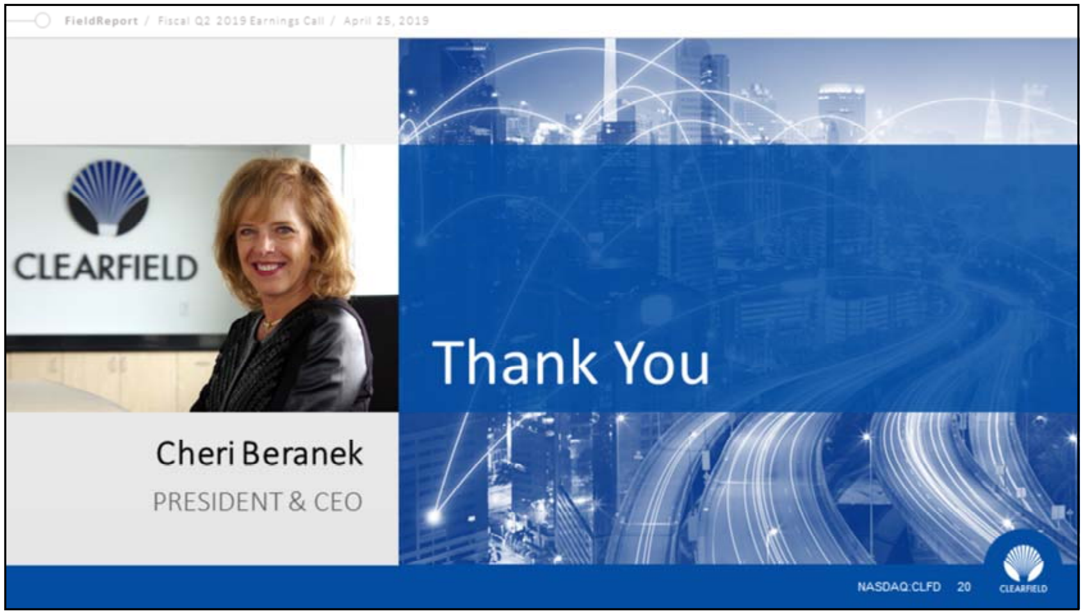
As we're pausing, I did want to bring up a couple of questions that were posted online. They include, "Did bookings accelerate in the quarter for all customers? Or were they limited to a particular market group?" I think we -- this question might have been asked before. The slide in which it shows that all five of our markets were up in the quarter, and the backlog on bookings is spread across all of those customer groups. So we are really proud of this fact that our initiative is to go strongly after the Tier 1 audiences. But as part of our ‘Coming of Age’ plan is to make sure that we protect our core and continue to be able to provide the connectivity solutions for all of those customers. I think it's important to recognize that while we are relatively new to the large carriers, we have over the course of the last 10 years put nearly 25 million ports of connectivity into the marketplace. So we are a very tried and tested marketplace with the established incumbency of our own, and we are working to protect that, and I think our numbers represent it. There was also an additional question that talked about, "Is the Tier 1 opportunity really about product acceptance or is it about purchase decision?" And I think it's important to qualify that it is both. The Tier 1 sales cycle is much longer, it's much more complex. We report as much as we can to our shareholders and try to be as transparent as possible that what are early success points, what are early indicators that demonstrate that we are making success and having success outside of just revenue. And those product material codes within FieldShield and FieldSmart are an important part of that product acceptance, and the actual revenue that we demonstrated during the quarter and year-to-date, I think, shows the actual product decision and the purchase decision that we moved beyond engineering where product material codes are established into procurement via, where we're working through the contracts and the other issues associated with it. So it really is a quarter-by-quarter, system-by-system solution, and we are working to ensure that we have points of contact throughout those organizations, financially, technically as well as throughout their customer bases.



Operator
This concludes our question and answer session.

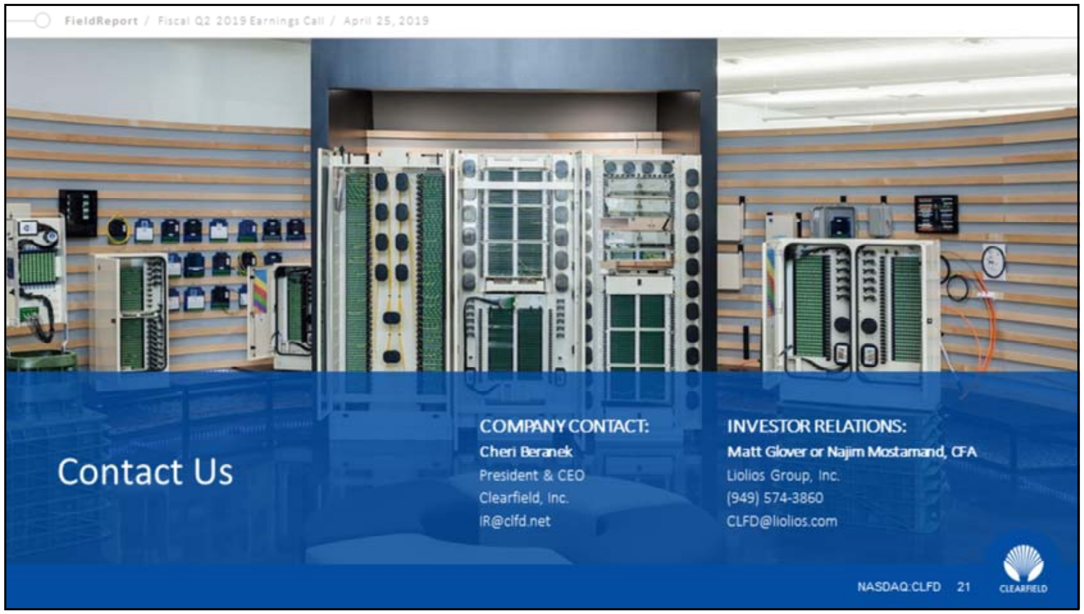
If your question was not taken, you may contact Clearfield's investor relations team at CLFD@liolios.com. The Company will post the most relevant questions and answers in the 'For Investors' section of Clearfield's website.

I'd now like to turn the call back to CEO, Cheri Beranek, for her closing remarks.



Thank you all for joining us today for this program and opportunity to discuss Clearfield.

We look forward to speaking with you again soon next quarter.



Thank you for joining us today for Clearfield's fiscal second quarter 2019 earnings conference call. You may now disconnect.