

November 9, 2017



# Clearfield Reports Fiscal Fourth Quarter and Full Year 2017 Results

## Success in Key Growth Areas Despite Overall Market Pause; Tier 1 Business Experienced 131% Revenue Growth for the Year

MINNEAPOLIS, Nov. 09, 2017 (GLOBE NEWSWIRE) -- **Clearfield, Inc.** (NASDAQ:CLFD), the specialist in fiber management and connectivity platforms for communication service providers, reported results for the fiscal fourth quarter and year ended September 30, 2017.

### Fiscal Q4 2017 Financial Summary

*(in millions except per share data and percentages)*

|                              | Q4 2017 | vs. Q4 2016 | Change     | Change (%) |
|------------------------------|---------|-------------|------------|------------|
| Revenue                      | \$ 18.4 | \$ 21.1     | \$ (2.7 )  | -13 %      |
| Gross Profit (\$)            | \$ 7.7  | \$ 9.6      | \$ (1.9 )  | -20 %      |
| Gross Profit (%)             | 41.7 %  | 45.5 %      | -3.8 %     | -8 %       |
| Income from Operations       | \$ 1.5  | \$ 3.1      | \$ (1.6 )  | -52 %      |
| Income Tax Expense           | \$ 0.3  | \$ 0.5      | \$ (0.2 )  | -34 %      |
| Net Income                   | \$ 1.3  | \$ 2.7      | \$ (1.4 )  | -53 %      |
| Net Income per Diluted Share | \$ 0.09 | \$ 0.20     | \$ (0.11 ) | -55 %      |

### Fiscal 2017 Financial Summary

*(in millions except per share data and percentages)*

|                              | 2017    | vs. 2016 | Change     | Change (%) |
|------------------------------|---------|----------|------------|------------|
| Revenue                      | \$ 73.9 | \$ 75.3  | \$ (1.4 )  | -2 %       |
| Gross Profit (\$)            | \$ 30.3 | \$ 32.9  | \$ (2.6 )  | -8 %       |
| Gross Profit (%)             | 40.9 %  | 43.7 %   | -2.8 %     | -6 %       |
| Income from Operations       | \$ 5.3  | \$ 10.7  | \$ (5.4 )  | -51 %      |
| Income Tax Expense           | \$ 1.7  | \$ 2.9   | \$ (1.2 )  | -40 %      |
| Net Income                   | \$ 3.8  | \$ 8.0   | \$ (4.2 )  | -52 %      |
| Net Income per Diluted Share | \$ 0.28 | \$ 0.59  | \$ (0.31 ) | -53 %      |

## Management Commentary

“While our total revenue was lower than our expectations, fiscal 2017 as a whole was an ambitious and foundational year for the company,” stated Cheri Beranek, President and CEO of Clearfield. “Perhaps most importantly, we continued to enhance our position at the Tier 1 wireline market, with revenue from this market more than doubling to \$6.2 million for the year. We also strengthened our market-leading position in the Tier 2/3 market, which grew 8% for the year, along with making solid advances in our international business, which grew 50% for the year.

“Despite the success we’re experiencing in these key markets, we did continue to see a

slowdown in our alternative carrier market, as well as a spending pause in the wireless and cable TV markets, which contributed to a relatively flat overall topline for the year.

“Part of our success depends on our ability to acquire the industry certifications necessary to win business at this level. It gives me great pleasure to report that in late fiscal 2017, we completed the test parameters for Telcordia certifications referred to as GR-326 for SC and LC connectors on all standard cable types. Beyond GR-326, our testing must also include the certification of the enclosure within which these terminated cable assemblies are placed. I am also pleased to report that we have achieved GR-487 for our distribution cabinet called Makwa, which is the industry’s only fiber distribution hub designed for below ground deployment. These certifications join our previously announced NEBS compliance for central office panels.

“Important also to our growth is obtaining product approvals at the national carriers. Beyond our success at regional players, to date, we have earned product approvals for parts of our product line at Verizon, AT&T, CenturyLink, Frontier, Windstream, Comcast, and Charter. Although ongoing product approvals will be needed to successfully penetrate the national carrier markets, this has been an important step.

“As you have heard from many of our larger peers, this market remains challenging. M&A activity at major telco and cable providers have introduced distractions from their network builds. In addition, the lack of competitive build pressures—what many have dubbed the ‘Google Effect’—has slowed the rate of build and prompted wireline, cable and wireless providers to retract into a more thorough planning phase rather than a building phase for their fiber deployment programs.

“While frustrating for us in this fiscal year, we believe the extension of this planning and evaluation stage may be uniquely beneficial to Clearfield, allowing us to introduce our labor-saving technologies deeper into the decision trees within these large providers.

“Overall, during fiscal 2017 we established a sturdy foundation for us to continue capturing growth in our key markets, especially at the Tier 1 level. Though the significant growth won’t come immediately, we are experiencing strong initial results and continue to see the large market opportunity in front of us expanding. Over time, we expect our compelling value proposition, disciplined investments, and focus on profitably scaling the business to be major drivers of our future success, both in our core and emerging markets.”

#### **Fiscal Q4 2017 Financial Results**

Revenue for the fourth quarter of fiscal 2017 decreased 13% to \$18.4 million from \$21.1 million in the same year-ago quarter. The decrease was driven primarily by lower sales to the Company’s alternative carrier, wireless, and cable TV customers, and was partially offset by an increase in sales to the Company’s domestic and international wireline customers, which was supported by strong growth in sales to the Tier 1 market.

Gross profit decreased 20% to \$7.7 million, or 41.7% of revenue, from \$9.6 million, or 45.5% of revenue, in the fourth quarter of fiscal 2016. The decrease in gross profit was due to decreased volume. The decrease in gross profit percent was primarily due to a lower percentage of sales associated with optical component solutions, which typically have higher gross margins.

Operating expenses were \$6.2 million, a decrease of 4%, compared to \$6.4 million in the same year-ago quarter. Operating expenses in the fourth quarter of fiscal 2017 included costs of \$498,000 driven by the defense of the patent infringement lawsuit filed by CommScope earlier in the year.

Income from operations decreased 52% to \$1.5 million for the fourth quarter of fiscal 2017 from \$3.1 million in the same year-ago quarter. Income tax expense decreased 34% to \$345,000 for the fourth quarter of fiscal 2017 from \$519,000 in the same year-ago quarter. The Company recognized a net tax benefit of \$437,000 for the quarter ended September 30, 2016 as a result of the adoption in the fourth quarter of fiscal 2016 of a new accounting pronouncement related to the income tax accounting for stock-based compensation. Net income decreased 53% to \$1.3 million for the fourth quarter of fiscal 2017, or \$0.09 per diluted share, from \$2.7 million, or \$0.20 per diluted share, in the same year-ago quarter.

At quarter-end, cash, cash equivalents and investments increased 4% to \$44.3 million from \$42.6 million at the end of the prior quarter. The Company had no debt at quarter end.

During the quarter, the Company repurchased 102,291 shares of its common stock under its stock repurchase program. In April 2017, the Company's board of directors increased the previously approved stock repurchase program by an additional \$4 million to \$12 million.

Order backlog (defined as purchase orders received but not yet fulfilled) at September 30, 2017 decreased 10% to \$4.0 million from \$4.4 million at June 30, 2017, and decreased 13% from \$4.6 million at September 30, 2016.

### **Fiscal 2017 Financial Results**

Revenue decreased 2% to \$73.9 million for fiscal 2017 from \$75.3 million in fiscal 2016. Revenue from customers outside of the alternative carrier business increased 5% for fiscal 2017 compared to fiscal 2016.

Gross profit was \$30.3 million, or 40.9% of revenue, for fiscal 2017, a decrease of 8% from \$32.9 million, or 43.7% of revenue, in fiscal 2016.

Operating expenses increased 13% to \$25.0 million for fiscal 2017 from \$22.1 million in fiscal 2016, which included costs of \$944,000 driven by the defense of CommScope litigation.

Income from operations totaled \$5.3 million, or 7.2% of revenue, for fiscal 2017 compared to \$10.7 million, or 14.3% of revenue, in fiscal 2016.

Net income totaled \$3.8 million, or \$0.28 per diluted share, for fiscal 2017, a decrease of 52% from \$8.0 million, or \$0.59 per diluted share, in fiscal 2016.

### **Fiscal 2018 Financial Outlook**

Clearfield expects revenue for the first half of fiscal 2018 to be consistent with the first half of fiscal 2017. The Company also forecasts 10% revenue growth in the second half of fiscal 2018, leading to a total of 5% revenue growth for the fiscal year ending September 30, 2018.

In addition, the Company expects gross profit percent to remain within its target range of 40% to 42%, with some variability on a quarter-to-quarter basis.

Clearfield forecasts net income as a percentage of revenue for the first half of fiscal 2018 to be 3%. For the entire fiscal 2018, Clearfield expects net income as a percentage of revenue of 5%, with quarter to quarter volatility due to negative influence associated with costs driven by the CommScope litigation.

Longer term, the Company expects to return to double-digit revenue and net income growth, as the overall market regains stability.

### **Conference Call**

Clearfield management will hold a conference call today, November 9, 2017 at 5:00 p.m. Eastern Standard Time (4:00 p.m. Central Standard Time) to discuss these results and provide an update on business conditions.

Clearfield's President and CEO Cheri Beranek and CFO Dan Herzog will host the presentation, followed by a question and answer period.

Date: Thursday, November 9, 2017  
Time: 5:00 p.m. Eastern time (4:00 p.m. Central time)  
U.S. dial-in: 1-877-407-0792  
International dial-in: 1-201-689-8263

The conference call will be webcast live and available for replay [here](#).

Please call the conference telephone number 10 minutes prior to the start time. An operator will register your name and organization. If you have any difficulty connecting with the conference call, please contact Liolios at 1-949-574-3860.

A replay of the call will be available after 8:00 p.m. Eastern time on the same day through November 23, 2017.

U.S. replay dial-in: 1-844-512-2921  
International replay dial-in: 1-412-317-6671  
Replay ID: 13672747

### **About Clearfield, Inc.**

Clearfield, Inc. (NASDAQ:CLFD) designs, manufactures and distributes fiber optic management, protection and delivery products for communications networks. Our "fiber to the anywhere" platform serves the unique requirements of leading incumbent local exchange carriers (traditional carriers), competitive local exchange carriers (alternative carriers), and MSO/cable TV companies, while also catering to the broadband needs of the utility/municipality, enterprise, data center and military markets.

Clearfield offers the industry's only fiber management and delivery platform that simplifies the fiber to the 'x' (FTTx) equation with the promise of a design methodology that addresses each network's unique requirements, while building simplicity into the design and delivering the lowest total cost of ownership.

Based on the patented Clearview™ Cassette, Clearfield's unique single-architected, modular fiber management platform is designed to further lower the cost of broadband deployment and maintenance by consolidating, protecting and distributing incoming and outgoing fiber circuits, enabling customers to scale their operations as their subscriber

revenues increase. Headquartered in Minneapolis, MN, Clearfield deploys more than a million fiber ports each year. For more information, visit [www.SeeClearfield.com](http://www.SeeClearfield.com).

### **Cautionary Statement Regarding Forward-Looking Information**

*Forward-looking statements contained herein and in any related presentation or in the FieldReport are made pursuant to the safe harbor provisions of the Private Litigation Reform Act of 1995. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “estimate,” “outlook,” or “continue” or comparable terminology are intended to identify forward-looking statements. Such forward looking statements include, for example, statements about the Company’s future revenue and operating performance, growth of the FTTx markets, effectiveness of the Company’s sales and marketing strategies and organization, utilization of manufacturing capacity, and the development and marketing of products. These statements are based upon the Company’s current expectations and judgments about future developments in the Company’s business. Certain important factors could have a material impact on the Company’s performance, including, without limitation: our success depends upon adequate protection of our patent and intellectual property rights and our ability to successfully defend against claims of infringement; our results of operations could be adversely affected now that the stimulus funds of the American Recovery and Reinvestment Act are fully allocated and projections are nearing completion; National Broadband Plan’s transitioning from the USF to the CAF program may cause our customers and prospective customers to delay or reduce purchases; a significant percentage of our sales in the last three fiscal years have been made to a small number of customers, and the loss of these major customers would adversely affect us; intense competition in our industry may result in price reductions, lower gross profits and loss of market share; our results of operations could be adversely affected by economic conditions and the effects of these conditions on our customers’ businesses; our operating results may fluctuate significantly from quarter to quarter, which may make budgeting for expenses difficult and may negatively affect the market price of our common stock; to compete effectively, we must continually improve existing products and introduce new products that achieve market acceptance; we may face circumstances in the future that will result in impairment charges, including, but not limited to, significant goodwill impairment charges; we rely on single-source suppliers, which could cause delays, increases in costs or prevent us from completing customer orders, all of which could materially harm our business; we face risks associated with expanding our sales outside of the United States; further consolidation among our customers may result in the loss of some customers and may reduce sales during the pendency of business combinations and related integration activities; we are dependent on key personnel; product defects or the failure of our products to meet specifications could cause us to lose customers and sales or to incur unexpected expenses; and other factors set forth in Part I, Item 1A. Risk Factors of Clearfield’s Annual Report on Form 10-K for the year ended September 30, 2016 as well as other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update these statements to reflect actual events.*

### **Investor Relations Contact:**

**Matt Glover and Najim Mostamand, CFA**

Liolios Group, Inc.

949-574-3860

[CLFD@liolios.com](mailto:CLFD@liolios.com)

**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
**UNAUDITED**

|                                      | Three Months Ended<br>September 30 |               | Twelve Months Ended<br>September 30 |               |
|--------------------------------------|------------------------------------|---------------|-------------------------------------|---------------|
|                                      | 2017                               | 2016          | 2017                                | 2016          |
| Revenues                             | \$ 18,418,389                      | \$ 21,052,104 | \$ 73,947,619                       | \$ 75,287,726 |
| Cost of sales                        | 10,742,914                         | 11,479,298    | 43,683,360                          | 42,417,478    |
| Gross profit                         | 7,675,475                          | 9,572,806     | 30,264,259                          | 32,870,248    |
| Operating expenses                   |                                    |               |                                     |               |
| Selling, general and administrative  | 6,157,981                          | 6,426,237     | 24,952,376                          | 22,138,556    |
| Income from operations               | 1,517,494                          | 3,146,569     | 5,311,883                           | 10,731,692    |
| Interest income                      | 87,552                             | 43,086        | 273,930                             | 157,402       |
| Income before income taxes           | 1,605,046                          | 3,189,655     | 5,585,813                           | 10,889,094    |
| Income tax expense                   | 344,974                            | 519,087       | 1,737,974                           | 2,876,032     |
| Net income                           | \$ 1,260,072                       | \$ 2,670,568  | \$ 3,847,839                        | \$ 8,013,062  |
| Net income per share:                |                                    |               |                                     |               |
| Basic                                | \$ 0.09                            | \$ 0.20       | \$ 0.28                             | \$ 0.60       |
| Diluted                              | \$ 0.09                            | \$ 0.20       | \$ 0.28                             | \$ 0.59       |
| Weighted average shares outstanding: |                                    |               |                                     |               |
| Basic                                | 13,451,279                         | 13,494,530    | 13,532,375                          | 13,372,579    |
| Diluted                              | 13,451,279                         | 13,689,079    | 13,660,806                          | 13,663,349    |

**CLEARFIELD, INC.**  
**CONDENSED BALANCED SHEETS**

|  | (Unaudited)<br>September 30,<br>2017 | (Audited)<br>September 30,<br>2016 |
|--|--------------------------------------|------------------------------------|
| Assets                                     |                                      |                                    |
| Current Assets                             |                                      |                                    |
| Cash and cash equivalents                  | \$ 18,536,111                        | \$ 28,014,321                      |
| Short-term investments                     | 5,937,150                            | 5,527,075                          |
| Accounts receivable, net                   | 7,237,641                            | 7,999,210                          |
| Inventories                                | 8,453,567                            | 8,373,155                          |
| Other current assets                       | 978,933                              | 1,198,917                          |
| Total current assets                       | <u>41,143,402</u>                    | <u>51,112,678</u>                  |
| Property, plant and equipment, net         | 5,434,172                            | 5,780,814                          |
| Other Assets                               |                                      |                                    |
| Long-term investments                      | 19,816,000                           | 10,703,000                         |
| Goodwill                                   | 2,570,511                            | 2,570,511                          |
| Other                                      | 529,952                              | 428,310                            |
| Total other assets                         | <u>22,916,463</u>                    | <u>13,701,821</u>                  |
| Total Assets                               | <u>\$ 69,494,037</u>                 | <u>\$ 70,595,313</u>               |
| Liabilities and Shareholders' Equity       |                                      |                                    |
| Current Liabilities                        |                                      |                                    |
| Accounts payable                           | \$ 1,739,791                         | \$ 2,573,292                       |
| Accrued compensation                       | 2,410,026                            | 4,697,138                          |
| Accrued expenses                           | 93,304                               | 75,306                             |
| Total current liabilities                  | <u>4,243,121</u>                     | <u>7,345,736</u>                   |
| Other Liabilities                          |                                      |                                    |
| Deferred taxes – long-term                 | 444,076                              | 411,779                            |
| Deferred rent                              | 281,720                              | 243,755                            |
| Total other liabilities                    | <u>725,796</u>                       | <u>655,534</u>                     |
| Total Liabilities                          | 4,968,917                            | 8,001,270                          |
| Commitment and contingencies               |                                      |                                    |
| Shareholders' Equity                       |                                      |                                    |
| Common stock                               | 138,128                              | 141,263                            |
| Additional paid-in capital                 | 55,406,888                           | 57,320,515                         |
| Retained earnings                          | 8,980,104                            | 5,132,265                          |
| Total Shareholders' Equity                 | <u>64,525,120</u>                    | <u>62,594,043</u>                  |
| Total Liabilities and Shareholders' Equity | <u>\$ 69,494,037</u>                 | <u>\$ 70,595,313</u>               |

**CLEARFIELD, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**UNAUDITED**

|  | Year Ended<br>September 30,<br>2017 | Year Ended<br>September 30,<br>2016 |
|--|-------------------------------------|-------------------------------------|
| Cash flows from operating activities:  |                                     |                                     |
| Net income   | \$ 3,847,839                        | \$ 8,013,062                        |
| Adjustments to reconcile net income to cash provided<br>by operating activities:               |                                     |                                     |
| Depreciation and amortization  | 1,622,094                           | 1,449,202                           |
| Impairment of long-lived assets  | 643,604                             | -                                   |
| Deferred income taxes  | 32,297                              | 2,340,771                           |
| Loss on disposal of assets   | 35,281                              | 12,348                              |
| Stock-based compensation expense   | 2,319,975                           | 1,404,899                           |
| Changes in operating assets and liabilities:   |                                     |                                     |
| Accounts receivable, net   | 761,569                             | (1,988,310 )                        |
| Inventories  | (80,412 )                           | (1,190,301 )                        |
| Other current assets   | 180,456                             | (812,811 )                          |
| Accounts payable and accrued expenses  | (3,064,650 )                        | 2,323,891                           |
| Net cash provided by operating activities  | <u>6,298,053</u>                    | <u>11,552,751</u>                   |
| Cash flows from investing activities:  |                                     |                                     |
| Purchases of property, plant and equipment   | (1,951,615 )                        | (1,550,128 )                        |
| Purchase of investments  | (17,630,075 )                       | (8,138,075 )                        |
| Proceeds from sale of property and equipment   | 5,100                               | 729                                 |
| Patent additions   | (69,936 )                           | (77,138 )                           |
| Proceeds from maturities of investments  | 8,107,000                           | 8,123,000                           |
| Net cash used in investing activities  | <u>(11,539,526 )</u>                | <u>(1,641,612 )</u>                 |
| Cash flows from financing activities:  |                                     |                                     |
| Repurchase of common stock   | (3,647,314 )                        | (333,761 )                          |
| Proceeds from issuance of common stock under<br>employee stock purchase plan                   | 334,692                             | 254,426                             |
| Proceeds from issuance of common stock   | 28,717                              | 548,844                             |
| Tax withholding related to vesting of restricted stock<br>grants and exercise of stock options | (952,832 )                          | (437,537 )                          |
| Net cash (used in) provided by financing activities  | <u>(4,236,737 )</u>                 | <u>31,972</u>                       |
| (Decrease) increase in cash and cash equivalents   | <u>(9,478,210 )</u>                 | <u>9,943,111</u>                    |
| Cash and cash equivalents at beginning of year   | 28,014,321                          | 18,071,210                          |
| Cash and cash equivalents at end of year   | <u>\$ 18,536,111</u>                | <u>\$ 28,014,321</u>                |
| Supplemental cash flow information   |                                     |                                     |
| Cash paid during the year for income taxes   | \$ 1,471,203                        | \$ 1,130,930                        |
| Non-cash financing activities  |                                     |                                     |
| Cashless exercise of stock options   | \$ 34,268                           | \$ 853,033                          |
| Establishment of deferred tax asset for the adoption of<br>ASU 2016-09                         | \$ -                                | \$ 1,864,980                        |

Source: Clearfield, Inc.