Good afternoon. Welcome to Clearfield's fiscal third quarter 2019 earnings conference call. My name is Ben, 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.

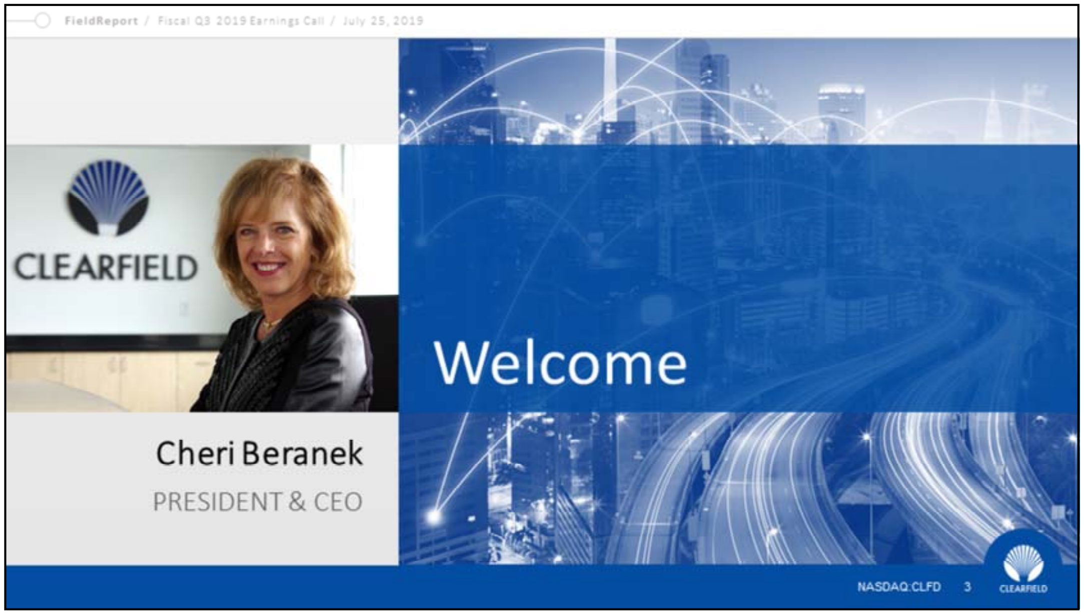
I would now like to remind everyone that this call will be recorded and made available for replay via a link in the investor relations section of the Company's website. This call is also being webcasted and accompanied by a PowerPoint presentation called the FieldReport, which is also available in the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

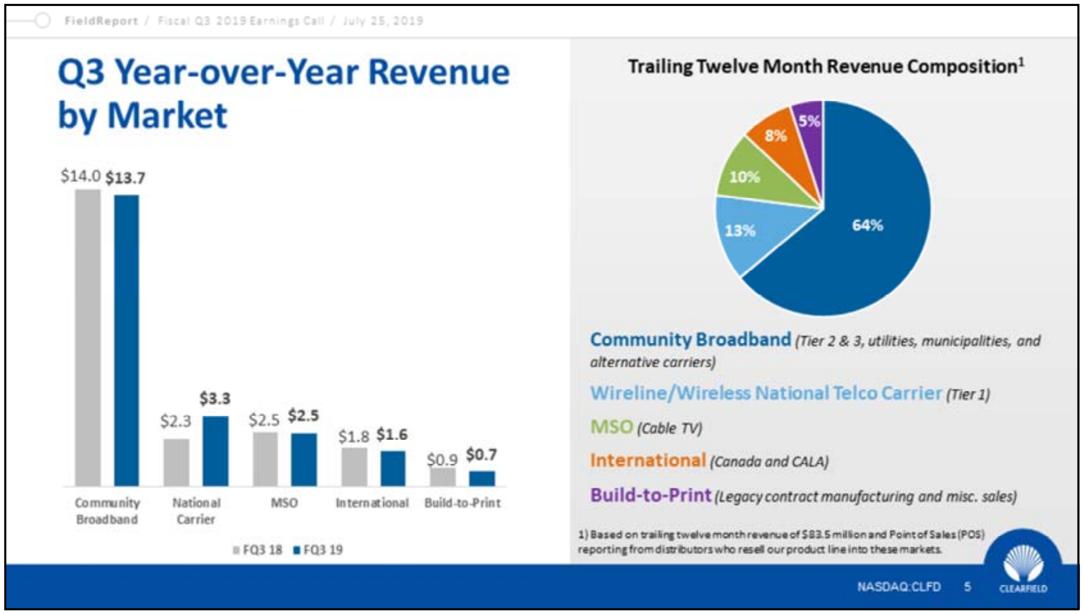


Good afternoon, and thank you everyone for joining us today.

During the third quarter, we continued to build on our track record of growth and move closer toward achieving our full year guidance for 2019. Revenue was up 2% year-over-year to $21.9 million, which was driven primarily by the strong performance achieved in our National Carrier business, partially offset by softer demand in other segments of our markets.

For the nine month period ended June 30, 2019, revenue of $61.1 million was 11% higher than the first nine months of 2018. Revenue was up in all of our markets compared to the prior year period, with the strongest growth in our International and National Carrier businesses. We're encouraged by the overall nine-month result and the backlog we have built, enabling us to reiterate our previously announced revenue guidance of $83 million to $87 million for fiscal 2019.

Before I dive deeper into our results and progress against our 'Coming of Age' plan, I'd like to spend a moment going over our recent operational and market progress.



I'll start, as always, with our core Community Broadband market, which had a roughly flat quarter with $13.7 million in revenue. The softness in this market is due in part to the transition in the federal funding programs from the last six years under the Connect America Fund, which is ending in 2019, to the Rural Digital Opportunity Fund, which begins a 10-year program in 2020. The roughly $2 billion annual spend under the Rural Digital Opportunity Fund increases the minimum speed threshold. While it maintains its technology-neutral position, it is positive to ongoing fiber growth because of the speed requirements. We believe we will continue to gain market share and to be a supplier of choice for the communications providers who have consistently relied on our solutions over the past decade.

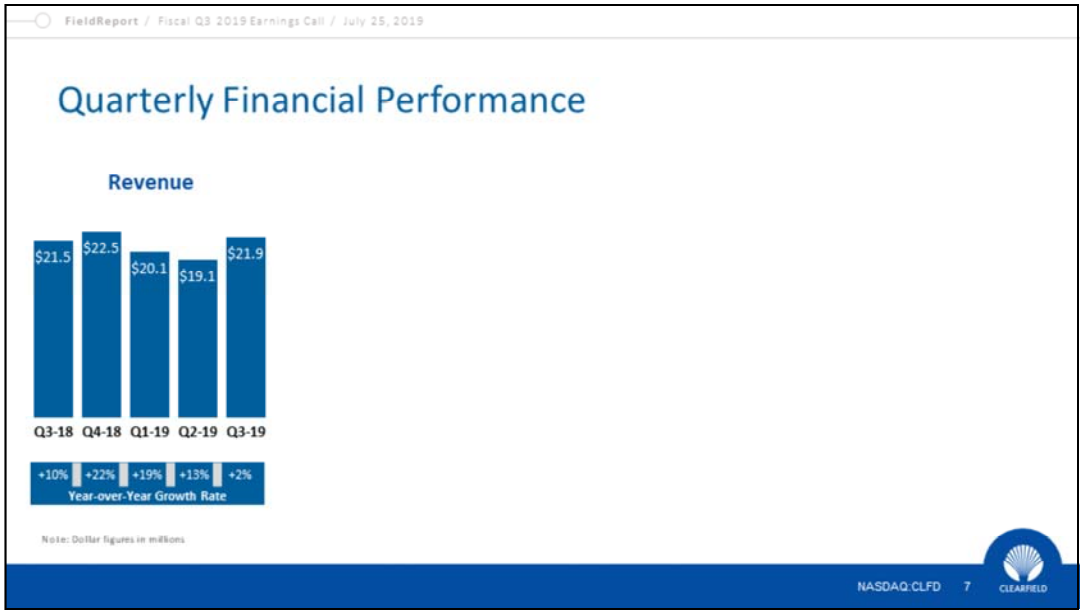
Our National Carrier business recorded one of its strongest quarters to date, up 46% to $3.3 million of revenue. This significant growth was driven by the continued strong adoption of our FieldShield products at one carrier, and increasing sales of FieldSmart fiber distribution cabinets at another. This achievement not only demonstrates our solutions' continued competency in the field, but also the growing trust and comfort these larger carriers are developing with Clearfield to support and scale their networks. While we are only just scratching the surface in this market, our progress to date has been a promising reminder and preview of the level of potential growth we believe we can achieve through the National Carriers.

Looking at some of our other markets, our MSO business was consistent with last year at $2.5 million of revenue, while up 4% for the nine-month period ended June 30, 2019. Our international business declined slightly year-over-year to $1.6 million of revenue during the quarter, but is up 31% for the nine-month period, demonstrating once again the benefits of looking at our business through the lens of a longer time horizon. As it relates to our legacy Build-to-Print business, we have historically achieved a $4 million annual run-rate for this business, making this quarter an anomaly for us. Although this business has limited growth opportunities, we expect to continue achieving this annual run-rate despite this quarter's shortfall.

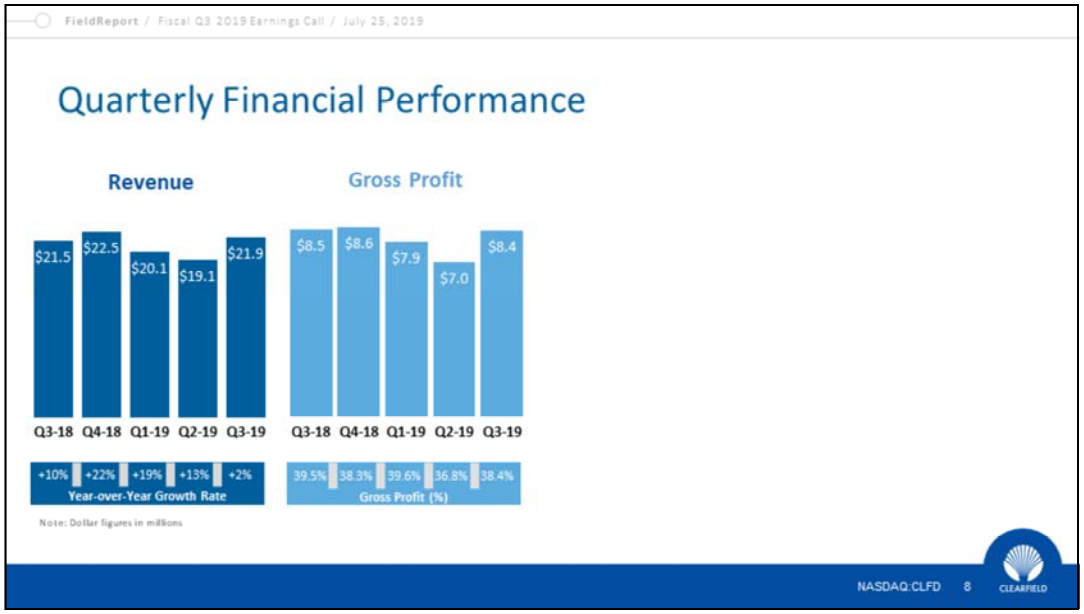
With that, I'll now turn the presentation over to our CFO, Dan Herzog, who will walk us through our financial performance for the third quarter of fiscal 2019.

Thank you, Cheri.

Now, looking at our financial results in more detail…

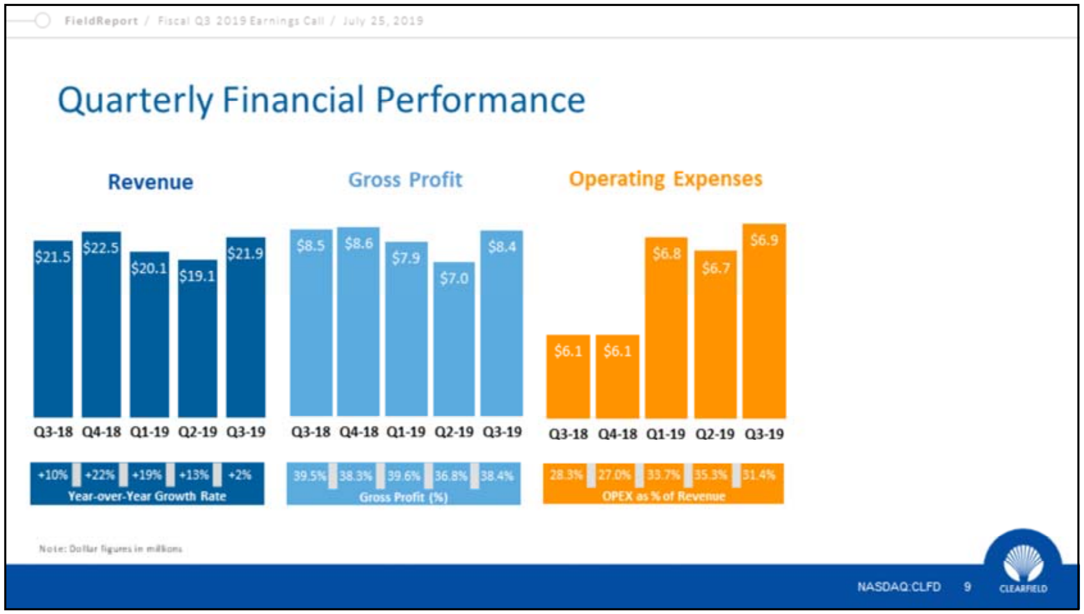


Our revenue in the third quarter of fiscal 2019 increased 2% to $21.9 million from $21.5 million in the same year-ago period. The increase for the quarter was largely driven by increased sales to our National Carrier customers, which was up 46%, or approximately $1 million, compared to fiscal Q3 2018.

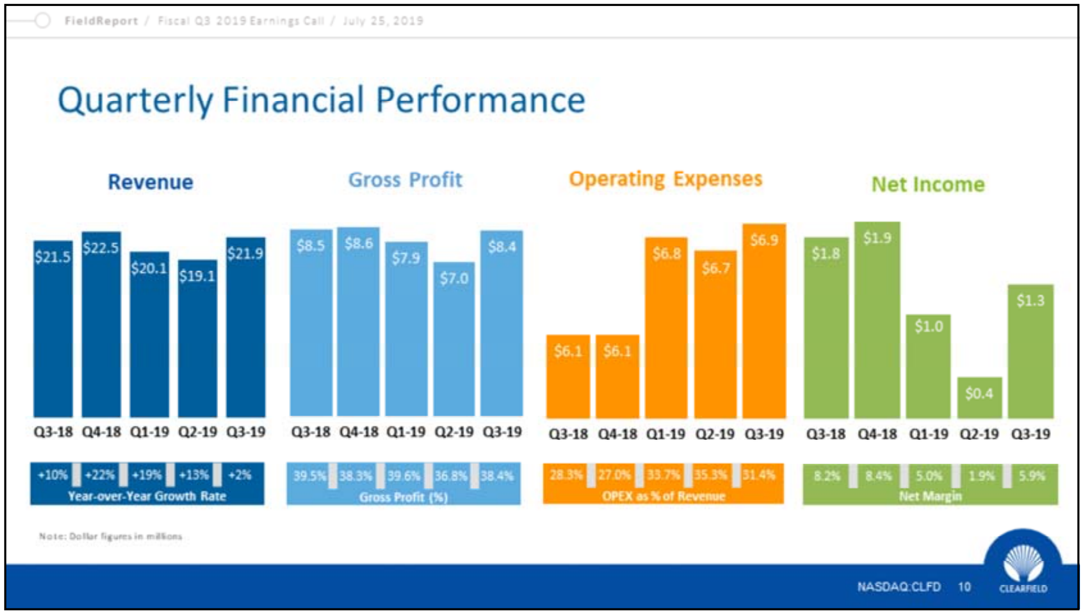


Gross profit for the third quarter of fiscal 2019 totaled $8.4 million, or 38.4% of total revenue, compared to $8.5 million, or 39.5% of total revenue, in the third quarter of fiscal 2018. Gross profit percentage for the third quarter of fiscal 2019 was down year-over-year in part due to tariff costs which we are currently experiencing, but is up 160 basis points from the prior quarter due to product mix.

Even with the tariffs, however, we remain confident in achieving our gross margin forecast of 37% to 38% for fiscal 2019, due to our continued efforts to enhance our supply chain and cost structure.

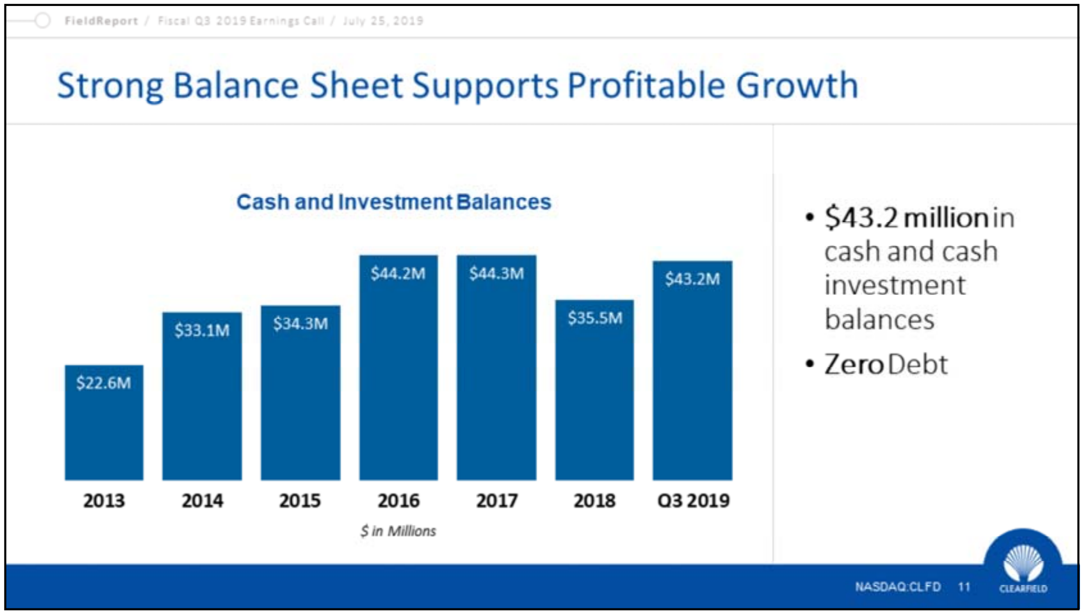


Our operating expenses for fiscal Q3 were $6.9 million, which were up from $6.1 million in the same year-ago quarter while consistent with the last two quarters. The increase was due to an increase in compensation expense as a result of additions in headcount to support the Company's growth, as well as an increase in external sales commission and fees generated by manufacturing sales reps and agents.



Income from operations totaled $1.5 million in the third quarter of fiscal 2019 from $2.4 million in the same year-ago quarter. Income tax expense was $454,000 compared to $766,000 in the third quarter of fiscal 2018. The resulting net income was $1.3 million, or $0.10 per diluted share for the third quarter of fiscal 2019.

Turning now to our balance sheet…



During the third quarter, our cash, cash equivalents and investments decreased slightly to $43.2 million from $43.5 million in the prior quarter ended March 31, 2019 mainly as a result of changes in working capital in the quarter.

We continue to evaluate ways to deploy our capital to generate the highest returns for our shareholders.

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

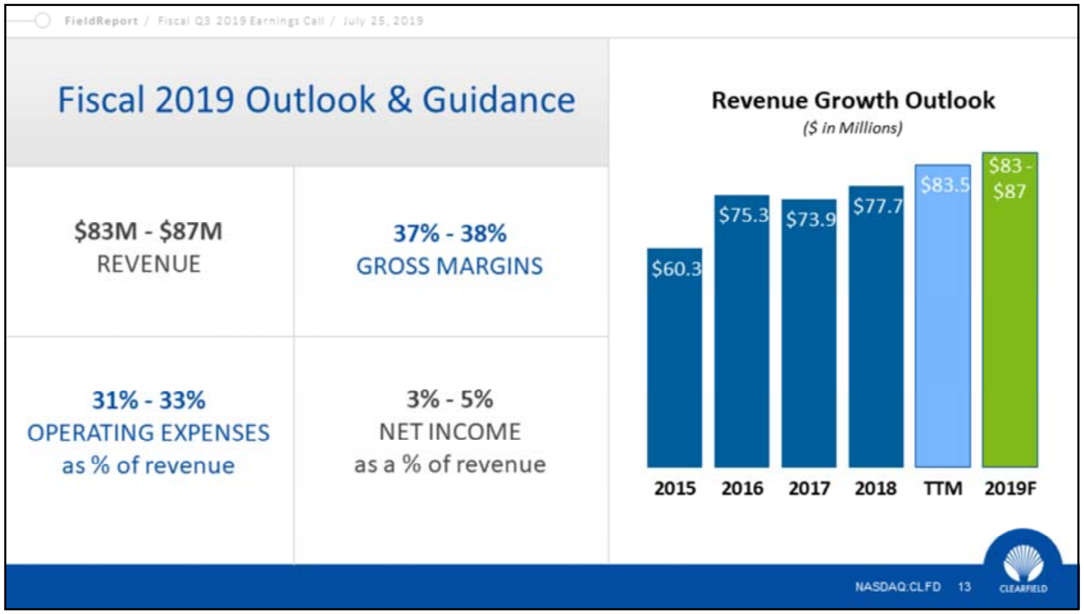
Cheri?

Thanks, Dan. I'll now spend a moment going over our progress with respect to our 'Coming of Age' plan.

As I mentioned earlier, we continue to take market share in our core Community Broadband business. We are in active dialogue with our customers on how to support their fiber management and connectivity needs of tomorrow. This includes developing new products that empower them and their networks for future growth. As an example of this, we recently expanded our FieldShield portfolio with the launch of our D-ROP pre-connectorized assembly, which is ideal for deployments in the rapidly growing MDU and MTU markets. The FieldShield D-ROP is a one-pass solution to deliver and protect drop fiber, offering significant time and cost savings.

We are enhancing our competitive position through our manufacturing capabilities. During the quarter, we increased our production space to create a dedicated R&D test lab and to enhance our industry-leading on-time deliveries and short lead times. While the challenges of product tariffs remain the same as last quarter, we have a comprehensive supply chain strategy in place for ongoing cost reductions which includes an expansion of our capacity in our Mexico facility. We expect these changes will improve margins, reduce the impact of the tariff requirements and create both operational efficiencies and leverage in the long term.

In lock-step with these efforts, we are also positioning Clearfield for more robust growth opportunities, particularly related to 5G. Much of today's work in 5G is addressing the new product requirements for the "meet-me", or demarcation points of wireless and wireline network convergence as well as market densification of the small cell network. You can look for Clearfield to announce some of these products as they enter the market toward the end of this year.

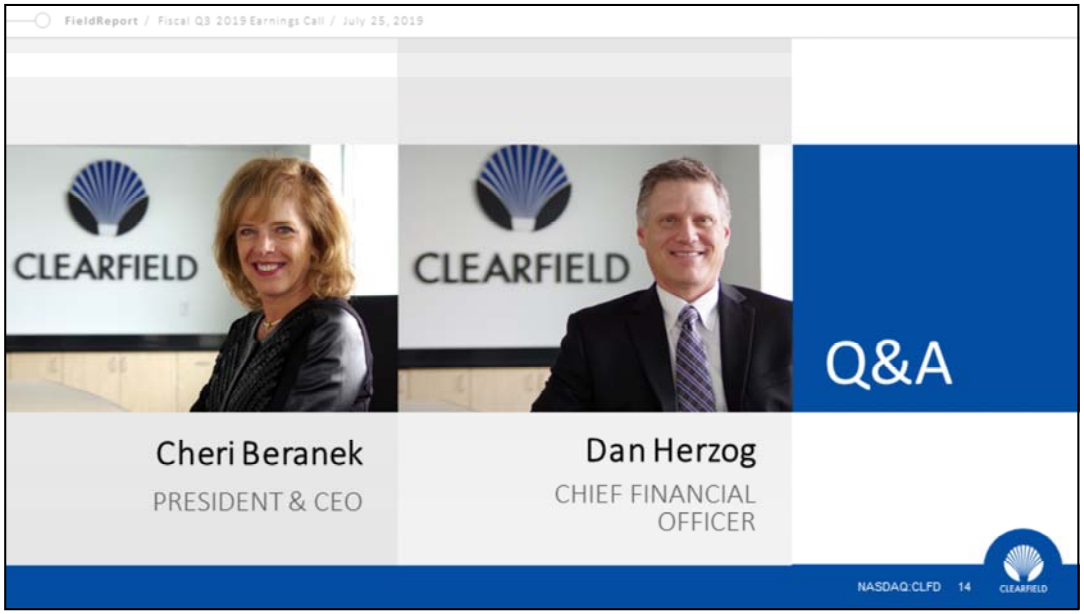


In closing, with the strong performance that we have generated for the first nine months of 2019, we are reiterating our guidance for fiscal 2019 revenue of between $83 million and $87 million. We expect gross profit as a percentage of total revenue to be near the top end of our forecasted range of 37% to 38%. As we discover more opportunities, we are investing in additional personnel, development and product testing to achieve them. As a result, we expect our operating expenses to be near the top end of our forecasted range of 31% to 33% of total revenue. We are reiterating our guidance for net income as a percentage of revenue to be between 3% and 5%.

Overall, I'm encouraged by the strong position we have developed in our markets as well as the progress we have made toward achieving the financial targets we set out for ourselves when we began the year.

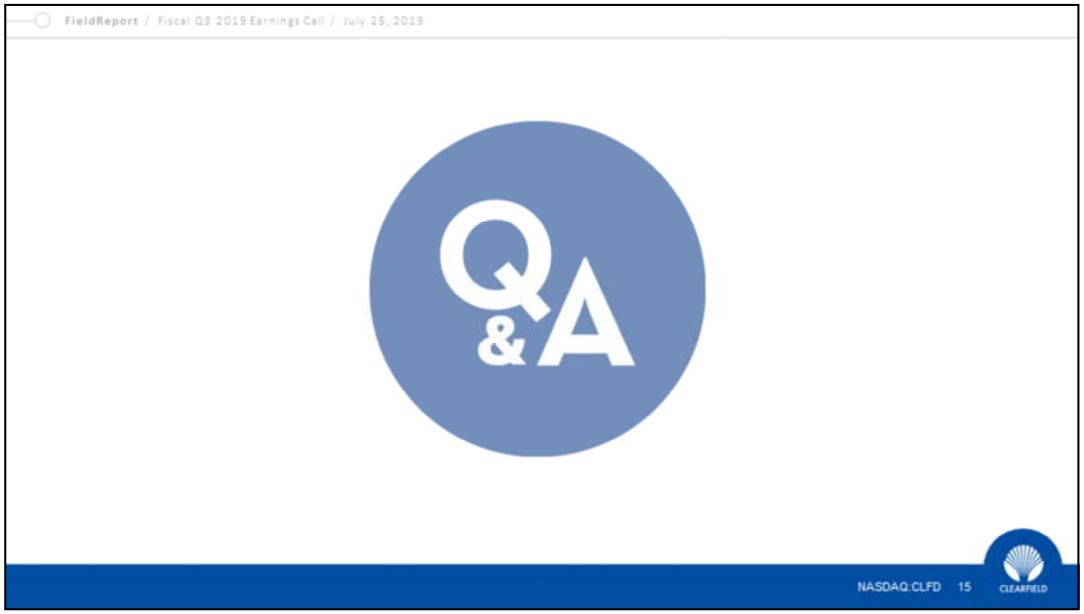
And with that, we're ready to open the call for your questions.

Operator?



Thank you.

We will now be taking questions from the company's publishing sell-side analysts.



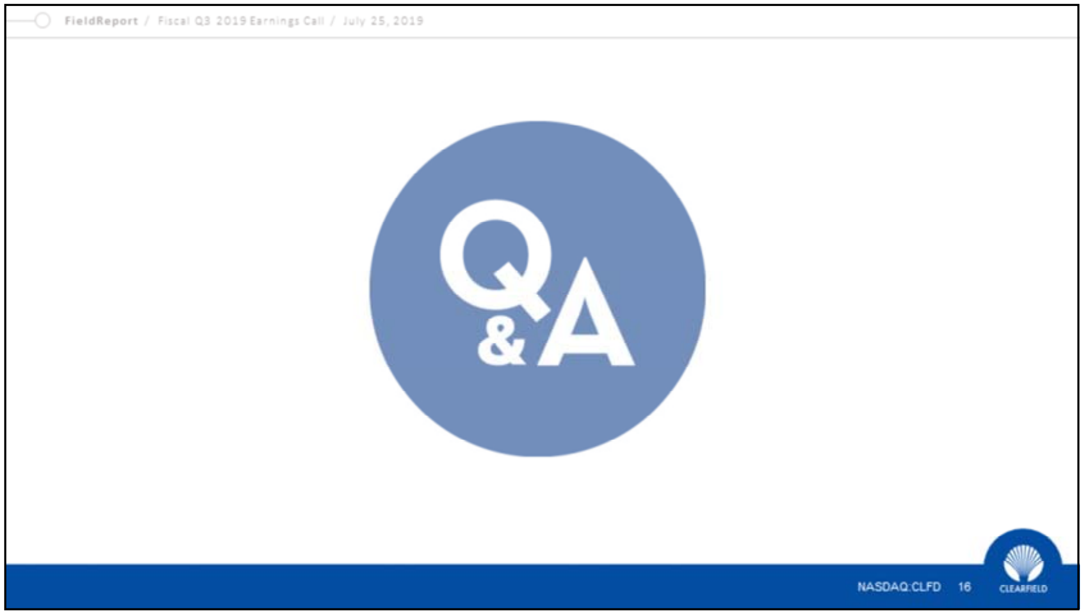
Our first question is from Jaeson Schmidt of Lake Street. Please go ahead sir…

Jaeson Schmidt
Lake Street Capital Markets, LLC, Research Division
Hey guys. Thanks for taking my questions. I just want to start – I know you guys are reiterating your guidance, but just curious if you could talk about – if the current macro backdrop has impacted the spending environment and your overall visibility over the past 3 months here.

Cheri Beranek
Chief Executive Officer, President & Director
Jaeson, can you give me a little insight as to what you're referring to in regard to the macro backdrop?

Jaeson Schmidt
Lake Street Capital Markets, LLC Research Division
Just with kind of trade tensions, etcetera, curious if that has impacted your visibility or how far your visibility extends.

Cheri Beranek
Chief Executive Officer, President & Director
We've always been pretty cautious in regard to being too far out in regard to forecasting and where we think this more than – the following year might look. We haven't provided any type of insight in regard to what fiscal year '20 might look for us as an organization, but we are anticipating that 5G and some of the 5G opportunities will start to play out kind of near the end of this calendar year and then into next year for our fiscal year '20 program. The – and from a macro standpoint associated with costing and some of the tensions, we've worked to mitigate those issues for our customers. And that with rare exception, we are not increasing prices to any of our customers in that our market really is not one that is willing to bear any kind of cost increases. That's why we're working hard on operational efficiency, manufacturing expansion, utilization of our Mexican labor cost structure for high labor count product lines and maintaining our Brooklyn Park, Minnesota-based manufacturing for the higher complexity product lines and the higher mix, lower volume product requirements.

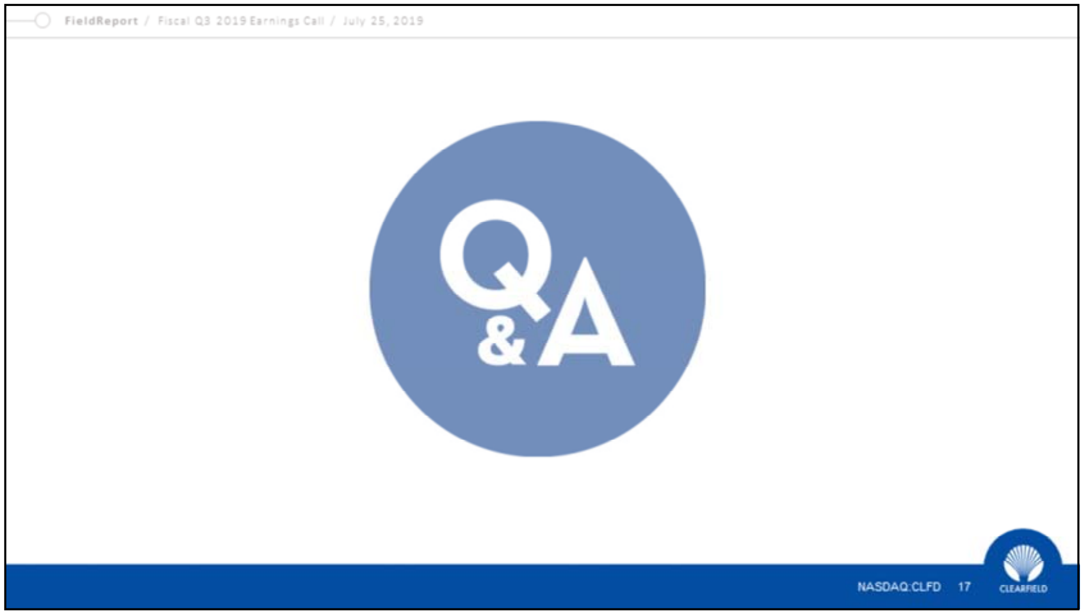


Jaeson Schmidt
Lake Street Capital Markets, LLC Research Division
Okay. That's very helpful. And I think last quarter you indicated that the tariff impact was about 1.7%. Is that still consistent in this past quarter as well?

Cheri Beranek
Chief Executive Officer, President & Director
The costs are about the same. They're a little over $300,000. So that – I think the actual percentage is like closer to 1.3% or 1.4%. So it's an ongoing struggle for us but also a standpoint of just maintaining – we're starting to be able to, I guess, bake it into our run rate a little bit. That said, we're going to work hard for fiscal year '20 to have a lot of that behind us by diverting some of the programs and some of the materials that we were doing in some of the Chinese markets to alternative markets and expanding the use of our Mexican facility to offset it.

Jaeson Schmidt
Lake Street Capital Markets, LLC Research Division
Okay, thanks a lot.

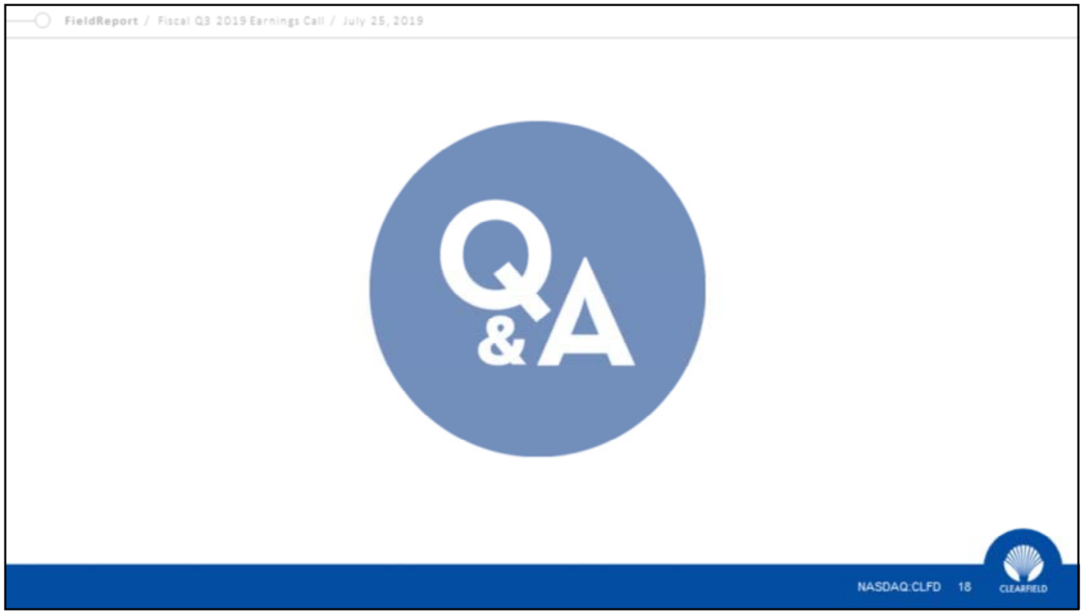
Cheri Beranek
Chief Executive Officer, President & Director
I appreciate it Jaeson.



Operator
The next question comes from Tim Savageaux of Northland Capital Markets.

Tim Savageaux
Northland Capital Markets, Research Division
Hi, good afternoon and congrats on the good results. I have a couple of questions. And I guess, first, I want to focus on the Tier 1 strength in the quarter and the growth. I think you mentioned a couple of different customers and applications, but it's getting sort of increasingly material as a percent of your total revenue. And I'd love it if you can give us some sense of how that Tier 1 business is distributed across this major carrier universe. You've mentioned the FieldShield and the FieldSmart application. Should we think of those being kind of equally distributed among a couple or 3 big carriers? And then to follow up on that, you've mentioned scratching the surface in terms of the opportunity. I'd like to get a better sense, if possible, of what the surface is, which is to say, what – at least how do you look at the – to the extent you're able to continue to gain traction here, the potential magnitude of the Tier 1 opportunity you're facing and just separate from 5G in a moment, which is going to be my next question.

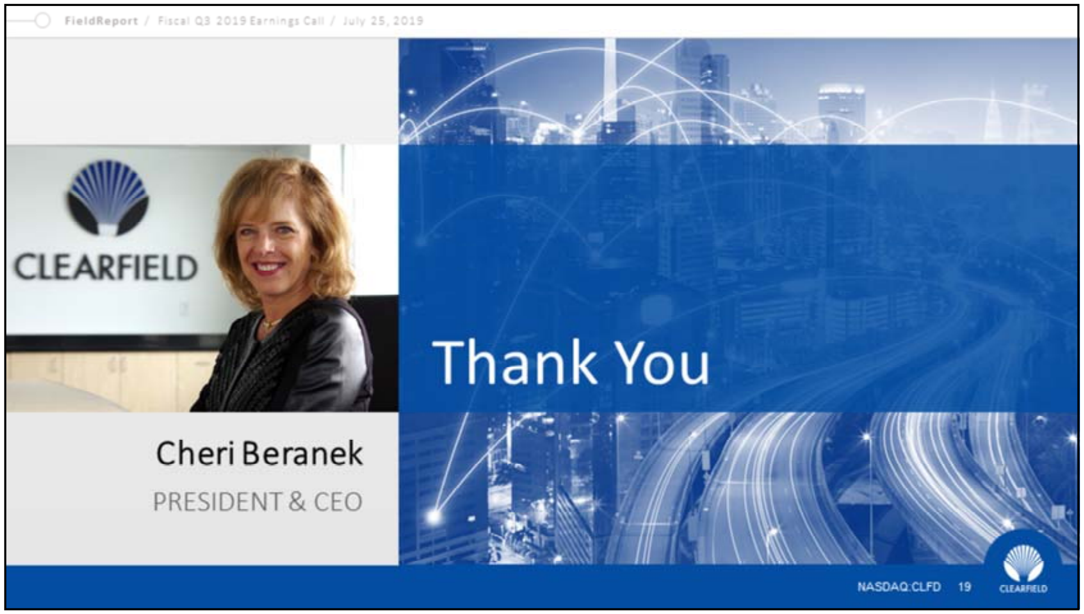
Cheri Beranek
Chief Executive Officer, President & Director
Okay. Tim, the product line, I called out the fact that we use both FieldShield and FieldSmart in predominantly 2 different carriers, but we do have business in both wired line and wireless carriers. So it's broader than just the big 3. I've called out both FieldSmart for the fiber management aspect of it as well as FieldShield for the fiber delivery aspect of it because typically fiber delivery is a higher revenue opportunity for us and when you physically are connecting home business or antenna, we have maybe $40 to $50 worth of revenue opportunity. And then when you – excuse me, it would be kind of the equivalent of passing. And then when you're physically connecting, we have a broader opportunity of about $100 to $110 worth of opportunity. So it's important for us to be at the front end for passing as well as for the ongoing revenue opportunity for the physical connection.



Cheri Beranek (continued)
The business we're doing today for both FieldSmart and FieldShield at both major carriers are associated with business class services, which is really where the range of today's new deployments are heading in that business class services are a much higher revenue opportunity for the carriers to work through. Most of our business in Community Broadband remains fiber-to-the-home and more fiber-to-the-business than those National Carriers because of a higher concentration in urban environments. As we move to the 5G space, we try to anticipate this a little bit, is that what we're doing in business class services is gaining the visibility of the technology groups inside of those carriers, the requirements associated with connector types, the certifications required for both enclosures as well as the certifications required for termination types and provides the credibility that we as an organization have the means and service and now the capacity by which to be able to build the business moving forward.
Tim, did you have something more on 5G?

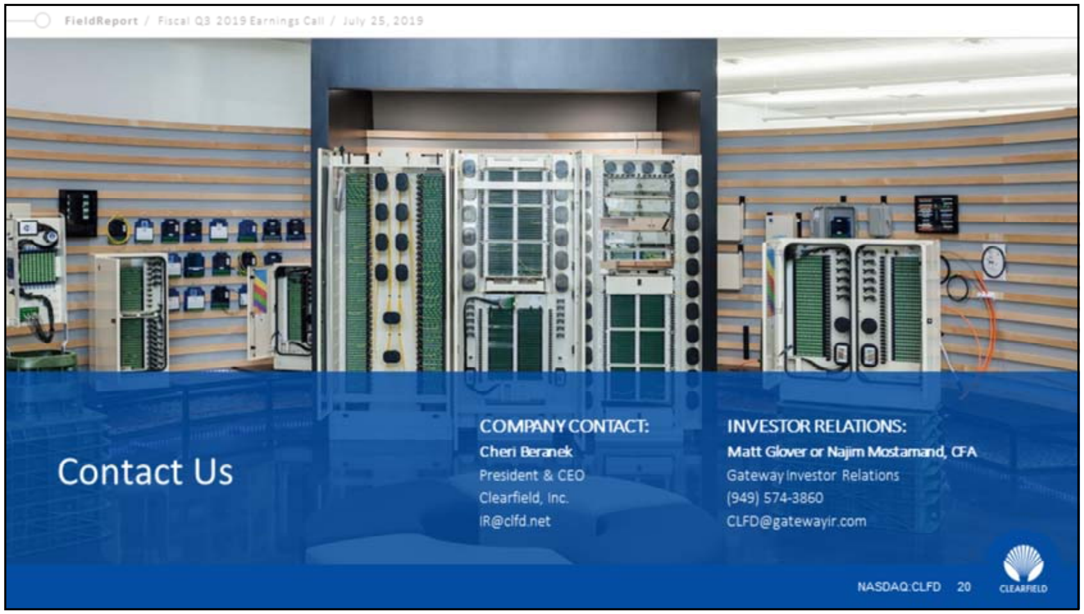
Operator
I'm sorry, Tim – his line has been cleared.

This concludes the question-and-answer session. If your question was not taken, you may contact Clearfield's Investor Relations team at CLFD@gatewayir.com. The company will post the most relevant questions and answers in the For Investors section of Clearfield's website. I would now like to turn the call back to CEO, Cheri Beranek, for her closing comments.



Thank you again for joining us today.

We look forward to updating you again on our progress at the end of our fiscal year.



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