



Good afternoon. Welcome to Clearfield's fiscal fourth quarter and full year 2018 earnings conference call. My name is Dana, 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.

FieldReport / Fiscal Q4 and FY 2018 Earnings Call / November 8, 2018

## Important Cautions Regarding Forward-Looking Statements

- Forward-looking statements contained herein and in any related presentation or in the related 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, integration of the acquired active cabinet line, trends in and growth of the FTX markets, market segments or customer purchases, 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: 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; to compete effectively, we must continually improve existing products and introduce new products that achieve market acceptance; we must successfully integrate the acquired active cabinet line in order to obtain the anticipated financial results and customer synergies within the timeframes expected; 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; our success depends upon adequate protection of our patent and intellectual property rights; intense competition in our industry may result in price reductions, lower gross profits and loss of market share; 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; 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 or significant decline in business with these major customers would adversely affect us; our planned implementation of information technology systems could result in significant disruptions to our operations; product defects or the failure of our products to meet specifications could cause us to lose customers and sales or to incur unexpected expenses; we are dependent upon key personnel; we face risks associated with expanding our sales outside of the United States; our results of operations could be adversely affected by economic conditions and the effects of these conditions on our customers' businesses; 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, 2017 as well as other filings with the Securities and Exchange Commission. The Company undertakes no obligation to update these statements to reflect actual events unless required by law.

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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.

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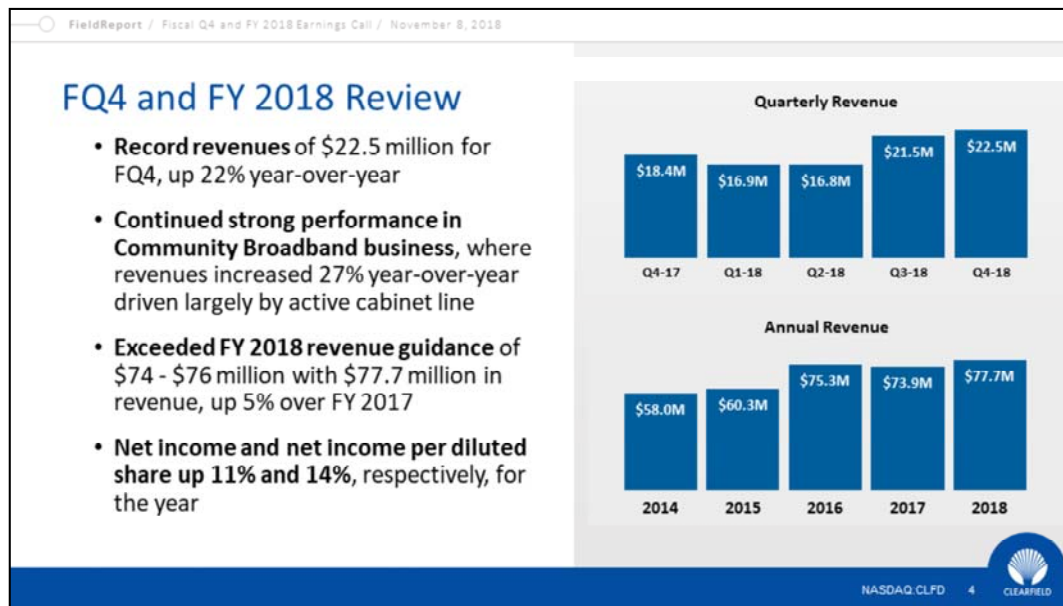
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**Cheri Beranek**  
PRESIDENT & CEO

**Welcome**

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

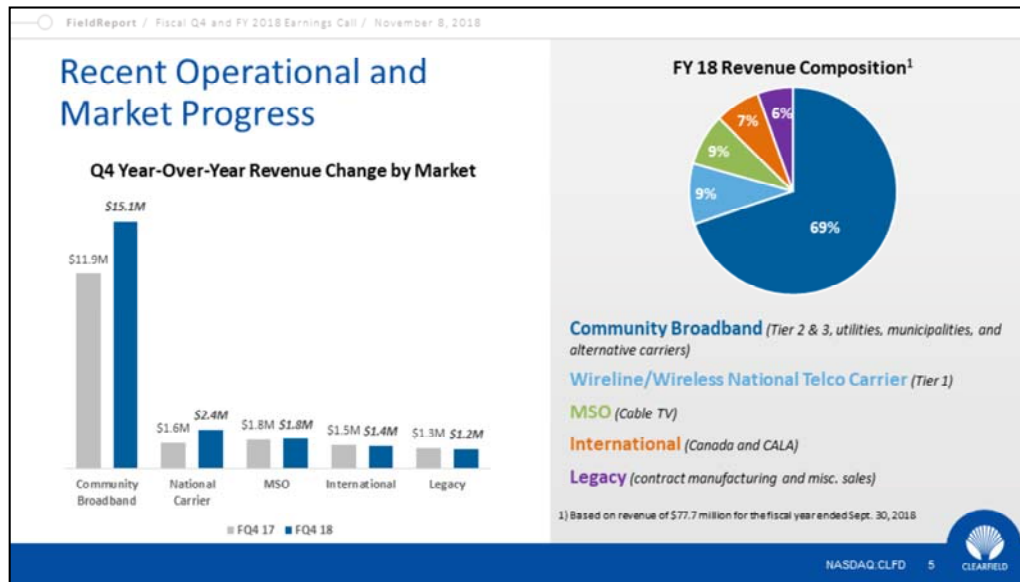


Fourth quarter of fiscal 2018 was an exceptionally strong quarter for Clearfield, as we achieved the highest level of quarterly revenue in the Company's history with \$22.5 million. This is up 22% over the same period a year ago. Much of this revenue increase was driven by the continued performance in our Community Broadband business, as we helped these broadband service providers continue to serve their local serving areas as well as enter and capitalize on underserved communities.

As we look back on the year, pairing our fiber management expertise with the acquisition and successful integration of our active cabinet line gave us a strong head start for ongoing new technologies associated with network convergence. We fully expect that converged networks and the associated fiber requirements to support them are a perfect fit for our active cabinet product line along with our ability to densify fiber at all areas of all networks.

Throughout the year, we have grown our portfolio of certifications and master purchase agreements and strengthened our team with key hires. I'm excited by the work we've done to steer our ship past some of the choppy waters we've experienced these past two years. Having successfully put the patent infringement litigation behind us, we've eliminated the costs and distractions associated with it. Having gained this momentum, we're now implementing what we call our 'Coming of Age' phase.

So with that said, let's jump into our recent operational and market progress, and then later on the call, I'll talk more about Clearfield's 'Coming of Age' phase, and the steps we're taking to execute this growth strategy.



You'll notice in this presentation that we've slightly modified how we present each of our markets. This new presentation consolidates the Tier 1 wireline and wireless components of our national carrier business into one grouping, which is representative of the network convergence underway. We've also separated our Cable TV, or MSO business, into its own segment because of this customer group's unique requirements and initiatives. Finally, we've consolidated into one category the customer groups that make up our core Community Broadband business. Our goal here is to provide a clearer sense of how each of our markets and customer classifications make their unique purchasing decisions.

With that said, I'll now provide a brief update on each of our market segments. Starting first with Community Broadband, we achieved \$15.1 million in revenue, up 27% from the same period a year ago. As I alluded to earlier, this success was driven by the market adoption of our active cabinet line as well as continued growth in the sales of our traditional product categories. Recently, we've launched a couple of new product solutions that not only streamline, simplify and reduce the operational costs of deploying fiber, but also expedite service activation.

Our National Carrier business is our second largest market. The healthy growth in this market during Q4 was driven by the integration of the active cabinet line, as well as the deployment of FieldShield for both residential and business class customers. Year-over-year, this business grew 50% to \$2.4 million for the quarter.

Our MSO business remained relatively steady this quarter. To accelerate this growth, in October, we expanded our manufacturer's representative program by signing three successful organizations with long-standing relationships in this market. As cable TV operators look to upgrade their networks and push fiber deeper and closer to the edge, we believe we stand to benefit from this increasing desire to quickly and cost-effectively carry out these initiatives.

Our International market, which is predominantly sales into the Caribbean markets as well as Canada, also remains steady. We have recently made investments into the Mexican market which we believe will bear fruit in the upcoming fiscal year. Our Legacy business, which is predominantly a build-to-print business for copper cable assemblies, continues to serve the needs of a long-standing customer group outside of the broadband marketplace. With that, I'll now turn the presentation over to our CFO, Dan Herzog, who will walk us through our financial performance for the fourth quarter and full year of fiscal 2018.



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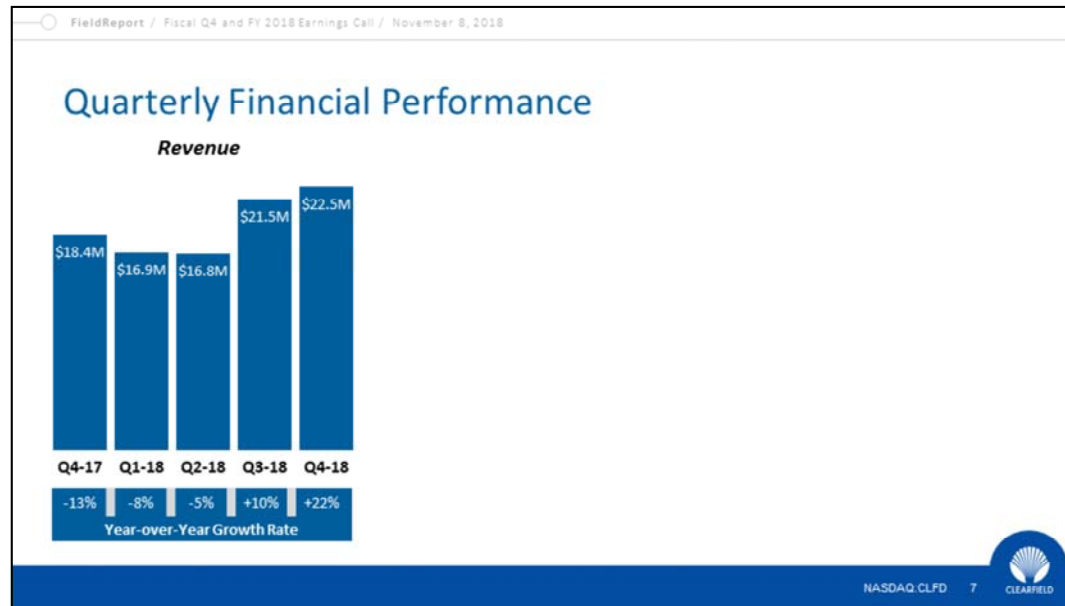
**Financial Update**

**Dan Herzog**  
CHIEF FINANCIAL OFFICER

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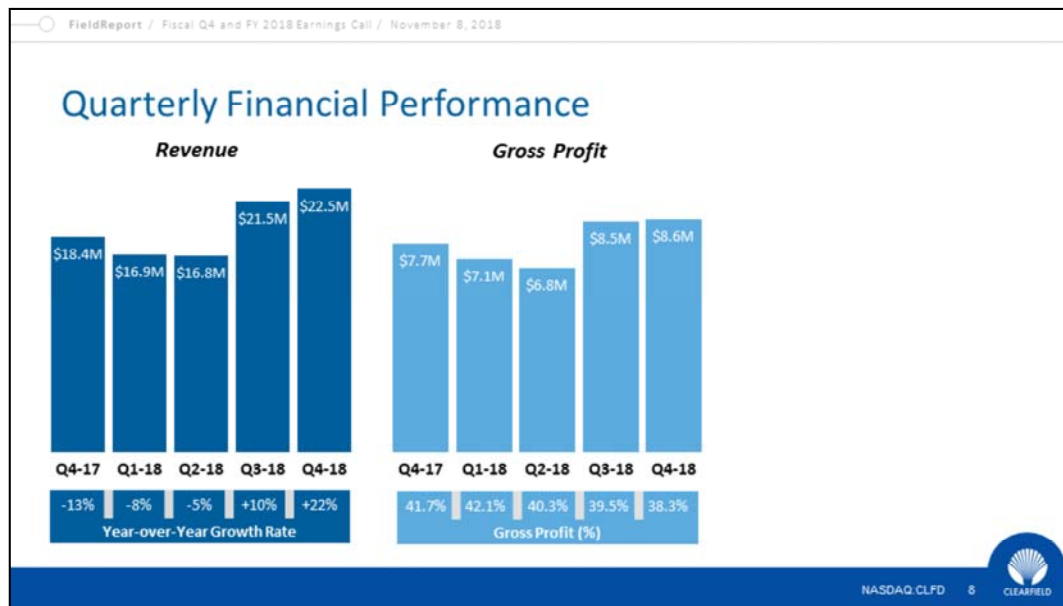
Thank you, Cheri.

Now, looking at our financial results in more detail...



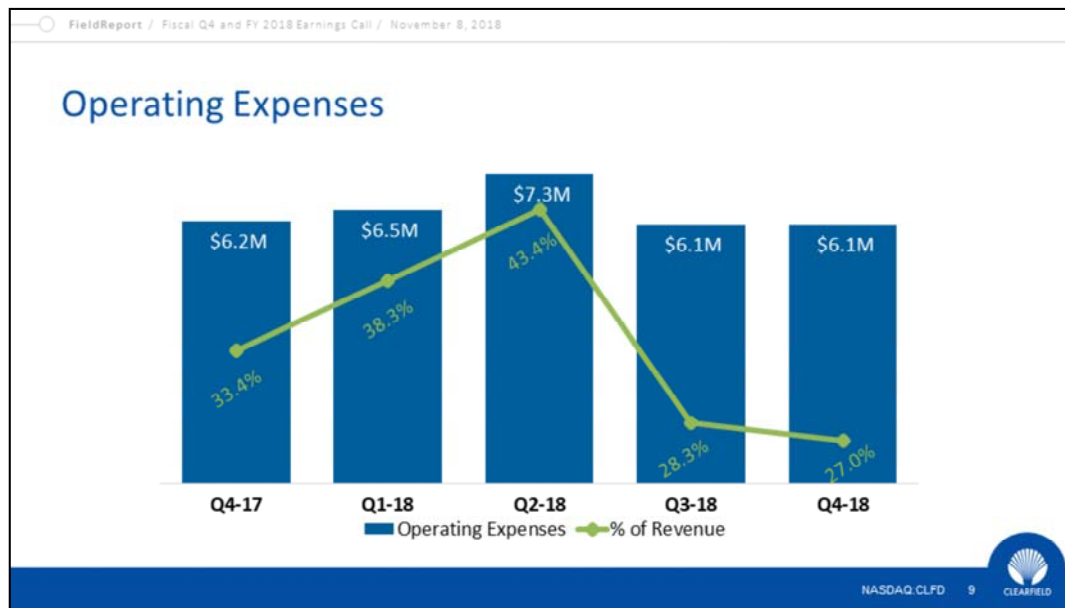
Our revenue in the fourth quarter of fiscal 2018 increased 22% to \$22.5 million from \$18.4 million in the same year-ago period. For the full year, revenue increased 5% to \$77.7 million from \$73.9 million in fiscal 2017. The increase for the quarter and year was largely driven by the strong sales of our active cabinet line. The increase for the year was also due, in part, to stronger sales of our traditional product categories, particularly in our Community Broadband and National Carrier business. With \$77.7 million of revenue for the year, we exceeded our fiscal 2018 revenue guidance range of \$74 to \$76 million.

Looking at our International business for the quarter, revenue decreased 6% to \$1.4 million from \$1.5 million in the same year-ago period. For the full year, international revenue decreased 11% to \$5.4 million from \$6.0 million in fiscal 2017. The decrease for the quarter and year was due to funding structure changes in Canada as well as project business in Mexico that did not continue in fiscal 2018.

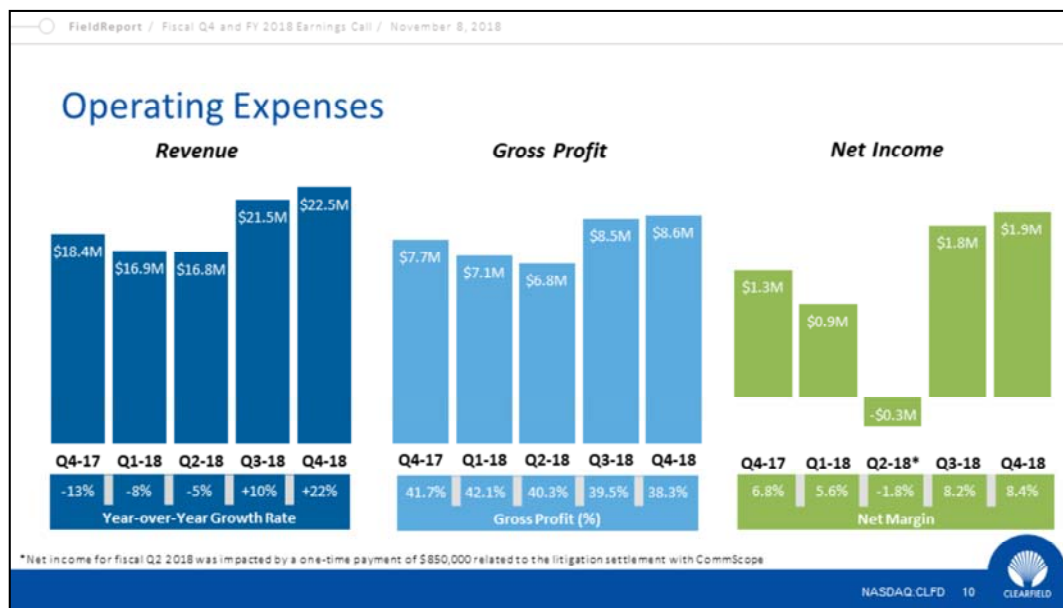


Gross profit for the fourth quarter of fiscal 2018 increased 12%, as compared to the fourth quarter of fiscal 2017, to \$8.6 million, or 38.3% of total revenue. The lower gross margins during fiscal Q4 were due to higher sales of our active cabinet line, which carry lower gross margins than our other products. For the full year, gross profit increased 2% to \$31.0 million, or 39.9% of total revenue, which was in line with our guidance of 40% for the year.



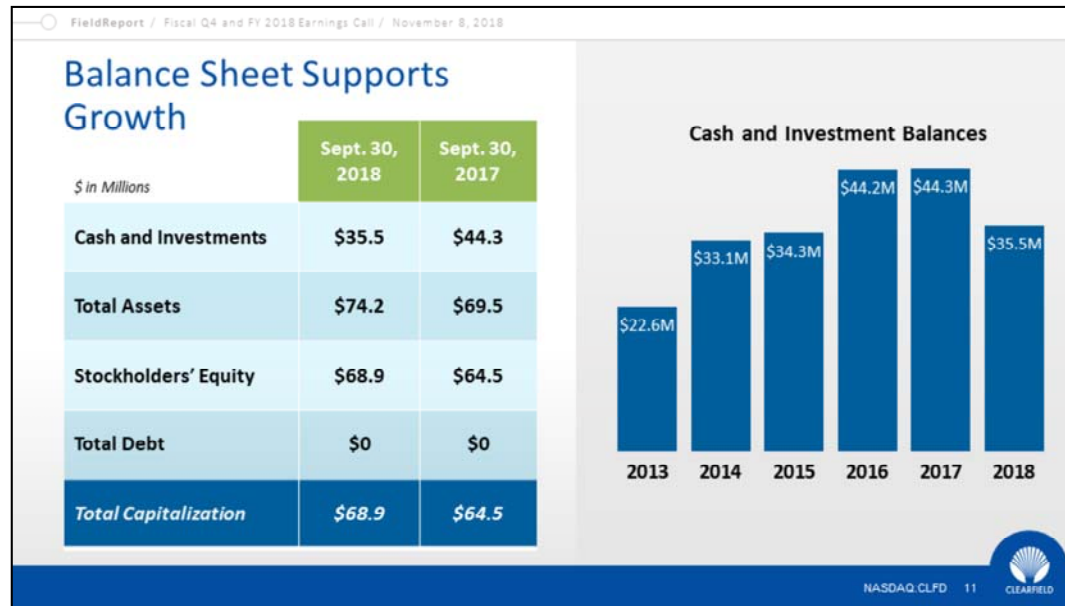


Our operating expenses for fiscal Q4 were \$6.1 million, which were down slightly from the same year-ago quarter. For the full year, operating expenses were \$25.9 million, compared to \$25.0 million in fiscal 2017. The yearly increase was largely due to the one-time payment of \$850,000 related to the patent infringement settlement. Our operating expenses of 33% of revenue came in at the low end of our guidance range of 33% - 35% of revenue for the full year.



Net income for the fourth quarter was up 49% to \$1.9 million, or \$0.14 per diluted share, from \$1.3 million, or \$0.09 per diluted share, in the same year-ago quarter. For the full fiscal year 2018, net income totaled \$4.3 million, or \$0.32 per diluted share, compared to \$3.8 million, or \$0.28 per diluted share, in fiscal 2017. With a net income margin of 5.5%, we exceeded our guidance range of 3% - 5% for fiscal 2018.

Turning now to our balance sheet...




During the fourth quarter, our cash, cash equivalents and investments decreased slightly to \$35.5 million from \$36.0 million in the prior quarter ended June 30, 2018.

During the fourth quarter, we repurchased a total of 34,776 shares, utilizing \$389,000 in cash. As of September 30, 2018, we have repurchased an aggregate of 523,794 shares for approximately \$6.6 million, leaving approximately \$5.4 million available within our \$12 million stock repurchase program.

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

Cheri?


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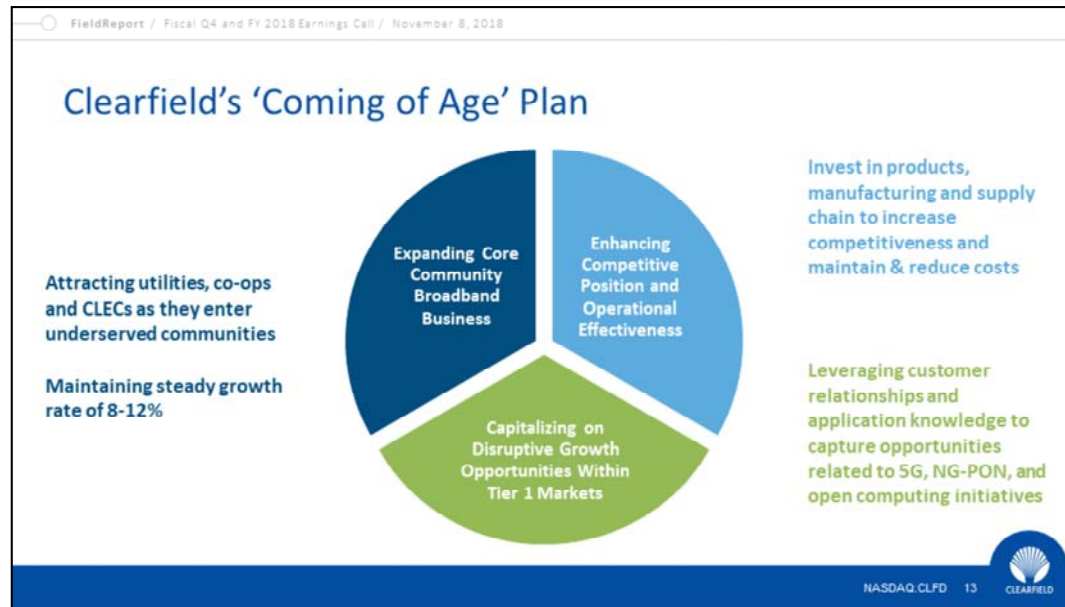
# Operational Update and Outlook

**Cheri Beranek**  
PRESIDENT & CEO

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Thanks, Dan.



As I've talked about in my opening remarks, Clearfield is entering a 'Coming of Age' phase. After a decade of successfully restoring the balance sheet, expanding the value proposition, and developing a strong track record of profitable growth, it's now time for us to advance the Company into its next stage of growth—one that's not only defined by continued success in our core markets, but also a much stronger and durable position in some of the disruptive growth markets that we believe can truly scale our business.

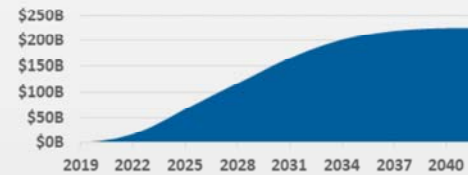
As you can see from the graphic on the slide, our 'Coming of Age' plan consists of three initiatives, which are: 1) expanding our core community broadband business; 2) enhancing our competitive position and operational effectiveness; and, 3) capitalizing on disruptive growth opportunities, particularly within the converged network of the Tier 1 National Carrier market. Together, these initiatives can be viewed as the three legs of a stool. During some quarters, some legs will be longer than others, but as we measure and track our success over the mid- and long-term, all three initiatives will play a critical role in growing the Company.

With regards to the first growth driver, as we mentioned earlier, in FY18 we continued to expand on our market leading position in the Community Broadband market. We believe we can continue experiencing 8% - 12% growth next year in this market, especially with some of the new products we have launched and our push to win more business class service projects. As we move from these short-term projects to longer-term programs, some quarters might have lower gross margin than others. We will concurrently work on the second leg of the stool, which is enhancing our competitive position and operational effectiveness. Not only will we continue to invest in our product suite to meet the evolving needs of our customers, but we will also look to maintain and reduce our cost structure. Knowing that we will have certain price pressures, particularly when gaining further traction in the Tier 1 market, we are proactively dedicating resources to deal with this challenge and to ensure we can continue to have healthy margins and still grow profitably. Finally, growth driver number three relates to capitalizing on disruptive growth opportunities that can scale our business. While we are still early in this process, we are laying the groundwork to not just grow with the proliferation of 5G, NG-PON, and open computing initiatives, but to also become a leading supplier within these high-growth markets.

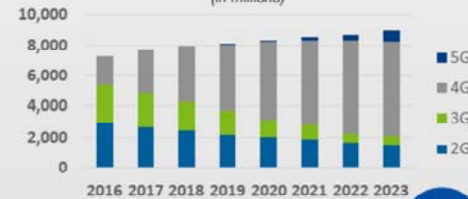
## Preparing for 5G — The Elephant Beyond the Trunk

- 5G spend will enter rapid turn-up but still in infancy
- Market believed to have 20+ year sustainable opportunity
- No existing incumbent
- Unique point of entry for Clearfield, with next three years pivotal to gain 5G foothold

Cumulative 5G Cycle Spend



Wireless Subscriptions by Generation  
(in millions)



Sources: Dell'Oro, Morgan Stanley Research Estimates, Strategy Analytics, Service Provider Strategies, 2018

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The excitement is increasing around the future of 5G networks, and with good reason. The promise of 5G is very encouraging, but this evolution will place huge demands on fixed wireline networks. In fact, the promise of 5G with gigabit speed connections with one millisecond latency characteristics will not be achievable without a robust fiber network. In order to achieve the promise of 5G performance, modern 5G network designs dictate that wireless signals be brought onto fiber as soon as possible.

FY19 for Clearfield is about preparing for 5G – that is, we do not anticipate significant revenue from the 5G initiative within this next fiscal year. The patented technologies of the Clearview Cassette, along with the industry’s only user-defined feeder/fiber distribution ratio, make Clearfield a strong contender for the fiber footprint expansion that will accompany the 5G make-ready buildout. We look forward to providing more updates as we make additional progress on this initiative.





In closing, our record revenues for the fiscal fourth quarter helped us end the year on a strong note, and we have a healthy backlog to execute entering fiscal 2019. Our revenue guidance for fiscal 2019 is \$83 - \$87 million. Embedded in this estimate is our expectation that the Community Broadband business will experience continued strong growth, while we also make further inroads in some of our other target markets and customers, including the national carriers and MSOs. As we move from projects to programs and gain additional visibility into our customers' purchasing patterns, we will update our guidance accordingly.

We anticipate gross margins for fiscal 2019 to hover around our Q4 level of 37% - 38%. This lower margin outlook is the result of the lower margins associated with active cabinets and pressure due to the import tariffs on Chinese goods in the near-term. The lower margin outlook is also due to our sales strategy to aggressively price our cabinets and panels in environments where we believe significant revenue opportunity exists for follow-on sales comprising additional cassettes and optical components at a later time. We expect our operating expenses to grow modestly to support the sales growth initiatives we have in place. As a result, we expect net income as a percentage of revenue to remain between 3% - 5%, underscoring our commitment to continue growing profitably and responsibly. Ultimately, we will remain disciplined with how we deploy capital, and we will look to carefully build the roadmap that will guide us toward higher revenues and market share in this 'Coming of Age' phase.

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

Operator?

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**Cheri Beranek**  
PRESIDENT & CEO

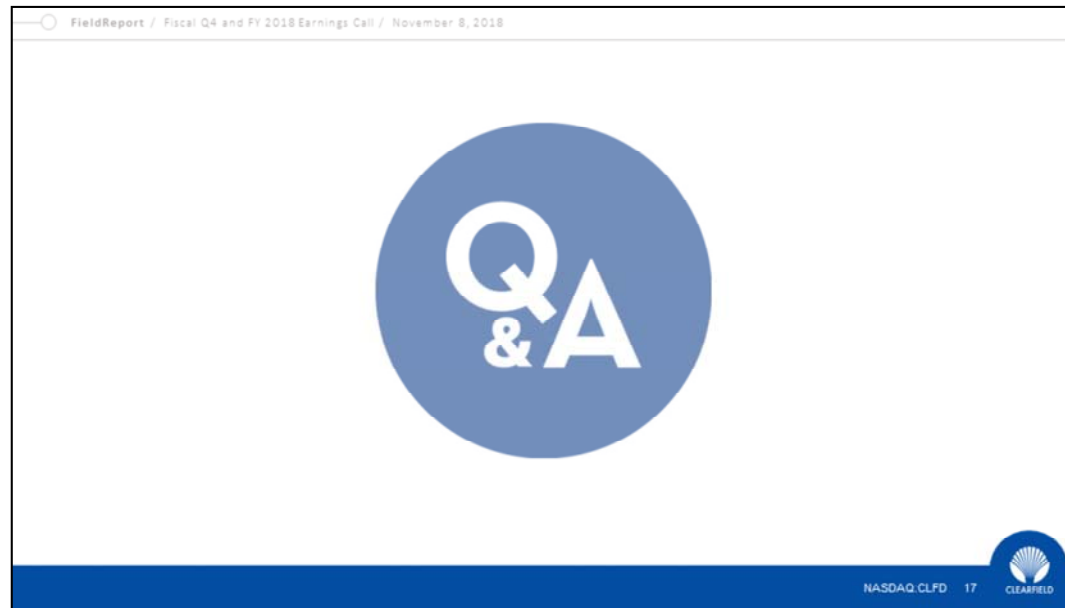
**Dan Herzog**  
CHIEF FINANCIAL  
OFFICER

Q&A

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Thank you.

We will now be taking questions.



**Operator**

Our first question comes from the line of Tim Savageaux from Northland Securities. Please proceed with your question.

**Matthew Shea**

*Northland Capital Markets, Research Division*

Hey guys. This is Matt Shea on for Tim Savageaux here today. Just one question for me. Wondering if you could walk through or put a little color on the CommScope, Arris merger and kind of the impacts that it's having. Thank you.

**Cheri Beranek**

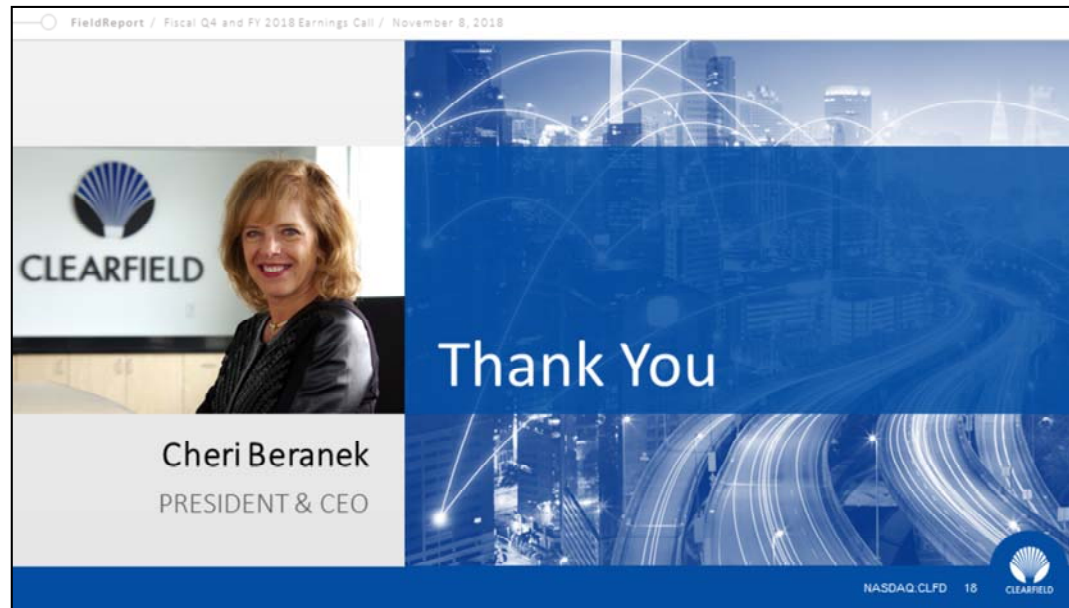
*Chief Executive Officer, President & Director*

Hi Matt. Well, that's a curveball question I didn't expect. I mean, it's intriguing to listen to, I mean, it's a \$6 billion cash acquisition and an opportunity in the -- for some very large providers in this marketplace to combine operations. We wish them well. That's a part of the marketplace that their integration of support is kind of outside of our share. How we compete with CommScope is really at the connectivity space, and we'll continue to aggressively pursue our market, the broadband carriers within it, and we look forward to competing with them.

**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](mailto: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 comments.



Thank you again for joining us today. I want to thank our shareholders, who have supported the Company's evolution into this next phase of growth, and I'd also like to thank our suppliers, our sales partners and our employees who continue to play a pivotal role in our 'Coming of Age' opportunities.

We look forward to updating you again on our progress soon.

# WE TURN YOUR BROWNFIELD GREEN



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Thank you for joining us today for Clearfield's fiscal fourth quarter and full year 2018 earnings conference call. You may now disconnect.