

# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

## Micronetics Wireless, Inc. (NOIZ)



**RICHARD S. KALIN** has been Chairman, President and CEO of Micronetics Wireless, Inc. since 1992. He has over 20 years' experience with entrepreneurial/high growth companies. He has repositioned Micronetics to participate in the expanding communication

network marketplace while maintaining its position in the defense/aerospace market. He is trained as a lawyer with expertise in mergers and acquisitions. He was graduated from University of Illinois, Urbana, Illinois, with a BA and from Georgetown University Law Center, Washington, DC, with a JD. He sold his previous company, which grew from a startup to \$65 million in revenues, in 2000.

### SECTOR – WIRELESS

**(MAF600) TWST: Could we start out with a history and a quick overview of Micronetics Wireless?**

**Mr. Kalin:** About a year and a half ago we reorganized the company to create three divisions. We operate a Test Solutions Group, a Components and Sub-assemblies Group, and a VCO (Voltage Controlled Oscillator) Products Group. We did this because each one of the groups, we found, required vastly different types of marketing, manufacturing and sales strategies, and we wanted to get the right people in place to support just the right strategies for each individual group.

The mission of our Test Solutions Group is to sell wireless communications test equipment, RF components and sub-assemblies to the wireless, satellite, broadband and Internet infrastructure industries.

The mission of our Components and Sub-assemblies Group is to sell high-performance RF components and multifunction integrated modules by being a partner of choice to our aerospace, defense and commercial customers.

The mission of our VCO Products Group is to be a fabless wireless component manufacturer, marketing VCOs for applications requiring up to 500,000 units.

We've put a great deal of effort into developing this structure, and it's working. We believe it's enabled us to position Micronetics for increased market penetration and double-digit growth.

**TWST: Who are the customers for your products?**

**Mr. Kalin:** Customers for our products are different in each of the different groups. In our Test Solutions Group, we sell to major OEMs such as Ericsson, Nortel, Teradyne, Nokia and Alcatel. In our Sub-assemblies and Components Group, we sell to some of the major military aerospace firms such as Northrop Grumman. We've received some of our biggest wins with DaimlerBenz, Datron, M/ACOM, L-3 and Elta. In our VCO Products Group, we have a pretty broad customer base, including companies like L-3, AT&T, NEC, Raytheon and Viasat.

**TWST: Why do they come to you rather than doing it themselves? What is it that you can offer?**

**Mr. Kalin:** Most of our customers are large firms that are looking for qualified companies to manufacture certain specialized products and components that they no longer have the resources or desire, for whatever reason, to make. Unlike some of the major electronic assembly firms out there, Micronetics is a specialized manufacturer with expertise in designing and manufacturing RF high frequency components. In our Test Solutions Group, we're one of the few companies that offers a solution for testing for interference — both natural and man-made interference — for communications systems. There are only a handful of places where you can go to find these products. We also try to develop new solutions for our customers that respond to their individual needs. In addition, we're working with industry standards groups like the CDMA Development Group, the HomePNA and other groups developing products like Digital TV.

In our Components and Sub-assemblies Group, we're seeing a dramatic shift from requirements for single function components to integrated modules. Again, there are very few players in this market today — the largest being Herley, REMEC and Filtronics. We've recently made two acquisitions to expand our technology base here, to give us more ability to make integrated subassemblies. Our whole strategy is to move up the food chain to manufacture integrated subassemblies that include several single function components, thereby getting larger orders and developing deeper relationships with our customers. Our goal is to provide excellent customer service and become the "partner of choice" for our customers' integrated subassembly requirements.

When it comes to the VCO Products Group, it's very much about having the technical talent in combination with great customer service. We've developed something called the "Team3" Customer Service Concept, which we believe is giving us a definite edge in the VCO marketplace. Team3 responds to the customers' needs by having one team devoted to making prototypes, another team devoted to small preliminary production runs, and another team devoted to production requirements. The middle team is what is so important here because usually after a customer is given a prototype, the level of support drops off because the vendor is hoping for a larger order and the customer loses confidence in the manufacturer because he gets poor support for his preproduction order.

**TWST: How big is this market that you're addressing?**

**Mr. Kalin:** Our products are essentially used to build and test communications networks — wireless, Internet, fiber, radar — so the market is very large. On the components side, we're focused on the under 500,000-piece user — we're not going for the multimillion piece jobs. On the test side, we're focused on a very specialized area, which is testing for both natural and man-made interference across many different types of communication networks.

**TWST: Who are you competing with in this space?**

**Mr. Kalin:** In our Test Solutions Group, we compete against two companies. One of them is a subsidiary of a very large company called Spirent Communications. We also compete against Wireless Telecom Group, or Noise com.

In our Components and Subassemblies Group, we compete against Herley, REMEC and Filtronics, all of which I mentioned earlier.

In our VCO Products Group, we compete against companies like VARI-L, Synergy, Mini-Circuits and ZCOM.

**TWST: You say the first market is dominated by a big player, how about the others?**

**Mr. Kalin:** Although Spirent has a major position in the market of the Test Solutions Group, we have terrific opportunities here — our customers are very desirous of an alternative and we are working with several of them to develop our Wave3G platform. The VCO Products Group is a little broader based and a little bit more fragmented. I see a lot of opportunity here because the market

isn't dominated by a single player. As far as the Components and Sub-assemblies Group is concerned, the companies in this segment that are much larger than we are — they really have a bigger piece of the integrated subassembly market. There are also many smaller companies that offer single function components. We think that we're sort of in the middle, moving toward doing more of the integrated sub-assemblies. We see big opportunities here.

**TWST: Given the highly fragmented nature of the business, is it likely to consolidate?**

**Mr. Kalin:** We think so, especially in the Components and Sub-assemblies Group, and we're taking advantage of that. We've completed the purchase of two product lines and two companies in the last two years, which we are hoping to continue. Literally, the two companies we acquired were basically single function component companies. The acquisition of those companies has given us more capability to make integrated subassemblies. And that makes total sense, because that's what the market is looking for. Since we acquired those companies we have had our biggest wins for this group.

In our Test Solutions Group, it's only two or three players, so we don't see so much consolidation there.

In the VCO Products Group, we can see a little consolidation there.

**TWST: As we look out over the next two or three years, how would you characterize the strategy that you are going to follow in these marketplaces?**

**Mr. Kalin:** In our Test Solutions Group we strive to develop state-of-the-art test solutions for leading-edge customers, working in conjunction with those leading-edge customers to develop those products and then target market those products to those customers and others in that targeted market. And we think that we'll increasingly penetrate in those markets. We've really increased our team, we've brought on more engineering talent, management talent, manufacturing talent, sales talent, and frankly, over the last year, we've seen some great growth in the Test Solutions Group.

In our VCO Products Group, we're doing more marketing and expanding on the Team3 concept, which, as I mentioned earlier, tries to think in advance from the customer's point of view.

In our Components and Sub-assemblies Group, we are very much focused on increasing sales per customer. We'd like fewer customers with larger sales, and we want to be the partner of choice. We want to work very, very closely with these OEMs and provide them with a level of service that makes them want to work with us. Our migration to integrated subassemblies supports our goal of closeness to our customer. Our backlog in this group is now at a record level, and we've received the largest orders that we've ever seen in the last 12 months.

**TWST: As you look out over the next two or three years, what type of growth should investors expect from you?**

**Mr. Kalin:** What I talk about is that we've targeted 25% internal growth and 25% external growth with double-digit profit

growth, but I'd like to do better than that. If one of our instruments becomes an industry standard, something I believe is very possible, we will see more sizeable growth.

**TWST: What will it take for that to happen, or to become an industry standard?**

**Mr. Kalin:** We just have to keep moving steadily in that direction. We've dramatically increased our engineering talent base, our marketing talent base, and our manufacturing talent base, so that we have the right people in place who have the technological know-how and stick-to-it attitude to work hand-in-hand with these OEMs and standards organizations.

**TWST: Do you feel you are doing the right things at this point in time to make that happen?**

**Mr. Kalin:** We've invested a great deal of money to do the right things and we're seeing progress. We just came back from the CTIA Show in Las Vegas where we launched our Wave3G Test Platform, which is a next-generation platform for testing interference in baseband. It's a technology that's currently not available. Several of our customers are trying to do some of these tests, but our solution is easier to use and more sophisticated. We formed a joint venture with another company to speed the Wave3G to market. We're testing the product right now with several OEMs, and we think it's going to be a great product. We couldn't have completed this product within this time frame if we hadn't joined forces with another group. We hope to be doing more of this in the future if it means we can get our new products out the door faster.

**TWST: What does this product do? What's the market it's targeted for?**

**Mr. Kalin:** We're pretty much focused on interference testing and the Wave3G dramatically expands what we can offer in this line of testing. In every communications network, the signal's got to be strong enough to withstand interference, whether it's from lightning, static, or a big building causing the signals to bounce back and forth. The Wave3G enables customers to test for all the many different types of interference, digitally, at baseband.

**TWST: When you look at acquisitions at this point, what are you looking for?**

**Mr. Kalin:** I'm looking for companies in the \$2-\$10 million range with complementary technologies. My primary focus is acquisition in the components and subassembly area. We've already had two, which have been completely integrated and paid for. With all the consolidation going on in this part of the business, I believe there will be many opportunities to acquire more companies in the coming few years.

We're also interested in acquiring product lines that will enhance or round out our existing product groups. We recently bought a product line from Giga-tronics that helped us to fill in a missing component in one of our more sophisticated testing platforms. Integration of that product went very quickly and smoothly.

**TWST: Do you have the financial resources to make acquisitions?**

**Mr. Kalin:** Well, like I said, we've bought two companies and two product lines in the recent past, and each of them has been completely paid for. Any debt related to them has been completely eliminated. We are generating a positive cash flow, our cash resources are up, our receivables are up, and our term loan is down. We've got an excellent relationship with our bank, we've got cash resources, and we think we're in an excellent position to finance them.

**TWST: How about from a management point of view? Do you have the people you need in place to handle growth through acquisition now?**

**Mr. Kalin:** I now have very strong leaders heading each of the three divisions that make up Micronetics today. They essentially run the day-to-day operations and are responsible for their own profitability. This structure gives me the time and freedom to focus on external acquisitions, which is really my strength. I'm hoping that these future acquisitions will bring us talented people — on both the technical and management sides of the business — not just new products and technologies. My goal is to participate in a dynamic growing company in the high-tech marketplace in a meaningful and challenging way, and to make that happen, we're going to need more and more talented people. So, as I look for acquisitions, I'm always looking for people who want to participate and join our senior management team.

**TWST: How do you feel about the value the market is currently putting on your company?**

**Mr. Kalin:** This is a tough market right now. I typically do not comment on the stock price. I think that if we can continue to hit our goals, the company will do well. I'm confident that at least the internal growth level will be on target for Fiscal 2001, which we just finished. If we can continue to do that, and continue to be profitable, and have double-digit profit growth, we'll do just fine. A few years ago, we had revenues of under \$3 million. This year, we're on target to hit around \$10 million. I think if we can continue that rate of growth, with double-digit profit growth, the stock will increase.

**TWST: When you talk with investors, what questions are you asked? What are they worried about?**

**Mr. Kalin:** Most of them are concerned about top-line growth and profit, and whether or not we have any proprietary products. I'm fortunate to be able show them that our target is 25% internal, 25% external growth. I've been able to tell them that we've completed four transactions in the last two years. I'm able to tell them that these transactions have been integrated and paid off, with cash reserves increasing and debt going down. At the same time we have maintained a healthy internal growth rate and we've been able to do that while seeing double-digit increases in profit growth. I've also been able to show them that we've gotten more patents over the last two years than we've ever received before, and that many of our markets are based on that type of know-how. I believe we've made some very strong investments in talent, resources and training, and these have helped us to increase our technological knowledge base.

**TWST: Is there anything else we should have touched on?**

**Mr. Kalin:** In summary, I'd say that I believe that we have the right financial goal: 25% internal and 25% external growth with double-digit profit growth. I believe that we have the right products: equipment, RF components and subassemblies for rapidly growing communications markets and RF subassemblies and components for growing aerospace/defense opportunities. I think we have the right strategy of developing these additional partnerships with major OEMs, many of which could double our business. I think we have the right acquisition program, having completed several transactions in just the last couple of years. In order to achieve these objectives, we must execute, and I think that we have a motivated management, aligned and mobilized for growth.

**TWST: Thank you. (TM)**

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