

CEOcast

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OTCBB: MCTL



Carmine T. Oliva
Chairman/President/CEO

INTERVIEW DATE:
08/15/03

MicroTel International Inc. is an international manufacturer of aerospace and military electronic components and communications equipment. MicroTel International's electronic components group, which includes XET Corporation and its international subsidiaries, provides custom power conversion products and digital switches to the electronic components global market primarily used for defense, aerospace and industrial applications. MicroTel's communications group, consisting of CXR Telcom Corporation and CXR (France), provides testing, transmission, and network access equipment to the North American and European communications industry. Founded in 1983, the Company operates out of facilities in the U.S., France, the U.K. and Japan. As of February 28, 2003, MicroTel International employed a total of 189 persons in its various subsidiaries and divisions.



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CEO: Could you begin with a brief overview of the company and then we'll get into some of the reasons that you've been able to show such solid results?

MCTL: Microtel is a manufacturer of aerospace and defense electronic components and subsystem assemblies, and that represents about 60 percent of our business. Forty percent of our business is communications products such as network accessing equipment and transmission products. We are tracking to about \$28 million in revenue this year and we are a profitable corporation.

CEO: The company had a strong second quarter. What were some of the catalysts behind it where you saw sales increase \$716,000, or 11.7 percent?

MCTL: We had strength in revenue across the board in all of our operations other than our test instruments, which continue to be a problem for us. But our components business was up. Our networking access equipment business was up. Unfortunately, our test instrument business declined. But the net result of all of that was an increase in business for us. Contracts have been coming in steadily for us and we're building a solid book of business that is carrying us very nicely through this calendar year.

CEO: As you look at your revenues, you saw a 21 percent improvement in the sale of electronic components to the defense and aerospace markets. Many companies have seen defense spending perhaps not as robust as they had hoped for. Why are you seeing growth there?

MCTL: I think it's because we have such a steady customer base that have in fact designed our products into programs that even began long before the Iraqi conflict or anything that has happened recently in the post 9/11 era. What we are doing is we're delivering on contracts that were awarded perhaps last year to a much higher degree than we had ever anticipated. In some instances where we viewed contracts ending, it turns out that we're finding that that was round one and we are now finding ourselves with round two improvements to those contracts.

CEO: The company also showed a significant increase in communications equipment sales. Again, this is an area that has not generally been regarded as one of the rapid areas for growth for most companies. How are you able to achieve here?

MCTL: Well, we're in two segments of the communications business. We're in the test instrument business, which are equipments that are sold predominantly to public carriers. That is the piece of our business that is down. But fortunately for us, that's the smaller of the two pieces of business that is in the communications field. The other is customer premises equipment, such as network accessing and transmission products, and this part of the communications market has not been impacted the way public carrier spending for capital equipment has been impacted. We are playing in the most robust and most vigorous part of the communications marketplace and we are getting our fair share of business. We're aggressive. We have a number of new products that we came out with in the year 2000 that are starting to sell quite nicely now. Also, in the year 2000, in spite of a small loss that we reported, we avoided the temptation to turn a profit by sacrificing in the short term the R&D expenditures that we were incurring. We're very happy that we did not touch our R&D expenditures because it was all for customer premises equipment. We're getting the benefit of that investment this year, and it's showing in our numbers.

CEO: The company historically has not provided guidance. How did the first six months of the year compare with perhaps your own internal forecasts or expectations?

MCTL: We are so far ahead of our internal forecast. We had forecasted a loss in the first quarter of about \$75,000 and we came in with a profit of about \$50,000. But in the second quarter we only forecasted a profit of about \$30,000 and, as you can see, after tax we came in with more than 10 times that number. So we are beating our internal forecasts and it looks like there is absolutely no doubt that we are going to beat the forecast for the full year.

CEO: *As you look at the full year, what do you see that shaping up like right now, and do you see particular parts of your business that will continue to drive the growth?*

MCTL: The growth will come, rather surprisingly, from our telecommunications customer premises equipment. There will be a greater percentage of growth there. But on an absolute basis, there will be more dollars of growth in our military businesses, and that is year over year growth. We grew by about 20 percent in our power supply business, military power supplies, avionic power supplies, last year. We'll probably grow by 22 percent this year. So the base of growth is everywhere in our operation with the one exception of the test instrument business, which will probably be flat. On test instruments alone we will definitely beat our own internal forecast, even though we were below forecast in the first half of the year.

CEO: *Your cash flow from operations in the first six months improved by \$1.1 million, a dramatic reversal. As you now look at the acquisition strategy that you have, you recently retained OEM Capital. How long have they been working with you and why did you hire them?*

MCTL: Well, we hired them for strategic reasons associated with our business. We needed certain representation here in the United States to capitalize on our business in Europe to have a U.S. presence. So predominantly, we've engaged them to find acquisitions in the United States that complement what we already have in Europe. We selected them from a group of about five firms and because we're such an international company in focus, we needed somebody with a presence in Europe as well as in the United States because we are looking to expand in Europe as well. So we selected OEM Capital and we've been at it with them, it seems hard to believe, for about 14 months. But right at this point in time we've identified about five acquisitions that we are very interested in and there are sellers on the other side that are equally as interested. It took us all this time because we are absolutely determined to do nothing in the way of an acquisition that is not with a company that is solidly profitable, has good cash flow, perhaps some cash as well and, above all, their earnings would have to be highly accretive of our own earnings. It's taken us this long just to find these five candidates. But we are now moving quite quickly with these five and although there is no likelihood that we'll do all five transactions, but certainly we'll get one or more of these transactions completed. We certainly hope to have them completed long before the end of this calendar year.

CEO: *The company has also significantly improved its balance sheet. With respect to these acquisitions, how will this help you make the investments necessary and make you a more attractive acquirer to these potential targets?*

MCTL: As you can see, our stockholders' net worth is up, our share price is up and our daily trading volume is up. While we have no intention of using stock because of the rather low stock price that we have, we make ourselves attractive by our earnings potential. Even if there are

some warrants included in the deal, that can represent significant upside potential for the sellers. Generally speaking, we will be doing our transactions predominantly with debt instruments. We have the debt equity capacity to carry this debt and especially we have the cash flow to carry the debt. But we are looking at only companies with very solid profitability. Obviously, the profitability allows us to carry the debt as well. We would not want our debt to equity ratio to get out of line with these transactions, and that's part of the reason why it takes so long to find the right deal.

CEO: *As you now look at your communications with shareholders, when will your stockholders letter be available and how can investors get a copy of that?*

MCTL: Yesterday, as you know, we had our stockholder conference call, which we do every quarter of course. We told the stockholders that our annual report would be coming out early in September. It is going to be, in our estimation, a report that will clearly define who we are, where we are and where we're going. Not only will that be clearly defined for our shareholders, but the visuals, the quality of the presentation of this stockholders report will be in a league with any public company out there. Not only will it be mailed to our shareholders, but it will also be available electronically so people will be able to see this annual report even without having to get hard copy. We're putting a lot of effort into it and this effort is being expended because we have a plan to see ourselves off of the Bulletin Board. Once off the Bulletin Board, our annual report will certainly be our signature piece to show who we are, where we are and where we're going.

CEO: *What should investors now look for in the coming quarters in terms of key developments?*

MCTL: Certainly the acquisitions would be first and foremost. Of equal importance will be solid and continuing profitability, and also a number of contracts that are pending that are already won. It takes time to get them announced because we're dealing with very large corporations and they are slow to grant approvals to allow you to put these contracts into the public domain. But we do have things that are out there that have already been won but we can't make the announcement until we get the approval. So first and foremost it would be the acquisitions. Secondly, it would be continuing profitability. And, thirdly, it will be continuing contracts of significance that will drive us into '04 and hopefully with an even stronger position than we went into '03 with.