

CEOcast

WHERE WALL STREET LISTENS

OTCBB: MCTL



Carmine T. Oliva
Chairman/President/CEO

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MicroTel International Inc. is an international manufacturer of defense and aerospace electronic components and subsystems and communication equipment. Our electronic components group, which includes XET Corporation and its international subsidiaries, provides custom power conversion products, digital and rotary switches and subsystem assemblies to the global electronic components market and are primarily used for defense, aerospace and industrial applications. Our communications group, consisting of CXR Telcom Corporation and CXR, S.A.S. (France), provides network access, transmission and test equipment to the North American and European communications industry. Founded in 1983, MicroTel operates out of facilities in the U.S., France, the U.K. and Japan. As of July 31, 2003, we had a total of 192 employees in our various subsidiaries and divisions.



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CEO: *The company appears to be making solid progress both in its defense and aerospace business as well as its telecommunications space. Could you begin with a brief overview of the company and then we'll get into some of the ways that you bucked some of the seasonal trends in your business?*

MCTL: We are a manufacturer of aerospace and defense electronic components. This is about 60 percent of our business. We're also a manufacturer of communications equipment, both test equipment which is the smallest element of our communications product line and customer premises equipment sold to banks, private enterprises, government agencies. We're an international company with operations on three continents in the U.S., Europe and in Japan. We are trending very positively with our performance in the right direction.

CEO: *As you look at the business itself, typically the third quarter is a weak quarter for the company. Certainly, weaker than the second or the fourth quarter. What are some of the seasonal factors that you have to buck here, including perhaps a slowdown out of Europe for the Summer, and how have you done so?*

MCTL: The Summer in Europe is really the most problematic, especially on the communications side. This year was a little better than previous years. However, the aerospace and defense business tends to be pretty strong in the second and third quarter. What has happened to us for the first time is now that this shift has occurred from predominantly a business focused on telcom to predominantly aerospace and defense, we had a much stronger third quarter than we had anticipated, and with a reasonable performance in Europe we wound up with a much healthier profit in the third quarter than we've ever been able to achieve before. But the real key to this \$500,000 profit that we turned in in the third quarter is the fact that we're bringing far more per dollar of revenue to the bottom line than what we had anticipated; based on all of the moves and steps that we have taken to improve our operating performance in 2002, they're really paying off now in 2003.

CEO: *As you look at your profits in the third quarter, which were about half a million dollars, how did that track versus planned?*

MCTL: We had a forecast of about \$250,000 for the quarter. We had

told our shareholders we expected a solid profitable quarter, but we did not expect the third quarter to equal the second quarter, which was about a \$350,000 profit. We're literally at 100 percent of our full year forecast as of the third quarter.

CEO: *As you look at the balance sheet, it appears that you've made significant progress there. What steps have you taken and how will this perhaps enhance your growth prospects as well as your earnings?*

MCTL: Certainly, our earnings are contributing to a tremendous improvement in our balance sheet. We've improved our working capital in nine months to \$5.2 million, up by \$1.3 million over the \$3.9 million as of December 31st. We generated over a million dollars in cash flow in the nine month period. In the previous period, we had generated about \$133,000, so that's a dramatic improvement. We've increased our cash from about \$200,000 to about \$605,000 at the end of the third quarter, so on the balance sheet side of our business, it's equally as impressive to our growth in revenue as well as growth in net income.

CEO: *What about the fourth quarter? What do prospects look like? You're now approximately a little over a month into it. What kind of visibility do you see?*

MCTL: Well, the revenue for October is in. We know what the bottom line is going to look like. It was a much stronger October than we had anticipated. We certainly do not expect to have the fourth quarter exceed the third quarter. \$500,000 in one quarter is really outstanding for us. But the fourth quarter certainly should beat both revenue and net income for the fourth quarter of the previous year and it will be unquestionably a solid profitable quarter for us and a good end to the year.

CEO: *The market has certainly recognized the sharply improved fundamentals. Do you feel that your current fundamentals support the rise in both your share price and your market cap?*

MCTL: Well, we certainly do, and that's the answer that you would expect. But if you just look at our market cap, it's approaching \$30 million. We feel our breakup value is above \$30 million. On funda-

mentals, we are a defense and aerospace company. With a P/E ratio in the range of 30, maybe a premium of 5 for the growth that we're turning in. With a PE ratio of 35, if we turn in a nickel a share which is in the cards, we're already at 4 cents a share through the third quarter, we certainly have plenty of room to grow. The stock should still look like a very attractive buy for prospective investors. So we still think there's plenty of room for improvement in this stock price based solely on our trailing earnings fundamentals. If you look forward to '04 and just chart what we are likely to do in '04, then there's really substantial room for improvement in our stock price.

CEO: *You survived the telecom meltdown and obviously this had a significant impact on your earnings in previous years. As it now looks like the industry is beginning to come back, how much leverage do you have on the upside to this?*

MCTL: The leverage is very great. We've taken so much cost out. We've structured ourselves in a fashion so that any pick-up in business is going to make a major, major contribution. I'm happy to tell you that on our product lines in Europe, our customer premises product line, sales improvement will be a main, reason for an increase in projected income in the fourth quarter. The revenue is up slightly in Europe but the bottom line was up tremendously. Here in the U.S., the leverage is even greater. The revenue was down in test instruments slightly but yet we achieved a great improvement, on slightly lower revenue, this quarter compared to the third quarter of last year. So the leverage is enormous for us particularly on the communications side of the business.

CEO: *You've engaged OEM Capital as your international M&A firm. How are you progressing in terms of potential acquisitions?*

MCTL: Well, we've made real progress. We have offers out to three companies, one in Europe, two here in the United States. We have a high expectation of success with the company in Europe. It's a significant revenue and it will be a very significant net income contributor to us. We've agreed on conditions. Lawyers on both sides are working towards a definitive agreement. But certainly only as and when we sign the definitive agreement will we in fact make a public announcement. But I must remind your listeners that there can be no guarantee that we will do that acquisition or any of the others for which we have offers out.

CEO: *You're going to skip your annual meeting this year in favor of an improved shareholders' report. Why the decision to do this and what might investors expect to see in this shareholders' report?*

MCTL: We had no matters to bring before our shareholders in the year 2003 and a shareholders' meeting is a very expensive ordeal for

a company. Since we had no requirement for a vote, we decided to forego the shareholders' meeting in favor of a much, much improved annual stockholders' report. That stockholders' report is important to us because, as you know, we have a strategy for becoming a nationally listed company in the first half of '04. Therefore, our stockholders' report will become vital as a tool to support the efforts with the investment community. We produced an annual report which we feel, in terms of graphics and in terms of content, is the equal to many New York Stock Exchange companies or certainly any other Bulletin Board company out there. We feel that it is an absolute must-read for all of our shareholders. The content clearly and concisely elaborates who we are, where we are, where we're going and above all, how we expect to get there. So I highly recommend that anyone who has the opportunity can put their hands on the hard copy of our annual report. However, we realize that that's not always possible and, as a result, for the first time ever, we've reproduced our report in an electronic format and the report will be available not only on our web site, but we have contracted with annualreports.com to put our annual report up on their web site, and they are converting the PDF to an interactive video form, and we expect to be live perhaps as early as Monday of next week. We're very proud of this accomplishment, because on that list, on annualreports.com, there's about 2,900 companies listed and they are truly the blue chip companies of the New York Stock Exchange. And for us as a Bulletin Board company, to be in that company is very, very important for our shareholders to see. And, if you search for us alphabetically, you'll find us right after Microsoft.

CEO: *What should investors now look for in terms of key events in the coming quarter.*

MCTL: We are working on an approval and a standardization for our test equipment here in the U.S. from the last RBOC, the last Regional Bell Operating Company to do so. We're waiting for an approval of a press release, hopefully that will be out in the not too distant future, but above all, it's certainly the announcement of the conclusion or at least the signing of a definitive agreement on hopefully at least one major acquisition that we expect should be highly accretive of our earnings going forward. So those are two rather key events that they can keep their eye open for.