PCTEL Q4 2015 FINANCIAL RESULTS CONFERENCE CALL

March 7, 2016

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL fourth quarter 2015 conference call. At this time, all participants are in a listen-only mode. Later, we will open up the call for your questions. Instructions for queuing up will be provided at that time. As a reminder, this conference call is being recorded for replay purposes.

I will now turn the call over to Carolyn Dolezal, Chief Marketing and Information Officer.

Carolyn Dolezal:

Thank you for joining us today for the PCTEL financial results conference call for the fourth quarter 2015. On today's call will be Marty Singer, Chairman and CEO, and John Schoen, Chief Financial Officer. I am Carolyn Dolezal, Chief Marketing and Information Officer.

Our remarks contain forward-looking statements and projections of future results. Please review the forward-looking statement section at the end of today's earnings release for various factors that could cause actual results to differ materially from projections.

PCTEL reports its financial results in accordance with U.S. generally accepted accounting principles. Today's call will contain various operating results on an adjusted Non-GAAP basis, which excludes items that affect the comparability of reported results. Descriptions of these Non-GAAP financial measures and reconciliations are included in today's earnings release, which is available on our website.

Now I'll turn the call over to Marty.

MARTY SINGER:

Thank you, Carolyn, and good evening.

For those of you who have not had the opportunity to review our press release, let me recap some of the Non-GAAP highlights from the quarter:

- We achieved revenue of $26.1 million.
- Gross Profit Margin was 37 percent.
- Operating Margin was three percent.
- Net income was $611,000; or $0.04 per diluted share.
- Cash and investments were $31.8 million, a decrease of $2.5 million from last quarter.

- We repurchased 449,000 common shares during the quarter for $2.4 million.
- We paid $881,000 in dividends.

At this point, I will turn the call over to John Schoen, who will discuss our financial performance in some detail. After John completes his remarks, I will spend more time discussing our new products, markets, and the strategic direction of our products and services.

JOHN SCHOEN:

Revenue

Revenues were $26.1 million in the quarter and $106.6 million for the year. The quarterly revenue was down 11 percent from the same period last year and the annual revenue was down a half a percent from 2014. I will speak to the changes by reporting segment.

RF Solutions revenues were $9.5 million in the quarter and $37.3 million for the year. The quarterly revenue was unchanged from the same period last year and the annual revenue grew six percent. For the quarter and the year, declines in revenue for scanners and in-building engineering services were offset by the engineering services revenue generated from the Nexgen acquisition. Engineering services revenue in this case refers to drive test and staffing-related revenue.

Separately, in-building engineering services experienced a downturn in U.S. carrier spending, particularly from AT&T. Scanning receivers experienced lower demand from Ascom and in the Asia Pacific region.

Connected Solutions revenues were $16.7 million in the quarter and $69.6 million for the year. The quarterly revenue was down 16 percent from the same period last year and the annual revenue was down four percent. The changes for the quarter and the year were driven by lower kitting and mobile tower revenue, partially offset by higher antenna product revenue. 2014 included a multi-million dollar kitting order for a tier 1 U.S. cellular carrier. The company exited the mobile tower product line in 2015 due to declining demand and low margins. That product line primarily sold into the U.S. and Canadian oil and natural gas markets which were negatively impacted by the drop in oil and natural gas prices. Antenna revenue was positively impacted by strong growth in broadband wireless antennas.

Gross Profit Margin

Non-GAAP gross profit margin as a percent of sales was 37 percent in the quarter and 36 percent for the year. As a percent of revenue, the quarterly gross profit margin was down four percent of revenue from the same period last year and two percent of revenue for the year. I will speak to the changes by reporting segment.

RF Solutions gross profit as a percent of revenue was 49 percent in the quarter and 47 percent for the year. As a percent of revenue, the quarterly gross profit margin was down 11 percent of revenue from the same period last year and 12 percent of revenue for the year. For the quarter and the year, the change is attributed to the decline in product revenue with its higher margin relative to services, and services revenue that declined faster than we could adjust its largely fixed cost structure.

Connected Solutions gross profit as a percent of sales was 30 percent in the quarter and for the year. As a percent of revenue, the quarterly gross profit margin was down one percent from the same period last year and two percent for the year. For the quarter, the change is largely attributed to a significant revenue increase for our Wi-Fi antenna products, which carry a lower margin percent than our GNSS products. For the year, about half the change is due to the Wi-Fi product mix and about half from the fixed cost capacity variance created by the steep decline in mobile tower revenue.

Operating Expenses

Now let’s turn to Non-GAAP operating expenses. Operating expenses were $8.9 million in the quarter and $36.2 million for the year. The quarter was about $600,000 higher than the same period last year and the year was $2.9M higher. All of the quarterly and 90 percent of the annual increase reflect the added software development and sales and marketing costs associated with the Nexgen acquisition.

Non-GAAP Income Taxes

The Non-GAAP income tax rate in the quarter and the year was 18 percent, unchanged from the prior year.

Non-GAAP Earnings

Non-GAAP earnings per share were $0.04 in the quarter and $0.11 for the year, resulting in period over period decreases of $0.12 in the quarter and $0.37 for the year.

Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the fourth quarter at approximately $31.8 million; about $2.5 million lower than the previous quarter.

In the quarter, the Company generated free cash flow of approximately $900,000, comprised of cash flow from operations of $1.4 million and capital spending of $500,000. For the year, free cash flow was $7.1 million, comprised of cash flow from operations of $9.2 million and capital spending of $2.1 million. This represents a $1.7 million increase, or 33 percent, from 2014. Depreciation in the quarter was $788,000 and $3.1 million for the year.

During the year the company repurchased 1.94 million shares for $12.1 million and paid cash dividends of approximately $3.7 million.

Income Statement Guidance Q1 2016

Now I would like to discuss guidance for the first quarter 2016.

We anticipate first quarter revenue to be between $22.0 and $24.0 million. While the first quarter of each year is typically the lowest for PCTEL, we are seeing continued revenue pressure beyond that for in-building engineering services. We expect that revenue will recover to $25 to $26 million in the second quarter and that we will generate $56 to $58 million in the second half.

During the first quarter we anticipate gross profit margin in a range of 35 to 35.5 percent and operating costs of approximately $8.1 million. With restructuring actions taken in the fourth quarter 2015 and first quarter 2016, we anticipate 2016 operating costs to now be in a range of $32.5 to $33.3 million. Our goal – with the inclusion of all new software development and sales expenses associated with the Nexgen acquisition – is to match 2014 expense levels, which were $33.3 million in 2014 and $36.2 million in 2015.

The Non-GAAP effective income tax rate is expected to remain unchanged going forward at 18 percent.

The fully diluted share count in the first quarter is expected to be about 16.7 million shares.

That concludes the financial review. I would like to turn the call over to Marty for his summary comments.

MARTY SINGER:

Thank you, John.

As John already summarized, 2015 challenged PCTEL across the board and some of those challenges continue. Last year, we got off to an unusually poor start with Network Engineering Services (NES) after that group had grown by over seven times since 2011. That group continues to struggle. Just as a benchmark, one of the neutral host tower companies did 300 projects with us in 2014 but declined to 80 projects in 2015 with the erosion of carrier capital spending in the U.S. We believe that some of that spending will recover in the second half of the year.

As you also know, we acquired Nexgen only to abruptly lose its major customer and revenue source and sharp drops in carrier spending impacted scanning receiver sales and small cell deployment. This was reflected in a sharp decline in orders from one of our major test and measurement OEMs. Later in the year, ripples from the collapse in oil prices diminished the need for telemetry in large oil fields and the specialized antennas that serve that market. It has been a very tough environment.

We have been working hard to deal with this environment. Our actions – as John discussed – include significant reductions in our costs. Indeed, we are now at 2014 spending levels – about $8 million a quarter – and that includes all new engineering development and marketing costs for our data analytics products. At this point, however, we must restore revenue growth. PCTEL management is impatient with the revenue stagnation and we have an active program to regain revenue momentum. I want to use our time today to review our top five (5) actions to accelerate revenue growth and double EBITDA over 2015.

1. We need to restore Network Engineering Services revenue to the record level achieved in 2014. We will be establishing greater expertise in Wi-Fi and DAS planning and introducing new services

that are more relevant to today's in-building environments. These include PIM-testing and Interference Management. We anticipate building upon our success with a major airline, where we tested, monitored, and commissioned the cellular network that backhauls RFID information for baggage handling. The ability of our engineering group to work across different wireless protocols will become increasingly important as hybrid solutions dominate in-building networks. We also see a stronger future in vertical, specialized markets such as transportation, hospitality, and entertainment.

2. We will deliver on our commitment to deliver a system solution in network test and measurement. As you recall, we acquired Nexgen because we anticipated that our scanning receiver business would be under pressure. We have believed for some time that the test and measurement solutions of the future would demand lower-cost data acquisition tools coupled with cloud-based analytics. It is vital to our future that we execute this strategy. In the second quarter, we will be releasing two products that will transform RF Solutions. One product will give us a UE – a user element or handset-based collection tool that can be deployed independently or coupled with our scanning

receiver. Our solution will allow any customer to download software onto an Android subscriber unit with a Qualcomm chipset. As we have been presenting our investors, this new product will permit PCTEL to deliver a test and measurement configuration at a disruptive price. This will reduce our dependence upon third parties to deliver our scanning receiver to the market.

3. In 2015 we began to get traction with our SeeWave Interference Management system. Interference Management has emerged as the key network performance issue with LTE networks. Interference impairs capacity – in some cases up to 50 percent. Failure to deal effectively with interference results in unnecessary infrastructure investments and unhappy customers. In 2016, we will augment SeeWave with a highly focused data analytics tool. We will be discussing that product at the DAS World Congress in May.

4. We will continue to re-build our Engineering Staffing and Consulting operation. In the wake of last year's Samsung loss, that operation no longer had scale. We have re-built the operation and now have traction with new customers, including carriers and neutral host providers. We are in the process of completing the integration of our in-building engineering services, staffing and data analytics.

5. We expect to generate $70 million in Connected Solutions by expanding our OEM footprint, delivering new products into Rail, Fleet, Utilities, and high-density In-Building environments. We are particularly optimistic about our latest projects with John Deere, Huawei, Aruba, Extreme, and Cisco.

These revenue-generating actions coupled with a new cost structure will permit us to double EBITDA over 2015 levels.

In addition to these actions, I want to point out that we continued to release new, leadership products throughout the year. Our new products – most notably the MX*flex*® with eMBMS capability and our enhanced SeeWave® interference hunting platform – will serve us well as we move into the second half of 2016. The eMBMS capability permits cellular carriers and others to test their networks' capability to deliver broadcast video services – as an example, broadcast TV. At Mobile World Congress, we advanced this product even further with the incorporation of 4X4 MIMO capability. If you attended the show and went to Hall 6 you would have seen our scanning receivers displayed at several vendor booths.

In Connected Solutions, we released our ultra high-gain train top antenna, our new multi-band mobile antenna for precision agriculture, our Venu® stadium antennas, our new PIM antennas, and two new small cell antennas. We have developed strong traction in China with a leading telecom OEM. For Small Cells and Wi-Fi, we started production shipments of our new PIM rated Small Cell antenna in Q4 and expect the volumes to grow significantly in 2016 along with additional new product releases with this customer.

Regarding stadium environments, we shipped over $500,000 of our newly released Wave 2 panel antennas for stadium deployments in Q4. Next quarter we will launch a highly optimized antenna for under seat deployments. This will simplify Wi-Fi deployments in new open bowl stadium designs across the country. These antennas are unique in that take into consideration the impact of densely packed human beings in an arena.

In Q4, our new mobile multiband antennas were selected by a major public safety agency for a fleet-wide upgrade. Besides providing our products, we also helped the agency optimize the antenna placements on the vehicle rooftops minimizing interference. This type of “real estate” optimization could evolve into a service opportunity for PCTEL. We are supporting several radio vendors in these deployments and expect this to become a standard that will get utilized with other public safety agencies across the country. We have started shipments of our products this quarter.

Several of our new antenna products are under trial by key electric utilities and OEMS in this space for power line monitoring and power distribution and automation networks. We expect successful completion of these trials and production shipments in Q2.

Two weeks ago, the PCTEL team spent an exciting week meeting with customers and partners at the Mobile World Congress. The industry is at an interesting inflection point. For example, 5G will erase the distinction between licensed cellular airwaves and unlicensed Wi-Fi spectrum. The data-hungry applications inherent in the Internet of Things (IoT) will demand the aggregation of cellular and Wi-Fi capacity. Networks are moving into the cloud with only the antennas peeking out. Interference – and how to limit it so that it doesn’t impair cellular capacity– challenges increasingly complex networks. In-building remains the focal point of cutting edge network design tools and private networks represent an increasing share of the wireless market. These are great opportunities for companies with expertise in antennas, design tools, analytics, and engineering services.

In May, we will be launching some of our new antenna and RF Solutions products at the DAS World Congress in Las Vegas from May 16-18. The following week, David Neumann, our SVP and General Manager of RF Solutions, and I will be meeting with institutional investors at the B. Riley Growth Conference in Los Angeles. Later that month, we will be attending CommunicAsia. We welcome meeting with you at these upcoming events.

I want to thank you all for participating in our call this afternoon and we have set aside 30 minutes to respond to your questions.

Operator?