

Operator

Welcome to the PCTEL 2nd Quarter Earnings Release Conference Call. At this time, all participants are in a listen-only mode. At the conclusion of our prepared remarks, we will conduct a question-and-answer session. As a reminder, this conference is being recorded.

I will now turn the call over to John Schoen, the Company's CFO.

John Schoen

Thank you for joining us on today's conference call to discuss PCTEL's 2nd quarter 2017 financial results. With me today is David Neumann, the Company's CEO.

Before we begin, let me remind you that this call may contain forward-looking statements. While these forwarding-looking statements reflect PCTEL's best current judgment, they are subject to risks and uncertainties that could cause actual results to materially differ from these forward-looking projections. Risk factors that could cause PCTEL's actual results to materially differ from its projections are discussed in the earnings release which was issued today. It is also available on our website and in our most recent annual report on Form 10-K.

Additionally, our commentary will include reference to the following non-GAAP measures: non-GAAP EPS; adjusted EBITDA, and free cash flow. We believe these non-GAAP measures facilitate comparability of results over different periods. A full reconciliation of these non-GAAP measures to our GAAP basis

measures is included in our quarter earnings press release that was issued earlier today.

On today's call, we will be speaking about the Company's performance and prior period comparisons for only our continuing operations. The Company sold its Network Engineering Services business unit on July 31, 2017. The assets, liabilities and results of operations of the NES business unit will be presented as discontinued operations in the Company's financial statements in its report on Form 10-Q for the six months ended June 30, 2017 and in subsequent filings for the periods thereafter. The Company has included in its earnings press release the historical income statements for Continuing Operations by quarter for 2015, 2016, and the 1st quarter of 2017.

With that, it's now my pleasure to turn the call over to David Neumann.

David Neumann

Good afternoon.

First half 2017 revenue, gross profit, EBITDA margin, and non-GAAP earnings per share improved when compared to the same period last year. We confirm our annual revenue targets for antenna and scanning receiver products.

Last week we announced that we sold the assets of our Network Engineering Services business. PCTEL is now a products focused company and we will continue to leverage our deep RF expertise to develop antenna systems and

scanning receiver test products to solve complex problems. Our mission is to provide performance critical RF technology solutions.

Our long term view for antenna solutions and scanning receiver opportunities has not changed. Digital automation drives the need for more wireless capacity and higher reliability. Although overall carrier infrastructure spend is expected to be flat or declining, the portion allocated to new spectrum and new deployment models, like small cells and FirstNet, will grow.

In Connected Solutions, we had a number of significant wins in the second quarter for small cells, enterprise Wi-Fi, and fleet. We started volume shipments of our new integrated TDD LTE small cell antenna with a major OEM; we were awarded a design win with a key Wi-Fi OEM for 802.11 ac wave 2; and we began shipping our high precision multiband GNSS antenna for fleet applications. Product sales to major utilities remain strong.

In RF Solutions, cellular and non-cellular wireless applications continue to drive demand for our IBflex® and MXflex® scanning receivers with strong sales in the US. These scanning receivers are widely used for public LTE networks and are now being used to design, deploy, optimize, and monitor private wireless networks. The scanning receiver's software-defined radios can be programmed to measure non-3GPP frequency bands for private LTE networks; P25 and Tetra for public safety; and in other non-cellular applications such as satellite radio.

Our antennas and scanning receivers are both well-positioned to take advantage of growth in public and private wireless systems and applications. To further this

effort, PCTEL recently joined the Citizens Broadband Radio Service (CBRS) Alliance. This group is focused on promoting LTE based solutions in the 3.5 GHz spectrum that is now being made available on a shared basis. Anticipated users and use cases will support enterprise, industrial IoT, and neutral host solutions – all consistent with PCTEL’s capabilities and focus areas.

I would like to note that John and I will be attending the Midwest IDEAS Investor conference on August 30 in Chicago. We look forward to meeting with investors at the conference. With that, I will now turn the call over to John Schoen for a closer look at our 2nd quarter and 1st half financial results as well as 3rd quarter 2017 guidance.

John Schoen

Thanks, David.

I will be addressing the 2017 results for the second quarter and first half and comparing them to the same periods last year. The reason we will be reviewing year-to-date performance and trends going forward is that revenue and operating results for the Company are historically uneven by quarter due to the ebb and flow of large customer projects. As a result, our primary focus is on annual results and how we are progressing toward our financial targets on a year-to-date basis.

Revenue was \$21.5 million in the second quarter and \$44.5 million in the half, an increase of 1% in the quarter and 10% in the half compared to last year. Gross profit margin was 41.7% in the quarter and 41.4% in the half, down 20 basis

points in the quarter and up 90 basis points in the half. Adjusted EBITDA margin as a percentage of revenue was 8% in the quarter and the half, compared to 10% in the quarter and 7% in the half last year. Non-GAAP EPS was \$0.05 in the quarter and \$0.10 in the half, up \$0.02 or 25% for the half compared to last year. Free cash flow was positive \$2.0 million in the quarter and \$2.9 million in the half. Now I will review the results for each segment.

For the Connected Solutions segment, revenue in the second quarter was \$16.9 million, up 7%, and \$34.1 million in the half, up 12%. Gross profit was 34.0% in the quarter, up 270 basis points, and 32.6% in the half, up 220 basis points.

Antennas for small cell, fleet, and utilities applications delivered growth in the quarter and the half. A favorable mix of higher margin products in the early stage of their life cycle contributed to higher gross profit in the quarter and the half.

For the RF Solutions segment, revenue was \$4.7 million in the second quarter, down 16%, and \$10.4 million in the half, up 3%. Gross profit was 69.1% in the quarter, down 240 basis points, and 69.8% in the half, down 60 basis points. First half revenue is consistent with a \$20-\$22 million annual revenue run rate which is what we have historically seen in a year between new technology deployments. First half revenue grew in North America, Asia Pacific and Central and Latin America, but was largely offset by a revenue decline in Europe.

Now let's turn to guidance for the 3rd quarter 2017. Third quarter revenue from continuing operations is expected to be between \$23.0 and \$23.5 million, gross

profit is expected to be between 41.0% and 42.0%, and non-GAAP earnings per share are expected to be \$0.07 or \$0.08 per share at that revenue range. At the midpoint of our 3rd quarter guidance, revenue will be up 11% for the quarter and 10% through the three quarters ended September compared to last year.

Before we take questions, I would like to turn the call over to David to make a few closing remarks.

David Neumann

Thanks, John.

To summarize:

- Both segments of PCTEL's business – Connected Solutions and RF Solutions--are in a strong position to benefit from small cell deployments, enterprise Wi-Fi, IoT, and FirstNet.
- We are pleased with our 1st half results and the momentum we have going into the second half of 2017.
- With the sale of the services business, we are an RF products company with significant improvements in revenue trajectory and gross profit profiles.

With that, John and I would like to open up the call for questions.

Operator?