

PCTEL Q1 2016 FINANCIAL RESULTS CONFERENCE CALL

May 5, 2016

OPERATOR:

Ladies and Gentlemen, thank you for standing by, and welcome to the PCTEL first quarter 2016 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 John Schoen, Chief Financial Officer.

John Schoen:

Thank you for joining us today for the PCTEL financial results conference call for the first quarter 2016. On today's call will be Marty Singer, Chairman and CEO, and I am John Schoen, Chief Financial 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, John, 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 \$21.1 million.
- Gross Profit Margin was 35 percent.
- Operating Margin was negative three percent.
- Net loss was \$494,000; or \$(0.03) per diluted share.
- Cash and investments were \$27.9 million, a decrease of \$3.9 million from last quarter.
- We generated approximately \$700,000 in free cash flow, a \$1.0 million improvement over the same period last year.
- We repurchased 783,000 common shares during the quarter for \$4.1 million.
- We paid \$870,000 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 discuss our new products, markets, and strategic direction.

JOHN SCHOEN:

Revenue

Revenues were \$21.1 million in the quarter, down 20 percent from the same period last year. I will speak to the changes by reporting segment.

RF Solutions revenue was \$6.4 million in the quarter, down \$2.6 million, or 29 percent, from the same period last year. The decline is primarily attributed to a downturn in North American cellular carrier spending and slower DAS deployment, a trend that has been well documented.

Connected Solutions revenues were \$14.7 million in the quarter, down \$2.7 million, or 15 percent, from the same period last year. Approximately 80 percent of the decline is attributed to lower small cell kitting revenue in the U.S. cellular carrier market and our exit from the mobile tower business in the third quarter of 2015. Our OEM antenna sales were strong but were offset by lower sales to our distributors.

Gross Profit Margin

Gross profit margin as a percent of sales was 35 percent in the quarter compared to 39 percent in the same period last year. I will speak to the changes by segment.

RF Solutions gross profit margin as a percent of sales was 46 percent in the quarter compared to 53 percent in the same period last year. The decline in test equipment and in-building services revenue was the major contributor to the change in gross margin.

Connected Solutions gross profit margin as a percent of sales was 30 percent in the quarter, down two percent of revenue from the same period last year. The change is attributed to a decline in high margin kitting revenue and our antenna product mix.

Operating Expenses

Now let's turn to Non-GAAP operating expenses. Operating expenses were \$8.0 million in the quarter. This is a \$1.2 million decrease from the same period last year. Transaction costs for our acquisition in the first quarter last year account for about \$700,000 of the decrease with the remaining \$500,000 from reductions in force that were taken in the second half of 2015. These operating cost levels compare favorably with our cost structure in 2014.

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 net loss per share was \$(0.03) compared to net income of \$0.05 in the same period last year.

Balance Sheet & Cash Flow

Now let us turn to the balance sheet.

Cash and investments ended the quarter at approximately \$27.9 million, about \$3.9 million lower than the previous quarter.

In the quarter, the Company generated free cash flow of approximately \$700,000, comprised of cash flow from operations of \$1.4 million and capital spending of \$700,000. Depreciation in the quarter was \$792,000.

During the quarter the Company paid a cash dividend of \$870,000 and purchased 783,000 shares of its common stock for \$4.1 million (\$5.23 per share). The company purchased 2.7 million shares at a cost of \$16.2 million over the last twelve months (\$5.93 per share).

Income Statement Guidance Q2 2016

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

We anticipate second quarter revenue to be between \$23.5 and \$24.5 million, up about 11-16 percent sequentially. Gross margin is estimated between 38 and 38.5%, an improvement of 3 to 3.5% sequentially. Operating costs are expected to be approximately \$8.0 million, unchanged sequentially.

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

The fully diluted share count in the quarter is expected to be about 16.1 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.

Although this is our first non-GAAP loss in 11 years and we had a revenue shortfall in our network engineering group, we anticipate – as John already

summarized – significant revenue growth in the second quarter and a return to profitability. We see sequential quarterly growth in all of our core product lines, traction in our subject matter expert (SME) staffing business, and a recovery in our in-building engineering services. At the same time, we now have a cost structure – a return to 2014 OPEX levels – that positions PCTEL to benefit fully from what we expect to be a \$2.5 to \$3.5 million increase in quarterly revenue. Our projected growth reflects the progress that we have made in developing non-U.S. customers and in launching new products consistent with market direction.

Let me first discuss our current cost structure. The \$8 million in quarterly operating costs reflects the elimination of under-utilized engineering resources, the consolidation of operational functions, a reduction in our physical locations, and continued reduction of G&A expenses. The cost reductions leave us with healthy engineering and sales organizations, and we are in a good position to benefit from growth in markets such as Utilities, Fleet, Public Safety, IoT, and small cell deployment. More broadly, we expect to benefit from the growth of the wireless mobile Internet. Going forward, we anticipate some additional facility consolidation, but our major cost-cutting efforts are behind us.

Last quarter, we were active in new product launches and business development. We want to use our time with you today to review those activities and explain how they position the company for a strong second half. John and I are joined today by the general managers of our two operations, David Neumann

and Rishi Bharadwaj. At the end of our review, we encourage you to ask them directly about the state of their businesses.

Let me begin with RF Solutions. David Neumann and his team have worked hard to integrate our analytics and SME staffing business into the RF Solutions operation. They have made good progress.

We also launched four (4) new products. The first two that I will mention are SeeHawk Engage™, a hand-held data acquisition tool, and SeeHawk™ Analytics, our cloud-based data analysis tool. The release of Engage, and corresponding release of SeeHawk Analytics, allow users to immediately visualize data and generate custom reports. We are pleased to report that we made our first sale of Engage last week. As we stated last year when we acquired the analytics and service operation, the test and measurement business is migrating to crowd-based, cloud-based management systems. Both SeeHawk Engage and SeeHawk Analytics provide critical elements to our long-term strategy in this market.

Our other two product launches leverage our core *flex* platform. The Signal Analyzer – which we announced a few weeks ago - is a straightforward application and add-on to the *IBflex*® platform. Instead of investing in a single-purpose tool, any *IBflex* customer can add on the signal analyzer function to the *IBflex* platform. It will reduce the capital investment required by engineering firms.

The ability to leverage the *flex* platform also extends to the MX series. This past quarter we added 4X4 MIMO capability on the MX*flex*® platform. This product competes at the upper end of the scanning receiver market.

Our optimism about second half RF Solutions revenue also reflects positive developments with key engineering services customers. We began 3.5 GHz engineering and survey work with a national account and hope to secure meaningful scanning receiver and analytic work with that customer. We landed a national drive test project, initiated SME staffing business with an iDEN network that will transition to LTE, and we won a major university campus engineering project. In our scanning receiver business, we had our strongest quarter with Huawei, with particular strength outside of China in APAC.

RF Solutions has been active at various industry events and we are going to have a major presence at the DAS and Small Cells Congress later this month in Las Vegas. We will be formally launching the SeeHawk Engage product line and our Signal Analyzer option for the IB*flex*. We will also be demonstrating the SeeHawk Analytics real-time reporting capabilities using data from Engage and our *flex* scanning platforms. In addition to the DAS Congress workshop on Assembling, Installing, and Testing Active DAS, we participated in the LTE Latin America Panel on Small Cells and LTE Unlicensed Deployment and the NEDAS panel on Digitizing our Arenas. Investors and analysts can learn about the IoT Impact on DAS and Small Cell Technology Innovation on our TIA Webinar.

Let me now turn to our Connected Solutions operation. Again, Rishi Bharadwaj is on the call with us today.

As we have mentioned in our Investor Presentation and on previous earnings release conference calls, our two businesses come together in the in-building and small cell markets. Our RFS group delivers engineering services and provides the *IBflex* and other sophisticated tools. In parallel, our Connected Solutions group designs, manufactures, and sells performance critical antennas to the major small cell infrastructure OEMs, such as Nokia, Huawei, and Ericsson. In the first quarter alone, for example, our antenna sales to Huawei nearly matched our entire 2015 revenue with them.

In addition to our progress in APAC, we established a relationship with Lancom Systems in Germany and launched initial sales for three of our leading antenna SKUs. We also secured SAR (Specific Absorption Rate) certification in Europe with our Ultra Low PIM LTE antennas for indoor applications.

We have seen strength in three of our key vertical markets: Utilities, Fleet, and Public Safety. For each of these markets, we address market applications with new and existing products, and we are active in the relevant trade shows such as Entelec, UTC (Utilities Telecom Council), Distributech, IWCE, and a key rail show, RSSI.

In the utility vertical, we were selected to provide high performance, dual polarized Yagi antennas for smart grid applications. These shipments, which we had anticipated in Q1, have begun this quarter. Similarly, we recently commenced shipping high volumes of our new utility pole mount Omni antenna for power line monitoring. These shipments are primarily to Midwestern utilities.

As a part of the Smart Grid rollout, utilities are now focusing heavily on enhancing remote monitoring, fault detection, and optimization of power distribution networks. This includes deployment of sensors on power lines and switching equipment in substations. Sensor data from these networks are used to more precisely calibrate power production and, as a result, they eliminate enormous energy waste. PCTEL is working with several OEMs and directly with utilities.

Public Safety is undergoing some resurgence, largely because of multiple technology shifts. The FirstNet initiative will transition public safety to 4G technology. FirstNet creates a demand for complex antennas and complex antenna farms on top of these vehicles. Many public safety entities are deploying multiple PCTEL antennas, legacy and new, for antenna farm kits on first responder vehicles. Our new Trooper product line is ideal for complex configurations. Trooper provides optimized MIMO, Wi-Fi, and, LTE coverage along with high rejection GPS for voice, data, and asset tracking applications in a

single unit. This simplifies installation and avoids energy waste in shipping and deployment.

We began our qualification with an agricultural vehicle manufacturer to deploy our rugged, low profile, multiband antenna. This antenna provides the right profile, high performance, and out-of-band rejection required for precision applications that require LTE, Wi-Fi, and GPS capabilities.

Finally, PCTEL's new custom-designed antenna was selected by a major sports league through an OEM. These antennas are deployed on wearable devices, enabling interference-free audio communications for personnel on the sidelines and on the field. This new product extends our VenU® portfolio, which provides superior wireless network capacity in stadiums, transit hubs, concert venues, and other crowded areas.

We encourage you to take a look at our updated website, which augments our sales distribution channel. We also created an international online presence, with micro-sites in Spanish, Chinese, and German. In the second quarter, PCTEL will migrate all of its websites to a next generation platform to enable future improvements to the website.

We look forward to seeing you at the DAS and Small Cells World Congress in Las Vegas. We encourage you to visit us at our booth #202/204. I will also be in New York the week of June 13 and hope to see some of our investors at that time. With that, I would like to open up the call for questions from today's participants.

Operator?