John Schoen

Thank you for joining us on today's conference call to discuss PCTEL's first quarter 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 differ materially 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, both of which are available on our website.

Additionally, our comments 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.

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

David Neumann

Good afternoon and welcome to our call. I will make a few comments about our business, then John will discuss our financial results.

In Connected Solutions, we continue to have confidence in our core vertical markets, including industrial IoT, fleet and enterprise Wi-Fi. PCTEL is in a strong position to help companies design and deploy systems to improve processes using wireless technology. Industrial IoT applications in smart grid automation, asset tracking, fleet and mass transit coordination provide long-term growth drivers for the Company. To support fleet applications, the Connected Solutions segment recently launched our industry-leading Coach II antenna solution which is a 9-in-1 antenna that supports four LTE carriers, four Wi-Fi links and Global Navigation Satellite Systems, like GPS, in a single housing. The Coach II antenna's ability to support multiple technologies in one device reduces installation complexity while providing exceptional performance.

In enterprise Wi-Fi, we continue to make investments to support next generation Wi-Fi standards. We opened our Wireless Product Development Center in Akron in April to focus on advanced radio integration, device optimization and embedded antenna design. The team has made significant contributions in assisting customers with radio integration and developing 802.11ax embedded antenna reference designs for major chip manufacturers.

We remain confident in the long-term growth prospects of small cells globally to support denser 4G networks, the migration to 5G and ubiquitous Wi-Fi. As an example, in the recently announced merger between T-Mobile and Sprint, T-Mobile stated that small cells will account for approximately 37% of the planned network. We have significant small cell business in China and we are committed to those customers. We plan to continue to make investments in our Chinabased operations, although we acknowledge that there are some uncertainties related to trade with China.

In RF Solutions, we had a softer first quarter in North America, due to deferred deployment schedules. We recognize revenue risk in our test and measurement business related to wireless operator budgets and the pending merger between T-Mobile and Sprint, but we believe these are short-term issues. With respect to 5G and longer-term initiatives, we continue to make investments in RFS to support 5G algorithm and scanner product development. It is important to note that our scanning receivers are software-defined radios and customers using our IB*flex* scanner in sub 6 GHz bands will be able to upgrade to test 5G deployments. While this provides a cost-effective upgrade solution for customers as they migrate to 5G, it provides PCTEL with a high margin upsell opportunity. As previously announced, we also support 5G millimeter wave testing using our down converter solution. Sales visibility is improving in RFS and we are confident in our long-term revenue performance as operators begin to rollout mobile 5G in 2019.

John and I will be attending the East Coast IDEAS Investor conference tomorrow, May 10, in Boston; and we will present at the 19th Annual B. Riley Investor Conference held on May 23rd in Santa Monica. We look forward to meeting with investors at these conferences.

With that, I will now turn the call over to John Schoen for a closer look at our first quarter, as well as second quarter and annual 2018 guidance.

John Schoen

Thanks, David.

I will be addressing the results from continuing operations for the first quarter of 2018, comparing them to the same period last year.

Revenue was $21.7 million in the quarter, down 5%. Gross profit margin was 36.2% in the quarter down 500 basis points. Adjusted EBITDA margin as a percentage of revenue was 2% compared to 7%. Diluted Non-GAAP EPS was a loss of $0.01 compared to profit of $0.05 last year.

Now I will review the results for each segment.

For the Connected Solutions segment, revenue in the quarter was $17.8 million, up 3%. Gross profit margin was 29.3%, down 200 basis points. The segment saw significant revenue growth in enterprise Wi-Fi applications. However, those revenue gains were largely offset by pricing pressure we are experiencing in the small cell space, which also impacted gross profit margins. We expect cost reduction efforts we have initiated will improve Q1 margins by about 50 basis points in Q2, 100 basis points in Q3, and fully catch up with the pricing trend by the fourth quarter.

For the RF Solutions segment, revenue was $4.0 million in the quarter, down 30%. Gross profit was 66.8% in the quarter, down 350 basis points. The segment saw lower revenue in the North American market as several carriers were late in deploying their 2018 capital budgets. Overall margin was lower as there was less leveraging of fixed cost of goods sold.

I would like to point out a change at the corporate level starting this quarter. The Company uses a non-GAAP income tax rate that corresponds to its worldwide cash basis income tax liability. The new U.S. tax legislation has caused our non-GAAP income tax rate to drop from 18% to 8%. The difference was not material enough in the first quarter to impact the $0.01 non-GAAP EPS loss reported but should be noted for future modeling.

Now let’s turn to guidance for the second quarter 2018 and the year. Second quarter revenue is expected to be between $23.0 and $24.0 million, gross profit is expected to be between 39% and 41%, and non-GAAP diluted earnings per share from continuing operations are expected to between $0.05 and $0.07 at that revenue range. We believe the deferred capital budget deployment in the U.S. carrier market for test tools and the pricing pressure in the small cell antenna market we experienced in the first quarter will flow through to the year. We are revising our annual 2018 revenue guidance range to between $97 - $99 million. We do not anticipate that it will have an impact on 2019 revenue and beyond as the 5G rollout begins.

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

David Neumann

Thank you, John.

We are seeing progress in both segments in the second quarter. There are some major market opportunities that we are excited about on the horizon. We believe our investments such as the R&D center in Akron and our 5G algorithm development will drive growth. We are well-positioned to capture market share in a modestly growing market, expand into new markets and provide shareholders long-term returns.

To close, I would like to thank the global team at PCTEL for their continued efforts and contribution to our success.

With that, John and I are available to answer questions.

Operator?