

Operator

Welcome to the PCTEL fourth 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 for replay purposes.

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 fourth quarter and full year 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 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.

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.

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.

We are pleased with our 2017 performance. The Company closed out our 2017 fiscal year with improvements over 2016 in our revenue, gross profit, EBITDA margin, and non-GAAP earnings per share. More importantly, we have built a solid foundation for the future.

Connected Solutions had strong growth in our fleet and industrial IoT antenna vertical markets, reaffirming that companies want to connect “things” wirelessly to increase efficiency and productivity. We remain confident in the long-term growth prospects of small cells to support 4G capacity requirements, new 5G networks and Wi-Fi. In 2017, the Connected Solutions segment had several design wins with our important small cell OEM's in the US and China. The success of our small cell and Wi-Fi vertical markets was driven by large projects with carriers and end user customers. 2017 was also a particularly strong year for sales in the fleet and industrial vertical markets with both growing more than 30% year-over-year.

Wireless operators have commercially launched more than 40 mobile IoT networks globally and we expect these networks to scale in 2018. To support the rollout of these networks, our RF Solutions segment launched our Narrow Band IoT testing capabilities in December, which customers can order as an upgrade to their existing PCTEL scanning receivers. In 2017, RF Solutions benefited from tighter coordination and increased sales from our global OEMs. In addition, a reorganization at one of our largest customers created an opportunity to outfit a new group with PCTEL scanning receivers, enabling them to test the deployments of mobile IoT and early 5G networks.

Before I hand this back to John, I would like to make a few comments on investment activities and our new design center in Akron, OH. PCTEL is known for solving complex RF challenges and we focus on developing and protecting our proprietary technology. In 2017, we invested heavily in our engineering teams in both segments. In Connected Solutions, we added embedded and radio systems design talent and established our “Wireless System Performance Lab” for testing and optimizing access points and Industrial IoT devices. Our Akron RF Design Center will officially open in April. The team in Akron will focus on advanced radio integration, device optimization and embedded antenna design for next generation Wi-Fi standards. In addition, we expanded our Beijing design center early in 2017 to address global customer requirements.

In RF Solutions, the team added senior engineering talent to create 5G testing algorithms and to develop our unique public safety application for testing in-building networks. To test 5G at higher frequencies, the team also developed a

down converter capability that shifts millimeter wavelengths to a lower frequency to leverage the measurement functionality of PCTEL's current scanning receivers. We announced this new capability a few weeks ago at Mobile World Congress. These investments in talent and facilities are important for PCTEL to support evolving mobile IoT and vertical market applications.

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

John.

John Schoen

Thanks, David.

I will be addressing the results from continuing operations for the fourth quarter and the full year ended December 31, 2017, comparing them to the same periods last year.

Revenue was \$23.3 million in the quarter and \$91.4 million for the year, down 1% in the quarter and up 8% for the year. Gross profit margin was 44.0% in the quarter and 42.4% for the year, up 265 basis points in the quarter and 200 basis points for the year. Adjusted EBITDA margin as a percentage of revenue was 10% in the quarter and 9% for the year, up 55 basis points in the quarter and up 95 basis points for the year. Diluted Non-GAAP EPS was \$0.08 in the quarter and \$0.28 for the year, unchanged in the quarter and up \$0.08, or 42% for the

year. Free cash flow was positive \$2.1 million in the quarter and \$7.1 million for the year. At 8% of revenue, free cash flow was at the high end of the 7-8% of revenue the Company targets.

Now I will review the results for each segment.

For the Connected Solutions segment, revenue in the quarter was \$16.5 million, down 9%, and \$68.6 million for the year, up 4%. Gross profit was 31.3% in the quarter and 32.7% for the year, unchanged in the quarter and up 120 basis points for the year. The growth leaders in the quarter and the year were antennas for fleet and utilities applications. Gross margin improvement came from a revenue shift to products earlier in their life cycle as well as achievement of supply chain efficiencies.

For the RF Solutions segment, revenue was \$6.9 million in the quarter, up 25% in the quarter and 19% for the year. Gross profit was 74.0% in the quarter, down 15 basis points, and 71.0% for the year, up 55 basis points. The increased revenue was driven by carrier spending in the US market. Overall margin was higher for the year as the increased revenue allowed the leveraging of fixed cost of goods sold.

Now let's turn to guidance for the first quarter 2018. First quarter revenue is expected to be between \$21.5 and \$22.0 million, gross profit is expected to be

between 37.5% and 38.5%, and non-GAAP diluted earnings per share from continuing operations are expected to be between a \$0.01 loss and break even at that revenue range. The revenue and earnings guidance reflect the uneven nature of our business when looking at it on a quarterly basis. It has higher antenna revenue but lower scanner revenue, with its higher gross margin, than the first quarter last year. The largest scanner market for the Company is North America. Several North American carriers delayed releasing their 2018 test tool budgets to their regional markets, which has resulted in a lag in initial spending. While the first quarter will be down from last year as a result, we still believe the full year revenue for the Company will be between \$100 to \$102 million and non-GAAP EPS in the \$0.34 to \$0.36 range.

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

David Neumann

Thanks, John.

We are pleased with our performance in 2017 as a company and in each segment. We believe our investments will drive growth in our targeted vertical markets and provide long-term returns.

To summarize:

- Our focus on technical innovation and solving difficult RF problems differentiates PCTEL and positions us well for the future;
- The scanning receiver business in RFS was strong in the fourth quarter and for the year;
- Fleet and industrial IoT antenna sales grew substantially and we expect this trend to continue;
- We are confident that small cell and enterprise Wi-Fi are long-term growth drivers;
- Although RFS is starting slow, we expect to have a successful 2018 and to continue to increase revenue, earnings and market penetration.
- And finally, I would like to thank the team here at PCTEL for their continued efforts and contribution to our success.

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

Operator?