

Operator

Welcome to the PCTEL 1st 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 1st 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.

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

David Neumann

Good afternoon.

First quarter 2017 revenue, gross profit, adjusted EBITDA, and non-GAAP profit all improved when compared to the same period last year. We are encouraged by the direction the Company is headed.

We believe there are long term growth opportunities for PCTEL driven by recent industry developments, including the award of the FirstNet contract to AT&T and growth in small cell deployments. We have had success with FirstNet on the West coast and we are pursuing additional markets for antenna opportunities. We expect to see test and measurement business towards the end of this year and into 2018 as AT&T deploys infrastructure for FirstNet.

Small cells will present opportunities over the next several years with near term opportunities in Asia Pacific. Small cell deployments in Asia increased by more than 40% in 2016. Carriers are deploying small cells in denser configurations into their networks to improve coverage and increase capacity. These networks support traditional users, IoT applications, and they will provide a platform for 5G. New deployments, like FirstNet, new spectrum allocations and small cell

deployments will drive the demand for PCTEL's performance critical antennas and our test and measurement solutions.

In Connected Solutions, we are confident that our four areas of focus for antennas – small cells, enterprise Wi-Fi, fleet, and utilities will drive growth for PCTEL. In particular, small cell, fleet, and utilities contributed double digit growth over the first quarter last year.

In RF Solutions, we continue to build applications to leverage the installed base of the IBflex® to address small cell and in-building applications. Product revenue was up significantly in the U.S. and Asia Pacific compared to the same period last year. While we are pleased with the product success, we acknowledge that our engineering services revenue encountered significant headwinds this quarter which detracted from earnings. Our RF Solutions management team is committed to rectifying this situation by the third quarter. John will have more on this later in the call.

I would like to note that John and I will be attending the East Coast IDEAS Investor conference on May 17th in Boston; and we will present at the 18th Annual B. Riley Investor Conference held on May 24th 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 1st quarter financial results and 2nd quarter 2017 guidance.

John Schoen

Thanks, David.

Now I would like to address the 1st quarter 2017 and compare results to the same period last year. Revenue was \$25.0 million, up 19%; Gross profit was 37.3%, up 380 basis points; adjusted EBITDA was \$1.5 million, up 675%; and non-GAAP earnings per share were \$0.04, up \$0.07 per share. Free cash flow was approximately \$800,000 (\$1.85 million of cash flow from operations less \$1.05 million of capital spending). Capital spending in the quarter was about \$500,000 higher than normal due to investments in IT which included a new IP phone and communications system for the Company. We expect capital spending to return to traditional levels next quarter.

Drilling down, Connected Solutions revenue was \$17.3 million, up 17%. Antennas for small cell, fleet, and utilities applications delivered significant growth. Gross profit was 31.3%, up 190 basis points. The leverage of fixed costs over higher volume improved gross profit.

RF Solutions' revenue was \$7.8 million, up 21%, with gross profit of 50.3%, up 790 basis points. Product revenue grew while services revenue was unchanged; resulting in the higher blended gross margin percentage. While service revenue was unchanged year over year, it was down 35% sequentially resulting in negative contribution margin equivalent to a \$0.02 non-GAAP earnings per share loss. Excluding services, the Company delivered non-GAAP earnings per share of \$0.06 in the quarter. As David mentioned earlier, the RF Solutions

management team expects to rectify our services revenue and profitability issues by the third quarter.

Now let's turn to guidance for the 2nd quarter 2017. Second quarter revenue is expected to be between \$23.5 and \$24.5 million, gross profit is expected to be between 38.5% and 39.5%, and non-GAAP earnings per share are expected to be between \$0.03 and \$0.05 per share at that revenue range. At the midpoint of our guidance, revenue is expected to be about the same as the second quarter last year with non-GAAP earnings down \$0.01 per share. Services are expected to be about \$1.5 million lower in revenue than Q2 last year and that will continue to weigh on earnings in the second quarter. Our product revenue in both Connected Solutions and RF Solutions continues to track to target in the first half.

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:

- We are pleased with our Q1 results and the momentum we are building early in 2017.
- The challenges in our services business are being addressed and should be rectified by the third quarter.

- Both of PCTEL's business – Connected Solutions and RF Solutions--are in a strong position to benefit from small cell deployments, FirstNet and 5G; and
- As a company, we continue to make investments in R&D, staff and capital to create and maintain our competitive advantage.

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

Operator?