

Operator

Welcome to the PCTEL 4th 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 4th quarter 2016 financial results. With me today is David Neumann, the Company's new 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 those 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 Web site and in our most recent 10-K.

Additionally, our commentary will include reference to 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 morning. Thank you for joining our call today. Although I have been at PCTEL for eight years and have participated in past earnings calls, this is my first as CEO. I'm looking forward to working closer with the investment community in this role.

We finished strong in 2016 and we are maintaining momentum in Q1 2017. Fourth quarter 2016 revenue, Gross Profit, adjusted EBITDA, Non-GAAP profit, and Free Cash Flow all improved when compared both sequentially and over the same period last year. The first quarter 2017 financial guidance we will be providing later on this call is a significant improvement over the results of the same period last year. In short, we are encouraged by the direction the Company is headed.

We just returned from the Mobile World Congress in Barcelona and it confirms our belief that small cells, 5G and ultimately, the Internet of Things (IoT) will drive growth at PCTEL. Data demands and cell capacity limitations require smaller cells in denser configurations. Small cell shipments are forecasted to more than double by 2020 to more than 10M units. This growth will be exacerbated further as 5G rolls out because the higher 5G frequencies travel even shorter distances

than the current and preceding technologies. It might take 10 times the number of today's base stations to deploy mobile 5G service throughout an existing 4G footprint. Small cell growth and 5G will drive the demand for antennas, test & measurement tools, and engineering services. Small cell rollouts benefit both our businesses.

In Connected Solutions, we are delivering a significant quantity of small cell antennas to one of our key OEMs in China and we expect this business to remain strong. We continue to make significant investments in R&D and operations in China to support this business. 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 RF Solutions, we continue to build applications to leverage the installed base of the IBflex® to address small cell and in-building applications. Our latest tablet based SeeHawk® Touch solution includes specific features to test and commission small cell deployments.

I would like to note that John and I will be attending the East Coast IDEAS Investor conference on May 17th and 18th in Boston; and we will present at the 18th Annual B. Riley Investor Conference held on May 24th and 25th in Santa Monica. We look forward to meeting with investors at these shows.

With that, I will now turn the call over to John Schoen for a closer look at our 4th quarter financial results and 1st quarter 2017 guidance.

John Schoen

Thanks, David.

Let me start with a recap of the full year, with comparisons to 2015. Our top line revenue was challenged in the first three quarters of 2016, with annual revenue declining \$10 million to \$96.7 million. The first three quarters were impacted by several large multi-year projects coming to an end, as well as our decision at the end of 2015 to prune low margin businesses obtained through earlier acquisitions. On lower annual revenue, we reported a 150 basis point improvement in Gross Profit; a \$1.6 million improvement in adjusted EBITDA, or 30%; \$0.20 of Non-GAAP EPS, up 82%; and Free Cash Flow of \$8.5 million at 8.8% of revenue, compared to \$7.0 million and 6.6% of revenue last year. We believe that the improved profit and cash flow profiles validate our decision to prune lower margin product lines that were not core to our future growth.

Now I would like to address the 4th quarter 2016 and compare results to the same period last year. Revenue was \$26.7 million, up 2%; Gross Profit was 37.4%, up 190 basis points; adjusted EBITDA was \$2.3 million, up 53%; and non-GAAP earnings per share were \$0.08, up 100%. Drilling down, Connected Solutions revenue was 18.1 million, up 9% with Gross Profit of 31.3%, up 230 basis points over the same period last year. Small Cell antenna growth was a key contributor to revenue and the exit of lower margin product lines and other cost reduction actions taken in late 2015 improved Gross Profit. RF Solutions revenue was \$8.6 million, down 10%, but Gross Profit was 50.0%, up 340 basis points. A

decline in service revenue with its lower Gross Profit compared to products accounts for the increased average Gross Profit percent.

Now let's turn to guidance for the 1st quarter 2017. We thought we would make it easier for shareholders to digest the Company's guidance. Going forward we will be giving guidance for the next quarter for revenue, non-GAAP Gross Profit, and non-GAAP EPS. First quarter revenue is expected to be between \$24.0 and \$24.5 million, Gross Profit is expected to be between 37% and 38% and Non-GAAP earnings per share are expected to be between \$0.03 and \$0.04 per share at that revenue range. This compares to first quarter 2016 revenue of \$21.1 million and a Non-GAAP net Loss of \$0.03 per share.

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 Q4 results and the momentum we are building early in 2017;

- Both of PCTEL's business – Connected Solutions and RF Solutions – are in a strong position to benefit from small cell deployments, 5G and IoT;
and
- We will 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?