

Operator

Welcome to the PCTEL third 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 third 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 forward-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 and in our most recent annual report on Form 10-K, both of which are available on our website.

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.

As previously discussed in our last earnings call, we expected a weaker quarter related to wireless network operators reducing their spending in preparation for the capital expenditures required for 5G deployments. This reduction in capital expenditures, together with the uneven nature of antenna project-driven demand and a one-time charge related to the reorganization, created revenue and earnings challenges in the quarter. We believe 5G capital expenditures will begin to increase as a portion of total capex spend through the remainder of the year and into 2019. The management team believes that we have positioned the company to benefit from increased spending on 5G infrastructure and industrial IoT applications.

In August, we announced a reorganization of the company to combine the Connected Solutions segment and RF Solutions segment into one PCTEL organization for operations and reporting purposes. This reorganization will drive company growth and consolidate its operations to address the convergence in the Industrial IoT and 4G infrastructure markets and the emergence of new

technologies such as 5G. The reorganization will leverage our expertise in radio frequency engineering and wireless network engineering across four PCTEL design centers to solve complex problems in our chosen vertical markets. The second major driver for the reorganization is to improve our sales approach. The changes within the sales group reduce overlap of resources and increase efficiency to serve common customers in targeted vertical markets, for example in rail and public safety. This also frees up resources to create a dedicated business development team that focuses on longer-term opportunities and will target markets such as wide area industrial IoT, 4G/5G, enterprise Wi-Fi and mass transit.

We are encouraged to see some initial, but limited, capital expenditures on 5G for early deployments in the United States. All four major wireless network operators have plans to launch mobile 5G in 2019. It is expected that 5G handset launches will begin in the second half of 2019, with significant adoption starting in 2021. As we have stated in earlier calls, we anticipate that the broader 5G rollout will start in the second half of 2019 with 5G being deployed in localized areas to address specific capacity needs. To test 5G deployed using millimeter wave spectrum up to 40 GHz, we launched and have begun commercial deliveries of our HBflex™. This instrument-grade scanning receiver supports frequency clearing, deployment optimization and system performance. Although 5G gets most of the press coverage, LTE will continue to be the dominant technology throughout the 5G rollout and for years to come. It is important to measure both 5G and 4G (LTE) networks simultaneously since the technologies

will have significant overlap. Our IBflex™ scanning receivers can be upgraded via software to support 5G measurements in addition to 4G (LTE) measurements to test both technologies in wireless networks using spectrum below 6 GHz. This software upgrade can be accomplished remotely. It protects our customers' investment while providing a higher gross margin revenue stream for the company.

Along with the US, Korea and Japan, China is anticipated to be one of the first adopters of 5G technology. China is an important market for PCTEL for small cell antennas and our scanning receivers for 4G and 5G applications. We previously discussed some headwinds with our small cell antenna OEM in China that impacted our revenue. While some of the challenges remain due to competitive and the geopolitical environment, we continue to make progress in the small cell antenna market with new design wins in China, North America and Europe. These include antenna solutions for indoor and outdoor small cells and GPS antennas for network timing synchronization. Denser networks, whether 4G or 5G, require small cells and we believe this will remain a long-term growth market.

5G and advanced enterprise Wi-Fi standards like "ac" and "ax" will be required for the most advanced industrial IoT applications. Our Wireless Product Design Center in Ohio is working with several customers to develop advanced embedded antenna systems and integrate complete solutions including radios, sensors and electronics to produce turnkey solutions. Our team's expertise in

solving complex RF problems shortens customers' product development cycle while providing a larger average selling price and improved margins for PCTEL.

PCTEL has been serving the rail and mass transit markets for over a decade. Our recently released 4x4 LTE multi-network Trooper™ II and Coach™ II antenna platforms are designed to meet the complex RF communication requirements in transportation applications. PCTEL's innovative MIMO antenna technology enables transit operators to deliver a better passenger experience through reliable high-speed internet access. Positive train control continues to be an important application where performance critical antennas are required to monitor and safely manage rail traffic.

Although we are disappointed in our year-to-date results, we are encouraged with the progress the team has made and are committed to technology leadership to return PCTEL to acceptable revenue and margin levels. For example:

- Our reorganization to combine two segments into one organization creates an R&D group that leverages talent and it increases efficiencies for the sales team to better serve customers. From a financial perspective, the changes made this year will also reduce costs by approximately \$1.8M in 2019.
- Our investments in industrial IoT, 5G and next generation enterprise Wi-Fi are generating intellectual property for our performance-critical wireless solutions.

John and I will be attending the Southwest IDEAS Investor conference on November 14 in Dallas. We look forward to meeting with investors at the conference. I will now turn the call over to John for a closer look at our third quarter, as well as fourth quarter guidance.

John.

John Schoen

Thanks, David.

I will be addressing the results from continuing operations for the third quarter and the year-to-date to September 30, comparing these periods to the same periods last year.

Revenue was \$18.4 million in the quarter and \$61.7 million year-to-date, down 22% in the quarter and down 9% year-to-date compared to last year. Test and Measurement product revenue was down 38% in the quarter and 28% year-to-date. Lower spending on legacy systems by U.S. carriers in preparation for the capital expenditures required for 5G deployments continues to constrain scanner revenue. Antenna product revenue was down 17% in the quarter and 4% year to date. Small cell revenue stabilized in the quarter; however, several large projects in the industrial and fleet markets were completed in the second quarter negatively impacting comparable results for both the quarter and year-to-date.

Gross profit margin was 36.5% in the quarter and 36.3% year-to-date, down 6.4% in the quarter and 5.6% year-to-date. Approximately two thirds of the decline in both the quarter and year-to-date is a result of lower Test & Measurement product revenue. The remainder of the decline is primarily attributed to price erosion in the small cell antenna market.

The decline in revenue and gross margin have negatively affected both adjusted EBITDA margin as well earnings per share. Adjusted EBITDA margin as a percentage of revenue was negative 3% in the quarter and positive 1% year to date compared to 11% for the quarter and 9% year-to-date last year. Non-GAAP EPS was a loss of \$0.06 in the quarter and \$0.07 year-to-date, which includes \$0.04 per share of restructuring costs related to the Company's recent reorganization. This compares to net income of \$0.09 in the quarter and \$0.20 year to date last year.

Now let's turn to fourth quarter guidance. We expect fourth quarter revenue will be between \$20.0 and \$21.0 million, gross margin between 41% and 42%, and non-GAAP earnings per share between break even and one cent profit based on early sales of 5G scanner products. The improvement in the sequential quarterly gross profit profile is based on the Company's expectation of higher Test & Measurement revenue in the fourth quarter, based on early 5G orders.

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.

The recent reorganization will improve our operations and contribute to PCTEL's return to our expected revenue and margin levels. Our investments in 5G engineering, antennas and industrial IoT solutions position PCTEL to take advantage of network deployments to increase capacity and throughput for wireless devices and applications. As they say "we are in the early innings" for 5G and industrial IoT deployments. PCTEL is well-positioned to serve these markets.

I'm encouraged with the progress we made over the past few months, and the early signs are positive. I appreciate the team's hard work and their willingness to adapt to improve the company and our performance which will benefit all stakeholders.

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

Operator?