

Operator

Welcome to the PCTEL fourth quarter and 2018 fiscal year 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 David Neumann, the Company's CEO.

David Neumann

Good afternoon and thank you for joining us on today's conference call to discuss PCTEL's fourth quarter and 2018 fiscal year results.

Before we begin, I would like to introduce Kevin McGowan, PCTEL's CFO.

Kevin has been in finance and controller roles for 26 years, including the past 14 years with PCTEL. He managed the finance team at the company as our Vice President of Finance and was promoted to CFO effective December 1, 2018.

We're pleased to have Kevin play a larger role as our CFO.

Kevin

Kevin McGowan

Thank you, David. I'm excited to serve as the Company's CFO and to help the Company reach its financial goals and meet its challenges.

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 earnings per share and adjusted EBITDA. We believe these non-GAAP measures facilitate comparability of results over different periods. A full reconciliation of these non-GAAP measures to our GAAP measures is included in our quarterly earnings press release that was issued earlier today.

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

David Neumann

Thank you, Kevin. I'll comment on our fourth quarter and 2018 fiscal year results, provide an update on our tactical and strategic growth initiatives, discuss our business in China and share our outlook for 2019. Kevin will then discuss our financial results in more detail, and he'll provide guidance for Q1.

We issued a press release after the market closed announcing our results for the fourth quarter ended December 31, 2018, and our fiscal year. I'm pleased with our fourth quarter results and the momentum we have built coming into 2019. For the fourth quarter 2018, our sales were \$21.2 million, an increase of 15% on a sequential basis. The cost reduction actions that we took in 2018, along with sales of higher margin products which creates a more profitable product mix, contributed to improved non-GAAP earnings per share for the quarter, even after severance payments associated with our reorganization. We achieved \$0.03 in non-GAAP earnings per share for the fourth quarter on gross margins of 40.9%, up 4.4% over the third quarter.

In late August 2018, we announced a significant reorganization of the Company resulting in a single company-wide sales organization and the consolidation of our operations under a Chief Operating Officer so we function as one entity instead of two separate segments. Although we will report our financials as one company, we will continue to report revenue and gross margins for the two product lines. We see benefits of the reorganization in optimized deployment of our resources, and the institution of best practices on a company-wide basis. These changes have produced some encouraging early financial results. In connection with the reorganization, I made significant changes to the management team including a new CFO, COO and Chief Sales Officer, and the addition of a senior director of corporate marketing with experience in the wireless public safety market. I'm confident that we now have the appropriate

corporate structure and management team necessary to meet current market conditions and grow the business.

Our company continues to provide wireless technology solutions as a leading supplier of antennas and wireless network testing products. Our precision antennas are deployed in small cells, enterprise Wi-Fi access points, fleet management and transit systems, and in equipment and devices for the Industrial Internet of Things. In our test and measurement product line, we offer tools used to improve performance of wireless networks globally, focusing specifically on LTE, public safety and early 5G deployments. Our success in these wireless markets positions PCTEL for growth while increasing value for shareholders.

PCTEL is known for solving complex RF problems. Our long-term strategy is to leverage our antenna and RF expertise to provide turnkey industrial IoT solutions, such as ruggedized access points and remote wireless industrial sensors for utilities, factories, fleet management and logistics markets. By extending our capabilities to provide industrial IoT solutions beyond antennas, we strengthen our relationships with customers who are experts at their specific application but not necessarily experts in deploying wireless solutions.

Expanding our product capabilities to provide complete industrial IoT systems, whether organically or through acquisitions, creates additional revenue potential with attractive selling prices and gross margins.

Government authorities, at all levels, have increased their focus on public safety and the safety of first responders. Reliable wireless communication is critical for mission control and reducing emergency response times. In Q4, we launched a covert Bluetooth/Wi-Fi antenna that, as an example, is currently being used in undercover border control vehicles. In addition to providing multi-frequency and multi-mode antennas, we also provide scanner solutions to test in-building coverage and ensure first responders can communicate during emergencies. To improve this capability, we added signal quality measurements for P25 and LTE networks to our popular scanner-based in-building tools. Our new signal to noise ratio or SINR measurement available in the IBflex scanning receiver allows building owners to easily verify proper coverage for first responders in commercial and residential properties. PCTEL's advanced multimode antennas and scanning test tools help ensure that emergency personnel are safe.

5G and advanced applications like robotics, autonomous cars and AI were a focal point at the recent Mobile World Congress in Barcelona. Carriers have begun to deploy 5G networks and PCTEL is supporting the 5G rollout in a variety of ways. In addition to adding SINR for the IBflex, we also released signal decoding for the 5G New Radio networks. This allows engineers to collect and decode important metrics like site identifier, synchronization channels and beamforming information. As we previously announced, the 5G upgrade to IBflex is a software upgrade which protects our customers' investment in PCTEL tools and provides higher margin revenue for the Company. The IBflex supports

5G networks using frequencies up to 6 GHz, while the HBflex scanning receiver, introduced in September 2018, supports 5G networks in the millimeter wave bands up to 40 GHz. With these two solutions, PCTEL is now shipping 5G scanning receivers to the four largest wireless operators in the US, as well as international operators in Asia and Europe. The initial demand for 5G test and measurement equipment is strong, and we believe it will continue through the year as handsets become available later in 2019 and the network rollouts accelerate.

4G and 5G technologies will need to support dense indoor and outdoor deployments worldwide. We launched our CBRS omnidirectional and panel antennas at Mobile World Congress and they support 4X4 MIMO for deployments operating in the 3.5 GHz spectrum. Small cell infrastructure continues to be the preferred deployment model to increase capacity in dense networks, and we provide our small cell antennas to the leading global network manufacturers.

We continue to evaluate our business in China and the associated risks and costs of maintaining a PCTEL factory to manufacture our antenna products. Although recent news is encouraging, we recognize the geopolitical risk and the competitive pricing challenges in price sensitive markets. To address these issues, we are transitioning the manufacturing of some of our antenna products to contract manufacturers in order to be more competitive and to improve our flexibility to match manufacturing capabilities to product type. We intend to keep a scaled down factory in China for highly-customized and lower volume manufacturing, but there will be a reduction in our production workforce.

With that, I will now turn the call over to Kevin for a closer look at our fourth quarter and the 2018 fiscal year.

Kevin.

Kevin McGowan

Thank you, David.

I will address the financial results for the fourth quarter and the fiscal year ended December 2018 and I will provide Q1 2019 guidance.

Revenue was \$21.2 million in the fourth quarter and \$83.0 million for the year, down 9% in the quarter and down 9% for the year compared to the prior year.

The 15% sequential revenue increase that David mentioned consisted of \$1.5 million for test and measurement products and \$1.3 million for antenna products.

Test and measurement revenue was down 27% in both the quarter and the full year 2018 compared to 2017. Lower spending on legacy systems by U.S. carriers in preparation for the capital expenditures required for 5G deployments negatively impacted the revenues in the quarter and year compared to 2017. For the year, lower revenues in the Asia Pacific region accounted for approximately 25% of the year over year decline for test and measurement. However, revenues were higher sequentially for test and measurement driven by initial orders for 5G.

Antenna product revenue was down 2% in the quarter and 3% for the year compared to 2017. In the fourth quarter, significant revenues for public safety projects and with U.S. carriers for network infrastructure offset lower revenues with enterprise Wi-Fi applications and site solution products compared to the prior year. For the full year 2018, revenues were higher from enterprise Wi-Fi applications and with operators for network infrastructure, but lower for fleet and transit systems compared to 2017.

As David mentioned, the fourth quarter gross profit margin improved to 40.9% as a result of cost reductions and a more profitable product mix. A higher percentage of test and measurement products as well as a more profitable

product mix within the antenna product line contributed to the sequential improvement. The fourth quarter gross profit margin was 3.1% lower compared to the same period last year due to lower volume and mix of test & measurement revenues. And the full year 2018 gross profit margin was 37.5%, down 4.9% compared to the prior year. For the year, approximately half of the gross margin percentage decline is due to the lower volume and mix of test and measurement revenues and approximately half is attributed to price erosion in the small cell antenna market.

Adjusted EBITDA and Non-GAAP earnings per share improved sequentially, but compared to the prior year, the declines in revenue and gross margin negatively affected both adjusted EBITDA margin and Non-GAAP earnings per share.

Adjusted EBITDA margin as a percentage of revenue was 6% in the quarter and 2% for the full year 2018 compared to 10% for the quarter and 9% for the full year 2017. Non-GAAP earnings per share was \$0.03 in the quarter and a negative \$0.04 for the full year 2018. The loss for the year includes \$0.06 per share of restructuring costs related to the Company's recent reorganization. In comparison, Non-GAAP net income was \$0.08 in the fourth quarter 2017 and \$0.28 for the full year 2017.

Now let's turn to the first quarter 2019 guidance. We expect first quarter revenue will be between \$20.5 and \$21.0 million, gross margin between 40% and 41%, and non-GAAP earnings per share between \$0.01 and \$0.02.

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

David Neumann

Thank you, Kevin. The success that we had in Q4 is a result of the investments we made in R&D for new product development, the cost savings in both OPEX and COGS, and strong execution by the team. Wireless infrastructure, devices and applications require reliable connections, and the complexity of RF communications continues to increase across each of our vertical markets. High performance antennas and testing systems will continue to be important to serve industrial IoT, public safety, 5G, enterprise Wi-Fi and fleet customers. PCTEL is positioned well to serve and grow with these markets.

I would like to note that Kevin and I will be attending the B. Riley investor conference on May 22, in Beverly Hills. We look forward to meeting and discussing PCTEL with investors at the conference.

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

Operator?

David Neumann: Close

I believe we have the right team in place. We are improving execution to support growth for the benefit of all stakeholders, and it is encouraging to see the results in Q4 and the potential in 2019. I would like to thank all our staff for improving the operations and execution and most importantly, for improving our results.

Thank you and have a great afternoon.