Operator

John Schoen

Thank you for joining us on today's conference call to discuss PCTEL's third 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 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, 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.

Third quarter and year-to-date revenue, gross profit, EBITDA margin, and non-GAAP earnings per share all improved when compared to the same periods last year. We confirm our annual revenue targets for antenna and scanning receiver products. John will discuss our financial results later in the call.

Industrial IoT, small cells and the migration to 5G are all significant long-term growth drivers for PCTEL. We have a strong and growing position in our core antenna verticals, including fleet, industrial, small cells and enterprise Wi-Fi. Our antenna solutions solve complex RF problems, and that applies to our test and measurement group as well. PCTEL is recognized as a leading provider of RF scanning receivers that pinpoint coverage and interference issues across multiple technologies, including P25 for public safety, NB-IoT and 4G/5G LTE.

In Connected Solutions, fleet and industrial IoT were strong this quarter, including shipments to a major public safety OEM for their new radio line; deliveries of our rugged multiband antenna for precision agriculture; and increased shipments of our high precision multiband GNSS antennas to support specialized fleet applications.

We believe global small cell growth will be a significant driver for antennas and test equipment over the long term as networks become denser, but there may be some variance one quarter to the next. Small cells play a role in 4G today and their use will be expanded in 5G, especially in the mm-wave bands, which travel shorter distances. We won a new small cell antenna project from one of the largest OEMs and small cell projects are starting to ramp up in the US. Infrastructure deployments in the quarter also drove sales of our precision GPS timing antennas.

Last week, we announced the opening of our Wireless System Performance Lab in Bloomingdale. Our new lab enhances our RF hardware design capabilities to optimize Wi-Fi antenna solutions, and it allows us to offer pre-certification over-the-air testing and integration assistance to our customers who are building wireless products.

Within RF Solutions, we are optimistic about the business for several reasons. Two new OEM partners were added in the US and we captured significant scanning receiver business at one of the largest US operators. Our IBflex® scanning receiver running with our latest SeeHawk Touch™ software continues to show its versatility beyond coverage verification and interference mitigation. Our newest public safety application includes features that significantly decrease the time to test wireless systems that are critical for first responders.

We continue to make investments in our scanning receiver technology to support 5G networks. Our MXflex® is the only standalone scanning receiver on the market that supports 4X4 MIMO, and with our new downconverter options, it is an ideal solution to support higher frequencies planned for 5G.

To support our industrial IoT and small cell strategies, we joined the MulteFire Alliance in September. MulteFire is an LTE-based technology for small cells operating in unlicensed or shared spectrum that will have the simplicity of Wi-Fi like deployments. It is expected that MulteFire trials could start as early as the first half of 2018, and our products support MulteFire frequencies today.

We are well positioned in both divisions to serve the Industrial IoT, small cell and 5G market segments.

I would like to note that John and I will be attending the Southwest IDEAS Investor conference on November 16th in Dallas. We look forward to meeting with investors at the conference next week. With that, I will now turn the call over to John Schoen for a closer look at our third quarter and September year to date financial results, as well as fourth quarter 2017 guidance.

John.

John Schoen

Thanks, David.

I will be addressing the 2017 results from continuing operations for the third quarter and the three quarters ended September, comparing them to the same periods last year.

Revenue was $23.7 million in the quarter and $68.1 million year to date, an increase of 13% in the quarter and 11% year to date. Gross profit margin was 42.9% in the quarter and 41.9% year to date, up 340 basis points in the quarter and 170 basis points year to date. Adjusted EBITDA margin as a percentage of revenue was 11% in the quarter and 9% year to date, up 270 basis points in the quarter and 110 basis points year to date. Non-GAAP diluted EPS was $0.09 in the quarter and $0.19 year to date, up $0.06 or 54% year to date. Free cash flow was positive $2.1 million in the quarter and $5.0 million year to date.

Now I will review the results for each segment.

For the Connected Solutions segment, revenue in the quarter was $18.0 million, up 5%, and $52.1 million year to date, up 9%. Gross profit was 34.2% in the quarter, up 50 basis points, and 33.2% year to date, up 160 basis points. The growth leaders in the quarter and year to date continue to be antennas for fleet and utilities applications. Gross margin improved in the quarter and year to date from a continuing revenue shift to products earlier in their life cycle as well as achievement of supply chain efficiencies.

For the RF Solutions segment, revenue was $5.7 million in the quarter, up 50%, and $16.2 million year to date, up 16%. Gross profit was 69.8% in the quarter, up 430 basis points, and 69.8% year to date, up 70 basis points. The increased revenue is being driven by the US market. Margins were higher in the quarter and year to date on increased revenue leveraging fixed cost of goods sold.

Now let's turn to guidance for the fourth quarter 2017. Fourth quarter revenue is expected to be between $23.5 and $24.0 million, gross profit is expected to be between 42.5% and 43.0%, and non-GAAP diluted earnings per share from continuing operations are expected to be $0.08 or $0.09 per share at that revenue range. At the midpoint of our fourth quarter guidance, revenue will be up 8% for the year.

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 each of our targeted verticals. PCTEL is in a strong position as we approach 2018.

To summarize:

- We had a strong quarter for scanning receivers and antennas sold into Fleet and industrial IoT;
- We continue to make the investments in equipment, staff and facilities to support 5G and the associated applications; and
- We are pleased with our results through the first three quarters and the momentum we've generated to finish the year.

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

Operator?