

## **Operator**

Welcome to the PCTEL third quarter 2019 Earnings Release Conference Call. At this time, all participants are in the 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 Kevin McGowan, the Company's CFO.

## **Kevin McGowan**

Thank you for joining us on today's conference call to discuss PCTEL's third quarter 2019 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 press 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 over to David Neumann.

**David Neumann**

Thank you, Kevin.

Welcome and thank you for joining us this afternoon. We're pleased with another strong quarter driven by sequential revenue and non-GAAP earnings per share improvement. Third quarter revenue, adjusted EBITDA and non-GAAP earnings per share all increased both sequentially and compared to last year. This makes our fourth consecutive quarter of solid results driven by the demand for our 5G scanning receivers and antenna project wins for IoT applications.

We issued a press release after the market close announcing our results for the third quarter ended September 30, 2019. Our revenues were \$23.6 million. We achieved \$0.14 in non-GAAP earnings per share for the third quarter on gross margins of 45.1%, up 8.6% over last year. Increased sales of higher margin scanning receivers and improved gross margins for antennas contributed to strong non-GAAP earnings per share for the quarter. Our focus on higher margin antenna solutions for intelligent transportation and Industrial IoT coupled with steady demand for our 5G scanning receivers contributed significantly to increased margins for the quarter. As we mentioned in our last call, we expect to

maintain these margins through 2019 supported in part by our customers' end-of-year budget spend on test and measurement tools. Looking forward to 2020, we believe we can maintain comparable margins on these product lines. We expect revenue for 5G scanning receivers to remain strong through 2020 with antenna product revenue accelerating later in the year as we execute on our industrial IoT initiatives.

All major operators in the US, and many in Canada, Europe and Asia, have begun deploying 5G infrastructure. The five largest operators in the US and four of the top five operators in Canada use PCTEL's 5G scanning receiver solutions. Our 5G millimeter and sub 6GHz 5G testing solutions are also used by the leading operators in Europe and Asia. Interestingly, we have begun selling our 5G scanning receivers in South Korea, which historically has not used scanning receivers to deploy wireless networks. We believe broad 5G network rollouts are in the early phases. To date, approximately 40 countries have completed 5G-spectrum allocations or licensing and another 40 countries plan to allocate frequencies between now and the end of 2021. It will take many years to completely rollout 5G to support advanced applications that require increased capacity, low latency to support autonomous systems and massive connections for industrial IoT solutions.

To help operators transition from 4G to 5G networks, PCTEL recently added a new testing capability to support dynamic spectrum sharing. Dynamic Spectrum Sharing, or DSS, allows operators to use both 4G and 5G access technologies within the same spectrum allocations. This gives the operators flexibility to

allocate existing spectrum as needed to 5G for higher throughput applications and then revert back to 4G when not needed. PCTEL's IBflex and HBflex scanning receivers support the DSS feature and can simultaneously test both 4G LTE and 5G signals across the same spectrum, which helps operators transition to 5G without having to use additional dedicated spectrum.

Ultimately, 5G will be an enabling technology to support advanced industrial IoT mission critical applications that require high throughput with low latency. Of our three targeted market segments (Enterprise Wireless, Intelligent Transportation and Industrial IoT), the Enterprise Wireless segment currently generates a majority of our revenue which is derived from 5G scanners, enterprise Wi-Fi and public safety. Within public safety, PCTEL has been able to leverage the strong relationships developed for its antenna solutions to promote and sell scanning receivers into the same markets. Our largest distributors for antenna solutions in public safety are now offering our scanning receiver solutions and we have certified more than seventeen engineering service companies in the US on PCTEL's public safety tools. The engineering service companies test the buildings on behalf of the local jurisdictions to determine if first responders can communicate in buildings during emergencies. Also, we received a Wi-Fi embedded antenna design win in the quarter from a leading global access point manufacturer and we expect our Wi-Fi radio products for IoT applications to do well.

Although Enterprise Wireless has been our strongest market segment, we anticipate that our Intelligent Transportation and Industrial IoT market segments

will grow faster over the next several years to address needs in fleet, transit, energy and industrial IoT applications. We announced a new innovative antenna for both of these market segments that combines precision location support with high performance LTE, 5G, Bluetooth, and Wi-Fi connectivity. The Coach™ II antenna is designed to provide greater precision and reliability for advanced rail positive train control systems, and it supports a variety of fleet, public safety and industrial IoT applications.

PCTEL antennas have become a critical component of systems as wireless networks become more complex. To complement our industrial IoT antenna portfolio, PCTEL is leveraging our RF and radio expertise to expand our product offering to include ruggedized IoT radio solutions. These solutions will increase our product portfolio for our OEM customers to include ruggedized access points, device interface cards and antennas. Our first of several Wi-Fi radio product releases for OEM integration will be announced later this month. We believe these solutions will begin to generate revenue in the second half of 2020.

With respect to China, we are encouraged that trade discussions are progressing and further tariff increases are on hold; however the uncertainty in relations with China, restrictions on trading with certain Chinese entities, and the current tariffs present some risk to our business. Our plans to increase our manufacturing flexibility have not changed. We are making progress with the transition to contract manufacturing, which reduces our exposure in Tianjin. The manufacturing transition will continue through 2020. Longer term, I believe China

and the US will work through these issues and China will continue to be an important market and operating area for PCTEL.

Even with the challenges in China, we are pleased that this is our fourth consecutive quarter with improved sequential results. We expect to finish the year strong doing what we do best: delivering products that solve complex RF problems.

With that, I will now turn the call over to Kevin for a closer look at our third quarter.

Kevin.

### **Kevin McGowan**

Thank you, David.

I will address the financial results for the third quarter ended September 2019 and I will provide fourth quarter 2019 guidance.

Revenues were \$23.6 million in the third quarter, up 28% compared to the third quarter 2018. Revenues were 1% higher sequentially because of higher antenna product revenues and both test and measurement revenues and antenna product revenues were higher compared to the third quarter last year. With strong sales of 5G scanning receivers, test and measurement revenues were \$7.2 million in the third quarter 2019, \$3.7 million higher than last year's third quarter. Antenna

product revenues were \$16.5 million in the third quarter 2019, 11% higher compared to the third quarter of 2018 and 3% higher sequentially. Third quarter antenna product revenues were higher for antennas for intelligent transportation and fleet applications offsetting declines for small cell antennas.

The third quarter 2019 gross profit margin for GAAP improved by 8.6% to 45.1% due to the favorable product mix of test and measurement products and improved gross margin percentage for antennas. The gross margin percentage for antenna products was 4.4% higher in the third quarter 2019 compared to the prior year primarily due to a more profitable mix within the product line, but also a favorable impact of foreign currency changes, and because of the cost reduction actions taken in 2018.

Adjusted EBITDA was \$3.1 million for the third quarter 2019, compared to a loss of \$0.6 million in third quarter 2018. Adjusted EBITDA margin as a percentage of revenue was 13% in the third quarter 2019 compared to negative 3% for the third quarter 2018. Non-GAAP diluted earnings per share was \$0.14 in the third quarter 2019 compared to negative \$0.06 in the third quarter 2018. Non-GAAP earnings per share was higher compared to last year because of higher revenues and higher gross profit margins. Our GAAP results included \$0.3 million for restructuring expense related to the Company's transition plan for China manufacturing.

Cash and investments increased by \$1.3 million to \$38.1 million at the end of the third quarter 2019 as free cash flow was \$2.1 million during the third quarter 2019. We also recognize that our strong balance sheet allows us the opportunity to repurchase our shares. Our Board of Directors approved a share repurchase program pursuant to which PCTEL may repurchase up to \$7 million dollars of shares of its common stock. The repurchase program may be made from time-to-time in the open market and negotiated purchases, effective immediately through the end of 2020. This share repurchase program affords us the flexibility to be opportunistic in our capital allocation strategy and this program offers an opportunity for us to reiterate our confidence in the strength and future growth potential of PCTEL to our shareholders.

Now let's turn to fourth quarter 2019 guidance. We expect fourth quarter revenues will be between \$23 and \$24 million. The GAAP gross margin percentage is projected to be in the range of 44% to 46%, and the non-GAAP earnings per share is projected to be in the range of \$0.11 to \$0.12.

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

**David Neumann**

Thank you all for joining us. Before we take questions, I would like to share a few closing thoughts. We're pleased with our performance year-to-date in 2019. Our



company is well-positioned to grow over the next several years. We hold a dominant position in providing tools for 5G deployments; our Enterprise Wireless business is strong; there is a growing global market for us to address in intelligence transportation; and the number of industrial IoT opportunities continue to increase. Customers have--and will continue--to come to PCTEL to solve their difficult RF challenges which enables us to drive growth and increase shareholder value.

Kevin and I look forward to attending and meeting with investors at the Southwest IDEAS investor conference in Dallas on November 20<sup>th</sup>. With that, Kevin and I are available to answer questions.

Operator?

**David Neumann: Close**

We're pleased with our performance over the last year. As we finish the year and enter 2020, I believe our company is in a stronger position both from a strategic standpoint and the execution front to grow and provide the returns investors expect. I would like to especially thank our employees for their dedication and hard work, and our partners and investors for their continued support.

We look forward to updating you on our next call. Thank you and have a great afternoon.

**Operator:**

Thank you for joining us today for PCTEL's Third Quarter 2019 Earnings Call.

You may now disconnect your lines.