

Operator

Welcome to the PCTEL fourth quarter and 2019 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 Kevin McGowan, the Company's CFO.

Kevin McGowan

Thank you for joining us on today's conference call to discuss PCTEL's fourth 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. I will cover three topics in our call today: our recently reported results for 2019 and the fourth quarter; the risks to our business associated with the coronavirus; and recent product updates for the scanning receiver and antenna product lines.

Over the past several years we have invested heavily in engineering, product development and sales to address 5G and industrial IoT emerging technologies. These investments and the capabilities we developed distinguish PCTEL from our competitors and our stakeholders are realizing the benefits of these investments. As you may have seen in our press release issued after market close, our non-GAAP earnings per share increased from negative \$0.04 in 2018 to \$0.47 in 2019 and our revenue grew by more than 9% over 2018, to \$90.6 million. The product mix, with increased sales of higher-margin scanning receivers, and the improved gross margins on our antenna products contributed to our strong results.

In the fourth quarter 2019, we achieved a historic high for quarterly revenue generated by our test and measurement product line. Overall, our fourth quarter revenues were \$22.9 million, and we achieved \$0.16 in non-GAAP earnings per share on gross margins of 50.3%, up 5.2% over the third quarter. Adjusted EBITDA and non-GAAP earnings per share increased both sequentially and compared to last year. As mentioned in our last call, we believe we can maintain favorable margins on both product lines through 2020.

With respect to China, we are thankful our team is healthy. The coronavirus presents three risks for PCTEL. First, we have a significant employee presence in China. We were proactive from the start of the coronavirus outbreak and we are happy to report that the team has returned to work on a part-time basis. Our Tianjin factory opened on February 26 with 50% manufacturing capacity and we received approval this week to return to 100% capacity on March 9. Second, most of our supply chain originates in China. Supply chain disruptions within China could limit our ability to manufacture certain antenna products. We don't believe there will be a supply chain impact in Q1 for scanning receivers because these products are manufactured in Maryland and we have adequate inventory on hand. Third, a global economic downturn may impact our customers and reduce their demand for our products. Kevin will comment more on the anticipated impact on Q1 revenue.

We continue to execute on our supply chain strategy to mitigate risk, which includes diversification of production inside and outside of China. After careful consideration of costs, logistics capabilities and availability of key components,

we are transitioning certain product lines from our Tianjin factory to contract manufacturers in China and Taiwan. The manufacturing transition will continue through 2020.

On the products front, we continue to execute on our strategy to fortress our enterprise wireless business, which includes 5G scanning receivers, public safety and our enterprise Wi-Fi portfolio. We recently received an enterprise Wi-Fi design win for an embedded antenna system for a major OEM. For 5G, we are in the early stages of the rollout, which includes deploying infrastructure to improve coverage and increase capacity in dense user environments. Wireless operators use our scanning receivers globally to confirm 5G coverage, identify interference and troubleshoot RF issues across licensed frequency bands. For operators that need to test both low and higher frequency bands, PCTEL recently launched an upgrade to our popular HBflex scanning receiver that allows simultaneous testing across all technologies and bands. This feature will increase testing efficiency for operators with multiple bands and for benchmarking competing networks.

Enterprise Wi-Fi and 5G are connectivity enablers for industrial IoT. Industrial IoT is all about analytics, predictions and control. Without data from remote wireless sensors, there are no analytics. Without reliable wireless connectivity to sensors, there is no data. Our antenna and radio solutions enable wireless connectivity to ensure that industrial IoT systems have data for analysis in manufacturing, mining, rail, and utilities, to name a few.

Just recently, we won three significant smart grid projects which included our multi-band and Yagi antennas for the FirstNet network dedicated to public safety. A fourth smart grid win included an integrated LTE device and antenna for underground power transmission and monitoring. Within our intelligent transportation market segment, we anticipate additional project wins at other major cities this year for our advanced antenna systems that support monitoring and control of traffic signals at intersections. Our growth in these segments in 2019 plus these wins reinforce our belief that Intelligent Transportation and Industrial IoT market segments will grow significantly over the next several years to address needs in fleet, transit, energy and manufacturing applications.

We also made a significant step towards broadening our Industrial IoT offering beyond antennas to include industrial IoT radio products. In Q4, we launched our Industrial IoT Access Point and Industrial IoT Radio Module. These new products will be sold through our existing sales channels and allow us to offer more products to the same customer base. Our access point is designed to support high throughput over a wide temperature range and deliver reliable connectivity for Industrial IoT and outdoor applications. Typically, access points connect to many IoT modules. PCTEL's IoT radio module for Wi-Fi 802.11ac can be installed in a wide variety of products including robotics for factory and warehouse automation.

We will continue to focus on our strengths, specifically, enabling wireless connectivity. We are confident that developing products that solve complex wireless challenges across our target markets will lead to sustainable growth.

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

Kevin.

Kevin McGowan

Thank you, David.

I will address the financial results for the fourth quarter ended December 2019 and I will provide first quarter 2020 guidance.

Revenues were \$22.9 million in the fourth quarter 2019, 8% higher compared to the fourth quarter 2018, but 3% lower sequentially. Revenues for test and measurement products were higher sequentially and compared to last year, while revenues for antenna products were lower both sequentially and compared to the fourth quarter last year. With continued strong sales of scanning receivers with 5G technology and for public safety applications, test and measurement product revenues were \$7.8 million in the fourth quarter 2019, the highest revenue quarter of the year for this product line and \$2.8 million higher than last year's fourth quarter. Antenna product revenues were \$15.1 million in the fourth quarter 2019, 7% lower compared to the fourth quarter of 2018 and 8% lower sequentially. Fourth quarter antenna product revenues were lower with

applications related to small cells, enterprise Wi-Fi, and for fleet compared to the fourth quarter 2018.

The fourth quarter 2019 gross profit margin for GAAP improved by 9.4% to 50.3% due to the favorable product line mix of test and measurement products and higher antenna gross profit margin percentage. The gross profit margin percentage for antenna products was 4.1% higher in the fourth quarter 2019 compared to the prior year due to a more profitable mix.

Adjusted EBITDA was \$3.7 million for the fourth quarter 2019, compared to \$1.2 million in the fourth quarter 2018 and adjusted EBITDA margin as a percentage of revenue was 16% in the fourth quarter 2019 compared to 6% for the fourth quarter 2018. Non-GAAP diluted earnings per share was \$0.16 in the fourth quarter 2019 compared to \$0.03 in the fourth quarter 2018. The fourth quarter 2019 non-GAAP earnings per share was significantly higher compared to last year because of the higher test and measurement product revenues and higher gross profit margins for both product lines.

Cash and investments increased by \$1.6 million to \$39.7 million at the end of December 2019 as free cash flow was \$2.4 million during the fourth quarter 2019. Last quarter we announced a \$7.0 million dollar share repurchase program. This share repurchase program affords us the flexibility to be opportunistic in our capital allocation strategy and offers us an opportunity to

reiterate to our shareholders our confidence in the strength and future growth potential of PCTEL. The Company also continues to actively pursue acquisitions that can help us grow our business going forward.

Now let's turn to first quarter 2020 guidance. We expect first quarter revenues will be between \$17.5 and \$18.5 million. The GAAP gross profit margin percentage is projected to be in the range of 46% to 48%, and the non-GAAP earnings per share is projected to be in the range of \$0.00 to \$0.03. Revenues for test and measurement products are projected to be higher compared to the first quarter 2019; however, revenues for antenna products are projected to be lower sequentially and lower compared to the first quarter 2019. The revenue decline with antenna products is due to a large project ending in the fourth quarter 2019, delays with taking inventory with a few of our larger OEMs, and due to disruptions in the demand for our products and in our supply chain as a result of the coronavirus outbreak.

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.

The investments that we made in the past few years have positioned PCTEL well for the rollout of 5G and the implementation of wireless industrial IoT applications. We expect demand for 5G and public safety scanning receivers to remain consistent through the year. Antenna and radio product deliveries are more susceptible to disruptions caused by the coronavirus, but we believe there continues to be a need for quality antenna and radio products that will drive growth and increase shareholder value over the long term.

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

Operator?

David Neumann: Close

Thank you for joining us this afternoon. I would also like to thank our team and partners for their contributions in 2019 and the hard work they are putting into 2020.

We look forward to updating you on our next call. Have a great afternoon.

Operator:

Thank you for joining us today for PCTEL's fourth quarter 2019 Earnings Call.

You may now disconnect your lines.