

## **Operator**

Welcome to the PCTEL first quarter 2019 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 first 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.

I'm pleased with our results and the momentum we maintained coming into 2019. First quarter gross profit margin, adjusted EBITDA and non-GAAP earnings per share all improved both sequentially and compared to last year. I'll provide an overview of opportunities in our recently redefined three market segments for antenna and scanning receiver products. Kevin will then discuss our financial results in more detail, and he'll provide guidance for Q2.

We issued a press release after the market close announcing our results for the first quarter ended March 31, 2019. For the first quarter 2019, our revenues were \$20.6 million. The strategic realignment and cost reduction actions we took in 2018, improved gross margins for antennas and the increased sales of higher margin scanning receivers contributed to improved non-GAAP earnings per share for the quarter. We achieved \$0.04 in non-GAAP earnings per share for the first quarter on gross margins of 42.0%, up 1.1% over the fourth quarter and up 5.8% over last year.

Our scanning receiver business has improved considerably over 2018 driven by early deployments of 5G infrastructure in the US, Europe and Asia. The antenna business is more project driven and although the first quarter didn't meet expectations, we believe this business has strong long-term growth prospects in our targeted market segments.

As we discussed in our last call, our long-term strategy is to leverage our wireless product and RF expertise to enable Industrial IoT solutions. Historically, we defined our business in four markets: In-building/Enterprise Wi-Fi, 4G/5G, public safety/fleet, and Industrial IoT. We recently redefined these four markets into three segments: Enterprise Wireless, Intelligent Transportation and Industrial IoT. We combined enterprise Wi-Fi, 4G/5G and public safety networks into **Enterprise Wireless**; created an **Intelligent Transportation** market segment to address smart cities and fleet; and defined **Industrial IoT** to include wireless automation and industrial applications.

Let's look at each of the defined markets in more detail. In our **Enterprise Wireless** market, PCTEL RF products are used in three types of networks – Wi-Fi, cellular and public safety. For Wi-Fi applications, we design and manufacture industrial antenna systems and ruggedized radio solutions. We provide our external and embedded antennas to two of the largest Wi-Fi access point OEMs and we won a significant Wi-Fi embedded antenna project in the first quarter. For cellular markets, our small cell antennas are used by two of the largest infrastructure providers and our scanning receivers hold a leading position in the market. Sales of our 5G scanning receivers to test both legacy sub 6GHz bands

and millimeter wave spectrum remained strong from the fourth quarter 2018 through the first quarter of this year. We believe the demand for 5G test equipment will continue as handsets become available later in 2019 and into 2020.

Public safety is the third application within our **Enterprise Wireless** market. We provide both antenna systems and scanning receiver solutions for critical public safety communications. PCTEL is a leading provider of single and multimode vehicular broadband and GNSS antennas for police and fire emergency vehicles. To test inbuilding networks for public safety, our scanning receiver systems are used to verify FirstNet, P25 and LMR networks to ensure first responders can communicate in challenging RF environments during emergencies. We believe this is a growth area across the U.S. as government regulations expand to require testing of most large public buildings.

Our second defined market is **Intelligent Transportation** which focuses on smart transportation and industrial fleet applications. Smart transportation for roadways connects disparate systems to improve safety, reduce congestion, and provide a wholistic view of our roadways and highways. As an example, PCTEL recently won a bid to provide ruggedized high-performance antennas to link all traffic signals in a major US city via the public cellular LTE network. Smart rail is another key segment for us within Intelligent Transportation that requires wireless solutions for passenger wireless access, security, and train control and operations. With respect to intelligent fleet applications, our antenna systems are engineered to maximize gain, minimize interference and operate in demanding

environmental conditions. Typical vehicular fleet applications include antennas for guidance systems in precision agriculture, autonomous mining and construction applications.

Our third defined market segment is **Industrial IoT** and includes applications such as utility smart grids, factory automation, remote monitoring, asset tracking, and machine-to-machine (or M2M) communications. Products for this market include omnidirectional, low profile multiband, yagi, and embedded antennas. This market also includes customized Industrial IoT devices which include the radio hardware, software and antenna systems. By expanding our product capabilities to provide Industrial IoT devices, whether organically or through acquisitions, we create additional revenue potential with attractive average selling prices and gross margins.

Looking ahead, we continue to see strength with our 5G scanners for both mmWave and sub 6GHz networks in North America, Europe and Asia. We are building momentum with our scanners for P25 testing where we utilize the same scanner hardware that we use for LTE networks. Our antenna sales into public safety also remain strong. We anticipate key design wins in our Intelligent Transportation and Industrial IoT markets in the second half. And as we have mentioned before, small cells within Enterprise Wireless is a long-term growth area for us where we supply two of the three major OEMs. Although small cell antenna sales had a slow start for us this year, we are focusing on longer term design wins.

As previously discussed, we are addressing our challenges in the China market through driving cost reductions and leveraging contract manufacturers. We expect our manufacturing transition to be substantially completed in late 2020.

PCTEL's high quality engineered products, our technical expertise and established positions in our selected market segments will drive growth and increase value for shareholders.

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

Kevin.

### **Kevin McGowan**

Thank you, David.

I will address the financial results for the first quarter ended March 2019 and I will provide second quarter 2019 guidance.

Revenues were \$20.6 million in the first quarter, down 5% compared to the first quarter 2018. In the first quarter, higher test and measurement revenues offset lower antenna product revenues compared to the first quarter last year. Test and measurement revenues were \$5.5 million in the first quarter, our highest revenue quarter for this product line since 2017. Driven by strong sales of 5G scanning receivers, revenues for test and measurement products were 38% higher in the first quarter 2019 compared to the first quarter 2018. Antenna product revenues

were \$15.1 million in the first quarter, 15% lower compared to the first quarter of 2018. A portion of this decrease resulted from a \$2.3 million enterprise Wi-Fi project that was completed at the end of the second quarter 2018.

The first quarter 2019 gross profit margin improved to 42.0% due to favorable product line mix as well as benefits from the cost reduction actions taken in 2018.

The first quarter gross profit margin was 5.8% higher compared to the first quarter 2018 due to a higher ratio of higher margin test and measurement revenues and an improvement in the gross margin for antenna products. The gross margin percentage for antenna products was 2.9% better in the first quarter 2019 compared to the prior year due to a more profitable mix within the product line and because of the cost reduction actions taken in 2018.

Adjusted EBITDA and non-GAAP earnings per share improved both sequentially and compared to last year primarily because of higher gross margins but also due to lower operating expenses. Adjusted EBITDA margin as a percentage of revenue was 7% in the first quarter compared to 2% for the first quarter 2018, and 6% in the fourth quarter 2018. Non-GAAP earnings per share improved to \$0.04 in the first quarter compared to negative \$0.01 in the first quarter 2018, and \$0.03 in the fourth quarter 2018.

Cash and investments were essentially flat at \$35.0 million as of the end of the first quarter 2019 as cash from operations funded the quarterly dividend, capital expenditures, and payments for withholding tax on stock-based compensation.

Now let's turn to second quarter 2019 guidance. We expect second quarter revenues will be between \$22 and \$23 million with higher sequential revenues forecasted from both product lines. The gross margin percentage is projected to be between 42% and 43%, and the non-GAAP earnings per share is projected to be between \$0.07 and \$0.08.

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. We're pleased to have another solid quarter with improved earnings. The advancements in Wi-Fi and 4G/5G networks will drive the uptake of Industrial IoT and PCTEL is well positioned to serve these markets. We're confident that PCTEL's capabilities and our focus on Enterprise Wireless, Intelligent Transportation and Industrial IoT markets will provide growth opportunities and increase value for shareholders.

As previously mentioned, Kevin and I will be attending the B. Riley investor conference on May 22, in Beverly Hills. We will also be attending the East Coast



IDEAS investor conference on June 12, in Boston. We look forward to meeting with investors at the conferences.

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

Operator?

**David Neumann: Close**

We're pleased that we're building momentum in 2019 from our solid finish in Q4 2018. The PCTEL team is working hard to take advantage of growth in the three defined market segments I mentioned during the call, and I would like to take this opportunity to thank them. We are in the right markets and we have the right products. I'm confident that we have the team and proper organizational alignment to execute on the opportunities and to build value for all stakeholders.

Thank you and have a great afternoon.